

Contents

▪ Editor's Corner	ii
▪ Comparative Analysis of National Saving Schemes and Bank Deposits	3
▪ Pakistan Economy – An Update	11
▪ Commercial Banks' Deposits by Sectors	17
▪ Market Analysis	18
▪ Book/Report Reviews	21
▪ Pakistan Economy — Key Economic Indicators	23

NBP Performance at a Glance

Editor's Corner

Dear Readers,

The government plans to implement Value Added Tax (VAT), essentially a tax on consumption of goods and use of services w.e.f. July 1, 2010. A draft law which proposes a unified rate of 15 percent VAT has been submitted to the Parliament and the provincial assemblies.

Wikipedia writes, VAT applies to all provisions of goods and services. VAT is assessed and collected on the value of goods or services that have been provided everytime there is a transaction (sale/purchase). The seller charges VAT to the buyer, and the seller pays this VAT to the government. If, however, the purchaser is not an end user, but the goods or services purchased are costs to its business, the tax it has paid for such purchases can be deducted from the tax it charges its customers.

Pakistan has one of the lowest tax-GDP ratio at 9.2 percent, as it suffers from a narrow tax base, large scale exemptions, widespread leakages and evasion, low tax compliance, presence of a large undocumented informal sector and weak audit and enforcement. Furthermore, there is a mismatch between the sectoral shares of the major sectors of the economy to GDP and their contribution to the tax pool. Agriculture contributes 21 percent to GDP but its share in taxes is a mere 1.2 percent, while the services sector with an increasing share in the economy, nearly 60 percent of GDP, contributes 33 percent to tax collected. Given the shortfall in the agriculture and services sector, industries contribution to taxes is substantial. With a 16.8 percent share in GDP it contributes as high as 62 percent to taxes.

Exemptions and concessions available to various sectors, regions and activities have been factors responsible for the low share in taxes. These are available under the major tax heads and have been granted in the past to protect vulnerable groups of society, some are done for administrative reasons, some are introduced to protect certain industries or for the development of infant industries. Threshold exemptions are another form of exemption allowed under various taxes.

The government proposes a standard tax rate of 15 percent for VAT, which is to replace the existing 16 percent Sales Tax from July 1, 2010. Instead of multiple rates, a unified rate would now be applicable. It would significantly reduce the quantum of exemptions, as these have been restricted to essential commodities, compared to widespread exemptions that prevails under Sales Tax. It would cover all goods and services, instead of limited services. The present Sales Tax Act 1990 would be repealed. The exemption of threshold for retailers is proposed to be enhanced from Rs5 million to Rs7.5 million under VAT. All retailers above Rs7.5 million ceiling will automatically come under the VAT.

The low tax base where domestic sources of financing the development needs of the economy have fallen short, has led to dependence on external financing. At least 6.5–7.0 percent growth is needed for sustained economic recovery and revival, which requires broad based taxes. VAT when implemented would help generate more revenues to help finance the development needs of the economy.

Ayesha Mahmood

Comparative Analysis of National Saving Schemes and Bank Deposits

Savings are an important determinant of economic growth. Its mobilization and efficient utilization for financing the required investment is essential for rapid development of the economy. Increased investment is possible only through higher savings rate.

Pakistan is categorized among the low savers of the world. Its national savings rate at 14.3 percent compares poorly with other regional economies like Bangladesh, India, Malaysia and China. Its even behind Sri Lanka. The low savings rate has implications for economic growth in the long run. Low savings in the economy not only reflects the higher consumption level in the economy, but also the limited availability of developed long term saving options. As the existing saving options have not generated enough resources the economy has to rely on domestic borrowing or external funding to finance the investment needs of the economy.

Pakistan has a low savings rate

In *Issues in Pakistan's Economy*, S. Akbar Zaidi writes, 'there are essentially two major schools of thought which explain why low levels of savings exist. The financial repression school argues that low or negative real interest rates, alongwith high and variable inflation rates are the major impediments to savings, capital formation and growth. The financial structure school believes that, especially in underdeveloped countries, low savings, investment and growth exist because of the lack of depth and breadth in the financial sector, since financial assets, markets and institutions are few and not well developed. [Quotes Khan, Ashfaque Hasan, 'Financial Repression, Financial Development and Structure of Savings in Pakistan,' *Pakistan Development Review*, Vol 27, no.4, 1988 pg 701] However, if the economy develops a network of financial institutions which makes available different types of instruments, it would have a positive impact on savings and investment.'

Why low level of savings exist

Evidence exists to show support for both schools of thought. An increase in the real

interest rates will stimulate savings, while with financial development and as more institutions and instruments are made available, aggregate savings will also increase.

In addition to low level of savings, their declining trend in recent years is a cause for concern. National savings has fallen from 20.8 percent in 2003 to 13.5 percent in 2008, thereafter recording some improvement in 2009. The low savings rate in the economy in the last two years is primarily attributable among other factors to slower economic activities, inflationary pressures which has eroded people's purchasing power, poor inflation adjusted returns on financial instruments (especially on deposits) and cultural factors which encourages consumption.

Factors responsible for low savings

This paper seeks to analyze the trends in two of the major components of financial savings i.e. bank deposits and national saving schemes. Banking sector deposits constitute 60.3 percent of financial savings, while investments in the national saving schemes have a share of 18 percent. Financial savings are subset of national savings and include bank deposits, investment in National Saving Schemes (NSS), currency in circulation, deposits of NBFIs, investment in mutual funds and General Provident Fund.

Bank deposits & NSS

To mobilize funds which would promote financial savings in the economy and also finance the budget deficit, the government set up the Central Directorate of National Savings (CDNS), which offers a variety of financial instruments; Defence Saving Certificates (DSC), Special Saving Certificates, Regular Income Certificates, Bahbood Saving Certificates and various types of accounts — Savings Account, Special Account, Pensioner's Benefit Account. These are of various maturities from 3 to 10 years, with varying interest rates and principal repayment methods. These schemes are guaranteed by the Government of Pakistan.

CDNS set up

The revenue generated from the NSS have promoted financial savings in the economy and have generated the much needed funds for the government for financing of its budgetary deficit. They have proved to be less inflationary compared to financing of the deficit through external sources or bank borrowings. They have however, been the most expensive domestic source of deficit financing, as they have added to the domestic debt of the government.

Scheduled banks operating in Pakistan offer fixed deposits of various maturities and rate of return and also offer saving schemes and Certificates to mobilize surplus funds from the public.

Outstanding Amount in National Saving Schemes

	Rupees Billion	NSS as % of Budget Deficit	NSS as % of National Savings
FY90	131.9	31.8	14.6
FY91	134.7	3.1	1.9
FY92	139.0	4.7	2.1
FY93	144.3	5.0	2.9
FY94	176.7	35.1	13.2
FY95	210.8	32.4	12.6
FY96	252.9	30.5	16.8
FY97	311.8	37.6	20.6
FY98	412.8	49.4	25.8
FY99	542.4	72.3	39.9
FY00	633.8	44.8	21.9

Source: Pakistan: Financial Sector Assessment 1999-2000

The above Table shows that during the 1990s total outstanding amount in NSS showed a steady rise. By end June 2000 it stood at Rs633.8 billion, compared with Rs131.9 billion in 1990. The substantial rise in NSS receipts was a result of increased rate of profit. The profit rates on various national saving schemes were high during the 1990s. The real interest rates on DSC (after adjusting for inflation) ranged from 3 percent to 11.4 percent, while on SSC it ranged between 2 percent–9 percent. Weighted average deposit rates meanwhile were negative for the period FY91–FY98, and thereafter showed a marginal increase. The higher profit rates on NSS alongwith lower deposit rates in the banking sector played a role in diversifying funds to these lucrative schemes.

Amount in NSS rises

Low Deposit Rates

Interest Rate Structure

(Percent as on end June)

	Deposit Rates*	Lending Rates*	T-bill Rate	DSC	SSC-R	RIC
<i>Nominal Interest Rates</i>						
FY90	8.2	10.6	6.0	15.6	-	-
FY91	6.0	10.8	6.0	15.6	-	-
FY92	6.4	13.2	11.3	15.6	13.6	-
FY93	6.1	13.3	12.3	15.6	13.6	13.8
FY94	6.2	13.7	12.4	16.0	13.7	13.8
FY95	6.3	13.7	11.7	16.0	14.9	14.6
FY96	6.4	14.4	12.8	16.0	15.8	14.6
FY97	6.8	14.6	15.5	18.0	16.9	18.0
FY98	6.8	15.6	15.0	18.0	16.9	18.0
FY99	6.5	14.8	12.9	16.0	14.7	16.0
FY00	5.5	14.5	8.7	15.0	12.6	14.0
<i>Real Interest Rates</i>						
FY90	2.2	4.6	0.0	9.6	-	-
FY91	-6.7	-1.9	-6.7	2.9	-	-
FY92	-4.2	2.6	0.7	5.0	3.0	-
FY93	-3.7	3.5	2.5	5.8	3.8	4.0
FY94	-5.1	2.4	1.1	4.7	2.4	2.5
FY95	-6.8	0.7	-1.3	3.0	1.9	1.6
FY96	-4.4	3.6	2.0	5.2	5.0	3.8
FY97	-5.0	2.8	3.7	6.2	5.1	6.2
FY98	-1.0	7.8	7.2	10.2	9.1	10.2
FY99	0.8	9.1	7.2	10.3	9.0	10.3
FY00	1.9	10.9	5.1	11.4	9.0	10.4

* Weighted average

Source: Pakistan: Financial Sector Assessment 1999-2000

Attractive rates of return on NSS schemes were offered during the 1990s, as opposed to other investment opportunities. The rates were predetermined, there was no market mechanism for determination of rates of return. This had given them an edge over other savings opportunities which had led to distortionary impact on the economy in the face of (i) weak growth in deposits of banks and (ii) increasing burden of domestic debt.

The increase inflows during the 1990s show that rates of return on national saving schemes were higher compared to weighted average deposit rates. For instance in 1997 and 1998 when returns on Special Saving Certificates were 16.9 percent, banks were offering 6.8 percent. After adjusting for inflation, the real interest rates on bank deposits have been negative for the period 1991 to 1998 and thereafter have shown a marginal rise. On the other hand, real interest rates on NSS have been positive, ranging between 2.5 percent to 11.4 percent.

Diversion of deposits from banking sector

The higher profit rates on NSS have diverted deposits from the banking sector to these attractive schemes and resulted in lower deposit base of the banks, particularly in late 1990s. The *SBP Financial Sector Assessment Report 1999-2000* states, 'The administered nature of profit structure of NSS was mainly responsible for distortion in the term structure of interest rates. Nominal returns offered on any instrument should depend on maturity period, the frequency of interest payments, rate of inflation, tax on interest payments and credit worthiness of issuer. Therefore, the differentials between NSS profit rates and banks' deposit rates should not be very high. The need to rationalize the profit structure of NSS in line with the banking sector of the economy was therefore imperative.

Initiatives under-taken

Realizing the impact of higher profit rates on NSS and their implications for the economy, the government in 2000 undertook several initiatives; imposed a ban on institutional investment in NSS, which substantially reduced their gross sales, linked profit rates on medium to long term NSS to the rate of return on PIBs, imposed 10 percent withholding tax on profits from NSS (w.e.f. July 1, 2001) if the amount in these schemes exceeds Rs300,000/- and prohibited banks from selling NSS from June 2003 in order to discourage arbitrage opportunities due to the wide interest rate differential between NSS rates and lending rates on loans secured by these instruments.

