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WTO CELL  
PLANNING & DEVELOPMENT DEPARTMENT

**WEEKLY ECONOMIC DIGEST**

21st July-27th July, 2008

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**Oil price: hype and reality**

Ever since the international oil prices started their journey to often set records almost daily basis, policy makers and oil business have accepted it as a God-sent opportunity. Instead of doing away with the deemed duty on diesel and kerosene available to refineries and premiums on oil imports allowed to oil companies, the government increased the rate of general sales tax on almost all petroleum products in the budget 2008. Likewise, the GST on kerosene oil also increased by 49 per cent to Rs6.86 from Rs4.60 per litre, while GST on light diesel oil surged by almost 60 per cent to Rs6.77 from Rs. 4.25 per litre in four months. Similarly, because of higher international prices, the margins of dealers and oil companies and inland freight equalization margin on motor spirit increased by 39 per cent, 40 per cent and 96 per cent respectively since February 17 this year. For example, the profit before tax and profit after tax of Pakistan State Oil Company increased by about 300 per cent to Rs13 billion and Rs. 8.5 billion respectively in first half of 2007-08 against Rs. 3.3 billion and Rs. 2.1 billion respectively. The financial results of other oil companies and refineries are even better. (Dawn, 21<sup>st</sup> July, 2008)

**Towards bio-diesel**

AT a time when bio-fuels have suddenly become the new villains of the food crisis and being discouraged the world over, Pakistan is thinking in terms of using these as an alternate energy source. Although Pakistan has been the second biggest exporter of ethanol to Europe till 2005, it never thought of producing and using bio-fuel at home from this ethanol because of strong influence of oil sector on the bureaucracy. The US had claimed at the recent Rome UN Food Summit that rise in food prices due to bio-fuels was only three per cent. The effort is aimed at producing bio-diesel, not ethanol. Currently, bio-fuels are mainly produced from food crops such as wheat, maize, sugar cane and vegetable oils. (Dawn, 21<sup>st</sup> July, 2008)

**Pesticide residues and global food trade**

Pesticides are not highly selective and are generally toxic to many non-target species such as birds, bees, fish, wildlife, domestic animals, livestock and humans. If not correctly used, pesticides can contaminate water resources; accumulate in food and soil; damage coral reefs, cause death to fish and birds; decrease the population of non-target species and beneficial insects; cause pest resistance; contaminate air and cause health hazards for human. Around 1,400 pesticides are used worldwide. The World Trade Organization (WTO) ministerial in Doha in November 2001 included reference to standards and their impact on market access for developing countries. The TBT agreements apply to

all aspects of food standards, which are not covered by the SPS agreement. In particular, the capacity of developed country exporters to penetrate these markets depends critically on their ability to meet increasingly more stringent food safety standards imposed in developed countries. The existing food safety standards have been designed by industrial countries to reflect their technology mix and consumer preferences. (Dawn, 21<sup>st</sup> July, 2008)

### **Telecom tariff in SAARC countries**

SAARC members have been talking of regional cooperation for a long time. SAARC itself is over 20 years old. There must be some real results something that citizens can feel. The lowest SAARC prices are to Bangladesh, \$0.12 (m) and India, \$0.12 (f). The cheapest intra-SAARC price is four times that of the cheapest extra-SAARC price. The cheapest prices from Sri Lanka are \$0.10 (m) and \$0.21 (f); they are not offered to Saarc destinations. The lowest SAARC prices are \$0.14 (m to India) and \$0.32 (f) to most SAARC). The “SAARC-less-India” price is higher than what is charged for Thailand (\$0.48, f and m). In Nepal, where the least reforms have occurred, the absolute lowest published prices are offered to India; the next best prices are offered to SAARC countries and much higher prices to non-SAARC destinations. It is unlikely that the US and Hong Kong operators charge higher prices from the other SAARC countries. (Dawn, 21<sup>st</sup> July, 2008)

### **Stocks crash exerts pressure on rupee**

The deteriorating situation on both political and economic fronts forced the rupee to surrender its previous week's gains against the dollar this week. Last week, timely intervention by the State Bank of Pakistan had saved the rupee from crossing Rs. 75 barrier in the inter bank market. It gained 32 paisa for buying and another 31 paisa for selling and traded at Rs. 69.60 and Rs. 69.65 on July 14, after closing previous week at Rs. 69.92 and Rs. 69.96. The rupee in the inter-bank market managed to gain 105 paisa on the buying counter and another 100 paisa on the selling counter, changing hands versus the dollar at Rs. 71 and Rs. 71.10 on July 18. During the week in review, the rupee in the inter-bank market lost up to 114 paisa against the dollar. The rupee had closed last week at Rs. 69.70 and Rs. 70.10. On July 18, it slipped further, falling 20 paisa for buying and 10 paisa for selling to trade at Rs. 71.90 and Rs. 72.40. The rupee had ended previous week at Rs. 110.90 and Rs. 111.10. During the entire week, the rupee lost Rs. 2 against euro. The dollar fell 0.1 percent to 106.10 yen. (Dawn, 21<sup>st</sup> July, 2008)

### **ADB to provide \$500 million for boosting economic transformation**

The Asian Development Bank (ADB) will provide \$500 million for 'Accelerating Economic Transformation Program (AETP) (Subprogram-1)', which will provide significant benefits in general, and targeted benefits for the poor in particular. The program will raise public confidence in the banking system arising from development of a financial sector safety net, including a depositor protection scheme, and stronger financial intermediaries that are better able to mobilize and allocate resources and risks, and promote financial sector stability. The program framework will enable ADB to sustained policy dialogue on structural reform in sectors where ADB has been actively involved through investments. Pakistan also needs to fix its subsidy system in the electricity sector. Third, Pakistan needs to strengthen its domestic financial intermediation to facilitate structural transformation. In parallel, ADB has been engaged in financial sector reforms. ADB has worked closely with other development partners on these reform programs. (Business Recorder, July 21<sup>st</sup>, 2008)

### **Doha deal would aid many European farmers**

Two dangerous prejudices are threatening the critical meeting of trade ministers at the World Trade Organization that starts in Geneva. The first is the view that the Doha round would bring small benefits merely \$ 50bn (€32 billion, £ 2 5 billion) to \$ 70bn in the industrial sector. After two decades of tariff cuts, the average industrial tariff is roughly 7 per cent for the 34 economies that account for 95 per cent of world trade and gross domestic product. No wonder additional cuts will not generate large economic gains. (Business Recorder, July 21<sup>st</sup>, 2008)

### **India to take up subsidies, tariffs at WTO meet**

On the eve of the crucial World Trade Organization (WTO) meeting of key trade ministers, India said that level of cuts in agricultural subsidies and industrial tariffs may be negotiated beyond the range proposed in the draft texts if there is consensus among the rich and developing nations. The WTO has convened a five-day mini ministerial meeting beginning July 21 to infuse urgency into the long-running Doha trade talks. India will also present its list of offers and demands for market access in services at the WTO Signaling Conference scheduled on July 24. Services chair ambassador Fernando de Mateo of Mexico is also expected to put out a text on services after the ministers' conference. India, which has a stronghold in services, is seeking greater market for its engineering, R&D, healthcare, construction and computer related services. (Times of India, 21<sup>st</sup> July, 2008)

### **Easy money blamed for home loan fiasco**

The Bank for International Settlements (BIS), located at Basel, Switzerland, is the bank for all central banks and is the oldest global financial institution. The BIS has for long warned of the dangers of unrestrained credit growth and asset price inflation. The world economy is at a crossroads. Rich countries are facing deflationary pressures from housing and financial sector collapse. There are huge uncertainties even a year after the crisis became global. Certainly, a global slowdown in the context of high inflation creates uncertainties on a massive scale. Official policies geared to meet the risks face a tradeoff between containing inflation and sustaining growth. The BIS report has plenty of messages for India. The developments in the U.S. financial markets obviously influence the emerging markets. Emerging markets, including India, do not rank high in the list of preferred destinations. (The Hindu, 21<sup>st</sup> July, 2008)

