Contents

Editor's Corner

Dear Readers,

Islamic finance has grown significantly over the years in every corner of the globe. Growing by more than 10 percent per annum over the past decade, it has today become a noticeable part of the international financial system. Globally the value of Islamic financial assets has increased from $150 billion in the mid 1990s to about $1.72 trillion by end 2013. Growth has been mainly driven by growing demand for Shariah compliant products and services. Islamic banking dominates the global Islamic finance industry, representing about 80 percent of total Islamic financial assets.

The main growth areas include Saudi Arabia, Qatar, Kuwait, Iran, Indonesia, Malaysia, UAE and Turkey. The growth is however, not restricted to muslim countries, as Islamic banking is gradually making inroads in the Western markets and is complementing conventional financing. There is a presence of large numbers of Islamic banks and growing interest of conventional banks to open up separate Islamic windows.

Last year the *World Islamic Economic Forum* was held in the city of London, which is playing a growing role in Islamic finance industry. More than 20 banks currently offer Islamic financial products and services in the UK, more than any other western country with the number expected to grow further. The value of Sukuks listed on the London market has reached $35 billion over the past five years. In France, banks such as BNP Paribas, Societe Generale, and Union de Banques Arabes et Francaises have been involved in Islamic financial transactions over the last ten years. There are large players which have a presence in France, namely National Bank of Kuwait, Tejerat Bank and Qatar National Bank. Conventional bank Credit Agricole also offers some Islamic products and services. Standard Chartered has launched Islamic banking services in Kenya. Islamic finance accounts for around 2 percent of total banking business in Kenya.

The Islamic banking industry which started from almost scratch in Pakistan has grown over the years and today constitutes 10 percent of the country's banking system. Initial steps for Islamization of banking and financial system in Pakistan were taken in 1977. In the decade that followed banking and other relevant laws were amended to facilitate interest free banking.

However, the initial efforts could not produce the desired results due to absence of Shariah compliance mechanism in place, lacking proper homework at the level of central bank as well as that of the financial institutions to enable such a sudden shift, states the State Bank of Pakistan.

Islamic banking was relaunched in 2001, when the government decided to promote Islamic banking in a gradual manner and as a parallel and compatible system in line with the best international practices. Since its relaunch in 2001, the Islamic banking industry is making good progress. In December 2013, there were 5 full fledged Islamic scheduled banks operating in the country with 676 branches, 14 Conventional banks with 441 stand alone branches and 96 sub branches.

The State Bank has been issuing regulations, instructions and guidelines on Shariah compliance since the relaunch of Islamic banking in 2001. It has developed a five year strategic plan 2014-18 for the Islamic banking industry. It sets the future direction of the industry and gives a consensus strategy to take the industry to the next phase of growth and development. The strategy envisages among others deepening and broadening of products offered by Islamic banks, doubling the outreach of Islamic banking institutions and increasing the market share to 15 percent of the banking system.

Keeping in view the recent developments that have taken place in the Islamic banking industry, a comprehensive *Shariah Governance Framework* has been developed, where the objective is to strengthen the overall Shariah compliance environment in the Islamic Banking Institutions. In order to strengthen the Islamic banking windows, SBP has made certain amendments in the earlier announced policy. SBP efforts will give further boost to the development of the Islamic banking industry.

Ayesha Mahmood

Interview

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National Bank of Pakistan

Q. 1 Tell us about NBP Islamic Banking. How it all started, what are the Shariah complaint products/services that the Bank offers? What progress has the Bank made?

National Bank of Pakistan (NBP) started its Islamic Banking operations in December 2006, with the opening of its first Islamic banking branch in Karachi. Over the years NBP Islamic banking branch network has expanded to eighteen (18) branches which are in Karachi, Hyderabad, Lahore, Rawalpindi, Islamabad, Sialkot, Multan, Faisalabad, Peshawar, Muzaffarabad and Mirpur AK.

NBP-Islamic Banking Group (IBG) offers Shariah Compliant General Banking Operations. On the asset side, Ijarah and Murabaha are offered at present. While on the liability side, NBP IBG offers remunerative and non-remunerative deposit products.

NBP- Islamic Banking is on the 18th position in terms of deposits base of Rs.4 billion as on September 31, 2013 and constitutes deposits share of 0.5% in the Industry.

Recently, there has been growing focus by Government of Pakistan on Islamic Finance. The government has formed a Steering Committee to promote Islamic Banking in the country. Further, a new Deputy Governor has been appointed at SBP for the development of Islamic Banking.

Q. 2 What steps has State Bank of Pakistan taken recently to promote Islamic Banking in the country?

Islamic Banking Industry in Pakistan has been growing at a fast pace ever since its re-launch in 2001. Starting from almost scratch, the Islamic banking industry now represents 10 percent of overall banking system with 19 banking institutions offering Islamic banking products and services. State Bank of Pakistan (SBP) initiated a three-prong strategy in 2001 and facilitated setting up of (i) Islamic Banks (ii) Islamic Banking subsidiaries of commercial banks and (iii) dedicated Islamic banking branches by the conventional commercial banks.

During the period, SBP has issued detailed licensing criteria, instructions and guidelines for Shariah compliance, instructions for Profit & Loss Distribution and Pool Management and also adopted few Islamic Financial Services Board (IFSB) prudential and Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) Shariah standards.

Although the industry has shown rapid growth, there are still areas which require concerted and proactive efforts by stakeholders to further develop and nurture the industry. To augment the existing growth momentum and to lead the industry to the higher level of professionalism, SBP has prepared “Strategic Plan for Islamic Banking Industry of Pakistan 2014 – 2018”.

The plan focuses on initiatives necessary for improving public perception of Islamic banking and promoting it as a distinct and viable system to address the financial services need of the public in general and business community in particular. The strategies and the action plans have been developed keeping in view the strengths, weaknesses, opportunities and threats to the industry.

SBP over the next five years in collaboration with stakeholders would keep its focus on the following key areas/objectives to facilitate and catalyze stable and distinct growth of Islamic banking in Pakistan:

a. Enabling Policy Environment
b. Shariah Governance & Compliance
c. Awareness and Capacity Building
d. Market Development

Q. 3 How do you foresee the growth of Islamic Banking in Pakistan, and in NBP?

Islamic Banking is in its growth phase at the moment, it is still in its progression stage in Pakistan. Many banks are opening and many banks are converting from conventional to Islamic banks, which give a huge room for Islamic banking to grow massively in Pakistan. Islamic banking assets presently constitute almost 10 percent of the overall banking system in the country, while in terms of deposits the share is above 10 percent. The future outlook of the industry is also very positive with bright prospects of doubling its market share by 2020. In order to align its regulatory framework with international regulatory standards and best practices, SBP regularly reviews and evaluates the standards issued by IFSB, AAOIFI, and International Islamic Financial Market (IIFM) for their possible implementation keeping in view our local, legal, regulatory and economic environment.

The Islamic Banking industry has come a long way in developing solutions to varying needs of the economy; the product offering and extent of outreach however is limited yet. In order to take the industry to next level, the Strategic Plan proposes various initiatives for product diversification and financial inclusion. The key strategic initiatives in this regard are as under:

Product Diversification.

In order to sustain the growth momentum and provide differentiated products the need for focused research for innovative products catering to varying needs of different segments of the society is essential.
Going forward, efforts will be made to develop housing finance product(s) based on market prices and rentals vis-à-vis current practice of fixed property prices and KIBOR linked rentals. This will not only improve Islamic banking perception but would also have tremendous appeal for the prospective home owners and depository investors, facilitate customers in reduced installments and there will be incentive for them to increase their equity share at the earliest as they have to purchase equity share at market prices. The bank will have the benefit of earning capital gains as property price usually moves in upwards direction. The depositor consequently will also earn enhanced returns. The deposits for financing these products shall be mobilized separately so that payment system and investment deposits shall remain segregated.

The main criticism on the current Islamic banking paradigm is the overwhelming use of debt creating products while the equity products based on Musharaka and Mudaraba have been very limited on asset side. To attend to this critical area, the Strategic Plan envisages working closely with industry to develop and offer Musharaka/Modaraba based products.

Project/infrastructure financing has great significance in economic development of the country and Islamic finance offers viable alternates to both debt and equity project/infrastructure Sukuk for private and public sector. In this regard, policy guidelines will be developed for the issuance of project/infrastructure specific Sukuk.

Q. 4 Are the Islamic banks playing any role in the economic development of the country – if yes, please elaborate.

Islamic Banking is one of the emerging areas in global financial market, having tremendous potential and growing at a very fast pace all over the world. The progress of Islamic Banking in Pakistan has also been commendable during the last nine years and maintaining average annual growth momentum of over 30 percent.

Islamic Banking Industry is segregated in two segments. The first segment comprises full fledge Islamic commercial banks and second segment comprises Islamic banking divisions of conventional banks.

Currently there are 5 licensed full-fledged Islamic commercial banks and 14 conventional banks with standalone Islamic banking branches with the total branch network of 1,161 operating in more than 95 cities across the country. The total number of full fledge Islamic commercial banking branches operating in the country as on September 30,2013 were 759 and Islamic Banking Branches of conventional banks were 402.

The Islamic Banking has gradually increased its share. ‘Financing & Investments’ of the industry grew by 24.6 percent as compared to prior year to reach Rs.766 billion by the end September 2013. In terms of market share, Islamic banking ‘Financing & Investments’ in overall banking were 9.1 percent. Market share of Islamic Banking deposits in the overall deposits of the banking industry was less than 0.40 percent in December 2003, this share has increased to 10.1 percent in September 2013 amounting Rs.775 billion and is expected to increase further in the coming years.

Islamic Banking Making a Path*

Islamic Banking is just a change of name and terminology of conventional banking systems! This is the main criticism by the critics. But if we observe the risk associated with the Islamic banking products, we can then easily figure out the difference that makes this banking system not only dissimilar but also purely distinct from the conventional products. People need to understand that it is the procedure and the documents that draw the distinction and not the similarity in substance.

Evolution of word *BANK*

The word/term *bank* is derived either from old Italian word *banca* or from a French word *banque* both mean a *bench* or *money exchange table*. The bench or money exchange table refers on which in old era people having surplus funds used to sit and provide money on interest only to the traders who used to purchase commodity from the convoys passing by their village. The fund provider was only interested in receiving the interest on his fund and never participated in the outcome of profit and loss of the trade. This is how the banking system evolved.

Definition

A Bank is an institution transacting the business of accepting, for the purpose of lending or investment, of deposit of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft order or otherwise.

Two main functions of Bank:-

1. Accepting money from the depositor.
2. Offering that money in the form of loan to the debtor (borrower).

Depositors lend money to the bank and are paid for it (i.e. interest).

Similarly the bank lends this money to the debtor, and is paid for it (i.e. interest). The earning of a bank and its shareholder is the difference between these two costs (the cost of deposit and the cost of credit).

