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WTO CELL  
PLANNING & DEVELOPMENT DEPARTMENT  
**WEEKLY ECONOMIC DIGEST**  
01st to 07th September, 2008

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**Government claims on FDI rise not supported by facts**

The tall claims of the government that Foreign Direct Investment (FDI) had increased by 76.1 percent during July 2008 over the same month of last year is not supported by facts and figures as inflow from two major contributors i-e USA and UK had actually decreased during this period. The government claimed that FDI from USA and UK had increased by 15.9 percent and 6.8 percent, respectively, during July 2008, over the same period of last year. The government claimed that the second largest contributor of FDI was US in July 2008, but the FDI by the US actually declined in July 2008 from \$ 61.9 million in July 2007 to \$ 54.2 million in July 2008. The FDI from UK declined from \$ 28.3 million in July 2007 to \$ 23.3 million in July 2008. (Business Recorder, 01<sup>st</sup> September, 2008)

**Foreign investors withdraw over \$ 12.771 million in one week**

A massive outflow of portfolio investment from the country's equity market continued as the foreign investors withdrew over \$ 12.771 million during the outgoing week while the cumulative outflow of \$ 50 million was recorded in the current month of August 2008. The cumulative outflow of foreign portfolio investment from Pakistan's equity market increased to \$ 354.672 million during the current year from January 1, 2008 to date. The outflow of foreign investment started from the beginning of the week as the offshore investors withdrew \$ 5.476 million from the equity market. (Business Recorder, 01<sup>st</sup> September, 2008)

**Phasing out subsidies: government taking bold decisions: Gilani**

Prime Minister Syed Yousuf Raza Gilani said that the government is taking bold decisions to phase out subsidies for rehabilitating the national economy. Prime Minister said the donor agencies including IMF, World Bank and others have suggested that our economy cannot be strengthened unless the policy of subsidies is abolished. Prime Minister Yousuf Raza Gilani said unpopular decisions are necessary to improve our economic health. (Business Recorder, 01<sup>st</sup> September, 2008)

**Trade not aid the answer to poverty, economists say**

As ministers from over 100 countries gather in Ghana to review how effective aid is in helping developing nations deal with poverty, many economists argue the answer is elsewhere in freeing up trade. Rich and poor countries alike have called for efforts to save the Doha round and build on the compromises that were reached in July's talks. The prosperity and contacts promoted by trade foster peace, and when trade rules affect major economic sectors, such as West African banana growers, they must be negotiated carefully. The WTO co-ordinates the international Aid for Trade programme, in which developing countries are helped to build trade capacity and infrastructure by

ensuring that their trade projects are part of their aid and economic strategies. The proposals would tighten rules on "monetization" where rich countries send food surpluses to developing countries to be sold locally and the funds distributed. (Business Recorder, 01<sup>st</sup> September, 2008)

### **The dollar continues to reign supreme**

For most of the past six years the U. S. dollar was losing its value in relation to three other major currencies the euro, the British pound and the yen. That seemingly secular trend called into question certain assumptions regarding the dollar. The first assumption related to the dollar's continuing status as the world's reserve currency. The dollar, however, remains the currency of choice in the oil trade. Among central banks of the world too, there have been debates over the existing practice of deploying FOREX reserves in dollar denominated assets. A more recent development seems to reinforce this essentially a technical explanation does not do justice to the economic fundamentals behind the exchange rate movements concerning the dollar and other major currencies. The dollar's weakness over a fairly long period has been attributed to the twin deficits of the U.S. economy the fiscal and the current account. (Hindu, 01<sup>st</sup> September, 2008)

### **Circular debt, looming defaults**

The fiscal crunch is taking a heavy toll on the corporate sector. The private sector energy companies are touching their borrowing limits, the public sector is defaulting in its payment commitments and the public at large is struggling to cope with more than seven hours of load shedding daily in addition to unannounced power breakdowns. At the heart of problem is non-payment of arrears by public sector companies and government entities. The receivables of Pakistan Electric Power Company (PEPCO) and its allied power companies have gone beyond Rs. 150 billion. The federal government, provinces, AJK and some public sector corporations together owe another Rs.18 billion to electricity distribution companies. The PEPCO also has to pay about Rs. 10 billion and Rs. 8 billion each to oil and gas companies respectively. (Dawn, 01<sup>st</sup> September, 2008)

### **Fall in growth of consumer financing**

Growth in consumer financing personal loans, mortgage, credit cards, car leasing, etc decelerated sharply to just above three per cent in FY08 after expanding by 17 per cent the previous fiscal. The State Bank web site shows hefty decline in the consumer finance growth in absolute numbers too as the size of outstanding consumer loans grew by a mere Rs. 11 to Rs. 359 billion in June 08 from Rs. 348 billion in June 07. Car loans on the other hand dipped slightly to Rs. 104.99 billion from Rs. 105.44 billion and their share in total consumer lending dropped to 29 per cent from above 30 per cent. It stood just above Rs. 97 billion or 32.5 per cent of the consumer finance portfolio at the end of FY06. Credit card loans made modest gains to climb to Rs. 44.45 billion from Rs. 42.82 billion. Exposure per borrower in credit cards rose from Rs. 26,000 in CY05 to Rs. 32,000 CY06, in mortgage loans from Rs. 1.982 million in CY05 to Rs. 2.025 million in CY06, and in other personal loans from Rs. 89,000 to Rs. 100,000. (Dawn, 01<sup>st</sup> September, 2008)

### **Restructuring tax administration**

The economic indicators are worsening, and the government is eyeing debts from international donors and financial markets to overcome its fiscal difficulties. This strategy is unlikely to work effectively. The solution lies in structural changes in the present taxation and fiscal system which suffers from a large gap between revenue and expenditure. The government's focus is on the revenue generation only. The government has to identify loopholes and inconsistencies in the taxation system and the reason for the high level of reluctance in society to pay taxes. The present tax policy is based on taxing those who pay taxes without giving any benefit to them. Tax defaulters are given tax incentives through amnesty schemes whereas the honest tax payers are loaded with burden of higher

and higher taxes in every budget. The burden of the income tax is unevenly distributed. (Dawn, 01<sup>st</sup> September, 2008)