Following this linkage, profit rates on NSS have witnessed substantial changes. Rates came down on various NSS and helped in squeezing the differential between NSS and bank deposit rates. Despite a significant reduction in NSS rates, the differential is still considerably high.

During FY98 — FY03 though real rates on NSS declined by about 1.8–3.5 percentage points, they were still at a relatively higher level of 6.7 to 7.7 percent.

As a consequence of these measures investments in NSS started declining. While

Decline in NSS inflows

FY04 saw a negligible growth of 0.2 percent, it recorded a decline in FY05 and FY06. The average growth rate of NSS during FY00 to FY04 came down to 9.7 percent from an average growth of 23.7 percent during FY95 to FY99. Real interest rates had turned negative by FY04. On the other hand, deposits of scheduled banks continued to grow steadily, contributing significantly to financial savings in the period FY01-05.

Trends in NSS & Deposits of Banking Sector*

	Investment in NSS (Rs.bn) (Growth)		Investment in NSS as % of GDP	Deposits of Banks (Rs.bn) (Growth)		Deposits of Banks as % of GDP
FY01	762	6.5	18.3	1264	11.4	30.4
FY02	847	11.1	19.2	1411	11.6	32.1
FY03	982	16.0	20.4	1671	18.4	34.6
FY04	984	0.2	17.5	1975	18.2	35.0
FY05	940	(-4.5)	14.5	2405	21.8	37.0
FY06	934	(-0.6)	12.3	2772	15.3	36.5
FY07	1000	7.1	11.5	3310	19.4	38.0
FY08	1094	9.3	10.6	3701	11.8	36.0
FY09	1359	24.3	10.4	3791	2.5	29.0

* Accumulated Savings (Stock)

Source: Financial Stability Review 2008-09, SBP

Scheduled banks deposits grow

During the period FY04—FY06 when investment in NSS showed a negative growth, deposits of scheduled banks had risen on an average of 18.4 percent, accompanied by higher growth of investment in mutual funds. Banking sector deposits maintained a double digit growth since FY01, picking up momentum between FY03–07. This was primarily because of increased inflow of home remittances and increasing income due to a rise in economic activities. GDP growth had averaged 6.9 percent during FY03–FY07, whereas home remittances had reached \$6.5 billion during FY08 compared with only \$1.1 billion in FY01.

Banking sector in Pakistan has witnessed a number of changes in the last few years (building up of a capital base, implementation of Basel-II, stringent provisioning requirements etc). All this has contributed in

providing a cushion against shocks from both the external and domestic macro economic financial environment.

In these three years (FY04–06), while accumulated deposits as a proportion of GDP rose from 35 percent to 36.5 percent, the ratio of investments in NSS to GDP declined from 17.5 percent to 12.3 percent. The decline in the inflows in NSS instruments was because the maturing institutional investment in NSS could not be re-invested and due to reduction in profit rates on NSS.

Growth in deposits slow down

Deposits growth slowed down in FY08 to 11.8 percent and further to a mere 2.5 percent in FY09, from a high of 19.4 percent in FY07. Subsequently its share in financial savings declined to 58.1 percent in FY09 compared to 60.4 percent in FY07. This deceleration is largely attributable to slowdown in overall economic activities. The negative real deposit rates (despite the introduction of minimum rate of return of 5% on all PLS saving deposits by SBP in June 2008) on account of high inflationary pressures also contributed to low deposit growth.

In 2009, deposit growth slowed down further and in absolute terms banking sector mobilized deposits of Rs90.8 billion as against Rs390.2 billion in FY08. The slowdown in deposit growth has been attributed by SBP to stiff competition from NSS, sluggish economic activities and inflationary pressures.

Competition from NSS instruments offering a relatively higher rate has put increasing

pressure on banks' deposit generation capacity. Since the beginning of FY09, NSS instruments have seen a net inflow of Rs206.7 billion, as compared to Rs86.6 billion in FY08. While this augurs well in meeting the government's objective of raising funds for deficit financing from non-bank sources it does also imply that banks need to make concrete efforts to ensure sustained deposit growth by tapping the unbanked markets, increasing financial penetration and facilitating the process of financial intermediation.

Savings in NSS picks up

Savings mobilized through NSS has picked up in the last two years. After growing by 9.3 percent in FY08 it recorded a rise of 24.3 percent in FY09, a substantial increase against 7.1 percent growth in FY07. On the other hand, deposits of scheduled banks registered a growth of only 2.5 percent last year and its share in financial savings fell slightly to 58.1 percent compared to 60.4 percent a year earlier. By FY09, the share of NSS in financial savings had increased to 20.8 percent reaching Rs1359.5 billion.

This reemergence of growth in NSS is largely attributable to upward revision in profit rates on major NSS instruments, revoking of the earlier decision which forbid institutions from investing in NSS, low return on bank deposits, and because the NSS instruments have sovereign guarantee and are risk free, they have a wide appeal in the climate of domestic uncertainty. The higher rates on NSS give strong competition to banking sector deposits and some substitution between bank deposits and NSS instruments occurs.

Major Characteristics of Selected NSS Instruments

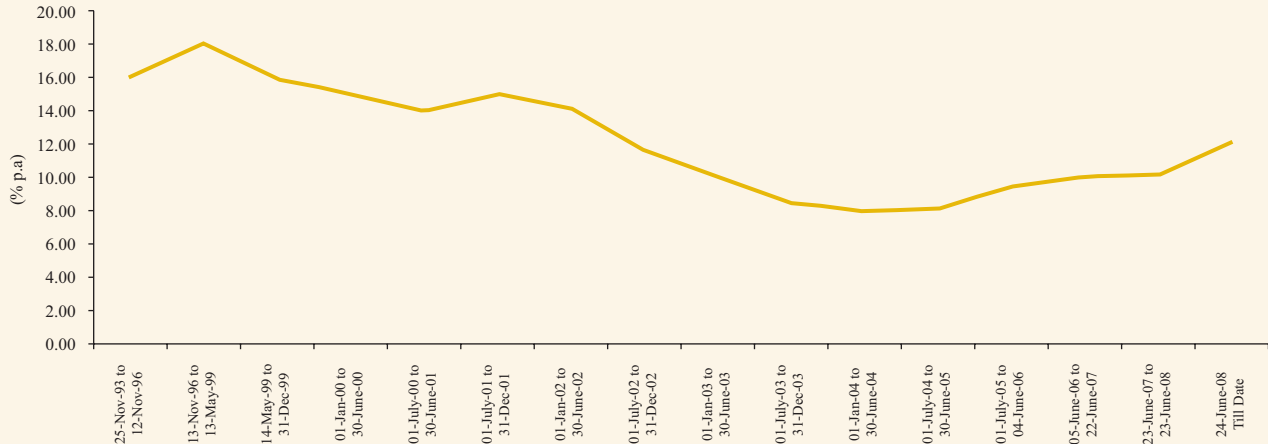
Characteristics	DSCs	SSCs	RICs	BSCs
Maturity Period	10 Years	03 Years	05 Years	10 Years
Minimum Holding Period	1 month	1 month	-	-
Early Encashment Penalty	Nil	Nil	0.5% to 2%	0.25% to 1%
Profit Payments	Bullet Bonds	Bi-annually	Monthly	Monthly
Zakat	Compulsory	Compulsory	Exempted	Exempted
Withholding Tax	@10%*	@10%*	@10%	Exempted
Minimum Investment Limit	No Limit	No Limit	No Limit	3,000,000/-
Institutional Investment	Allowed	Allowed	Allowed	Not Allowed

* Withholding Tax is exempt if the total investment does not exceed Rs150,000/-

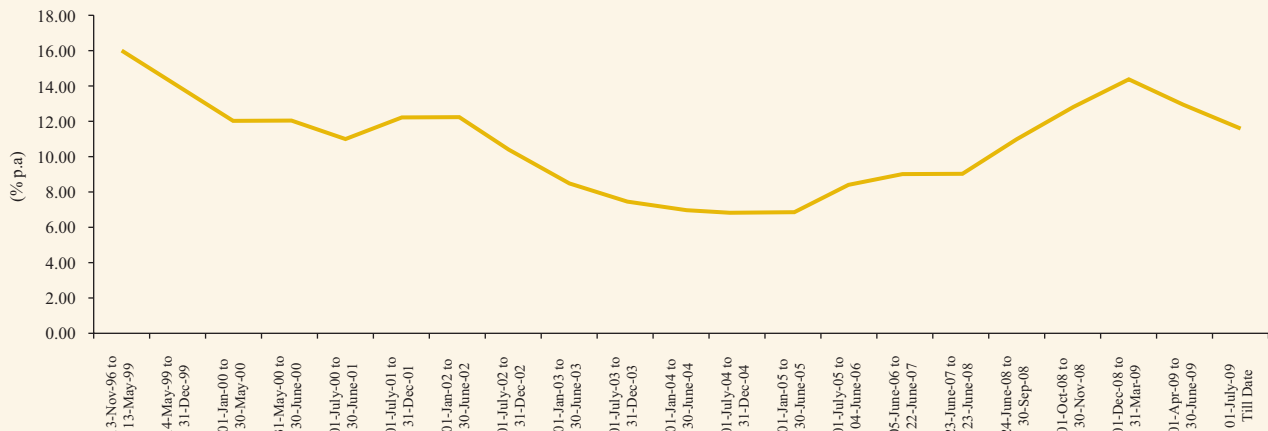
Source: Financial Stability Review 2008-09, SBP

Yield on National Saving Schemes

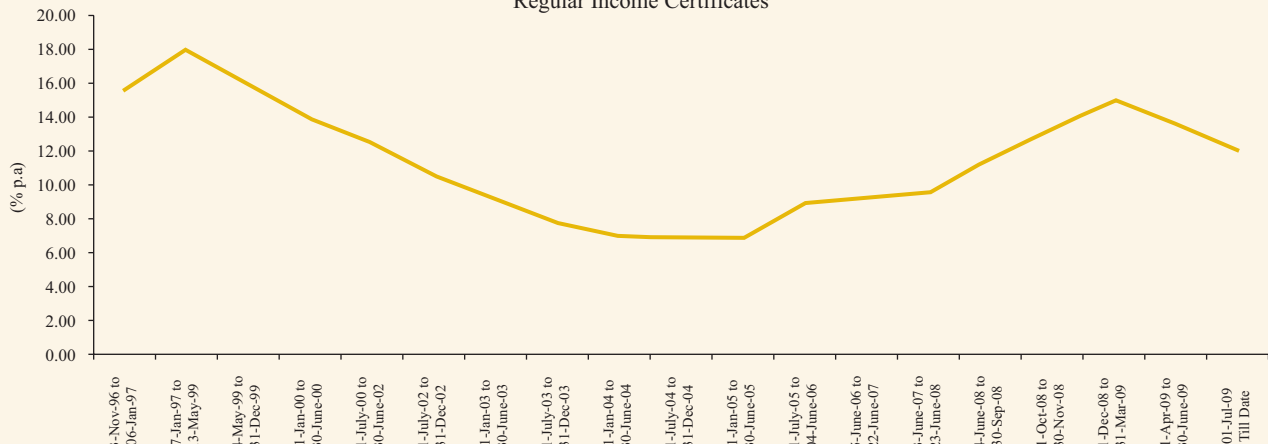
Defence Savings Certificates



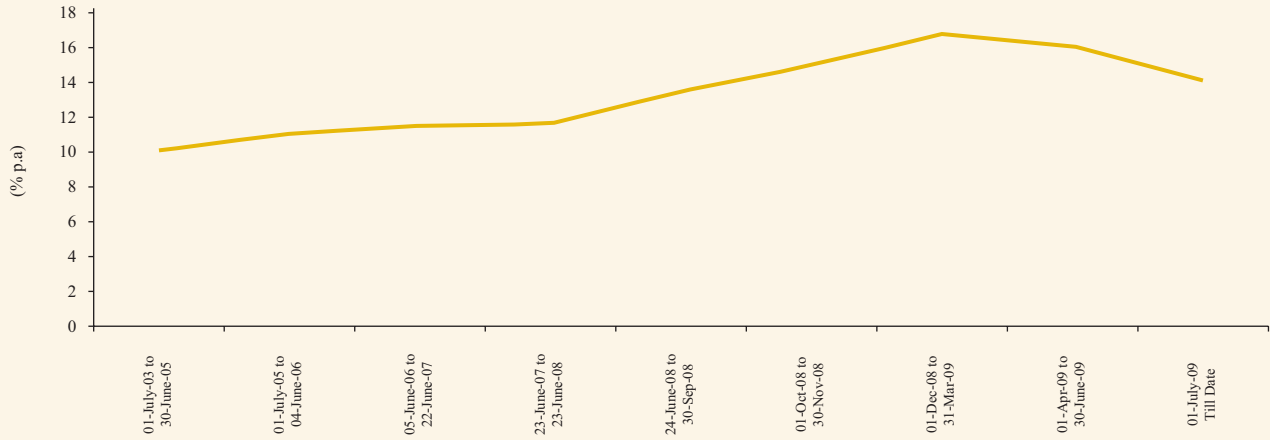
Special Saving Certificates (Regd.) / Accounts



