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**Banking system woes: overnight rates as high as 40 percent**

The banking system of Pakistan is getting choked not on account of toxic debt but due to lack of liquidity. This has led to a situation in which some banks have started bouncing cheques of large amounts in order to retain funds with them. The overnight interbank lending rates (the rate at which banks lend to each other) touched 40 percent. The State Bank recently lent a helping hand to the government by allowing banks to lend to Oil Marketing Companies (OMCs), on behalf of the government, by allowing this amount as eligible for Statutory Liquidity Ratio (SLR). However, this amount should not exceed five percent of SLR. At present, banks are obliged to maintain 19 percent of their deposits towards SLR in government securities. According to experts, domestic liquidity needs to be generated through forex inflows and at present the system is short by at least Rs 80 to 100 billion of liquidity. The fallout of failure in the absence of quick corrective measures, say bankers, will render the non-bank financial institutions (NBFIs) as well as mutual fund industry non-functional. In a rising inflationary environment and high commodity/raw material prices the needs of trade and industry have already gone up. The squeezing of private sector credit due to crowding out on account of high government borrowing could adversely affect exports. As it is, banks lose out on providing export refinance at 7.5 percent as their cost of funds has already gone up. (Business Recorder, 06<sup>th</sup> October, 2008)

**Lahore Rapid Mass Transit System: Pakistan asked to complete PPP transaction**

Asian Development Bank has asked the Government to complete Public-Private Partnership (PPP) transaction for Private Sector Concession by October 2009, while ADB multi-tranche financing facility loan will be approved for public sector investment by December 2008 for Lahore Rapid Mass Transit System Project. According to official sources, the Government understands that developing the Lahore RMTS with a PPP would provide an opportunity to improve the overall efficiency of the system. A PPP provides the Government with an opportunity to efficiently allocate risks between the Government and specialized private firms. This means that risks will be controlled and influenced by the party that is best placed to control and influence these risks. A PPP, however, would not make sense for the Government or private sector if either party were bearing risks that are better handled by the other. This means that a well-structured PPP is essential to achieve the objectives expected from a PPP. (Business Recorder, 06<sup>th</sup> October, 2008)

### **Wall Street crisis: Asia ‘unhurt’**

Asia seems largely unhurt by the financial crisis gripping the United States and some European states. East Asian banks have also escaped the effects of the Wall Street crisis. There was run on one bank only Hong Kong’s Bank of East Asia but it lasted only 24 hours after rumours died down and the bank issued a clarification. Singapore’s banks also look well positioned to weather the storm, if any. Indian banks, too, are well insulated from the troubles rolling other financial institutions. Much of the fastest growth continues to be in the developing Asian economies, especially China and India. The world growth is now facing a slow-down in response to the recession in the US and higher energy prices. Although the US does not dominate the world economy as it once did, its economy’s deteriorating state can still shake up the international financial system. Since foreign investors have lost confidence in American securities and the US dollar, investment would slow down in the months ahead. According to analysts, investor fears abroad about American credit risk and the threat of a declining dollar has increased dramatically. The result could be a major drop in the value of dollar and a big rise in US interest rates, thus extending the recession but foreign central banks would not allow this. The US depends on foreign investors to finance its budget shortfalls and at present 47 per cent of treasury bonds are held in foreign capitals. Foreign central banks already showed their concern by urging Washington to take over Fannie Mae and Freddie Mac. (Dawn, 06<sup>th</sup> October, 2008)

### **Government borrowing for budgetary support reaches Rs 173 billion**

The government borrowing for budgetary support has mounted to Rs 173 billion marks with an upsurge of 102 percent during the first 11 weeks of the current fiscal year due to increasing expenses and slow inflows. The over 100 percent increase in government budgetary borrowing reflects that federal government is relying on the State Bank and other banks for budgetary support despite the central bank request to reduce the borrowing and retire the existing debt. State Bank of Pakistan (SBP) has revealed that government sector borrowing for budgetary support has gone up by Rs 87.546 billion during the July 1, to Sep 13 (approximately 11 weeks) of current fiscal year as compared to same period last fiscal year. With the current upsurge in government's budgetary borrowing from banking system (SBP and other banks) has mounted to Rs 173.235 billion during the first 11 weeks of fiscal year 2009, as against Rs 85.689 billion in same period of last fiscal 2008, depicting an increase of 102 percent. The statistics depict that borrowing from central bank has reached Rs 179.443 billion during the period as previously it stood at Rs 2.886 billion during same period of last fiscal year, depicting an increase of 6117 percent or over Rs 176 billion during the first 11 weeks. However, the government's budgetary borrowing from other banks shows sharp decline and government borrowing for budgetary support has stood at a negative position of Rs 6.207 billion from banks as compared to Rs 82.803 billion borrowing during the same period of last fiscal. (Business Recorder, 06<sup>th</sup> October, 2008)