### **Foreign investment declined by 38 percent in 2008**

Net foreign investment declined by 38 percent during last fiscal year due to massive outflow of portfolio investment on account of political uncertainty and negative reports about country's economy during later part of the year. The State Bank of Pakistan (SBP) issued statistics of net foreign investment, including foreign direct investment (FDI) and portfolio investment, for the fiscal year 2007-08. Which show overall \$3.23 billion decline in the foreign investment during the fiscal year. "Major reason behind this dip was decline in portfolio inflows, as the foreign investors were reluctant to invest in the equity market due to political uncertainty and negative reports regarding country's stock markets," economic experts said. Statistics show that FDI declined by 0.3 percent, while portfolio investment decreased by 98.8 percent. (Business Recorder, 22<sup>nd</sup> July, 2008)

### **Current account deficit widens to \$ 14 billion**

The country's current account deficit has widened by 103 percent to some 8.75 percent of GDP and all time high level of 14 billion dollar during the fiscal year 2008 mainly due to the rising trade deficit on the back of high imports, besides slow foreign inflows. Official statistics revealed that the country has faced 14.016 billion-dollar current account deficit during the last fiscal year 2008, as compared to 6.87

billion dollar in 2007, depicting an increase of 7.138 billion dollar in fiscal year 2008. Statistics indicated that principal factors responsible for the widening of current account deficit include a widening trade deficit by 15.28 billion dollar, services deficit by 6.302 billion dollar and ever highest deficit of 3.905 billion dollar in income sector. (Business Recorder, 22<sup>nd</sup> July, 2008)

### **Low income economies' share in global output up 17 percent: World Bank report**

Low and middle income economies' share in the global output has increased from 24 percent to 41 percent since 1995 to 2005 in terms of Purchasing Power Parity at 2005 prices, reveals World Bank report on Development Indicators, 2008. Pakistan annual average GDP growth declined from 6.9 percent in 2006 to 6.4 percent in 2007, Sri Lanka 7.4 percent to 6.5 percent, Bangladesh 6.6 percent to 6.5 percent and India 9.2 to 8.7 percent. China was the only country in the region whose annual average growth increased from 10.7 percent in 2006 to 11.7 percent in 2007. The average annual percentage growth in Pakistan agriculture sector dwindled to 2.5 percent from 2000-06 against 4.4 percent of 1990-2000. The agriculture sector in India also declined to 2.7 percent in 2000-06 against 3.2 percent from 1990-2000. The manufacturing sector in Pakistan grew at an average annual growth of 10 percent during 2000-06 as compared to 3.8 percent in 1990-2000 while in India it grew from 6.7 percent in 1999-2000 to 7.7 percent in 2000-06. (Business Recorder, 22<sup>nd</sup> July, 2008)

### **Increased trade with India to boost shipping sector**

Commenting on the new Trade Policy for fiscal year 2008-09, experts on ports and shipping said on Monday that increased Pakistan-India bilateral trade would remarkably boost the shipping services between the two countries. The Trade Policy, which envisages exports target of \$22.1 billion, marking an increase of 15 percent, claims to aim at poverty alleviation, value-addition, compliance with international standards, reduction in cost of doing business and diversification of products and markets. Relaxation in the age of transport vehicles imports would boost the trucking industry and might increase competition in the sector, reducing the land transportation costs, the experts said. (Business Recorder, 22<sup>nd</sup> July, 2008)

### **Rising oil and food prices pose serious challenge: ASEAN**

Rising oil and food prices pose a serious challenge to the social and economic welfare of Southeast Asia, the region's foreign ministers said. Prices of basic commodities across the region, including the staple rice, have steeply risen amid a supply crunch coupled with surging world oil prices. Protests have broken out in Indonesia and Malaysia after governments raised fuel prices to contain ballooning government subsidies caused by climbing world oil prices. Global concern has been building over the possible economic impact of soaring oil prices. Rice-importing countries such as the Philippines have particularly felt the pressure of rising food prices. ASEAN members Thailand and Vietnam are the world's top two rice exporters. (Business Recorder, 22<sup>nd</sup> July, 2008)

### **EU, US pile pressure on emerging economies at WTO trade talks**

The United States and European Union took aim at emerging economies at crucial WTO trade talks, warning them to open up their markets if the seven-year Doha Round is to succeed. US Trade Representative Susan Schwab called on emerging markets to play their part in the process. The United States was prepared to make a contribution in return for contributions from emerging countries. It has been deadlocked as developed and developing countries show brinkmanship over concessions on issues such as agricultural subsidies and tariffs on industrial goods. Developing countries have been pressing for lower farm subsidies and agricultural tariffs in the developed world. Industrialized states

are demanding in return that developing countries make their markets more accessible to imported services and manufactured goods. (Times of India, 22<sup>nd</sup> July, 2008)

### **India opposes bid to cap tariff flexibility**

India, South Africa and Argentina, key members of NAMA-11 alliance at WTO, rejected a move by developed countries to limit the flexibility on tariffs and imports of developing countries to protect their domestic industry and farm sector. The NAMA-11 alliance of developing countries said it would reject any plans that limit the flexibilities they have got to protect their nascent industries, particularly a clause in the draft WTO text that restrains a country from seeking protection for a whole sector.. Putting a pressure on the developing countries, EU trade commissioner Peter Mandelson also said the success of this round was based on developing countries making 'real' cuts in industrial tariffs. (Times of India, 22<sup>nd</sup> July, 2008)

### **Islamabad shifts \$4.1bn global trade to Delhi**

Pakistan has diverted its global trade worth \$ 4.132 billion towards India following inclusion of 438 new importable items in the positive list during the past 10 months, officials told. Commerce and Defence Minister Ahmad Mukhtar said Pakistan was in the process of “gradually liberalizing” trade with India. Official figures available with Dawn showed that Pakistan’s tradable list with India had 591 items in 1997, but it has been enhanced to 1,938 items in 2008. The government added 302 items to the list in October 2007 and 136 items in July 2008. The figures for July-March 2007-08 showed Pakistan’s trade deficit with India stood at \$ 1.095 billion. Meanwhile, in a significant shift of policy, Pakistan also unilaterally announced measures in the trade policy to encourage Indian investment in manufacturing of CNG buses. Pakistan has a liberal investment policy, but the official said generally both countries discouraged bilateral investments. (Dawn, July 22<sup>nd</sup>, 2008)

### **India buys 10,000 cotton bales from Pakistan**

Indian spinners have purchased around 10,000 cotton bales from Pakistan at 75 cents per lb for urgent delivery. As enquiries were pouring in from Indian importers, the local prices of cotton rose by Rs. 100 to Rs. 4,100 per maund. Higher raw cotton prices in India, which are ranging between 82 to 84 cents per lb, have forced Indian spinning industry to approach Pakistani cotton exporters to procure cotton at cheap rates. According to market sources, Indian cotton traders have made excessive exports in the last season which has resulted into shortage of the commodity in their domestic market. Last season Pakistani spinning industry imported around 2.2 million bales from India which cost the national exchequer Rs. 40 billion. (Dawn, July 22<sup>nd</sup>, 2008)

### **DAP price may cross Rs. 5,000**

The DAP fertilizer would be available at more than Rs. 5,000 per 50kg bag in a couple of months, said Manzoor Ahmed Khan Wattoo, the prime minister’s adviser on Industries and Production. DAP (Diammonium Phosphate) is currently available at Rs. 3,400 per bag in the local market. He was speaking at a news conference on his return from Morocco after attending Pakistan-Morocco Joint Ministerial Commission (JMC) meeting. He said the government was in talks with Morocco for import of DAP to contain rising prices and ensure product availability in the Rabi season. Pakistan, he said, had asked the Moroccan authorities to supply 50,000 tons of DAP but they have agreed for 30,000 tons for the coming crops season. He said the government was aware of the current increasing trend in the DAP prices but hoped the existing inventories in the country and imports from abroad would help maintain prices at the current level. (Dawn, July 22<sup>nd</sup>, 2008)

