June 02nd, 2008

WTO CELL

PLANNING & DEVELOPMENT DEPARTMENT

WEEKLY ECONOMIC DIGEST

26th May-01st June, 2008

An abrupt and belated move

The State Bank appeared to have woken up to the fact that the country was facing high inflation and increased the benchmark rate by a record 150 basis points. The bank had maintained in its July 2007 monetary policy statement that its earlier monetary tightening measures were succeeding and "one measure of core inflation, the non-food non-energy CPI, continued its downtrend from 7.8 percent Year over Year high in October 2005, to 6.3 percent Year over Year at end-FY06, and to 5.1 percent Year over Year by the end of FY07."Now, the State Bank has cited the rapid deterioration in the budget deficit, recent widening of the external current account, pressure on the exchange rate, and increase in domestic lending as the key developments that led to the extraordinary monetary policy tightening measures. This year's GDP growth estimate has been revised downwards to 5.7 per cent (which may still be overstated) given just 4.8 per cent growth in the large scale manufacturing sector and only 1.7 per cent growth in the agriculture sector. **(Dawn, May 26th, 2008)**

Wheat: where has the trading surplus gone

The biggest question mark lurking before the Punjab food planners these days is where the over two million tons of tradable surplus of wheat has gone. The Punjab Food Department has so far procured only 2.1 million tons against its target of 4.3 million tons that includes procurement of around three million tons for Punjab, one million tons on behalf of the NWFP government and 300,000 for Balochistan. This year, private market and official procurement situations defy these 60-year old tested formulae. Some two to four million tons of wheat somehow is still lying outside these formulae. According to the Punjab Agriculture Department, the province has produced 16.3 million tons of wheat against the target of 18.5 million tons. If seed requirements scientifically calculated at around 850,000 tons are also deducted, the figure comes to around 9.5 million tons. That means 6.8 million tons of wheat should have been in the market for trading. That means out of 16.3 million tons, around 4.89 million tons of wheat should have become tradable surplus. Even if over 2.5 million tons of wheat is imported to meet domestic food requirements, it is equally important to look into factors that affected wheat production this year. **(Dawn, May 26th, 2008)**

Monetary policy tightened

Under the Treasury Bills auction held on May 21, the State Bank of Pakistan mopped up Rs. 3.5bn against the total participation of Rs. 10.77bn. Notes in circulation stood at Rs. 1,074.682bn against earlier week's figure of Rs. 1,045.961bn, a rise of Rs. 28.721bn. At Rs. 1,074.803bn it was larger by

Rs. 28.692bn over the figure of Rs. 1,046.111bn recorded a week earlier. Approved foreign exchange increased in the week to Rs. 519.200bn or by Rs. 0.162bn over preceding week's figure of Rs. 519.038bn. It stood at Rs. 165.395bn over preceding week's figure of Rs. 135.571bn, a rise of Rs. 29.824bn. Compared to last year's corresponding figure of Rs. 135.567bn, the current week's figure is larger by Rs. 29.828bn. The current week's figure is smaller by Rs. 9.946bn over last year's corresponding figure of Rs. 59.723bn. The export sector received Rs. 99.003bn against previous week's figure of Rs. 97.871bn, higher by Rs. 1.132bn. Current week's figure was smaller by Rs. 39.255bn over last year's corresponding figure of Rs. 138.258bn. Commercial banks deposits showed a decrease of Rs. 20.86bn over the week to Rs. 3,636.265bn, against preceding week's Rs. 3,657.125bn. Specialized banks deposits stood at Rs. 12.824bn, against preceding week's Rs. 12.474bn, a rise of Rs. 0.35bn. It rose to Rs. 442.262bn over preceding week's figure of Rs. 421.917bn, a rise of Rs. 20.345bn. Advances by commercial banks rose to Rs. 2,817.868bn against earlier week's figure of Rs. 2,807.759bn, or by Rs. 10.109bn. Advances of specialized banks stood at Rs. 96.584bn, larger by Rs. 0.160bn over earlier week's figure of Rs. 96.424bn. **(Dawn, May 26th, 2008)**

The lure of the international market

Pakistan's rice merchants may find it luring to export a much larger quantity of basmati this season because of some favourable turns in the global market. New Delhi has also lowered the minimum export price (MEP) on basmati from $1,200 to $1,000 a tonne. Pakistan's current rice production is estimated at 5.5million tonnes, of which two million tonnes can at best be exported but exporters are already determined to make a kill by selling at least 2.8 million tonnes. India exports over 80 per cent of the basmati rice it produces apart from a larger quantity of non-basmati variety. A month before, prices in the world market had surged above the $1,000-a-tonne level for the first time as importers desperately looked for rice because most of the rice-producing countries have stopped exporting the vital staple commodity. Japan is obliged to import American rice and cannot re-export it without US permission. Meanwhile, Malaysia has given a new dimension to global rice diplomacy by saying it is prepared to offer palm oil in exchange for rice to any rice-exporting country. At the moment, only Thailand, Pakistan and the United States, among leading exporters, are exporting rice without any constraints. **(Dawn, May 26th, 2008)**