### **JPMorgan blamed for Lehman collapse**

US bank J. P Morgan Chase stands accused of precipitating the collapse of American investment bank Lehman Brothers by freezing Lehman assets days before it filed for bankruptcy protection. Citing documents filed with a New York bankruptcy court late last week, the newspaper said that Lehman creditors have accused J. P Morgan of freezing 17 billion dollars (12.3 billion euros) in cash and securities. The documents continued to say that "as a result of JPMC's actions, LBHI suffered an immediate liquidity crisis that could have been averted by any number of events, none of which transpired." In a statement, J. P Morgan described the allegations as "unfounded conjecture". Last week, lawmakers in Washington finally approved a 700-billion-dollar rescue package after much political wrangling, while European governments were forced to ride to the rescue of several major European banks. Britain announced the nationalization of Bradford & Bingley, coinciding with the

11.2-billion-euro bailout of banking and insurance group Fortis by the Belgian, Dutch and Luxembourg governments. A day later, Belgium, France and Luxembourg joined together to inject 6.4 billion euros into banking group Dexia and in Germany Hypo Real Estate was saved by a government-backed rescue move. (Business Recorder, 06<sup>th</sup> October, 2008)

### **'Outlook negative': S&P lowers foreign currency rating**

Standard & Poor's Ratings Services lowered its long-term foreign currency sovereign credit rating on the Islamic Republic of Pakistan to 'CCC+' from 'B' and its long-term local currency rating to 'B-' from 'BB-'. At the same time, we lowered our short-term rating on the sovereign to 'C' from 'B'. The outlook on the long-term rating is negative. The rating on Pakistan's senior unsecured local currency debt has also been lowered to 'B-' from 'BB-', while the foreign currency debt rating has been lowered to 'CCC+' from 'B'. The downgrade comes in the wake of continued steep erosion of Pakistan's external liquidity position, the extent and pace of which casts rising doubts about the sovereign's ability to meet approximately US \$3 billion of external debt servicing commitments in the coming year. The negative outlook reflects our expectation that multilateral and bilateral aid, including deferred oil payment schemes, may not be timely enough, or sufficient in magnitude to stem the loss of external liquidity. It also incorporates the view that the necessary policy measures, some of which are likely to be prerequisites for multilateral assistance, will face obstacles and delays in implementation, given the fractious and unstable domestic political scene, and rising social tension. The rating on Pakistan could be lowered further if the foreign exchange reserve cushion continues to shrink and meaningful economic stabilization measures remain wanting. Conversely, the rating could stabilize and eventually be raised if external assistance and domestic policy programs successfully stabilize Pakistan's balance of payments position and foreign reserves. (Business Recorder, 07<sup>th</sup> October, 2008)

### **Sugar may become more costly**

Sugar mills have cautioned that there may be an expected increase in sugar prices owing to upward revision in the minimum support price of sugarcane for the season 2008-09. The Pakistan Sugar Mills Association (PSMA) has hinted that during the new crushing season, the price of white refined sugar may go up to Rs. 38 per kg from the current price of Rs. 32 per kg in the open market. The PSMA further stated that the sugar industry has little role in determining sugar price because almost 92 per cent of cost elements (75 per cent cost of raw material and 17 per cent sales tax and special excise duty) are beyond the control of the industry. Besides, bringing down prices of sugar, ST removal would also help check tax evasion. (Dawn, 07<sup>th</sup> October, 2008)

### **Wall Street sinks in global market rout**

Fear gripped investors around the world causing them to dump stocks and snap up safe-havens after European leaders were seen doing too little too late to stem a spreading financial crisis that threatens global growth. European shares posted their worst day on record and the Dow slipped below 10,000 points for the first time since October 2004 as markets reeled on credit jitters and fears of the fallout from a potential global recession, following the emergency rescue of two big European banks and a move by several European governments to guarantee bank deposits. US stocks slid more than 6 percent, with the Dow diving to its lowest level in almost five years; on fears the global economy was hurtling into recession despite government efforts to contain the fast-spreading financial crisis. Wall Street's drop was part of a global sell-off, and as severe as the US losses were, they paled in comparison to sharp declines across Europe and in emerging markets. In Russia, Brazil and Peru, trading was temporarily suspended. The emergency rescue of two big European banks and a move by

several European governments to guarantee bank deposits intensified fears of a potential global recession. (Business Recorder, 07<sup>th</sup> October, 2008)

