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WTO CELL

PLANNING & DEVELOPMENT DEPARTMENT

WEEKLY ECONOMIC DIGEST

30th June to 05th July, 2008

Improving public debt management

The government plans to improve its management of the public debt. Initially, it was reported that the federal government may shift the accounts of its ministries and public sector non-financial corporations (PSNFC) to the SBP to facilitate netting of surplus and overdrawn bank balances to limit its borrowing to the net shortfall. Later, the government denied this strategy. Many of them were net borrowers; this is reflected in the overall bank borrowing (Rs. 378 billion) of the federation and PSNFCs, proving that banks were not only benefiting from state funds but were also funding the state's borrowing needs. Funds lying in saving, current, call and other deposit accounts represent liquidity that state entities consider appropriate for making their routine payments. Of the total deposits (nearly Rs. 714 billion), fixed deposits of the PSNFCs amounted to Rs.149.4 billion. Given the huge federal debt, keeping funds in fixed deposits seems odd. Even if implemented partially, shifting of state accounts to SBP could substantially reduce market liquidity and credit availability to the private sector. More importantly, banks that hold government deposits must jointly work on a strategy to assure the government about quick movement of funds in its various accounts to visibly reduce its borrowing, with minimum shifting of accounts to the SBP. **(Dawn, 30th June, 2008)**

Opting for coal-fired fertilizer plants

The demand for urea far exceeds the domestic production capacity and the country has to import the rest. The main buyers of urea are wheat growers, followed by cotton, rice and sugarcane cultivators. Fertilizer production is one of the most energy intensive processes. An energy efficient plant takes around 24 MMBTU of natural gas to produce one ton of urea. Ever since the first fertilizer plant was set up, the government provided subsidy to fertilizer manufacturers by selling feedstock gas, which is around 80 per cent of the raw material cost, at subsidized rate to increase indigenous production and ensure smooth and timely supply of fertilizer to farmers. According to the national fertilizer policy 2001 natural gas subsidy was for five years. Commercial and industrial natural gas consumers are also demanding removal of subsidy for fertilizer industry. Fertilizer Policy 2001 has also allowed import of second hand plants for the manufacture of fertilizer. Dual technology both for natural gas and coal are also available. **(Dawn, 30th June, 2008)**

Surging food imports, stagnant agriculture

The surging food import bill is assuming serious proportions, making it imperative to focus on a stagnant agriculture sector. Pakistan's rising imports include milk and milk products, meat, vegetables, wheat, dry fruits, tea, spices, edible oil, sugar and pulses. Pakistan is the fifth largest producer of milk and still imports milk products. The development of agriculture could have taken the country out of food crisis and resultantly Pakistan would have been converted into a food basket for foreigners. Pakistan imported items comprising “food group” worth Rs. 50 billion in 2001-02. The bill went up to Rs. 58 billion in 2002-03, Rs. 69 billion in 2003-04 and Rs. 84 billion in 2004-05. In 2007-08, rice target, fixed at 5.7 million tons, was missed by 300,000 tons. Similarly, wheat target, fixed at 23.5 million, was missed by around two million tons, cotton target suffered by 2.5 million bales, gram target was set at 0.84 million tons but only 0.5 million tons could be produced and lintels’ target also suffered by 300,000 tons. This drop defines the food crisis. **(Dawn, 30th June, 2008)**

Imports of US wheat under PL-480

Pakistan is seeking 500,000 tonnes of wheat from the United States under PL-480 – a controversial US food assistance programme – to tackle the food crisis. Later, Pakistan made a formal request for PL-480 food assistance to the US authorities. Global food aid programmes, the largest of which is PL480, have brought together governments, businesses, multilateral institutions such as the World Food Programme (WFP), and American NGOs in a partnership of their own, not without political ends. The PL 480 food aid programme is comprised of three titles. Off and on, Pakistan has been making request to the US for concessional commodity assistance under PL-480 programme. The US stopped PL 480 assistance to Pakistan in 1991 because of its concerns with Pakistan’s nuclear research programme. The cost of shipping was deducted from the economic aid Pakistan received. **(Dawn, 30th June, 2008)**

Forging public-private partnership

The high cost of doing business is an obstacle to private investment in commodity producing sectors (CPS). A big factor that deters the flow of funds to the real sector is inadequate and inefficient infrastructure. In Pakistan, public sector gives and private sector takes. The infrastructure projects are gigantic with long gestation periods. It is true that manufacturing sector has under-performed even during periods of high liquidity when cheap bank credit was available on easy terms. If done with proper homework, providing for all eventualities keeping interests of both private and public sectors in view, public-private partnership can be made to work to cover the gap in infrastructure”, Khawaja Shahab, federal secretary industries, said while giving his comments. It envisaged to invest Rs. 2162 billion to the development of large infrastructure embarking on an ambitious plan to upgrade roads, railways, air, power, water, irrigation etc and hoped to invest Rs. 440 billion per year on related projects. The report said: “Historically in Pakistan the demand and supply of infrastructure facilities has faced a chronic imbalance”. **(Dawn, 30th June, 2008)**