July-April EU investment falls to $414.7 million

European Union (EU) countries' investment in Pakistan has declined by 78 percent during the current fiscal year due mainly to the poor law and order situation and political unsuitability in the country. The country is continuously facing a political turmoil for the last one year and despite the establishment of political government the country is still facing some political problems. The central bank statistics shows investment by the EU countries have been gradually decreasing in the country and during July-April of last fiscal year, the EU countries' share in overall investment stood at $ 1.9 billion against the overall investment of $ 5.9 billion. The foreign direct investment (FDI) by the EU countries has dipped by 68.4 percent to $ 476.9 million in July-April of the current fiscal year over the investment of $ 1.511 billion during the same period last year. The investment by the three major European countries, including UK, Sweden, and Netherlands have declined, while the investment by the Luxembourg, Denmark, France and Germany have increased during the period, however, these countries have a minimum share in overall investment. **(Business Recorder, May 26th, 2008)**

MINFAL to import 350,000 tons of urea

The Ministry of Food, Agriculture and Livestock has finalized arrangements to import urea fertilizer and wheat to overcome the shortage of these commodities in the country. According to a press release issued, on special directives of the prime minister, MINFAL has decided to import 350,000 tons of urea to meet domestic requirements. It said that 50,000 tons of urea will be reaching here by June from Saudi Arabia, while arrangement for import of 300,000 tons has been finalized and urea is expected to arrive in July this year. The fertilizer will be imported through the Trading Corporation of Pakistan, it said. **(Dawn, May 27th, 2008)**

New tax steps to raise Rs70bn

Under the GST and federal excise duty, tax officials have proposed to generate a revenue of more than Rs. 35 billion from the proposed new taxation and administrative measures. After these measures, the expected target of GST for 2008-09 is proposed at Rs. 475 billion, which means that the share of this consumption-based tax would increase tremendously. Under the customs regime, more than 10 per cent additional duty on import of mobile phones has been proposed. The annual import bill of mobile phones is more than Rs. 66 billion. The tax officials also proposed to levy additional taxation on import of cars above 1500cc, change in the rate of duty on diesel import to generate sufficient revenue. The total revenue generated from these measures would be Rs. 8 billion and these measures would help achieve customs target of Rs. 167 billion for 2008-09. The tax officials proposed new income tax measures to generate Rs. 20 billion. The proposed target for income tax would be Rs. 485 billion for 2008-09. According to the source, the prominent decision would be the imposition of capital gains tax or capital value tax on stock exchanges. **(Dawn, May 27th, 2008)**

100,000 tons of clinker exported to UAE

Pakistan has for the first time entered export market of clinker by exporting around 100,000 tons to the United Arab Emirates (UAE) where construction boom has created a strong demand for cement. There is a strong demand for Pakistani cement in the Middle East, Africa, Far East and Indian market. This means, he said, when freight charges were $250 per container of 25 tons capacity, freight charges used to be around $10 per ton but after the increase the per ton freight charges have gone up to $32 whereas the average quoted price of cement to the UAE is $70 per ton f.o.b. Karachi. Amjad Rafi said frequent changes in freight charges had forced us to turn down many export inquiries. On an average, he said, roughly 150,000 to 200,000 tons of export inquiries were being received per month but mostly they were refused owing to highly volatile freight charges. As per TDAP rules, export of goods to non-traditional markets also qualify for getting freight subsidy. **(Dawn, May 27th, 2008)**

Budget deficit to be cut to 6.5pc: Bids for 5000MW in hand

The government is determined to bring down revenue deficit to 6.5 per cent by the end of current fiscal year and take it further down in the next fiscal year by improving the tax collection and cutting the non-development expenditure, Federal Minister for Privatization and Finance Naveed Qamar announced. “Restricting government borrowing within the limits prescribed by fiscal responsibility laws is top on our priority,” he declared. Providing relief to people, he stressed, is the cornerstone of the government’s budgetary policy to be announced on June 7 next. Most of the questions asked to the minister in the press conference pertained to government’s appetite for bank borrowing, possibility of new taxation measures and the resources flow to provinces in context of the National Finance Commission. Earlier the OICCI members in their meeting with the minister pleaded for enforcement of fiscal responsibility laws, a cut on non-development expenditure, widening of tax base to include un-taxed and under-taxed sectors, reduction of excessive taxation, cutting tariffs on items not manufactured locally and effective curb on smuggling and under-invoicing. **(Dawn, May 27th, 2008)**