### **Rs. 20 billion equity market fund announced**

The government would launch a stock market stabilization fund starting with Rs. 20 billion as early as this week, Finance Minister Syed Naveed Qamar told a gathering of jubilant stockbrokers and investors at the Karachi Stock Exchange. The minister said that the National Investment Trust the largest mutual fund in the country would manage the fund. Naveed Qamar hoped that the solution to the stock market turmoil would be found soon. In an oblique reference to the tight monetary policy followed by the State Bank of Pakistan, the minister said that the government would desist from borrowing from the central bank or resort to minimum borrowings so as to allow the SBP to ease its tight monetary stance. Naveed Qamar emphasized that the government's expenditure would be curtailed. The finance minister stated that the government intended to start the process of privatization of the state-owned entities through the stock exchange. (Dawn, 23<sup>rd</sup> June, 2008)

### **Rs. 4m duty, tax evasion unearthed**

The Directorate of Intelligence and Investigation, Federal Board of Revenue, Karachi, has unearthed evasion of customs duty and taxes to the tune of Rs. 4 million. The team intercepted two import consignments, consisting of 'camouflage fabric' and 'indelible fancy tallow', which were ready for clearance. After a thorough investigation, gross mis-declaration of value/description was detected. Meanwhile, in its efforts to curb the menace of smuggling, the Customs Intelligence destroyed a huge quantity of foreign-origin goods, including 222 packets of Indian Gutka, 800 kgs of betel-nuts, 12,520 strips of 69,000 Viagra (50mg) tablets, 60 bottles of 6,000 Centrum high potency multivitamin tablets, 21 cartons of packing material/literature of sexual medicines, 1,500 kgs or 25 bags of black tea, and 1,300 CDs/DVDs of English and Indian songs. (Dawn, 23<sup>rd</sup> June, 2008)

### **Emerging economies spurn US move: WTO talks**

Industrialized countries and emerging economies failed to find common ground on global trade with Brazil shooting down a US proposal a day after a European initiative went nowhere. Brazil has been acting here as an unofficial spokesman for emerging and developing countries. Emerging markets have voiced deep frustration at what they say have been inadequate offers on market-opening measures from rich participants such as the United States and the European Union. But US Trade Representative Susan Schwab said the world's largest economy was now prepared to cut its farm subsidies in exchange for an "ambitious market access outcome." The EU, as is the United States, is linking concessions in farm trade to steps by emerging countries to take in more manufactured goods. (Dawn, 23<sup>rd</sup> June, 2008)

### **Japan cuts economic growth forecast**

Japan's economy is set to grow by 1.3 per cent this fiscal year, much less than previously expected as soaring commodity and food costs hit companies and consumers, the government said. Consumer spending, adjusted for inflation, is projected to increase by 1.0 per cent instead of 1.3 per cent, the Cabinet Office said, blaming rising food and energy prices. "Tough economic conditions have been continuing since the start of the year," Japanese Economic and Fiscal Policy Minister Hiroko Ota told reporters. Consumer prices will rise 1.7 per cent this fiscal year, far beyond the previous forecast for a 0.3 per cent gain, the Cabinet Office predicted. The economic growth projection for the current year is slightly more optimistic than that of the country's central bank, which last week trimmed its forecast to 1.2 per cent from 1.5 per cent. (Dawn, 23<sup>rd</sup> June, 2008)

### **US financial turmoil to stay for some time**

US Treasury Secretary Henry Paulson warned that more time will be needed to get past the current financial turmoil and called for better regulation to prevent a recurrence. "Working through the current turmoil will take additional time, as markets and financial institutions continue to reassess risk," Paulson said in a speech prepared for delivery in New York. "Our markets won't make progress in a straight line and we should expect additional bumps in the road," he added, underlining that "until the housing market stabilizes further we should expect some continued stresses in our financial markets." The Treasury chief called for "additional powers to manage the resolution, or wind-down, of large non-depository financial institutions, such as larger hedge funds, so as to limit the impact of a failure on the broader financial system." (Dawn, 23<sup>rd</sup> June, 2008)

### **Oil crisis: Railways asked to focus on goods train services**

Pakistan Railways should focus on goods trains in the wake of international oil crisis, said Sheikh Ashfaq Ahmad, chairman, Faisalabad Dry Port Trust, while briefing a delegation of the Pakistan Institute of Management that visited Faisalabad Dry Port. Sheikh Ashfaq stressed the need for the promotion of export culture at the grass root level and said that schools above primary level should be converted into vocational institutes with English as compulsory subject. We must give credit to the management of Dry Port and Custom Staff. Collector Customs, Fazal Yazdani Khan, also addressed PIM delegation and gave an overview of the customs activities at Faisalabad Dry Port. The PIM delegation leader, Brigadier M Jawaid (Retd), presented Shields to Chairman FDPT, Sheikh Ashfaq Ahmed and Collector Customs, Fazal Yazdani Khan, while they also awarded Shields to the delegation leader. (Business Recorder, 23<sup>rd</sup> June, 2008)

### **Indonesia's debt swap receives healthy response**

Indonesia's offer to swap short-term debt for 14-year paper on Tuesday received a strong response from the market, as analysts forecast inflation in Southeast Asia's biggest economy may have peaked. Investors swapped 4.425 trillion rupiah (\$483.5 million) of debt maturing in 2009-2013 with 14-year bonds coded FR0035, much more than in the previous debt swap in February when the government attracted just 146 billion rupiah amid volatile global markets. Analysts expected the debt swap to help smooth out the maturity of the country's debt profile as well as increase trading liquidity in longer-dated bonds which should help the government to reduce its borrowing cost over the longer term. The 14-year bond was priced to yield 12.90247 percent in the debt swap. Last week, the ministry sold 4.35 trillion rupiah of 13-year bonds and 2.1 trillion rupiah of 20-year bonds. Indonesia's debt market still plays a relatively small part in the economy and is dominated by banks. (Business Recorder, 23<sup>rd</sup> June, 2008)

### **South Korea says economy in worst shape since Asia crisis**

South Korea's finance minister said the economy was in its worst trouble since the 1997 Asian financial crisis and markets took the comments as a warning to the central bank not to raise interest rates too much. The comments to parliament by Kang Man-soo helped September treasury bond futures rack up their biggest daily gain in six months as investors sharply scaled back their rate rise bets. Earlier, the Asian Development Bank trimmed its forecast for South Korea's economic growth to 4.7 percent for this year from 5.0 percent set three months ago and to 4.9 percent for next year from 5.2 percent. It also raised its projection for consumer inflation rate for the year to a seven-year high of 4.1 percent from 3.4 percent seen in April and 2.5 percent in 2007. (Business Recorder, 23<sup>rd</sup> June, 2008)

### **ADB tells Asian banks to act on inflation**

Asian central banks were warned that they will need to raise interest rates more quickly if they are to contain inflation. The Asian Development Bank used its semi-annual report on east Asia excluding Japan to stress that authorities needed to recognize that soaring prices presented a more immediate threat than slowing growth. (Financial Times, 23<sup>rd</sup> June, 2008)

### **IMF Warns Of Currency Mismatches**

“The euro is overvalued, even though the dollar is close to its equilibrium value, the International Monetary Fund (IMF) said yesterday, warning that new exchange rate misalignments could be emerging. ‘In our view the euro is now overvalued relative to medium-term fundamentals, while the currencies of many current account surplus countries remain substantially undervalued,’ John Lipsky, the IMF's first Deputy Managing Director, said in a speech. Lipsky predicted that record energy prices will continue to push up surpluses in oil-exporting countries. ‘We accept that large imbalances may be with us for longer than we had originally envisaged.’ Lipsky expressed confidence that ‘notwithstanding the dramatic claims by some,’ the dollar would retain its role - albeit somewhat diminished - as the world's reserve currency watchdog role as demand for its lending resources has declined. (Web.worldbank.net, 23<sup>rd</sup> July 2008)