SBP sells T-bills worth Rs5bn

On June 23, the State Bank of Pakistan sold Rs. 5bn of T-bills under five-day repo contracts at 9.85 per cent to mop up liquidity from the money market. Notes in circulation stood at Rs. 1,072.105bn against earlier week’s figure of Rs. 1,068.590bn, a rise of Rs. 3.515 bn. It stood at Rs. 157.457bn over preceding week’s figure of Rs. 155.082bn, a rise of Rs. 2.375bn. The current week’s figure is smaller by Rs. 11.376bn over last year’s corresponding figure of Rs. 61.153bn. The export sector received Rs. 99.529bn against previous week’s figure of Rs. 99.854bn, smaller by Rs. 0.325bn. Specialized banks deposits stood at Rs. 12.330bn, against preceding week’s Rs. 12.327bn, a rise of Rs0.003bn. It fell to Rs417.888bn over preceding week’s figure of Rs. 421.289bn, a fall of Rs. 3.401bn. Borrowings by specialized banks stood at Rs. 81.356bn, against preceding week’s figure of Rs. 81.441bn. Advances by commercial banks decreased to Rs. 2, 823.832bn against earlier week’s figure of Rs. 2,824.919bn, or by Rs. 1.087bn. Advances of specialized banks stood at Rs. 97.789bn, larger by Rs. 0.362bn over earlier week's figure of Rs. 97.427bn. Commercial banks investment fell to Rs. 986.620bn, from earlier week's Rs. 988.159bn, or by Rs. 1.539bn. **(Dawn, 30th June, 2008)**

Pakistan and Iran sign four agreements

Pakistan and Iran signed four documents of co-operation at the 17th session of their Joint Economic Commission (JEC) which concluded. The four documents included MoU of 17th session of JEC between Pakistan and Iran; MoU between Iran Chamber of Commerce, Industries and Mines and Federation of Pakistan Chambers of Commerce and Industry (FPCCI); agreement between two sides on international transport of passengers and goods; and an MoU between Pakistan Television Corporation (PTV), Pakistan Broadcasting Corporation (PBC) and Islamic Republic of Iran Broadcasting (IRIB). Referring to changing global economic trends, the Minister highlighted that Pakistan and Iran needed to take positive steps towards greater economic integration. **(Business recorder, 30th June, 2008)**

Argentina investors urged to invest in different sectors

Pakistan is an attractive destination for foreign investors and Argentina investors should take advantage of this opportunity by investing in different sectors of Pakistan's economy, stated Muhammad Ijaz Abbasi, President, Islamabad Chamber of Commerce and Industry (ICCI) while exchanging views with Eduardo Bustamante, First Secretary, Argentine Embassy on Pak-Argentina trade and economic relations at ICCI. He informed that in 2006-07, total trade between Pakistan and Argentina stood at 106.398 million dollars out of which Pakistan's exports were 42.07 million dollars and imports from Argentina were 64.328 million dollars showing a trade balance in favour of Argentina of 22.258 million dollars. First Secretary of Argentina Embassy said that a pharmaceutical company BAGO is investing 5 million dollars in Pakistan for manufacturing of pharmaceutical products. He further informed that Argentina is also interested for collaboration with Pakistan in dairy sector and installing a milk processing plant in Pakistan. **(Business recorder, 30th June, 2008)**

World Bank to provide $18 million for capacity building

World Bank will provide $18 million for capacity building and support to federal institutions involved in water resources planning, management and development. Masood Ahmed, task team leader said that the component includes among other things support for building human resources and institutional capacity in federal institutions, and support for preparing studies, strategies, and plans for improving water resources planning and management, which will have the following sub-components, he added. Under Component A1, World Bank will provide $5.0 million for Capacity Building and Support to Ministry of Water and Power (MoWP). This component will cover strengthening of the Indus System's institutional and regulatory framework. This component will support the Planning Commission in various capacity building activities, such as workshops and training, and in preparation of studies on water planning and management issues, including resettlement planning in co-ordination with other work approved by the Project Steering Committee. **(Business Recorder, 30th June, 2008)**

India not revising 2008-09 growth forecast

Record inflation in India may dent consumption but the government is not considering a revision to its growth estimate for fiscal 2008/09, the chief economic adviser of the finance ministry told the Economic Times. "The projected level of consumption is enough to sustain investor confidence and it is very much feasible that the investment to GDP ratio remains at close to last year's level of 38 percent. So we are not revising the GDP growth forecast at this juncture." Separately, the Business

Standard paper cited Planning Commission Deputy Chairman Montek Singh Ahluwalia as saying he "would be happy even if the growth rate is about 8 percent". India's central bank raised its key lending rate by 50 basis points to 8.5 percent, its highest in six years. Expectations of further tightening to contain inflation have raised concern growth may slow significantly, after the economy expanded by 9 percent or more in the past three fiscal years. Data showed inflation jumped to 11.42 percent in mid-June, its highest in more than 13 years. Inflation and real interest rates would come down to 5-6 percent by this time next year, Virmani was quoted as saying. **(Business recorder, 30th June, 2008)**

Government considering shifting KPT, PQA workload to Gwadar

The government is considering to shift 20 percent workload of Port Qasim and Karachi Port to Gwadar Port, on the recommendation of Balochistan government, official sources told. Gwadar Port is not yet fully operational. According to sources, the Ports and Shipping Ministry Secretary has expressed the view that Gwadar Port has already handled a wheat-carrying ship in March 2008, and the port operator has adequate arrangements for handling any fresh consignments. Balochistan government has also proposed that 2.5 million tons wheat, being imported by the federal government, should be handled at Gwadar Port to strengthen operational activity. Sources said that the Secretaries' committee, headed by Finance Minister, in its meeting on June 18 had recommended that the federal government should at least allow import of wheat destined to Balochistan through Gwadar Port. **(Business recorder, 01st July, 2008)**

