ECONOMIC BULLETIN
November - December, 2013

Contents

2013: The Year in Review

As the year 2013 draws to a close let us recap some of the year's highlights. During the year, world economic recovery remained moderate not only in developed economies but also in many emerging economies; consumer price inflation fell to historic lows, with the deceleration being the steepest in developed economies; world trade is expected to grow by 2.5 percent in 2013 and 4.5 percent in 2014, revising it down from previous estimates of 3.3 percent and 5.0 percent. Estimates have been lowered because the European economy had not recovered in the second quarter of 2013 as expected. In the second half of 2013 most G-20 members put in place new trade restrictions or measures that have the potential to restrict trade, 116 new trade restrictive measures were identified, which were mainly new trade remedy actions, in particular the initiation of anti-dumping investigations, tariff increases and more stringent customs procedures.

Recovery remains subdued

The year 2013 will also be remembered for the interim agreement on Iran's nuclear programme; continued fighting in Syria; the 16-day US government shutdown which cost the government an estimated $24 billion; substantial fall in gold prices in over a decade; natural disasters disrupted the lives of millions worldwide; the euro strengthened in the year; most emerging Asian currencies were set to suffer losses; Tokyo was placed as the world's most expensive city, the European sovereign debt crisis eased and the percentage of people living in extreme poverty declined. The year saw the passing away of Nelson Mandela, the man who led South Africa from racial apartheid to democracy; the retirement of Sachin Tendulkar and Jacques Kallis after a long illustrious careers; the birth of Royal Baby; election of a new pope; the large scale devastation caused to Philippines by typhoon Haiyan.

US govt shutdown

At home, Pakistan continued to face security issues and deteriorating law & order situation, which adversely impacted the investment climate, caused production losses, and some businesses left the country. Persistent structural weaknesses continued to hamper economic growth. General elections were held and a new democratic government assumed office.

The global recovery is continuing, growth remains subdued however. The International Monetary Fund (IMF) says there are encouraging signs of improving activity in advanced economies, while growth in many emerging market and developing economies has moderated. In its October 2013 forecast, it pegs global economic growth at 2.9 percent, down from 3.1 percent in July's forecast and 3.5 percent in January's forecast. World GDP growth is forecast to accelerate in 2014 as issues in the US are expected to be resolved and most countries within the European Union begin recovery.

Growth forecast lowered

Alongwith subdued economic recovery in developed economies and moderated growth in emerging economies, the average global consumer price inflation index fell to historic lows in 2013, indicating considerable slack in the global economy and the risk of deflation in some countries. The deceleration of inflation has been the steepest in developed economies.

Inflation falls

The European sovereign debt crisis has eased significantly since last year, unemployment in the United States has fallen to 7.3 percent from a post crisis high of 10 percent, and growth of GDP in Japan has accelerated since the adoption of new fiscal and monetary policies. Latest figures from China on industrial production suggest that the country may be regaining some of its dynamism.

Currencies of many emerging economies have been volatile since mid 2013. Most emerging Asian currencies were set to suffer losses in 2013 and their outlook stayed bleak as the Fed announced it would scale back its bond-buying programme, traders and analysts said.

Asian currencies suffer losses

The Indonesian rupiah and the Indian rupee led slides among emerging Asian currencies in 2013. The Indonesian currency has lost 21.0 percent against the dollar as it is regarded as the Asian currency most vulnerable to capital outflows on the Fed's policy shift because of the Southeast Asian country's current account deficit. The Indian rupee has fallen 11.2 percent on weak economic growth and high inflation. The Philippine peso slid 7.5 percent, while Thailand's baht fell 6.9 percent. The ringgit has been down 6.8 percent. The Chinese currency has gained 3.0 percent becoming the best performing Asian currency of the year.

Euro strengthens

The euro strengthened in the year 2013, boosted as banks in the region repatriated funds ahead of the year-end to shore up their capital bases before an ECB Asset Quality Review and as banks repay cheap crisis loans to the ECB, which results in tighter liquidity. The euro has risen more than 4 percent against the US dollar in 2013 and is set for a second straight year of gains. The dollar has gained 21 percent against the Japanese currency while the euro, the strongest major currency in 2013, has risen 26 percent.

World trade growth revised

The World Trade Organisation (WTO) expects world trade to grow by 2.5 percent in 2013 and 4.5 percent in 2014, revising it down from previous estimates of 3.3 percent and 5.0 percent. Estimates have been lowered because the European economy had not recovered in the second quarter of 2013 as expected. On the export side, WTO expects a 1.5 percent increase for developed economies and a 3.6 percent rise for developing economies. On the import side, the WTO is forecasting stagnant growth of -0.1 percent for developed countries and a more robust 5.8 percent increase for developing economies.

Trade reform deal

The WTO's 159 member countries reached a trade reform deal on December 7. The deal would lower trade barriers and speed up the passage of goods through customs. The deal slashes red tape at customs around the world, gives improved terms of trade to the poorest countries. They also took decisions on a range of issues from how the WTO should respond to government food security programmes to securing better market access to the rich world for the globe's least developed economies. The International Chamber of Commerce estimates it will lower the cost of doing trade by as much as 10-15 percent and add $1 trillion to global output.

Bank settlement

The year 2013 brought with it the record breaking settlement between JP Morgan Chase and the Department of Justice for $13 billion, around half of the banks annual profit, and the biggest price-tag ever seen for one bank alone to settle a government lawsuit. The suit, over bad mortgage investment sales pre-financial crisis was just one giant lawsuit amidst a storm of other smaller litigation proceedings. Other banks also faced suits, making 2013 a rough year for financial businesses, including Goldman Sachs, Morgan Stanley, Bank of America and others. JP Morgan also settled up with Fannie Mac and Freddie Mac for sales of mortgage securities for around 12 percent of the $33 billion purchase amount.