### **Overnight rate drops to 27 percent from 40 plus percent**

The interbank overnight rate dropped to 27 percent from 40 plus percent on injection of Rs 53 billion by the State Bank of Pakistan and the release of Rs 25 billion to oil marketing companies. There was a cash outflow of Rs 40 billion from the banking system during the Eid holidays and this amount is expected to come back into the system within the next 14 days. Through open market operations, the SBP injected Rs 53 billion for one week into the system as well. Some of this amount was payment of past borrowing upon maturity as well. SBP expects the overnight rate to drop further to 14-15 percent within the next two days. Despite the injection of liquidity, tight conditions persist in the money market with banks continues to face a tough situation to mobilize deposits at the retail level. There has been a Rs 200 billion incremental increase in cash-in-circulation since July 1st, 2008. Big banks have raised rates to get corporate deposits. Most of the time they have cannibalized from one another. Some mid-sized banks obtained marginal success in attracting deposits at the retail level. However, deposit mobilization on mass scale has not met with any success. The root cause of the problem needs to be addressed. The best solution is forex inflows. However, any delay on this front would require a bridge from the central bank or the Federal Government to keep the wheels of industry rolling. (Business Recorder, 07<sup>th</sup> October, 2008)

### **WHT collection on new cars: excise and taxation authorities' help sought**

The Federal Board of Revenue (FBR) has approached the excise and taxation authorities of all four provinces to ensure collection of withholding tax on the purchase of new cars under the revised mechanism. The FBR wanted to remove operational problems in collection of withholding tax on purchase of locally manufactured motorcars. In this connection, the Directorate General of Withholding Taxes has written a letter to provincial excise and taxation authorities for co-operation in proper collection of the levy under the new system. The FBR has estimated to collect around Rs 800 million from this levy in 2008-2009 for which motor vehicle registration authorities would play primary role. The provisions of section 231B, shall, however, not be applicable in the case of the federal or provincial governments and a foreign diplomat or a diplomatic mission in Pakistan. (Business Recorder, 07<sup>th</sup> October, 2008)

### **World of Wall Street had certainly ended'**

India has sharply criticized the United Nations and its affiliated organizations for sitting on the sidelines as the current financial crisis unfolded, saying that the IMF remained helpless despite the economic meltdown impacting adversely on the developing nations. During a discussion on the annual report of UN chief Ban Ki-moon, Indian Ambassador Nirupam Sen attacked the Secretariat for ignoring the economic crisis that is now "crushing" the poor around the globe and for lacking any vision for the future or how the organization could help developing countries deal with the serious looming challenges. He said, also remained silent on intellectual property rights and how the organization could stimulate the stalled Doha Round of talks being held under the auspices of the World Trade Organization, another institution "approaching irrelevance." (The Financial Express, 07<sup>th</sup> October, 2008)

### **Business group hopes Russia can salvage WTO bid**

Signs that Russia is honoring a cease-fire agreement could help get its long-time bid to join the World Trade Organization back on track, a business group promoting US-Russian business ties says. Despite

tensions following the recent 5-day war in Georgia, the WTO working group on Russia's 15-year-old bid to join the world trade body held informal talks in Geneva on September 18. We view that as a very positive development," Randi Levinas, executive vice president of US-Russia Business Council, told ahead of the group's annual meeting in Washington. That follows US warnings that Russia would face a strong reaction if it fails to honour the cease-fire. US Secretary of State Condoleezza Rice also has said Russia's actions in Georgia jeopardise its long-time bids to join the WTO and the Organization for Economic Co-operation and Development, a rich nation's club. The US-Russia Business Council believes that would be a mistake, Levinas said, arguing it is in Russia's economic and political interest to be a part of the rules-based international trade system. Since the war in Georgia, investor confidence in the Russian market has been shaken. Many top US companies with business interests in Russia are sponsoring the two-day meeting. They include Coca-Cola, PepsiCo, John Deere, Caterpillar, Boeing, Cisco Systems, ConocoPhillips, ExxonMobil, Ford and Microsoft. (Business Recorder, 07<sup>th</sup> October, 2008)

### **FBR collects Rs 253.33 billion revenue during first quarter**

The Federal Board of Revenue (FBR) has collected Rs 253.33 billion revenue during the first quarter (July-September) of 2008-09 as against the target of Rs 250.80 billion, reflecting an increase of one percent. According to provisional tax collection data, net collection during the first three months of current fiscal was Rs 253.33 billion as against Rs 205.13 billion during the same period last fiscal, showing a growth of 23.5 percent. The current pace of revenue collection would enable the FBR to amass the ambitious target of Rs 1.250 trillion in 2008-09. The break-up revealed that direct taxes collection stood at Rs 84.566 billion during (July-September) 2008-09 as against Rs 77.532 billion during the same period last fiscal, showing an improvement of 9.1 percent. Sales tax collection totalled at Rs 106.82 billion during July-September current fiscal as against Rs 82.75 billion during the corresponding period of last year, depicting an increase of 29.1 percent. The collection of customs duty was Rs 38.15 billion during first three months of 2008-09 as against Rs 28.97 billion in the same period of last fiscal, reflecting a growth of 31.7 percent. (Business Recorder, 07<sup>th</sup> October, 2008)

