Free trade with US to ease dire poverty

Hopes Pak minister

AFP, *Washington*

Pakistan's commerce minister on Friday pressed for talks on a free trade agreement (FTA) with the United States, billing such a pact as a "powerful tool" in the battle against extremism. Humayun Akhtar Khan said that a free trade pact with Washington could be crucial in easing dire poverty in Pakistan, and persuading people to turn away from extremism through the hope of new jobs and economic growth.

Khan said he hoped for progress towards talks on an FTA in the near future, framing Pakistan's drive for a deal in the context of its role in Washington's anti-terror war.

"We do not have a nod right now, we expect in the very near future we will have something positive," said Khan when asked by reporters whether he had been given a date when Washington was willing to open FTA talks.

"I expect in the very near future we will have something positive."

But Stephen Norton, a spokesman for US Trade Representative Susan Schwab, played down expectations of speedy talks with Pakistan on an FTA.

President George W. Bush's room for flexibility on trade deals looks set to be curtailed as his Trade Promotion Authority -- which lets the administration submit deals to a 'yes or no' vote in Congress -- expires next June.

"I would say there is probably not sufficient time to enter into and complete negotiations on an FTA before that time, given the number of free trade agreements that are already in the works," Norton said.

But he added: "We're in talks on a business and investment treaty. We're making some progress there and certainly the components of a business and investment treaty would be the basis for an FTA."

"An FTA between Pakistan and the United States would send a very good signal," said Khan, who has met Schwab and US Commerce Secretary Carlos Gutierrez on his trip to Washington.

"We are very grateful for the economic assistance that the United States has provided for us, (but) it is trade and not aid that is the long-term solution," he said.

"It is the way to help us in the fight against extremism that we have ... it is a powerful tool."

Just a one billion dollar rise in Pakistani textile exports to the United States, which currently reach about three billion dollars, would create 200,000 jobs in Pakistan, said Khan.

But any attempt to increase the amount of textiles imports would be sure to raise the ire of the politically powerful US textiles lobby, which guards its dwindling sector jealously.

Norton said Washington was broadly sympathetic to Pakistan's arguments regarding trade as an anti-terror tool.

"With new economic opportunities often comes political reform and greater respect for the rule of law," he said.

"The 9/11 commission report specifically recommended that trade be a component of our long-term policy in the Middle East, for precisely that reason, that trade and political freedom can go hand in hand."

According to Commerce Department figures, US trade with Pakistan last year totalled a meagre 4.5 billion dollars. Pakistan had a surplus of 2.0 billion.

PHOTO: POWER GRID COMPANY

Officials of Power Grid Company of Bangladesh Ltd and GrameenPhone Ltd exchange documents of an agreement on Monday. Under the deal, Power Grid has leased out one pair of dark optical fibre cable to GP.

PHOTO: STANDARD BANK

The 'Half-yearly Managers' Conference-2006' of Standard Bank Ltd was held on Monday in Dhaka. Chairman of the company Kazi Akramuddin Ahmed was chief guest at the meeting, which was presided over by Managing Director Mosharraf Hossain and attended by directors and other senior officials.

Power Grid Co leases out optical fibre cable to GP

Power Grid Company of Bangladesh Ltd (PGCB), a state-owned public limited company, leased out one pair of dark optical fibre cable from Dhaka (Rampura) to Chittagong (Hathazari) to GrameenPhone Ltd (GP), says a press release.

An agreement to this effect was signed on Monday between the two companies. This is for the first time in the subcontinent that such optical fibre installed over high voltage power transmission lines is leased out to the private sector by inviting open tender, the release added.

As per the agreement GP may sub lease capacity in different bandwidths to others on commercial basis in a non-discriminatory manner, for enhancement of their telecommunication facilities.

Infrastructure Investment Facilitation Center (IIFC), a state-owned consulting company, assisted PGCB in the tendering process for awarding the lease and preparation of tender documents.

The PGCB was formed in 1996 as a functional unit under the Power Sector Reform Programme and entrusted with the responsibility for operation, maintenance and expansion of high voltage power transmission network of Bangladesh.

The optical fibre network of PGCB will be very robust, noise free and over 99.9 percent reliable, the release said.

PGCB is going to complete installation of optical fibre of around 4000 km throughout the country by 2007 over its high voltage transmission lines and intends to lease out the same for better telecommunication infrastructure in the country.

