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WTO CELL  
PLANNING & DEVELOPMENT DEPARTMENT

WEEKLY ECONOMIC DIGEST

17th December - 23rd December

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**SUBSIDISING OIL PRICES WITH BANK LOAN**

WHILE the government is negotiating financial arrangements with banks for deferring a portion of an expected over Rs100 billion liability to the oil companies on oil price differential between currently frozen domestic prices and soaring international prices this fiscal year, the economic managers are also giving serious thought to tapping tax revenue potential in virtually inaccessible areas. On 12<sup>th</sup> December 2007, the Economic Co-ordination Committee of the cabinet approved a Rs18 billion syndicated loan for Shell and PSO instead of the government paying them from the national exchequer. A senior official in Islamabad estimates oil prices differential touching Rs110 billion by end June next, if international oil prices stay at about \$100 a barrel and domestic oil prices remain unchanged. Add to this, the surging subsidy on Wapda operations and imported wheat sales in domestic market, the fiscal deficit seems too unmanageable. “What are the options” he asked and replied himself “push up domestic prices of oil products that, in turn, will have an all round effect on the economy”. The second choice is to cut down on Rs500 billion public sector development programme (PSDP) and the third is to defer these liabilities for a year or two by issuing compensation bonds with the help of banks.

**INITIATIVES FOR FAST TRACK INVESTMENT**

THE Frontier government has set up a working group to suggest short-term measures for attracting investment and promoting economic growth in the province. The Frontier is blessed with treasures of marble, granite and gemstone that can form a base for a sustainable economic growth. According to the Directorate of Minerals NWFP data, the province has huge deposits of cement at three different sites. Keeping in view the size of the deposits, if a cement plant is established at each of the three locations, it could produce 3,000 tonnes of cement daily which could be exported to Afghanistan and the Central Asian Republics.

### **IMPORT DUES CUT TO FIGHT FOOD INFLATION**

Import tariffs for big agricultural commodities, in particular cereals, vegetable oils and rice, are being slashed in an effort by developed and developing countries to cushion their local markets against rising food inflation. The European Union- the world's top importer of wheat and one of the largest buyers of soyabean and corn – has also announced that it will set zero import duties for cereals until next June. China has cut its soyabean import tariff from 3 to 1 percent while Russia will cut its import tariff for soya oil and rapeseed oil from 15percent to 5 percent. However the reduction in import tariffs has been offset by higher export tariffs – which aim to help keep local markets well supplied – in several key exporting countries.

### **PAKISTAN'S FOREIGN EXCHANGE RESERVES TO CROSS \$16 BILLION**

The country's foreign exchange reserves will regain their previous position of \$16 billion plus as major cash inflows were expected next month, Special Finance Secretary Dr Ashfaq Hasan Khan told. He admitted that the emergency shattered the confidence of the foreign investors who withdrew some \$200-\$250 million investment from the stock market. He said as a result of the developments on exports and imports the trade deficit shrunk by \$191 million to \$3,533 million from \$3,724 million from July to October 2007.

### **IMF TO ISSUE CORRECTIVE GUIDELINES**

For the International Monetary Fund (IMF), rising inflation and huge current account deficit are two potential threats to Pakistan's economy and it is going to issue guidelines to the government for corrections on December 18. Pakistan is not utilising any IMF loan facility, implementation of its guidelines are not mandatory for it. IMF and other international donors are seriously concerned over Pakistan's huge current account deficit and they, time and again, have suggested to the government to take corrective measures before it got too late. They also suggested to Pakistan to walk out of all kinds of business and leave this role for the private sector, but Islamabad is yet to take this advice to make a difference.