NTC budget proposals: cut in duty on chemical raw materials sought

The National Tariff Commission (NTC) has sought reduction in duty on raw materials for some chemical products in next budget, it was learnt. The NTC has proposed reduction in duty on raw materials that are not produced locally to ensure its availability to the local industry while recommending high duty on import of locally made products to protect the industry. "There was also a proposal regarding duty issue of ISO propile alcohol, he said. When contacted, NTC Chairman Arif Ikram said that tariffs are coming down in the wake of WTO but the NTC would protect the local industry wherever required. It was also freely giving its advice on pre-budget and post-budget exercises to rationalize tariff structure. **(Business recorder, May 27th, 2008)**

Income supplement cash grant: Rs 55 billion allocation in next budget required

The government will require making a huge allocation of at least Rs 55 billion in the next budget in order to effectively implement its plan of income supplement cash grant as most of the concerned ministries support direct cash subsidy to the poor. The government is considering giving Rs 1,000 per month to each family from the proposed 4.5 million families. The government is devising the mechanism to properly target the poor, with the support of the rich families of the country, they said. The government provided a huge subsidy on fertilizers, but the farmers could not get the benefit expected by the government. The sources said that post offices and bank branches of the National Bank of Pakistan, Habib Bank Limited, United Bank Limited and MCB Bank have expanded network of their branches and the government could take benefit of their network. The government, according to the sources, is likely to pay the subsidy on quarterly basis. **(Business recorder, May 27th, 2008)**

Pakistan and Italy to further boost ties

Pakistan and Italy have reiterated their desire to further promote and intensify bilateral cooperation in the areas of trade, economy and particularly defence. This was discussed in a meeting between Federal Minister for Defence, Chaudary Ahmad Mukhtar, and the Ambassador of Italy to Pakistan, Vincenzo Prati, who called on him. The minister told the envoy that Pakistan and Italy enjoyed excellent relations which needed to be further broadened and expanded for the mutual benefits of the two countries. The meeting noted that there was room for promoting security understanding between the two countries. The ambassador said it was essential to promote people-to-people and military-to-military contacts, which would help in promoting greater understanding between the two sides. The meeting emphasized the need to enhance cooperation in the field of defence collaboration as well as exchange of delegations at political and military levels. **(Business recorder, May 27th, 2008)**

Food inflation will touch 26 percent by month-end

The country's food price inflation is set to register another record high by the end of this month, the head of the State Bank said. "Food inflation will touch 26 percent and maybe more in the upcoming days," State Bank of Pakistan Governor Shamshad Akhtar said. The annual inflation has already doubled from 12.5 percent to 25.5 percent while the overall core inflation is also touching double digits. The huge hike in interest rates shook the stock and financial markets as the main Karachi Stock Exchange fell by 4.5 per cent on both Friday and Monday. Shamshad defended the measures, saying government borrowing and inflation had reached a point where a rate increase was inevitable.

Shamshad appealed to the government again to stop borrowing from the central bank. **(Business recorder, May 27th, 2008)**

Exporters urged to take benefit of global inflation

President of Habib Bank Ltd Zakir Mehmood has said that the local industry was in a better position to compete in the international market as production cost has increased by 30 per cent in China and India. Some of the inflation-hit countries may prove to be a boon for Pakistani exporters in the near future, he said. Tahir Ishaque, a textile exporter, said that the textile sector had been facing severe crisis because of the abnormal increase in the prices of gas, electricity and petroleum products. He said the price-hike had increased the cost of production and rendered this sector’s products uncompetitive in world markets. The situation had also adversely affected the industrial production. **(Dawn, 28th May, 2008)**

Services sector deficit soars to $5.5 billion

Services trade deficit increased by 44 percent, to $5.5 billion, during the current fiscal year mainly due to large amounts paid on account of transportation, travel, insurance and information technology. Overall services sector exports stood at 2.66 billion dollars as against imports of 8.23 billion dollars during the July-April period of current fiscal year, depicting a deficit of 5.57 billion dollars. During April, the services sector deficit was 715 million dollars with exports of 286.3 million dollars and imports of one billion dollars. Communication sector exports stood at 102.356 million dollars against imports of 89.5 million dollars; construction sector exports at 29.11 million dollars and imports 42.118 million dollars; insurance services' exports reached 35.56 million dollars against the imports of 127.99 million dollars; and financial service payments stood at 147.41 million dollars against the receipts of 36.91 million dollars. **(Business recorder, 28th May, 2008)**