### **US still sees chance for Doha breakthrough in 2008**

The Bush administration still sees a chance for a breakthrough in world trade talks this year, a top US trade official said that would give troubled world markets a much-needed boost. "I do believe in the balance of this year, there is an opportunity for a breakthrough," Deputy US Trade Representative John Veroneau said in a speech at the US Chamber of Commerce. Veroneau conceded that talks in September had failed to bridge differences on a key farm trade issue that had caused talks to collapse in July. US Trade Representative Susan Schwab is prepared to meet this year with other trade ministers, but only if senior officials make more progress first, he said. Meanwhile, a European Union official said the abrupt departure of EU Trade Commissioner Peter Mandelson last week to take a post in the British government should not be seen as a sign that the EU has lost interest in the talks. Catherine Ashton, the leader of the British House of Lords, has been tapped to replace Mandelson. Ashton is a prominent Labour party politician but not well known on the trade scene. (Business Recorder, 07<sup>th</sup> October, 2008)

### **Industrial sector to observe one-day gas holiday: EMC clears winter load Management plan**

The economic monitoring committee (EMC), which met with Finance Minister Syed Naveed Qamar in the chair, cleared winter gas load management programme for the Economic Co-ordination Committee (ECC) with one day holiday for industrial sector. The industrial sector will observe one-day gas holiday per week to ensure uninterrupted supply to the domestic sector during peak winter

season. The programme takes into account sectoral consumption trend, demand and supply projections, peak consumption analysis and sectoral measures for load management. The programme reflects maximum consumption during peak winter season for domestic and industrial as well as commercial sectors. The programme envisages first priority for domestic and commercial sectors followed by the industrial sector. An official handout said: "After EMC's clearance, the proposed gas load management programme concurrence shall be presented to ECC for approval. (Business Recorder, 07<sup>th</sup> October, 2008)

### **US ratifies treaty on trademarks**

The Director General of the World Intellectual Property Organization (WIPO) Francis Gurry has welcomed the ratification by the US of the Singapore treaty on the Law of Trademarks that streamlines and modernizes certain trademark office procedures. "The US looks forward to the Singapore Treaty entering into force," said Ambassador Tichenor. The treaty, which was concluded under WIPO in March 2006, capped international efforts to update the 1994 Trademark Law Treaty (TLT) in order to keep pace with the evolution of trademark practices. The treaty will enter into force as soon as 10 contracting parties (countries or qualifying inter-governmental organizations) have deposited instruments of ratification with the WIPO. (Dawn, 07<sup>th</sup> October, 2008)

### **Poor's cuts Pakistan's debt rating**

Standard & Poor's cut Pakistan's sovereign rating further into junk territory, saying the country's worsening external liquidity may imperil its ability to meet about \$3 billion in upcoming debt obligations. S&P's downgrade of Pakistan was its second this year, as the country faces the prospect it will default on its debt due to dwindling foreign currency reserves. Foreign investor confidence in the country has also been dented amid worries urgently-needed economic reforms will be delayed in a year plagued by political and security concerns. Pakistan's local currency debt rating was lowered to B-minus from BB-minus. "The rating on Pakistan could be lowered further if the foreign exchange reserve cushion continues to shrink and meaningful economic stabilization measures remain wanting," S&P warned in its statement. (Dawn, 07<sup>th</sup> October, 2008)

### **US and Georgia discuss free trade pact**

US and Georgian officials discussed the possibility last week of negotiating a free trade agreement (FTA) and plan to have more exploratory talks on the subject, a top US trade official said. "We agreed to sit down with them and review what our FTAs entail, so that if there are subsequent conversations about a potential FTA they understand what is required of those. But beyond that, there's no decision," Deputy US Trade Representative John Veroneau said. However, both sides hope to quickly begin negotiations aimed at expanding a bilateral investment treaty (BIT) signed in 1994, Veroneau told reporters after a speech on prospects for the Doha round of world trade talks. (Business Recorder, 07<sup>th</sup> October, 2008)

### **Steps to develop SME sector urged**

The Karachi Chamber of Commerce and Industry (KCCI) has urged the provincial government of Sindh to take immediate steps for development of Small and Medium Enterprises (SMEs) and pertinent issues of business enterprise, access to finance and access to resources and services. In a communication to Provincial Minister for Industries and Commerce, Muhammad Rauf Siddiqui, the chamber noted that developing SMEs is indeed of great importance to climb the economic ladder. Economic history of the developed world clearly demonstrates the vital role played by SMEs in their rapid growth through innovations, productive employment and optimum utilization of scarce resources. A strong middle class in the society can only be generated by focusing on development of

SMEs, which can play a vital role for betterment of economy of our country. (Business Recorder, 08<sup>th</sup> October, 2008)