### **ASEAN, Partners Agree To Tackle Food Crisis, Oil Price Spikes**

Foreign ministers of the 10 ASEAN nations and their counterparts from China, Japan and other key dialogue partners agreed on the need to improve crop productivity in the region to overcome the looming food crisis and create a mechanism to deal with rapidly growing energy consumption amid soaring fuel prices. They agreed to launch a \$ 3 million ASEAN-plus-three Cooperation Fund, in line with plans endorsed by the nations' leaders last November under the 2nd Joint Statement on East Asia Cooperation, the official said. During the one-day meeting, the ministers discussed the growing challenges of rising oil and food prices, calling for greater information sharing and collaboration among member countries, said a chairman's statement of the so-called ASEAN-plus-three meeting issued late Tuesday night. Japan will provide additional aid to members of the ASEAN to tackle bird flu, Foreign Minister Masahiko Komura said. (Web.worldbank.net, 23<sup>rd</sup> July 2008)

### **Singapore works hard to attract foreign staff**

Singapore is a place in need of qualified workers. This was underlined recently by the relaunch of Contact Singapore – an organization that aims to be a one-stop shop for people from around the world who want to find a job there. (Financial Times, 23<sup>rd</sup> July, 2008)

### **Japan to help build two power plants**

Japan has agreed to help set up two power plants of 500MW each. A 15-member visiting Japanese business delegation, which met Minister for Finance Syed Naveed Qamar here on Wednesday, also expressed its willingness to further increase investment in the automobile industry of Pakistan. The head of the delegation, Mr Makoto Kakebayashi, said that the government of Japan and the Japanese investors were also keen to modernize basic infrastructure in Pakistan through Official Development Assistance (ODA), JICA and JPIC funding in health, education, water and communication sectors. The finance minister appreciated the interest being taken by the Japanese investors in power projects considering the existing power shortages in Pakistan. (Dawn, 24<sup>th</sup> July, 2008)



### **Engro to post 54pc growth in profit**

Engro Pakistan Limited is expected to post 54 per cent growth in after-tax profit at Rs1.712 billion, translating into earning per share (eps) at Rs8.32, the average of projected potential results for the first half of the year ended June 30, by four stock brokerage firms, AKD Securities, Arif Habib Limited, Capital One Equities and First Capital revealed. Overall corporate results this season are expected to show a robust growth. AHL visualized eps at Rs8.56 up 56pc; analysts at AKD offered eps at Rs7.77 with First Capital showing an equal eps at Rs7.79, representing growth of 50pc over the previous same period. Interestingly, all brokerages were expecting the company to disburse first interim cash dividend in the range of Rs. 2 and Rs. 2.50. "During the half year under review, urea and DAP prices had averaged to an all time at Rs614 per bag and Rs.2, 800 per bag respectively," analysts noted. (Dawn, 24<sup>th</sup> July, 2008)

### **Money rates rise, rupee flat**

Short-term money rates rose and dealers said rates are likely to remain stable for the rest of the week. Overnight call rates ended at 11.50 per cent, up from Tuesday's close of 10.50 per cent. Dealers said the central bank may conduct a repo as inflows of about Rs8.7 billion were scheduled for Thursday from maturing government securities. Dealers expect the rupee to remain stable in the short term but are uncertain about the medium to long term. The dollar was firmer late Wednesday against the euro and yen on speculation the next move in US interest rates could be up, as the central bank tries to keep rising inflation in check. Against the Japanese currency, the dollar rose to 107.71 yen from 107.25. US interest rates at 2.0 per cent compared with 4.25 percent in the eurozone have played in favour of the euro as investors generally favour higher yielding currencies. (Dawn, 24<sup>th</sup> July, 2008)

### **Govt. plans to issue short-term paper soon**

The government plans to issue short-term paper soon through the Central Directorate of National Savings, a Finance Ministry official told. "Government is planning to launch short-term paper of 3-, 6-, and 12-month duration through the CDNS for the general public," the official, who requested anonymity, said. The official said funds generated by the issuance of short-term paper would be used to retire debt to the State Bank. "The government is creating competition in terms of deposit mobilization," he said. (Dawn, 24<sup>th</sup> July, 2008)

### **Banks lending up 11pc in first half of 2008**

Gross advances by the banks increased by 11 per cent in first half of the current calendar year, which was clearly a significant increase while comparing it with the 3 per cent and 4 per cent in the corresponding periods of the last two successive years. The bankers said the corporate sector requirements increased because of loss of value of rupee in the wake of high inflation resulting in devaluation of rupee. The benchmark interest rate, discount rate, was increased to 12 per cent by the SBP, which has translated into 15 per cent to 24 per cent in lending rates of banks. Analysts identified at least three reasons for this higher growth, including higher inflation with cheaper money. (Dawn, 24<sup>th</sup> July, 2008)

### **Oil prices fall further**

Oil prices fell further as traders digested stronger-than-expected gasoline (petrol) reserves in the United States, the world's biggest crude consumer, analysts said. London's Brent North Sea crude for September delivery shed \$1.89 to \$127.66. The US Energy Information Administration said that crude reserves fell 1.6 million barrels in the week ending July 18. Market expectations had been for a decline of 600,000 barrels. Oil prices have slumped since hitting record highs of \$147.27 in New York and

\$147.50 in London earlier this month, as traders fretted over slower US economic growth dampening global demand for energy. (Dawn, 24<sup>th</sup> July, 2008)

### **Monetary policy likely to stay tight**

Bank rates are set to go further up as State Bank of Pakistan prepares itself to give another “tight monetary policy” by the end of this month even though the previous all such policies, including the latest intervention at the fag-end of 2007-08 pushing up 150 basis points failed to contain inflation or maintain stability in exchange value of the rupee. “It is inevitable,” a senior business leader observed when asked whether the next monetary policy would maintain tight stance and if the interest rates would go further up. After announcing the six-monthly monetary policy in late January 2008, and the subsequent developments that caused unprecedented economic turmoil in the world and also hit hard Pakistan, SBP Governor Dr. Shamshad Akhtar intervened again in April-May last to announce a series of measures from further pushing up bank interest rates to squeezing extra liquidity from market. For long they complained against rising bank interest rates after the year 2005. (Dawn, 24<sup>th</sup> July, 2008)

### **\$ 13.2 million rise in 2007-08 FDI**

Foreign direct investment (FDI) increased by a paltry 0.3 percent during last fiscal year (2007-08). As per State Bank of Pakistan statement, FDI stood at \$ 5.153 billion at the end of fiscal year 2007-08 against \$ 5.140 billion of 2006-07, depicting an increase of \$ 13.2 million. (Business Recorder, 24<sup>th</sup> July, 2008)

### **Rs. 30.73 billion CDGL budget 2008-09 approved**

The Lahore City Council has passed Rs. 30.73 billion budget of the City District Government Lahore (CDGL), the Lahore Development Authority (LDA) and its two subsidiaries, the Water and Sanitation Authority (WASA) and the Transport Engineering and Planning Authority (TEPA) for the fiscal year 2008-09. It has allocated Rs. 9.68 billion to carry out different development projects while Rs. 8.01 billion to meet the non-development expenditures. Total expenditures are estimated at Rs. 4.94 billion, thus leaving Rs. 2.24 billion as surplus amount. It has allocated Rs. 3.23 billion for development projects while Rs. 1.712 billion for non-development expenditures. TEPA's total income has been estimated at Rs. 2.12 billion, which also includes opening balance of Rs. 474.161 million, as against expenditures of Rs. 2.05 billion, thus leaving Rs. 76.18 million as surplus amount. Income of WASA was estimated at Rs. .3.67 billion while total expenditures were Rs. 5.02 billion, thus leaving a budget deficit of Rs. 1.34 billion. (Business Recorder, 24<sup>th</sup> July, 2008)

