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A paradigm shift in agriculture

Along with an unsettled political situation, increasing acts of violence perpetrated by extremist groups operating from the country's tribal areas and the quick unraveling of the model of economic growth pursued by the administration of President Pervez Musharraf, Pakistan has received another sharp jolt to its economy. According to a special report by the magazine, The Economist, these were the sharpest increase in agricultural prices in history. "As opposed to other instance of sharp increases in agricultural commodity prices that have rapidly, dissipated, we could be facing higher price for some time. The recent surge in food prices has ended a period of 30 years in which food (and also other agricultural commodities) was cheap, farming was subsidized in rich countries and international food markets were wildly out of shape. Of 58 countries whose agriculture price policies are followed by the World Bank, 48 have imposed price controls, or provided consumer subsidies, or adopted export restrictions, or made adjustments in import and export tariffs. The state in the developing world could play a role in benefiting from the dramatic adjustments in food prices of recent years. It is not surprising that the agriculture systems in rich countries respond much more rapidly to price changes than those in the developing world. **(Dawn, 09th June, 2008).**

Wheat crisis: a liberal perspective in Pakistan

In Pakistan economic liberalism has been behind all economic decisions except in the case of agricultural production. In manufacturing, we have embraced post-quota world and in services - banking, telecom, insurance, wholesale trade etc. In recent years, the economic growth has been propelled by the services, where the free market forces have been allowed to work relatively independently. Making 'market failure' as an excuse, the government intervenes. If the price of a product rises, the producer is likely to benefit. In 2006, Pakistan Institute of Development Economics (PIDE), run by the government, published a joint study on wheat pricing policy conducted by a team drawn from the World Bank and Pakistan Agriculture Price Commission (Paul Dorosh and Abdul Salam 2006). This study concluded that, "analysis of price multipliers indicates that increases in wheat procurement prices (one means of promoting domestic procurement) have relatively small effects on overall price levels. It also concluded that the market forces play a dominant role in price determination and that policies that promote the private sector wheat trade can both increase price stability and reduces fiscal costs. The free market principle should come full circle. Once the agriculture market is free of state intervention either through state subsidized inputs or by support price - agriculture income should be taxed. **(Dawn, 09th June, 2008).**

G8 ministers call for global action on oil

Energy ministers of advanced nations expressed “serious concerns” about soaring oil prices and urged producers to lift production through greater investment and provide more transparency on oil supply data. A joint communiqué by the Group of Eight ministers, also signed by China, India and South Korea, stopped short of the tough language demanded by Kevin Rudd, Australia’s prime minister. Ministers meeting in Aomori, northern Japan, said: “Current high oil prices are unprecedented and against the interest of either consuming or producing nations.” Akira Amari, Japan’s trade and industry minister, went further, calling oil prices “abnormal” and blaming lack of investment for the fact that “production levels have hardly increased over several years”. Mr. Hutton said making unrealistic demands of oil producers was not helpful. **(Financial Times, 09th June, 2008).**

Pakistan to ask Saudis to defer payments

Pakistan is to ask Saudi Arabia if it can defer paying for oil imports worth $2bn as it grapples with a deteriorating economic situation fuelled by global crude prices. Western economists have warned that Pakistan would have to raise domestic oil prices if it wanted to qualify for a crucial World Bank loan of $500m that is under discussion. Independent economists say that, while the World Bank’s loan would be a modest amount for Pakistan, it would allow it to seek commercial loans. Saudi Arabia allowed Pakistan to defer payments on oil imports after Pakistan carried out its maiden nuclear tests in 1998. **(Financial Times, 09th June, 2008).**

5.5 percent GDP growth for 2008-09 not realistic

The National Economic Council (NEC) has fixed exaggerated GDP growth target at 5.5 percent for 2008-09, basically for boosting the nation's moral up in the ongoing political turmoil and imminent economic slowdown. The National Economic Council had scaled GDP growth rate down to 5.8 percent for the current fiscal year, besides setting 5.5 percent target for 2008-09.The SBP governor contested the GDP growth rate for the current fiscal year as well as the next one. She claimed that achieved GDP growth rate in 2007-08 was less than 5.8 percent. She demanded that instead deceiving the nation by setting exaggerated target the government should come up with a realistic and accurate GDP growth rate for the next fiscal year. The SBP governor said: "Setting of incorrect GDP growth target when all the economic indicators were showing negative growth would not serve any purpose.”The government had initially set GDP growth target for the current fiscal year at over 7 percent. The World Bank and the International Monetary Fund (IMF) also have been questioning the official GDP growth rate. An IMF fact-finding mission, which visited Pakistan from June 17 to 28 sharply disagreed with the government officials on the GDP growth rate. **(Business Recorder, 09th June, 2008).**

FTA between China, South Asia proposed

A Free Trade Agreement (FTA) between China and South Asia has been proposed to unleash hitherto untapped potential due to non- preferential trade between China and SAARC nations. The proposal of FTA was submitted by President SAARC Chamber of Commerce Tariq Sayed while addressing at the inaugural session of the 3rd China-South Asia Business Forum in Kunming, in China's Yunnan province. "Inclusion of China in South Asian bloc would further excel the role of SAARC in the global economy and help growth of the region as a whole, provided the member states show commitment to join hands with the World 2nd biggest economy and the 3rd largest import destination of the World", he noted. The President, Federation of Chambers of Commerce & Industry of Pakistan Tanvir Ahmad Sheikh in his address at the second session presented idea of formation of an economic bloc consisting of China, South Asia and may be Central Asian economies. Senior members from trade bodies of SAARC also addressed the two sessions. **(Business Recorder, 09th June, 2008).**

Inflation crisis undermines Asian governments

Spiraling prices for food and fuel have claimed their first political casualties in Malaysia and Pakistan, and threaten other Asian governments forced to impose subsidy cuts even as elections loom. "It's not the inflation rate per se, you've got that broader context of the slower-growing pie, slower-growing incomes, subsidies not working, and other problems not being addressed," he said. Subsidies and intervention measures cause their own problems, including in Malaysia where suppressed prices of cooking oil produced severe shortages and panic-buying, he said. In Indonesia, President Susilo Bambang Yudhoyono has taken a major political risk by slashing fuel subsidies despite the widespread protests and fears of price-driven unrest ahead of elections next year. The Philippines is not scheduled to hold national elections until 2010 presidential polls, but President Gloria Arroyo says she is keeping a "laser focus" on soaring rice prices, which helped inflation reach 9.6 percent in May. **(Business Recorder, 09th June, 2008).**