World powers ease sanctions

The US and five other world powers struck an accord with Iran on November 24, agreeing to ease sanctions on the country for six months in exchange for steps to cap its nuclear programme. The temporary agreement limits Iran's nuclear enrichment capabilities, existing stockpiles of enriched uranium and ability to produce weapon – grade plutonium in exchange for easing sanctions.

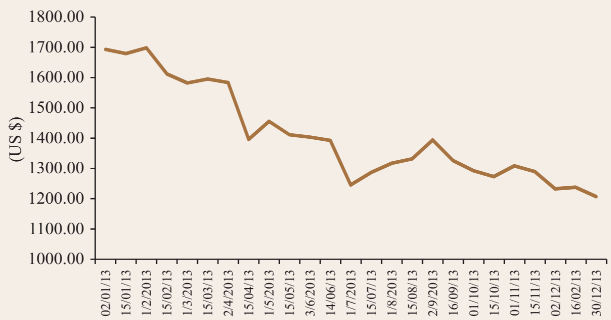
US govt shutdown

The year 2013 will be remembered for the US government shutdown. The US administration faced a disagreement over a bill to fund the US government leading to the government shutting down. Thousands of US government workers went on unpaid leave and a number of national monuments including the Statue of Liberty were closed as Congress argued over passing a bill to fund the US government for another year. The Senate and the House passed a bill on October 16 to end the shutdown and fund the government until January 2014.

Gold prices down

Gold prices crashed in 2013. Prices fell 28 percent, the most since 1981 and the first drop since 2000. In the first three quarters of 2013, demand in China, the top buyer, was 797.8 metric tons, followed by India at 715.7 tons, according to the World Gold Council. In 2013, sliver plunged 36 percent, platinum dropped 11 percent and palladium rose 2.1 percent.

2013 – Gold Prices



Tokyo was placed as the world's most expensive city. In fact, since 1992, Tokyo has been the top-ranking city in every year bar six. The cheapest cities in the ranking include Karachi (Pakistan), Mumbai and New Delhi (India), Kathmandu (Nepal), Algiers (Algeria), Colombo (Sri Lanka), Tehran (Iran) and Jeddah (Saudi Arabia).

Shale revolution

Shale revolution has boosted oil and gas supplies in the US and Canada, says the Energy Information Administration. This has been enabled by hydraulic fracturing or fracking, an extraction technique that releases hydrocarbons from previously inaccessible rock formations. The Energy Information Administration (EIA) in its report estimates recoverable shale oil worldwide to have grown more than ten fold to 345 billion barrels, increasing total reserves by 11 percent. According to the report, 7299 trillion cubic feet of shale gas would add 47 percent to global reserves.

Global poverty declines

Over the past three decades, the extent of global poverty has declined rapidly. The percentage of people living in extreme poverty in 2013 is less than half of what it was in 1990. Yet today, more than one billion people worldwide are still destitute, inequality and social exclusion seem to be rising in several countries, and many urgent and complex challenges must be overcome to maintain the recent momentum in poverty reduction.

Transparency International's Corruption Perceptions Index 2013, shows that two thirds of the 177 countries in the 2013 index score below 50 on a scale from 0 (perceived to be highly corrupt) to 100 (perceived to be very clean). In the *Corruption Perceptions Index 2013*, Denmark and New Zealand tie for the first place with scores of 91, Afghanistan, North Korea and Somalia this year make up the worst performers, scoring just 8 points each.

Natural disasters

Natural disasters have disrupted the lives of millions worldwide in 2013. The year 2013 witnessed typhoon Haiyan, hitting Philippines early November with wind speed of 300 kph and destroying parts of the country, there were floods in China, cyclone in Bangladesh, earthquake and storm in China.

Economic concerns

In the year 2013, Pakistan faced significant economic, social and security challenges which affected sustainable development. Persistence of conflict in the border areas and the ensuing security concerns in the country affected all facets of life, impeding economic and social development. The year witnessed general elections marking the first transition from an elected government that completed its term to a new government. Pakistan's Chief Army Staff retired from his position and the Chief Justice also relinquished charge.

The war on terror and growing security concerns, deteriorating law & order situation, energy shortages, fiscal deficits, growing public debt, depressed investment activities continued to hamper economic growth. There

Box

Global Economic Prospects – 2014
World Bank

The Report describes the forces acting on the global economy and its implications on developing countries. High income economies are forecast to show higher growth in 2014 as recovery takes hold in these countries. We give below their assessment and forecast for Pakistan's economy.