### **Economists say Pakistan not going to default**

Economists have rejected the impression that Pakistan is going to default, saying that it has the ability to lure huge foreign inflows and pay off its debts. They said that despite the declining trend in the country's foreign reserves, it is expected that country has ability to bring huge foreign inflows from some international financial institutions to meet its requirements. "Now-a-days rumours of Pakistan's default is on rise due to the balance of payment and liquidity difficulties, many questions have been raised over Pakistan's ability and willingness to honour its upcoming 500 million dollars, Euro bond debt obligation," they said. On October 6, 2008 Standard & Poor's has revised down Pakistan's credit rating from B to CCC+, the second downward revision since January 2008. "We believe the recent 500 million dollars disbursement from ADB, encouraging statements from the World Bank, and the formation of the Friends of Pakistan consortium led by G-7, China and Middle-Eastern countries will at least help Pakistan to honour upcoming debt obligations and the balance of payment financing crisis," said Muzamil Aslam, an economist. He said that still the IMF also has not closed its doors on Pakistan for financial assistance and a risk to this exceptional financing is Pakistan's relationship with the US, which has been under some strain recently. A rating downgrade reduces a country's ability to tap money through remittance securitization bonds, slowing down the rate of foreign investment and privatization, Muzamil said. (Business Recorder, 08<sup>th</sup> October, 2008)

### **Letting Lehman go was big mistake: French Minister**

Allowing Lehman Brothers to fail last month was a major mistake for the equilibrium of the global financial system, French Economy Minister Christine Lagarde said that France would not abandon its lenders. Seeking again to reassure the public as the financial crisis deepened and European stock markets braced themselves for fresh falls, Lagarde told French radio the government would back financial institutions threatened with bankruptcy. Lagarde described as "horrendous" a decision by US Treasury Secretary Henry Paulson to allow Lehman Brothers to file for Chapter 11 bankruptcy protection on September 15 rather than try to rescue it. In a bid to boost confidence, EU finance ministers agreed to up the minimum level of insurance on bank deposits across the 27-nation bloc and pledged to recapitalize any vital bank to avoid, as France put it, another Lehman. It was vital that governments restored the principle among financial market participants that no institution with systemic importance would be allowed to fail, Lagarde said. The crisis engulfing financial markets was deep and generalized, she said. (The Financial Express, 08<sup>th</sup> October, 2008)

### **Economist panel glum on US near-term growth outlook**

Business economists have turned more negative about the US economic outlook for the next few quarters because of tight credit availability and weak consumer spending, according to a survey released. Panelists with the National Association of Business Economics (NABE) now see virtually no growth in the fourth quarter and only marginal expansion in early 2009. "If financial conditions fail to improve quickly, near-term economic prospects could deteriorate rapidly," said Chris Vavares, president-elect of NABE and president of the analysis firm Macroeconomic Advisers. For 2009 as a whole, growth is seen at 2.2 percent against an earlier forecast of 2.7 percent. NABE's 48-member panel was surveyed between September 8 and 19. In the supplemental survey, the panel fretted that the recent deterioration in credit markets could push the jobless rate by mid-2009 to 7 percent against 6.4 percent in the original poll. (Business Recorder, 08<sup>th</sup> October, 2008)

### **World food imports to touch \$1,035bn in 2008**

While commodity prices have always risen and fallen with fluctuation in supply and demand, the world agriculture now appears to be undergoing a structural shift towards a higher demand-growth path, according to the 'State of Food and Agriculture 2008' released by the Food and Agriculture Organization (FAO). Many countries, especially in Asia, have entered a period of faster economic growth that is generating strong demand for higher-quality diets, including more meat, dairy products and vegetable oils. The rise in demand arising from stronger income growth is certainly welcome news, but higher prices pose challenges for all consumers, particularly the poorest, fears the report. Among the factors responsible for the recent surge in commodity prices are higher costs of production driven by rising petroleum prices, weather-related production shortfalls in key exporting countries and strong demand growth including for bio-fuel feed stocks. Some of the emergency measures implemented to protect consumers from higher prices, such as export controls, have further destabilized world markets. The FAO index of nominal food prices doubled between 2002 and 2008. Energy prices, led by crude oil, began rising earlier, in 1999, and have trebled since 2002. By mid-2008, real food prices were 64 per cent above the levels of 2002. A low degree of price transmission should not be taken to mean that consumers have not been affected by rising prices. Prices rose by 25 to 30 per cent in Bangladesh, India and Pakistan. The lower domestic prices will reduce domestic producers' incentives to increase output and will consequently tend to impede their supply response, thus protracting the situation of high prices. The lower domestic prices in 2008 would depress production significantly in 2009. (Dawn, 08<sup>th</sup> October, 2008)