Inflation puts pressure on emerging economies

The emerging economies, for so long the success story of the markets, have suffered a jolt this year. The MSCI emerging stock market index saw stunning growth from the end of 2002 to the end of 2007, rising 326 per cent, sharply outperforming the S&P 500, the benchmark US index. Many emerging stock markets have also underperformed, with China - the world's largest developing economy - one of the biggest fallers because of fears the economy cannot sustain a 10 per cent growth rate at a time when interest rates are rising to combat inflation. Inflation is running at 7.7 per cent annually in China, while India's rate is 11.4 per cent. Soaring oil and food prices have started to raise question marks over the emerging market world as inflation has risen persistently at a faster pace in these countries than the developed economies. A weighted average of consumer price inflation in the 20 largest emerging markets rose from 4.5 per cent in March 2007 to 6.9 per cent in March 2008, the agency said. **(Financial Times, 01st July, 2008)**

Petroleum dealers make huge profits

As the government announced an increase in oil prices on June 28 and enforced it from June 29, and not from July 1 as per past practice, consumers suffered for three days as they were made to pay higher prices during this period by petroleum dealers. The Oil and Gas Regulatory Authority (OGRA) issued a notification on June 28 announcing an upward revision in prices, much before the actual date of announcement (June 30). "Nobody knows why the government showed such an urgency in announcing POL prices as it announced prices on June 28, rather than on June 30.The government has also not yet explained if they have made a change in the price announcement schedule. As dealers continued to charge higher rates, many consumers were seen engaged in verbal skirmishes with petroleum dealers over an increase in POL rates from July 1 or June 28. The KWGA chairman said that the increase in petrol and diesel rates would further push up prices of essential commodities by Re. 1 to Rs1.50 per kg as witnessed during an earlier increase in oil prices. **(Dawn, 01st July, 2008)**

KSE volume falls to all-time low

The single-session turnover figure on the Karachi stock market fell to an all-time low level so far of 11.485m shares owing to investor worries over the security forces operation in the tribal areas and fears of its negative fallout elsewhere in the country, analysts said. Leading gainers, included Nestle Pakistan and Colgate Pakistan, up by Rs. 120 and Rs. 27.57, followed by American Insurance, United Brands, Dawood Bank, Chaudhry Textiles, Crescent Textiles, Dawood Hercules, Shell Pakistan and Diamond Industries, which rose by Rs. 4.05 to Rs. 7.64. Among the actives, Bank of Khyber was leading, steady 21 paisa at Rs. 14.20 on 1m shares, KESC, firm by 23 paisa at Rs. 5.47 also on 1m shares, MCB, off by Rs. 3.29 at Rs. 326.38 on 0.989m shares, OGDC, lower by Rs. 1.25 at Rs. 124.36 on 0.747m shares, Hub-Power, easy by 28 paisa at Rs. 28.60 on 0.524m shares, and JS & Co, off Rs. 5.35 at Rs. 530.15 on 0.415m shares. ENGRO Polymer led the list of actives on this counter, easy by Rs. 1.47 at Rs. 28.08 on 1m shares followed by Habib Bank, lower by Rs. 2.15 at Rs. 213.39 on 0.977m shares, NIB Bank, lower by 11 paisa at Rs. 11.57 on 0.52m shares and Pakistan Petroleum, off 2.52 at Rs. 249.87 also on 0.52m shares. **(Dawn, 01st July, 2008)**

ECC meets in Karachi today New drawback scheme to unleash corruption

The textile industry ministry has moved a summary to the economic coordination committee (ECC) of the cabinet seeking cash subsidy between Rs30 and Rs50 billion for textile and clothing exporters. The summary, moved by Textile Industry Minister Ahmed Mukhtar, has demanded the money to be raised in the shape of general sales tax (GST) from poor consumers, while the industry is enjoying complete exemption from all taxes except one per cent withholding tax on export proceeds. The committee includes representatives of textile, commerce, and Federal Board of Revenue and the State Bank governor. After claiming huge cash subsidy, concessions on bank loan rates and also on export refinance in last few years, the pace of growth in textile exports did not accelerate, which remained stagnant at four per cent between April 2005 and Jan 31, 2008. **(Dawn, 01st July, 2008)**

Textile industry to get Rs. 30bn

The government has decided to allocate Rs. 30 billion towards duty drawback to be allowed on textile exports during 2008-09 on domestically acquired inputs, including taxes paid on gas and electricity, official sources said. Furthermore, the drawback on locally acquired inputs would not affect the eligibility of exporters to claim the normal duty drawback, they added. The sources said apparel exports up to $15 million would get 3.5 per cent and home textile/towels 2.5 per cent drawback. Apparel exports from $16 to $ 30 million would get 4.5 per cent and home textile/towels 3.5 per cent. Apparel exports from $31 to $60 million would get 5.5 per cent and home textile/towels 4.5 per cent drawback. Apparel exports from $ 61 to $ 100 million would get 7 per cent and home textile/towels 5.5 per cent. Exports of apparel and home textile over $ 101 million would get 9 per cent and 6.5 per cent, respectively. Fabrics exports from $ 51 million to $100 million would get 1 per cent drawback and from $ 101 to $ 200 million 1.5 per cent drawback and above $ 201 million 2 per cent drawback. **(Dawn, 01st July, 2008)**