All the paper work done to receive deposit and to lend it to borrower is nothing but dealing money with money.

Use of word Bank

Now a days word Bank is used with like, e.g. Blood Bank where blood of different groups is kept/stored, Data Bank in management information system for place where data is store for further use etc. Therefore, the word Bank cannot be symbolized for interest making.

Definition of Islamic Banking

An Islamic Bank is an institution transacting Shariah Compliant Businesses and accepting money from the depositors for the purpose of participating in these businesses repayable on demand or otherwise and withdrawable by cheque, draft order or otherwise.

Islamic Banking is in the same business line as of conventional banking but all that is done in Islamic Banking is Shariah Compliant.

Definition of Shariah

Lexical meaning is plain path.
Technical meaning is the Divine Law

Believing *Shariah* is an Islamic Law can be misleading, as *Shariah* extends beyond law.

Shariah describes and takes care of all aspects of spiritual, political, social, domestic and private life of an individual.

Shariah in principle is meant for all Muslims, but also applies to a certain extent to people living within a Muslim society.

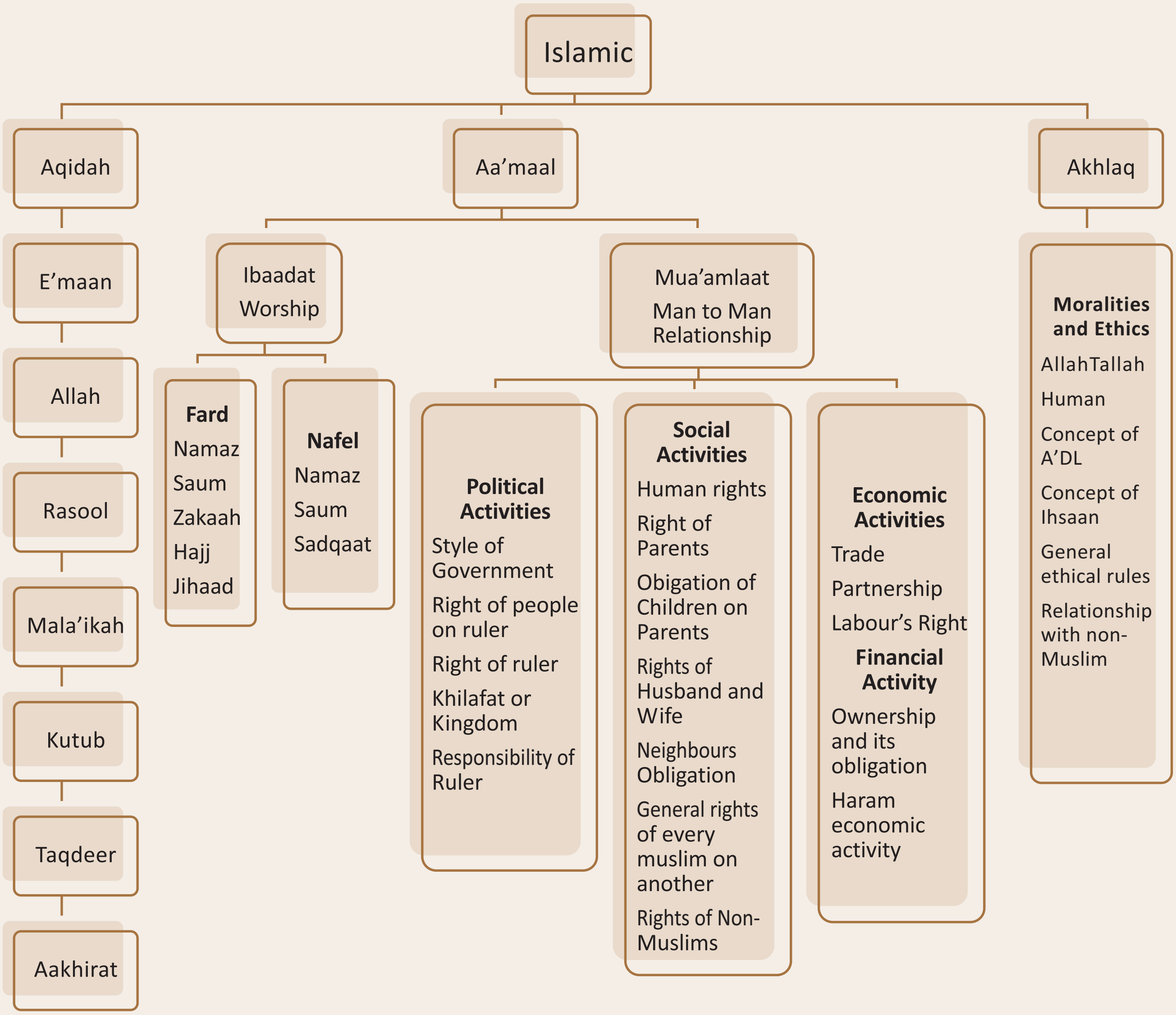
The regulations of Shariah can be divided into two groups:-

1. Regulations on worship and ritual duties.
2. Regulations of juridical and political nature including economic activities.

Sources of Shariah
All the *Shariah* rulings regarding every aspect in human life are derived and understood from the four sources of *Shariah*.

** Contributed by Yawar Hasan Zaidi,*
Vice President, NBP Islamic Banking Group

ISLAMIC MATRIX



Primary Sources:
1. The Qur'an-e-Pak
2. The Sunnah

Secondary Sources:
3. Ijma' (consensus of the Ummah)
4. Qiyas (Anology)

1- The Qur'an

Revealed on the last prophet Hazrat Mohammad (SAW) written in the form of book and is being conveyed.

Gives main beliefs, principles and wide-range directives of Allah (SWT).

Express Injunctions have no room for interpretation or *Ijtihad*.

Implied Injunctions may be interpreted in different ways by way of *Ijma* or *Ijtihad*.

2- The Sunnah

A word spoken or an act done or ratified by Hazrat Mohammad (SAW), by Sahabah (R.A) and a word spoken or act done by Taabae'een. It is a source of law as Allah (SWT) has made it obligatory for every believer that he obeys and follow Hazrat Mohammad (SAW). *Sunnah* includes Sayings, Practices, No-

objection (silent approvals) of Hazrat Mohammad (SAW) and practices of four Caliphs and other companions of Hazrat Mohammad (SAW).
Ahadith have rather specific meanings, it means Sayings of Hazrat Mohammad (SAW). *Ahadith* act for *Quranic* teachings and directives as interpreter and explainer.

3- Ijma
Ijma means scholarly consensus.
Scholarly consensus is defined as being the agreement of all Muslim scholars on a specific issue. Given the condition that all such scholars have to agree to the ruling, its scope is limited to matters that are clear according to the *Qur'an* and *Sunnah* example, upon which such consensus must necessarily be based.

4- Qiyas (Analogy)
Qiyas is reasoning by analogy.
To apply a recognized rule of *Shariah* expressly mentioned in the *Holy Qur'an* and *Sunnah* to a similar thing or situation by way of analogy.
Legal analogy is a powerful tool to derive rulings for new matters. e.g. drugs have been deemed impermissible, through legal analogy from the prohibition of alcohol that is established in the *Qur'an*. Such a ruling is based on the common underlying effective cause of intoxication.

Concept of Impermissibility in Shariah

Divine Prohibitions

Islam has prohibited some activities for humans as it considers it dangerous and injurious for human society.

A specific list of these activities has been derived through primary and derived sources of *Shariah*.

No individual is allowed to modify the list. Examples of these include immorality, pork, gambling, *RIBA* (Interest), etc.

What is RIBA (Interest)?
Riba means any excess compensation over and above the principal which is without due consideration. It is premium paid to the lender in return for his waiting as a condition for the loan. In the words of Hazrat Mohammad (SAW) "every loan that draws interest is *Riba*. *Riba* is the biggest *Haram* element in Islam.

Prohibition of *Riba* as revealed in *Qur'an*:

1 "That which you give as interest to increase the peoples' wealth increases not with Allah; but that which you give in charity, seeking the goodwill of Allah multiplies manifold." *(Surah Rome, Aayat 39).*

2 "And for their taking interest even though it was forbidden for them, and their wrongful appropriation of other peoples' money, and We have prepared for those among them who reject faith a grievous punishment." *(Surah Al-Nisa, Aayat 161)*

3 "Believers! Do not swallow riba, doubled and redoubled, and be mindful of Allah so that you may attain true success." *(Surah Al-Imran Aayat 130)*

You may have heard the argument that only compounding is *Haram* (prohibited) in Islam. This verse directly rejects this argument.

4 *"Those who devour Riba shall rise up before Allah like men whom Shaitan has demented by his touch; for they claim that trading is like usury. But Allah has permitted trading and forbidden usury. He that receives an admonition from his Rabb and mends his ways may keep what he has already earned; his faith is in the hand of Allah. But he that pays no heed shall be among the people of fire and shall remain in it forever".*
"Allah destroys riba and nourishes charities. And Allah does not like any sinful disbeliever. Surely, those who believe and do good deeds, establish Salah and Zakah have their reward with their Lord, and there is no fear for them, nor shall they grieve".
O you who believe, Fear Allah and give up what remains of your demand for interest, if you are indeed a believer. If you do not , then you are warned of the declaration of war from Allah and his Messenger; But if you turn back you shall have your principal: Deal not unjustly and you shall not be dealt with unjustly".
"And if there be one in misery, then deferment till ease. And that you leave it as alms is far better for you, if you really know. And be fearful

of a day when you shall be returned to Allah, then everybody shall be paid, in full, what he has earned. And they shall not be wronged". (Surah Al-Baqarah 275-281)

Prohibition of Riba in Hadith

The Holy Prophet (SAW) has also laid severe emphasis on *Riba*. Some of the *Hadiths* are given below:-

1 From *Hazrat Jabir Ibn-e-Abdullah (RA)*; The *Prophet (SAW)* cursed the receiver and the payer of interest, the one who records it and the witnesses to the transaction and said; "They are all alike (in guilt)". *Tirmidhi* and *Musnad Ahmed.*

2 From *Hazrat Abu Hurayrah (RA)*; The *Prophet, (SAW)*, said *Riba* has seventy segments the least serious being equivalent to a man committing adultery with his own mother". (*Ibn Majah*)

3 From *Hazrat Amr bin Al Aas (RA)*; "When interest based dealing becomes common among people, they will start facing draught and shortage of food. And when bribery becomes norm among people they will live under constant fear of their enemy".

4 *From Hazrat Abu Hurayrah (RA)*; The *Prophet (SAW)*, said "There will certainly come a time for mankind when everyone will take *Riba* and if he does not do so, its dust will reach him". *(Abu Dawud, Ibn Majah)*
Every loan that draws any premium is *Riba*". (This *Hadith* is reported by *Hazrat Harith Ibn Abi Usamah* in his *Musnad*).