- Pakistan's growth is expected to moderate slightly to 3.4 percent in FY2013-14, reflecting necessary fiscal tightening, and then rise to 4.5 percent in the medium term. Relatively stable or declining international commodity prices will help reduce inflation and current account pressures, and together with normal harvests and sustained remittance flows - support consumption demand in the region. The main risks to the outlook are fiscal and policy reforms going off-track.
- Pakistan is among the many developing economies where public debt levels are in excess of 60 percent.
- Pakistan is among the group of countries like Senegal, Hungary, Romania, Montenegro where non-performing loans remain elevated.
- GDP growth in Pakistan, South Asia's second largest economy, has also been relatively weak in recent years, averaging 3.5 percent in factor cost terms since 2010, below the nearly 5 percent average growth during the previous decade. The relatively weak growth rates in these two countries, (India and Pakistan), which together account for close to 90 percent of regional GDP, reflect a combination of domestic imbalances (including large fiscal deficits and high inflation), weakening investment rates, and a challenging external environment.
- Investment growth in South Asia is estimated to have improved in 2013 but was still weak. Regional investment growth is estimated to have improved from a decade - low 1.1 percent recorded in the 2012 calendar year to a still relatively lackluster 3.5 percent in 2013. In Pakistan, investment as a share of GDP has been falling (albeit at a slowing pace) in recent years.
- The pace of increase in migrant remittances moderated in 2013 in South Asia to an estimated 6.8 percent from 9.7 percent the previous year, according to World Bank estimates. Flows to India dipped in the first quarter, but with the depreciation of the rupee, they rebounded to reach an estimated $71 billion in 2013. Remittance flows to Nepal and Sri Lanka (where they are 25 and 10 percent of GDP) experienced double-digit growth in the 2013 calendar year. After rising 12.6 percent in FY2012–13, remittance inflows to Bangladesh fell 8.4 percent (y/y) in the first six months of the current fiscal year. Flows to Pakistan, however, rose 9.5 percent (y/y) in the same period, compared with a 5.6 percent increase in FY2012–13.
- Fiscal deficits remain high in South Asia region, reflecting subsidy expenditures and weak revenue mobilization. Pakistan's fiscal deficit was 8 percent of GDP in the 2012-13 fiscal year, although planned fiscal consolidation (including tax administration reforms) is expected to gradually reduce this deficit.
- Weak GDP growth has adversely affected tax revenues in the region, already among the lowest (as a share of GDP) compared with developing countries at similar levels of economic development. Subsidies on fuel and other items (including food and fertilizers) were 2.6 percent of GDP in India and 3.1 percent in Bangladesh, while energy subsidies were close to 2 percent in Pakistan, according to the International Monetary Fund estimates and national sources.
- Reserve buffers in the South Asia region have been depleted in recent years, but external debt ratios are relatively modest. International reserves as a share of imports have been drawn down in several South Asian countries in recent years, as a result of slower increase in exports, capital inflows, and remittances. International reserves have fallen below two months of imports in Pakistan.
- Regional investment activity is expected to firm in 2014, with a further increase projected for 2015 and 2016. After declining for several years, the investment-to-GDP ratio in Pakistan is also expected to improve over the medium term. The projected increase in investment rates in the region, however, will depend critically on ensuring macroeconomic stability (including reducing fiscal deficits and inflation), making sustained progress on policy reforms, and reducing structural and regulatory constraints on production (particularly in the provision of energy and infrastructure).
- Planned fiscal consolidation in Pakistan (and to a lesser extent in India) is likely to result in subdued growth in government spending compared with the period prior to 2012.
- GDP growth in Pakistan is expected to moderate slightly to 3.4 percent in FY2013–14, in part reflecting necessary fiscal tightening, and then rise to 4.5 percent in the medium term.
- As the presence of international forces in Afghanistan winds down, reductions in Coalition Support Funds or Pakistan are likely to be offset by continued disbursements under the IMF's extended fund facility and robust inflows of remittances.
- There has been sharp currency depreciation in India, Nepal and Pakistan since mid year.

has been a modest growth in GDP, which is forecast at between 3-3.5 percent for 2014. Pakistan's growth is forecast at 3.4 percent, against 8.1 percent in Bhutan, 6.2 percent in India and 5.7 percent in Bangladesh. However, growth is expected to accelerate as fiscal situation improves, and structural reforms help alleviate binding constraints in the energy sector so enhancing investment climate.

GDP at Market Prices

(%)

	Estimated 2012	Estimated 2013	Forecast 2014
Bangladesh	6.2	6.0	5.7
Bhutan	9.0	7.6	8.1
India	5.0	4.8	6.2
Nepal	4.6	3.6	3.8
Pakistan	4.4	3.6	3.4

Source: Global Economic Prospects, January 2014, The World Bank

Low investment

The investment rate has been quite low in Pakistan, primarily because of structural bottlenecks in the energy sector and an uncertain security environment. Overcoming these impediments remain a serious challenge to policymakers.

Doing business ranking

Pakistan's global ranking on Ease of Doing Business has slipped to 110th position among 189 nations from 106th position, according to the *World Bank Doing Business Report 2014*. The rankings are for ten topics. Each economy is ranked according to 10 sets of indicators. These are combined into an overall ease of doing business ranking. Pakistan has slipped in seven out of ten indicators, for one indicator there is no change and for other two there is an improvement.

According to the report, Pakistan performed the worst on the indicator of getting electricity connection by a business concern where it stood at 175th position, three points below last year's ranking. Pakistan also slipped on the index of starting a business, standing at 105th place compared to 99th rank in 2013 and on dealing with construction permits, where it stood at 109th place, 6 notches below 103rd place a year earlier.

Ease of Doing Business
(Rank out of 189 economies)

Topics	DB 2014 Rank	DB 2013 Rank	Change in Rank
Starting a Business	105	99	▼ -6
Dealing with Construction Permits	109	103	▼ -6
Getting Electricity	175	172	▼ -3
Registering Property	125	122	▼ -3
Getting Credit	73	71	▼ -2
Protecting Investors	34	32	▼ -2
Paying Taxes	166	166	no change
Trading Across Borders	91	90	▼ -1
Enforcing Contracts	158	159	▲ 1
Resolving Insolvency	71	75	▲ 4

	Doing Business 2014 Rank	Doing Business 2013 Rank
Pakistan	110	106

Source: Doing Business - 2014, The World Bank

While the country has the potential to recover high growth rates and create more jobs it needs a favourable investment climate and doing away with structural constraints which hinder growth. The most pressing of the constraints is the energy shortage, which has badly impacted all facets of economic activities and created a recurring circular debt problem.