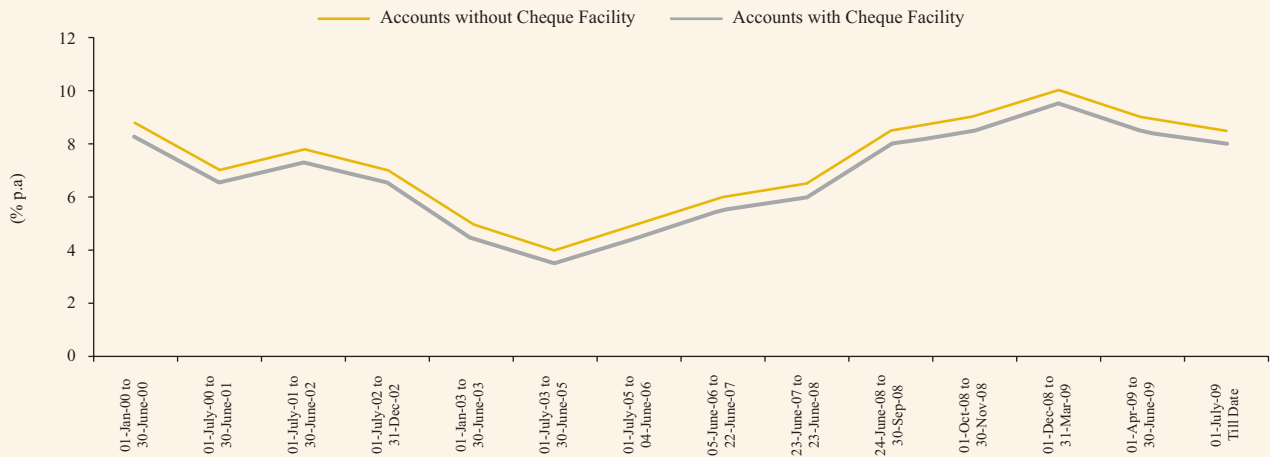
Regular Income Certificates



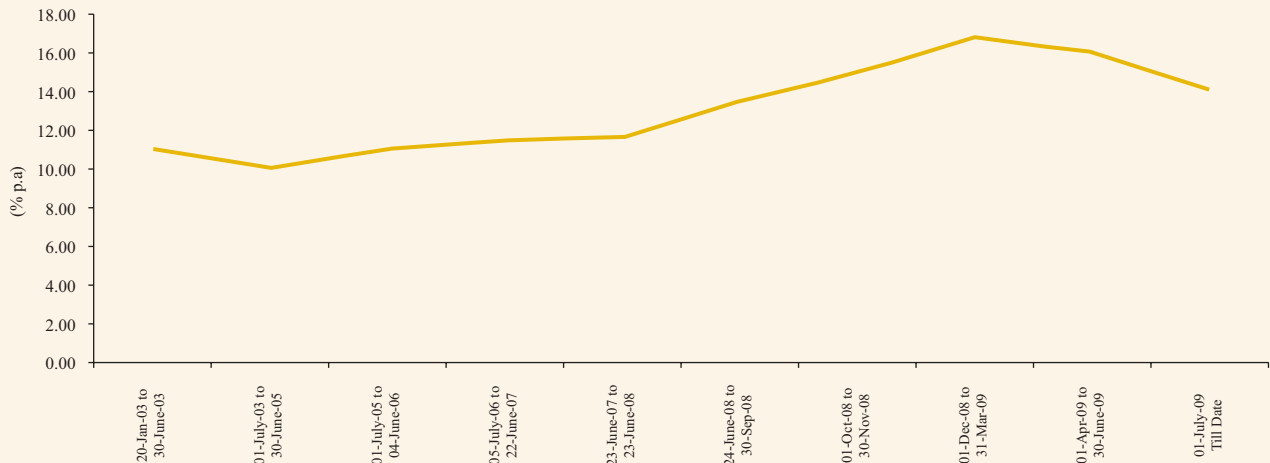
Bahbood Saving Certificates



Savings Account



Pensioners Benefit Account



Selected Saving Schemes of Major Banks

Banks	Savings / Deposit Schemes	Investment (Rs)		Tenure	Profit Rates (p.a) %		Profit Payment	Remarks
		Minimum	Maximum		Minimum	Maximum		
National Bank of Pakistan	1. PLS Rupees Saving	no limit	no limit	no fixed tenure	5.0	7.80	half yearly	Service charges on balance less than 5000 Service charges on balance less than 5000 Monthly Income Scheme Profit calculated on monthly minimum balance Certain conditions apply
	2. Terms Deposits	10,000	-	3 mths to 5 yrs & above	5.30	7.80	half yearly	
	3. NBP Premium Aamdani	20,000	5 mn	1 to 5 yrs	10.50	11.50	monthly	
	4. NBP Premium Saver	20,000	1 mn	no fixed tenure	8.50		half yearly	
	5. NBP Plus Term Deposit Certificate	0.500 mn	1000 mn & above	1 yr to 10 yrs	10.0	16.0	maturity	
Habib Bank Limited	1. Habib Value Account	10,000	0.1 mn	1 to 5 yrs	7.0	11.0	quarterly	Profit based on minimum monthly balance Profit paid every month Unlimited transactions Profit calculated on daily basis Profit calculated on daily basis Multiple options for tenure & profit payout Account for Institutions
	2. Remittance Munafa Plus	20,000			7.80		monthly	
	3. PLS Saving Account	20,000			5.0	5.0	bi-monthly	
	4. Daily Munafa Account	20,000	no limit		5.0	8.50	monthly	
	5. Daily Progressive Account	20,000	1 bn & above		5.0	11.0	monthly	
	6. HBL Advantage Account	25,000	500 mn	3 mths to 10 yrs	7.50	16.50	maturity	
	7. Investment Plus Deposit	20 mn	no limit		7.90	18.50	maturity	
United Bank Ltd	1. UBL Uniflex	10,000	0.1 mn & above		5.0	7.50	half yearly	Profit based on average balance during the month Profit is calculated on monthly average basis Two types profit (maturity & monthly) Profit calculated on floating rate based on money market
	2. UBL Unisaver	Up to 25 mn	above 500		5.0	5.50	half yearly	
	3. UBL Certificate of Deposit (COD)			3 mths to 10 yrs	8.70	13.90	maturity	
	4. Terms Deposits Receipts			1 mth to 10 yrs	7.10	10.70	monthly	
MCB	1. PLS Saving	10,000		no fixed tenure	5.0		half yearly	Saving Account with current account facility Profit calculated on daily basis Higher your balance higher your profit For online customers only Option of premature encashment
	2. Saving 365 Gold	less than 10 mn	500 mn & above		5.0	8.25	monthly	
	3. Saving Extra	below 5 mn	25 mn & above		5.0	8.50	half yearly	
	4. MCB Smart Savings Account	below 0.2 mn	above 0.3 mn		5.0	7.0	half yearly	
	5. Terms Deposits	below 10 mn	25 mn & above	3 mths to 5 yrs	6.0	9.50	maturity	
Allied Bank	1. Allied Bedhar Munafa Account	0.5 mn	500 mn	no fixed tenure	5.0	9.0	monthly	For Individuals & Institutions PLS terms deposits A/c, where you can double your invest. Convenience of 4 withdrawals a month Investment can be made with minimum balance of 25,000
	2. Allied Bachat Scheme	50,000		7.5 yrs	13.33		maturity	
	3. Allied Saver Account	10,000	0.5 mn	no fixed tenure	5.0	7.50	half yearly	
	4. Rewarding Term Deposit	25,000	1.0 mn & above	1 mths to 1 yr	7.0	10.50	maturity	
Bank Al Falah	1. Royal Profit	below 50,000	5 mn & above		5.0		monthly	For Individuals and Corporates No profit if the amount is below 10,000 Renewable on maturity Varying profit rates for different slab and tenure Minimum account opening requirement of Rs.5000
	2. Al Falah Kifayat	10,000	1 mn		7.0		quarterly	
	3. Al Falah Mahana Amdani	0.1mn	15mn	3 yrs	10.50		monthly	
	4. Royal Patriot	25000	5mn & above	1 mth to 2 yrs	3.0	5.70	half yearly	
	5. PLS Saving Account	below 25000	above 25000	no fixed tenure	5.0		half yearly	
Standard Chartered Bank	1. Supersave Account	25000		no fixed tenure	5.0		half yearly	Higher return on higher balance Profit calculated on minimum basis Easy to access and easy to use Bonus rate if no withdrawal during the month Higher investment higher profit Profit paid monthly, quarterly, half yearly & yearly
	2. Saving Account	100,000	no limit	no fixed tenure	5.0		half yearly	
	3. Easy Saver Account	no limit	15 mn		7.25	9.0	monthly	
	4. Bonus Saver	below 50,000	15 mn & above	no fixed tenure	5.0	9.0	monthly	
	5. Mahana Izaafa	no limit	no limit	no fixed tenure	6.0		monthly	
	6. Rupee Term Deposits	50,000		7 days to 5 yrs	3.5	6.75	flexible	
Askari Commercial Bank	1. Value Plus	10,000	25000 & above	no fixed tenure	2.5	3.0	half yearly	Varying profit rates for different tenures Terms deposits facility for individual customer Double your investment in 10 years Long terms saving with high rate of profit (Invest 100000/- will increase to 265,000 at maturity)
	2. Askari Mahana Bachat Account	50,000	10 mn	1 to 3 yrs	11.1	12.0	monthly	
	3. Askari Roshan Mustaqbil Deposit	5000	50,000	10 yrs (5+5)			monthly	
	4. Askari Deposit Multiplier Account	50000	10 mn	10 yrs		16.5	maturity	
Bank Al Habib	1. PLS Saving Account	no limit	no limit	no fixed tenure	5.24		half yearly	No minimum balance requirement No minimum or maximum balance requirement Deposit will be rolled over on maturity. Conditions apply For senior citizen only. Certain conditions apply Profit paid on yearly basis
	2. Monthly Saver Account	below 0.1 mn	above 0.1mn	no fixed tenure	5.00	8.0	monthly	
	3. Al Habib Mahana Munafa Account	25000	no limit	1 to 5 yrs	11.0	12.0	monthly	
	4. Senior Citizen Account	no limit	no limit	no fixed tenure	11.0		monthly	
	5. Al Habib Salama Account	25000	no limit	no fixed tenure		12.0	yearly	