World banking activity has grown: BIS

The international banking market expanded in the fourth quarter of 2007, as new credit to Asian, African and Middle Eastern emerging markets offset impact of the financial turmoil in mature markets, the Bank for International Settlements said. "A significant portion of this increase was accounted for by new credit to emerging markets," said a new report by the bank (BIS). Inter-bank borrowing in mature markets, particularly the United States, hit a snag in the same period as banks were wary of lending to each other due to the unraveling sub prime crisis. This powered total claims on these borrowers to USD 2.6 trillion. Credit to borrowers in Africa and the Middle East grew by USD 70 billion, the largest quarterly expansion for this region on record, with much of the money lent by banks in the euro area and Britain. Meanwhile, credit to borrowers in the Asia-Pacific region grew USD 82 billion, also a quarterly record. **(The Times of India, 09th June, 2008).**

India, 11 other nations to resume WTO talks

After chairman of the NAMA negotiating group threw in the towel last week, 11 key nations, including India, are returning to Geneva at the behest of US to narrow gaps on tariff cuts in industrial goods under Doha negotiations. India and several other developing countries had rejected the negotiating draft released by chairman of the group on non-agriculture market access Don Stephenson on May 19. The Indian negotiating team, comprising senior commerce ministry officials, had raised strong objections to the negotiating draft seeking to "divide the developing countries" by treating them differently. The draft proposals suggested different tariff cut formulae for India, South Africa and Mexico. "This violated the July 2004 Framework, which provided the stand-alone flexibilities to the developing countries," the official said. While there are serious differences on agriculture as well, the latest proposals on industrial goods had 97 square brackets denoting lack of convergence. **(The Times of India, 09th June, 2008).**

Food aid declines to near 50-year low

Food aid volumes sank last year to their lowest level in almost 50 years as rising agricultural commodity prices – particularly for wheat, corn and rice – hit donors’ budgets, a United Nations report will say. The report, by the UN’s World Food Programme, warns that the resources available for food assistance need to increase in order to address negative effects of higher prices. Soyabean and wheat prices also moved higher, further threatening to increase the cost of food aid this year.

Global food aid volumes have declined steadily since 1999, when they stood at 15m tonnes, but the drop accelerated last year as agricultural commodity prices surged. Wheat prices rose by 122 per cent between 2000 and 2007, corn prices climbed 86 per cent and rice prices surged 62 per cent. **(Financial Times, 10th June, 2008)**

Wheat import not viable at current prices

Traders said that wheat import was not viable at the current international price of about $ 380 per metric ton C & F without government's subsidy. A wheat importer said that after including transport and other charges, the cost would come to about Rs. 28 per kg. "If milling cost of about Rs. 1.5 to 2 per kg is added to this price, the Atta (flour) will be available at Rs. 29.50 to 30 per kg," he added. MINFAL is not ready to provide any subsidy to private wheat importers due to scarcity of funds as well as pressure from international donors. The WTAP had urged the governments two weeks ago to pay a subsidy in US dollars or equivalent Pak rupees on import of wheat by the private sector to make it financially viable. **(Dawn, 10th June, 2008)**

China asks US to help stabilize dollar

The Chinese ambassador to the World Trade Organization asked the US to take action to stabilize the dollar, which has fallen sharply in the past year. During the biennial trade policy review of the world's largest economy by the World Trade Organization, China also raised its concerns over "rising sentiment of protectionism" in the United States, saying that it could threaten global trade. "As a major currency for international reserve, the dramatic depreciation of the dollar has led to shrinking national reserve of many countries and reduced social welfare," China's ambassador to the WTO, Sun Zhenyu, said. "In this connection, China hopes that the United States could take quick and targeted actions to stabilize the US dollar. "The US current account deficit reflects a savings-investment gap; thus, to the extent that this requires a policy response, trade restrictive measures are not appropriate," the WTO said. It argued that free trade could help the country cut its current account deficit by facilitating US exports. "Reducing the current account deficit is also likely to require expanding US exports, which would be facilitated by a more liberal trading system and stronger demand growth outside the United States," it said. **(Dawn, 10th June, 2008)**

World Bank and IMF predict 3.5 percent growth in fiscal year 2009

The World Bank and the International Monetary Fund have forecast a growth rate of 3.5 percent in 2008-09, while the Planning Commission has projected a 6.5 percent growth, well-placed sources told. "Pakistan should not see the world through the eyes of the Planning Commission," sources quoted the IMF mission as saying during recent meetings with the officials of the Finance Ministry. The WB and the IMF are not expecting more than 3 or 3.5 percent GDP growth next fiscal year, however, the government does not agree with this assessment. The WB and the IMF missions pointed out that since furnace oil prices have reached Rs. 45,000 per ton and per unit electricity generation cost has reached Rs. 9 kWh, the government must minimize the subsidy. These agencies also urged the government to ensure food security and finalize a policy in this regard. The sources said that the government has been asked to take measures for fiscal adjustments so that current account deficit could be brought to an acceptable level. **(Business Recorder, 10th June, 2008)**

Tax-to-GDP ratio stands at 10pc

Pakistan's tax revenue to GDP ratio stood at only 10 per cent during 2007-08 compared to an average of 18 per cent for other developing countries, says Economic Survey 2007-08. According to the survey, the country's tax regime resembles the one generally practiced throughout Latin

American countries, where indirect taxes, in particular the sales tax, occupy a relatively high share within the overall tax revenue. The indirect tax to GDP ratio stood at around 6 per cent and direct tax to GDP ratio stood at around 4 per cent and less than 2 per cent if withholding taxes are excluded. The government recognizes the need to broaden the tax base and reduce marginal tax rates, which would stimulate investment and production. Broadening of tax base will also ensure the fair distribution of the tax burden among various sectors of the economy. **(Dawn, 11th June, 2008)**