Classification of Riba

a Riba-un-Nasiyah or Riba-al-Jahiliya
b Riba-al-Fadl or Riba-al-Bai

a Riba-un-Nasiyah or Riba-al-Jahiliya
"That kind of loan where specified repayment period and an amount in excess of capital is predetermined". (*Imam Abu Bakr Hassas Razi*)
"All loans that draw interest is *riba*" (Hadith quoted by *Ali ibn Talib*).
"The loan that draws profit is one of the forms of *riba*". (definition from *Sahabi Fazala Bin Obaid*)
Real and primary form of riba.
Premium paid to the lender in return for his waiting. Giving or taking of every excess amount in exchange of a loan at an agreed rate irrespective of whether it is low or high.

b Riba-al-Fadl
Excess taken in exchange of specific commodities which are homogeneous. Legal definition defers in every *fiqh*.

Commodities used as exchange:
i) Gold, *ii)* silver, *iii)* dates, *iv)* wheat, *v)* salt and *vi)* barley.

Hadith Prohibiting Riba-al-Fadl
Sell gold in exchange of equivalent gold.
Sell silver in exchange of equivalent silver.
Sell dates in exchange of equivalent dates.
Sell wheat in exchange of equivalent wheat.
Sell salt in exchange of equivalent salt.
Sell barley in exchange of equivalent barley.

GHARAR

Gharar is another element that Islam does not allow to be practiced.
Gharar simply means "*risk*" or "*un-necessary ambiguity*" or "*excessive uncertain*" that makes a transaction a matter of dispute between counter parties. For example, the transaction probable items whose existence or characteristics are not certain, thereby making the transaction similar to gambling.

Other examples include the sale of fish in the pond/river/lake/sea, birds in sky, an unborn calf in its mother's womb, a runaway animal, un-ripened fruits on the tree, etc. All such cases involve the sale of an item that may or may not exist as the future cannot be predicted. It is in the best interest of the trading parties to be very specific about what is being sold and for what price.

Types of Gharar
There are two types of *Gharar*

a) Jahalah, *b)* Gambling (*Qimar*)

a) Jahalah
This type of *Gharar* means non-specification of a subject matter being sold. e.g. selling of a sunglass kept with other sunglasses or selling something in a box unseen.

Gharar is strictly prohibited in Islam because of inherent injustice.

b) Gambling (*Qimar*)

Gambling is another prohibited activity and is condemned in *Qur'an*, it is considered haram due to huge element of *Gharar*. Prize bonds, lotteries, speculations etc. are the examples present in our society.

Which Business is Haram?

Following is the brief list of business activities that are considered not in compliance with *Shariah*.

1 Manufacturing and trading of anything considered Haram in Islam like liquor, drugs, pork product.

2 Any business that involves obscenity like casinos, night clubs, pornography etc.

3 Business dealing in money lending on interest.

4 Business promoting indecency like prostitution, film making, dance and music promoting institutions, etc.

Any kind of involvement in these above mentioned businesses is not only prohibited by all means, even employment in such businesses is not allowed.

Why is Islamic finance becoming popular worldwide and not only in Muslim countries?

Muslims may be shifting towards it for reason of faith but it is also receiving attention in European countries, United Kingdom, Singapore, Hong Kong, etc. The UK government has committed itself to making London the global hub of Islamic finance.

The 2008-09 financial crisis has led to greater scrutiny of Islamic finance as an alternative to the global financial system because it offers itself as a source off stability, reducing fragility and volatility. During the crisis, Islamic banks did not suffer as must as conventional banks because they did not deal in exotic derivatives or artificial money-creation instrument such as collateralized debt obligations. Every transaction in Islamic financing must be backed by real assets i.e. buildings, structures, factories, machinery etc.

Development of Islamic Banking in Pakistan

While the world is now recognizing the significance of Islamic finance industry, in Pakistan, as early as in 1948, Mr. Muhammad Ali Jinnah emphasized the virtues of Islamic principles and in his address at the inauguration of the State Bank of Pakistan said;

> "I shall watch with keenness the work of your Organization in evolving banking practices compatible with Islamic ideas of social and economic life. We must work our destiny in our own way and present to the world an economic system based on true Islamic concept of equality of manhood and social justice."

During the last 65 years of the history of Pakistan some efforts, at times casual, at times halfhearted, at times with speed, have been made to eliminate *Riba* (interest). Some of the salient features of the efforts made are as follows;

In 1970s some efforts started with no conspicuous results. A bold and comprehensive initiative was undertaken in 1980s. Pakistan was ranked amongst the three countries of the world for commencing non-interest based banking. Various legislation (Companies Ordinance, 1984, Negotiable Instruments Act, 1882, State Bank Act and Recovery of Loans Laws etc. were reviewed to bring these in line with the tenants of Islam. A new interest free Instrument namely; Participation Term Certificate (PTC) for Corporate Financing was introduced and was later replaced with Term Finance Certificate (TFC). Non-Interest Based Instrument (NIB) numbering 12 were announced. In the Conventional Banks separate interest free counters were opened on January 01, 1981. For meeting working capital needs of trade and industry, *Musharaka* was introduced on July 01, 1982. Profit and loss sharing basis was introduced in Conventional banks on April 01, 1985.

In November 1991, Federal Shariat Court was established. An announcement was made on December 23, 1991 that transaction involving interest in banks would cease to have effect finally by June 30, 2001.

In ongoing efforts, Commission for Transformation of Financial System was constituted in State Bank of Pakistan. Task

Force was set up in State Bank of Pakistan to suggest ways and means to eliminate interest from Government financial transactions. However, parallel banking system namely; Conventional and Islamic banking have continued till date.

At present, 5 full-fledged Islamic banks are operating in the country and 14 conventional banks have established dedicated Islamic banking branches, bringing the share of Islamic banks in total banking business close to 9 percent and constantly growing. Branch network is also expanding.

NBP Islamic Banking

NBP Islamic Banking was conceived and set up at the most appropriate time, in mid 2004 when the economy in general and the banking industry in particular was at boom – NBP Islamic Banking first branch started its operation in late 2006. However, lack of focus on this segment post start-off, coupled with earlier jolts on finance side and lack of appropriate IT systems, did not allow a good take off. Meanwhile, the competition kept on growing in this business.

Asset side Products offered by NBP Islamic Banking

Murabaha

"It is a contract wherein the bank, upon request by the customer purchases an asset from a third party, usually a supplier / vendor and sells the same to the customer either against immediate payment or on a deferred payment basis."

Banking *Murabaha* is a series of contracts completed in a sequence to satisfy the credit needs of the customer. The sequence of their execution is extremely important to make the transaction *Shariah* Compliant.

Process Flow:

Step 1 The Client and the Bank sign Master *Murabaha* Agreement to enter into *Murabaha*.

Step 2 The client can be appointed as bank's agent to purchase goods from supplier on bank's behalf.

Step 3 Client submits a written request for purchase of certain goods by the bank for sale to himself (supported by a promise from him to purchase the goods from the bank)

Step 4
4.1 Bank gives money to customer (as agent) in advance for purchase of goods from supplier
or
4.2 Bank gives money directly to the supplier for purchase of goods

Step 5 In either case, the customer in its own capacity, or as bank's agent, takes the possession of goods on bank's behalf.

Step 6
6.1 Client makes an offer to purchase the goods from the bank.
6.2 The Bank accepts the offer and sells the goods to the customer on spot delivery or deferred payment method; sale is concluded here.

Step 7 Client pays agreed price to the bank according to an agreed schedule, usually on a deferred payment basis (Maturity of *Murabaha* Transaction).

Ijarah

Ijarah means to give something on rent. It refers to a transaction where the corpus of leased assets remains in the ownership of the Lessor and the Lessee is allowed to benefit from the usefulness of these assets (i.e., their usufruct) for a consideration. Only those assets can be leased which can be used while retaining their original form, e.g., land, building, machinery, tools, crockery & cutlery.

Process Flow:

Step 1 The customer approaches the Bank with the request for Ijarah facility.

Step 2 The bank will carry out the analysis and prepare a Credit Memorandum (CM) for approval.

Step 3 After the CM is approved, Sanction Advice for *Ijarah* facility will be issued in duplicate which the customer will accept and return a copy to the Bank. Along with accepted sanction advice, customer will provide a Promise/Undertaking to Lease the requested assets.

Step 4 Based on the promise/undertaking the bank makes the payment of the purchase price to the vendor under advice to the customer, only after receiving written instructions to this effect from the customer.

Step 5 The bank leases the asset to the customer after execution of the Lease Agreement, and obtains (through a separate document) a unilateral promise by him to purchase the asset at maturity or earlier.

Step 6 The customer/lessee will make rental payments for the agreed period of the facility, in terms of the repayment schedule agreed.

Step 7 At maturity or earlier the title may be transferred to the customer in terms of the promise to purchase submitted by him but at the sole discretion of the bank.

The point to ponder here is that as the asset is provided to the client only for its usufruct therefore, if at any given time the asset does not gives its utility for one reason or the other or proven other wise the client has the right not to pay for the specified rent. This is where the difference unfolds the risk to the Islamic banking.

Liability Product of NBP, Islamic Banking PLS Deposits

PLS Deposits are accepted on the basis of *Mudarabah* (Unrestricted) between NBP and the Depositors. NBP acts as '*Mudarib*' while the depositor acts as '*Rabb-ul-Maal*'. NBP adjusts these deposits in the 'General Pool'. Determination of weightages and calculation of profit payable to the depositors is based on prescribed *Shariah* rules and applicable SBP rules.

Process Flow:

Step 1 Customer opens an 'Islamic PLS Saving Account' with NBP-Islamic Banking (NBP-IB). Customer also deposits the funds that it wants to share with the bank under the capacity of *rabb-ul-maal*.

Step 2 NBP-IB invests customer's funds in one of the assets in the General Pool (Different modes of Islamic Financing and Investments), where all the assets and deposits of NBP-IB are parked together.

Step 3 Since returns on Islamic PLS Savings Account are monthly, NBP-Islamic Banking declares weightages before each month end, based on which profits are shared with the depositors every month.

Step 4 Weightages will be converted into an annual percentage rate of profit, and the rate would be rounded to two decimal points.

Step 5 Gross Profit will be distributed between NBP-IBD (Being *Mudarib*) and the Depositors (Being *Rabb-ul-Maal*) in an agreed Profit Sharing Ratio.

PLS Term Deposits

PLS Term Deposits are accepted on the basis of *Mudarabah* (Unrestricted) between NBP and the Depositors. NBP acts as '*Mudarib*' while the depositor acts as '*Rabb-ul-Maal*'. NBP adjusts these deposits in the 'General Pool'. Determination of weightages and calculation of Profit payable to the depositors is based on prescribed *Shariah* rules and applicable SBP rules.