Scheduled Banks' Weighted Average Rate of Return on Deposits PLS & Interest Bearing - All Banks

(Percent per annum)

Type of Deposits	2004		2005		2006		2007		2008		2009	
	June	Dec	June	Dec	June	Dec	June	Dec	June	Dec	June	Dec
Saving Deposits	0.98	0.93	1.24	1.66	1.67	1.92	2.07	2.07	4.93	4.99	5.08	
Term of Fixed Deposits												
(a) Less than 3 months	1.15	1.93	2.98	3.62	4.24	4.32	4.30	4.64	4.88	5.26	5.57	
(b) 3 months and over but less than 6 months	1.51	1.93	3.62	3.27	4.49	5.56	5.10	5.14	5.77	6.76	6.49	
(c) 6 months and over but less than 1 year	2.20	2.63	4.21	4.78	4.64	5.88	5.93	5.87	6.99	7.64	7.57	
(d) 1 year and over but less than 2 years	2.71	2.73	4.28	5.75	5.26	5.95	6.75	6.85	7.33	8.38	8.52	
(e) 2 years and over but less than 3 years	2.80	2.87	3.99	5.27	5.44	5.67	6.46	6.55	6.34	8.41	9.34	
(f) 3 years and over but less than 4 years	3.01	3.24	4.02	5.57	5.16	7.14	7.17	6.70	8.60	8.53	9.56	
(g) 4 years and over but less than 5 years	2.98	3.06	3.84	6.19	4.90	7.08	7.01	7.11	7.33	8.51	6.08	
(h) 5 years and over	3.23	3.57	3.98	4.96	5.57	6.01	6.30	7.16	8.67	9.05	9.06	

Rates of Profit on National Saving Schemes

	2004		2005		2006		2007		2008		2009	
	1st Jan	1st July	1st Jan	1st July	1st Jan	1st July	1st Jan	23rd Jun	1st Jan	24th Jun	1st Jan	1st July
Defence Saving Certificates ¹												
(i) 1st Year	4.00	4.00	4.00	5.00	6.00	6.00	6.00	7.00	7.00	9.00	9.00	8.00
(ii) 10 Years (Compound Rate)	7.96	8.15	8.15	9.46	9.46	10.00	10.00	10.15	10.15	12.15	12.15	12.15
(a) Special Saving Certificates (Registered) ² or Special Saving Accounts												
(i) First 5 periods of complete 6 months	7.00	6.80	6.80	8.40	8.40	9.00	9.00	9.00	9.25	11.00	14.40	11.60
(ii) Last period of complete 6 months	8.00	7.70	7.70	9.60	9.60	10.00	10.50	10.50	10.50	12.50	15.20	12.00
(b) Special Saving Certificates (Bearer) ³												
(i) First 4 periods of complete 6 months	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
(ii) Last 2 period of complete 6 months	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
Regular Income Certificate ⁴	6.96	6.84	6.84	8.88	8.88	9.24	9.24	9.54	9.54	11.52	15.00	12.00
Pensioner's Benefit Account ⁵	10.08	10.08	10.08	11.04	11.04	11.52	11.52	11.64	11.64	13.56	16.80	14.16
Behbood Saving Certificate ⁶	10.08	10.08	10.08	11.04	11.04	11.52	11.52	11.64	11.64	13.56	16.80	14.16

Source: SBP Statistical Bulletins

¹ Defence Saving Certificates introduced w.e.f. 08-1966.
² Special Saving Certificates/Accounts (Registered/Bearer) have been introduced w.e.f. 04-02-1990.
³ Withholding tax at 2% was levied on the value of certificates purchased on and after 15-06-1995. Discontinued w.e.f. 20-02-1997.
 Rates are quoted for outstanding amount as on today.

⁴ Regular Income Certificates introduced w.e.f. 02-02-1993.

⁵ Pensioner's Benefit Accounts introduced w.e.f. 20-01-2003.

⁶ The scheme has been introduced w.e.f. 30-07-2003 specially for widows and senior citizens aged 60 years or above.

Profit earned on deposits made in NSS except PBA & BSC are liable to withholding tax as per rules.

Pakistan Economy – An Update

Pakistan's economy is showing signs of moderate recovery, though a number of challenges persist. The economy is projected to grow in the range of 2.5–3.5 percent in FY10. With a pick up in large scale manufacturing activity, in the construction activity and a fair performance by the services sector, the gross domestic product (GDP) growth target for the year is likely to remain unchanged.

LSM grows modestly

During the first seven months (July-January) of the current fiscal year FY10, large scale manufacturing (LSM) grew by 2.34 percent, against a decline of 5.32 percent in the comparable period of FY09. This was despite energy shortages and rising production costs. Sub-sectors showing higher growth in FY10 (July-January) over the comparable period of FY09 included automobiles, engineering items, pharmaceuticals, tyres & tubes. Textiles, with the largest weightage in LSM recorded a decline in production, so did food & beverages and metal industries.

Production of Selected LSM Items (July-January)

Items	Percentage Change	
	FY09	FY10
Textile	0.3	-2.0
Food, Beverages & Tobacco	-8.4	-8.5
Petroleum Products	-8.1	-6.5
Pharmaceuticals	0.2	5.7
Chemicals	0.1	0.6
Non-metallic Minerals	10.6	4.8
Leather Products	10.5	9.1
Paper & Board	2.1	-2.7
Tyres & Tubes	-7.2	33.7
Wood Products	42.8	-42.5
Automobile	-20.1	51.8
Metal Industries	-28.4	-11.5
Fertilizers	-27.1	5.3
Electronics	-13.6	2.3
Engineering Items	0.3	10.8

Source: State Bank of Pakistan

Agricultural sector growth is likely to suffer, as the contribution of major crops sub-sector falls due to decline in the production of rice and sugarcane. Any hope of a positive contribution by the agricultural sector would rest on a growth of minor crops and livestock.

Performance of Major Crops

	FY08			FY09			FY10		
	Area (Million Hectares)	Production (Million Tons)	Yield (000 Kgs/ Hectare)	Area (Million Hectares)	Production (Million Tons)	Yield (000 Kgs/ Hectare)	Area (Million Hectares)	Production (Million Tons)	Yield (000 Kgs/ Hectare)
Wheat	8.55	20.96	2.45	9.04	24.03	2.65	9.04	25.00	2.76
Rice	2.52	5.56	2.21	2.96	6.95	2.35	2.53	5.95	2.36
Cotton	3.06	11.65	649*	2.85	12.06	720*	3.20	13.36	710*
Sugarcane	1.24	63.92	51.51	1.03	50.04	48.63	1.11	56.53	51.11

* Kgs per hectare.

Source: State Bank of Pakistan

Growers have increased the acreage and production of minor crops like potato, tomato, onion, chillies etc.

Inflationary pressure

Inflationary pressures which had eased in October 2009 to 8.9 percent have re-emerged, rebounding to 13 percent in February 2010. Meanwhile, food inflation went up from 7.5 percent to nearly 15 percent during the same period. Most of the commodities in the food group showed double digit increase, and included wheat flour, fresh milk, sugar, meat, vegetables and vegetable ghee. This increase in food prices despite adequate supply of

essential food items is attributable to relatively higher imported commodity prices of sugar, tea and pulses, since August '09 and upward adjustment in electricity and gas tariff, as the government gradually eases subsidies and helps reduce the burden on fiscal deficit. Prices also strengthened because of recovery in domestic demand.

The burden of inflation has fallen on the man in the low income group, who has to suffer because of rising food prices — a large part of income of this group is spent on food staples and because the rise in fuel prices, leads to increase in transport fares and fuel bills. The

incidence of non-food inflation is also higher for low income groups.

On the external front, Pakistan's trade deficit narrowed to \$9.42 billion during July-February 2010 against \$11.69 billion in the comparable period of FY09. While exports grew by 2.71 percent to \$12.40 billion against \$12.07 billion in July-February '09, imports declined by 8.2 percent to \$21.82 billion compared with \$23.77 billion a year earlier.

Trade deficit narrows

During this period, import of petroleum declined by 9.4 percent, machinery by 20.2 percent and iron & steel by 12 percent and food group by 25.8 percent. In the later category while import of palm oil fell, there was a substantial jump in the import of sugar.

Marginal rise in exports

Exports have risen marginally as textiles, the major foreign exchange earner, shows a rise of 4.2 percent despite falls in export earnings

Major Exports

Commodities	Unit	July-February FY10			July-February FY09		
		Quantity (000)	Value (\$ Mn)	Unit Value (\$)	Quantity (000)	Value (\$ Mn)	Unit Value (\$)
Rice	MT	2,739	1,363.0	498	1,696	1,396.0	823
Fish & Fish Preparations	MT	72	133.5	1,866	78	147.4	1,902
Fruits	MT	442	170.4	385	331	114.1	345
Vegetables	MT	229	64.4	281	191	37.4	196
Wheat	MT	3	0.6	203	134	37.9	282
Raw Cotton	MT	153	190.0	1,242	71	77.7	1,097
Cotton Yarn	MT	461	955.8	2,074	333	739.4	2,220
Cotton Cloth	SQM	1,113	1,151.4	1,035	1,361	1,361.0	1,000
Knitwear	DOZ	64,961	1,147.2	18	73,822	1,201.6	16
Bed wear	MT	217	1,105.8	5,092	214	1,142.0	5,345
Towels	MT	136	430.0	3,153	113	425.0	3,746
Readymade Garments	DOZ	18,179	851.3	47	19,844	816.0	41
Artificial Silk & Synthetic Textile	SQM	288,445	284.4	1	194,583	165.3	0.8
Leather Tanned	SQM	12,437	185.1	15	13,358	207.1	16

Major Imports

Commodities	Unit	July-February FY10			July-February FY09		
		Quantity (000)	Value (\$ Mn)	Unit Value (\$)	Quantity (000)	Value (\$ Mn)	Unit Value (\$)
Wheat Unmilled	MT	56	23.0	409	2,293	877.2	383
Tea	MT	65	181.5	2,796	69	158.7	2,292
Spices	MT	74	47.0	639	72	45.5	635
Soyabean Oil	MT	7	8.1	1,119	36	39.2	1,104
Palm Oil	MT	1,062	780.5	735	1,072	920.3	858
Sugar	MT	240	139.6	582	32	14.0	435
Petroleum Products	MT	7,936	4,007.8	505	6,277	3,961.0	631
Petroleum Crude	MT	4,668	2,291.4	491	4,908	2,991.7	610
Raw Cotton	MT	170	291.2	1,712	231	399.5	1,727
Synthetic Fibre	MT	126	222.4	1,770	89	183.0	2,048
Synthetic & Artificial Silk Yarn	MT	103	218.2	2,118	72	174.5	2,413
Worn Clothing	MT	160	59.3	370	169	63.8	378
Fertilizer Manufactured	MT	1,132	534.0	472	822	413.1	503
Insecticides	MT	20	90.1	4,587	16	64.2	3,996
Plastic Materials	MT	479	757.1	1,582	399	753.7	1,891
Iron & Steel Scrap	MT	1,000	287.7	288	1,203	387.0	322
Iron & Steel	MT	1,141	768.9	674	1,312	875.0	667
Rubber Crude Incl. Synthetic/Reclaimed	MT	47	83.8	1,788	49	100.5	2,057
Rubber Tyres & Tubes	No	2,828	83.6	30	2,945	71.2	24

Source: Federal Bureau of Statistics

from cotton cloth, cotton carded, knitwear, and bedwear. In the category ‘other manufactures’, export of fertilizer manufactured has jumped. Decline in earnings have been recorded for export of carpets & rugs, sports goods, leather & leather manufactures, surgical goods, etc.