Economy presents bleak picture

The irresponsible macro-economic management in a period of political instability and challenging external factors moderated the pace of economic growth in the country from targeted 7.2 to 5.8 per cent. Most macro-economic indicators degenerated over the year under review, the Economic Survey 2007-08 revealed. Inflation increased and internal and external deficits widened. The performance of commodity producing sectors, particularly agriculture, was dismal. The heavy dependence on direct borrowing from the State Bank to meet the expenditure demands in an election year by the Shaukat Aziz led PML(Q) government, non committal attitude towards economy by the interim government of Mohammad Mian Soomro and pre- occupation of PM Gilani-led coalition government with on- going political bickering left the economy rudderless. The investor wary of political uncertainty opted to delay investment decisions resulting in contraction in the rate of investment.**(Dawn, 11th June, 2008)**

Telecom sector generates Rs.100bn

Telecom sector remains a major source of revenue generation for the government as Rs.100.5 billion were collected in the form of taxes, duties and regulatory charges during the previous year, the Economic Survey 2007-08 said. “Service sector continued to maintain a solid pace of expansion at 8.2 per cent compared to 7.6 per cent in 2006-07 as over three-fourth (75 per cent) contribution to this year's growth came alone from the service sector,” Finance Minister Naveed Qamar said while releasing the Economic Survey 2007-08. “Therefore, this year's growth is services sector-led-growth,” the minister observed. Referring to the contribution to government revenues, the survey recorded that a total of Rs. 36.6 billion as general sales tax or central excise duty was collected by the government. This trend has continued and during July 07 to Dec 07, $ 653.4 million FDI inflows came in the telecom sector. Almost 90 per cent of total population in Pakistan is covered with mobile networks in addition to availability of fixed and Wireless Local Loop services. **(Dawn, 11th June, 2008)**

Sukuk holding limit for SLR raised to 7pc

The State Bank of Pakistan has raised the limit of Sukuk holding for SLR purposes from 5 per cent to 7 per cent and also declared Term Finance Certificates (TFC) of electric companies acceptable for the same purpose. In the same monetary policy Statutory Liquidity Requirement (SLR) and Cash Reserve Requirement (CRR) were raised. “It has been decided to raise the limit on total Sukuk holding for SLR purposes from 5 per cent to 7 per cent of total Time and Demand Liabilities with immediate effect,” said a SBP circular issued. **(Dawn, 11th June, 2008)**

Transport contributes 10pc to GDP

The transport and communications sector accounts for about 10 per cent of GDP and 22 per cent of Gross Fixed Capital Formation in the outgoing financial year, according to Economic Survey 2007-08. Apart from being a significantly large source of budgetary expenditure, the transportation sector imposes huge demand on energy supply, absorbing approximately 35 per cent of total energy annually. The country has a reasonably developed transport infrastructure and generates a total domestic transport load of around 239 billion passenger kilometers and 153 billion ton kilometers annually. The survey terms road transport the backbone of the communication system. The 9574 km long national highway and motorway network – which is 3.65 per cent of the total road network – carries 80 per cent of the country's total traffic. Currently, it is accounting for 91 per cent of national passenger traffic and 96 per cent of freight. **(Dawn, 11th June, 2008)**

Highest in a decade 2007-08 external debts grew by 13.3 percent

Pakistan's external debt and foreign exchange liabilities (EDL) in the nine months (July-March) of current fiscal year grew by 13.3 percent, which was highest in the past almost one decade. The share of short-term debt was extremely low, at 1.3 percent. The debt management efforts during 2001-07 were supported by a rise in foreign exchange earnings. Similarly, the EDL were 297.2 percent of foreign exchange earnings but declined to 127.1 percent during the same period. Interest payments on external debt were 11.9 percent of current account receipts but declined to 2.5 percent during the same period. This rise in the external debt burden reinforced the need for prudent debt management. The EDL grew by 5.0 percent in 2005-06, 7.7 percent in 2006-07 and 13.3 percent during July-March FY08. **(Business Recorder, 11th June, 2008)**

Upward price pressures: sharp fiscal adjustment needed to contain inflation - Economic Survey

The Economic Advisor to the Government Dr. Ashfaq Hasan Khan has called for making sharp fiscal adjustment to reduce large external account imbalances, restore the confidence of global investors, ease financing constraints, support growth and contain inflation. High global prices of food, fuel and other commodities driven by a weaker Pakistani rupee, high import prices and gradual removal of fuel, food and power subsidies along with monetary overhang on account of excessive borrowing from SBP to finance the fiscal deficit have been mainly responsible for sharp pickup in prices this year, the advisor emphasizes. The report emphasizes that while the current global food crises is creating difficulties for net food importing countries, the food price hike provides an opportunity to Pakistan to gain from. Interest payments surpassed their targeted level of Rs 375 to Rs 503.2 billion higher by Rs 128.2 billion. Under the Fiscal and Debt Limitation Act 2005 total revenue minus current expenditure ie revenue deficit had to be zero. **(Business Recorder, 11th June, 2008)**

Economy grew at 5.8 percent in 2007-08

Pakistan's economy has absorbed internal and external shocks and grew at 5.8 percent in 2007-08, as against 6.8 percent last year and this year's target of 7.2 percent. According to economic survey, the Commodity Producing Sector (CPS) registered a growth of 3.2 percent in 2007-08 as against 6.0 percent last year owing mainly to below the mark performance of agriculture and manufacturing sector. Agriculture grew by 1.5 percent, manufacturing sector posted a modest growth of 5.4 percent in 2007-08. The contribution of CPS to GDP growth has declined to 26.6 percent from 42.4 percent last year. The manufacturing sector contributed 1.0 percentage point or 17.7 percent to GDP growth as against 1.5 percentage points or 22.2 percent last year. Fixed investment grew by 3.4 percent in real terms and 12.5 percent in nominal terms. Major nominal growth in private sector investment was witnessed in mining & quarrying (15.3 percent), electricity & gas (11.0 percent), financial business (11.4 percent) and wholesale and retail trade (18.4 percent). Domestic savings has declined to 11.7 percent of GDP from 16.0 percent of GDP in 2006- 07. Norway (4.4 percent or $154.8 million), Switzerland (4.1 percent or $141.3 million), Hong Kong (3.5% percent or $121.3 million), Netherlands (2.9 percent or $101.0 million) and Japan (2.9 percent or $100.3 million) were the other contributors to FDI inflows. **(Business Recorder, 11th June, 2008)**