### **SBP issues draft guidelines on Islamic finance for agriculture**

State Bank of Pakistan (SBP) has prepared draft guidelines on Islamic financing for agriculture. The SBP said the purpose of these draft guidelines was to facilitate Islamic banks as well as conventional banks involved in agriculture financing and having Islamic banking licence in developing specialized Islamic financing products to meet the financial needs of the farming community. Islamic banking is also robustly expanding in the country and almost all major conventional banks have opened their stand-alone Islamic Banking Branches in addition to six full-fledged Islamic banks operating in the country. (The News, 02<sup>nd</sup> September, 2008)

### **Power tariff hike criticized**

The Lahore Chamber of Commerce and Industry (LCCI) has severely criticized the government for making a whopping 31 per cent increase in already high electricity rates and termed it the last nail in coffin of industry. In a statement issued, the LCCI President Mohammad Ali Mian said that anti-industry and anti-masses steps on the dictates of IMF, WB and other donor agencies would not only earn a bad name for the government but would also bring the industrial wheel at a halt. Ali Mian commented that at a time when some of the Indian states are providing subsidized electricity at a cost of Rs. 2.50 per unit. Mian also said that Pakistan has the world's third largest coal reserves but no attention so far has been given to tap them for the purposes of electricity generation. Pakistan Industrial and Traders Associations Front (PIAF) also strongly reacted to the power tariffs hike. Qaiser said that the government should tap coal reserves instead of continuing with the thermal power generation means. (The News, 02<sup>nd</sup> September, 2008)

### **Divergent proposals confuse economic managers**

Some economists blame indecisions on the economic front for the divergent and often conflicting recommendations by the trade and industry, which have confused economic managers of the new government who probably lack competence. Economic experts point out that all businessmen world over usually want policies that benefit them individually and for this purpose suggest measures accordingly. Businessmen lobbying for their proposals based on vested interests do their home work properly. The textile tycoons owning export houses having exports of over \$ 100 million each proposed to the federal government that the research and development grant in textiles be linked to the export performance. Moreover, they pointed out that their individual exports might be low, but cumulatively apparel exports are higher than yarn and fabric exports. (The News, 02<sup>nd</sup> September, 2008)

### **Islamic financing for farm sector**

The State Bank has devised comprehensive guidelines to provide Islamic financing to the agriculture sector and a detailed report of the task force was issued. The task force, constituted by Dr. Shamshad Akhtar, Governor, State Bank of Pakistan, on "Islamic agricultural finance" has prepared draft guidelines on Islamic financing for agriculture. The task force comprised senior State Bank officials, Shariah advisors and heads of agriculture departments of commercial banks. The draft guidelines issued by the State Bank are aimed at facilitating Islamic banks and conventional banks involved in agriculture financing and having Islamic banking licences in developing specialized Islamic financing products to meet the financial needs of the farming community. Islamic banking institutions are expanding their network in rural areas through separate branches and windows. (Dawn, 02<sup>nd</sup> September, 2008)

### **Asian inflation pressures set to ease**

South Korea, Thailand and Indonesia reported slowing rates of growth in consumer prices, prompting suggestions that Asian inflation has peaked and probably monetary policy tightening with

it. Tim Condon, head of Asia research at ING, said that the tightening cycle is over across Asia. A lot of this is an oil call, and if oil spikes again we will see upward inflationary pressures. (Financial Times, 02<sup>nd</sup> September, 2008)

### **End of an era for entrepreneurs**

The stock of small businesses in England and Wales could drop by as much as 150,000 by early 2010, according to Barclays, blowing the froth off the UK's enterprise culture. The ardour of would-be entrepreneurs has already been damped by tighter credit and tougher trading conditions, the bank reports. "We will probably see the [business] stock fall by up to 150,000 in the course of the downswing," said Richard Roberts, head of small and medium-sized enterprise analysis at Barclays. Growth has already stopped, closures have been higher than start-ups for some time. (Financial Times, 02<sup>nd</sup> September, 2008)

### **Government mulling over developing special economic zones: BoI**

Pakistan has been focusing on the improvement of infrastructure and was engaged in framing a policy for the development of special economic zones (SEZs), official in the Investment Division and Board of Investment (ID&BoI) said. The delegation led by Lieutenant General Daniel W. Christman (Retd), Senior Vice President for International Affairs, US Chamber of Commerce and Jay Collins, Chairman US Pak Business Council/CEO Public Sector Group called on the BoI Acting Secretary to discuss business opportunities in the country. The Acting Secretary, while highlighting the geo-strategic location of Pakistan and other market dynamics, signified upon the upward trends of foreign direct investment (FDI) over the years and appreciated US investment into Pakistan being the highest i-e 1.3 billion during 2007-08. ID and BoI Acting Secretary appreciated their visit to Pakistan and assured full facilitation on the part of ID and BoI. (Business Recorder, 02<sup>nd</sup> September, 2008)

### **ADB to provide \$ 100 million for Punjab MDGs schemes**

Asian Development Bank (ADB) will provide US \$ 100 million for Punjab Millennium Development Goals (MDGs) Programme to improve access and quality of primary and secondary health care services which will save at least 11,000 women's lives. In an update project report, Rie Hiraoka, Senior Social Sector Specialist (CWGF) of ADB said that this project would increase and improve efficiency of public health care financing. The Programme will assist the GoPb in undertaking health sector reforms to improve availability and quality of primary and secondary health services; develop sustainable and pro-poor health care financing system; and better management of health service delivery. According to the Sustainable Pro-Poor Health Care Financing and Provider Payment System the programme will assist the GoPb in substantially increasing health care budget and improving planning and management of the budget, introducing a targeted programme for reducing out-of-pocket health expenditure among the poor, and developing a sustainable health care financing and provider payment system. (Business Recorder, 02<sup>nd</sup> September, 2008)