Energy shortages

The *Annual Report on the State of Pakistan's Economy 2012-13, State Bank of Pakistan* states, 'This means the country is generating less power than it could otherwise be doing. Furthermore, the hemorrhaging in the power sector has also pushed the fiscal deficit to record highs, which in turn has forced the government to borrow large amounts from the banking system. The repercussions of the circular debt problem are far reaching: it has discouraged fresh investment (both private and public) in the power sector; it has squeezed out development spending; it has undermined government commitments to independent power producers; and has become the primary driver for the sharp increase in domestic debt over the past 5 years.

These interrelated problems will take many years to resolve, which mean Pakistan's economy faces an uphill task to achieve the sort of growth rates needed to absorb young job seekers, reduce poverty levels, and improve the country's social indicators. Unless it can achieve sustained growth rates of 7 percent as stated by the Planning Commission, Pakistan will continue to underperform in the global economy.'

Cost of load shedding

Cost of load shedding are enormous for the economy. A PIDE study (2011) had concluded that the costs of load shedding to industry have reached a high level, equivalent to 9 percent or more of national sectoral value added or almost 2 percent of GDP. These losses have been accompanied by significant declines in profitability, employment and exports. An important pre-requisite for economic revival is the effective removal of major hindrances to growth and among them is power shortage. This would help in reviving investment and accelerating growth.

In Pakistan, however, data shows that energy usage has not been able to generate economic activity to the same extent as it has in India, Indonesia and China. A simplistic assessment is that energy usage in Pakistan has focused on households, rather than the commercial/ industrial sector. The latter directly generates economic activity as it uses energy as an *intermediate* good to create value; households, on the other hand, use power (electricity) as a *final* good to increase their utility (i.e. comfort or well-being). Reduction in power shortages alongwith its efficient use by the industrial and agricultural sector would help in reviving growth.

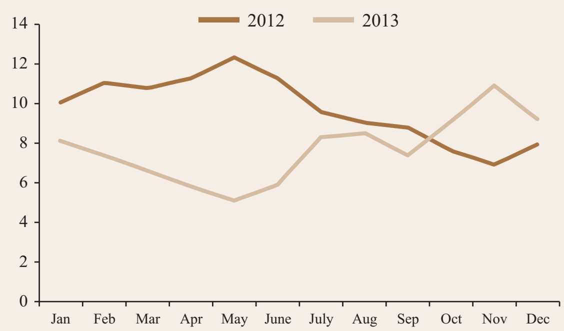
Circular debt

During the year 2013, the government paid Rs322 billion to settle the circular debt. Implementation of Pakistan's National Energy Policy is progressing and would help remove short term bottlenecks and encourage sustainable increases in electricity supply. Electricity prices are being rationalized. In October last year, the government increased electricity prices to reduce subsidies on consumer, except subsidies given for the lowest level users. It is estimated that the price adjustment would result in a savings of 0.75 percent of GDP. Improving governance and bringing down payment arrears would help improve electricity supply. Conservation would also help reduce the gap between demand and supply of electricity.

Pakistan's economic expansion will continue to fall far short of potential, owing to energy and water shortages, security concerns and low investment in human capital. The later shortcoming makes it unlikely that the country will benefit from the potential demographic dividend stemming from its large working-age population.

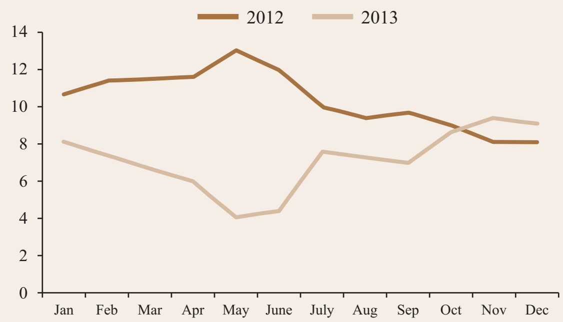
In the year 2013 inflation as measured by Consumer Price Index ranged between 5-8 percent on year-on-year basis, but picked up in the second half and was between 8-10 percent. Food inflation had risen to a high of 13.0 percent in November, but dropped to 9.3 percent by December. Non-food inflation shows a mixed trend, was as low as 4.1 percent in May, but had risen to 9.4 percent by November.

CPI Inflation
General



CPI Inflation
Food

CPI Inflation
Non-Food



Inflation Monitor, December 2013, State Bank of Pakistan shows that the weighted contribution of food group in the overall inflation increased to 42.35 percent during December 2013 from 40.58 percent in December 2012. The weighted contribution of non-food group had declined during the year to 57.65 percent by December 13 against 59.43 percent in December 12. Details are as follows: -

Weigthed Contribution to CPI Inflation

(%)

	Food	Clothing & footwear	Housing water, electricity, gas and other fuel	Transport	Education	Others
December '12	40.58	14.29	13.76	8.43	4.39	18.56
December '13	42.35	10.02	26.60	7.26	3.33	10.44

Source: State Bank of Pakistan

The table below shows the top contributors to inflation in Pakistan.