The current account balance improved during July-February FY10 to \$2.5 billion against \$7.96 billion in the corresponding period of FY09. This was largely because of the narrowing of the trade deficit and growing workers’ remittances. Workers’ remittances grew by 17.6 percent in FY10 to \$5.78 billion, compared with \$4.92 billion in the comparable period of FY09. Substantial increase in inflows were registered from UAE, Saudi Arabia, Qatar, and some other countries (Australia, Norway, Canada). It was also due in part to the government’s efforts under the Pakistan Remittance Initiative to channel remittances through the banking system.

Current account balance improves

In FY09, the current account deficit had contracted considerably to 5.3 percent of GDP against 8.4 percent in FY08. In absolute terms, the deficit had come down to \$8.9 billion, from a high of \$13.9 billion. For FY10 the deficit is expected at \$9.4 billion.

Resident Foreign Currency Accounts have shown a sharp reversal in FY10 (July-Feb) from an outflow of \$142 million in FY09 (July-Feb) to an inflow of \$465 million.

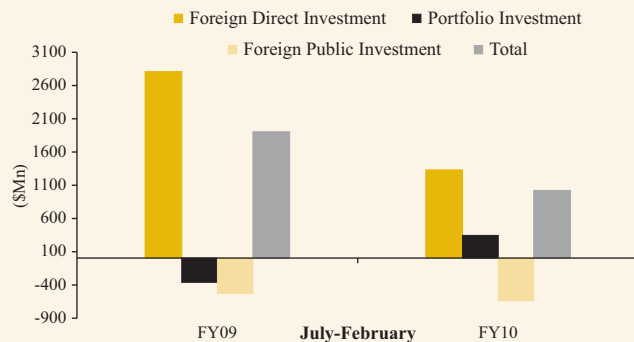
Inflow of foreign investment in Pakistan has shown a downward trend since FY07. From \$8.4 billion in FY07 it fell to \$2.6 billion in FY09. In the first eight months (July-Feb) of FY10, inflow of foreign investment declined to \$1.0 billion compared with \$1.9 billion in the comparable period of FY09.

Inflow of foreign investment decline

This is in line with global trends. Internationally some companies are postponing their investments, as their profits have been affected and because of market uncertainty. The problems are compounded in Pakistan because of domestic factors like the ongoing energy crisis, security concerns and sluggish economic activity.

During this period while foreign direct investment declined by 52.8 percent to \$1.3 billion from nearly \$2.8 billion in July-February ‘09, portfolio investment which had shown an outflow of \$367 million rose by \$343.5 million in FY10.

New Inflow of Foreign Investment in Pakistan



Foreign direct investment by economic categories shows that during the period July-February FY10, the major recipients were, oil & gas exploration which received \$398.7 million, power sector \$115.8 million, communications \$111.3 million (where telecommunications got \$205.4 million but there was an outflow of \$94.1 million from Information Technology and \$102.3 million from IT services). Financial business received \$86.4 million.

FDI by economic categories

Pakistan is ranked 85 out of 183 countries in the ease of doing business, by the World Bank and IFC publication *Doing Business 2010 - Pakistan*. A set of 10 indicators have been measured in areas important to business. These are mentioned below: -

Pakistan’s Ranking in Doing Business 2010

Ease of Doing Business	85
Starting a Business	63
Dealing with Construction Permits	105
Employing Workers	146
Registering Property	119
Getting Credit	61
Protecting Investors	27
Paying Taxes	143
Trading Across Borders	78
Enforcing Contracts	158
Closing a Business	56

Source: World Bank

Fx reserves improve

Pakistan's liquid foreign exchange reserves improved during July-February FY10, reaching \$14.78 billion in February 2010, against \$11.74 billion in July 2009. With considerable fall in current account deficit, the pressure on reserves was lower. Despite lower foreign direct investment inflows, Pakistan's reserves increased by \$2.36 billion by February FY10 compared to last fiscal year. Of the \$2.36 billion increase in reserves, net reserves with SBP increased by \$1.8 billion, while that with scheduled banks rose by \$525 million. The increase in the later was largely on account of increase in foreign currency deposits and retirement of foreign currency loans.

A gradual rise in reserves and fall in the import bill has led to a rise in the import coverage ratio. By February FY10, reserves in terms of weeks of imports increased to 26 weeks, compared with 15 weeks in February '09.

Rise in credit to private sector

Due to recovery in aggregate demand as economic activity picks up, there has been a rise in credit to private sector businesses. During July-Feb FY10, total credit flows to private sector stood at Rs148.4 billion, compared with Rs136.1 billion in the same period a year earlier. About 63 percent of total credit has been availed for working capital, while 37 percent for fixed investment purposes. The main sectors that availed credit included manufacturing, agriculture, electricity, gas and water. Out of the total credit to manufacturing sector (Rs92.4 bn) 46 percent was extended to food products & beverages, 21 percent to textiles and 10.7 percent to chemicals & chemical products while spinning, weaving, finishing of textiles received Rs38.0 billion.

Favourable performance by the agriculture sector has had a healthy impact on the large scale manufacturing which grew by 2.3 percent in July-January FY10, as against a contraction of 5.4 percent in the same period last year. Credit flow has expanded mainly to spinning, weaving and finishing of the textile.

During the first half of the current fiscal year (July-December 2010) the fiscal deficit rose

Fiscal deficit rises

to 2.7 percent of GDP against 1.9 percent in the comparable period last fiscal FY09, resulting mainly from substantial increase in total expenditure, particularly power sector subsidies and security related expenses.

Tax revenue recorded slower growth in the first half of FY10. Direct tax collection showed some shortfall and alongwith fall in tax receipts from international trade it translated into the deceleration in FBR taxes. The decline in direct tax collection is attributable to a fall in advance tax payments that highlight the fall in corporate earnings due to weak economic conditions.

Tax Revenue

	Budget Estimate FY10	Actual H1-FY10	Actual FY09
Total Revenue	2156	910	1851
1. Tax Revenue	1593	659	1331
<i>Growth (YoY) %</i>	19.7	14.0	26.6
of which: FBR Revenues*	1380	582	1157
2. Non-tax Revenue	563	251	520
<i>Growth (YoY) %</i>	8.2	-2.2	15.9

* The total FBR tax revenues during Jul-Jan FY10 are Rs694 billion.

Expenditures

	Budget Estimate FY10	Actual H1-FY10	Actual FY09
Total Expenditure*	2877	1313	2531
1. Current	2261	1059	2042
<i>Growth (YoY) %</i>	10.7	15.2	9.9
Interest Payments	647	294	555
Defence	-	166	313
2. Development & net Lending	616	239	456
<i>Growth (YoY) %</i>	35.2	80.3	7.5

* Exclusive of statistical discrepancy.

Source: Monetary Policy Information Compendium, March 2010, SBP

Fiscal outlook for FY10

The fiscal outlook for FY 2009/10 is subject to several risks. These risks include: (i) a worsened security situation, which could hurt confidence and economic activity with adverse implications for revenue; and (ii) simultaneous tax administration reforms and the introduction of the VAT creating a significant workload for tax officials that could temporarily weaken tax collections. Also, (iii) failure to implement the agreed adjustment in electricity tariffs would increase pressure for power subsidies, (iv) spending compression may be difficult to sustain, especially if security-related spending

pressures increase; and (v) external financing may be lower than projected, states the *IMF Country Report - Pakistan: Third Review Under Standby Arrangement*.

The *International Monetary Fund* approved \$8.11 billion Standby Arrangement (SBA) for Pakistan to support the country's economic stabilization programme in November 2008.

In August 2009, the SBA was augmented to about \$11.35 billion. Of this \$3.1 billion became available immediately, while the rest was to be disbursed in phases, subject to quarterly reviews. Total disbursements under the programme is about \$6.54 billion by end December 2009. IMF is expected to disburse its fifth tranche by the end of April. The Federal Value Added Tax Act 2010 has been presented to the Parliament and the four provincial assemblies. Pakistan plans to introduce a broad based VAT by July 1, 2010. This tax is expected to generate some additional revenue by removing domestic zero rating and reducing exemptions to expand the tax base.

IMF's
Stand-by
Arrangement

The country's domestic debt has risen to Rs4.3 trillion at end January 2010. With a sluggish growth in the economy, the domestic debt to GDP ratio stood 28.5 percent. The SBP report states, 'the rise in domestic debt is mainly attributed to lower net external financing due to lower than expected disbursements of the pledged foreign financing and increase in the external debt repayments on maturing stocks of the foreign currency bonds.'

Domestic
debt rises

Domestic financing of the budget deficit has seen a change, with increasing share of scheduled banks and non-bank sources. There has been a shift away from central bank borrowing, and the share of domestic debt held by scheduled banks has increased. Financing through National Saving Schemes remained almost in tandem with its budgetary estimates for FY10.

During July-December FY10, Pakistan's external debt rose, as \$4.9 billion were added

External
debt rises

to the stock of outstanding debt, resulting in external debt of \$54.39 billion. When foreign exchange liabilities of \$1.42 billion are added, the figure of total external debt and liabilities rises to \$55.81 billion.

The upward trend in external debt in the last few years is primarily due to the widening of fiscal and current account deficits. The global economic crisis affected Pakistan's export earnings, inflow of investment, the country's ability to tap international capital markets and other financial flows, which had helped finance Pakistan's large current account deficits.

The fall in financial flows affected the country's reserves because of which it faced difficulties to meet its external obligations. Total foreign reserves had fallen from \$15.6 billion in FY07 to \$12.4 billion in FY09.

Total external debt servicing reached \$2.6 billion in the first half of FY10 against \$2.4 billion in the first half of FY09. Here, principal payment constituted nearly 80 percent of the debt servicing, while interest payments made up for the rest.