### **India's trade deficit at record \$ 10.8 billion**

India's trade deficit widened in July to a monthly record of \$ 10.8 billion due to a jump in the cost of oil imports from a year ago, weakening sentiment for the rupee. Exports registered robust growth, expanding 31.2 percent in July from a year earlier to \$ 16.35 billion and outstripping the 23.5 percent annual rise in June. But the country's imports grew a year-on-year 48.1 percent to \$ 27.14 billion in July, while oil imports rose 69.3 percent from the same month a year ago to \$ 9.48 billion. "Imports are in line with our expectations but export growth is quite a surprise." The trade deficit is likely to widen to 10.1 percent of gross domestic product in 2008/09 from 7.7 percent in the previous fiscal year," said Sonal Varma, an economist with Lehman Brothers. (Business Recorder, 02<sup>nd</sup> September, 2008)

### **OPEC weekly prices rebound to 111.20 U.S Dollars**

The weekly average prices of the Organization of the Petroleum Exporting Countries (OPEC) slightly rebounded to 111.20 U.S. dollars per barrel (DPB) last week, 0.12 dollars higher than the previous week, the Vienna-based cartel said. The OPEC oil prices have dropped 20 percent from 140 dpb(Dollar Per Barrel) in the first week of July to 110 dpb till the end of last week. OPEC members hold different opinions about the trend of further oil market demand and the reduction of crude oil output. Iran believes that in view of the consecutive drop in oil prices, there is possibility that OPEC approve an output cut in its upcoming meeting in Vienna. Some analysts pointed out if OPEC could maintain its crude oil output, the high price situation of the international crude oil market would be eased. (Xinhua, 02<sup>nd</sup> September, 2008)

### **US pushing Pakistan to accept draft of investment treaty**

The US administration is pushing Pakistan to accept newly placed draft of Bilateral Investment Treaty (BIT), which has been signed only by few backward African countries. The Bush Administration is pursuing China and India for inking BIT agreement and if Islamabad moves ahead, Washington can easily sell the deal to its other neighbours. As US government exerts pressure on Pakistan to ink BIT under its own rules of game, Pakistan showed reluctance to accommodate demands placed by the USA during the negotiations process. For dispute resolution, Pakistan in the past proposed to exhaust local options first available in Pakistan. Pakistan has so far signed 46 bilateral investment treaties with different countries. The first BIT was signed with Germany in 1959. (The News, 03<sup>rd</sup> September, 2008)

### **PC planning to evolve integrated macro stability package**

Planning Commission Deputy Chairman Salman Faruqi has said that the government is planning to come up with an integrated macro stability package in near future. Salman said the Chinese private contractors could be of great assistance by investing in and executing the public sector development projects announced in the fiscal year 2008-09 and beyond. The Ambassador said that he would encourage Chinese investors to come to Pakistan and invest in various projects. Presently the most important sector for Pakistan is energy sector. The Ambassador was informed about the investment conference recently held in Washington on energy. The Chinese Ambassador assured his country's co-operation in all on-going and future development projects in Pakistan. (Business Recorder, 03<sup>rd</sup> September, 2008)

### **European economy loses steam, UK shrinking**

Europe's economy is slowing more sharply than predicted, with Britain near recession, and the United States and Japan are faring little better, according to OECD forecasts. The OECD raised its annual forecast for US growth to 1.8 percent from the 1.2 percent it had predicted in June, while it cut its prediction for the euro zone to 1.3 percent from 1.7 percent, and for Japan to 1.2 percent from 1.7 percent. For Japan, the OECD forecast third-quarter GDP growth of 2.4 percent and 1.4 percent in the fourth quarter, for the euro zone 0.4 percent and 0.8 percent, for Britain -0.3 percent and -0.4 percent and for Canada 0.8 percent and 2.0 percent. Among the three biggest economies of mainland Europe, the OECD saw German GDP of zero and 0.1 percent in the third and fourth quarters, France at 0.2 percent and 0.6 percent, and Italy at zero and 0.6 percent respectively. Elmeskov defended the ECB's more restrictive strategy. (Business Recorder, 03<sup>rd</sup> September, 2008)

### **Bangladesh BoP falls 60 percent as food imports soar**

Bangladesh's balance of payments slumped 59.54 percent to \$604 million in the 2007/08 fiscal year that ended in June from a year earlier due to soaring food and oil import costs, the central bank said. Imports for July-June increased by nearly 26 percent from a year earlier, while exports rose 15.7 percent, bringing the trade deficit to \$ 5.54 billion from \$3.46 billion in the 2006/07 fiscal year, it

said. The trade deficit widened mostly due to sharp rises in world prices of grains, including rice and wheat, as well as oil and fertilizer, a central bank official said. Bangladesh received \$ 7.9 billion in remittances in 2007/08, more than 32 percent higher than the previous fiscal year. (Business Recorder, 03<sup>rd</sup> September, 2008)

### **OECD slashes forecasts for UK and euro zone**

Euro zone economies will “barely creep forward” in the second half of this year, the Organization for Economic Co-operation and Development warned, with the outlook for growth in France slashed nearly in half. Updated projections by the Paris-based organization suggested the 15-country euro zone would avoid a technical recession two quarters of contraction – this year but would grow by just 1.3 per cent overall. Previously it had expected 1.7 per cent growth. (Financial Times, 03<sup>rd</sup> September, 2008)