Contributors to CPI Inflation (YoY) in Dec 2013

Items/Contributors		Weights	YoY Change		Weighted Contribution
			Dec-12	Dec-13	
Ranked by Weighted Contribution					
1	House Rent	21.81	6.27	7.86	15.10
2	Wheat Flour	4.16	10.32	26.92	12.92
3	Electricity	4.40	16.39	15.82	8.62
4	Milk Fresh	6.68	11.91	6.34	5.84
5	Onion	0.53	-30.58	78.24	4.37
6	Motor Fuel	3.03	6.19	12.69	4.17
7	Education	3.94	10.04	8.66	3.33
8	Cigarette	1.39	18.37	15.84	2.65
9	Potatoes	0.47	21.97	48.79	2.64
10	Cotton Cloth	1.73	8.01	13.07	2.30
11	Transport Services	2.70	9.72	6.33	2.11
12	Rice	1.58	14.38	11.90	2.06
13	Readymade Food	1.23	10.66	12.70	1.99
14	Tailoring	0.88	15.60	14.79	1.70
15	Tomatoes	0.44	-35.54	46.98	1.69
	Total	**54.98**			**71.51**

Source: State Bank of Pakistan

Policy rate raised

During the year 2013, the State Bank of Pakistan maintained its policy rate at 9.5 percent upto June 24, when it was lowered to 9.0 percent. Since then it has been raised by 100 basis points (9.5 percent on Sept 16 and then to 10 percent on Nov 18). Prior to the agreement with the IMF in September 2013 for financial assistance, the SBP had made successive cuts to the discount rate in a bid to support economic growth. Inflationary pressures have resurged and could be seen in the sharp increase in inflation in the first half of FY2014.

The revision in power tariffs is expected to contribute in curtailing subsidies and thus creating fiscal space for other expenditures. Such measures, however, have their inflationary consequences also. Adjustments in administered prices are directly reflected in higher inflation and raise inflationary expectations, as is evident from the current trends in CPI inflation. The Monetary Policy November 2013 had stated, CPI inflation is likely to remain at an elevated level, between 10.5 to 11.5 percent. The policy rate was thus raised by 50 basis points to 10.0 percent in November.

Pakistan's trade deficit widened in the period January-December 2013 to $20.22 billion compared with a deficit of $19.71 billion in 2012. Exports grew by 2.8 percent to $25.133 billion against $24.446 billion in 2012, while imports rose by 2.7 percent to $45.357 billion compared with $44.157 billion in the Jan-Dec period of 2012.

During the first half of FY14 (July-December) exports of textile group showed a growth of 8.4 percent to $6.94 billion. In this group there was a substantial jump in the export of raw cotton, knitwear, yarn other than cotton, art silk and synthetic textile and other textile material. However, earnings from export of raw cotton, towels, cotton carded, tents canvas and tarpulin declined. Exports of food group increased, with earnings from export of rice both basmati and others, fish & fish preparations, fruits, vegetables, increasing. There was a decline in the export of sugar, wheat and spices.

Imports

Imports during July-December 2013 was marginally smaller by 1.14 percent at $21.671 billion over last year's corresponding figure of $21.922 billion. There was a decline in the import of machinery group, with decreases seen in the import of power generating machinery, office machine, agricultural machinery and implements, telecom. Transport group registered a fall of 11.46 percent to $1.04 billion from $1.17 billion in July-December 2012. Import of petroleum products at $7.53 billion in July-December 2013 was 2.33 percent smaller over the import of $7.71 billion in July-December 2012. Declines were also registered by agricultural and other chemical group, especially fertilizer manufactured, in the metal group by iron & steel, while gold imports rose.

Government borrowings

The government continued to borrow from the banking sector for budgetary support. Continued fiscal pressures had implications for monetary policy. Budget deficit in the last fiscal year at 8.0 percent of GDP had exceeded the target of 4.7 percent. As external sources of funding were constrained, the burden of financing the deficit fell on domestic sources. The *State Bank of Pakistan, Annual Report 2012-13* states, 'the stock of government borrowing from the banking system saw a two-fold increase in just two years (i.e., from Rs2.6 trillion at end-June 2011, to Rs5.2 trillion at end-June 2013). As expected, its share in the stock of broad money supply (M2) also went up from 38.9 percent to 59.2 percent during this period.

Government borrowings from the banking system has remained the key driver of monetary expansion during FY13. The same trend continues in FY14, so far, states SBP. Such large borrowings by the government is a breach of the borrowing limit specified under SBP Act, 1956 (amended in March 2012). Specifically, the Act restricts the federal government's net borrowings from SBP to zero, on a quarterly basis. Also borrowings from the banking sector implies that the commercial banks investment in federal government securities now constitute 37.2 percent of commercial banks assets, against 26.5 percent as of June 2011. This has marginalized the private sector, as commercial banks prefer to invest in government securities which is risk free.

Details on Government Borrowings for Budgetary Support

(Rs bn)

	End June 2013 stocks	Qumulative flows since end-June		FY13 flows
		Lask Week	A year ago	
		27-Dec-13	28-Dec-12	
Budgetary borrowing	5246.4	593.9	583.8	1446.5
Federal government	5562.0	690.3	593.1	1497.5
From SBP	2241.1	708.1	-142.3	536.9
SBP's holdings of MRTBs	2275.2	635.0	-151.6	515.5
From scheduled banks	3320.9	-17.8	735.4	960.6
Provincial governments	-315.6	-96.4	-9.2	-51.0
From SBP	-28.2	-95.6	-0.9	-30.0
From scheduled banks	-287.4	-0.8	-8.4	-21.0

Source: Monetary Policy Informationi Compendium, January 2014, SBP

On cumulative basis, the substantial fiscal borrowings for budgetary support have been entirely from the SBP during FY14 so far, states the Monetary Policy Statement. However, the fiscal authority did manage to retire some of these borrowings during Sept-Dec 2013 through borrowings from scheduled banks. This change in the composition of government borrowing is largely due to an increase in banks' interest in government securities after increase in the policy rate. After the increase in policy rate on September 13, 2013 the government has borrowed Rs448 billion from the scheduled banks and retired Rs191.5 billion to SBP upto 27th December 2013.

The Monetary Policy states, 'notwithstanding this effort, the fiscal authority could not keep its borrowings from the SBP at zero in flow terms during the first quarter of FY14. The government, however, did meet the end September 2013 target on such borrowings agreed with the IMF. As on 27th December 2013 the stock of government borrowing from

SBP (cash basis) stands at Rs2759 billion against the IMF target of Rs2560 billion.