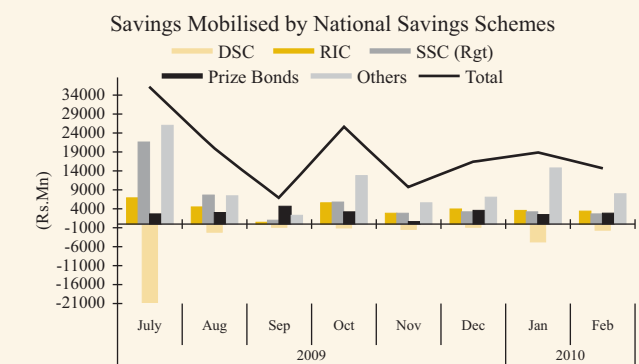
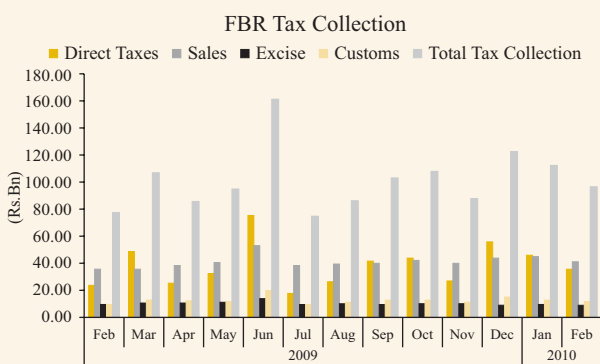
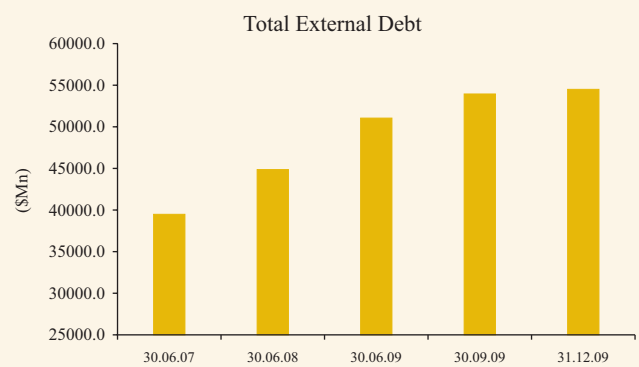
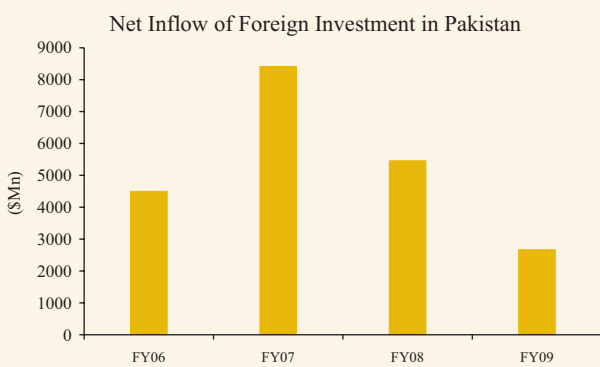
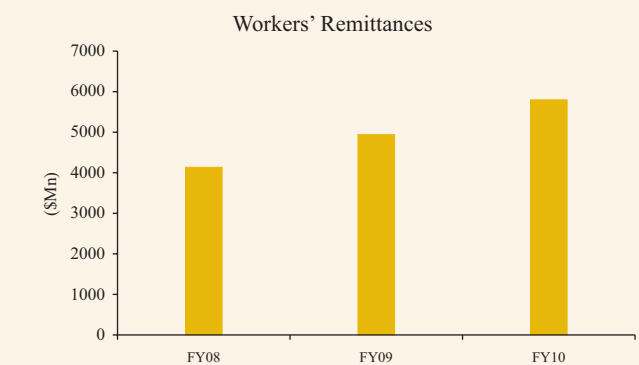
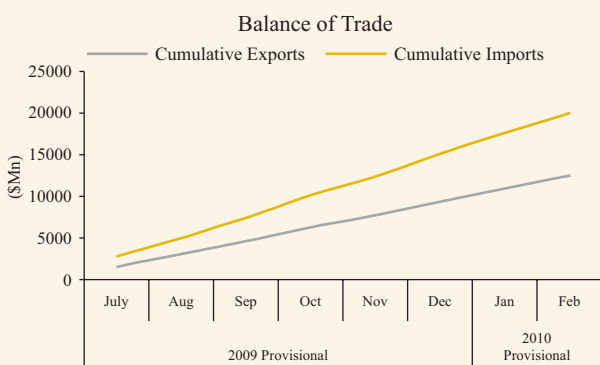
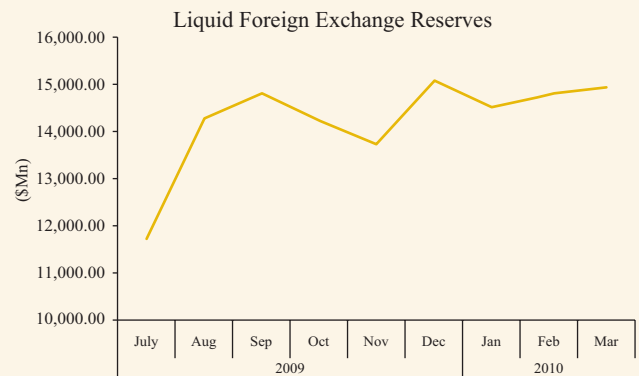
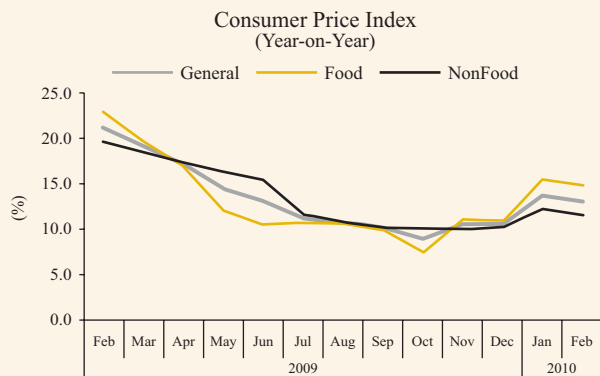
Pakistan's External Debt and Liabilities Servicing

	(\$ Mn)	
	H1-FY09	H1-FY10
	Actual Paid	
Public and Publicly guaranteed	1,844.0	1,490.5
Private Non-guaranteed	301.0	264.9
IMF	115.0	171.1
Total Debt Servicing	2,260.0	2,472.9
Foreign Liabilities	155.0	175.2
Total	2,415.0	2,648.1
Principal	1,830.0	2,109.3
Interest	585.0	538.8

Source: *The State of Pakistan's Economy 2nd Quarterly Report 2009-10, SBP*

While the economy has shown improvement in key macroeconomic indicators, major challenges persist and are a source of concern. Resurgence of inflationary pressures, energy shortages, unemployment, poverty, low revenue base, dependence on external resources, weak export performance, security issue and law & order are some of the issues confronting the government.

Economy at a Glance



Commercial Banks' Deposits by Sectors

(Rs. Mn)

	2001		2002		2003		2004		2005		2006		2007		2008	
	Private	Public	Private	Public	Private	Public	Private	Public	Private	Public	Private	Public	Private	Public	Private	Public
Public Sector Banks	263	125	247	161	257	197	320	224	359	219	416	250	460	353	488	331
National Bank of Pakistan	245	104	226	137	232	163	284	182	302	161	330	172	342	250	390	235
First Women Bank	2	4	3	4	4	5	4	4	4	4	4	3	5	3	5	1
Bank of Punjab	11	8	12	12	15	20	25	30	43	45	70	67	100	92	82	82
Bank of Khyber	5	9	6	8	6	10	7	9	9	8	11	8	13	8	12	13
Privatised Banks	612	63	708	69	594	107	870	111	988	125	1118	140	1293	206	1490	227
Habib Bank Limited	250	34	310	18	291	70	333	72	374	58	404	55	458	74	499	98
United Bank Limited	129	14	141	21	164	21	204	26	246	44	282	54	332	79	413	79
MCB Bank	152	2	173	10	38	2	215	5	223	7	250	7	277	15	314	16
Allied Bank Limited	81	14	84	20	101	13	118	8	145	17	183	23	225	39	263	34
Domestic Private Banks	183	21	278	35	374	34	522	108	725	173	936	198	1166	187	1277	196
Askari Commercial	30	11	40	11.67	45.87	0.48	61.29	22.03	94.51	24.29	107.31	24.53	116.06	26.98	125.27	42.40
Soneri Bank	16	1	20	0.13	24.54	3.33	30.17	7.22	35.54	12.06	37.47	15.53	47.08	13.07	53.23	8.40
Bank Al Habib	24	1	33	1.53	40.02	6.16	52.69	9.48	64.08	11.71	78.15	13.27	102.97	11.65	124.77	19.62
Bank Al Falah	26	4	47	4.65	48.14	1.08	94.69	35.02	158.24	64.10	172.03	67.48	204.33	68.85	248.96	51.77
Union Bank	20	1	37	0.77	49.31	1.14	61.82	1.14	79.79	11.40	-	-	-	-	-	-
Standard Chartered	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Faysal Bank	16	2	16	9.40	26.21	5.12	47.15	9.32	56.94	17.80	57.57	16.84	97.56	4.51	166.81	7.74
Habib Metropolitan Bank	17	1	28	0.08	37.25	2.09	33.00	6.00	47.77	8.95	88.62	13.87	106.94	14.12	98.78	4.00
Prime Commercial Bank	10	0	12	2.64	19.57	2.06	28.90	1.21	37.14	1.74	35.27	5.42	-	-	-	-
PI/CIC Comm. Bank	9	0	18	2.69	24.55	7.95	34.00	10.09	43.86	9.61	50.85	8.61	-	-	-	-
KASB Bank	3	0	3	0.00	4.96	0.49	9.31	1.67	12.91	1.79	19.71	1.48	31.80	1.34	33.07	2.02
mybank	6	0	8	0.11	8.44	0.56	10.00	0.82	12.02	0.51	16.65	2.51	25.26	4.89	23.14	4.89
Saudi Pak Commercial	5	0	11	1.25	30.77	2.50	30.77	2.50	29.97	7.17	35.31	13.70	33.61	8.76	35.38	5.68
Meezan Bank	1	0	5	0.00	7.76	0.00	13.77	0.00	22.50	0.00	34.45	0.00	54.58	0.00	70.23	0.00
Atlas Bank	-	-	-	-	-	-	0.23	0.00	2.19	0.00	8.76	0.09	14.80	0.52	15.82	2.83
Samba (Formerly Crescent Bank)	-	-	-	-	3.47	0.01	4.91	0.18	5.57	0.42	5.03	0.54	10.50	2.15	7.09	2.77
NIB	-	-	-	-	3.10	0.58	9.56	1.09	21.51	1.05	28.02	2.55	91.97	24.70	83.99	20.60
JS Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Arif Habib Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dubai Islamic Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank Islami Pakistan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Emirates Global Islamic Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dawood Islamic Bank	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
All Private Domestic Banks	795	84	986	104	968	141	1392	219	1712	298	2054	337	2458	393	2767	424
Foreign Banks	174	4	176	2	188	4	218	9	237	9	147	3	200	7	219	7
Standard Chartered	56.18	1.09	57.77	0.04	67.58	0.30	74.97	1.54	83.65	0.00	-	-	-	-	-	-
Citibank	39.32	2.18	40.58	0.26	38.60	1.15	45.96	1.15	52.56	0.56	62.80	0.30	67.92	0.71	65.40	0.08
RBS (Formerly ABN Amro Bank)	34.03	0.16	34.46	0.24	37.44	0.24	47.86	0.36	46.91	1.00	51.80	1.25	86.39	3.90	76.38	2.72
American Express	5.95	0.00	5.98	0.00	5.12	0.00	5.07	0.00	5.67	0.06	-	-	-	-	-	-
HSBC	5.83	0.00	5.77	0.00	7.34	0.00	8.92	0.00	8.60	0.00	14.71	0.00	24.91	0.49	35.63	0.90
Habib Bank AG Zurich	16.15	0.53	19.93	0.25	21.30	1.63	24.59	3.58	28.81	4.63	-	-	-	-	-	-
Deutsche Bank	3.99	0.01	1.87	0.83	1.25	0.21	1.27	0.80	1.50	0.00	3.32	0.00	5.10	0.00	10.31	0.00
Oman International	1.77	0.06	1.07	0.07	0.73	0.01	0.50	0.01	0.49	0.00	0.62	0.00	0.05	0.01	0.52	0.01
Al-Barka Islamic	4.73	0.00	5.35	0.00	6.13	0.50	6.44	1.69	7.49	2.83	12.64	1.18	14.72	2.25	17.02	1.32
Barclays	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Bank of Tokyo	7	0.00	3.01	0.00	2.63	0.00	2.11	0.00	0.96	0.02	1.41	0.05	0.98	0.00	1.71	0.01
All Banks	1233	213	1409	267	1413	342	1930	452	2308	526	2617	590	3119	753	3474	762

- Indicates Banks' Mergers/Acquisitions and setting up of new banks.