Rs. 365 million Swiss grant for NWFP

The NWFP government, Swiss Development Cooperation (SDC) and Inter-Cooperation (IC) has signed a memorandum of understanding (MoU) to forge partnership for implementation of livelihood programme, aimed at improving the living standard of the people in five rain-fed districts of the province and Kurram Agency. Swiss Ambassador to Pakistan Markus Peter, NWFP Senior Minister for Planning and Development Rahimdad Khan, Minister for Population Welfare Salim Khan, Additional Chief Secretary Javed Iqbal and administrative heads of various government departments attended the signing ceremony. Planning and Development (P&D) Department Secretary Mohammad Ikram Khan, SDC Country Director Pius Rohner and Esther Haldimann of Inter-Cooperation signed the MoU. The P&D Department and Inter-Cooperation will jointly implement the programme, spanning over six years. As per the MoU, the Swiss government will provide a grant of Rs. 365 millions for phase-1 of the programme extended over three years. **(Business recorder, 28th May, 2008)**

IMF suggests government to bring fiscal deficit down to 6.5 percent

The International Monetary Fund (IMF) has suggested Pakistan to bring fiscal deficit down to 6.5 percent by June 30, besides broadening the base for substantial increase in revenue by taxing the new areas in the upcoming budget. A mission of the fund gave the recipe to the policy-makers in Islamabad for overcoming the financial woes after a detailed review of the economy. The government economic team apprised the mission about the measures being taken to reduce the impact of the rising oil prices and a global economic crisis on the economy. The mission was informed that Pakistan's economy was doing good despite some setbacks such as high oil prices and some untoward incidents in the second half of 2007. The sector wise presentations given to the mission indicated that Pakistan's economy was not doing bad in the given international scenario when the oil prices were all time high and making difficult for the weak economies to absorb the shock. **(Business recorder, 28th May, 2008)**

Budget making, food crisis: World Bank offers financial assistance

The World Bank (WB) has offered financial assistance to the government of Pakistan for the upcoming budget as well as to overcome the prevailing food crisis with both agreeing here on Tuesday to finalize the two packages ahead of budget to be announced next month. Meanwhile, official sources said that Pakistan is likely to get $450-500 million from WB's Food Crises Response Funds. According to them, this would increase Pakistan's indebtedness and will have a further inflationary impact on Pakistan economy. Governor State Bank has already asked the government not to go for lending from domestic sources to keep inflation within limits. The Bank established Food Crises Response Fund in the wake of ongoing food crises and the government expects that WB would provide the assistance from this fund on concessional rates. **(Business recorder, 28th May, 2008)**

Imported garments flood local market

The textile apparel industry, faced with a tough competition in the world market, is also unable to compete with cheap imported garments and fabrics in the domestic market. According to traders, the local markets, particularly of posh localities, are flooded with imported readymade garments. Pakistan Readymade Garments and Exporters Association Chairman Bilal Mulla said that presently the local market is flooded with readymade garments coming through Afghan Transit Trade and this indicates that being cheaper than local products they are in great demand. Javed Bilwani stated that presently around 85 per cent of children’s garments in the domestic market are either imported or make their way through ATT. **(Dawn, May 28th, 2008)**

Iran sees gas pipeline deal by mid-year with India and Pakistan

Iran’s ambassador to New Delhi said Tehran hopes to finalize a gas pipeline deal with India and Pakistan by mid-year, in an interview released. The 7.5-billion-dollar project which aims to transport natural gas from Iranian oilfields to Pakistan and India was discussed during a visit to India last month by Iranian President Mahmoud Ahmadinejad. “After the president’s recent visits (in April) to India and Pakistan, we have witnessed positive progress regarding implementation,” the envoy said. Also last month, Iran and Pakistan said they had ironed out hurdles delaying the 2,600-km scheme. India has been under pressure from the United States not to do business with Iran, viewed in Washington as a state sponsor of terrorism and seen as bent on acquiring nuclear weapons. **(Dawn, May 28th, 2008)**

Highest duty slab may be cut to 20 percent

The government is planning to bring down the highest slab of customs duty from 25 percent to 20 percent in the coming budget to encourage investment and reducing customs duty on import of raw materials, inputs, primary/secondary components and goods from 2008-09. The proposed highest tariff of 20 percent would automatically transfer all tariff lines of the PCT to the slab of 20 percent, reducing customs duty on all items falling in the slab of 25 percent. Taking into account the proposals of the Ministry of Commerce, a new tariff slab of zero percent was introduced and over 300 tariff lines were included in the slab in the 2007-08 budget. It was also decided that the highest slab of tariff of 25 percent (excluding tariff peaks) would continue in 2007-08. The Ministry of Commerce opined that the highest tariff in India was 30 percent (excluding tariff peaks) whereas in