IT exports reach $175m

Pakistan’s IT exports reached $ 175 million during 2007-08, about $ 13 million more than the $162 million target set for the year. “We are satisfied with the pace of progress of the local IT sector. It has registered a remarkable growth during the last five years,” said Pakistan Software Export Board (PSEB) Managing Director Talib Baloch. The sector has consecutively registered 50 per cent annual growth in exports for the last five years showing its tremendous potential, he said, adding, if nurtured fully, the industry can yield voluminous economic and commercial benefits. “Longer loadshedding hours have adversely affected the productivity of many ICT companies. However, despite these odds, PSEB is hopeful to exceed the targeted volume of exports in the forthcoming years," he added. The IT industry has emerged as most promising sector in Pakistan. The company's software allowed saving of 40-90 per cent when making international calls or sending SMS from mobile phones. **(Dawn, 01st July, 2008)**

New-crop cotton prices higher

The new crop prices were quoted higher as some of the ginners from the central Punjab cotton belt offered modest lots for ready delivery which were readily picked up by the spinners. "Spinners are willing to buy new crop lint at Rs. 3,900 per maund indicating that prices are heading to set fresh highs above Rs. 4,000 per maund irrespective of the crop size," they said. According to market sources the phutti arrivals in the central Punjab cotton belt are fairly steady as growers willing sellers at Rs. 1,800 per 40 kg as more ginning factories have resumed operations. Previously, Punjab ginners were used to resume operations after having purchased phutti from the lower Sindh growers as the picking operations there were resumed a bit early, market sources said. They said some of the leading ginners still have an unsold stock of 15,000-20,000 bales of the current crop, but the last session of the outgoing 2007-08 witnessed bullish trend in prices of both the current and new crop for the first time. The following deals were finalized in the new crop in Punjab type: 200 bales, Burewala at Rs. 3,900 and 100 bales, Arifwala at Rs. 3,800. **(Dawn, 01st July, 2008)**

Karachi LTU collections up by 24pc

The Large Taxpayers Unit, Karachi, and recorded 24 per cent growth in revenue collection at Rs. 162 billion during 2007-08 compared to Rs. 131 billion collected last year. According to official figures the LTU collected Rs. 91.160 billion from income tax against Rs. 82.116 billion collected last year. Major factors, which assisted in achieving high revenue collection, were creation of demand of Rs. 26 billion by the audit division compared to a demand of Rs. 5 billion created in the year 2006-07. Similarly, recovery of Rs. 17 billion out of undisputed current and arrear demand as against Rs. 4 billion made last fiscal year showing good performance by the enforcement division. The LTU collected Rs. 65 billion towards advance tax compared to Rs. 56 billion made last year. The sales tax division of the LTU collected federal excise and sales tax to the tune of Rs. 71 billion as against Rs. 49 billion recorded last year, thereby showing a growth of 44 per cent. **(Dawn, 02nd July, 2008)**

Industrialists react sharply on 68pc gas tariff raise

Leaders of industry have reacted sharply on 68 per cent increase in gas tariff for captive power plants in industrial units announced by Minister of Power and Natural Resources Shah Mahmood Qureshi on behalf of Oil and Gas Regulatory Authority (OGRA). Top leaders including Tanveer Sheikh, President of Federation of Pakistan Chambers of Commerce and Industry; Iqbal Ibrahim, Chairman of All Pakistan Textile Mills Association; and Mohammad Nisar Sheikhani, Chairman of Site Association of Industry were emotional in their telephonic conversations and statements. The industry now plans to agitate on national level against this steep rise in energy prices in general and more particularly on gas supply to captive power plants. "A 68 per cent increase in gas price for captive power plants is tantamount to the "murder of industry," declared FPCCI president Tanveer Shaikh in a statement on Tuesday. He took notice of 31 per cent increase in gas prices and Rs.13 per kg rise in compressed natural gas (CNG) and rejected government's assertion that it was being done to guarantee rate of return to the Sui Southern Gas Company and Sui Northern Gas Pipelines Limited. **(Dawn, 02nd July, 2008)**

SBP seeks more powers to check banks: 10-year strategy for higher growth

The State Bank of Pakistan launched a 10-year financial sector strategy to achieve higher and sustainable growth. Our current regulatory architecture is not well-suited for consolidated supervision and no agency has powers to oversee both the financial and non-financial conglomerates." By and large banks have acquired stakes in Non-Banking Finance Institutions (NBFIs), including insurance, brokerage and financial advisory services, etc. Presently, five banks (and one DFI) own shares in insurance companies, 12 banks have interests in asset management companies and mutual funds, and many are involved in other areas like leasing, financial advisory and brokerage services, Modaraba management and foreign exchange. Financial conglomerates present a major challenge for the SBP. Third, especially where the conglomerate group includes commercial businesses, there is a risk that the bank depositors end up carrying the residual risk for non-financial businesses. **(Dawn, 02nd July, 2008)**