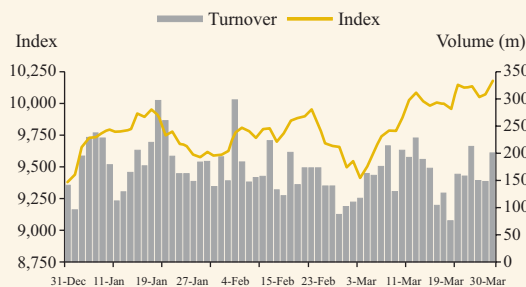
Source: Banks Annual Reports

Market Analysis

Market Review – 1QCY 2010

The market during the first quarter of 2010 (1QCY10) was slightly volatile and directionless for most of the quarter but picked up momentum in March to end on a strong note on the back of net foreign inflows. The market can be segmented into 4 distinct phases: 1) positive start; 2) slump; 3) mixed February and 4) March Madness. Overall, the KSE-100 Index during 1QCY10 jumped by 791 points or 8.4 percent to close the quarter at 10,178 on average daily turnover of 169.13m shares while the KSE-30 Index gained 575 points or 5.8 percent to 10,425. The net inflow of foreign funds in the market during the quarter according to the SCRA figures comes to US\$132.52m while the fiscal year to date net inflow stands at US\$392.52m.

The Market - January to March 2010



Positive start

In the first 3 weeks of the new year, the KSE-100 Index made a gradual ascent towards the 10,000 plateau. The Index gained 567 points or around 6 percent to close at 9,954 on January 19. The buying activity was mainly concentrated in second and third tier stocks, but near the end of the second week, there was some foreign buying interest in KSE-100 Index heavyweight stocks such as OGDG, PPL and PTCL. Investor sentiment was buoyed by the improvement in selected macroeconomic indicators such as continued declining trend in inflation, trade deficit and higher overseas remittances. In addition, the SBP 1QFY10 Economic Review contained no negative surprises on the economy, but still identified

possible risks to the economic performance going into the second half of the fiscal year.

The third week of the month began on a bit of sour note due to the interview of the federal Finance Minister Shaukat Tareen conducted by one of the major local channels alluding to the introduction of a capital gains tax on stocks in the next fiscal year. This led to some profit taking on January 18. Fortunately, the market sentiments witnessed a turnaround the next day, as the KSE-100 Index broke the 10,000-barrier during intraday trading on January 19 for the first time in 17 months.

Slump

From January 19 to 28, the KSE entered into a slump in which the KSE-100 Index shed 374 points or nearly 5 percent to 9,579.

The market remained flat for the rest of the third week of January, as the activity was mainly concentrated in lower tier stocks while the Index heavyweights moved to the background. In addition, the detailed judgment on the NRO was released by the Supreme Court on January 19, which added to the political uncertainty, as it did not specifically address the issue of Presidential immunity.

The final week of January saw a continuation of the range bound and cautious trend that began in the end of the previous week. Political uncertainty and the expectation of little or no change in the Monetary Policy Statement were the main factors behind the lackluster activity. In addition, the earnings announcements of some of the Index heavyweights had been below market expectations.

Mixed February

The market was erratic with no sense of direction, as trading activity was concentrated in lower tier stocks. The KSE-100 Index was relatively unchanged from last month as it gained only 43 points or 0.45 percent during February 2010 to close at 9,657.

During the first two weeks of the month, the KSE-100 Index was mainly dull and lackluster,

as the most of the trading activity was concentrated in lower tier stocks. The Index heavyweights witnessed limited investor interest despite some of them posting solid quarterly/annual results. As expected, the SBP did not slash the policy rate any further and so, there was not much adverse reaction by investors to this decision.

Some macroeconomic indicators continue to show improvement such as the decline in the 7mFY10 trade deficit by 22 percent YoY to US\$ 10.825bn and increase in 7mFY10 workers' remittances by 21.5 percent YoY to US\$ 5.198bn. However, the January 2010 CPI inflation data served as a dampener for the equity markets, as it displayed a rising trend for the third consecutive month at 13.68 percent YoY and average CPI of 10.79 percent for 7mFY10.

The beginning of the third week saw the attention of the capital markets as well as the whole country focused on the judicial crisis that started on February 13. The KSE-100 Index shed 104 points on February 15, the first trading day after the issue of the notice. Tensions were high between the judiciary and the government, but fortunately, the matter was resolved when the Prime Minister acquiesced to the Chief Justice's recommendations on February 18. The KSE-100 Index increased by 187 points from February 15 to 18 to 9,889.

From February 18 to 22, the KSE-100 Index was inching towards the 10,000-plateau because of better than expected results and/or payout announced by PSO and HBL and a compromise reached between the KSE and the Finance Minister over the implementation of capital gains tax (CGT) starting from FY11. Yet, the momentum to cross the psychological level of 10,000 lost some steam for the remainder of the month and the market became morose due to the sudden resignation of the Shaukat Tarin as the Finance Minister on February 23. This caused some uncertainty regarding the state of the compromise over

the CGT issue and overall economic policy direction, as a successor was not named immediately.

The first few days of the month saw the KSE-100 Index following the same sluggish pattern that was witnessed near the end of February. The circular debt issue and its ramifications on the profitability and dividend payout of major stocks such as OGDC, PPL and PSO had a negative impact on share prices. Fortunately, the lackluster activity did not continue for long, as the Index began to rally and inch towards the 10,000 psychological barrier over the next 10 days.

The KSE-100 Index gained 606 points from March 3 to 12 to close at 10,025, the first time the benchmark index closed above 10,000 in the last 17 months. The main impetus behind this achievement was the net inflow of foreign funds in the equity bourses that went towards purchasing of heavyweight stocks in sectors such as oil, banking and chemicals. In addition, there was improvement reported in macroeconomic indicators such as workers' remittances and the continued reduction in the trade deficit.

The third week of March saw the KSE-100 Index trading in a narrow band due to profit taking and concerns over the circular debt issue. Fortunately, the market snapped out of its sluggishness during the following week on the back of positive news flow regarding the Pakistan-U.S. strategic dialogue that was held in Washington during the middle of the week. Appreciation was expressed by the U.S. over Pakistan's efforts in fighting the war on terrorism and also, U.S. officials made commitments to aid Pakistan in its energy crisis.

Earlier in the week, a roadshow was held in New York to highlight Pakistani equity markets in which the KSE Managing Director was a participant. The KSE Managing Director later met the President of MSCI Index and other leading portfolio managers resulting in speculation among investors that Pakistan

March Madness

may return to the MSCI emerging market index. The KSE-100 Index gained 137 points from March 19 to 26 to close at 10,137. The last 3 trading days of the month saw the Index end on a strong note due to buying interest in selective Index heavyweight stocks.

Regional valuation

The Pakistan market PE at 7.61x is trading at a 42 percent discount to the regional average of 13.13x. Based on dividend yield, Thailand is the most attractive at 9.00 percent followed by Pakistan at 6.04 percent while the regional average is 2.70 percent.

Regional Valuation Comparison

Country	12m F	
	PEx	Dividend Yield (%)
China	16.04	1.06
Hong Kong	13.70	2.32
India	14.66	1.10
Indonesia	13.48	1.45
Malaysia	13.29	2.88
Pakistan	7.61	6.04
Philippines	12.19	2.37
Singapore	13.37	2.98
South Korea	9.53	1.35
Taiwan	14.16	2.52
Thailand	10.87	9.00

Source: Thomson One Analytics, Date: August 18, 2010

Looking ahead

With the federal budget for FY11 expected to be presented in the National Assembly in mid-May, most investors would be focusing on this event to see what economic direction the government takes under the stewardship of the new finance advisor Dr. Abdul Hafeez Sheikh. The investor community would be interested to see if Dr. Sheikh would levy a

capital gains tax on shares as per the compromise reached between the KSE and his predecessor Shaukat Tarin back in February. In the run-up to the budget, the market activity could be guarded.

On March 26, the IMF decided to postpone indefinitely the disbursement of the 5th tranche of US\$ 1.2bn, as the Executive Board meeting of March 31 was postponed. The major stumbling block appears to be the presentation of the draft law on VAT in the Punjab Assembly as the other provincial assemblies have already introduced the draft law. Hopefully, this snag would be cleared soon as this disbursement is vital as workers' remittances are showing a declining trend over the last couple months. The meeting has been rescheduled for mid-April. In addition, the global economy is expected to recover this year that could place further upward pressure on prices of major commodities and crude oil that would lead to strain on the balance of payments front and inflation for the Pakistani economy.

On the domestic political front, the introduction and timely passage of the 18th Amendment bill would go a long way to providing the country much needed political stability and harmony. We expect the capital markets to respond positively to such an outcome, as the government would be able to focus on the important issues such as economic uplift, poverty alleviation and improving the law and order situation.

(Contributed by Taurus Securities Ltd, a subsidiary of National Bank of Pakistan)

Book/Report Reviews

*Social Development in Pakistan
Annual Review 2007-08
Women at Work
Social Policy and Development Centre*

The Social Policy and Development Centre in their annual reviews launched in 1998 have dealt with various socioeconomic issues over the years. This year's report deals with the subject of *women at work* and analyses the various aspects of women employment in the country.

It is seen that women have low participation in the labour force, have higher unemployment rates when compared to men, many are employed as unpaid family workers, there are large gender wage gaps, and their wages are less than those of males even with the same level of education and experience and working conditions are unfavourable.

In Pakistan almost three fourths of female workers are engaged in agriculture, mainly in activities related to livestock. In the formal sector the share of female employment is low, at only about 7 percent and declining. The transition of the female labour force from traditional agricultural activities to the informal sector and to the formal sector in urban areas has not taken place.

There is limited entry of educated females into employment, which implies strong gender discrimination in the labour market. Women at work have largely been unable to convert employment into a means of social and economic empowerment. Majority of them remain engaged in low paid work.

The Report has provided a strategy for promoting women at work. This would focus on implementation of policies that facilitate women's entry in various economic activities as well as reforms that protect the existing female workforce and improve their working conditions.

The strategy has many elements, which includes among others, policies for boosting

agricultural growth, especially in female labour-intensive activities; facilitating access to credit for women; fiscal incentives for women's labour market participation; reforms in the labour law which would improve the workplace environment, female specific labour policies which would encourage women's employment; HR initiatives like investing in higher education for women, a higher share of scholarships for female students alongwith vocational training and providing social protection through various schemes like employment guarantee scheme, internship opportunities and school nutrition programmes for girls.

*The Evolution of Development Policy
A Reinterpretation
Syed Nawab Haider Naqvi
Oxford University Press 2010*

This book has traced the evolution of development policy since 1950, when the business of development began in right earnest, down to the present. It relies heavily on the author's perceptions of reality that were formed during his extensive visits to Thailand, the Philippines, Malaysia, South Korea, Singapore and China.

The developing world today is better off than it was in the past partly due to the development efforts made in the first three decades of development and partly because of human development advancements. It further shows that the overall picture could have been better still if the incidence of high growth and significant poverty reduction had been greater across countries and across income classes within countries and if the development policy had not undergone sudden change of course in the last quarter of a century or so.