### **Rs. 300 million to be spent on mines, minerals sector: minister**

Senior Punjab Minister Raja Riaz Ahmed has said that the government will spend Rs. 300 million on the promotion of mines and minerals in the province. Addressing a workshop held at a local hotel on Wednesday, he said that Rs. 216 million of the allocation is being spent on 13 ongoing schemes while Rs. 83 million will be spent on seven new mining projects. Funds amounting Rs. 18 million have been allocated to explore coal reservoirs in the Kallar Kahar areas, with Rs. 32 million marked for coal exploration at Khushab. Raja Riaz said that the 8km long Silanwali-Sargodha link road is being executed at a cost of Rs. 69.76 million, while Rs. 34 million has already been spent on the scheme. (Business Recorder, 24<sup>th</sup> July, 2008)

### **Japan government lowers GDP forecast to 1.3 percent**

The Japanese government cut its economic growth forefaces, a US sloping to achieve its self-imposed fiscal reform target by 2011/12. "Economic conditions are worsening well beyond our expectations," a Cabinet Office official told reporters. Many economists believe the Japanese economy contracted in

April-June following strong growth in the previous two quarters. Prime Minister Yasuo Fukuda told the government's top economic advisory council that the world's economies are becoming fluid and called for ministers to be on alert and act swiftly if necessary, Economics Minister Hiroko Ota said. As slower growth is likely to reduce tax revenue, Japan's plan to balance its budget excluding debt servicing and issuance by 2011/12 looks elusive, according to Cabinet Office calculations. It said Japan's so-called primary budget balance - the budget balance excluding debt - will run a deficit of 3.9 trillion yen, or 0.7 percent of gross domestic product, in 2011/12 even if Japanese economic growth keeps accelerating in the coming years. (Business Recorder, 24<sup>th</sup> July, 2008)

### **US growth bounces but to weaken later this year**

US economic growth probably improved in the second quarter with inflation up too, but interest rates are seen remaining steady due to the housing slump and shaky banking system, a Reuters poll showed. The poll found US gross domestic product (GDP) is expected to grow a median 1.3 percent in 2008 and accelerate to 1.8 percent in 2009. This stronger than the 1.1 percent 2008 forecast in a Reuters poll last month but the 2009 forecast is much weaker than 2.3 percent polled in June. GDP was expected to have grown a median 1.5 percent, annualized, in the second quarter, up sharply from 0.2 percent in last month's poll and 1.0 percent in the first quarter. The median forecast put the probability at 60 percent, up from the 50 percent in the previous poll. The latest survey was conducted July 16-23. The survey showed headline inflation at a median 4.4 percent in 2008 compared with 4.0 percent in the June poll, largely due to a run-up in energy and food costs. The core consumer price index, which excludes volatile food and energy prices, was relatively stable at a median 2.3 percent in 2008 and 2.2 percent in 2009. Both forecasts were unchanged from the previous poll. The jobless rate was at 5.5 percent in June. (Business Recorder, 24<sup>th</sup> July, 2008)

### **India vows to revive economic reforms**

India's finance minister, Palaniappan Chidambaram, has pledged to revive long-delayed economic reforms, particularly in the financial sector, after his Congress-led ruling coalition survived a crucial vote of confidence in parliament. Mr. Chidambaram told reporters that Congress, freed from the constraints of its former leftist allies, would reach across party lines to build consensus for a range of economic bills, including liberalization of the insurance, pensions and banking sectors. (Financial Times, 24<sup>th</sup> July, 2008)

### **US consumer spending remains sluggish**

Conditions in the US economy deteriorated in the month to July 14, the Federal Reserve said on Wednesday, as American consumers and businesses continued to struggle with rising prices, tight credit and slow growth. According to the "beige book", which summarizes anecdotal evidence provided to the US central bank, "the pace of economic activity slowed somewhat since the last report [on June 11]". It said that in particular five districts on the east coast, from Boston to Atlanta and including New York, had experienced a "softening or weakening" in their economies. (Financial Times, 24<sup>th</sup> July, 2008)

### **6m tons rice output this year likely**

Pakistan's rice output should rise at least by 10 per cent to over 6 million tons in 2008-09 on a larger planted area, officials and growers said adding that exports could top 4 million tons. Pakistan, the world fifth-largest rice exporter, produced 5.5 million tons of rice in the year to June and exported 3.33 million tons. Fresh grain will start flowing to the market in late August, according to rice traders. The rice crop was targeted to be grown over an area of 2.5 million hectares (6.177 million acres).

Pakistan's eight-month-long rice season runs from April to November. Rice accounts for about 8 per cent of Pakistani exports and 1.2 per cent of gross domestic product. Annual domestic consumption of rice is about 2.3 million tons. Pakistan exported 3.33 million tons of rice in 2007-08, from 3.12 million tons the year before, with the value of exports up 61.53 per cent at \$ 1.18 billion, according to official data. Exports of basmati rice increased by over 40 per cent to 1.28 million tons, while other varieties declined by nearly seven per cent to 2.06 million tons. (Dawn, 25<sup>th</sup> July, 2008)

### **Oil price Continues falling**

World oil prices fell slightly but held close to \$125 per barrel, as Libya said it would halt fuel supplies to key energy customer Switzerland. Crude futures had slumped on Wednesday by about \$4 a barrel after a bigger-than-expected increase in US gasoline reserves amid weaker demand in the United States, the world's biggest energy consumer. Brent North Sea crude for September delivery eased 14 cents to \$125.15 in early London trading. The General National Maritime Transport Company and the Port Authority said in a joint statement they had "decided to halt Libyan oil tankers carrying oil products to Switzerland." Crude oil prices have shot to a series of record highs this year, partly because of political tensions surrounding oil producing nations, notably in Iran over its nuclear programme. (Dawn, 25<sup>th</sup> July, 2008)

### **Trade policy called 'India-centric'**

The Pakistan Muslim League (Q) rejected the Trade Policy-2008-09 and announced that the opposition would take the business community into confidence to launch a countrywide strike as the policy was covertly aimed at granting India the status of a 'Most Favoured Nation'." This trade policy is 'India-centric' and a bid to appease the Indian government, while the PML thinks that all trade routes to India pass through Kashmir." The PML leaders claimed that the government had already awarded the contract of Thar coal project to India's Reliance Group. Marvi Memon termed the trade policy ridiculous, saying that this would turn Pakistan into a "dumping ground" for Indian commodities. She regretted that the policy should have economic targets, such as economic prosperity, employment, exports, better market access, and product diversification. (Dawn, 25<sup>th</sup> July, 2008)

### **French threat deepens gloom at WTO**

A threat by France to torpedo a new global free-trade pact deepened the gloom surrounding troubled WTO negotiations on Thursday, with scant progress having been made so far toward a deal. Strains between big and small countries also emerged, adding to tension between rich and poor nations, as four days of grueling talks produced little sign that an agreement was within reach. The draft agreement is a mere starting point for talks, but Sarkozy's comments reflect deep anxiety and opposition in Paris to concessions that would damage its farming sector. The World Trade Organization has convened a meeting here of 35 leading trade negotiators with the aim of mapping out a deal to conclude the long-delayed Doha Round of global trade talks. "On some of the key issues, positions still remain too far apart," WTO Director-General Pascal Lamy conceded at a meeting of the organization's 153 members on Thursday, his spokesman told reporters. Eight delegations complained about the approach at a morning meeting, Rockwell said, with host nation Switzerland leading the criticism. (Dawn, 25<sup>th</sup> July, 2008)

### **India says Asia is the future**

The future of manufacturing is in low-cost youthful Asian economies, and the United States and Europe should abandon ideas of propping up uncompetitive industries, India's trade minister said. "The future is that cars are not going to be made in Stuttgart or Detroit -- they're going to be made in

Asia,” Commerce Minister Kamal Nath told a news conference. Nath dismissed calls from German automobile manufacturers who want to ensure that any WTO deal does not allow big developing countries like India or China to shield entire industrial sectors from market opening. German automobile manufacturers who have made huge investments in India were urging him to reject such an “anti-concentration” clause, he said. Nath said he had explained this to German Economy Minister Michael Glos during the talks. (Dawn, 25<sup>th</sup> July, 2008)