ECC decides to launch price control mechanism

The Economic Co-ordination Committee (ECC) has decided to launch a 'price control mechanism' by the end of August, 2008 in the wake of skyrocketing prices of essential food items. On sidelines of a Plots' Possession-Letters distribution ceremony at Port Qasim, Federal Minister for Ports and Shipping Qamar Zaman Kaira told that the ECC meeting had discussed to introduce a 'price control mechanism' to give relief to the poor. Sources told this scribe that Sindh Governor Dr Ishratul Ibad Khan, Chief Minister Syed Qaim Ali Shah, Federal Minister for Information and Broadcasting Sherry Rehman, Minister for Finance Naveed Qamar, Minister for Ports and Shipping Qamar Zaman Kaira, Syed Khursheed Shah, Advisor to Prime Minister Hina Rabbani Khar, Minister for Defence Ahmed Mukhtar, Minister for Water and Power Raja Pervez Ashraf and high ups from the federal and provincial governments attended the ECC meeting. **(Business Recorder, 02nd July, 2008)**

Pakistan and China pledge to take bilateral trade to $ 15 billion by 2011

Pakistan and China pledged to take their bilateral trade to $ 15 billion by 2011, in their effort bringing economic ties at par with their strong political and strategic partnership. These views were expressed by Federal Minister for Housing and Works, Rehmat Ullah Kakar after his meeting with Secretary General of CPC Kashgar, Shi Dagang. Shi expressed the hope that following implementation of Free Trade Agreement between Pakistan and China the bilateral trade would further improve. The meeting was also attended by Chinese Ambassador to Pakistan Lue Zhao Hui and Managing Director of Pakistan Housing Authority Raja Mohammad Abbas besides other members of Pakistan delegation. The Secretary General of CPC thanked the minister and his delegation for participating in the Fair in large number. In the Pakistani pavilion, the business community has exhibited goods produced in the country showcasing the high quality products, which are attracting the visitors in the international fair of the economic importance. The 4th Kashgar Central and South Asia Trade fair will conclude on July 2. **(Business Recorder, 02nd July, 2008)**

Pakistan makes substantial progress in implementing IAFSP: ADB report

Asian Development Bank (ADB) has agreed to provide 200 million dollars as second tranche to Pakistan keeping in view of the substantial progress made in the implementation of the Improving Access to Financial Services (Phase I) Programme (IAFSP). First, the government adopted a national strategy for inclusive financial services and began its implementation. Fourth, the government took action to facilitate the introduction of new products and services by micro finance providers. These new products and services include Islamic banking products and mobile banking. N.P. Knoll said that the micro finance sector in Pakistan is vibrant and growing. Micro finance in

Pakistan is often regarded as a social service rather than a financial service. The government initially promoted micro finance through a subsidized, supply-led credit model. Among the objectives of the programme is the establishment of partnerships between Pakistan Post and private sector financial institutions to expand the outreach of financial services. Pointing out background, he said that the Improving Access to Financial Services (Phase I) Programme (IAFSP or the programme) for Pakistan was approved by the Asian Development Bank (ADB) on 14 December 2006. **(Business Recorder, 02nd July, 2008)**

Pakistan ranked 83rd in 'Forbes Best Countries for Business'

Pakistan has been ranked 83rd in a global list of 'best countries to do business in', improving from 93rd place last year. While Pakistan has climbed 10 places, India is down 13 notches, to 64th place. Pakistan has experienced GDP growth in the 6-8 percent range in 2004-07, spurred by gains in the industrial and service sectors. In 2007, the fiscal deficit--a result of chronically low tax collection and increased spending--exceeded the target of 4 percent of GDP. For the 'study', the magazine said that it used expertise, research and published reports from the 'Heritage Foundation', 'World Economic Forum', World Bank, Transparency International, Freedom House, Deloitte Tax, the US Chamber of Commerce and Central Intelligence Agency and their vital analyses of various socio-economic indicators on the countries included. Together with economic policies supportive of free trade and low inflation, these key points form a snapshot of countries' suitability for capital investment. **(Business Recorder, 02nd July, 2008)**

Inflation flares in Asia, to pressure central banks

Inflation in South Korea and Thailand accelerated to its fastest pace since the 1998 Asian financial crisis, pressing their central banks to join a regional scramble to contain price pressures. A rate rise in South Korea is less certain. India, Taiwan and Philippines raised rates last month and China will likely hike rates at least once this year after a series of increases in bank reserve requirements, a Reuters poll shows. Inflation pressures are on the rise globally. The European Central Bank is widely expected to raise rates on Thursday and the US Federal Reserve is expected to raise rates by the end of the year following an aggressive cutting cycle to ward off the impact of the global credit crisis. In Asia, rising costs have made government subsidies on oil and food unsustainable, forcing several countries including India, Malaysia and Indonesia to raise domestic fuel prices. Bangladesh joined their neighbours, raising various fuel prices. Pakistan ramped up natural gas prices. Annual inflation in South Korea rose to 5.5 percent in June, up from 4.9 percent in May. Surveys on Tuesday showed commodity costs are seeping through Asian factories to the world's consumers, slicing into Japanese manufacturers' profit and stoking inflation in China and India. **(Business Recorder, 02nd July, 2008)**