Process Flow:

Step 1 Customer opens 'Islamic PLS Term Deposit Account' with NBP-Islamic Banking (NBP-IB). Customer also deposits the funds that it wants to share with the bank under the capacity of *rab-ul-maal* and also informs the bank about the tenor for which he/she wants to share the funds with NBP-IB. NBP-IB issues Islamic PLS Term Deposit Certificate (IPTDC) to the customer against its funds with NBP-IB; mentioning therein the details like amount, tenor and maturity.

Step 2 NBP-IB invests customer's funds in one of the assets in the General Pool (Different modes of Islamic Financing and Investments), where all the assets and deposits of NBP-IB are parked together.

Step 3 NBP-Islamic Banking declares weightages before each month end. However, profits are shared with the depositors as per the 'Profit Payment Frequency' opted by the customer.

Step 4 Weightages will be converted into an annual percentage rate of profit, and the rate would be rounded to two decimal points.

Step 5 Gross Profit will be distributed between NBP-IBD (Being Mudarib) and the Depositors (Being *Rabb-ul-Maal*) in an agreed Profit Sharing Ratio.

Recently, there has been a strong realization at the top level management and the Board to revamp NBP Islamic Banking, inducting fresh resources and addressing the critical issues at HR and IT system. A five year comprehensive Business Plan incorporating strategies and goals has been approved by the Board of Directors and also increase the network of dedicated Islamic Banking to over 120 branches country-wide.

Growth of Islamic Banking in Pakistan*

Changes taking place in the financial system

Islamic banking and finance in Pakistan started in 1977-78 with the elimination of interest in compliance with the principles of Islamic Shariah in Islamic banking practices. Since then, amendments in financial system to allow the issuance of new interest-free instrument of corporate financing, promulgation of ordinance to permit the establishment of Mudaraba companies and floatation of Mudaraba Certificates, constitution of Commission for Transformation of Financial System (CTFS), and the establishments of Islamic Banking Department by the State Bank of Pakistan are some of the key steps taken place by the governments.

The industry over the years has managed to offer a wide array of products encompassing almost the entire range of Islamic modes of financing that are able to cater to the needs of majority of the sectors of the economy. Also it has been noticed that the industry has a good financial performance. SBP has over the years attempted to develop a supportive Regulatory and Supervisory Framework having special emphasis on Shariah Compliance that is in line with the best international practices. The aim is to align our industry with the international best practices so as to enhance the credibility and international stakeholders' confidence in Islamic banking efforts of SBP. This will in turn not only boost the image of our country but will also be instrumental in attracting foreign investment.

Islamic banking re-launched in 2001

As a result of these efforts, in 2001, Islamic Banking was re-launched with the focus of growing Shariah compliant financial system in the country. For this purpose Islamic Banking Division was established in the Banking Policy Department at SBP. This time around, for the growth of Islamic Banking in Pakistan concerted efforts were made by SBP to undertake Islamic Banking in its true spirit and by also keeping in view the lessons learnt from the experience of Bahrain, Malaysia and Saudi Arabia etc. in this area. Accordingly, steps have been taken to set up a parallel banking system, so that an enabling environment is ensured for the sector, avoiding any serious repercussions of entire transformation of financial sector.

State Bank of Pakistan has developed the following three point strategies relating to development of Islamic Banking in the country. These include the following:

1 Setting up of scheduled Islamic Commercial Banks based on principles of Shariah in the private sector

2 Setting up of Islamic Banking Subsidiaries by existing Commercial banks

3 Opening of stand alone branches for Islamic banking by existing Conventional banks

Islamic banks are now offering competitive saving and deposit products that are targeted to all segments of the society including senior citizens, pensioners, household and even for kids and teens. In the recent years, despite competition from conventional counter parts and government saving plans, Islamic banks are witnessing healthy growth in their deposits figures and customer base.

In February 2014, the State Bank of Pakistan committed to promote Islamic banking industry with a view to promote Shariah compliant financial system aimed at financial inclusion of a huge unbanked segment by launching a five year strategic plan to build up financial system on strong footings in the country. It disclosed that Pakistan's Islamic banking industry has been growing at a fast pace ever since its re-launch in 2001 and now represents 12 percent of the overall banking system with 19 Islamic banking institutions offering products and services through a network of over 1,300 branches.

** Contributed by Ms. Sakina Nazir Khawaja, Marketing Manager, NBP Islamic Banking Group*

Key focus areas of the plan that will run from 2014 to 2018 are: enabling policy environment, Shariah governance and compliance, awareness and capacity-building and market development which will enhance and improve public's impression about Islamic Banking.

Shariah-compliant banking is growing in many regions, and not just in Islamic nations. The UK recently announced a £200m Sukuk bond. Although Malaysia, Indonesia and a number of other countries have long been players in Islamic banking and finance; more specifically, Saudi Arabia – has been a critical region with regard to Islamic banking's future. Saudi Arabia's importance cannot be understated. Currently, it is the largest IDB shareholder with 26.5 percent of paid up capital.

The impressive growth track of Islamic banking over the last few years has created high expectations in the stake-holders and has compelled the major players of the banking industry, investors as well as regulators and government to view it as a separate segment in the banking industry. Keen interest in this discipline has already extended beyond Islamic countries to non-Islamic financial institutions. In the recent times, the global financial services industry is witnessing a sharp rise in the demand for Islamic financial services.

Today, more than 700 Islamic financial institutions are operating across the globe with around $1.2 trillion assets under management in more than 85 countries. Financial Institutions from Middle East, Far East, US and Europe to Africa, South and Central Asian republics are offering Islamic banking services. The industry is growing at a rate of roughly 15-20 percent per year, and could serve 40 to 50 percent of the world's Muslim population within a decade. According to a recent estimate by Standards & Poors the market potential for Islamic banks is estimated at $ 4 trillion.

Recently countries like Oman, Nigeria, Tanzania, Uganda & Maldives have opened their doors for Islamic finance and encouraging new and existing financial institutions to offer Islamic financial services to their customers. In short, the line between conventional and Islamic products will continue to blur. Innovation in Shariah-compliance will make it possible for Islamic banks to challenge nearly all conventional products.

With all the success and growth – Islamic banking industry is still in its nascent stage and there is a long way to go. The industry has to overcome many challenges in order to achieve a larger market share and sustain its growth.

Some of the challenges that the Islamic banking industry faces today includes:

- Lack of awareness and skepticism at different levels – including investors, bankers, regulators, researchers and customers.
- Being a new industry, a major challenge in its growth is the worldwide shortage of trained Human Resource in Islamic banking and finance.
- Limited number of *Shariah* Scholars that create over-reliance and raise questions about *Shariah* compliance of the institutes involved.
- Focus efforts needed for New Product Development & Research
- Solutions for Liquidity Management and creation of Islamic Inter-bank Market
- Absence of a separate Regulatory, Legal & Risk Management framework to cater the specific need of Islamic banking Institutes.

Pakistan Economy – An Update

World Bank (Pakistan Development Update - April 2014)	State Bank of Pakistan (The State of Pakistan's Economy - Second Quarterly Report FY14)
▪ Pakistan's economy is weak but at a turning point. Growth recovery is underway, with GDP growth projected at 3.6 - 4.0 percent. ▪ Growth is coming from industry and services, as agriculture is estimated to miss its annual target. ▪ There is better energy availability and revival of investor confidence. ▪ Large scale manufacturing is showing improved performance. ▪ Growth in large scale manufacturing mainly came from strong performance of agro-based industries, iron and steel, construction. ▪ Services sector is driving the growth recovery. ▪ Pick up in growth is driven mainly by services and manufacturing. ▪ Finance and insurance sub-sector appears to have weakened during first half of FY14, mainly due to lower interest rates and higher provisioning for bad loans. ▪ Monetary tightening has begun since end 2013. ▪ Mild revival of growth in private sector credit witnessed, because of credit uptake by businesses (textiles, energy, commerce & trade) as well as consumers. ▪ Private credit recovery is attributable to better performance in industry and services due to improved supplies of electricity after settlement of the energy sector's circular debt by the government. ▪ Inflationary expectations have risen. ▪ Pakistan's fiscal indicators seems to be improving. ▪ The government has initiated far reaching reforms of the tax system. It has increased tariff rates, cut down some fiscal concessions, and is trying to expand the tax base to un-taxed or lightly-taxed sectors. Notices have been issued to potential, but unregistered taxpayers. ▪ The fiscal consolidation effort appears to be paying off. During the first half of FY14, the fiscal deficit (2.1% of GDP) was below the level achieved during the same period last year. ▪ Tax-to-GDP ratio is expected to be close to its annual revised target of 10.3 percent of GDP. ▪ The fiscal deficit is expected to fall from 8 percent of GDP in FY13 to 5.8 percent in FY14. ▪ Public debt continues to exceed the cap of 60 percent of GDP set by the Fiscal Responsibility and Debt Limitation Act, justified for security reasons. ▪ Domestic debt creation has become increasingly skewed towards short term instruments, primarily MRTBs. ▪ Paucity of financial inflows remained the main source of balance of payments stress. During the first seven months of FY14, the current account posted a deficit equivalent to 0.9 percent of GDP compared to 0.2 percent during the same period last year. ▪ Trade deficit increased to almost $10 billion and contributed most to the widening of current account deficit. ▪ Recovery of financial inflows remains a considerable challenge. ▪ Reserve position is expected to improve during the remainder of the fiscal year. ▪ The concentration of the financial sector's balance sheet remained tilted towards the public sector. Solvency indicators of banks remained robust. ▪ Structural reforms are being implemented. This includes energy sector reforms, privatisation, financial sector development, facilitating doing business, trade and tariff reforms and strengthening social safety nets. ▪ In the medium term, the fiscal deficit is projected to decline from 5.8 percent of GDP in FY14 to 4.5 percent of GDP in FY16. ▪ The current account deficit is projected to approach a modest 1 percent of GDP by end FY14.	▪ By end of H1-FY14, there was a perceptible improvement in the country's macroeconomic indicators. ▪ The most encouraging development in the real sector, is the 6.8 percent growth of the large scale manufacturing in H1-FY14, compared to 2.3 percent in the same period last year. ▪ This is attributable to improved energy supplies, capacity enhancement in some of the sectors in the past few years, construction activity and availability of credit. ▪ Agriculture is expected to record below target growth in FY14. ▪ Decline in profitability of commercial banks is likely to contain growth in value addition by finance and insurance in FY14. ▪ Overall large scale manufacturing growth for the full year is likely to exceed the target of 4.0 percent set by the government. ▪ There has been a shift in the State Bank of Pakistan's (SBP) monetary policy stance from accommodative to gradual tightening. This was primarily driven by growing inflationary expectations, and to calm the foreign exchange market against the backdrop of a widening external deficit. ▪ Pressure from Pakistan's external sector eased in December 2013, as large repayments to the IMF have been met. ▪ Inflationary pressures have weakened since December 2013. The pressure on Pak Rupee parity have also eased, and the government is trying to reduce its inflationary borrowing from SBP. ▪ The government was unable to meet the end-December 2013 target on its borrowing from SBP, as agreed with the IMF. Also, the government could not limit its quarterly borrowing to zero as prescribed in the SBP Act. ▪ In the first half of FY14, there was healthy growth in credit to the private sector, attributable to lower cost of borrowing in real terms, some improvement in power and gas availability and higher business confidence due to government's focus on industrial sector. ▪ Inflationary pressures have eased. However, risks that the government may announce an increase in gas tariffs, would put pressure on inflation. ▪ Fiscal indicators continued to show improvement during the second quarter of FY14, as the fiscal deficit for the first half fell to a four year low of 2.1 percent. ▪ The maturity profile of Pakistan's public debt has shifted towards short term debt. (At end-December 2013, the share of 3 month T-bills in public domestic debt stock rose to 19.5% against a mere 1.8% at end-June 2013). ▪ Foreign exchange reserves declined in the first half of FY14, to reach $8.3 billion at end-December 2013 – a level not sufficient to meet the benchmark of 3 months of imports. ▪ Inadequate financial flows put the country's foreign exchange reserves under pressure. ▪ SBP's liquid reserves have however, since risen to $5.36 billion by end-March 2014. ▪ The first half of FY14, posted a much larger current account deficit compared to the corresponding period in FY13. The deficit had widened to $1.59 billion in first half FY14 compared to $83 million in the corresponding period of 2013. ▪ A major positive in the current account was the 9.5 percent year-on-year growth in home remittances during the first half of FY14. ▪ Foreign direct investment fell in the first half of FY14. The negative perception to the on-going war in Afghanistan, which has compounded the issues of energy availability and domestic security concerns.