### **SECP confirms launch of fund today**

The Securities and Exchange Commission of Pakistan (SECP) confirmed on Thursday evening that the “Market Opportunity Fund” would be launched. A press release by the apex regulator stated that the fund would be launched under the management of National Investment Trust (NIT). The SECP said that a meeting was held at its Karachi Office on Thursday, attended by representatives of SECP, KSE and financial institutions. The objective was to “finalize the mechanics and to obtain firm commitments for the proposed Market Opportunity Fund from participating institutions,” the press release said. Meanwhile, NIT Chairman Tariq Iqbal Khan has said the special fund that had been established for the market would be converted into open-ended fund after issuing the units. (Dawn, 25<sup>th</sup> July, 2008)

### **Credit crisis crushes market funds myth**

A year after the credit crunch sent money markets into spasms, risk-averse investors have learned that juicy yields and safety do not coexist and have become increasingly discriminating within the money funds universe. During years of easy credit and abundant liquidity, many asset managers invested in various high-yielding money market funds, believing they had offered the same safety of cash but with juicy additional basis points. As troubles in US sub prime mortgages posed severe questions about the credit quality of top-rated repackaged securitized assets, liquidity evaporated in these markets and money funds were forced to dive for cover. “The enhanced money market funds industry has experienced huge outflows. There was so much liquidity in the market. Conservative funds benefited at the expense of enhanced cousins. Fitch reckons Europe’s top-rated money funds grew about 40 percent since June 2007 into a 400 billion euros industry. Banks, who had used these vehicles as a key funding source, rushed to inter bank money markets to secure cash. (Dawn, 25<sup>th</sup> July, 2008)

### **Germany, France lead eurozone into economic tunnel**

Germany and France are gripped by grim business prospects, marking deepening gloom in the eurozone, data showed on Thursday, crimping room for the ECB to raise rates against inflation. German business sentiment fell to near a three-year low point in July, with a key index posting the sharpest drop since the September 11 attacks in the United States. In Germany, the monthly business climate index calculated by Munich-based economic research institute Ifo fell to 97.5 points from 101.3 points in June. In Brussels, the eurozone’s purchasing managers’ index (PMI), compiled by data and research group Market, slid more sharply than expected to its lowest level since November 2001. Capital Economics analyst Ben May said that “the latest very weak survey data from the eurozone will surely prevent the European Central Bank from raising interest rates further. (Dawn, 25<sup>th</sup> July, 2008)

### **Pakistan's foreign exchange reserves stand at \$10.728 billion**

The country's total liquid foreign exchange reserves stand at 10.728 billion dollars, says a statement issued by State Bank of Pakistan. On 19th July 2008, the foreign exchange reserves held by SBP

figured 7.777 billion dollars, whereas net reserves held by the banks other than SBP amounted to 2.950 billion dollars. (Business Recorder, 25<sup>th</sup> July, 2008)

### **Panama wants to collaborate in service sector**

Leader of two member delegation and Advisor Port and Shipping of Panama, Alejandro A Moreno V has said that Panama is interested to collaborate and initiate work in Pakistan in service sector. Speaking at a meeting of Karachi Chamber of Commerce and Industry (KCCI), he said that Panama is also interested to provide training in different sectors including shipping sector maritime. Alejandro said that total turnover of Panama free zone is around 15 billion dollars. Welcoming the guests, President KCCI, Shamim Ahmed Shamsi said that Pakistan offers best investment opportunities in the region and invited Panama business community to visit Pakistan and see the existing opportunities of collaboration and increasing two way trades. (Business Recorder, 25<sup>th</sup> July, 2008)

### **ECO and SAARC chambers ink MoU**

While total volume of the world trade stands at 12.5 trillion dollars, intra-regional trade among Economic Co-operation Organization (ECO) countries is only 800 million dollars or 7 percent of the international trade. "This is unfortunate and our ongoing meetings are very much in line with this situation," said Economic Co-operation Organization Chamber of Commerce and Industry (ECO-CCI) Chairman Rifat Hisarciklioglu while addressing a press conference after signing a MoU with South Asian Association for Regional Organization Chamber of Commerce and Industry (SAARC-CCI) on mutual co-operation at Federation of Pakistan Chambers of Commerce and Industry (FPCCI) Head Office. Ways to co-ordinate efforts aiming at enabling the ECO business circles to make better use of the financial opportunities provided by the ECO-CCI and ECO Trade and Development Bank were also discussed, Hisarciklioglu said. Meanwhile, a statement issued by FPCCI said the executive committee meeting had also considered establishing a "permanent secretariat" to make ECO-CCI a more active and competent regional trading institution. (Business Recorder, 25<sup>th</sup> July, 2008)

### **China's overseas investments more than double in first half: government**

China's overseas investment more than doubled in the first half of 2008, the government said, as the energy-hungry nation sought to secure resources globally to fuel its economic boom. "The Chinese government takes pains to guide and encourage companies to 'go out'," Wang said. "China's outward investment will enter into a new phase of fast development." Non-financial investment refers to investment made by companies other than banks, insurers and securities firms. Chinalco's contribution was the largest overseas investment ever made by a Chinese firm. Chinese overseas investment also benefited from a strengthened currency combined with falling asset prices abroad. "Prices of companies came down with drops in global stock markets." But growing financial turmoil at home and abroad also triggered official concerns of growing risks to Chinese investors, with Beijing on Tuesday warning state-owned companies to exercise extreme care when investing. (Business Recorder, 25<sup>th</sup> July, 2008)

### **Policymakers must curb prices to help poor: Zoellick**

Global policymakers must make sure inflation doesn't run out of control to protect the world's poor, who suffer most when prices surge, World Bank President Robert Zoellick told Reuters. Referring to comments on inflation made by central bankers, he said: "We're going to have to watch those risks because once inflation starts to get out of control, frankly the poor are those that get hurt the most, but it runs risks throughout the whole financial system." (Business Recorder, 25<sup>th</sup> July, 2008)

### **European economy dashes expectations as morale sinks**

Europe's economy is taking a bigger hit than expected as the global credit crunch and rising costs erode corporate and consumer confidence. Surveys of German, French and Italian businesses all came in below consensus expectations, British retail sales took a record fall and optimism among euro zone service providers hit its lowest point in at least 10 years. Official data showed French business confidence fell more sharply than expected in July to its lowest level in three years and Italian business morale fell to a near seven-year low. The eurozone reports will make uncomfortable reading for the European Central Bank, which raised interest rates to 4.25 percent this month to battle inflation at a record high of 4.0 percent, way above its 2.0 percent target ceiling. At the same time, inflation remains high. (Business Recorder, 25<sup>th</sup> July, 2008)

### **OECD urges reform on Jakarta to cut poverty**

Indonesia needs to overhaul its labour laws and remove foreign ownership restrictions to help raise economic growth to levels that would have an impact on poverty, Angel Gurría, head of the Organization for Economic Co-operation and Development, said. Mr Gurría was in Jakarta to release the OECD's first comprehensive study of the Indonesian economy. Its report recommended Indonesia introduce a mechanism linking increases in local fuel prices to world energy markets, with a view to obviating politically motivated adjustments and eventually wiping out all subsidies. (Financial Times, 25<sup>th</sup> July, 2008)

### **BSF providing Rs. 1.8 million to Multan SMEs**

David Mokman Chief Executive Officer of Business Support Fund (BSF) of Asian Development Bank (ADB) has been providing funds up to Rs. 1.8 million to the Small and Medium Enterprises (SMEs) which had up to 250 permanent workers or their maximum turnover is Rs. 30 million per annum. The Asian Development Bank (ADB) is investing up to 2.5 million dollar in a private equity fund to support regulated micro-finance institutions and small business banks in poor areas of developing Asia where demand for financial services is high but remains under served. Micro and small enterprises represent a major driver of business in developing countries like Pakistan. According to an ADB Micro-finance Development Strategy, some 180 million poor households in the Asian and Pacific region still have little access to formal financial services. ADB is dedicated to reducing poverty in the Asia and Pacific region through pro-poor sustainable economic growth, social development, and good governance. (Business Recorder, 26<sup>th</sup> July, 2008)