Similar agreement with the BTTB will be made very soon to lease out another pair of optical fibre on the same transmission line of Dhaka-Chittagong route.

Oil below $75

AP, *New York*

Oil prices slipped below $75 a barrel Friday as supply concerns eased, after a storm in the Caribbean weakened and appeared to no longer threaten Gulf coast oil facilities.

Prices remained high, though, and are subject to big swings as traders monitor various factors that could affect supply, such as the potential for storms in the Gulf, record temperatures throughout the United States, violence in the oil-rich Middle East and political strife in Nigeria, Africa's biggest oil producer.

MCCI review of economic situation (April-June 2006)

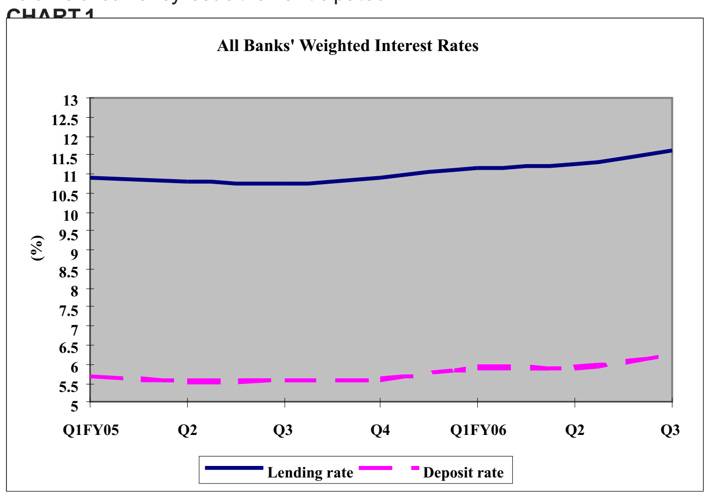
Overview

Based on the latest available data, the country's economic performance in the 4th quarter (April-June of FY06) indicates a marginally slower growth in Gross Domestic Product (GDP) compared to the encouraging GDP growth and control on inflation in the 3rd quarter of the current fiscal year. The major growth area was industry, particularly manufacturing and construction, which recorded notable expansion in the quarter under review. The performance of the agriculture sector was relatively weaker compared to that of the previous year.

A favourable aspect of the country's macroeconomy during the review period, was the return of stability in the foreign exchange market, and an improvement in the country's foreign exchange reserve. Increased inflows of remittances and better performance of the export sector together helped raise Bangladesh Bank's foreign exchange reserve by US$430 million in the review quarter (compared to a decline of US$10 million in the corresponding quarter of the last year) to US$3340 million at end June 2006. The generally stable domestic and external macroeconomic environment benefited all the real sectors of the economy. In particular, the industry sector benefited from increased investment and the creation of additional production capacity in textile and leather sub-sectors, which boosted manufacturing production in the quarter under review.

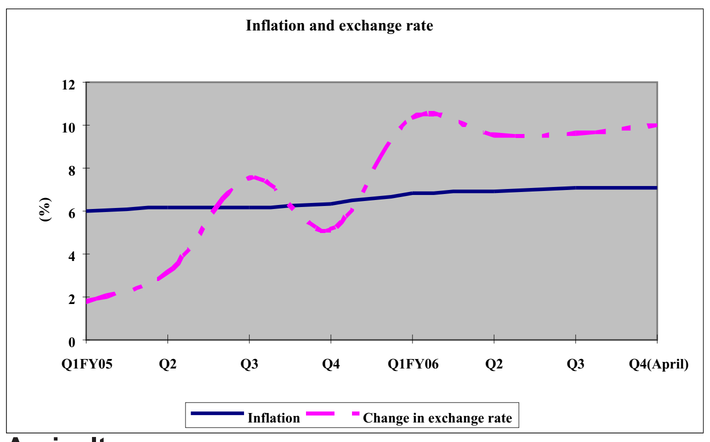
In the monetary sector, the central bank continued its restrictive monetary policy stance by increasing interest rates in the review quarter. (see Chart 1). While the central bank pursued a restrictive monetary policy, reserve money growth in Q4 of F06 was unusually high, at 19.8 percent, compared to 9.7 per cent in the last fiscal year. This resulted in a larger volume of currency issue than anticipated.