### **IMF sees major global downturn**

The IMF said a still-developing financial upheaval the most violent since the 1930s would exact a heavy economic toll as markets wrestle with a crisis of confidence and global credit is choked off. China also cut its key rate 27 basis points and its reserve requirements for banks by half a percentage point. "The world economy is now entering a major downturn in the face of the most dangerous shock in mature financial markets since the 1930s," the IMF said in its World Economic Outlook. In hindsight, the IMF said lax economic and regulatory policies probably allowed the global economy to "exceed its speed limit." Now, the global economy is about to pay the price. The IMF slashed its 2009 forecast for world growth to 3 per cent, which would be the slowest pace in seven years, from a July projection of 3.9 per cent, and warned that a recovery would be unusually slow. The immediate challenge for policy-makers is to stabilize credit markets, while nursing economies through the global downturn and keeping inflation under control, the fund said. "The United States has been at the centre of the intensifying global financial storm and the economy is now slowing fast," the fund said. Growth in China is likely to come in at 9.7 per cent this year and 9.3 per cent in 2009 -- compared to 11.9 per cent in 2007, the IMF said. India will grow 7.9 per cent this year and slow to 6.9 per cent in 2009, it said. The Indian economy grew 9.3 per cent last year. (Dawn, 09<sup>th</sup> October, 2008)

### **Market crash shakes world**

US stock prices suffered their worst weekly loss in history prompting a pledge from global policymakers to implement an aggressive but broad-brush plan to combat the financial crisis. Finance ministers and central bankers meeting in Washington said they would use "all available tools" to prevent the failure of any systemically important banks after a day of virtually indiscriminate selling in Asia and Europe and unprecedented volatility in the US. The Dow Jones Industrial Average fell as low as 7,882.51 and rose as high as 8,901.28 before closing down 1.5 per cent at 8,451.19. "Different countries have different financial systems," Hank Paulson, US Treasury secretary, said after the

meeting. The G7 said its tools to prevent failure of “systemically important financial institutions” would be tailored for each country, including recapitalizing banks, ensuring strong deposit insurance to protect savers and restarting frozen credit and mortgage markets. The UK’s FTSE 100 lost 21 per cent, the FTSE Eurofirst 300 22 per cent and Japan’s Nikkei 225 24.3 per cent. Confidence was shaken when investors bid 8.625 cents on the dollar for credit derivatives linked to the debt of the Lehman Brothers, which sought bankruptcy protection last month. (Financial Times, 10<sup>th</sup> October, 2008)

### **G7 ministers agree joint action**

Finance ministers and central bankers from the group of seven leading economies agreed to coordinated action in an effort to stabilize the global financial system as they started their meeting in Washington. The action would represent outlays of hundreds of billions of dollars in each country to provide liquidity to markets, capital to banks and other financial institutions, a backstop to money markets to restore funding for banks and deposit guarantees. The situation was grave, officials from different G7 countries said, with the real possibility of a collapse of the world’s financial system. The UK was one of the more vocal countries, insisting that the G7 outlines plans of action rather than words. Each country would outline its commitment to take specific action to support liquidity, bank recapitalization, funding for the financial system and deposit guarantees. The US Treasury was ready to sign up to a coordinated plan, tailored to suit the particular circumstances of individual countries. Germany, too, signaled it was ready to announce a huge bank recapitalization programme. One idea for reopening wholesale money markets which provide funds to banks was for some countries to set up a state-sponsored clearing house for the interbank market, so that lenders only had to worry about the risk the clearing house would default rather than the individual counterparty risk of individual banks. No G7 official was sure the plan would work, so deep is the global financial crisis. (Financial Times, 10<sup>th</sup> October, 2008)

### **SPI surges by 30.67 percent**

The inflation measured through SPI surged by 30.67 percent during the week ending on October 09, 2008 over the same period of last year owing to increase in the prices of 20 essential commodities, according to the Federal Bureau of Statistics. During the week under review average prices of 14 items registered decrease, while that of 20 items increase with the remaining 19 items' prices unchanged. The items which recorded decrease in their average prices during the week under review included, tomatoes, bananas, onions, vegetable ghee (loose), red chillies, moong pulse (washed), rice irri-6, LPG( 11-kg cylinder.), gram pulse (washed), mustard oil, rice Basmati (broken), lawn, mash pulse (washed) and masoor pulse (washed). The items which registered increase in their prices included, wheat flour (average quality), wheat (average quality), sugar, egg hen (farm), milk powdered (Nido), chicken (farm), tea (prepared), gur, potatoes, garlic, bread plain (mid size), beef, coarse latha, mutton, milk (fresh), cooked beef, shirting, firewood, kerosene and curd. (Business Recorder, 11<sup>th</sup> October, 2008)