### **PAK-CHINA INVESTMENT COMPANY LAUNCHED**

Caretaker Federal Finance Minister Dr Salman Shah has said that China and Pakistan have decided to increase volume of trade from the existing \$5 billion to \$15 billion in the next 5 years. He was speaking at the launch of Pak-China Investment Company Limited (PCICL) held at the Governor's House on 17<sup>th</sup> December 2007. The initial authorised capital of the Company is Rs 12.14 billion or equivalent to \$200 million, making it the largest joint venture Investment Company in the country. The Company has become operational with an initial paid-up capital of \$70 million to increase to \$200 million by 2009. Both the sponsors are contributing equally to the capital. It is a joint venture between the China Development Bank and the Finance Ministry, Government of Pakistan. This is the first venture of its type by the China Development Bank outside China. Dr Salman Shah said that the progress of this ambitious public-private joint venture would be assessed on the basis of achieving the trade volume target and the number of new investments it brings to Pakistan.

### **FBR MAY MISS JULY-DEC REVENUE COLLECTION TARGET**

The Federal Board of Revenue (FBR) is unlikely to meet the target for the first half (July-December) of 2007-08 owing to slowdown in revenue generation. The FBR first quarterly report released on 17<sup>th</sup> December 2007 said although the downward revised target for the first quarter had been achieved but it might put extra pressure on individual taxes performance in the second quarter. The revenue target for 2007-08 was set at Rs1,025 billion that required 21.1 per cent growth over last year's collection of Rs846.4 billion. Since it was natural to assume that autonomous growth in tax base would not be sufficient to generate the additional Rs178 billion, certain budgetary measures were also introduced essentially to cover those areas that had escaped tax net for various reasons.

### **OMCS DISPEL FEAR OF CRISIS AS DIESEL RESERVES DEplete**

The country has around one week's diesel reserves, but the oil-marketing companies (OMCs) dispel any fear of energy crisis in the near future. They appear optimistic and hold that consumers would not feel the pinch of any shortage as there would be no dryness of diesel at pumps in any part of the country. On Dec 12, the Oil Companies Advisory Committee (OCAC) had come out with a statement that "the countrywide diesel reserves as on Dec 11 are for 11 days." General Manager (External Affairs), Shell Pakistan Limited (SPL), Abid Saeed Ibrahim, said he had checked supply at company's countrywide over 1,000 outlets where diesel is available in ample supplies. Sale of diesel had surged by 14 per cent during July-November 2007 to 3.4 million tons. Usually a pump maintains three to four days requirement depending upon the under ground tank storage, ranging between 15,000-30,000 litres. PSO had imported 90,000 tons of diesel last week while another shipment of 45,000 tons is arriving on 18<sup>th</sup> December.

### **BANKS WRITE-OFF RS 42.5BN IN 2006: HIGHEST NPLS**

The State Bank on 17<sup>th</sup> December 2007 issued first 'financial stability review' carrying detailed information, including concerns over rising non-performing loans (NPLs), and huge write-offs made in 2006. "Changes in the level of NPLs indicate that the banking sector has written-off NPLs worth Rs42.5 billion during CY06, compared to Rs17.1 billion during CY05," said the SBP report. Despite significant deceleration in recent years, the NPLs-to-loans ratio is still high at 19.3 per cent in H1-CY07. Local private banks have emerged as leading player with an asset share of 72.9 per cent in the banking system. The share of loans in the overall assets of the banking sector reached 55.8 per cent in CY06, the highest level during the last 10 years, before declining to 50.5 per cent during H1-CY07. The overall size of Pakistan's financial sector has increased by almost Rs900 billion (32 per cent growth over December 2005) to reach Rs6.9 trillion up to June, 2007.

### **PJBF SHOULD SET UP ECONOMIC FREE ZONE NEAR KARACHI**

The government invites Pakistan Japan Business Forum to initiate the setting up of a 2000-acre economic free zone outside Karachi or near Keti Bunder at the periphery of the coastline that would be profitable to Japanese long-term investors. Pakistan is geo-strategically well poised to cater to the Middle Eastern countries and Afghanistan. The government is willing to provide the required infrastructure such as road network, gas pipeline, and electricity, this was stated by Federal Minister for Finance, Revenue,

Economic Affairs and Statistics, Dr Salman Shah. Pakistan economy has grown at the rate of 7% per annum in the last five years and the GDP is over \$160 billion. Regarding Stock Market, the Minister stated that one can compare present Stock Exchange to year 2000, when the index was 1200 - 1300 while today's index is over 14000.