Selected Banks' Gross Advances and Non Performing Loans

(Rs.Bn)

Banks	Gross Advances											
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Selected Banks Total	**667.68**	**796.10**	**1129.87**	**1449.11**	**1810.97**	**2017.90**	**2345.03**	**2449.86**	**2618.59**	**2624.81**	**2998.01**	**3132.34**
National Bank of Pakistan	166.08	189.0	249.84	299.42	348.37	374.73	457.83	530.86	538.61	592.37	730.14	708.01
Habib Bank Limited	200.07	213.74	292.40	350.43	371.36	403.48	435.71	432.28	473.41	460.00	545.80	606.10
United Bank Limited	88.39	111.55	160.03	219.27	260.91	325.67	390.90	343.38	368.70	366.31	409.10	436.75
MCB Bank Limited	85.14	104.01	144.01	188.14	206.85	229.73	272.85	269.72	274.14	248.13	262.39	268.19
Allied Bank Limited	54.00	49.99	69.95	119.51	151.70	178.53	223.64	249.89	267.77	262.13	288.89	285.38
Bank Alfalah Limited	29.44	50.37	90.29	120.42	152.24	175.68	197.93	197.40	218.43	211.40	248.34	273.83
Standard Chartered Bank Pakistan	-	-	-	-	142.31	135.27	137.72	141.23	157.90	151.61	159.65	157.57
Askari Bank Limited	31.34	46.35	71.62	88.40	102.73	108.19	139.83	147.62	168.43	167.38	162.85	192.17
Faysal Bank Limited	23.23	31.15	51.73	63.52	74.50	86.62	88.62	98.38	151.20	165.48	190.85	204.34

Banks	Non Performing Loans (NPLs)											
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Selected Banks Total	**154.21**	**142.57**	**131.37**	**118.97**	**116.89**	**134.70**	**197.01**	**257.81**	**311.86**	**332.16**	**358.67**	**370.80**
National Bank of Pakistan	43.71	39.77	36.10	33.74	36.26	38.32	56.46	70.92	86.64	88.16	92.04	115.62
Habib Bank Limited	53.01	47.73	44.51	41.36	26.92	24.59	36.08	42.30	46.68	51.31	59.62	56.52
United Bank Limited	21.03	18.92	20.10	16.96	16.26	22.35	27.84	39.10	48.59	51.11	57.35	52.63
MCB Bank Limited	12.03	11.00	8.84	8.40	8.57	10.73	18.27	23.24	24.54	26.66	25.56	23.27
Allied Bank Limited	18.24	17.83	15.38	12.58	10.48	11.36	13.77	16.28	18.69	20.45	20.67	19.42
Bank Alfalah Limited	1.54	2.85	2.94	1.06	2.31	4.71	8.93	16.19	18.32	19.09	22.18	17.95
Standard Chartered Bank Pakistan	-	-	-	-	8.90	10.99	16.53	21.39	22.10	25.70	27.12	24.65
Askari Bank Limited	1.25	1.28	1.10	2.37	3.66	6.91	11.69	17.72	21.60	23.64	26.52	33.12
Faysal Bank Limited	3.40	3.20	2.40	2.50	3.54	4.75	7.44	10.67	24.70	26.04	27.55	27.62

Banks	NPLs/Gross Advances Ratio											
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Selected Banks Total	**23.10**	**17.91**	**11.63**	**8.21**	**6.45**	**6.68**	**8.40**	**10.52**	**12.32**	**13.13**	**11.96**	**11.84**
National Bank of Pakistan	26.32	21.05	14.45	11.27	10.41	10.23	12.33	13.36	16.09	14.88	12.60	16.33
Habib Bank Limited	26.50	22.33	15.22	11.80	7.25	6.09	8.28	9.79	9.86	11.15	10.92	9.33
United Bank Limited	23.79	16.96	12.56	7.73	6.23	6.86	7.12	11.39	13.26	13.95	14.02	12.05
MCB Bank Limited	14.13	10.58	6.14	4.46	4.14	4.67	6.70	8.62	8.95	10.74	9.74	8.68
Allied Bank Limited	33.78	35.67	21.99	10.53	6.91	6.36	6.16	6.51	6.96	7.80	7.15	6.80
Bank Alfalah Limited	5.22	5.65	3.26	0.88	1.52	2.68	4.51	8.20	8.39	9.03	8.93	6.55
Standard Chartered Bank Pakistan	-	-	-	-	6.25	8.12	12.00	15.15	14.00	16.95	16.99	15.64
Askari Bank Limited	3.99	2.76	1.54	2.68	3.56	6.39	8.36	12.00	12.82	14.12	16.28	17.23
Faysal Bank Limited	14.64	10.27	4.64	3.94	4.75	5.48	8.40	10.85	16.34	15.74	14.44	13.52

Source: Banks' Annual Reports

Gross Advances By Sectors - Selected Banks

(Rs. Mn)

Type of Business	National Bank of Pakistan						Habib Bank Limited						United Bank Limited					
	2011	% Share	2012	% Share	2013	% Share	2011	% Share	2012	% Share	2013	% Share	2011	% Share	2012	% Share	2013	% Share
Chemicals & Pharmaceuticals	3453	0.58	4792.3	0.66	4873.8	0.69	20924.5	4.55	19344.8	3.86	20502.5	3.65	5956	1.63	6436.9	1.57	5979.5	1.37
Agribusiness	29924	5.05	34129.3	4.67	45064.5	6.36	30348.7	6.60	30587.2	6.10	33347.5	5.94	47099	12.86	63412.5	15.50	58684.5	13.44
Textiles	66317	11.20	71143.6	9.74	75001.9	10.59	71248.7	15.49	62540.9	12.46	72472.2	12.92	59692	16.30	59756.8	14.61	63033.9	14.43
Cement	10472	1.77	9683.3	1.33	10130.9	1.43	10130.5	2.20	7246.2	1.44	5000.9	0.89	4503	1.23	2393.2	0.59	3790.1	0.87
Sugar	15147	2.56	16520.4	2.26	18727.6	2.64	4490.0	0.98	4496.9	0.90	5212.2	0.93	7126	1.95	3427.5	0.84	4380.2	1.00
Rice Processing	9934	1.68	11998.5	1.64	15032.8	2.12	-	-	-	-	-	-	-	-	-	-	-	-
Shoes & Leather Garments	1204	0.20	1414.2	0.19	1338.9	0.19	1916.3	0.42	1991.1	0.40	2201.4	0.39	2261	0.62	2141.6	0.52	2084.0	0.48
Automobile & Transport Equipment	3167	0.53	3730.4	0.51	3304.2	0.47	9762.1	2.12	11152.6	2.22	8405.6	1.50	5019	1.37	6134.2	1.50	4796.1	1.10
Transportation & Telecommunication	38481	6.50	66934.0	9.17	74316.8	10.50	12983.4	2.82	11062.2	2.20	8355.1	1.49	14559	3.97	17516.2	4.28	6275.3	1.44
Real Estate/Construction	9790	1.65	9147.2	1.25	8788.2	1.24	2634.6	0.57	1580.9	0.32	2479.0	0.44	17972	4.91	16563.5	4.05	20415.9	4.67
Electronics & Electrical Appliances	9047	1.53	8369.0	1.15	9843.6	1.39	15885.7	3.45	7198.0	1.43	7860.2	1.40	2646	0.72	2892.2	0.71	3944.3	0.90
Food & Tobacco	1594	0.27	1874.3	0.26	3714.0	0.52	8245.5	1.79	8229.5	1.64	12244.3	2.18	8992	2.45	12739.9	3.11	21588.6	4.94
Fertilizer	19007	3.21	15190.8	2.08	10078.6	1.42	-	-	-	-	-	-	6871	1.88	4437.6	1.08	5253.6	1.20
Metal Products	26444	4.46	43644.2	5.98	53645.7	7.58	7069.1	1.54	6614.3	1.32	10203.5	1.82	336	0.09	371.2	0.09	140.8	0.03
Production & Transmission of Energy	54116	9.14	123239.7	16.88	113865.5	16.08	39398.6	8.57	48944.6	9.75	47448.1	8.46	41159	11.24	56734.7	13.87	57169.3	13.09
Oil & Gas	-	-	-	-	-	-	13456.1	2.93	15408.2	3.07	9558.0	1.70	-	-	-	-	-	-
Hotel & Services	13850	2.34	15814.5	2.17	8953.7	1.26	1189.5	0.26	694.1	0.14	776.7	0.14	2660	0.73	3960.3	0.97	2458.4	0.56
Individuals	86220	14.56	130666.0	17.90	135318.9	19.11	25305.6	5.50	28131.4	5.61	38550.1	6.87	50089	13.67	47552.6	11.62	46632.3	10.68
General Traders/ Wholesale & Retail Trade	16951	2.86	15671.6	2.15	21484.8	3.03	47980.0	10.43	51345.7	10.23	54607.3	9.73	13784	3.76	17509.4	4.28	21376.5	4.89
Public/Govt	64621	10.91	59483.0	8.15	33260.5	4.70	73370.0	15.95	107626.9	21.45	120612.3	21.50	-	-	-	-	-	-
Financial	21123	3.57	16085.4	2.20	8418.5	1.19	15068.1	3.28	23919.7	4.77	37384.0	6.66	12282	3.35	9310.3	2.28	15038.6	3.44
Others	91504	15.45	70609.3	9.67	52881.4	7.47	48557.0	10.56	53646.6	10.69	63840.4	11.38	63301	17.28	75799.8	18.53	93707.1	21.46
Total	**592366**	**100.00**	**730141.0**	**100.00**	**708044.8**	**100.00**	**459964.0**	**100.00**	**501761.8**	**100.00**	**561061.3**	**100.00**	**366307**	**100.00**	**409090.4**	**100.00**	**436749.0**	**100.00**