The major themes analyzed at length in this book, which have dominated the evolution of development policy are: (a) The Traditional Development Paradigm aimed to maximize growth of per capita income. It understood the key factors that accelerate economic growth, reduce poverty, and facilitate the

emergence of a strong middle class. It emphasized government supported import substituting industrialisation to give priority to expanding the domestic market with a view to broadening the domestic production and export base.

(b) The Liberalist Paradigm radically shifted the policy focus to sustainable growth of per capita income within the binding constraints of macroeconomic stability and market friendly reforms. (c) The anti-Liberalist Consensus proved that when markets are incomplete and information is imperfect, unfettered markets produce sub-optimal solutions. (d) The Human Development Paradigm, has redirected development policy to maximize human development by expanding social expenditures on education and health. This book has emphasized the need for a new Development Paradigm. The proposed paradigm should focus on maximizing 'inclusive growth' that pursues growth, equity and poverty reduction simultaneously.

A Concise History of Pakistan
M. R. Kazmi
Oxford University Press 2009

This book is a concise history of Pakistan; covering the ancient and medieval history of the region, the muslim revival movements, the political struggle, the Pakistan Movement, and the political history of the state where the author writes about the early problems the nation faced at the time of establishment, the experiment with democracy, the various military regimes. Besides the political history, the author writes about the constitutional, cultural, diplomatic, institutional and the economic history. It also has personality profile of individuals who have played a part in shaping the course of events.

In Part-V of the book, *Political History of the State*, personality profile discussed are of M. A. Jinnah, Liaquat Ali Khan, H. S. Suhrawardy, M. Ayub Khan, Sheikh Mujibur-Rehman, Z. A. Bhutto, Benazir Bhutto; in the section on *Economic History* the personality profile is of Mahbub-ul-Haq; Abul

Kalam Azad and Hasrat Mohani are included in the section of *Pakistan Movement*, while profile of Gandhi, Chaudhary Rahmat Ali, Nehru and Raja of Mahmudabad form part of the *History of Political Struggle*.

The earlier part of the book talks about ancient and medieval history, the muslim revival movement and the history of the political struggle. Part-IV of the book is about the history of the Pakistan Movement, beginning with the two nation theory, it goes on to mention the Cripps Mission 1942, the Quit India Movement 1942, Simla Conference and the 1945 Elections, Cabinet Mission Plan 1946, the Partition Plan, The Radcliffe Award and the role of majority provinces.

The early problems encountered at the time of establishment of Pakistan have been discussed. The Indus Water Dispute had its origins in the Radcliffe Awards. Just as the award of Gurdaspur to India was responsible for giving India access to Kashmir, the award of Ferozepur and Zira to India resulted in the Canal Water dispute. All three were muslim majority districts and were given to India.

Military regimes of Ayub Khan and Yahya Khan were followed by the first PPP Government of Z. A. Bhutto (1971-1977). He was removed from office by General Ziaul Haq who staged a coup and ruled for 11 years (1977-88). He supported Islamisation and imposed Zakat and Ushr Ordinance and introduced Islamic punishments. Later during his tenure a parliament based on non-party polls was ushered in. In May 1988 Ziaul Haq dissolved the national assembly and dismissed the prime minister.

There was a democratic interim between 1988-1999, after which the country witnessed another military regime of General Musharraf.

One of the chapters of the book discusses Pakistan's international relations – its relations with the US, China, Soviet Union, UK and with the SAARC countries.

There are two chapters in the book devoted to culture and to language and literature.

Pakistan Economy – Key Economic Indicators

	Unit	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Output and Prices									
GNP Size (MP)	Rs.bn	4476	5027	5765	6634	7773	8831	10494	13503
GDP Size (FC)	Rs.bn	4146	4534	5250	6123	7158	8235	9962	12459
Income Per Capita	\$	504	579	669	733	836	921	1042	1046
Real Growth	(%)								
GNP		5.1	7.9	6.4	8.3	5.6	6.7	4.1	2.6
GDP		3.1	4.7	7.5	9.0	5.8	6.8	4.1	2.0
Agriculture		0.1	4.1	2.4	6.5	6.3	4.1	1.1	4.7
Manufacturing		4.5	6.9	14.0	15.5	8.7	8.3	4.8	-3.3
Services Sector		4.8	5.2	5.8	8.5	6.5	7.0	6.6	3.6
Prices									
Consumer Price Inflation*	(%)	3.5	3.1	4.6	9.3	7.9	7.8	12.0	20.8
Wholesale Price Inflation*	(%)	2.1	5.6	7.9	6.8	10.1	6.9	16.4	18.2
Food Inflation*	(%)	2.5	2.8	6.0	12.5	6.9	10.3	17.6	23.7
Non Food Inflation*	(%)	4.2	3.3	3.6	7.1	8.6	6.0	7.9	18.4
Core Inflation*	(%)	2.0	2.5	3.8	7.2	7.5	5.9	8.4	18.1
Gold Tezabi (Karachi)	Rs./10 grams	5865	6378	7328	8216	10317	12619	16695	22195
Motor Gasoline Premium	Rs/Ltr	31.60	33.08	33.91	40.75	55.21	56.09	57.83	61.12
Kerosene oil	Rs/Ltr	18.58	22.48	24.95	29.11	36.19	39.09	43.44	60.62
Diesel	Rs/Ltr	16.70	21.15	22.72	26.50	36.45	38.40	40.97	54.95
GDP Deflator	%	2.49	4.42	7.74	7.02	10.5	7.70	16.21	22.62
Savings and Investment									
National Savings	% GDP	18.4	20.6	17.9	17.5	17.7	17.4	13.4	14.3
Domestic Savings	% GDP	17.9	17.4	15.7	15.4	15.7	15.6	11.3	11.2
Gross Fixed Investment	% GDP	15.5	15.3	15.0	17.5	20.5	20.9	20.4	18.1
Public	% GDP	4.1	3.9	4.0	4.3	4.8	5.6	5.4	4.9
Private	%GDP	11.2	11.2	10.9	13.1	15.7	15.4	15.0	13.2
Public Finance									
Revenue Receipts	% GDP	14.1	14.5	13.5	13.5	13.4	14.0	13.6	13.6
Tax Revenue	% GDP	10.4	10.9	10.3	9.5	9.4	9.7	9.8	9.0
Total Expenditure	% GDP	21.6	17.9	15.9	15.4	15.6	15.7	18.7	16.1
Fiscal Deficit	% GDP	4.3	3.7	2.4	3.3	4.3	4.3	7.5	4.3
Domestic Debt	Rs.bn	1718	1854	1979	2150	2322	2601	3266	3853
Funded	% Domestic Debt	53.9	51.0	54.6	59.4	62.0	63.9	68.8	67.0
Non Funded	% Domestic Debt	46.1	49.0	45.4	40.6	38.0	36.1	31.2	33.0
FBR Tax Collection	Rs.bn	404	461	521	590	713	847	1007	1157
Direct Taxes	% share	35.3	33.0	31.7	31.0	31.6	39.4	38.5	38.0
Indirect Taxes	% share	64.7	67.0	68.3	69.0	68.4	60.6	61.7	62.0
Monetary Sector									
Net Domestic Assets (NDA)**	Rs.bn	1531	1539	1903	2329	2697	3080	4022	4620
Net Foreign Assets (NFA)**	Rs.bn	231	540	583	637	710	985	667	517

MP=Market Prices FC=Factor Cost * Period Average

	Unit	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Credit to Private Sector	Rs.bn	841	949	1274	1712	2114	2480	2888	2907
Credit to Public Sector	Rs.bn	677	599	657	747	834	927	1510	2034
Borrowings for Budgetary Support	Rs.bn	567	511	575	641	708	810	1365	1681
Broad Money (M2)	growth %	15.4	18.0	15.6	19.1	15.1	19.3	15.3	9.6
Reserve Money (Mo)	growth %	9.6	14.5	15.4	17.6	10.2	20.9	22.3	1.9
Capital Market									
KSE 100 Index	1991=1000	1770	3402	5279	7450	9989	13772	12289	7162
Market Capitalisation	\$ bn	408	746	1403	2068	2801	4019	3778	2121
Listed Companies at KSE	Nos	712	702	668	659	658	658	652	651
National Saving Schemes*	Rs.bn	847	982	984	940	936	1004	1094	1359
Banking Sector									
Scheduled Banks Deposits	Rs.bn	1421.1	1681.5	2002.3	2428.3	2817.4	3372.6	3812.2	4137.6
Scheduled Banks Advances	Rs.bn	885.0	970.0	1242.4	1694.2	2071.1	2376.2	2815.6	3080.3
Non-Performing Loans All Banks**	Rs.bn	231.5	211.3	199.8	177.2	173.2	214.2	345.3	397.4
Lending and Deposit Rates	weighted average								
Deposits	% pa	3.61	1.61	0.95	1.37	1.96	2.60	4.13	4.44
Advances	% pa	13.20	9.40	7.28	8.81	10.91	11.55	12.49	14.25
Open Market Operation									
SBP 3-Day Repo	% pa	9.00	7.50	7.50	9.00	9.00	9.50	12.00	14.00
Treasury Bills Yield - 6 Months	% pa	6.28	1.66	2.08	7.96	8.49	8.90	11.47	12.0
KIBOR - 6 Months	% pa	6.21	2.15	2.69	8.46	9.36	9.77	13.94	14.0
Pakistan Investment Bonds - 5 yrs	% pa	9.39	4.16	5.27	7.50	9.65	9.53	10.80	12.4
Interbank Call Rates	%	6.74	4.23	2.7	6.1	8.8	8.9	9.9	13.2
SBP Export Finance Rate	%	6.50	2.00	1.50	6.50	7.50	6.50	6.50	6.5
External Sector									
Exports	\$ bn	9.14	11.16	12.31	14.40	16.45	16.98	19.05	17.78
Imports	\$ bn	10.34	12.22	15.59	20.60	28.58	30.54	39.96	34.82
Balance of Trade [†]	\$ bn	-1.15	-1.02	-2.87	-6.18	-12.01	-13.40	-20.20	-16.83
Current Account Balance	\$ bn	2.8	4.07	1.81	-1.53	-5.0	-6.88	-13.87	-8.86
	% GDP	3.95	4.94	1.85	-1.40	-3.92	-4.81	-8.44	-5.31
Worker's Remittances	\$ mn	2389	4237	3872	4168	4600	5494	6451	7811
Foreign Private Investment	\$ mn	475	820	922	1677	3872	6960	5429	3209
Direct	\$ mn	485	798	950	1525	3521	5140	5410	3720
Portfolio	\$ mn	-10	22	-28	153	351	1820	19	-511
External Debt and Liabilities	\$ bn	36.5	35.5	35.3	35.8	37.6	40.5	46.3	52.8
Domestic Debt	Rs.bn	1718	1854	1980	2150	2322	2601	3266	3853
Total Debt Servicing	Rs.bn	592.4	440.4	492.1	359.0	424.7	538.5	680.0	938.2
Gold & Forex Reserves	\$ mn	7065	11472	13155	12956	14303	17924	13299	13593
Gold	\$ mn	667	725	831	917	1288	1366	1957	1966
Liquid Foreign Reserves	\$ mn	6398	10747	12324	12039	13015	16558	11342	11627
Crude Oil Spot Prices (Brent)	\$/barrel	25.5	28.2	33.0	55.4	73.3	71.9	141.0	70.16
Exchange Rate (End Period)	Rs/US\$	60.0729	57.8090	58.1566	59.6738	60.1765	60.4381	68.1684	81.2551

* Outstanding Amount

**Its on calendar year basis

† Balance of Trade=Exports+Re-exports-Imports-Re-imports