Pakistan it was 25 percent a few years ago. India had continuously reduced its tariff and the highest tariff introduced during budget (2007-2008) was 12.5 percent. **(Business recorder, 28th May, 2008)**

U.S. slowdown spooks SMEs in Asia

While 38 percent of the SMEs surveyed on the mainland are worried about the negative impact of an economic slowdown in the US, more than half of SMEs in Hong Kong, Taiwan, Singapore and Indonesia are concerned their businesses will be hampered, the survey found. US courier UPS yesterday released its Asia Business Monitor 2008, an annual survey conducted on competitiveness of and issues facing SMEs in Asia. UPS surveyed 1,201 decision-makers of SMEs between Dec 18, 2007 and Jan 24, 2008. "SMEs would be increasingly aware of the importance of lowering risk by diversifying trade partners. Fewer SMEs are projecting regional economic growth compared with last year. Many SMEs are anxious about their own business outlook, competitiveness and workforce growth. SMEs in China were regarded as the most competitive in Asia for the fourth consecutive year, as recognized by the majority, or 62 percent, of the SMEs polled. **(web.xinhua.net, May 28th, 2008)**

SMEDA-JICA help provides technical support to industrial units

Under the technical support programme, the Small and Medium Enterprise Development Authority (SMEDA) in collaboration with the Japan International Co-operation Agency (JICA) has provided technical support to 51 automotive vendor industrial units and set a target to upgrade 125 more units during the year 2008-09. JICA, which already supported the Pakistani textile sub-sectors including weaving, spinning and processing further extended the co-operation to upgrade automotive vendor industry by placing Japanese automotive experts at SMEDA. Significant results have been achieved in many areas including productivity improvement, lead time reduction, set up time reduction, reducing delivery delays, layout optimization, efficient line balancing, work-in-process reduction, quality improvement, cost reductions through method improvement, production planning and control, he maintained. Different initiatives under the programme were taken for the technical support to the textile's sub-sectors like spinning, weaving and processing. **(Business recorder, May 29th, 2008)**

Australia pledges $8.5 million for WFP in Fata and Balochistan

The government of Australia will provide US $8.5 million to World Food Programme (WFP) in support of its programme in Federally-Administered Tribal Area (Fata) of NWFP and Balochistan. Australian High Commissioner Ms. Zorica McCarthy and WFP Representative Wolfgang Herbinger signed the memorandum. Australian envoy Ms Zorica McCarthy said that the Australian government accords high priority to both meeting humanitarian needs and supporting the Government of Pakistan, and is pleased to respond to an urgent request from the World Food Programme and the Government of Pakistan. WFP Pakistan Country Director Wolfgang Herbinger thanked the government of Australia for the generous support to the programmes in Fata and Balochistan. Balochistan and Fata are amongst the most impoverished and food-insecured regions of Pakistan. **(Business recorder, May 29th, 2008)**

Govt. to float bond to raise Rs300bn: Budgetary support

The government has decided to float a new short-term bond to rise up to Rs. 300 billion for budgetary support in the next financial year. The sources said it would be a “need-based” instrument to be issued in smaller trenches by the federal government to meet its funding requirements during the next financial year. The objective is to manage an accumulative Rs. 300 billion funding for the new budget. The sources said there was around Rs. 1,800 billion (Rs. 1.8 trillion) funding requirement for the new budget which needed to be met from various government and nongovernment sources. For the current financial year, the previous government had borrowed Rs.300 billion from the central bank. Since the government was facing serious financial crunch, the Priority Committee of the Ministry of Finance had proposed Rs. 287 billion new PSDP. The FBR had revised downward its revenue collection target from Rs. 1.025 trillion to Rs. 990 billion because it was facing over Rs. 35 billion shortfall during the current financial year, ending on June 30. **(Dawn, May 30th, 2008)**

R&D subsidy for fruit, vegetable exports sought

The All Pakistan Fruit and Vegetable Exporters, Importers and Merchants Association has submitted proposals to the finance ministry for 2008-09 budget. It has been suggested to improve orchard management practices (technology and training), improve post-harvest handling (cold chain, value-added products technology and training), etc. The association asked for 6 per cent research and development (R&D) subsidy on export of fresh fruits and vegetables and declaring horticulture export as industry in the upcoming budget. Machinery for processing of fruit is already under zero per cent tariffs under SRO 575 of 2005. It has been proposed to allow zero rated sales tax on electricity and gas to processing units of kinnos and mangoes, which are 100 per cent export-oriented or subsidized electricity (at par with domestic consumers) be allowed for packing houses, processing units and cold storages. Also, sales tax on electricity consumed in cold storages should be refunded. **(Dawn, May 30th, 2008)**