### **TWO BANKS TO OPEN BRANCHES IN MOSCOW**

Russian Ambassador Sergey N Peskov said on 18<sup>th</sup> December 2007 that National Bank of Pakistan and Askari Commercial Bank would open their branches in Moscow soon to facilitate exporters. The Russian envoy disclosed this during a meeting with TDAP Chief Executive, Mr. Tariq Ikram. He showed a keen interest in holding single country exhibitions, besides establishment of trade house of Pakistan in Moscow for creating awareness in Russia about the vast potential of Pakistani products and their competitive prices. Tariq Ikram informed him that Pakistan's exports to Russia had increased from \$20 million to \$140 million in the last eight years and added that vast potential existed for expanding volume of bilateral trade.

### **EXEMPTION**

The Federal Board of Revenue (FBR) has exempted customs duty in excess of 10 per cent ad valorem on import of raw materials used in the manufacturing of agriculture diesel engine. The exemptions would be on 21 raw materials of agriculture diesel engines (single cylinder of 12-32 HP), including balancing block, camshaft, connecting rod bearing set, cover sets, cylinder shaft, cylinder block, cylinder head, cylinder head cover, cylinder liner (of 18-32 HP), fly-weight assy, fuel injection pump, fuel injector, gear sets, intake/exhaust valve & spring, main bearing set, oil pump, piston (of 18-32 HP), piston ring set (of 18-32 HP), set of bushing, valve rocker arm assy and water pump.

### **EFFORTS URGED TO REMOVE EU BAN ON SEAFOOD**

Caretaker federal Minister for food, agriculture and livestock Prince Mohammad Isa Jan Baloch on 18<sup>th</sup> December 2007 urged all stakeholder in fisheries sector to give up differences and gear up efforts for removal of EU ban on Pakistani seafood. "The requirements of boat modification and sanitation during handling of catch and packaging recommended by the EU inspection mission during January 2007 are not something which cannot be done," he told stakeholders, including Karachi Fish Harbour Authority (KFHA), Fishermen's Cooperative Society (FCS), Marine Fisheries Department (MFD), processors and boat-owners during his visit to the fish harbour here. The minister was told that Sindh Government was providing Rs119 million to share 50 per cent cost of boat modification while the rest is to be shared by boat owners.

### **FAYSAL BANK ALLOWED 10PC REDEMPTION OF NIT UNITS**

Faysal Bank Limited — one of the three major Letter of Comfort (LoC) holders in National Investment Trust (NIT) — has announced its intent to accept the government's offer of redemption of 10 per cent of total units outstanding in the bank's books as well as extension of LoC up to Dec 31, 2008. In a notice to the Karachi Stock Exchange, under the regulation of 'disclosure as per corporate governance', the bank announced on 17<sup>th</sup> December 2007 that the government through its letter dated December 4 had advised that NIT would be facilitated to redeem 10 per cent of total units under LOC outstanding

in the Faysal Bank's books on or before December 31, 2007, subject to the extension of LOC up to December 31, 2008, at the redemption price prevailing on the date of such redemption. "In this context, we are in process of advising our acceptance to the government for extension of LOC date as well as the redemption of 16.70 million units being 10 per cent holding in NIT units," the bank said. It added that the above units were also being lodged with NIT for redemption before December 31, 2007. "The aforesaid redemption is estimated to yield sale proceeds of about Rs1.03 billion, which includes capital gain of about Rs761 million," the bank announced.