Markets move on fears of inflation crackdown

Fears that central banks around the world are planning a crackdown on rising inflation saw bond and futures markets move sharply, with a series of interest rate rises now priced into markets in the US, the euro zone and the UK. The tough stance among central bankers was reinforced when the Bank of Canada shocked markets by leaving its interest rate unchanged, citing the risks of rising inflation. In the US overnight index swap markets – a relatively pure market predictor of official interest rates – yields on the year ahead contract rose by almost 0.2 percentage points to 2.7 per cent, indicating markets believe the Fed will raise interest rates at least three times in the coming year. In a sign inflation fears are reaching equity markets, China's main stock market fell 7.7 per cent, its biggest fall for a year, after its central bank moved at the weekend to curb inflation, now running at more than 8 per cent. **(Financial Times, 11th June, 2008)**

US-India nuclear deal dead

The historic civil nuclear deal with India that George W. Bush saw as one of his signature foreign policy achievements is almost certainly dead, according to senior US officials. The Bush administration, which unveiled the deal at a White House meeting with Manmohan Singh, India's prime minister, in 2005, has watched with growing frustration as New Delhi has repeatedly missed deadlines to complete the deal for fear of provoking its leftist coalition allies. The collapse of the deal would jeopardize India's access to sensitive US technology which could have an impact on defence sales and civil nuclear development. **(Financial Times, 11th June, 2008)**

World Bank sees inflation threat to poor nations

Developing economies have proved resilient to credit market turmoil, but soaring food and energy prices pose a significant threat, says a World Bank study. In its annual report on global development finance, the bank trimmed its economic growth forecast for developing countries to 6.5 per cent this year from 7.8 per cent last year. The World Bank said many developing countries were imperiled by soaring consumer price inflation. Particularly vulnerable were economies that attracted big private debt inflows, which triggered a rapid expansion of domestic credit, stoking inflationary pressures. Under the bank's worst-case scenario, capital flows to developing countries could decline more abruptly, to 3.5 per cent of GDP ($550bn). Although economists feared the presence of international banks might transmit domestic financial shocks to developing economies, the World Bank said this would not be enough to derail broader economic growth and instead emphasized the positive effects of these institutions. **(Financial Times, 11th June, 2008)**

India's been a roadblock to success in WTO talks

US accused India of trying to wreck world trade liberalization talks, saying the Asian power was looking at the Doha Round negotiations as a "donor's conference." "The Doha Round negotiations are not a donor's conference." We are not asking that India and others open their markets to the same extent as developed countries far from it. "The unusually strong words against India came two days ahead of the arrival of Indian commerce and industry minister Kamal Nath in Washington for talks, including with US trade representative Susan Schwab and treasury secretary Henry Paulson. Padilla, who has a penchant for not mincing words on issues with allies, cited the latest Indian proposal on tariff-reduction formula cuts under the WTO talks as a complete non-starter. The time is fast approaching when India's stance on Doha may result in the failure of the Doha Round," he said. Padilla said the Doha talks were more than just about reducing tariff rates or lowering agricultural subsidies. "Doha is about creating hope and opportunity for billions of the world's poorest citizens.

India is proof of the remarkable effects that opening up an economy can have on a country's citizens," he said. **(The Times of India, 11th June, 2008)**

Rs. 2.01 trillion Budget slashes subsidies, raises salaries

Finance Minister Syed Naveed Qamar, unveiled Rs. 2.01 trillion taxes-laden federal budget for 2008-09, with some relief for the poor and the salaried class people. Additional tax impact of Rs. 84 billionm,5% FED on motor cars, FED in VAT mode 16%, Excise on telecom services raised to 21%, FED on cement up by Rs. 150/tonne,10% custom duty hike on non-essential imports, I/Tax exemption limit raised from Rs. 150 to 180 K for salaried men. For women exemption raised to Rs. 240K,0.5% minimum tax on turnover withdrawn, No change in tax regime on listed shares, 20% rise in pay & pension,2% hike in NSS rates, 10% advance tax on electricity bills, CNG buses exempted from duty; 18 drugs for cancer/heart treatment made duty-free. Duty on import of 300 items has been increased by 5 percent. Inflation rate at 12 percent. Fiscal deficit and current account deficit projected at 4.7 percent and 6 percent of GDP, respectively. Minimum pension has been increased from Rs. 300 to Rs. 2000. Travel allowance for 1-19 BPS increased by 100 percent. Public Sector Development Programme (PSDP) increased to Rs. 549.7 billion. Defence budget increased by Rs. 25 billion to offset inflationary affect. Tax on houses and property deals has been increased. **(Business recorder, 12th June, 2008)**

Defence allocation hiked to Rs. 296 billion

Pakistan hiked defence spending by close to seven percent to Rs. 296 billion for the fiscal starting next month. An amount of Rs. 275 billion was originally earmarked for defence for the fiscal 2007-08. Prime Minister Yousuf Raza Gilani told the National Assembly that Pakistan new civilian government would freeze defence spending and called for a similar response from India. But India forthrightly rejected the appeal, saying the country's defence budget - with an annual allocation of less than two percent of the GDP - is amongst the "lowest" in the world, an Indian daily reported. Our neighbours spend about 3 percent of their GDP (on defence)," Indian Defence Minister A K Antony said, while speaking to media persons in New Delhi. Some specific details of defence budget were presented to the parliament for the first time in Pakistan's history. **(Business recorder, 12th June, 2008)**

CPI inflation registers 11.11 percent surge

The CPI inflation surged by 11.11 percent during eleven months of the current fiscal year against the target of 6.5 percent for the year, according to Federal Bureau of Statistics. The CPI inflation reached 11.11 percent in May over 10.27 percent of April. The main commodities which showed an increase in their prices during May 2008 over April 2008 in Food & beverages group included rice (35 82 percent), onions (32 71 percent). tomatoes (20.26percent). Besan (26.99 percent) pulse gram (26.71 percent), pulse masoor (25.86 percent) maida (11.59 percent), sugar (10.32 percent), ghee (9.18 percent), wheat flour (9.17 percent), pulse moong (8.93 percent), beverages 18 92 percent, gram whole (8.41 percent), fresh fruits (5.39 percent), cereals (4.98 percent), wheat (4.82 percent), spices (4,34 percent), mustard oil (3.64 percent), sweetmeat and nimco (3.59 percent), milk fresh (3.29 percent), vegetable ghee(2.79 percent), pulse mash (2.57 percent), milk products (2.36 percent). Milk powder (1 68 percent), meat (1.34 percent), bakery and confectionery (1 32 percent), fish (1 09 percent), and tea (0.88 percent). In apparel, textile and footwear, tailoring charges (2.19 percent), cotton cloth (1.80 percent), linen, woolen cloth (1 16 percent). **(Business recorder, 12th June, 2008)**