CHART 1



The foreign exchange market remained relatively stable. The exchange rate underwent a mild appreciation by 0.4 recent in the quarter under review. In the earlier quarters, Q1, Q2 and Q3 of FY06, the exchange rate depreciated by 9.7% compared to 4.2% depreciation in FY2005. According to the latest available data, the average inflation rate was 7.08% in April of the review quarter (Q4FY06), compared to 7.07% in Q3FY06, 6.91% in Q2FY06, and 6.78% in Q1FY06. In April (of Q4FY06), point-to-point inflation was 7.46 per cent, compared to 6.62 per cent in April FY05.Thus, the rate of inflation slightly increased in the review quarter. The rise in International commodity prices and the upward adjustment in some domestic administered prices provided the major inflationary impetus during the quarter. The relative stability of the exchange rate during the period did not have any perceptible moderating influence on the inflationary pressure (see Chart 2).

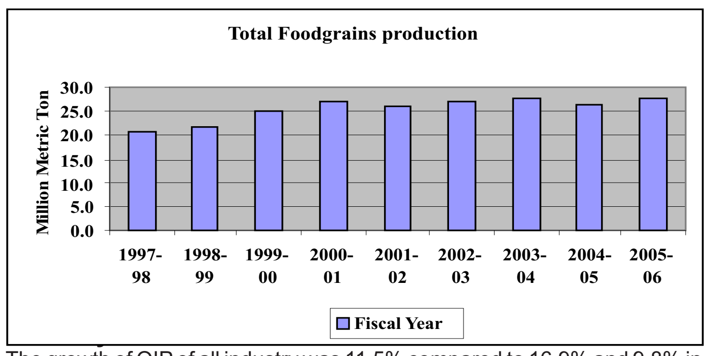
CHART 2



Agriculture

The recovery in the Agriculture sector that began since December 2005 continued in the review period. However, unfavourable weather conditions affected the supply of many short-term crops. Total production target of foodgrains for FY06 was re-fixed at 27.65 million metric tons (mmt), which was 1.2% lower than the previously revised target. In FY2006, the actual production of aus was 17.45 mmt and aman10.80 mmt. The revised targets for boro are 13.70 mmt, and wheat 10.0 mmt. According to the latest estimate, total production in FY06 will be 5.8% higher than the actual production of 26.13 mmt during the previous fiscal. In FY2006, the performance of the agriculture sector mainly reflected the normalisation of foodgrains production following reduced output levels in FY2005 (see Chart 3)

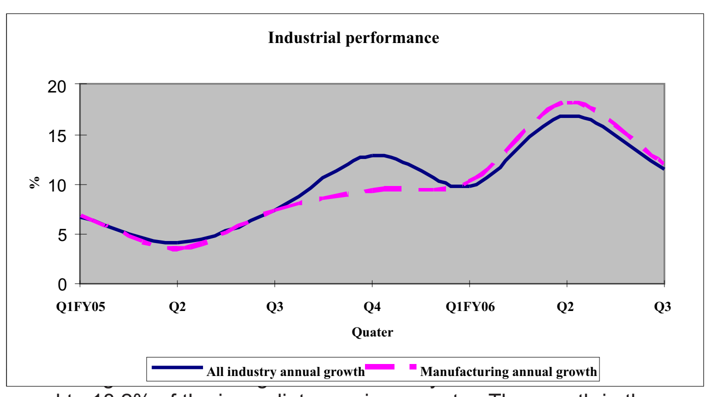
CHART 3



The growth of QIP of all industry was 11.5% compared to 16.9% and 9.8% in Q2 and Q1, respectively, of the same fiscal. However, the growth rate was 4.1 percentage points higher in Q3 FY06 compared to the QIP growth of 7.4% in Q3 of FY05.