### **Poor economic policies of government criticized**

People from different walks of life have strongly criticized the performance and policies of the government, saying the economic conditions in the country deteriorate everyday. Under the prevailing situation, the government should exempt the industrial cities from load shedding to ensure productivity and to keep the economic wheel of the country running. In order to strengthen the industrial sector, the government should provide a large financial subsidy on utility bills, to facilitate the business community of the country. Similarly, prices have been increased significantly, resulting in serious hardships for the common man, causing the statistics of suicides to increase in the country. (Business Recorder, 26<sup>th</sup> July, 2008)

### **Sarhad CCI seeks Centre's help against Punjab ban on wheat supply**

Sarhad Chamber of Commerce and Industry (SCCI) took up the case of the eight-month old suspension of wheat supply by Punjab to NWFP with the Federal government and sought withdrawal of the restriction on the transportation of the commodity. A delegation of the Sarhad Chamber of

Commerce and Industry (SCCI), headed by its President Haji Mohammad Asaf called on Federal Minister for Finance Syed Naveed Qamar. The Finance Minister said that the Federal government was well aware of the problems faced by the flour milling industry of NWFP due to the suspension of wheat supply. The Federal minister further said that the provincial government of NWFP and SCCI itself could also approach the government of Punjab over the matter of the supply of wheat. Earlier, SCCI President Haji Mohammad Asaf and leader of the Businessmen Forum, Senator Ilyas Ahmad Bilour highlighted the problems faced by the industries of the province, and stressed need for their resolution. (Business Recorder, 26<sup>th</sup> July, 2008)

### **Japan inflation accelerates**

Inflation in Japan accelerated in June to 1.9 per cent, the fastest pace in more than a decade because of surging energy and food prices. Corporate goods prices jumped 5.6 per cent in June from a year earlier, according to central bank statistics, suggesting that many companies are not able to pass higher costs on to consumers. (Financial Times, 26<sup>th</sup> July, 2008)

### **Over Rs. 15 billion mopped up SBP struggles with excess liquidity**

Despite tight monetary policy the State Bank of Pakistan has to struggle with the excess liquidity in the market generating speculation about further hike in the discount rate, while bankers feel it will be counter-productive. The central bank mopped up Rs. 15.15 billion from the market pushing the overnight rate up to 10.5 per cent. The liquidity increased on Thursday, which pulled down the overnight rate to just 7 per cent creating concern for the regulator (SBP) that excess liquidity could find ways in the market to cause inflation in the economy. Analysts believe that the high target was set in the wake of frequently increasing oil prices in the world market and government's plan to inflate the economy through increasing prices of petroleum products in the domestic market. The money market was beset with the speculation about the role of discount rate in curtailing the inflation. Higher interest rate makes their borrowing costlier, which means they may reduce their activities if the interest rate goes further high," said Abid Saleem, an analyst. (Dawn, 26<sup>th</sup> July, 2008)

### **IMF calls for tight monetary policy**

Pakistan needs to tighten fiscal and monetary policy to contain inflation and reduce its current account deficit, says International Monetary Fund. "Now a significant tightening of both fiscal and monetary policies to contain inflation and reduce the external current account deficit is needed in our view," said David Hawley from IMF's external relations department. Pakistan is in talks with the World Bank. In May, the central bank increased its key discount rate to 12 per cent from 10.5 per cent. June annual inflation was 21.53 per cent, the highest since the 1970s while the government has forecast a fiscal deficit of 7 per cent of gross domestic product for 2007-08. The drain on reserves is a consequence of burgeoning oil import bill and foreign investors retreating because of political uncertainty dogging the country four months after a civilian coalition formed a new government. (Dawn, 26<sup>th</sup> July, 2008)

### **Breakthrough brings hope of WTO deal**

Despair turned to hope at WTO talks as an apparent breakthrough in deadlocked negotiations raised the possibility of a new global free-trade pact being agreed after seven years of stalemate. After more than four days of nearly fruitless talks and gathering gloom, a source told AFP that key nations the United States, the European Union, Japan, India, Brazil, Australia and China had finally found common ground. A spokesman for the World Trade Organization head Pascal Lamy confirmed "very encouraging signs" from the talks. The Doha trade liberalization round was launched in the Qatari capital seven years ago with the aim of helping poor countries enjoy the fruits of freer global trade.



But the process has been delayed by disputes between the rich developed world and poorer developing nations. (Dawn, 26<sup>th</sup> July, 2008)

### **Asian stocks tumble on US economic**

Asian shares tumbled on Friday with Australia and India suffering heavy falls of more than three per cent on fresh worries of US economic woe due in part to the country's ailing housing market. Many of the region's other major markets also endured sharp falls, with Japan down nearly two per cent and Hong Kong, China, Taiwan, South Korea and Singapore slipping 1.5 per cent or more. Japanese share prices slid 1.97 per cent, dealers said. The broader Topix index of all first-section shares slid 34.29 points or 2.57 per cent to 1,298.28, dropping below the symbolic 1,300-point mark. Hong Kong share prices closed 1.5 per cent down, dealers said. The benchmark Hang Seng Index dropped 347.01 points to 22,740.71. Australian share prices plunged 3.37 per cent, dealers said. Market volume was 1.4 billion shares worth 7.98 billion dollars (7.74 billion US). Singapore share prices closed 1.85 per cent lower, dealers said. Malaysian share prices closed little changed, dealers said. Ranhill rose 31.6 per cent to 1.27 ringgit. Indonesian shares closed down 0.5 per cent, dealers said. The Jakarta Composite Index shed 11.71 points to 2,245.34. New Zealand share prices closed down 1.01 per cent, dealers said. The benchmark NZX-50 index closed 33.07 points lower at 3,254.16. Market leader Telecom gained two cents to 3.49 dollars. Contact Energy fell 35 cents to 8.12, while Fletcher Building fell 22 cents to 6.69. India's share prices closed down 3.4 per cent, dealers said. The benchmark 30-share Sensex index fell 502.07 points to 14,274.94. (Dawn, 26<sup>th</sup> July, 2008)

### **Finance, telecom help fetch \$ 5.1billion in FDI**

Increased attraction for financial business, telecommunications and oil and gas exploration collectively pushed foreign direct investment even higher than last year despite continued political uncertainties and poor economic performance. The State Bank of Pakistan reported that while the telecommunications still maintained its attraction for the FDI, the financial business proved more attractive and invited more foreign investment than the telecom. Researchers said for the first time financial business attracted more FDI than telecom sector during the last five years. The FDI in financial business helped the country come out from the depressing scenario that emerged after outflows from the portfolio investment. The financial business attracted \$1.607 billion during 2007-08 as compared to \$930 million in the preceding year, a sharp increase of 72 per cent, making the sector best place for FDI. (Dawn, 27<sup>th</sup> July, 2008)

### **Doha round seems to be back on track**

After a near collapse, the Doha development round seems to be back on track as 153 WTO members countries thrashed out a compromise package for agriculture and industrial goods, a senior Pakistani diplomat said. The most significant issues were to work out cuts on overall trade distorting domestic support by developed countries and cuts in tariffs. After a weeklong meeting of 35 trade ministers of leading countries, Pakistan's Ambassador to WTO Dr. Manzoor Ahmed told Dawn that it has been agreed that the US would cut its allowable subsidies by 70 per cent from \$48 billion to \$14.7 billion while EU has agreed to cut them by 80 per cent. It has also been agreed that developed countries could cut their agricultural tariffs by an average of 60 per cent. (Dawn, 27<sup>th</sup> July, 2008)

### **Oil retreating amid complex market fundamentals**

For a change, and indeed a welcome one, oil markets are on the retreat. Indeed crude is not that crude an affair. Extra fundamentals continue to play havoc. Like any other commodity, crude is also controlled by market factors. With the world facing what is being termed as the third oil shock, there is

a growing onus on bringing the gap. Blame game rules wherever and whenever the producer-consumer dialogue takes place. For their part, consumers are increasingly eager to avoid reliance on imported oil and gas. Varying positions are evident. (Dawn, 27<sup>th</sup> July, 2008)