### **ADB recommends structural changes**

A delegation of the Asian Development Bank headed by Jesus Felipe gave a presentation at the Planning Commission on “Competitiveness and Structural Transformation in Pakistan.” The objective of ADB’s research programme was to understand Pakistan’s constraints to industrialize and to transform, upgrade and diversify its economy. The findings of this analysis would be incorporated into ADB’s operations in Pakistan namely, lending and policy dialogue. Felipe underscores that economic development requires diversification, not specialization. Also it has low manufacturing share compared to successful economies. Moreover in Pakistan’s case, the export dynamism lagged relative to comparators in the region. For transformation, public-private cooperation was strongly recommended. Deputy Chairman Planning Commission chaired the meeting, whereas representatives of various other ministries and officials of the Planning Commission attended the presentation. (Dawn, 03<sup>rd</sup> September, 2008)

### **The World Bank Calls for an End to Restrictions on Food Aid**

The World Bank called Sunday for an end to “restrictions on food aid”, including tariffs and barriers to exports. The Bank says stopping requirements to buy food aid from donors will go a long way to ensure that food gets to poor people hardest hit by rising prices. The call was made by the World Bank managing director, Ngozi Okonjo-Iweala, as international development agencies, donors and civil society groups head to Accra to discuss improving aid effectiveness. The Bank, she said, is calling for the immediate elimination of taxation or restrictions on humanitarian food aid and an end to export bans by key producers on shipments to the least developed countries and those in fragile situations.” (web .worldbank.org, 03<sup>rd</sup> , September, 2008)

### **Donors unable to spend 5m pounds on capacity building**

The much-awaited restructuring plan to convert the Federal Bureau of Statistics (FBS) into Pakistan Statistical Authority (PSA) has hit snags as donors including the UK-based Department for International Development (DFID) find it hard to spend five million pounds to enhance the capacity of the workforce. The FBS, which is mainly responsible for collecting data for various sectors of the economy, remained without a DG since 2002 during the whole tenure of former Prime Minister Shaukat Aziz. With the implementation of the restructuring plan, there will be five members including member national accounts, member services, member human resource development, member economic statistics and member social statistics. (Business Recorder, 04<sup>th</sup> September, 2008)

### **Tumbling rupee may lead country back to IMF**

Rupee traded at a record low of 77.45 to the dollar due to heavy oil payments and an economic situation so dire that bankers hope the 5-month-old civilian government will seek IMF support. Citibank economist Mushtaq Khan wrote: “An IMF programme would bring additional funding policy consistency and discipline” and “political resistance to the IMF may be overcome as the economic slide continues”. In late July, the bank raised its key discount rate to 13 per cent from 12

per cent. To reduce the trade deficit, the central bank imposed a 100 per cent cash margin on the import of luxury and other non-essential products. Pakistan is in talks with Saudi Arabia to defer an estimated \$ 5.9 billion worth of oil payments, and is also in discussions with the World Bank and Asian Development Bank (ADB) for more than \$ 1 billion in loans. (Business Recorder, 04<sup>th</sup> September, 2008)

### **Listed companies likely to witness nominal growth in fiscal year 2009**

After average annual earnings growth of 21 percent in last 6 years, the listed companies are expected to witness a meagre growth of 7 percent in FY09, analysts said. Overall cement sales in July and August is down 2 percent with local sales declining 16 percent. Automobile sales have declined by 42 percent in July. Cell phone subscribers have declined by 48 percent in July 2008 compared to July 2007. Moreover, bank advances growth has declined by 2 percent since June 2008. July oil sales are up only 3 percent. Fertilizer sales were down 38 percent in July while oil and gas production was down 1 percent. Fertilizer companies' profits are likely to jump 26 percent next year on account of fertilizer shortage and rising prices. Banking sector, another heavyweight, will post a flat growth. (Business Recorder, 04<sup>th</sup> September, 2008)

### **\$ 100 million plan for credit flow to SME sector: DFID and SBP sign document**

The United Kingdom Department for International Development (DFID) and State Bank of Pakistan (SBP) have signed a \$100 million program aimed at increasing the flow of credit to the small and medium enterprises (SMEs) sector. The CEO of Small & Medium Enterprise Authority (SMEDA) told that in spite of SBP's initiatives, banks are still not meeting credit needs of SMEs due to lack of their capacity, non-availability of cash flow based financing products, and traditional mindset. He urged the banks to develop innovative and targeted products to meet the credit requirements of this segment especially the small enterprises. For the development of housing finance, SBP has constituted housing advisory group with representation from all stakeholders with the objective to review the existing regulatory and policy framework and prepare recommendations for the promotion and development of housing finance. The growth in micro-finance could pick up significantly if commercial banks with extensive branch network and low cost of funds may develop micro-finance products or collaborate with micro-finance institutions for provision of the financial services to the poor. (Business Recorder, 04<sup>th</sup> September, 2008)

### **Prices of essential items increased by 100 percent**

Though the government has announced the Ramazan Package to ensure the smooth supply of essential commodities on subsidized prices, unfortunately the prices of essential items have been increased by 100 per cent on the very first day of the holy month of Ramazan and may continue to rise due to absence of check and balance. Dr. Murtaza Mughal, President, Pakistan Economy Watch said that despite massive outcry, the volatility in prices has never been controlled. Website of the Corp shows 4700 stores in Pakistan while officials claim that they have 5300 stores which would be expanded to 6000 shortly, he added. The government should have realized that presently 75 per cent masses are spending over 70 per cent of their total income on food. The poor will have to bear huge medical bills. He asked how the poor would manage finances for health, education, utility bills, clothing etc. (Business Recorder, 04<sup>th</sup> September, 2008)