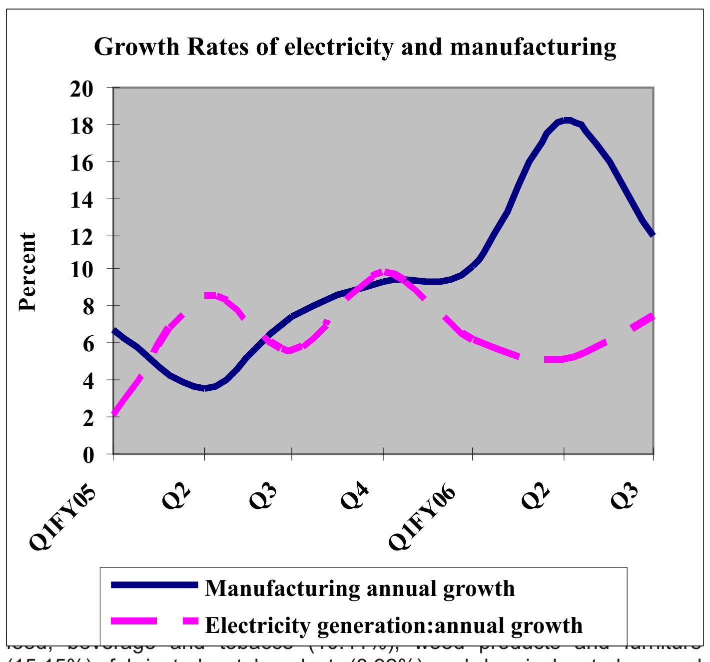
The performance of the overall industrial sector is reflected in the movement of QIP for the manufacturing sub-sector (see Chart 4).

CHART 4



pared to 18.2% of the immediate previous quarter. The growth in the construction sub-sector, which supported the production of building materials, also contributed to the relatively better performance of the industrial sector. The electricity sub-sector, too, performed relatively well, its QIP rising by 7.4% in Q3, compared to a modest 5.1% growth in Q2 of the fiscal (see Chart 5). The mining sub-sector, witnessed a deceleration in its growth. The QIP for mining increased by 6.8% in Q3 as against 12.7% in Q2 FY06.

CHART 5



(15.15%), fabricated metal products (8.92%), and chemical, petroleum and rubber products (7.20%). Production growth was relatively low in basic metal products (5.70%), non-metallic products (5.13%) and paper and paper products (0.21%)

Services

In the services sector, a major increase in the value-added occurred in transport, storage and communication sub-sectors. Growth in the transport, storage and communication sub-sector was driven primarily by the storage sub-sector to which the flow of bank loans in nominal terms increased by 37.5% in Q3 FY06. In the same period, bank advances to transport and communication sub-sectors increased by 23.9%. Continuous investments in the service sector industries have sustained their growth. The trade sector also experienced growth in the review period mainly because of the increase of merchandise imports during the period.

Money and Credit

During the quarter under review, monetary policy was directed chiefly to curb inflation and stabilise the foreign exchange market. However, the inflationary pressure maintained an upward trend although the depreciating trend in the exchange rate witnessed in the previous quarters was reversed, and the Taka appreciated albeit marginally during the quarter. During the review period, the Bangladesh Bank continued to pursue a conservative monetary policy by increasing interest rates. This action led to a significant reduction in the excess liquidity in the banking system, which fell to Tk.35.48 billion at the end of April 2006 from Tk.109.42 billion at the end of June 2005. There was also a fall in the rate of credit growth to the private sector (to 17.0% in March 2005 from 19.5% in March 2005.

As for the money supply, the twelve-month growth of M2 accelerated to 19.9% in April 2006 from 15.9 in April 2005. During the same period, the growth of the more liquid narrow money (M1) increased to 24.4% from 16.9%.

The banking system's credit (97.4%) was mainly responsible for the expansion of the money supply while the effect of the increase of net foreign assets of the banking system was insignificant (2.6%). In the same period of the previous year, 81.3% of the expansion of the money supply was accounted for by the banking system's credit while the other 18.7% was the effect of the increase in its net foreign assets.

In April 2006, the year-on-year growth of domestic credit was 20.6%, compared to 18.6% in April 2005. The rise in domestic credit during the period was essentially due to the rise in public sector credit, which went up by 33.4% between April 2005 and April 2006 from 19.0% growth during the April 2004 to April 2005 period. While the growth of net credit to government increased to 21.9% in the period between April 2005 and April 2006 from 16.6% in the earlier year, the growth of credit to the other public sector increased significantly to 58.5% from 24.5%, and the growth of credit to the private sector declined to 16.9% from 18.5% during this period.

Disbursement of agricultural credit during July-April 2005-06 was Tk. 46.60 billion, which was 17.5% higher than in July-April 2004-05. However, the recovery of agricultural credit during July- April 2005-06 also stood markedly higher at Tk. 33.02 billion, or 45.8% higher than in July- April 2004-05. As a result, the net disbursement of agricultural credit stood at Tk. 13.58 billion in July- April 2005-06 compared to Tk. 17.03 billion in July-January 2004-05 a 20.3% decline.