Rs. 19.9 billion allocated for health sector

The government has announced allocation of Rs. 19.9 billion in the budget 2008-09 for the health sector, which is Rs. 2.2 billion more than 2007-08 allocation. Total outlay set aside for Health Division is Rs. 18.1 billion. The rural health program includes construction of 40 Basic Health Units (BHUs), 10 rural Health Centres (RHCs) and upgradation of 15 RHCs, and 40 BHUs during the next financial year. The major programs are improvement of nutrition through primary healthcare, establishment of reference laboratory for strengthening food quality control system, sponsored by Ministry of Health, Pre-test of Tawana Pakistan project, school nutrition package for girls sponsored by Ministry of social welfare, and national school nutrition program. Total cost of the overall projects initiated by the Ministry of Health is Rs. 19 billion. Out of which 71 are ongoing, costing Rs. 18.2 billion, and 14 new projects costing Rs. 711 million. **(Business recorder, 12th June, 2008)**

Nothing for industry: businessmen term budget agriculture sector-oriented

The business community has termed the federal budget 2008-09 as agriculture incentive-based budget having nothing for the industrial sector. They appreciated increase in salaries of government servants, Benazir Income Support Programme, increase in National Saving interest, and increase in duty of luxury items, but disapproved increase in sales tax, central excise duty and ignoring reduction in duty on industrial raw materials. Criticizing increase in sales tax by one percent, he pointed out that the business community was demanding that sales tax should be reduced from 15 per cent to 10 percent, whereas it has been increased by one percent. Nisar Anjum appreciated increase in salary of government officials and pensioners. FPCCI standing committee on construction Chairman, Munir Sultan criticized ignoring construction sector in the budget and said that imposition of Rs 100 per sq yard on plots would further increase cost of plots. **(Business recorder, 12th June, 2008)**

Rs. 300.9 billion project grants to come from external sources

Pakistan is expected to receive Rs. 300.91 billion loans and grants for development projects from foreign resources for the next fiscal year, (2008-09), which would be 8.14 percent more than Rs. 277.775 of the outgoing fiscal year. According to estimates of foreign assistance in the 2008-09 budgets, the government hopes to receive Rs. 76 billion for projects aid, Rs. 151.043 billion for commodity aid (non-food), Rs. 9.831 billion for earthquake, Rs. 62.500 billion for other aids and Rs. 222.274 million non-plan grants. This includes Rs. 70.054 billion loans and Rs. 6.739 billion grants, against Rs. 54.068 billion and Rs. 3.68 billion, respectively, of 2007-08. The estimated grants for projects are Rs. 6.739 billion for next fiscal year, a 74.26 percent increase from Rs. 3.867 billion of 2007-08. These include Rs. 4.874 billion for federal departments and Rs. 1.865 billion for provinces against Rs. 2.423 billion and Rs. 1.092 billion respectively of 2007-08. **(Business recorder, 12th June, 2008)**

The Budget for financial year 2008-2009

After a lapse of twelve years, the Pakistan People's Party government presented the federal budget for financial year 2008-2009. The budget documents reveal that during fiscal 2008 the current expenditure was Rs. 1.56 trillion whereas the revenue receipts were Rs. 1.40 trillion. Like most previous governments this so-called 'pro poor' budget too, reflects a tilt towards national economy groups with a high nuisance capacity or traditionally enjoying importance. The total outlay of the budget is estimated at Rs. 2010 billion. This is 29.7 percent higher than the size of budget estimates for 2007-2008. The budget seeks to increase GDP growth by 5.5 percent and contain inflation at 12 percent. Naveed also announced the government's resolve to maintain the gross investment to GDP ratio at 25 percent, contain the fiscal deficit to 4.7 percent, reduce the current account deficit to 6 percent of the GDP and increase the forex reserves to USD 12 billion. A 20 percent increase in basic pay has been announced for all federal government employees and Defence services personnel. The minimum pension of Rs 300 has been increased Rs. 2000, a 100 percent increase in conveyance allowance for government employees up to BPS 19 reflects the increase in commuting cost because of the manifold increase in the price of oil. The minimum wage as announced earlier has been increased from Rs. 4600 to Rs. 6000 per month. The budget seeks to discourage imports of non-essential and luxury items. **(Business recorder, 12th June, 2008)**

Rs. 34bn to ensure social justice

Within very limited fiscal options and virtually no control on the international factors that dictate prices of almost all goods and services in the domestic market, the federal budget's initiative to launch Rs34 billion poor support programme looks a big and bold step towards social justice. Federal Finance Minister Naved Qamar announced his government's plan to reach the poorest of the poor with Rs. 1,000 every month in accordance with a NADRA designed computerized data under Benazir Income Support Programme. What fascinates many economists and social activists is not only the support of Rs. 1,000 a month to the poor and needy but the programme to give training, medical insurance and subsidy on food to the holders of Benazir Income Support Programme. Also to attract attention of the economists and social activists are other programmes of the budget, which are Peoples Works Programme, formation of a Human Resources Development Commission, National Internship Programme, Peoples' Employment Programme and special programmes for welfare and development of women. **(Dawn, 12th June, 2008)**

Govt. to borrow from public

The government's plan to borrow directly from public by launching security papers and increasing return on National Saving Scheme by 2 per cent will hit hard the entire banking sector. Finance Minister Naveed Qamar in his budget speech announced that the government would launch papers to borrow from public. After launching of three papers the government will be in competition with banks to mobilize deposits. At the same time, the increase in NSS rates would also deprive banks from the deposits. Either the banks would increase return or allow their deposits to fly from banks to the NSS. The new government would also attract banks' deposits thus minimizing their profits. "The cost of funds for banks is bound to increase after launching of government papers and increase in NSS rates. The finance minister also announced to increase excise duty on banking services from 5 per cent to 10 per cent. **(Dawn, 12th June ,2008)**