Gross Advances By Sectors - Selected Banks

(Rs. Mn)

Type of Business	MCB Bank Limited						Allied Bank Limited						Bank Alfalah Limited						Standard Chartered Bank Pakistan Limited					
	2011	% Share	2012	% Share	2013	% Share	2011	% Share	2012	% Share	2013	% Share	2011	% Share	2012	% Share	2013	% Share	2011	% Share	2012	% Share	2013	% Share
Chemicals & Pharmaceuticals	13430	5.37	13536.0	5.16	36888.3	13.75	18921	7.22	20428.7	7.07	15851.6	5.55	6264	2.96	6180.7	2.49	6653.2	2.43	8892	5.87	11397.0	7.14	9478.0	6.01
Agribusiness	2613	1.05	2474.5	0.94	3057.2	1.14	554	0.21	2559.2	0.89	592.7	0.21	16829	7.96	23441.4	9.44	23710.1	8.66	4983	3.29	5715.0	3.58	8134.6	5.16
Textiles	37114	14.85	37796.5	14.40	41120.1	15.33	40605	15.49	44544.9	15.42	29999.7	10.51	32860	15.54	37275.0	15.01	46871.7	17.12	30107	19.86	29111.1	18.23	32969.5	20.92
Cement	2391	0.96	1340.2	0.51	894.2	0.33	12674	4.83	9371.5	3.24	13325.8	4.67	1596	0.75	1591.0	0.64	1508.0	0.55	10662	7.03	5482.2	3.43	2915.9	1.85
Sugar	8881	3.55	11373.9	4.33	15537.2	5.79	3281	1.25	5511.4	1.91	3170.3	1.11	3800	1.80	7512.1	3.02	6207.6	2.27	3098	2.04	2784.9	1.74	2946.9	1.87
Rice Processing	-	-	-	-	-	-	-	-	-	-	-	-	6506	3.08	10305.7	4.15	11076.5	4.05	-	-	-	-	-	-
Shoes & Leather Garments	3935	1.57	3351.3	1.28	4682.8	1.75	1091	0.42	455.5	0.16	856.7	0.30	1941	0.92	1156.2	0.47	2030.4	0.74	1651	1.09	2542.7	1.59	2966.7	1.88
Automobile & Transport Equipment	517	0.21	350.2	0.13	586.3	0.22	4310*	1.64	3082.2*	1.07	4416.5*	1.55	2596	1.23	2266.0	0.91	2880.6	1.05	1536	1.01	2439.5	1.53	2896.5	1.84
Transportation & Telecommunication	56787	22.72	60303.1	22.98	26260.4	9.79	4583	1.75	5553.7	1.92	4071.3	1.43	4136	1.96	3869.4	1.56	4579.1	1.67	11196	7.38	10026.5	6.28	9422.7	5.98
Real Estate/Construction	2357	0.94	512.7	0.20	714.7	0.27	7601	2.90	7823.0	2.71	15706.0	5.50	3041	1.44	4717.0	1.90	4093.4	1.49	-	-	-	-	-	-
Electronics & Electrical Appliances	2920	1.17	2581.3	0.98	2935.5	1.09	-	-	-	-	-	-	3292	1.56	3191.6	1.29	3280.3	1.20	1590	1.05	1755.1	1.10	3592.1	2.28
Food & Tobacco	-	-	-	-	-	-	-	-	7267.4	2.52	4249.2	1.49	4342	2.05	6578.0	2.65	15038.4	5.49	-	-	-	-	-	-
Fertilizer	-	-	-	-	-	-	-	-	-	-	-	-	6847	3.24	8021.8	3.23	8199.2	2.99	-	-	-	-	-	-
Metal Products	-	-	-	-	-	-	2502	0.95	2535.6	0.88	3120.0	1.09	6011	2.84	7619.1	3.07	9054.6	3.31	-	-	-	-	-	-
Production & Transmission of Energy	20846	8.34	29778.7	11.35	26224.3	9.78	-	-	-	-	-	-	20506	9.70	31966.6	12.87	36883.3	13.47	20923	13.80	24144.4	15.12	23283.1	14.78
Oil & Gas	-	-	-	-	-	-	49103	18.73	47484.9	16.44	45872.2	16.07	10725	5.07	13292.0	5.35	17775.5	6.49	-	-	-	-	-	-
Hotel & Services	5565	2.23	-	-	-	-	224	0.09	768.5	0.27	255.1	0.09	-	-	-	-	-	-	-	-	-	-	-	-
Individuals	17456	6.98	14525.7	5.54	13851.5	5.16	7019	2.68	7657.7	2.65	6943.7	2.43	27145	12.84	26237.8	10.57	22925.0	8.37	18705	12.34	17222.7	10.79	16760.7	10.64
General Traders/ Wholesale & Retail Trade	20129	8.05	16155.6	6.16	21688.9	8.09	12449	4.75	11021.8	3.81	20269.4	7.10	8066	3.82	6201.0	2.50	6801.0	2.48	-	-	-	-	-	-
Public/Govt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial	3445	1.38	2625.2	1.00	1841.6	0.69	4001	1.53	5738.8	1.99	14438.4	5.06	7871	3.72	7305.2	2.94	6820.0	2.49	2295	1.51	2683.6	1.68	2515.0	1.60
Others	51528	20.62	65687.4	25.03	71909.2	26.81	93219	35.56	107115.9	37.07	102236.9	35.83	37024	17.51	39618.4	15.95	37439.3	13.67	35972	23.73	44341.4	27.77	39691.9	25.19
Total	**249914**	**100.00**	**262392.3**	**100.00**	**268192.2**	**100.00**	**262137**	**100.00**	**288920.7**	**100.00**	**285375.5**	**100.00**	**211398**	**100.00**	**248346.0**	**100.00**	**273827.2**	**100.00**	**151610**	**100.00**	**159646.1**	**100.00**	**157573.6**	**100.00**

– Indicates figure not given in the bank's annual report ** Includes machinery and equipments*

Non Performing Loans By Business Segments - Selected Banks

(Rs. Mn)

Type of Business	National Bank of Pakistan			Habib Bank Ltd			United Bank Ltd			MCB Bank Ltd			Allied Bank Ltd			Bank Alfalah Ltd			Standard Chartered Bank Pakistan Ltd		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
Chemicals & Pharmaceuticals	2320	3358	3788	589	698.2	348.6	220	312.7	259.5	204	196.3	183.4	373	405.2	481.8	114.0	156.1	161.2	253	335.1	310.6
Agribusiness	2110	2754	2959	3504	3528.2	3276.0	1492	1313.3	1098.6	416	312.1	254.5	192	350.6	535.8	508.0	430.0	344.0	17	16.8	103.0
Textiles	28724	28470	32173	20233	16750.0	16680.3	15269	15976.9	13933.1	5225	5209.6	4122.3	5070	9519.4	9179.4	4220.9	4220.7	3304.0	7647	7617.8	7829.0
Cement	5091	3870	3770	2264	1987.1	905.5	-	-	-	362	295.6	130.9	119	40.0	234.4	-	-	-	-	-	-
Sugar	4137	4115	2915	360	415.1	337.9	243	160.4	157.8	1266	1035.2	428.2	-	-	-	-	344.5	190.7	-	-	-
Rice Processing	2546	2534	2584	-	-	-	-	-	-	-	-	-	-	-	-	-	347.7	371.4	-	-	-
Shoes & Leather Garments	260	184	176	173	171.6	185.7	259	242.7	228.6	127	103.9	85.6	56	131.7	70.9	-	185.4	81.8	16	16.5	6.0
Automobile & Transport Equipment	1311	1013	999	1905	1863.6	1222.4	338	264.7	226.9	69	54.9	26.2	1375	1521.1*	1556.7*	225.6	244.7	188.2	400	358.1	316.9
Transportation & Telecommunication	1654	1595	1503	261	35.8	1.1	-	-	-	126	645.1	593.4	361	6.1	5.4	-	366.7	363.3	-	-	-
Real Estate/Construction	2472	2345	3895	1387	316.0	1380.7	4178	4085.9	3964.0	172	127.4	118.4	2370	259.2	1010.0	-	422.8	282.7	-	-	-
Electronics & Electrical Appliances	5421	6758	6158	2801	2881.5	2904.4	256	201.5	183.8	340	451.4	374.5	-	-	-	-	372.1	397.4	-	-	-
Food & Tobacco	1018	948	1239	528	337.1	320.1	1247	989.5	862.6	-	-	-	742	412.6	572.4	-	380.1	219.6	-	-	-
Fertilizer	3258	3156	2820	-	-	-	7	72.1	75.3	-	-	-	-	-	-	-	820.4	795.6	-	-	-
Metal Products	572	537	6653	912	1058.9	2321.6	-	-	-	-	-	-	866	20.4	288.3	-	233.3	296.2	-	-	-
Production & Transmission of Energy	3572	5126	15300	1719	1710.2	-	2434	6480.9	3955.6	-	180.1	-	-	-	-	-	32.5	17.2	276	127.7	222.3
Oil & Gas	-	-	-	332.4	2185.2	2247.6	-	-	-	-	-	-	846	245.4	240.6	-	2640.3	2704.4	-	-	-
Hotel & Services	817	1298	2011	227	227.0	56.4	486	486.0	486.0	939	721.9	594.8	63	7.4	7.9	-	-	-	-	-	-
Individuals	4972	5326	5551	946	1038.5	1338.9	14267	14698.5	13668.1	3625	3393.7	3188.2	37	358.2	336.8	3495.2	3763.4	1357.0	6003	5684.0	4678.8
General Traders/ Wholesale & Retail Trade	4679	5373	7431	5641	6439.6	5635.7	1629	1667.6	1834.4	4631	4075.7	3490.2	2206	478.3	569.6	703.5	780.0	748.7	-	-	-
Financial	905	723	685	798	40.0	731.7	2299	2231.9	2083.5	1448	1107.8	814.6	344	81.5	72.9	-	124.7	122.5	-	49.3	49.3
Others	12321	12554	13006	6733	8983.4	5126.4	6493	8162.3	9612.2	7715	7651.1	8862.5	5432	6830.4	4261.0	9829.4	6316.2	6000.7	11085	12919.6	11139.3
Total	**88160**	**92037**	**115616**	**51313.4**	**50667.0**	**45021.0**	**51117**	**57346.9**	**52630.0**	**26665**	**25561.8**	**23267.7**	**20452**	**20667.5**	**19423.9**	**19096.6**	**22181.6**	**17946.6**	**25697**	**27124.9**	**24655.2**