Monetary Targets of IMF Program for FY14

(Stocks in Rs bn)

	End-September		End-December	
	Target	Actual	Target	Actual*
SBP NDA	2877	2595	2901	2900
Government borrowing from SBP (cash basis)	2690	2521	2560	2759

** Provision, upto 27th December 2013*

Source: Monetary Policy Statement, January 2014, SBP

There has been a positive development in the second half of 2013, as grow in the private sector picked up. Private sector has borrowed Rs170 billion during July-November 2013, out of which loans to private sector business were of a sum of Rs160.7 billion. Working capital loans were Rs123 billion and loans for fixed investment Rs37.8 billion.

Private Sector Credit

(Flows; Rs bn)

	FY13 July-Nov	FY-14 Jul-Nov
Total credit to private sector	68.9	170.4
1. Loans to private sector businesses	16.1	160.7
By Type		
Working capital	12.6	123.0
Fixed Investment	3.5	37.8
By Sectors: of which		
Agriculture	9.6	8.4
Manufacturing: of which	-12.0	86.0
Textiles	16.2	78.0
Chemicals	3.8	-8.6
Food products & beverages	-36.4	-20.9
Electricity, gas and water	4.7	33.0
Construction	-1.3	0.3
Commerce and trade	2.4	25.1
Services	1.5	8.0
2. Personal: of which	7.6	17.0
Consumer financing	3.6	14.0
3. Investment in securities	9.0	4.5
4. NBFC	34.1	-17.7
5. Others	2.1	5.8

Source: Monetary Policy Statement, January 2014, SBP

On the fiscal front, the new government in office has made some progress in addressing the challenge of enhancing tax revenues and improving tax administration. During the period July-December 2013, FBR revenue collections were higher than envisaged (mainly reflecting higher sales tax); expenditures incurred have been slow, particularly development spending and targeted cash transfers to the poor; phase out of electricity subsidies is on track; and the government is implementing some initiatives to broaden the income tax net; and strengthen the administration of other taxes.

Fiscal initiatives

Now new SROs granting special exemptions have been issued, compared to some 43 in the previous fiscal year. The government has made a commitment to refrain from issuing any new tax concession or exemption through SROs, and will approve legislation by end December 2015 to permanently prohibit the practice. An initiative to incorporate 300 thousand new taxpayers into the income tax net was launched in July. More than 30 thousand initial notices have been issued. The number of tax audits would be increased from 2.2 percent of declarations to 4.2 percent. Work has also been undertaken to enhance revenue administration for sales tax, excise and customs. The IMF expects that the comprehensive strategy undertaken would lower the overall fiscal deficit to 3.5 percent of GDP by the end of 2016-17.

Besides the measures approved in the 2013 Finance Bill, the government will also increase the Gas Infrastructure Development Cess to raise revenue by 0.4 percent of GDP on an annualized basis.

During the first quarter of FY14 (July-Sept) the government managed to contain the fiscal deficit to Rs287 billion or 1.1 percent of GDP. This compares to an average deficit of 1.4 percent during the first quarter of the last four years. Containment of the deficit is attributable to a cut in expenditures and an increase in total revenues. The revenues increased in the quarter due to one-off non-tax revenues of Rs125 billion. This includes proceeds of Rs68 billion from Universal Service Fund accumulated over many years and mark up income of Rs57 billion received from public sector enterprises and provinces.

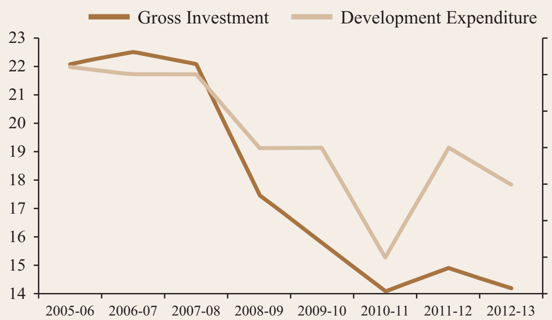
Lower growth taxes

While tax revenues have grown during July-Sept FY14, the growth is lower than what is required to achieve the annual budget target. To achieve the FY14 target of Rs2475 billion, a growth of 27.8 percent is required, while tax collected by FBR grew by 17.2 percent. This was despite measures announced by the government to increase revenue collection, including increase in GST from 16 to 17 percent, removal of exemptions and introduction of some new taxes.

In the first quarter of FY14, current expenditures were largely contained, partly explained by reduction in interest payments. While power subsidies were almost the same as in the corresponding period of last year, expenditures linked to transmission and distribution losses of power sector and loss making public sector enterprises continued to exert pressure on fiscal resources.

It has been the case for the past few years that the greater part of the burden of reducing the deficit has fallen on development expenditures. This adversely impacts investment and growth in the economy. With the government continuing to borrow from the banking system to finance its deficit, it is likely that interest payments could be higher than budgeted for.

Development Expenditure and Investment as % of GDP



Pakistan's rising public debt is a major challenge facing the country's macroeconomic stability. As external flows have been limited, domestic debt has risen significantly and is now more than twice the external debt, and makes up around two-thirds of the entire public debt. By September 2013, total debt and liabilities stood at Rs17355.6 billion, a jump of Rs.2.238 trillion over comparable period of 2012. Of this public debt (government domestic debt+government external debt+debt from IMF+external liabilities) stood at Rs15514.5 billion, a Rs2 trillion increase over a year earlier. Pakistan's public debt at 63.4 percent is higher than the ceiling of 60 percent under the Fiscal Responsibility and Debt Limitation Act of 2005. (This limit was to be reached by end FY13).