Net disbursement of industrial term loans during July-March 2005-06 stood significantly higher at Tk. 20.41 billion compared to Tk. 3.55 billion during the corresponding period of the preceding year. The increase in net disbursement was, however, mainly due to a much lower recovery of industrial term loans during July-March 2005-06 than during the corresponding period of the preceding year.

Public Finance

The collection of tax revenue worsened in the review quarter. In the April-May months of Q4 FY06, total tax collection (NBR portion) grew by 11.1% compared to 21.4 % in April-May, FY05. In the Q1, Q2 & Q3 FY06, the growth of total tax collection was 12.6% compared to 12.9% in the same period of FY05. During July-May, FY06, total revenue collection by NBR was 7% short of the revised target, although it increased by 12.9% during the period as against 14.4% increase in the corresponding period of the previous fiscal year. The increase in tax revenue receipts was led essentially by the collection of supplementary duties, VAT and income taxes. However, collection of VAT marginally declined to 20.1% growth in July-May, FY06 from 21.2% growth in July-May, FY05, and the collection of income tax revenue also fell to 19.5% from 19.8%, while the collection of supplementary duties (SD) increased by 11.9% from 5.4%, On the other hand, the collection of customs duty decelerated to 0.2% in July-May, FY06 from 7.1% in July-May, FY05. The fall in the collection of customs duty during FY06 was due to the reduction of duty rates on a large number of imported items during the year.

Total deficit financing of the government during July-April, 2005-06 was Tk. 68.54 billion, of which domestic financing was Tk. 29.51 billion (or 43.1% of the total) and the remaining Tk. 39.03 billion (or 56.9% of the total) came from foreign financing. In the same period of the preceding fiscal, 78.3% of the deficit was financed with foreign funds, and the other 21.6% of the deficit was met with domestic financing. Outstanding domestic debt of the government at the end of April 2006 thus increased by Tk. 76.1 billion to Tk. 635.71 billion, or by 12.6 percent over June 2005.

Out of the total domestic debt of Tk. 635.71 billion at the end of April 2006, borrowing from the banking sector was Tk. 256.77 billion, and the borrowing from non-bank sources stood at Tk. 378.94 billion.

ADP implementation in July-March 2005-06 was only 45% of the target, which is the lowest during the past four years. In the same nine-month period of FY05, ADP implementation rate was 47% of the target.

Balance of Payments

The trade balance recorded a smaller deficit of US$2519 million in July-April, FY2006 compared to the deficit of US$2935 million during July-April, FY2005. The improvement in the trade balance occurred due to a significant deceleration of import growth alongside some improvement in export receipts in the same period. While export growth recorded an improvement to 20.14% in July-April, FY2006 from 14.91% in July-April, FY2005, imports grew at a much lower rate of 7.33% during July-April 2005-06 compared to 19.93% in the same period of 2004-05.

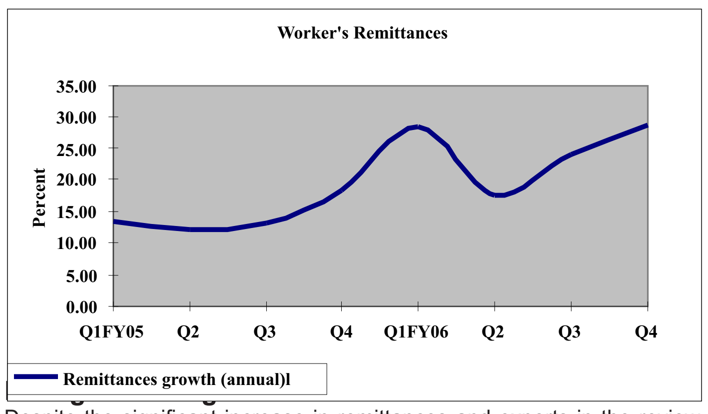
The decline in the growth in imports originated from lower imports of consumer goods which declined by 19.7% (US$210 million) during the period compared to increase of 35.3% (US$278 million) in July-April FY2005. The growth during the period was driven primarily by the increase in raw materials and capital machinery. In July-April FY2006, raw materials & capital machinery increased by 10.1% (US$502 million) compared to 7.0% (US$324 million) in July-April FY2005.