– Indicates figure not given in the bank's annual report

** Includes machinery and equipments*

NPLs to Gross Advances Ratio

(%)

Type of Business	National Bank of Pakistan			Habib Bank Ltd			United Bank Ltd			MCB Bank Ltd			Allied Bank Ltd			Bank Alfalah Ltd			Standard Chartered Bank Pakistan Ltd		
	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013	2011	2012	2013
Chemicals & Pharmaceuticals	67.2	70.1	77.7	2.8	3.6	1.7	3.7	4.9	4.3	1.5	1.5	0.5	2.0	2.0	3.0	1.8	2.5	2.4	2.8	2.9	3.3
Agribusiness	7.1	8.1	6.6	11.5	11.5	9.8	3.2	2.1	1.9	15.9	12.6	8.3	34.7	13.7	90.4	3.0	1.8	1.5	0.3	0.3	1.3
Textiles	43.3	40.0	42.9	28.4	26.8	23.0	25.6	26.7	22.1	14.1	13.8	10.0	12.5	21.4	30.6	12.8	11.3	7.0	25.4	26.2	23.7
Cement	48.6	40.0	37.2	22.3	27.4	18.1	-	-	-	15.1	22.1	14.6	0.9	0.4	1.8	-	-	-	-	-	-
Sugar	27.3	24.9	15.6	8.0	9.2	6.5	3.4	4.7	3.6	14.3	9.1	2.8	-	-	-	-	4.6	3.1	-	-	-
Rice Processing	25.6	21.1	17.2	-	-	-	-	-	-	-	-	-	-	-	-	-	3.4	3.4	-	-	-
Shoes & Leather Garments	21.6	13.0	13.1	9.0	8.6	8.4	11.5	11.3	11.0	3.2	3.1	1.8	5.1	28.9	8.3	-	16.0	4.0	1.0	0.6	0.2
Automobile & Transport Equipment	41.4	27.2	30.2	19.5	16.7	14.5	6.7	4.3	4.7	13.3	15.7	4.5	31.9	49.4	35.2	8.7	10.8	6.5	26.0	14.7	10.9
Transportation & Telecommunication	4.3	2.4	2.0	2.0	0.3	0.0	-	-	-	0.2	1.1	2.3	7.9	0.1	0.1	-	9.5	7.9	-	-	-
Real Estate/Construction	25.3	25.6	44.3	52.6	20.0	55.7	23.2	24.7	19.4	7.3	24.8	16.6	31.2	3.3	6.4	-	9.0	6.9	-	-	-
Electronics & Electrical Appliances	59.9	80.8	62.6	17.6	40.0	37.0	9.7	7.0	4.7	11.6	17.5	12.8	-	-	-	-	11.7	12.1	-	-	-
Food & Tobacco	63.9	50.6	33.4	6.4	4.1	2.6	13.9	7.8	4.0	-	-	-	-	5.7	13.5	-	5.8	1.5	-	-	-
Fertilizer	17.1	20.8	28.0	-	-	-	0.1	1.6	1.4	-	-	-	-	-	-	-	10.2	9.7	-	-	-
Metal Products	2.2	1.2	12.4	12.9	16.0	22.8	-	-	-	-	-	-	34.6	0.8	9.2	-	3.1	3.3	-	-	-
Production & Transmission of Energy	6.6	4.2	13.4	4.4	3.5	-	5.9	11.4	6.9	-	0.6	-	-	-	-	-	0.1	0.0	1.3	0.5	1.0
Oil & Gas	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Hotel & Services	5.9	8.2	22.5	19.1	32.7	7.3	18.3	12.3	19.8	16.9	-	-	28.1	1.0	3.1	-	-	-	-	-	-
Individuals	5.8	4.1	4.1	3.7	3.7	3.5	28.5	30.9	29.3	20.8	23.4	23.0	0.5	4.7	4.9	12.9	14.3	5.9	32.1	33.0	27.9
General Traders/ Wholesale & Retail Trade	27.6	34.3	34.6	11.8	12.5	10.3	11.8	9.5	8.6	23.0	25.2	16.1	17.7	4.3	2.8	8.7	12.6	11.0	-	-	-
Financial	4.3	4.5	8.1	5.3	0.2	2.0	18.7	24.0	13.9	42.0	42.2	44.2	8.6	1.4	0.5	-	1.7	1.8	-	1.8	2.0
Others	13.5	17.8	24.6	13.9	16.7	8.0	10.3	10.8	10.3	15.0	11.6	12.3	5.8	6.4	4.2	26.5	15.9	16.0	30.8	29.1	28.1
Total	**14.9**	**12.6**	**16.3**	**11.2**	**10.1**	**8.0**	**14.0**	**14.0**	**12.1**	**10.7**	**9.7**	**8.7**	**7.8**	**7.2**	**6.8**	**9.0**	**8.9**	**6.6**	**16.9**	**17.0**	**15.6**

– Indicates figures not given for that sector in the bank's annual report

Market Analysis

Market rebounds on improving macros and MSCI FM weight increase

After witnessing a dip of 1.0k points in February, the market rebounded by 1.4k points in March, on the back of improving macros and news of MSCI FM weight increase. As peace talks with TTP gradually progress, hefty buying by a local mutual fund in early March set the tone for markets' positive direction. While Mutual funds made a hefty net buy of $55 million in March, Foreigners were on the back foot with net selling of $5 million.

On a month-on-month basis, the benchmark KSE-100 index augmented by 5.3 percent to close at 27,160 points. Pharmaceuticals and Auto sector remained the biggest outperformers while Textile stocks were the biggest underperformer in March, mainly due to surprise Pak Rupee appreciation witnessed in the month. The month of March saw volumes falter by 9 percent to average 215 million shares/day, while value traded depicted an increase of 24 percent month-on-month.

With Pak Rupee appreciating from 105 to 98 versus US$, the month saw sector switching to gain from this phenomenon. Resultantly, import dependent sectors such Pharma and Autos appreciated by double digits, while exporters such as Textile stocks were the underperformers. Banks also gained in the month due to status quo policy rate and record participation in PIBs (NIM improvement). The impact of Pak Rupee appreciation is overall negative for the equity market, since the key sectors earnings are directly or indirectly dollar linked. On the flip side, a stable Pak Rupee may lead to higher foreign portfolio investment and eventual inflation/interest rate decline may result in rerating for the market.

Foreigners propel the market to a new high

Continuing with its positive close witnessed in the month of March, the market again closed up by 1.75k points in April, on the back of MSCI FM Index methodology in early April and improving macros (successful Euro bond issue). As quarterly result season got underway in the latter half of the month, the market did witness a drop as majority of results were either inline/below expectations. Foreigners after being on the back foot in March (net selling of US$5 million) changed gears in April, with net buying of US$92 million, while other key participants remained on the net selling side.

On a month-on-month basis, the benchmark KSE-100 index augmented by 6.5 percent to close at 28,913 points. In a similar situation as last month, the top three outperforming sectors were Pharmaceuticals, Autos and Banks. Amongst the laggards, Telecom sector was the biggest underperformer along with Textile sector. The month of April saw volumes appreciating by a decent 35 percent to average 290 million shares/day, while value traded depicted an increase of 22 percent month-on-month.

In a similar situation as last month, the top three outperforming sectors were Pharmaceuticals, Autos and Banks. Pharmas and Autos outperformed again due to Pak Rupee appreciation theme with expectation of margin expansion going forward. Banks also remained in limelight due to foreigners interest in this key sector as macros improve and NIM expansion story on the back of record participation in PIBs. Amongst the laggards, telecom sector was the biggest underperformer along with textile sector.

In the month of April, there was only one meaningful net buyer i:e Foreigners. After being on the back foot in March (net selling of US$5 million), April saw a massive turnaround with net buying of US$92 million, while other key participants remained on the net selling side. Interestingly, Foreigners in first half of the month bought stocks worth US$60.4 million (net buying) while in the second half of the month their enthusiasm was subdued to US$31.4 million net buying, a trend witnessed in market movement as well.

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

Selected Economic Indicators of Countries where National Bank of Pakistan has a Presence

Country	Population (Mn) 2012	GDP Size ($ Bn) 2012	Total Debt (% of GDP) 2011	Exchange Rate Local Currency to US$ (2012)	Total Reserves ($ Bn) 2012	Electric Power Consumption (Kilowatt-hrs) 2010	Current Account Balance ($ Bn) 2012	Time Required to start a Business (Days) June 2012	Merchandise Trade (% of GDP) 2011	Foreign Direct Investment Net Inflow ($ Mn) 2011	Gross Savings (% of GDP) 2011	Domestic Credit provided by Banking Sector (% of GDP) 2011
Afghanistan	29.8	20.5	-	50.92	7.15	-	-7.29	7	33.1	83	-	-2.9
Azerbaijan	9.3	66.6	6.4	0.79	11.28	1603	14.98	8	71.3	4485	45.9	20.0
Bangladesh	154.7	116.4	-	81.86	12.75	279	2.65	19	54.2	798	36.5	70.4
Bahrain	1.3	29.0	-	0.38	5.45	9814	2.94	9	-	781	30.1	75.2
Canada*	34.9	1821.4	52.5	1.00	68.55	15137	-62.26	5	52.7	39510	19.6	177.6
China*	1350.7	8227.1	-	6.31	3387.51	2944	193.14	33	49.8	220143	52.7	145.5
France	65.7	2612.9	93.7	-	184.52	7729	-57.25	7	47.3	45209	17.9	133.5
Germany	81.9	3428.1	55.3	-	248.86	7215	238.71	15	75.8	39067	23.9	124.8
Hong Kong	7.2	263.3	39.2	7.76	317.36	5923	6.07	3	388.9	95352	29.4	207.1
Japan	127.6	5959.7	189.8	79.79	1268.09	8394	60.86	23	28.6	79	21.7	341.7
Kazakhstan**	16.8	203.5	9.9	149.11	28.30	4728	7.72	19	67.1	13227	29.7	40.3
Republic of Korea	50.0	1129.6	-	1126.47	327.72	9744	43.34	7	96.7	4661	31.5	102.7
Kyrgyzstan	5.6	6.5	-	47.0	2.10	1375	-1.43	10	105.1	694	18.2	-
Kingdom of Saudi Arabia	28.3	711.0	-	3.75	673.74	7967	164.76	21	82.6	16308	46.8	-4.8
Pakistan	179.2	225.1	-	93.40	13.69	457	-2.03	21	33.2	1309	20.4	43.3
Tajikistan**	8.0	7.0	-	4.74	0.63	2004	-0.25	24	68.1	11	23.2	-
Turkmenistan	5.2	35.2	-	-	-	2403	-	-	72.7	3186	-	-
USA	313.9	16244.6	78.9	1.00	574.27	13394	-440.42	6	25.0	257528	11.7	234.9
Uzbekistan*	29.8	51.1	-	-	-	1648	-	12	51.2	1403	-	-

** Representative Offices   ** Subsidiary   NA Not Available*

Source: World Development Indicators 2013

Book/Report Reviews

Gender at Work
A Companion to the
World Development Report on Jobs

While many more girls are going to school and living longer and healthier lives than 30 or even 10 years ago, many still lack basic freedom and opportunities and face huge inequalities at work. Globally, fewer than half of women have jobs, compared with almost four-fifths of men. Women still learn less, earn less, and have far fewer assets and opportunities.