### **Eurozone economy contracts in second quarter, weakness seen ahead**

Falling investment and private consumption led to the first ever quarterly contraction in the eurozone economy from April to June, while July retail sales and August services sentiment signaled more weakness ahead. It was the first quarter-on-quarter decline since the data series for the eurozone started in 1995. The next weakest result was 0.0 percent growth in the second quarter of 2003. The economy grew just 1.4 percent year-on-year, a revision from the 1.5 percent rate of expansion reported on August 14. A quarterly investment drop of 1.2 percent knocked 0.3 percentage points off

the overall second-quarter result for the eurozone, and a fall in household consumption took away another 0.1 percentage points. The euro buckled as data hit \$1.4386, its lowest since January. "The eurozone will stop short of a technical recession but nonetheless growth will stay well below trend throughout the forecast horizon, with 2009 GDP likely lower than 1 percent," said Aurelio Maccario, chief eurozone economist at Unicredit. Retail sales in July fell 0.4 percent month-on-month and 2.8 percent year-on-year - more than expected by markets. (Business Recorder, 04<sup>th</sup> September, 2008)

### **US set to challenge China over steel prices**

US trade officials are close to filing a case against China at the World Trade Organization challenging export restrictions on raw materials used in steel-making and other industries. The US has been working on the case intensely for the past few months, and could move ahead with a request for consultations the first step in the WTO dispute settlement process within weeks, according to people close to the discussions. (Financial Times, 04<sup>th</sup> September, 2008)

### **US and Japan fight overseas aid proposals**

The world's rich donor countries have clashed over plans to improve the quality of their overseas aid, with the US and Japan arguing against setting themselves tougher targets. In a meeting this week in Accra, Ghana, officials have tussled over proposals to force donor countries to co-ordinate their aid programmes with each other and to use financial systems set up by the recipient developing countries wherever possible. The conference follows the so-called "Paris declaration" of 2005 in which rich governments agreed to make aid more predictable and to reduce requirements to use it to buy exports from the donor country. (Financial Times, 04<sup>th</sup> September, 2008)

### **Fed: U.S. economic activity continues to be slow**

U.S. economic activity continued to be slow during the past one month as consumers and businesses were squeezed by high costs for energy and food, the Federal Reserve said. "The pace of economic activity has been slow in most districts," said the Fed in a nationwide survey, which is based on economic information supplied by the Fed's 12 regional banks and collected on or before Aug. 25. Tourism activity was mixed but received support from international visitors in several districts, and the demand for services eased in most districts. Manufacturing activity declined in most districts but improved somewhat in Minneapolis and Kansas City. In most districts, residential real estate markets remained soft. Most districts reported easing loan demand, especially for residential mortgages and consumer loans. (Xinhua, 04<sup>th</sup> September, 2008)

### **Donors, Recipients Seek to Ensure Global Aid Funds not Wasted**

Donors and recipients of development aid started talks in the Ghanaian capital to see to it that foreign funding was effectively managed for the betterment of the world's poorest people. The Executive Director of UNICEF, Ann Veneman, said urgent action to counter bureaucracy held the key to aid delivery. A critical step is increasing the amount of aid channeled through country budgets, says World Bank Managing Director Ngozi Okonjo-Iweala. "Recipient countries insist the aid must follow their own development strategies. Opening speakers at the High Level Forum on Aid Effectiveness in Accra warned that the clock was ticking on efforts to improve aid delivery to achieve ambitious Millennium Development Goals that aim to halve global poverty by 2015. (Web. world Bank.org, 04<sup>th</sup> September, 2008)

### **Singapore says free trade talks with China concluded**

Singapore and China have successfully concluded negotiations on a bilateral free trade agreement, the city-state said. The agreement with Singapore "is the first comprehensive bilateral Free Trade Agreement concluded by China with an Asian country," the statement said. It said the deal covers trade in goods, rules of origin, trade remedies, trade in services, movement of persons, investment,

customs procedures, technical barriers to trade, sanitary measures and economic cooperation. ASEAN as a whole already has free trade agreements covering trade and services with China. (The News, 05<sup>th</sup> September, 2008)

### **SBP seeks to reassure markets**

The State Bank of Pakistan tried to reassure the volatile markets by claiming that funds would soon be arranged through sale of assets and from development partners to help fend off a brewing balance of payments crisis. SBP Governor Dr. Shamshad Akhtar in a detailed statement, said that the government had decided to sell some assets and was in dialogue with the International Financial Institutions (IFIs) to get their support. The government has been making effort to sell assets through privatization to earn foreign exchange and pay for the ever rising import bill. The statement reveals: “advanced is the discussion with Asian Development Bank which has negotiated a \$500 million programme for accelerated economic transformation that focuses on supporting financial sector reforms among others.” Dr. Akhtar’s statement maintains that it was not only Pakistan that has been facing serious political and economic problem. (Dawn, 05<sup>th</sup> September, 2008)

### **WTO ruling in olive oil dispute**

The World Trade Organization ruled in favour of Mexico in a dispute with the European Union about duties imposed on imports of olive oil to the Latin American country, a WTO dispute panel said. The EU made a formal request for talks with Mexico on the issue in 2006 after Mexican authorities imposed increased duties on olive oil imports to balance out subsidies. “The European Communities did not establish that Mexico failed to comply with the requirement to exempt olive oil from imposition of countervailing duties,” said the dispute panel. (Dawn, 05<sup>th</sup> September, 2008)

### **CCP being strengthened to act against sugar and cement cartels**

The federal government has decided to strengthen the Competition Commission of Pakistan (CCP), and deal with cartels in the cement and sugar sector, the Industries Ministry. The Ministry of Industries recently shelved an inquiry against cement sector for charging higher prices due to unexplained reasons whereas sugar mills are free to set prices on their own. The ministry during its inquiry into the reasons behind the higher prices of cement confirmed that per bag price calculated by its cost accountant showed a difference of Rs 55 per bag from the price submitted by the APCMA. The total government taxation is Rs 96 on one bag of cement. (Business Recorder, 05<sup>th</sup> September, 2008)