### **REMITTANCES SOAR 23.62PC IN 5 MONTHS**

Overseas Pakistanis sent 23 per cent more money to Pakistan in the first five months of the current fiscal, SBP reported. Remittances continued to show a rising trend as an amount of \$2,587.07 million was received in the first five months (July-November 2007) of the current fiscal year 2007-08, showing an increase of \$494.26 million or 23.62 per cent over the same period of the last fiscal. The monthly average remittances for the period July-November, 2007 comes out to \$517.41 million as compared to \$418.56 million during the same corresponding period of the last fiscal year, registering an increase of 23.62 per cent. The amount of \$2,587.07 million includes \$0.97 million received through encashment and profit earned on Foreign Exchange Bearer Certificates (FEBCs) and Foreign Currency Bearer Certificates (FCBCs).

### **SINDH WANTS ECC TO RECONSIDER TARIFF ISSUE: COAL-BASED POWER PLANTS**

The Sindh government and business leaders have reacted sharply to the spanner thrown by a federal government energy adviser in the programme for gainful and productive exploitation of coal reserves in Thar and other areas for conversion into electricity. "A \$5 trillion worth coal that costs around \$20 trillion when converted into electricity will remain bury deep under the earth for the next generation or so because of an adviser who is a migratory bird," quipped a business leader at a gathering of businessmen on 15<sup>th</sup> December 2007. Technocrats, bureaucrats, business leaders and political leadership in Sindh are all in consensus to propose the fixation of an upfront tariff for all the coal-based power projects in Sindh so that investors could come up with viable plans. But not Mr Mukhtar Ahmad, the energy adviser in Prime Minister's.

### **NEW COMMON FACILITY CENTRES FOR SMES**

The Small and Medium Enterprise Development Authority (Smeda) and the Commerce and Investment Department Punjab, would make integrated efforts to create new common facility centres for uplifting of SMEs in Punjab. The Secretary, Commerce and Investment Department Punjab disclosed that his department had planned to set up a Hot Water Treatment Plant in Multan for cleansing of the exportable Mangoes while a laboratory to test sports goods was also on priority lists of the projects being considered by his Ministry. He emphasised to exchange details on the projects being run and designed by the Smeda for Punjab to lay down an integrated program for facilitation of the industry by avoiding any duplication. Chief Executive Officer (CEO), Smeda agreed to enhance co-ordination between the Smeda and the provincial Commerce and Investment Department for larger interest of the SMEs in Punjab.

### **CENTRE ACCUSED OF NOT RELEASING FUNDS TO BALOCHISTAN**

Balochistan government has accused the Federal Government of not releasing funds for the province's development as pledged for which most of targets of Medium Term Development Framework (MTDF) are not likely to be met. The federal government transferred Rs 7.7 billion or 26 percent of its annual share of Rs 29.6 billion in federal revenue during the first three months of the current fiscal. The other provinces were released with not more than 20 percent of the total shares. The centre has transferred about Rs 91 billion to the four provinces as their share in the federal revenue in the first quarter that amounts to less than 20 percent of the year's target of about Rs 465 billion. But in the Balochistan case, the transfers are swifter than those to other provinces. Some initial indications suggest that most of the provinces have not moved properly in connection with the implementation of MTDF. As the MTDF was prepared in 2004-05 and nearly half of the MTDF period is about to complete, the P&D decided to review the progress made by federal and provincial agencies regarding implementation of MTDF. The P&D is under severe pressure this fiscal that government would cut the development budget if the government continued with providing subsidy on petroleum products as the oil prices touched record heights in the international market. This will have negative implications on overall development strategy, the sources said.

### **PHMA DEMANDS SUBSIDY ON SALE OF YARN**

Pakistan Hosiery Manufacturers' Association (PHMA) has demanded of the government to provide subsidy on the sale of yarn locally instead on its export to overcome the shortage like situation in the local market. The PHMA lauded the caretaker government for its textile strategy saying it would help the textile industry retrieve its past strength. The association maintained that increasing price of cotton yarn was resulting in the production of value-added apparel products in the local markets making it uncompetitive in the world markets.