The Report, *Gender at Work*, looks closely at existing constraints as well as policies and practices that show promise in closing the gaps. Closing the gaps would help stimulate job creation and in alleviating extreme poverty. This would require leveling the playing field and creating the types of jobs that can empower women. Targeted, gender-specific and multi-sectoral policies are also needed to respond to country-specific constraints.

The gender differences at work exist in various forms, labour force participation rates, in earnings and types of jobs. It has been found that women consistently earn less then men. Both sort into different types of economic activity, including different occupations, sectors, industries and types of firms. Women's labourforce participation has fallen from 57 percent in 1990 to 55 percent in 2012.

National Plan of Action to
Accelerate Education-Related MDGs
2013-16
Ministry of Education
Government of Pakistan

The Ministry of Education, Government of Pakistan, undertook an important initiative to prepare status report on education-related MDGs. The Ministry coordinated with Provincial and Area Departments of Education for developing accelerating framework to achieve the MDG targets by 2015. Accordingly it nominated focal persons for developing *Plan of Action* for MDG Accelerated Framework.

The *National Plan of Action* estimates a total of 6.7 million primary-aged out-of-school children during 2013-16. Of these 5.06 million children are expected to be enrolled in the country. The gross national cost is estimated at Rs189 billion. The Government of Pakistan is committed to gradually increase the allocation to education from the present 2 percent of GDP to 4 percent by 2018. In this, provincial allocations to primary education will have to be substantially increased to reach out to the disadvantaged groups.

At present, at the international level, education development is guided by two comprehensive international initiatives, endorsed by an overwhelming majority of governments around the globe. These are the *Education for All* (EFA) and the *Millennium Development Goals* (MDGs).

The key objective of the *National Plan of Action* is to accelerate the progress towards achieving education MDGs in the next three years. More specifically, the Plan aims to achieve:

1. enrolment of maximum number of out-of-school children in primary classes;
2. in-school retention all enrolled children, and completion of their primary education;
3. improvement in equality of primary education

The *National Plan of Action* is based on eight provincial/area plans. Each provincial/area plan reviews the education situation in its respective province/area, identifies the gap in primary enrolments, quantifies the number of out-of-school children, analyses the reasons for low enrolments and high drop-out rates and suggests enhancement of existing options as well adoption of innovative strategies to attain maximum progress within the stipulated time frame.

Given that the MDG targets are to be attained by the 2015-16 i.e. within the next three years, Pakistan has designed the above *National Plan of Action* to accelerate implementation which will ensure maximum progress in achieving the education goals in the next three years.

Pakistan — Selected Economic Indicators

	Unit	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Output and Prices								
GNP Size *fc*	Rs.bn	8893	10564	12888	14815	18476	20442	22717
GDP Size *fc*	Rs.bn	8736	10355	12542	14248	17656	19406	21616
Income Per Capita	$	980	1053	1026	1072	1275	1323	1368
Income Per Capita	Rs	56227	64157	76635	86268	108979	118085	131543
Real Growth	(%)							
GNP		6.7	3.7	2.1	4.1	3.5	4.3	3.4
GDP		5.5	5.0	0.4	2.6	3.7	4.4	3.6
Agriculture		3.4	1.8	3.5	0.2	2.0	3.5	3.3
Manufacturing		9.0	6.1	(-)4.2	1.4	2.5	2.1	3.5
Services Sector		5.6	4.9	1.3	3.2	3.9	5.3	3.7
Prices	(%)							
Consumer Price Inflation		7.8	12.0	17.0	10.1	13.7	11.0	7.4
Wholesale Price Inflation		6.9	16.4	18.9	13.8	21.2	10.4	7.3
Food Inflation CPI		10.3	17.6	23.7	12.9	18.0	11.0	7.1
Non Food Inflation CPI		6.0	7.9	18.4	8.3	10.7	11.0	7.5
Core Inflation†		5.9	8.4	11.4	7.6	9.4	10.6	9.6
GDP Deflator		7.28	13.20	20.67	10.85	19.66	5.63	7.5
Gold Tezabi (Karachi)	Rs./10 grams	12619	16695	22195	29587	37658	48444	50744
Petrol Super	Rs/Ltr	56.00	57.83	67.68	67.56	75.70	92.93	101.26
Kerosene Oil	Rs/Ltr	39.09	43.44	66.79	72.65	84.89	104.84	116.07
Wheat Flour (Avg. Quality)	Rs/Kg	13.64	18.07	25.64	28.73	29.40	30.26	34.53
Savings and Investment	% GDP							
National Savings		14.0	11.0	12.0	13.6	14.2	12.8	13.8
Domestic Savings		12.3	9.1	9.4	9.8	9.7	7.7	9.0
Gross Fixed Investment		17.19	17.61	15.90	14.20	12.51	13.32	12.60
Public Sector		4.6	4.8	4.3	3.7	3.2	3.7	3.9
Private Sector		12.6	2.8	11.7	10.5	9.3	9.6	8.7
Public Finance								
Revenue Receipts (Fed Govt)	% GDP	14.0	14.1	14.0	13.8	12.2	12.1	12.1
Tax Revenue	% GDP	9.6	9.9	9.1	10.0	9.2	9.7	8.9
Total Expenditure	% GDP	19.5	21.4	19.2	17.3	14.6	13.9	16.7
Overall Budget Deficit	% GDP	4.1	7.3	5.2	6.2	6.5	6.8	8.0
FBR Tax Collection (Fed Govt)	Rs.bn	847.2	1008.1	1161.1	1483.0	1679.4	1945.7	2048.6
Direct Taxes	% share	39.4	38.4	38.2	36.4	37.3	37.6	36.0
Indirect Taxes	% share	60.6	61.5	61.8	63.6	62.7	62.4	64.0
Monetary Sector								
Growth of Broad Money (M2)	%	19.3	15.3	9.6	12.5	15.9	14.1	15.9
Currency in Circulation	Rs.bn	840.2	982.3	1152.2	1295.4	1501.4	1673.7	1938.2
Public Sector Borrowing (net)	Rs.bn	926	1508	2034	2441	3020	4258	5737
Borrowings for Budgetary Support	Rs.bn	810	1365	1681	2011	2602	3800	5246
Credit to Private Sector	Rs.bn	2480	2890	2907	3020	3141	3376	3357

† *non-food non-energy.*

	Unit	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Social Sector								
Population	Mn	158.17	166.41	169.95	173.50	177.10	180.71	184.35
Education Expenditure	as % of GDP	2.4	2.4	1.8	1.7	1.8	2.2	0.9
Literacy Rate	(%)	55	56	57	58	58	58	58
Health Expenditure	as % of GDP	0.57	0.57	0.6	0.6	0.6	0.7	0.3
Karachi Stock Exchange								
KSE 100 Index	(1991=1000)	13772	12289	7162	9722	12496	13801	21006
Funds Mobilized	Rs.bn	4019	3778	2120	2732	3289	3518	5154
Total Turnover of Shares	Bn	54.0	63.3	28.3	43.0	28.0	38.0	54.3
Banking Sector								
Scheduled Banks Deposits	Rs.bn	3373	3812	4138	4693	5489	6219	7134
Scheduled Banks Advances	Rs.bn	2376	2816	3080	3174	3311	3530	3641
Non-Performing Loans All Banks	Rs.bn	214	314	432	548	607	636	616[a]
Lending and Deposit Rates	weighted average							
Deposits	% per annum	2.60	4.13	4.44	4.29	4.53	4.56	4.38
Advances	% per annum	11.55	12.49	14.25	13.63	13.46	12.81	11.66
Open Market Operation								
SBP Reverse Repo Rate	% end period	9.50	12.00	14.00	12.50	14.00	12.00	9.0
Treasury Bills Yield - 6 Months	% end period	8.90	11.48	12.00	12.30	13.70	11.90	8.9
KIBOR - 6 Months	% end period	9.75	13.95	12.65	12.25	13.65	11.94	8.97
Yield on 5 Years PIBs	weighted average	10.00	10.80	12.40	12.50	14.03	13.08	10.05
Interbank Call Rates (Overnight)	%	8.90	9.90	13.20	11.60	12.40	11.70	9.09
SBP Export Finance Rate	%	6.50	6.50	6.50	8.00	10.00	10.00	8.4
External Sector								
Exports	$ bn	16.98	19.05	17.69	19.29	24.81	23.64	24.46
Imports	$ bn	30.54	39.97	34.82	34.71	40.41	44.91	44.95
Balance of Trade[†]	$ bn	-13.41	-20.92	-16.93	-15.2	-15.27	-21.11	-20.20
Current Account Balance	$ mn	-6878	-13874	-9261	-3946	214	-4658	-2466
Workers' Remittances	$ mn	5494	6451	7811	8906	11201	13187	13920
Foreign Private Investment	$ mn	6960	5454	3210	2739	2000	761	1576
Direct	$ mn	5140	5410	3720	2151	1635	821	1456
Portfolio	$ mn	1820	44.3	-510	588	365	-60	120
Public Debts								
Internal Debt Outstanding	Rs.bn	2610	3275	3861	5654	6017	7638	9521
Funded Debt	% of Internal Debt	64.0	68.8	67.1	68.7	72.5	76.5	77.5
Unfunded Debt	% of Internal Debt	36.0	31.2	32.9	31.3	27.5	23.5	22.5
External Debt and Liabilities	$ bn	40.5	46.2	52.3	61.6	66.4	65.5	59.8
Total Debt as % of GDP	%	58.8	63.2	62.9	67.7	65.1	69.1	67.8
Domestic Debt as % of GDP	%	30.1	30.7	29.2	31.4	32.9	38.0	41.6
National Saving Schemes (Outstanding)	Rs.bn	1004	1094	1361	1586	1821	2010	2396
Gold & Foreign Exchange Reserves	$ mn	18890	13436	13971	17921	20941	16493	11005
Exchange Rate (Average for year)	Rs/US$	60.6342	62.5465	78.4983	83.8017	85.5017	89.2359	96.7272

[†] *Balance of Trade = Exports+Reexports-Imports-Reimports* [a] *March*

Source: Annual Report - 2012-13, Statistical Supplement, SBP
Pakistan Economic Survey 2012-13