US cuts trade benefits for India, Brazil, others

Gold necklaces from India, an alloy from Brazil and 23 other developing country products will no longer receive US duty-free treatment, the US Trade Representative's office said. The United States imported $30.8 billion worth of goods under the GSP program in 2007. As a result of the latest review, 25 products that accounted for about $1.4 billion of the 2007 imports will no longer receive duty-free treatment, USTR said. Partly because of frustration with India and Brazil's role in the Doha round of world trade talks, Congress passed tougher criteria for the GSP program in December 2006. "Congress created the GSP program to serve as a bridge for developing countries as they increase their participation in the global trading system," US Trade Representative Susan Schwab said in a statement announcing the results. Under the GSP program, countries automatically lose duty-free access when their exports to the United States exceed certain thresholds. The president can issue a waiver to restore duty-free benefits. Waivers were denied for 21 other developing country products that exceeded GSP thresholds for the first time. Waivers were continued for 99 products from 15 developing countries. **(Business Recorder, 02nd July, 2008)**

Doha breakthrough would dampen food prices: Paulson

US Treasury Secretary Henry Paulson said the United States and Germany agreed that a breakthrough in the Doha round of trade talks would help control world food price inflation, but high oil prices required longer-term solutions. Paulson, speaking at a news conference in Berlin with German Economy Minister Michael Glos, said the two nations agreed there were "no obvious short-term solutions" to high oil prices. Export controls aren't helpful." Glos said he believed that high energy prices were feeding into food prices, and in the short term a "temporary" increase in oil output would help dampen prices to bridge a gap for oil consuming countries to allow them to develop alternative fuel technologies that would reduce consumption. The Fed and Securities and Exchange Commission are nearing an agreement to share information on investment banks. **(Business Recorder, 02nd July, 2008)**

World Bank President to G8: 'World Entering a Danger Zone'

Group of 8 leaders and major oil producers must "act now" to address the "man-made catastrophe" caused by high food and oil prices, World Bank Group President Robert B. Zoellick said prior to the G8 Summit in Hokkaido, Japan, July 7-9. "We are entering a danger zone," warned Zoellick in a July 1 letter to Japanese Prime Minister Yasuo Fukuda, head of the upcoming G8 Summit. Some 41 countries have lost 3% to 10% of their GDP from rising food, fuel and commodity prices since January 2007. Over 30 countries have been hit by food riots, as the impact of the crisis reaches the household level. In April, 150 countries endorsed a New Deal on Global Food Policy a plan to respond to the food crisis through social safety nets, increased agricultural production, and reduced trade barriers. **(web.worldbank.org, 02nd July, 2008)**

Pakistan may seek Japanese assistance in energy, water sectors

Pakistan is likely to seek Japanese assistance in the development of energy, water resources and some other key sectors of the economy, as the two countries will hold the fourth round of high-level economic policy dialogue this month. According to the sources, Pakistan desperately needs investment from local and foreign sources in power sector as it is confronting huge gap in electricity demand and supply. The Japan-Pakistan High Level Economic Policy Dialogue was first agreed between the then Japanese Prime Minister Junichiro Koizumi and President Pervez Musharraf during the latter's visit to Japan in March 2002. Pakistan's exports to Japan are in a miserable situation. Pakistan is expected to seek some market access from Japan, the sources said. **(Business recorder, 03rd July, 2008)**

Gas tariff hike: over 33 industrial units cease operations

More than 33 industrial units, including re-rolling mills, textile units, have ceased operation due to recent increase in gas tariff by the government. A 68 percent increase in the gas price for captive power plants was tantamount to murder of industry, especially textile industry. The Kati Chairman said that increase in gas tariff would not only hit industrial growth, but also it would give raise to industrial cost of production by 18 to 20 percent. Chairman of Federal B Area Association of Trade and Industry (FBRATI) Idrees Gigi said that industries were in big trouble due to increase in gas, oil and other prices. Referring to the withdrawal of research and development (R&D) facility, he said the government resorted to increasing oil, gas power tariff, crippling the industrial production and exports, ultimately encouraging massive import of goods in large numbers. Site Association of Industry (Sai) Chairman Muhammad Nisar Shekhani feared that if the government did not revise gas tariff downwards, all spinning units, having captive power generation, would go out of production. Beside, this former President of KCCI Zubair Motiwala has met Federal Finance Minister Naveed Qamar to discuss the gas, oil sand power tariffs. **(Business recorder, 03rd July, 2008)**

China invited to participate in low cost housing project

Pakistan has invited China to participate in the government's ambitious low cost housing project for low paid workers. The Federal Minister was in Kashgar to represent Pakistan at the week-long forth Kashgar Central and South Asia Trade Fair that started on June 28, Commercial and Economic Counsellor of Pakistan Embassy Dr Naeem Khan told newsmen on return from Kashgar. Giving details of the project, the minister said that government planned to build one million housing units yearly for low paid workers and participation of China in this mega project would be welcomed. The meeting was also attended by Chinese Ambassador to Pakistan Luo Zhao Hui, Managing Director of Pakistan Housing Authority Raja Mohammad Abbas besides other members of Pakistani delegation. **(Business recorder, 03rd July, 2008)**

Lahore LTU revenue up by 8pc in FY08

The Large Taxpayer Unit (LTU), Lahore, responsible for collecting taxes from the corporate sector has exceeded revenue target for 2007-08 by 8 per cent at Rs. 22.66 billion against Rs. 21 billion in the previous year. Tax collected/deducted at source (withholding tax) was Rs. 1,280 million, constituting only 5 per cent of total tax collection. The LTU collected Rs. 17,105 million in the form of sales tax during 2007-08 exceeding the target by Rs. 262 million. The LTU collected Rs. 7,818 million in federal excise duty against a target of Rs. 7,457 million showing an increase of Rs. 361 million. **(Dawn, 04th July, 2008)**