Increase in salary income to be taxed at 20-50pc

The government has introduced a concept of marginal tax relief for the salaried persons to cater for the negative impact of taxation under the present flat tax rate system. Finance Ordinance 2008 proposed that under the new system the marginal increase in salary income is proposed to be taxed at the rates not exceeding 20 per cent to 50 per cent allowing sufficient relief in tax payable. The rates of advance tax, collected at the time of renewal of registration of private motor cars, are proposed to be rationalized by making about 30 per cent to 40 per cent increase in withholding tax rates. Minimum tax payable on the declared turnover at the rate of 0.5 per cent is being proposed to be withdrawn. Profit transferred by a branch of foreign company out of Pakistan are proposed to be treated as dividend and chargeable to tax at the rate of 10 per cent as final tax, the limit of donations eligible for tax credit in the case of individual/association of persons and companies presently admissible at the rate of 30 pc and 15 pc, respectively, are proposed to be reduced to 10 pc of the taxable income. **(Dawn, 12th June, 2008)**

Customs duty on raw material rationalized

The government has rationalized customs duty on raw materials to promote and attract investment in various sectors. Through the Finance Ordinance 2008, the government has rationalized duty at the rate of zero per cent, five per cent and 10 per cent on inputs used by the local industry producing water dispensers, hooks and dyes, aluminum alloy, electric irons, mini-choppers, vacuum cleaners, central heating gas boilers, mini-ovens, gas heaters, gas stoves/cooking ranges with ovens, air-handling equipment, central heating equipment, UPS, chlorinated paraffin, chrysotile cement pipes, sheets and fittings and perforated steel products. The government allowed five per cent duty on specified active ingredients, chemicals and packing material of pharmaceutical industry, exempted duty on bitumen, JP4 and JP8, duty rate on base oil for lubricating oils reduced from 20 to 10 per cent. Rice seeds, energy saving lamps, dredgers and specified solar energy equipment have been exempted from customs duty. **(Dawn, 12th June, 2008)**

Rs. 1.5bn can't bring white 'revolution'

The allocation of Rs. 1.5 billion to bring "white revolution" through promotion of livestock sector in the budget 2008-09 is very insufficient keeping in view $300 million (about Rs. 20 billion) of foreign exchange being spent on importing powdered milk annually to meet the demand of the urban areas. Finance Minister Syed Naveed Qamar in his budget speech told the National Assembly that Rs. 350 million had been set aside for milk collection/processing and dairy production and development programme. The country is surplus in milk production despite having lowest per cattle yield in the world. In Pakistan only 3 to 4 per cent of the total milk is processed and marketed through formal channels whereas the remaining reaches consumers through an extensive, multi-layered distribution system of middlemen. The unprocessed milk passes through the middle persons before it reaches the urban retailer. The price of milk increases by one rupee per litre at every stage of sale. About 75 per cent of the total production of raw milk is produced in Punjab, 14pc in Sindh 10pc in the NWFP and only one per cent in Balochistan. **(Dawn, 12th June ,2008)**

Tax on builders to hit buyers

People seeking to buy property would be the ultimate sufferers as burden of tax on builders and developers would be passed on to them by jacking the prices of plots and flats and houses up. he proposal for a Rs. 100 per square yard tax on developed plots and Rs. 50 per square feet tax on constructed property would hurt property buyers. Association of Builders and Developers Chairman Babar Mirza Chughtai said that builders were not worried over new taxes and duties, but they feel that consumers, who intend to make some small and medium sized property, would have to face the music. To rub salt on the wounds of builders, a total of Rs. 150 per ton has been increased in terms of federal excise duty (FED) on cement manufacturing which would push up rates of cement. Besides, sales tax has been increased by one per cent on various items followed by some taxes on ceramic industries. General Manager, Attock Cement, Irfan Amanullah, said that cement prices would go up by Rs. 10 per 50 kg bag after one per cent increase in sales tax and rise in federal excise duty to Rs. 900 per ton from Rs. 750 per ton.**(Dawn, 12th June ,2008)**

India lifts key rate to help fight inflation

India's central bank took emergency action night to rein in inflation, announcing an increase in its benchmark lending rate to the highest level in more than five years. The Reserve Bank of India joined a growing list of Asian central banks that are opting to tackle inflation at the expense of economic growth by raising its key "REPO" lending rate by 25 basis points to 8 per cent – its first such increase in more than a year. **(Financial Times, 12th June, 2008)**

Pakistan’s consumer prices hit 33-year high
Pakistan’s inflation rate surged to its highest level in more than 30 years in May, new data showed as the government released a budget that includes a big reduction in fuel and food subsidies. Consumer prices in Pakistan rose at an annual rate of 19.3 per cent in May, up from 17.2 per cent in April, on the back of soaring fuel and food prices, which rose at an annual rate of 28.5 per cent in May. **(Financial Times, 12th June, 2008)**

Demand for oil falls sharply in OECD countries
Oil consumption in developed countries fell last year by the largest amount since 1983, a sign of the growing impact of rising prices on demand, according to BP, the UK oil and gas group. In its annual statistical review of world energy, it said there was little sign that consumption would decline in some of the countries where it has been growing most strongly, such as the oil-producing nations in the Middle East and in China. **(Financial Times, 12th June, 2008)**

China inflation at 7.7% in May
China's inflation rate stood at 7.7 per cent in May, easing from April's 8.5 percent, the government said. Consumer price data was released by the National Bureau of Statistics a day after the government said producer prices had risen 8.2 percent in May, the fastest rate in nearly four years. Inflation has fast become a global concern, with the US Federal Reserve now putting it on the top of its agenda in view of soaring energy and food prices. **(The Times of India, 12th June, 2008)**

Amendments in Sales Tax Act introduced
The government in a move to facilitate the business community has introduced amendments in the Sales Tax Act through the Finance Bill 2008 allowing carry forward amount for excess input tax. Time to adjudicate the cases under Sales Tax Act, 1990 and Federal Excise Act, 2005 has been increased from 90 to 120 days. Through the Bill, the government amended the income tax ordinance so that the period of payment of tax due from a taxpayer is being reduced from 30 days to 15 days. In case of withdrawals from superannuation fund liable to withholding tax the deduction of tax is proposed to be made at the rate applicable to the year of withdrawal instead of average rate of the preceding three years. From the next financial year such deductions would be allowed under sections 29 and 29A of the Income Tax Ordinance, 2001. **(Dawn, 13th June, 2008)**