Rising public debt

Rising public debt at 63.2 percent of GDP is above the average for emerging (34.3%) and low income countries (42%). This entails significant risks to Pakistan's fiscal and debt situation because of a rise in the debt servicing burden. Greater reliance on financing the fiscal deficit by borrowings has led to a large increase in interest payments, where the government is consistently borrowing to finance its debt servicing. Interest payments on domestic debt had risen to Rs910.3 billion in FY13, an 11.4 percent increase over Rs816.9 billion in FY12. In the first quarter July-September FY14 interest payments showed a jump of Rs124.5 billion to Rs330.9 billion from the earlier quarter (April-June) figure of Rs206.4 billion.

Interest payments

Overseas workers remittances grew during July-December 2013 to $7.79 billion, an increase of 9.4 percent against inflows of $7.12 billion received in the corresponding period of 2012. Over 48 percent of the remittance inflow came from Saudi Arabia and UAE. The inflow of remittances during this period had increased from Saudi Arabia ($2.2 billion compared with $1.96 billion in July-December 2012), Dubai ($796.2 million against $634.2 million), Bahrain ($151.9 million against $142.6 million), Kuwait ($335.8 million against $315.76 million) and Oman ($243.3 million against $193.86 million). Among the EU countries, the major remitting countries were Ireland, Germany, Spain. Substantial remittances were also received from Canada ($88 million) and Australia ($80.3 million).

Remittances grew

Net foreign private investment in Pakistan declined to $433.0 million during July-December FY14, compared with $696.0 million in the comparable period of FY13. Inflows of foreign direct investment have declined from Hong Kong, UK, Italy and the US. There was a major increase in the inflow from Oman, Japan and Switzerland. However, foreign portfolio investment from UK picked up with inflows of $50.4 million, against an outflow of $31.7 million a year earlier. It has also grown for Ireland and Japan from less than $1 million to $12.8 million and $12.3 million respectively.

Foreign Investment in Pakistan
Selected Counrties

($ Mn)

	July-December FY14		July-December FY13	
	FDI Net	Total*	FDI Net	Total*
Austria	28.4	28.4	21.4	21.4
China	-12.6	-12.5	7.9	7.9
France	35.8	35.8	15.2	13.4
Germany	-10.5	-10.2	4.1	4.0
Hong Kong	86.7	80.4	120.7	170.5
Ireland	8.6	21.3	0.5	0.7
Italy	50.5	50.5	121.2	121.2
Japan	12.5	24.9	13.6	13.2
Luxembourg	-	25.6	-	11.1
Norway	-58.4	-58.4	-102.6	-102.6
Oman	35.2	35.2	0.7	0.7
Philippines	0.1	0.1	93.1	76.6
Saudi Arabia	-24.8	-24.8	-6.0	-5.9
Sweden	2.7	-48.3	-15.7	-12.1
Switzerland	122.8	116.5	70.6	78.2
UAE	2.9	6.0	-1.8	3.5
UK	56.7	107.1	97.9	66.2
USA	103.3	79.2	118.8	220.5

** Include foreign portfolio investment*
FDI: Foreign Direct Investment
Source: State Bank of Pakistan

Balance of payments higher

Pakistan's balance of payments remained under pressure in 2013, largely on account of large repayments to the IMF, sluggish foreign investments and net outflows to other international financial institutions. Total liquid reserves fell to all time lows on account of large repayments to IMF. These have fallen from $15.3 billion in FY12 to $11.0 billion in FY13. By end December 2013 these reserves had further declined to $8.3 billion, where reserves with SBP were $3.5 billion and $4.8 billion were reserves with banks. The Pak Rupee continued to depreciate against the US dollar.

The pressure on exchange rate continued till early December 2013, when the government and the State Bank of Pakistan stepped up efforts to quell speculative sentiments in the market, leading to strengthening of the Pak rupee against the US dollar. Upto January 10, FY14, Pak rupee has depreciated by 5.5 percent (Rs105.49 against Rs99.66 in June '13) against the US dollar. During the year it had touched a high of Rs110.50.

During July-November FY14, the current account deficit was $1.9 billion, considerably higher over last year's corresponding figure of $0.7 billion, even after adjusting for Coalition Support Funds. Higher current account deficit was due to widening of the trade deficit as imports grew by 3.0, and exports showed a marginal decline of 0.9 percent.

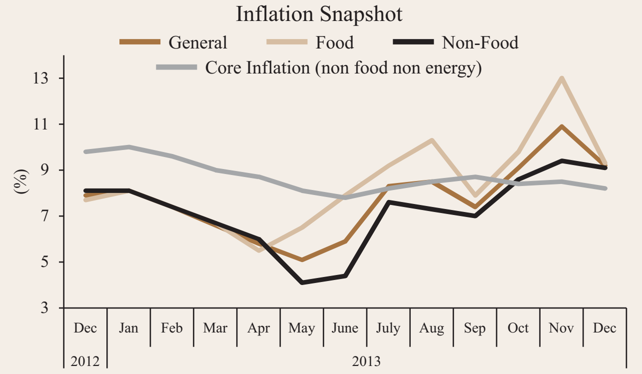
Balance of Payment Summary

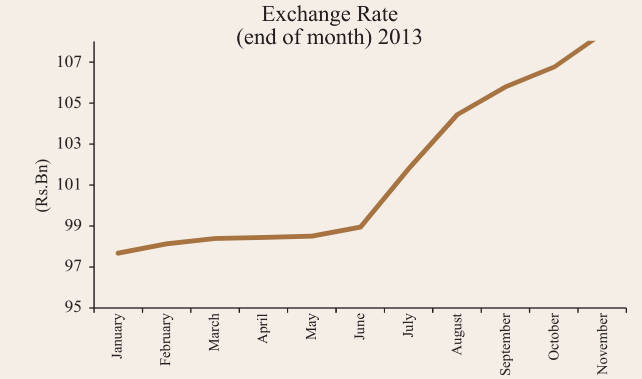
($ Bn)