WB assures support to Thar coal power plant

The World Bank has assured support both financial and technical for the proposed 1,000MW power plant based on Thar coal to be set up as public private joint venture. The Sindh government would provide 50 per cent of the equity. Poland and South Africa are on top in coal power generation with 93 per cent followed by Australia 80 per cent, China 78 per cent, India 69 per cent Kazakhstan 70 per cent and Morocco 69 per cent. Sindh has 175 billion metric tons coal deposits in Thar, which are enough to produce electricity for three centuries. The WB was informed that two bankable feasibility studies had been carried out by Shenhua Group of China in 2003 for Thar Block 11 and by RWE of Germany. The second study suggested a tariff of 7.18 cents. The proposed joint venture project has been envisaged on debt equity ratio of 75:25. **(Dawn, May 30th, 2008)**

Rules for PIFFA Members approved

The Ministry of Commerce has approved the accreditation rules framework for member bodies of Pakistan International Freight Forwarders Association (PIFFA). Under these rules the international freight forwarders of PIFFA will have to introduce detailed documents and best international practices to Pakistan freight forwarding and logistics environment and also addresses the local requirements, says a press release. PIFFA is the national association member of the international body of FIATA which works closely with ICC, Unctad and other global organizations which guide and govern the international practices in the conduct of the global trade. Pakistan now has a seat on the international board of FIATA. **(Dawn, May 30th, 2008)**

EAC for legal cover to public-private partnership concept

The Economic Advisory Council has suggested the government to provide legal cover to public-private partnership and make this concept a reality to help private sector make maximum investment for development projects. The World Bank is working closely with the government on public-private partnership. The EAC also suggested rationalization of Public Sector Development Programme to make sure that the private sector does its job of providing sufficient funds for social sector development projects. The public-private partnership concept is a success in several countries. **(Business Recorder, May 30th, 2008)**

External debt at peak level of $44.59 billion

The country's external debt witnessed a rise of over 5.5 billion dollars to hit a new peak of some 44.59 billion dollars during the current fiscal year mainly due to rising current account deficit. As per Fiscal Responsibility and Debt Limitation Act, 2005, the government has to reduce its foreign debt by 2.5 percent every year and current year it should be 24.5 percent of GDP from 27 percent. The rise during July-March 2008 is much higher than the overall foreign borrowing of FY07, as during the last fiscal year foreign debt increased by 8.43 percent or 3.034 billion dollars to 39.008 billion dollars from 35.97 billion dollars. External debt and liabilities showed an increase of 13.45 percent to 45.926 billion dollars till March 2008. During the current fiscal year, the government utilized some 3 billion dollars from foreign exchange reserves and some 3 billion dollars of foreign investment to meet current account deficit, while remaining gap was bridged through new foreign loans. **(Business Recorder, May 30th, 2008)**

Sindh MTFF thrown out of gear

A medium-term fiscal framework (MTFF), which stipulated Sindh government's three-year revenue and expenditure projections from 2007-08 to 2009-10, has been thrown out of gear in the first year of its operation, mainly because of impact of international and national economic turmoil on the provincial budget. The budget for 2006-07 showed total receipts of the province at Rs223.8 billion as against a revenue expenditure of Rs236.1 billion, indicating a deficit of Rs12.3 billion. The total amount of federal transfers was indicated at Rs130.9 billion plus Rs20.4 billion grant for district support. While the revenue budget has been totally upset because of shortfall in flow of funds from Islamabad, officials in the Sindh government claim of implementing a Rs50 billion development budget in the current fiscal and are confident of proposing a Rs60 billion development budget next year. Over Rs18.5 billion is being paid towards services and commodities, Rs9 billion as interest on outstanding loans, about Rs3.5 billion goes towards maintenance and repairs where the development budget outlay is Rs50 billion. **(Dawn, May 31st, 2008)**

Bank savers to get 5pc profit

The State Bank of Pakistan has introduced a minimum profit rate of 5 per cent per annum on all categories of savings/PLS saving deposits, including any other profit bearing deposit with no fixed maturity. In a circular issued to the presidents/chief executives of all commercial banks the SBP said that the profit payable on savings/PLS savings deposits would be calculated on at least the minimum monthly balances, regardless of bank's own minimum balance requirements. However, banks are free to pay profit rate on daily product or on average balance basis. The central bank warned that any violation of the new instructions would render the bank liable for punitive action under the relevant provisions of the Banking Companies Ordinance, 1962. **(Dawn, May 31st, 2008)**