### **BARCLAYS GETS BANKING LICENCE IN PAKISTAN**

World's second largest bank, Barclays, entered Pakistan as it received a license from the State Bank on 13<sup>th</sup> December, 2007. Earlier, the same bank held negotiations to acquire a Pakistani bank, but the deal could not materialise. The bank, which witnessed a tremendous financial growth in the last five years, however, got the licence to operate in the country. Initially, the Barclays will invest \$100 million and establish 10 branches in the main cities of the country. Dr Shamshad Akhtar said the entry of Barclays in Pakistan would not only strengthen banking system of the country, it would also bring a significant amount of foreign direct investment and technology to launch innovative financial products. Barclays will be established in Pakistan as a foreign banking company and operate in branch mode with a capital of US\$100 million and will initially set up 10 branches in various cities of the country.

### **TCP RETURNS BOND MONEY, GUARANTEES TO AWB**

The Trading Corporation of Pakistan (TCP) has returned the performance bond and other guarantees to the Australian Wheat Board (AWB) instead of forfeiting them as it had

refused to supply the required wheat. The AWB had offered bid at \$527 per ton on Nov 19. The tender was issued to the AWB at \$511.75 after matching the price instead of awarding it to the parties offering lower rates. Although the AWB did not supply wheat on Dec 14, it demanded return of the performance bond, and the TCP did it on Dec 17. The AWB had earlier promised to expedite shipment within a week from any Australian port. But it later informed the TCP that as the AQUIS doesn't conduct certification of the conditions attached to the import permit issued by the Plant Protection Department, the conditions in the import permit be withdrawn.

### **LINT PRICES EASE ON DULL TRADING**

Cotton prices on 19<sup>th</sup> December 2007 eased from the current higher level by Rs25 per maund in the absence of support from the spinners and the mills owing to a long weekend ahead. But in physical trading stray lots did change hands around the previous level of Rs3,100 from the Sindh ginneries apparently for ready delivery from the city godowns, floor brokers said. A larger unsold stock of over 2m bales did worry ginners as a huge sum of Rs30 billion is tied to it and some of their colleagues are trying to sell at the prevailing prices to meet their bank obligations as the date (before Dec 31) of adjustment of overdraft limit is approaching, market sources said. The market was expected to remain in a bullish frame of mind in coming weeks also despite instant shocks here and there caused by negative external factors, they said.

### **ADB TO PROVIDE \$400,000 FOR BALOCHISTAN RESOURCE MANAGEMENT PROGRAMME**

Asian Development Bank will provide \$400,000 equivalent on a grant basis from ADB's TA funding programme for preparing the "Second Balochistan Resource Management Programme". According to ADB sources, the TA is estimated to cost \$450,000 equivalent in local currency costs. ADB will provide \$400,000 equivalent on a grant basis from ADB's TA funding programme. The government of Balochistan will contribute the remaining local currency cost of \$50,000 equivalent in kind by providing office accommodation, counterpart staff, and facilities for seminars and meetings. This is likely to improve the economic and social outcomes in the province. The expected outcome is greater fiscal space for the province of Balochistan through enhanced flows and improved management of resources. According to an update project report, the Asian Development Bank (ADB) has supported the government of Balochistan (the government) in public resource management reforms through the Balochistan Resource Management Program (BRMP I). BRMP I was approved in November 2004 and closed after the release of the second tranche on 31 May 2007.