Amnesty scheme lacks assets value formula

The Federal Board of Revenue (FBR) has launched an amnesty scheme under which hidden income and assets could be ‘whitened’ on paying two per cent investment tax as envisaged in the budget 2008-09. The main objective of the Investment Tax Scheme (ITS) 2008 is to broaden the tax net and it is based on Egyptian and Turkish models, where such amnesty schemes worked successfully. However, tax consultants expressed their apprehensions about the success of the scheme, which has put a condition of paying two per cent investment tax on fair market value of assets at the time of declaration of all moveable and immovable, undisclosed and unexplained investments and assets. The scheme launched through FBR circular No. 3 of 2008 dated July 1, 2008 also allows new taxpayers availing the amnesty to file return of income for the tax year 2008 and the subsequent three consecutive tax years. **(Dawn, 04th July, 2008)**

Asian Bank to assist in farm projects

A delegation of Asian Development Bank (ADB) met Sindh Agriculture Minister Ali Nawaz Shah and assured bank’s cooperation in the various farm projects in the province. Ms. Emma, the delegation leader stressed on introducing public-private partnership in marketing of fruit. She suggested amending the Agriculture Produce Marketing Act so that the investors and traders could be given opportunity of investing in marketing sector. The ADB official offered technical assistance to the Sindh government besides help in improving conditions of the existing markets. **(Dawn, 04th July, 2008)**

Lamy says trade deal 'feasible' this month

World Trade Organization head Pascal Lamy said on Thursday an agreement on the outlines of a global free-trade deal was "feasible" this month. Hoping for a breakthrough in the long-stalled talks, Lamy has convoked a July 21 meeting of ministers from the main WTO players to try to make yet another stab at concluding a framework agreement. The Doha round of trade liberalization negotiations, launched in the Qatari capital in 2001, has long struggled, with all sides refusing to make big concessions. Time is running out for a breakthrough in the negotiations, which were originally supposed to be completed in 2004, before the current US administration steps aside in January. **(Dawn, 04th July, 2008)**

Pakistan's foreign exchange reserves dip by $1.4 million

Country's foreign exchange reserves declined by $1.4 million to $11.2845 billion from $11.2859 billion in last week. The State Bank of Pakistan (SBP) on Thursday issued latest statistics of the foreign reserves, which depict that the reserves held by SBP has declined by 30.2 million during the weeks ended on June 28, 2008.After the current decline, the reserves held by SBP dipped to $8.6254 billion, which earlier stood at $8.6556 billion on June 21, 2008. **(Business Recorder, 04th July, 2008)**

UK to raise its assistance to 480 million pounds by 2011

The UK government will double its assistance for Pakistan up to 480 million pounds by 2011. The UK assistance will continue to focus on health, good governance and reconstruction of earthquake-hit areas. This was stated by British Secretary of State for International Development Douglas Alexander in a meeting with Finance Minister Syed Naveed Qamar here. Douglas and his team held bilateral discussions with Pakistani authorities on matters relating to fight against poverty in Pakistan and British government's overall Country Assistance Plan. The British Secretary said that the UK has long been a great friend of Pakistan. Britain is committed to helping Pakistan's efforts in fight against poverty for many years. **(Business Recorder, 04th July, 2008)**

Sri Lanka can manage trade deficit amid inflation

Sri Lanka can manage its trade deficit this year despite a record fuel import bill due to improved foreign exchange inflow, but inflation would be a concern, the central bank governor said. The island nation recorded a 5.6 percent rise in its trade deficit to $3.56 billion last year compared to 2006, and predicted a 11.5 percent increase to $3.97 billion in 2008 estimating the average fuel price to be $85 per barrel. But on Thursday, crude oil price hit a record over $145 per barrel. However, Central Bank Governor Ajith Nivard Cabraal said the rapid oil price increase will be compensated by additional foreign inflows, thus pressure on trade deficit will be at a minimum. **(Business Recorder, 04th July, 2008)**

UK to explore role of speculation in oil price

Concern over the possible role of speculators in driving record crude oil prices -yesterday spilled over into Britain, where a parliamentary committee said it would hold its first hearing into regulation of oil markets. Efforts by US and now UK politicians to address the issue come amid repeated insistence by regulators overseeing the oil markets, as well as by the International Energy Agency, that supply and demand factors, not speculators, are behind high oil prices. Nick Ainger, MP for Carmarthen West and Pembrokeshire and one of 14 Treasury committee members, told the Financial Times the time had come forMPs to examine the way energy futures exchanges were regulated, including whether the regulatory environment was robust enough to prevent "speculation and possible market manipulation".**(Financial Times, 04th July, 2008)**