SBP to review LC margin requirement: Essential raw materials

The Governor, State Bank of Pakistan, Dr Shamshad Akhtar has said the central bank in consultation with the government will look into the demands of the industry for exempting essential industrial raw materials from mandatory 35 per cent cash margin requirement on opening letters of credit (LCs) to facilitate the industry. Representatives of the FPCCI apprised the SBP governor of the problems being faced by the industry after the introduction of cash margin requirements, saying that the industry is facing the problem of shortage of working capital. FPCCI President Tanvir Ahmed

Sheikh said that they now have better understanding about State Bank's actions and assured that the industry will fully cooperate with the central bank. **(Dawn, May 31st, 2008)**

WB wants tough yet essential reforms

World Bank Vice President Praful Patel said that "tough, yet essential, reforms can ensure that high international food and oil prices do not derail Pakistan's poverty reduction and economic development." Senior officials of the bank visited Islamabad to review the economic situation inherited by the PPP-led coalition government and suggest measures to steer the country out of economic crisis. The source said as Pakistan has no formal arrangement with the IMF, so the World Bank is also monitoring the fiscal and monetary policy of Pakistan as well. During his visit, Mr. Patel once again reconfirmed the World Bank's ongoing commitment to Pakistan. He noted that despite uncertainty in the recent months, the bank's programmes in Pakistan remain on track. **(Dawn, May 31st, 2008)**

Singapore, Peru sign free trade deal

Singapore and Peru have signed a free trade agreement, the city-state's trade ministry said. Singapore's Minister for Trade and Industry, Lim Hng Kiang, and Peru's Minister for Foreign Trade and Tourism, Mercedes Araoz, inked the deal in Lima, a statement from Singapore's trade ministry said. Negotiations for the deal began in November 2004 and concluded last September. When the agreement takes effect at an unspecified date this year, more than 80 per cent of Singapore's domestic exports will be eligible for immediate tariff elimination, with the rest to follow over 10 years, the statement said. **(Dawn, May 31st, 2008)**

Pak-Nepal bilateral trade to be improved

Federation of Pakistan Chambers of Commerce and Industry (FPCCI) and Nepal Embassy have agreed on taking new initiatives to promote bilateral trade and exploit the trade potential of both countries. The volume of trade between Pakistan and Nepal is dollars 4.8 million. Pakistan's total exports to Nepal are 1.631 million dollars and imports from Nepal are of 3.166 million dollars. Nepal is a beautiful country from tourism point of view. Pakistan delegation is expected to visit Nepal in July. The Ambassador of Nepal showed his concern over the trade deficit in trading with India. Nepal considers Pakistan a trusted friend. Pakistan as compared to Nepal is more developed and Nepalese businessmen can benefit from Pakistan businessmen's experience. **(Business recorder, May 31st, 2008)**

Government urged to review trade policy

Alliance of Market Associations (AMA) has urged the government to review its liberal trade policy to discourage unchecked imports. In a statement here on Friday, chairman AMA Atiq Mir said that imports have already touched $16.8 billion mark despite a total import target of $19.2 billion for the entire fiscal year. He said that almost everything was being imported and local manufacturers were unable to compete with them. He said if the foreign goods continue to flood in, the small manufacturers will be forced to close down their units to further increase the unemployment. Atiq Mir pointed out that Chinese goods have captured 65 percent of the local markets. He urged the government to announce incentives for local manufacturers in the forthcoming budget for their survival against imported merchandise. **(Business recorder, May 31st, 2008)**

35 percent LC margin opposed

The business community of Sialkot is contributing $1 billion to national exchequer in the shape of foreign exchange through its exports annually. The increase in LC margin from zero to 35 percent and increase in interest rate to 12 percent would destroy the industrial sector and hamper the exports. The local business community urged the State Bank of Pakistan to reconsider its decision for exempting those units from imposition of 35 percent LC margin which export 80 percent of the imports, and the 1.5 percent increase on interest should be made applicable on fresh loans, while previous loans may also be exempted from the higher interest of industrial sector and exports. **(Business recorder, May 31st, 2008)**

Oil subsidy phase-out in 2 years proposed

Dr Hafiz Pasha, a well-known economist, has proposed that subsidy on oil prices be phased out in the next two years and a well thought out strong social security and relief package be put in place in the federal budget for 2008-09 for the poor and needy who now constitute almost 33 per cent of the population. Based on extensive research of SPDC experts, he predicted a minimum inflation of 10 per cent next fiscal year. Headline inflation in the current fiscal year is being estimated at 11 per cent. Oil subsidy, the SPDC researchers estimate, would demand Rs300 billion in 2008-09 budget which after adjustment with sales tax revenue of Rs84 billion comes to Rs216 billion or roughly two per cent of the GDP. But it depends on stability of international oil prices and rupee exchange value in 2008-09. The subsidy on oil could increase further. Since there is no clear policy of linking domestic oil prices with that of international oil prices, the implied subsidy has piled up and this issue is pregnant with fiscal policy implications as it would impact the entire price levels in economy. **(Dawn, June 1st, 2008)**