### **AFGHANISTAN TO IMPORT PAKISTANI MADE DIESEL ENGINES**

Chief executive officer KAM Engineering, Khalid Saeed Khan told on 20<sup>th</sup> December 2007 that the Pakistan made KAM diesel engines have become very popular in Afghanistan, compared to all brands of those made in India, and are being successfully used for agricultural purposes. He said the Afghan team will visit the state of the art plant and see the engine assembly process, using indigenous technical know how and expertise, which has helped to control the price of the product with minimum overhead expenses. In their war torn country, the Afghans are now inclined to bring maximum area under

cultivation to meet the ever-increasing need of food grains. For this purpose, they need quality agri inputs and implements, and Pakistan made products offer the guarantee to compete in terms of quality and price, said the firm's Director Marketing, Sh Muhammad Amin.

### **DONORS WORRY ABOUT CONTINUITY**

Major international donors are worried over the current political situation in Pakistan as they are not sure whether the next government will continue implementing the current reform agenda. Representatives from the World Bank, IMF, Asian Development Bank (ADB) and the International Finance Commission (IFC) at local offices have been non-committal about the manifestos of major political parties. They say if there is no continuity and consistency in policies of the future elected government, Pakistan would not be able to maintain a seven per cent growth rate. "There has been a slowdown in the economy due to various reasons, including the persisting law and order situation and this is not good for the country," a source said. He said he did not think the caretakers would take timely decisions to improve things, especially with regard to increasing oil prices and removing impediments in the way of local and foreign investment.

### **SERVICES SECTOR**

Having contributed 53.3 per cent of the GDP in the 2006-07 fiscal, the Services sector has been the mainstay of the national economy, leaving far behind the more critically important areas of industry and agriculture which together put in the remaining 46.7 per cent. Pushing aside the debate surrounding the inverted pyramid that we now have due to the overall direction of the economic managers, the services sector does account for more than half of the economy and uncertainty therein does not augur too well for anyone. In the last financial year, the sector recorded 8.0 per cent growth, which was 0.9 per cent above the target and a full percentage point ahead of the national growth which officially stood at 7.0 per cent. However, in comparison with its own performance in the 2005-06 fiscal, the sector did have a setback worth 1.6 per cent, and, by the looks of it, the election year may only affect it negatively, say professionals in the field.

### **IMF PRAISES HIGH ECONOMIC GROWTH**

The International Monetary Fund (IMF) has appreciated Pakistan's sustained high growth and also acknowledged that adherence to pro-poor policies has helped lower poverty rates. The IMF in its latest report based on the IMF executive directors' assessment welcomed Pakistan's monetary policy tightening that has occurred since mid-year as it also observed that a main challenge will be maintaining economic growth while reducing inflation and the current account deficit. It said Pakistan has experienced a remarkable turnaround in its economic performance since 2001/02. Sound macro-economic management and wide-ranging structural reforms have contributed to high real GDP growth, a reduction in the debt burden, and an improved business climate. "Adherence to pro-poor policies has helped lower poverty rates," it acknowledged, while briefly recounting the country's performance in recent years. Increasingly, Foreign Direct Investment (FDI) and portfolio flows have become an important source of external financing. The economic program for 2007-08 envisages real GDP growth of 7.2 percent, the directors noted and the budget deficit target has been set at 4 percent of GDP.

## **RICE EXPORT TO INDONESIA: CABINET ALLOWS MINISTRY TO SIGN MOU**

Commerce Ministry in its summary to the Cabinet had said that Pakistan would supply one million tons of rice to Indonesia annually from 2008 to 2012, subject to production and requirement situation in both countries at international prices. Rice demand was forwarded by Indonesian President Director Bulog which is the sole authority for import of rice to Indonesia. According to plan, the Trading Corporation of Pakistan (TCP) would float the tender, ensure quality and cost of rice, involving private sector. Regarding impact of this export order on domestic prices, the Cabinet was informed that total production of rice was 5.4 million tons, of which 3.1 million tons was exported. A query was also raised regarding the government's deal for export of rice to Bangladesh and Sri Lanka. Commerce Secretary briefed the Cabinet that both countries have been advised to deal directly with the private sector exporters of Irri-6 rice.