### **Pakistan's foreign exchange reserves plunge by \$252.5 million**

Country's foreign reserves have plunged by 252.5 million dollars during the last week mainly due to the slow foreign inflows and rising foreign payments. The reserves held by the SBP declined by 248.3 million dollars to 5.7596 billion dollars during the last week, earlier it was stood at 6.0079 billion dollar on August 23, 2008. Foreign reserves held by banks have also declined by 4.2 million dollars during last week. After the current decline, banks' overall foreign reserves plunged to 3.3700 billion dollars as compared to 3.3742 billion dollars a week earlier. (Business Recorder, 05<sup>th</sup> September, 2008)

### **SMEDA-UNIDO investment unit to be set up**

The Italian Ambassador to Pakistan, Hincenzo Parati has said the over 90,000 Pakistanis are living in Italy and working on good positions can play very important role in promotion of bilateral business relation between Pakistan and Italy. Under the agreement, Pakistan to get credit facility of Euro 7.775 million for the purchase of Italian machinery to develop small and medium enterprises. The agreement also includes establishment of an Investment Promotion Unit at SMEDA in collaboration with UNIDO. (Business Recorder, 05<sup>th</sup> September, 2008)

### **UNCTAD report warns of gloomy outlook for world economy**

Instability in international financial, currency and commodity prices are contributing to a gloomy outlook for the world economy, the United Nations Conference on Trade and Development (UNCTAD) warned. In the developed countries GDP growth is likely to be around 1.5 percent. "In the current fragile condition of the global economy, measures to tighten monetary policy would exacerbate the global slowdown," said Supachai Panitchpakdi, UNCTAD's secretary general. The report also urged governments to take new measures aimed at achieving greater commodity price stability. The report also advised developing countries to promote diversification and industrial development in order to reduce vulnerability to commodity price shocks. (Xinhua, 05<sup>th</sup> September, 2008)

### **Government may pull out \$2bn investment in US**

The appalling economic situation has forced the country to actively consider the option of withdrawing over \$ 2 billion foreign currency reserves parked in US Treasury and its capital market. During the previous regime, the government hired fund managers for management of the reserves, who parked money in capital markets, bonds as well as US Treasury. Pakistan is a net loser in this FOREX game," an official commented. Among the questions, the SBP was asked how much foreign currency reserves were parked with the fund managers for the medium term or fixed term. "The handling of foreign currency reserves poses a big question mark," an official source said and conceded much could be done to better manage the reserves. The break-up shows that foreign reserves held by the State Bank stood at \$ 5.759 billion while net reserves held by banks (other than SBP) amounted to \$ 3.370 billion. (The News, 06<sup>th</sup> September, 2008)

### **Weekly inflation soars 31.55 per cent**

The government has totally failed to control the skyrocketing inflation which is not only affecting millions of fixed and low-income households but also hurting the popularity of the present government. For them, the SPI registered an increase of 33.18 per cent. For the income group of Rs. 3,001 to Rs. 5,000, it stood at 32.02 per cent, for the Rs. 5,000 to Rs. 12,000 income bracket it was at 31.65 per cent and for those earning more than Rs. 12,000, it stood at 31.54 per cent as compared to the same week of fiscal year 2007-08. The State Bank of Pakistan (SBP) has recently also increased its discount rate by 100 basis points to 13 per cent aimed at curtailing demand pressure in the economy and ultimately capping inflation. (The News, 06<sup>th</sup> September, 2008)

### **Pakistan needs 'substantial external financing': IMF**

Pakistan needs "substantial external financing" to stabilize its economy and rebuild fast-shrinking foreign currency reserves, a senior IMF official said. IMF Director of the Middle East and Central Asia Department Mohsin Khan said Pakistan's five-month-old government was preparing its own strategy to steer the economy away from the rocks and had not requested a fund programme. Khan said the strategy included letting interest rates rise if necessary, allowing greater exchange rate flexibility, reducing the fiscal deficit and cutting government borrowing. Latest data released by the Finance Ministry showed reserves fell from \$9.13 billion on Aug. 30 to \$8.89 billion on Sept 3, the lowest level since 2002, of which the central bank's reserves accounted for \$ 5.5 billion. Central bank Governor Shamshad Akhtar issued a statement saying the World Bank was seeking to speed up close to \$ 1 billion in investments in Pakistan. (The News, 06<sup>th</sup> September, 2008)

### **Weak economy, inflation to greet new president**

Pakistan's next powerful man, who will sit in the presidency after Saturday's elections, will have to focus on worsening macro-economic indicators, depleting foreign reserves and unprecedented surge in inflationary pressures. After assuming reigns of power by the PPP-led coalition government on March 31, 2008, deteriorating macroeconomic indicators never got the deserved importance during the last five months. Finance ministry high-ups continuously made crucial briefings before the PPP

economic managers including Finance Minister Syed Naveed Qamar, but the incumbent regime moved slowly because they always looked towards Zardari House before making any crucial decision. It has been conveyed by the USA, World Bank and other donors to the PPP government that there was a communication strategy placed by the democratically elected government after assuming reigns of power, which aggravated the situation in the stock market and currency market. (The News, 06<sup>th</sup> September, 2008)

### **Minimum capital requirement for banks increased**

The State Bank on Friday raised the minimum capital requirement for all banks and development financial institutions (DFIs) to Rs. 23 billion to push the sector for consolidation and to encourage a second-round of mergers and acquisitions. The State Bank also increased capital adequacy ratio to 10 per cent, hoping the move would help consolidate the banking industry. Dr. Akhtar said the central bank has decided to raise minimum paid-up capital requirement for locally incorporated banks to Rs. 23 billion (net of losses) to be achieved in a phased-manner by Dec 31, 2013. At the conclusion, Dr. Akhtar urged the banks to reduce banking spreads which are 'high' as compared to countries in the region. (Dawn, 06<sup>th</sup> September, 2008)