Closer ties to Russia will profit the peoples of Europe

Businesses in the EU and Russia have been looking forward to official talks in the expectation that formal links between our two economies might match the maturing business relationship and support a further deepening of economic ties. Russia is already the EU's number three trading partner, after the US and China. For Russia, the EU is both import and export partner number one. The investment relationship is growing rapidly: last year's flow of EU investments into Russia - €17bn ($26.9bn, £13.5bn) - represents a doubling compared with three years earlier; Russia's direct investments into the EU in 2007 approximated €5bn. This explains why business leaders represented in the EU-Russia Industrialists' Round Table believe that deeper economic integration can provide the backbone for a more dynamic, mutually beneficial EU-Russia relationship. The beginning of EU-Russia talks presents a welcome opportunity to boost bilateral business relations further. **(Financial Times, 04th July, 2008)**

Business sector pessimistic about pace of growth

Economic growth is expected to decline during the first half of 2008 as about 80 of the main listed firms of Karachi Stock Exchange (KSE) interviewed by PIDE were of the view that the general price level and the rate of inflation is still alarming. The financial sector, however, anticipates higher growth, whereas non-financial firms expect a lower level of growth. The picture about the general price level and the rate of inflation is still alarming. The analysis reveals that both the financial and non-financial sectors neither experienced nor anticipated any fall in the general price level for the Year 2007-2008. According to the report, the business sector perceived that the growth level of the economy during the second half of 2007 declined as compared to the growth level during the previous six months. There were 15 respondents from financial sector, resulting in a separate financial sector assessment. It is found that the business sector's activities in the domestic market increased whereas firms have been facing problems in the international market. Moreover there is an increase in input and output prices, the rate of interest on deposits, and the interest rate on advances and wages. The business sector expects the level of investment to be higher in the current half of the year. **(Business Recorder, 05th July, 2008)**

Pakistan proposes SAARC economic union

Pakistan has floated the idea of following European Union as a model to form SAARC Economic Union for promoting trade, investment and monetary union among its member countries. Sources said the Katmandu SAARC meeting also approved Pakistan's proposal of including SAARC teachers programme in SAARC Development Fund (SDF). Katmandu meeting also assigned different projects to member countries for making things happen to turn the idea of forming SAARC Economic Union into a reality within the shortest possible period. Pakistan had put up the idea of forming SAARC Economic Union for promotion of trade investment and brings the member countries closer at SAARC summit held in 2005. The SAARC countries, including India, are on board on the proposed formation of SAARC Economic Union. **(Business Recorder, 05th July, 2008)**

Pakistan for 'bold decisions' to tackle global financial crisis

Pakistan has called for "bold decisions" to deal with a series of global crises, financial, food, energy, environment, afflicting many nations, especially the developing countries. "The challenges we confront are huge. It will require bold leadership and bold decisions," Ambassador Munir Akram said in a well-reasoned speech at the high-level segment of the Economic and Social Council (ECOSOC), the economic arm of the UN. We are concerned about the negative impacts on sustainable economic growth and sustainable development, particularly in developing countries," the Declaration said. It should first consider comprehensive reform of the international financial system and make a serious effort to restructure the global trading system. Further, he said, the Conference should address constraints on access to technology that was vital for development. Pakistan, Ambassador Akram said, also looked forward to a strategy to address the food crisis taking place in the country and an equitable approach to deal with ever increasing energy prices. **(Business Recorder, 05th July, 2008)**

Priority is to calm inflation nerves: India central bank

Volatile prices of food and commodity prices have pushed inflation higher and the most urgent priority for central bankers is to calm nerves on inflation, India's central bank governor said. "The most urgent and short-term priority for central bankers at the current juncture seems to be to calm the nerves about inflation or to anchor inflation expectations, with an implicit recognition that a somewhat elevated headline inflation in the short-term may be difficult to avoid," Yaga Venugopal Reddy said in a speech delivered in Manchester on July 1. **(Business Recorder, 05th July, 2008)**

G8 to tackle inflation, but concrete action elusive

G8 leaders aim to present a united front against global inflation, driven by soaring oil and food prices, at a summit in Japan next week, but solving the problem requires more than just a strong message from rich nations. As record high oil prices threaten the global economy and food riots undermine political stability in some countries, the Group of Eight (G8) will try to draw up measures to balance the supply and demand of oil, officials from member countries said. When leaders from the G8 - the United States, Britain, Canada, France, Germany, Italy, Japan and Russia - gather at the July 7-9 summit in Hokkaido, northern Japan, they will discuss concerns that a weaker dollar is a factor behind high oil prices. Rising oil and food prices not only fuel inflation but also hamper global growth by hurting businesses and consumption, posing a serious challenge to policymakers who cannot control the increasingly globalize, free-market economy. Helped by surging oil and commodity prices, food security has muscled its way onto the summit agenda. As the G8 summit approaches, some countries blame a weaker dollar for pushing up oil prices. **(Business Recorder, 05th July, 2008)**

Courage needed to clinch Doha Round

The head of the World Trade Organization said on Friday that this month would be a "moment of truth" for the Doha world trade pact and failure to clinch the deal would damage poor countries, erode economic growth and deepen the north-south divide. WTO Director-General Pascal Lamy has invited trade ministers to Geneva from July 21 to broker deals in the two most sensitive areas of the so-called Doha round - cuts to farming tariffs and subsidies, as well as to import duties on manufactured goods. Developed countries have signaled they can cut subsidies to their farmers by around 70 percent and agricultural tariffs by 50 percent, as well as slice their high import duties on manufactured goods from the developing world, Lamy said. Consensus is required among WTO members for a Doha deal to be clinched. **(Business Recorder, 05th July, 2008)**