Fiscal stability must for sustained growth: State Bank's third quarterly report

The State Bank of Pakistan does not seem to be enthusiastic supporter of providing subsidies and views fiscal stabilization necessary for sustaining growth momentum that is threatened by worsening macro-economic indicators in Pakistan. It has suggested that the economic policy needs to be focused on improving the productivity of lagging sectors of agriculture and large-scale manufacturing to contain the domestic inflation. Thus, policy focus, it advocates, needs to remain on addressing structural impediments to expansion in the base of agriculture and manufacturing sector to support growth in medium-to-long term. The bank fears misuse of high cost subsidies for manipulating the market which could perpetuate imperfections and lead to further degeneration of macro-economic indicators. It favours policies to remove bottlenecks hampering the agriculture growth to achieve higher productivity to capitalize on surging international commodity prices. Besides the potential of services sector needs to be harnessed through apt policy interventions. **(Dawn, June 1st, 2008)**

Deterioration in balance of payments accelerated

The State Bank of Pakistan said that the deterioration in overall balance of payments accelerated during the July-April period of 2007-08.The report said a large part of the deterioration in current account deficit emanated from November 2007 onwards on account of substantial increase in import bill. The rise in import bill was accompanied with rising freight charges which together overshadowed improvement in export growth and impressive increase in current transfers in the period under review, it said. The SBP said the trade deficit during July-April was fueled by a very strong surge in imports as well as below-target export growth. The report said incremental government borrowings from the central bank as of May 10, 2008 had reached Rs551.0 billion, pushing the outstanding stock of treasury bills with the SBP to Rs940.6 billion. The SBP said after a sharp rise of 6.4 per cent in second quarter, the growth in the domestic debt moderated to 5.5 per cent in Q3-FY08. Although, government availed substantial financing from the SBP in this quarter, growth in floating debt decelerated due to significant retirements by the commercial banks, resulting in a moderation in debt growth during Q3-FY08, it added. **(Dawn, June 1st, 2008)**

Price stability seen difficult in short run

The State Bank of Pakistan highlighted the importance of productivity improvements for arresting the rising inflation, but said restoring price stability may prove challenging in the short-run. This clearly indicates that restoring price stability in the short-run may prove challenging. The report said that with food and petroleum imports constituting more than half of the rise in imports, there was a limited scope for import compression in the short-run. **(Dawn, June 1st, 2008)**

Growers lead exporters in first-ever agro-export zone

The Sindh government has allotted 70 per cent of plots to growers in the country's first agro-export processing zone on Super Highway while 30 per cent have been given to exporters. Elaborating on eligibility, the zone management said growers, who had 25 acre land-holdings, were chosen for allotment whereas exporters were required to submit proof of exports. The Sindh Abadgar Board has expressed reservations on allotment of plots in the first agro-export zone as many growers were issued allotment orders but were not given challans to confirm their ownership. International buyers would not accept fruits and vegetables unless hygienic environment is ensured in the zone. He also wants tax holiday for export-oriented units, especially duty-free import of machinery and packing material in the zone. He said exporters have to pay sales tax on purchases made from outside of the zone but they are not allowed refund or adjustment of input tax. He said that first agro-export zone would not be a real success if it was not allowed tax exemption as enjoyed by the Karachi Export Processing Zone in Karachi or other such zones in the country. **(Dawn, June 1st, 2008)**

GDP is expected to drop below six percent for the first time in five years

The State Bank of Pakistan (SBP) said that the country has to miss its chief economic targets including GDP growth, exports, imports, fiscal deficit, inflation, monetary growth and current account deficit due to local and international imbalances. The central bank said that during July-March of current fiscal year, Large Scale Manufacturing (LSM) growth declined by some 50 percent to 4.8 percent as compared to 9 percent during the same period of FY07. It stood at 16.3 percent during the first 10 months of current fiscal over the growth of 20 percent in the corresponding period of FY07. During the first 10 months, trade deficit reached 16.8 billion dollars or 10.7 percent of GDP from 7.8 percent and current account deficit touched a new peak of 7 percent of GDP while it previously stood at 4.6 percent of GDP. The central bank has also projected that the budgetary deficit would be 6-7 percent of GDP against the target of 4 percent. In particular, CPI food inflation reached 25.5 percent in April, 2008. The government had set a target of 7.2 percent for the GDP growth, however it is expected that it would be 5.5-6 percent during the current fiscal year, while inflation would grow by 11-12 percent against the target of 6.5 percent. **(Business Recorder, June 1st, 2008)**