### **FPCCI flays rising banking spread**

Pakistan's apex trade body, the Federation of Pakistan Chambers of Commerce and Industry, has taken strong note of widening of banking spread to 7.05 per cent which is helping banks to earn more profits, push up inflation, increasing the cost of doing business and keeping prospective investors away. "Banking spreads are directly related with the markup income of the banks," the FPCCI chief observed to point out that in last couple of years the markup income of banks had increased considerably because of widening of the spread. He asserted that banking spread had a direct bearing on the inflation and illustrated his point by saying that in the year 2001-02 the inflation was only 3.5 per cent as spread was only 5 per cent. Now that banking spread is 7.05 per cent, the inflation is 14 per cent. (Dawn, 06<sup>th</sup> September, 2008)

### **Foreign portfolio investment outflow continues**

The outflow of foreign portfolio investment from the country's equity market continued as the offshore investors withdrew another \$ 3.305 million during the week ended. Analysts believe that the prevailing uncertainty on political front is the main reason, which forces the foreign investors to offload their holdings. Weakening economic indicators, depreciating local currency value and downgrading country's outlook also created negative sentiments, they said. A meagre inflow of \$ 0.144 million of portfolio investment was recorded. However, the foreign investors remained cautious and withdrew \$ 1.422 million. (Business Recorder, 06<sup>th</sup> September, 2008)

### **13.1 percent growth recorded in Pakistan's commercial spending in 2007**

The annual commercial spending in Pakistan grew to an estimated \$ 190,166 million in 2007, an increase of 13.1 percent from \$168,131 million in 2006, according to data from the Commercial Consumption Expenditure (CCE) index released by Visa. Annual commercial spending in Asia Pacific grew to an estimated \$18.9 trillion in 2007, an increase of 13 percent from \$16.8 trillion in 2006, according to data from the Commercial Consumption Expenditure (CCE) index released on Friday by Visa. Global annual commercial spending grew to an estimated \$77.3 trillion in 2007, representing an increase of 12.2 percent from \$68.9 trillion in 2006. (Business Recorder, 06<sup>th</sup> September, 2008)

### **ADB to provide \$1 million as RETA to developing member countries**

Asian Development Bank (ADB) will provide one million dollars as Regional Technical Assistance (RETA) on a grant basis for "Enhancing Social Protection Initiatives in Developing Member Countries". In a project update report, Team leader, S. W. Handayani, Senior Social Development

Specialist, Regional and Sustainable Development Department (RSDD) hoped that the expected impact of the RETA is more inclusive economic growth in DMCs from supporting DMCs in developing and adopting social protection policies and programs. Learning from the research and technical support will be disseminated through a communication program to raise awareness and support adoption of targeted social protection strategies and programs. (Business Recorder, 06<sup>th</sup> September, 2008)

### **EC, ECB support pan-European payment facilitation**

The European Commission and the European Central Bank (ECB) expressed here on Thursday support for the European Payments Council (EPC) to launch the Single Euro Payments Area (SEPA) Direct Debit scheme. Under the scheme, bank customers would be able to arrange direct debits to pay companies with bank accounts in any of the 31 European countries participating in SEPA. "The SEPA Direct Debit scheme is one of the key elements in establishing a single euro payment area. Direct debit schemes allow bank customers to give companies or organizations authorization to take money directly from their bank accounts to pay their bills, e.g. gas, electricity, telephone. Currently there are separate national direct debit schemes and it is not possible to establish direct debit arrangements across frontiers in Europe. (Xinhua, 06<sup>th</sup> September, 2008)

### **Early fixing of wheat support price sought: Rs. 1,000 per 40 kg bag**

The federal food ministry has sought prime minister's intervention for timely fixing of wheat support price for 2008-09 crop and for checking unbridled smuggling of wheat and urea to neighbouring countries. The prime minister heads the Economic Coordination Committee (ECC) of the cabinet which fixes the support and issue price of wheat. Wheat sowing would start from October in arid areas of the country and the food ministry believes that only a justified wheat support price, that should not be less than the market price, could attract farmers to wheat sowing and enable Pakistan to achieve, or at least reach close to, the 24 million tons wheat production target for the next crop. Urea price in Pakistan hovers around \$180, while in the neighbouring countries the rate of the fertilizer has touched the figure of \$ 800 per ton. Pakistan produces 4.8 million tons of urea, while the country's requirement is around 5.6 million, leaving a gap of 0.8 million tons in supply and demand which is met through imports. (Dawn, 07<sup>th</sup> September, 2008)

### **SBP sets Rs. 250 billion farm credit target for FY09**

State Bank of Pakistan Governor Dr. Shamshad Akhtar said here on Saturday that the central bank had set an indicative credit disbursement target of Rs. 250 billion for agriculture sector for the current fiscal year 09. Dr. Akhtar informed the meeting that in 2007-08 banks surpassed the agriculture credit target of Rs. 200 billion and disbursed Rs. 212 billion to the farming community which is higher by Rs43 billion or 25pc than the last year's disbursement of Rs.169 billion. Dr. Akhtar appreciated the fact that sector-wise agriculture credit disbursements during the last fiscal year showed diversification of the credit to non-farm sector as its share in the total credit disbursement increased to 25pc in FY08 from 17pc in FY07. She pointed out that recoveries of agriculture loans have shown significant improvement during FY08 and banks recovered 92pc of their recoverable amounts as against 83pc recovered during FY07. Dr. Akhtar briefed the committee about State Bank's initiative of introducing guidelines on Islamic financing for agriculture. (Dawn, 07<sup>th</sup> September, 2008)

### **Textile problems mount with weaker rupee, high tariff**

As business problems go on mounting with every passing day because of increase in energy tariff and dwindling foreign exchange reserves that has brought rupee-dollar parity close to Rs. 80 now, the business leaders believe that it may take at least one month after Asif Zardari's election as president to address their issues. "Reshuffling of cabinet will perhaps be number one issue for the coalition government at centre and provinces," a top business leader of a premier trade body says.