### **Inflation to shoot up to 23 percent during current fiscal year**

Pakistan current account balance is more than double of India's, which an emerging economy in the region is whereas the position of Bangladesh is not alarming in the South Asian region. According to IMF World Economic Outlook 2008, the current account balance of Pakistan is -8.7 per cent of its GDP in 2008 as compared to -3.9 per cent in 2006 that clearly shows a decline of 4.8 per cent in GDP growth. The report has projected -6.4 per cent current account balance of GDP growth of Pakistan in 2009 as compared to India that is projected to have -3.1 per cent whereas Bangladesh's current account balance is 0.9 per cent. Total current account balance of South Asia in 2008 remained -3.3 per cent that is 1.9 per cent less than that of -1.9 per cent in 2006. The inflation rate in Pakistan, according to

the report, is projected to shoot up to 23 per cent in 2009 as compared to 12 per cent in 2008 whereas the inflation rate was just 7.9 per cent in 2006. The report shows that Pakistan's economic growth rate may reduce to 3.5 per cent in 2009 as compared to 5.8 per cent in 2008. (Business Recorder, 11<sup>th</sup> October, 2008)

### **US claims win in WTO piracy case versus China**

The United States has won two out of its three claims in a landmark case against China's copyright and trademark protection regime; a US trade official said contradicting other trade sources who said China won the bulk of the ruling. The United States argued that China violated WTO rules by barring copyright protection for movies, music and books that have not been approved by state censors for legitimate sale in the Chinese market. Trade sources said the United States won on that issue. One trade source said the panel ruled China violated the WTO agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) by allowing counterfeit goods to be auctioned after the infringing trademark is removed. WTO dispute panels rarely change their decision between interim and final rulings. The United States has filed a second case challenging China's market access barriers to legitimate film, music and books, which Washington argues allows the Chinese market for pirated goods to flourish. (Business Recorder, 11<sup>th</sup> October, 2008)

### **US trade gap narrows on lower oil prices**

Falling oil prices helped narrow the US trade deficit in August, while both exports and imports retreated from records set in July, the US Commerce Department said. The trade gap shrank 3.5 percent to \$59.1 billion from a downwardly revised estimate of \$61.3 billion in July. Analysts surveyed before the report had forecast the August trade gap to shrink to \$58.8 billion. Exports of capital goods and petroleum set records in August. Imports fell 2.4 percent to \$223.9 billion, also the second-highest on record. The average price for imported oil dropped to \$119.99 per barrel from the record set in August of \$124.66. Meanwhile, a Labour Department report showed oil import prices dropped another 9 percent in September. US export prices dropped 1.0 percent in September, the second consecutive decline after rising for 21 consecutive months, the department said. Overall imports from Japan dropped 7.0 percent in August to \$11.1 billion, helping to push the US trade gap with that country to the lowest since May 2003. (Business Recorder, 11<sup>th</sup> October, 2008)

### **CPI inflation jumps to 24.52 percent in three months**

The CPI inflation jumped to 24.52 percent during the first three months - July-September 2008 - against 7.07 percent over the same period of last year on the back of continuous increase in the prices of commodities and services with food and energy on top, according to Federal Bureau of Statistics (FBS). The 24.52 percent CPI index during the three months could further worsen on the back of 34.31 percent wholesale price index (WPI), impact of which could be felt in days ahead. The successive increase in oil prices over the past few months has escalated the cost of living as the prices of essential food items and energy eroded the purchasing power of low-income groups. The FBS figures show 29.91 percent food inflation during September, 2008 against 12.29 percent over the same month of last year as consumer price index (CPI), sensitive price index (SPI) and wholesale price index (WPI) surged by 23.91, 31.08 and 33.20 percent respectively in September over the same period of last year. (Business Recorder, 12<sup>th</sup> October 2008)

### **No banking crisis in sight: ICCI president**

Pakistan and China will ink an agreement on Investment Protocol during President Asif Zardari's visit to China next week. Pakistan's Ambassador to China Masood Khan told that negotiation between senior officials of Ministries of Commerce of Pakistan and China had been completed on Investment

Protocol to make free trade agreement (FTA) more comprehensive. Ambassador Khan said Pakistan was the first country with which China had signed the FTA, adding that when the FTA was fully implemented, it would further give boost to the bilateral trade. First phase of FTA in Goods and Investment had been completed in July this year and became operational, he said. (Business Recorder, 12<sup>th</sup> October 2008)

### **Rs 31 billion injected in banking system**

Some Rs 31 billion was injected in the banking system as the State Bank of Pakistan has reduced Cash Reserve Requirement (CRR) by one percent, enabling banks to meet their liquidity shortage. The banks were facing huge liquidity shortage from last few weeks and liquidity constraint in the system has resulted in a rising trend in overnight call rates touching peak level of 40-48 percent. Therefore, taking a sudden step aimed to provide relief to the banks, the State Bank of Pakistan (SBP) on Wednesday announced reduction in the Cash Reserve Requirement (CRR) by 200 bps to 7 percent from 9 percent in two phases, to facilitate big payments. However, the central bank announced reduction in the CRR for all deposits up to one-year maturity by 100bps to 8 percent from 9 percent effective November 1. (Business Recorder, 12<sup>th</sup> October 2008)