### **Cotton prices ease amid slow trading**

Physical activity on the cotton market slowed down on Saturday despite lower offerings by the ginner as spinners anticipated further fall in prices. Market sources said fresh forward sales of cotton to India, Bangladesh and Indonesia during the week did not spur prices on the higher side. Mills ready off-take was on the lower side as compared to last couple of sessions totaling 5,000 bales as under: 400 bales, Shahdadpur at Rs. 4,100, 1,000 bales, Bahawalnagar at Rs. 4,100 to Rs. 4,125, 200 bales, Mian Channu at Rs. 4,125, 600 bales, Burewala at Rs. 4,100 to Rs. 4,150, 400 bales, Haroonabad at Rs. 4,050, 145 bales, Gaggon at Rs. 4,100, 200 bales, Gojra Rs. 4,150 and 800 bales, Pak Pattan at Rs. 4,000. (Dawn, 27<sup>th</sup> July, 2008)

### **Foreign investors withdraw another \$ 29.593 million**

Foreign investors continued their cautious stance due to prevailing political and economic situation in the country and withdrew another \$ 29.593 million from the Pakistan's equity market. The cumulative net outflow of the current month from July 1 to July 25 stood at \$ 72.768 million while the cumulative figures of current calendar year (January 1, 2008 to July 18, 2008) were recorded at negative 314.204 million. The prevailing geo-political situation and weakening economic indicators are the main reasons, which forced the foreign investors to offload their holdings, a leading analyst said, adding that various measures taken by the SECP and KSE board to support the local share market failed to revive the investor confidence during the outgoing week. (Business Recorder, 27<sup>th</sup> July, 2008)

### **ADB to provide \$150 million for augmenting rural economy, water resources**

Asian Development Bank will provide \$ 150 million for Sindh Growth and Rural Revitalization Programme (formerly Sindh Resource Management Programme) to promote private sector participation; improve public expenditure management and revitalize the rural economy. More than 70 percent of the rural population derives their livelihood from agriculture. The slow growth of the rural economy has led to a large and widening income gap between urban and rural Sindh. Meanwhile, ADB will provide \$ 0.8 million for Sindh Province Water Resource Development (formerly Provincial Water Sector Development Strategies & Investment Plan). According to ADB project report, Investment program for water resources improved management and development in Sindh province to be financed under an ADB Multitranchise Financing Facility. Sector policy framework, a sector road map and a medium term investment program to guide ADB sector engagement consistent with MFF requirements. (Business Recorder, 27<sup>th</sup> July, 2008)

### **Green and skilled Kashmir: AJK government to implement plan rapidly**

The AJK government's vision of "Green and Skilled Kashmir," primarily aimed at converting AJK into a model welfare state, is being implemented under a broad-based phased development programme across Azad Jammu and Kashmir, official sources said. The sources said that the government has paid special attention for the implementation of massive construction works in the earthquake zones of Azad Jammu and Kashmir with special focus to generate opportunities of employment for the youth. The plan, the sources said, will increase economic graph of the citizens. Referring to the ideological priorities of the AJK government, the sources revealed that the government has fixed the priorities to promote the historic consciousness to link up the youth with the ideological assets and to fortify further State's relations with Pakistan. (Business Recorder, 27<sup>th</sup> July, 2008)

### **Services trade deficit hits new peak of \$ 6 billion**

The country's services trade deficit has widened by 50 percent to hit a new peak of six billion dollars in Financial Year 08 due to decline in exports and high import payments of transportation, construction, financial, computers services and royalties. Statistics revealed that overall services sector exports stood at 3.590 billion dollars against the imports of 9.892 billion dollars during Financial Year 08, depicting a deficit of 6.302 billion dollars. The service exports declined by 13 percent to 3.590 billion dollars in 2008 over the exports of 4.14 billion dollars in 2007. Major contribution in services trade deficit was witnessed by transportation services, travel services and royalties, as only transportation sector has contributed around 45 percent share in the overall deficit. Transportation service exports stood at 1.050 billion dollars against the imports of 3.686 billion dollars. Month-on-month basis during June 2008, services trade has faced a deficit of 204 million dollars with 663 million dollars exports and some 867 million dollars imports. (Business Recorder, 27<sup>th</sup> July, 2008)

### **Essential items 33.59 percent dearer for low income group**

Weekly inflation measured by SPI surged 32.22 percent in week ending over the same period of last year on the back of recent increase in oil prices. The higher than expected inflation was caused by successive increase in petroleum prices during the last three months, but 1.66 percentage rise in SPI inflation during the week was because of recent increment in petroleum prices. Price of per kg tomatoes increased to Rs. 30.91 from Rs. 24.72 during the week, per ltr diesel to 64.89 from Rs. 55.34, petrol to Rs. 86.95 from Rs. 75.92, kerosene oil to Rs. 70.09 from Rs. 64.05, chicken (farm) per kg to Rs. 97.65 from Rs. 90.27, garlic kg to Rs. 37.84 from Rs. 36.68, masoor pulse washed to Rs. 120.71 from Rs. 117.43, washing soap nylon to Rs. 12.01 from Rs. 11.79, gram pulse washed kg to Rs. 61.97 from Rs. 60.93, wheat average quality kg to Rs. 21.74 from Rs. 21.40, curd kg to Rs. 41.12 from Rs. 40.57, cooked beef plate each to Rs. 37.12 from Rs. 36.68. Similarly, the price of bread plain mid size each increases to Rs. 22.38 from Rs. 22.15, egg hen (farm) per dozen to Rs. 58.82 from Rs. 58.26, onion kg to Rs. 17.79 from Rs. 17.63, mustard oil kg to Rs. 150.72 from Rs. 149.47, mutton kg to Rs. 250.13 from Rs. 248.35, gur kg to Rs. 33.38 from Rs. 33.16, milk fresh ltr to Rs. 34.70 from Rs. 34.50, moong pulse washed kg to Rs. 55.70 from Rs. 55.44, shirting mtr to Rs. 74.83 from Rs. 74.53, salt powdered kg to Rs. 5.65 from Rs. 5.63, rice basmati broken kg to Rs. 54.43 from Rs. 54.24, firewood 40 kg to Rs. 246.30 from Rs. 245.51, coarse latha mtr to Rs. 43.34 from Rs. 43.22, beef kg to Rs. 133.89 from Rs. 133.60 and sugar per kg to Rs. 31.91 from Rs. 31.87. (Business Recorder, 27<sup>th</sup> July, 2008).

### **Pak-Iran trade up at \$ 125 million in three months**

Pakistan-Iran bilateral trade has increased to \$ 125 million in the first three months of current fiscal year after the launching of preferential trade agreement (PTA) between the two countries. This was stated by Commercial Attache at the Consulate-General of Iran, Ahmad Fasihi, while talking to APP at Iranian Pavilion at the ongoing Second ECO Trade Fair 2008. He said Pakistan's exports to Iran were estimated at \$66 million while its imports from Iran were \$ 59 million. This has encouraged the businessmen of both sides to promote bilateral trade, he noted. The delegation will hold meetings with chambers of commerce and leading businessmen in Karachi to explore avenues to boost bilateral trade. These efforts will help in increasing the number of items in the bilateral trade, he opined. (Business Recorder, 27<sup>th</sup> July, 2008)

### **Asian antitrust laws 'threaten deals'**

Tough antitrust laws that take effect in China this week and India later this year could delay or thwart high-profile cross-border mergers and acquisitions, lawyers and business executives have warned. Companies will have to notify Chinese enforcement agencies about any planned M&A (Mergers and

Acquisitions) that meets designated thresholds for filings then await clearance before completing the deal. China and India are implementing regimes based on the European Union model, covering anti-competitive agreements, abuses of dominance and merger control with the potential effect on M&A causing concern among multinational companies. Lawyers and business executives believe China and India's thresholds for merger filings are too low, and likely to ensnare global deals that will have little effect on competition locally. (Financial Times, 27<sup>th</sup> July, 2008)