Chaudhry Mukhtar moved a summary for continuation of research and development (R&D) subsidy to textile exporters in the June meeting of the Economic Coordination Committee (ECC) during the current fiscal year. Iqbal Ibrahim, chairman of All Pakistan Textile Mills Association (APTMA) estimates a total sum of about Rs. 5 billion has apparently stuck up because of non-payment of export subsidy claims to textile business. The State Bank initially stopped entertaining claims against those exports for which shipments were made after June 25. (Dawn, 07<sup>th</sup> September, 2008)

### **Developing states likely to grow by 6pc in 2008**

The financial turmoil that erupted in August 2007, the unprecedented oil price increases and the possibility of tighter monetary policy in a number of countries presage difficulties for the world economy in 2008 and 2009, the UN Conference on Trade and Development (UNCTAD) says in a new report. For a large number of developing countries, the outlook depends primarily on future trends in the prices of their primary commodity exports. Instead of reducing risk, complex financial instruments have served to spread the impact of risky investments across countries and markets. The rapid unwinding of "carry trade" activities, aimed at extracting gains from nominal interest rate differentials, presents another threat for the global financial system. The financial turbulence, the speculative forces contributing to commodity price hikes and instability, and the apparent failure of foreign-exchange markets to bring about changes in exchange rates that reflect current-account trends suggest that there is an urgent need for reviewing the institutional framework of the global economy. In the current fragile condition of the global economy, measures to tighten monetary policy would exacerbate the global slowdown. (Dawn, 07<sup>th</sup> September, 2008)

### **Industrialists strongly oppose 31 percent raise in power tariff**

The industrialists, traders, leaders of various trade bodies, political, social forums and non-government organizations have shown grave concern and strong reaction against the 31 percent increase in the electricity tariff, and demanded of Prime Minister Yousaf Raza Gillani to reverse the decision, in the larger interest of the public and the business community. The Pakistan Industrial and Traders Associations Front (PIAF) also gave a very strong reaction over the government decision to make another 31 percent raise in power tariff. The PIAF Chairman said that the government should tap coal reserves instead of continuing with thermal power generation means. He said that textile industry is already facing the brunt of high cost of doing business, non-availability of utilities i.e. electricity and gas to the industry and foreign market access related issues. In order to save the textile industry and enable it to effectively compete in the international market place it is high time for the Government to consider introduction of special tariff for the textile industry" he added. Prime Minister has himself acknowledged that present electricity tariff increase has been made on the pressure of the World Bank (WB)" he added. (Business Recorder, 07<sup>th</sup> September, 2008)

### **PSQCA proposes measures to streamline trade practices**

The Pakistan Standards & Quality Control Authority (PSQCA) has proposed measures of far-reaching consequences to streamline and standardise trade practices as required under the WTO/Technical Barriers to Trade (TBT). In its series of recommendatory measures to the Federal Government for compliance with WTO/TBT it has proposed Labelling & Packaging (Consumer Commodities) Rules for enforcement on domestic and imported manufactured merchandise. PSQCA has proposed to Federal Government to adopt labelling and packaging (consumer commodities) rules in right earnest to help the domestic consumers as well as the country in containing import of substandard goods. Any fruit syrup, fruit juice, fruit squash, beverage or cordial or crush, which contains less than 50 percent amount of natural fruit juice, shall not be described as a fruit juice, fruit squash, fruit beverage or cordial, or crush, as the case may be, and shall be described as a synthetic product. (Business Recorder, 07<sup>th</sup> September, 2008)

### **Zardari's election as president: business community eyes political stability**

The business community while expressing its satisfaction over the election of Asif Ali Zardari as 12th President of Pakistan, said the country would have now political stability which would help bring foreign investment besides restoring the local investors' confidence. Now, the country will not only witness stability on the political and economic front, particularly in the presence of the President and the Prime Minister from the same party. The foreign investors only put his money to a country that has political stability. The Lahore Chamber of Commerce and Industry (LCCI) former president Mian Anjum Nisar congratulated Asif Ali Zardari for having been elected new President of Pakistan. (Business Recorder, 07<sup>th</sup> September, 2008)

### **UK economic downturn not as bad as the 90s: TUC**

The economic downturn in Britain is "nowhere near" as bad as the early 1990s recession, but the government must do more to help if it is to stand any chance of staying in power, the Trades Union Congress said on Saturday. Britain's unions descend on the seaside city of Brighton this weekend, angry about sub-inflation pay deals in the sprawling public sector and worried about the impact on families of rising living costs and an economic slowdown. However, with polls suggesting the ruling Labour party could face defeat in the next election due by 2010, unions are wary of kicking up too much controversy before a political conference season which could decide Prime Minister Gordon Brown's fate. (Business Recorder, 07<sup>th</sup> September, 2008)

### **U.S. Govt takes over Fannie, Freddie to stabilize financial market**

The U.S. government said on Sunday that it will take over two mortgage giants Fannie Mae and Freddie Mac in order to stabilize the financial market. The plan will enable the Treasury to purchase mortgage-backed securities from the two firms in the open market. "Under the terms of the agreement, common and preferred shareholders bear losses ahead of the new government senior preferred shares," Paulson said. The takeover also includes the departure of Fannie Chief Executive Daniel Mudd and Freddie Chairman and Chief Executive Richard Syron. Herb Allison, a former vice chairman of Merrill Lynch, was selected to head Fannie Mae, and David Moffett, a former vice chairman of US Bancorp, was picked to head Freddie Mac. "I also welcome the introduction of the Treasury's new purchase facility for mortgage-backed securities, which will provide critical support for mortgage markets in this period of unusual credit-market uncertainty," he added. (Xinhua, 07<sup>th</sup> September, 2008)