NEPRA empowered to impose surcharge
The government has introduced an amendment in the Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997, to empower the National Electric Power Regulatory Authority (NEPRA) to impose surcharge on power projects. The amendment has been proposed through the Finance Bill 2008. Through the Bill the Khushhali Bank Ordinance 2000 has been repealed to ensure that all Microfinance Banks, including Khushhali Bank, are licensed and operate under the same legal and regulatory framework. Through an amendment the time for adjudicating officers has been increased to 120 days from 90 so that the adjudicating officers may adjudicate cases on merits after affording ample opportunity to owners of goods to defend their cases. **(Dawn, 13th June, 2008)**

FPCCI pleads for tax on all incomes
President of the Federation of Pakistan Chambers of Commerce and Industry Tanveer Ahmed Sheikh wants all incomes from trade, business and agriculture, to be taxed and all transactions to be documented though he believes that all trades are speculative. “We were certain of stock exchange

coming under capital gains tax till a week before the presentation of budget," the FPCCI chief said while recalling meetings of business teams with the government at various levels to discuss the budget. "The FPCCI offered 41 proposals for the budget," a document circulated in the press conference announced. "The budgetary measures announced have disappointed the businessmen," the FPCCI paper says while pointing out that the budget belied the impression given by the Federal Board of Revenue and finance ministry in several pre- budget meetings with the FPCCI teams. **(Dawn, 13th June, 2008)**

China's money supply up by 18pc

China's broad measure of money supply rose 18.07 per cent on year in May, the central bank said on Thursday, as analysts warned the government must tighten cash flow to fight inflation. "We think China's inflation outlook hinges on the capability of the central bank to keep broad money supply growth in check," Goldman Sachs said in a research note. The government's annual M2 target is 16 per cent. M2 covers cash in circulation plus all deposits, while M1 covers cash in circulation and corporate demand deposits. Banks also lend more easily when they are cash-rich. China's inflation rate was 7.7 per cent in May, easing from April's 8.5 per cent, the government said on Thursday, but analysts cautioned that some prices had been kept artificially in check. **(Dawn, 13th June, 2008)**

Pakistan's foreign exchange reserves fall by $224.8 million

The total liquid foreign exchange reserves declined by $224.8 million to $10,953.5 million in the week ending June 12, 2008 as compared to $11,178.3 billion recorded on June 5, 2008, the State Bank of Pakistan (SBP) said. Reserves held by the SBP declined by $.297.7 million to $8,386.9 million from $8,684.6 million a week earlier, while those held by commercial banks rose by $72.7 million to $2,566.6 million from $2,493.7 million. **(Business recorder, 13th June, 2008)**

Taxes in Budget: construction costs to go up by 25 percent

Terming the new fiscal budget as 'Industry Dushman' the builders and developers fraternity has said that taxing the land with a one percent raise in indirect levies would increase the cost of construction by 25 percent. Despite efforts made by the government to overcome the shortage of houses, which are over 7.5 million across the country, said decision will deprive masses to buy houses, owing to its high construction cost. To a question, he said that the shortage of houses could only be overwhelmed in the country, if government would provide lands to construction units at discount rates without extra levies. **(Business recorder, 13th June, 2008)**

IMF report to G8 says inflation risks higher

The International Monetary Fund (IMF) has emphasized the risk of global inflation in a report prepared for Group of Eight (G8) finance ministers who meet this week, a source who has read the report said on Thursday. The threat of inflation is expected to take centre stage at the meeting in Osaka. The ministers are in broad agreement that rising oil and commodity prices are fuelling inflation worldwide. "The assessment of the world economy laid out by the IMF ... decisively underscores the inflation risks," the source told Reuters on condition of anonymity. "Inflationary pressures could take on a more relevant role compared with what had been said in the statement issued by the G7 in April," added the source, who also read notes being exchanged among ministry advisers. **(Business recorder, 13th June, 2008)**

Doha outline deal feasible by end-June

The head of the World Trade Organization said it was feasible an outline agreement in the Doha round of world trade talks could be reached by the end of June or the beginning of July. Should the trading powers look more to domestic political opinion, he said, it risked being "very difficult" to reach the outline deal by that time. The talks, to boost the world economy and help poor countries export more, have been declared doomed many times. Diplomats and officials said on Wednesday those talks were making little progress on the deadlocked topic of tariff cuts for industrial goods, especially the question of special treatment for developing countries. But senior officials were continuing to narrow the gaps in a series of highly technical issues in agriculture. Lamy said that Doha was necessary for the world to move on to "more complex and probably even bigger challenges" such as climate change. **(Business recorder, 13th June, 2008)**

World Bank Provides Additional Grant Support to Help Afghanistan Improve Irrigation Infrastructure

The World Bank approved today a US$ 28 million grant to continue supporting the Government of Afghanistan's effort to restore irrigated agricultural production in rural areas. The additional financing to the Emergency Irrigation Rehabilitation Project is designed to provide reliable water supply to rehabilitated traditional irrigation schemes in order to increase irrigated area and boost agricultural production in rehabilitated schemes. The traditional community-based organizations and government institutions supporting the operation and maintenance of irrigation schemes have deteriorated. "Despite achievements made to date, Afghanistan's needs for irrigation rehabilitation remain large," said Usman Qamar, Senior Rural Development Specialist and Project Team Leader. When completed, these schemes would bring an additional 42,000 hectares under irrigation and increase crop yields as well. **(World Bank.org, 13th June 2008)**

Government urged to withdraw 16 percent sales tax on pharmaceutical units

A former chairman of Pakistan Pharmaceutical Manufacturers Association (PPMA) and CEO of Brooks Pharmaceutical Laboratories (Pakistan), Abdul Haseem Khan, has urged the government to withdraw 16 percent sales tax imposed on pharmaceutical manufacturing units. Likewise, prices of rice increased from Rs. 32 to Rs. 110 per kg or 244 percent; milk from Rs. 20 to Rs. 40 per litre or 100 percent; sugar from Rs. 17 to Rs. 30 per kg or 76 percent; petroleum from Rs. 35 to Rs. 68.99 per litre or 97 percent during the same period. Out of 415 pharmaceutical manufacturing units in the country, top 100 companies contribute 96 percent and rest 4 percent catered by 317 companies. He said that a very large number of pharmaceutical units might go out of production if the government failed to withdraw 16 percent sales tax, 35 percent L/C margin and increased medicine prices by 20 percent. **(Business Recorder, 14th June, 2008)**