The deficits on both service and income account balances increased on year-on-year basis during the review period. Despite larger service and income account deficits, the current account balance recorded a surplus of US$285 million in July-April, FY2006 compared to the deficit of US$767 million during July-April, FY2005. The surplus in the current account balance was, in effect, mainly due to larger current transfers of $4330 million, some 90% of which came from worker remittances. However, the overall balance of payments showed a much lower surplus of $ 43 million during July-April 2005-06, compared to a surplus of $ 249 million during the same period of 2004-05 due mainly to a deficit in financial account and a negative adjustment in errors and omission during the period.

Remittances

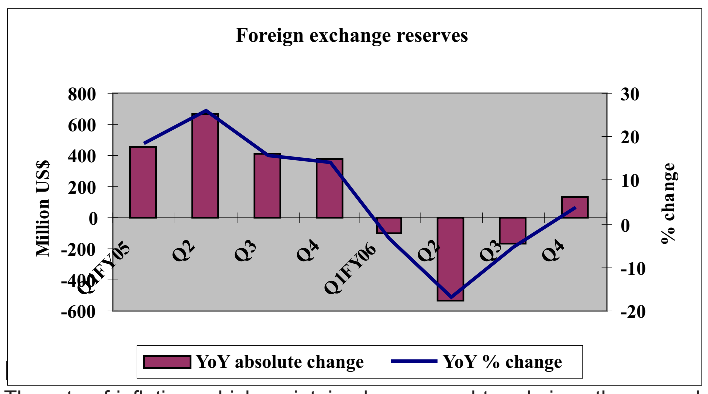
Inward remittances grew by 28.8% (US$297 million) compared to 18.8% (US$160 million) inQ4, FY05 (see Chart 6). In absolute terms, the total amount of remittances increased to US$ 4800 million in FY06 from US$ 3848 million in July-May, FY05, and US$ 3371 million in FY04.

CHART 6



Despite the significant increase in remittances and exports in the review quarter, the foreign exchange reserve position increased only marginally (by US$120 million compared to a $780 million increase in Q4 FY05) (see Chart 7). As of end June 2006, the foreign exchange reserve position stood at $3340 million compared to $2930 million in June, 2005, and $ 2705 million in June 2004.

CHART 7



The rate of inflation, which maintained an upward trend since the second quarter of FY05, increased in the fourth quarter of FY06 as well. The annual rate of inflation increased to 7.08 percent in April of Q4 FY06 from 7.07 percent in Q3 FY06. Higher food prices accounted for the major portion of the upward impetus to inflation in the review period. There were some divergences between the inflation rates in rural and urban areas in both FY06 and FY05. While the inflation rate was lower in the rural areas in April FY04, in the same month of FY06 and FY05 the rural areas experienced a higher inflation rate compared to urban areas. This divergence was largely the result of higher food prices. The principal factors, other than food prices, responsible for the rise in inflation in the review quarter were the increase in fuel price and higher transportation costs.

The inflation rate on point-to-point basis increased to 7.46 percent in April of Q4FY06 from 6.16 percent in Q3FY05. The tight monetary policy pursued by the central bank since July 2005 has not been effective to contain the rate of inflation.

Conclusions

The country's economic performance in the fourth quarter of FY2005-06 was influenced essentially by favourable external demand as well as higher investments in the industrial sector. Indicators of industrial investment during the quarter show an expansion of 15.0% in total investment compared to 5.0% increase in the same quarter of the previous fiscal. Investments in large and medium scale industries increased by 10.0% and the same in SME increased by 25.0%. In the same quarter of last fiscal, investment in the large and medium scale industries increased by 4.0% while SME investment increased by 15.0%. As in the past, a questionnaire seeking comments was sent to leading entrepreneurs of the country. The comments received from 10 entrepreneurs indicate that the economy is still on the growth path though concern has been expressed as to how long the economic growth momentum can withstand the continuing political confrontations and weakening of the institutions of economic and political governance. Complaints have been made about deteriorating supply of electricity and gas, widespread corruption, discretionary powers still retained for the tax officials and above all, political confrontations and recent tendency amongst a section of workers to take law into their own hands at the instigation of outsiders.

Complaints have also been made against unrealistic approach in the decision-making process of some important Government agencies. One entrepreneur pointed out the recent requirement of the Securities and Exchange Commission (SEC) that any company having paid-up capital exceeding Tk. 40 crore must go public. The entrepreneur feels that this is against the spirit of free enterprise.