### **CDWP clears projects worth Rs 50.1 billion**

The Central Development Working Party (CDWP) cleared 47 projects costing Rs 50.1 billion with foreign assistance of Rs 5.8 billion. The meeting, chaired by Planning Commission Deputy Chairman Salman Faruqi, also cleared two more nuclear power plants at Chashma to be established with Chinese assistance. The two projects in the energy sector were cleared at a time when President Asif Ali Zardari is expected to take up the funding for these projects with the Chinese authorities in his next week visit to China. The CDWP cleared 25 projects in infrastructure, 18 in social and 4 in other sectors. (Business Recorder, 12<sup>th</sup> October 2008)

### **Punjab and NWFP: gas supply to 200 industries disconnected**

The Northern Sui Gas Pipelines Ltd (SNGPL) stopped natural gas supply to about 200 big industrial units of Punjab and NWFP owing to the closure of Qadirpur Gas Field for annual maintenance. Senior General Manager (Distribution) SNGPL Mujahid Anwar told that Qadirpur gas fields in Sindh, which provides 500 million cubic feet gas daily to Punjab and NWFP, would remain closed from October 11 to 18. After this field becomes operational, another gas field, Sawan' in Sindh would be closed down from October 19 to 27 for maintenance. However, Sawan gas fields supplies only 125 million cubic feet to the network, so there would be reduced loadshedding for the industries. Though there would a shortfall of nearly 30 percent of gas due to closure of Qadirpur Gas field, yet there would be no loadshedding for the domestic consumers and small industrial units. Only cement, textile, glass and steel manufacturing units would suffer due to this loadshedding. The Qadirpur gas field, 260 miles north east of Karachi, having a natural gas reserve of 2.9 trillion cubic feet in the Indus River flood plain, is the second largest in the country. Chairman All Pakistan Textile Mills Association (Aptma) Punjab, Engr Akber Sheikh said that 50 percent textile industry of Punjab had closed down due to the disconnection of gas while the remaining 50 percent would close down from October 13. He said though some of the units would switch over to electricity, they too would be facing loadshedding of eight hours daily. "The use of electricity by the industrial units would further burden the national grid and cause longer loadshedding hours, he added. (Business Recorder, 12<sup>th</sup> October 2008)

### **Crop Loan Insurance Scheme: banks given relaxation in outstanding entries clearance**

The State Bank of Pakistan has announced relaxation for the clearance of Crop Loan Insurance Scheme outstanding entries in interbank accounts. The central bank has referred to Regulation O-3 of Prudential Regulations for Corporate/Commercial banking, in terms of which banks/DFIs are required to reconcile/clear outstanding entries in Interbranch Accounts and Suspense Account within 30 days from the date the entry is made in the said accounts. However, amending the regulation, it has been decided that the requirement of reconciliation/clearance within 30 days shall not be applicable to the premium on Crop Loan Insurance Scheme receivable from Government of Pakistan. The outstanding amount shall, however, be reconciled/cleared immediately on reimbursement of premium amount from the GoP. While, all other instructions on the subject shall, however, remain unchanged, the SBP said. (Business Recorder, 12<sup>th</sup> October 2008)

### **Developing nations say they could fall victim to global credit crunch**

Developing countries said they could fall victim to the global credit crunch that began in the West and blasted industrial nations for not living up to promises for aid. The Group of 24, which brings together developing and large emerging countries from Africa, Asia, Latin America and the Middle East, said the world economy faced its most difficult situation in years. They also called on the International Monetary Fund to monitor the policies of Western economies more closely. The grouping includes Egypt, India, Iran, Argentina, Brazil, Mexico, the Philippines, Pakistan, South Africa, Syria, Venezuela, Algeria, Peru and smaller economies like Ghana, Gabon and Trinidad & Tobago. China is a G24 observer. Many African countries are angered by the prospect that the crisis could undo years of hard-won economic gains, and by the West's lack of oversight of its financial sector after years of lecturing to developing countries about the importance of prudent economic policies. (Business Recorder, 12<sup>th</sup> October 2008)

### **Only 16,000 companies filing income tax returns out of 55,000 registered**

Only 16,000 companies are filing income tax returns out of around 55,000 registered corporate entities, reflecting a huge gap of 39,000 non-filers during the last few years. The FBR has decided to carry out desk-audit of all the income tax returns filed by the corporate sector. In this regard, the exercise of desk-audit of top 50 returns in the Large Taxpayers Units would also be discussed in the conference. According to the FBR data, the tax offices in the field formations are dealing with approximately 55,000 corporate cases. Out of these, merely 16,000 are actually filing returns. The data further revealed that approximately 18,000 corporate cases have been registered with the Regional Tax Office (RTO), Karachi and around 17,000 cases falls within the jurisdiction of RTO, Lahore. The non-compliance by the corporate entities has to be checked through strict enforcement measures. A proper strategy is needed to review the database of non-operative companies with the help of the Securities and Exchange Commission of Pakistan (SECP). (Business Recorder, 12<sup>th</sup> October 2008)