NWFP to increase budget outlay by 15 percent

The NWFP government is likely to increase total outlay of its 2008-09 budget by 15 percent from current financial year's Rs. 114 billion. The budget would be people-friendly, without any new tax. "No new burden would be put on the common man," said Mohammad Hamayun Khan, provincial minister for finance. Regarding the financial resources, he said that three types of funds would be received from federal government, including share in federal taxes (Rs. 59.846 billion), grant-in-aid (Rs. 14.423 billion), and general sales tax (Rs. 7.332 billion). He said that the share of provincial government in federal government Public Sector Development Programme (PSDP) has also been increased by 1 percent. Last year, the share was 7 percent; this year the federal government has increased it. He said that the provincial government is negotiating with the federal government for law enforcement agencies resources increase. Similarly, the provincial government also requires resources for subsidy on wheat. **(Business Recorder, 14th June, 2008)**

Pakistan risks losing investor confidence: Moody's

Moody's Investors Service said in a report on Pakistan that weak governance, political tensions and flaws in the legal system will undermine institutions and policy-makers, and heighten risks of sudden shifts in private investor confidence. Last month, Moody's and Standard & Poors both cut Pakistan's credit ratings to five levels below investment-grade. There is concern over the size of the fiscal and current account deficits - under pressure from soaring import costs - and worry that the political uncertainty hanging over Pakistan's 2-month old coalition government could undermine policy making and implementation. The statement came two days after the government announced budget proposals for 2008/09 (July/June), setting a target to cut the fiscal deficit to 4.7 percent of gross domestic product and the current account deficit to 6.0 percent. The government announced in the budget they would gradually withdraw food and oil subsidies from the current 405 billion rupees to 293 billion rupees. The government has set a 12 percent target for inflation in 2008/09. Analysts were unsurprised by the rating agencies stance. **(Business Recorder, 14th June, 2008)**

Dollar and oil speculators feed G8 inflation fears

The weak US dollar and oil speculators took centre stage as Group of Eight finance ministers gathered in Japan on Friday to grapple with surging inflation and a slowing global economy. Commodity prices "serious" challenge to growth. France, Japan talk of link between oil price and dollar. Italy floats plan to curb speculation in oil futures. G8 asks IMF to study oil, commodity price rises. Their communique at the end of their meeting on Saturday will describe commodity prices as a "serious challenge" to economic growth, a G8 source told Reuters. "On top of the (oil) barrel there is a magnum of speculative champagne," Italian Economy Minister Giulio Tremonti said, floating a plan to make speculation in oil futures more costly. Other officials put the focus on currency markets. A Japanese official called for a defence of the dollar to contain commodity prices. Nukaga declined to say if they had talked about the dollar. Those prices are also percolating through the global economy, crimping growth, stoking inflation and dampening consumption. **(Business Recorder, 14th June, 2008)**

Jeddah summit may help tame oil price spike

Oil markets are in the midst of a severe storm. With Morgan Stanley and Goldman Sachs projecting the next oil price spike just round the corner and all fingers pointed at OPEC, Riyadh was almost cornered into action, to seek a solution to the problem. Oil prices have doubled in the past year as big funds have poured money into commodities, seeking a hedge against inflation and the weaker dollar. Supplies of crude are so plentiful, according to the Wall Street Journal, “traders of physical crude oil say their market is suffering from too much supply, not too little.” Iran, for instance, is storing 25 million barrels of heavy, sour crude oil because, in the words of Hossein Kazempour Ardebili, Iran’s oil governor, “there are simply no buyers because the market has more than enough oil.” Mike Wittner, head of oil research at Societe Generale in London, agrees. **(Dawn, 15th June 2008)**

Withdrawal of duty on LC margin sought

The Federation of Pakistan Chambers of Commerce and Industry demanded withdrawal of 35 per cent duty on LC cash margin, two per cent withholding tax on import of raw material, reduction in sales taxes and other duties to strengthen national economy. Talking to APP, FPCCI President Tanvir Ahmad Sheikh said that duty on LC be reduced to 15 per cent with a gradual decrease to zero level. Tanvir Sheikh criticized imposition of 10 per cent withholding tax on industrial consumption and lauded the low rate taxes for whitening of black and unaccounted economy. **(Dawn, 15th June 2008)**

Oil import bill may reach $22bn in 2008-09

Country representative Hatton National Bank A B Shahid has cautioned that Pakistan's oil import bill may reach $ 22 billion mark in 2008-09 if international crude price touches $ 150 a barrel. It implies cutting oil consumption and consciously desisting from imports of peripheral economic value to contain the trade and current account deficits and the weakening of the Pakistani rupee. "Banks, therefore, must revisit their lending ratios and hasten the process of developing innovative deposit products to hold on to their deposit base," he suggested. Banks will continue to pay CGT at 35 per cent on shares sold within 12 months of their purchase and at 10 per cent on those sold after 12 months of their acquisition. **(Dawn, 15th June 2008)**

APTMA wants tax relief on power bills

The All-Pakistan Textile Mills Association (APTMA) has urged the government to exempt the textile industry from the levy of 10 per cent withholding tax (WHT) on electricity bills amount exceeding Rs. 20,000 per month announced in the federal budget 2008-09. In a statement issued, APTMA Chairman Iqbal Ebrahim said that textile industry being export-oriented, had been suffering losses on account of strident rise in the input costs, which has already slowed down pace of industrial growth. Consequently textile export in quantity terms for the financial year up to April 2008 has already declined by 20 per cent across the value chain. **(Dawn, 15th June 2008)**

Pakistani cement highest taxed worldwide

Aizaz Mansoor Sheikh, Chairman, All Pakistan Cement Manufacturers Association, has said that the increase in taxes has made Pakistani cement highest taxed cement in the world. Excise duty has been increased from Rs. 750 per ton to Rs. 900 per ton, along with additional excise duty at the rate of 1 percent, he said. Increase of general sales tax from 15 percent to 16 percent has increased the menace of double taxation as general sales tax is charged on excise duty paid value, he said. "We urge the government to review its decision of increasing cement prices which will have detrimental effect on development of houses and infrastructure", he said. **(Business Recorder, 15th June, 2008)**