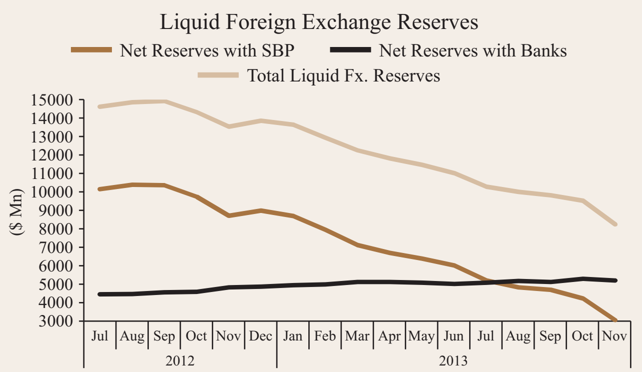
		Jul-Nov	
	FY13	FY13	FY14
I. Current Account Balance	-2.5	-0.7	-1.9
Trade Balance	-15.4	-6.7	-7.3
Exports	24.8	10.3	10.2
Imports	40.2	17	17.5
Services Balance	-1.5	-0.5	-1.1
of which: CSF	1.8	1.1	0.3
Income Balance	-3.7	-1.5	-1.7
Current Transfers Balance	18.1	8.0	8.2
of which: Remittances	13.9	6.0	6.4
II. Capital and Financial Account	0.6	-0.3	0.8
Capital Account	0.3	0.1	0.1
Financial Account: *of which*	0.3	-0.3	0.7
Direct Investment (net)	1.3	0.3	0.3
Portfolio Investment (net)	0.0	0.1	0.0
Other Investment (net)	-0.9	-0.7	0.4
Official Disbursements	2.5	0.9	1.1
Amortization	2.3	0.9	1.3
III. Errors and Omissions	-0.1	0.0	-1.0
Overall Balance (I+II+III)	-2.0	-1.0	-2.1

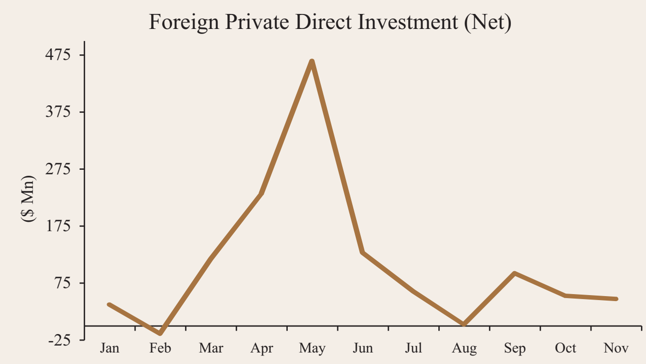
Source: State Bank of Pakistan

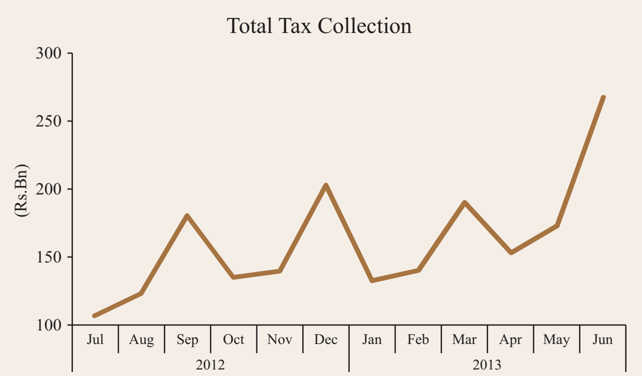
Pakistan Economy – The Year 2013

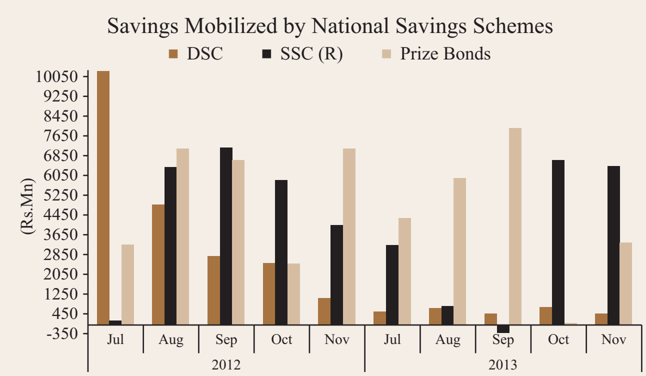


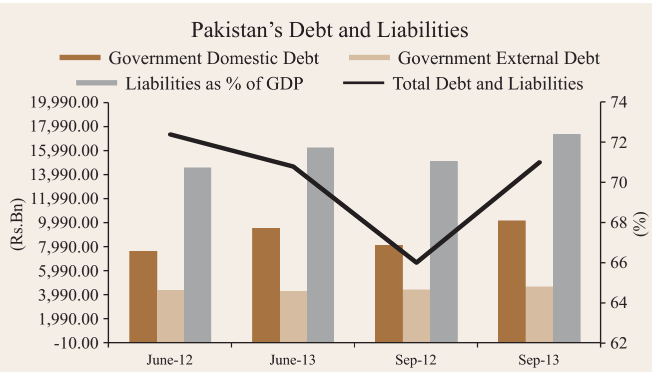


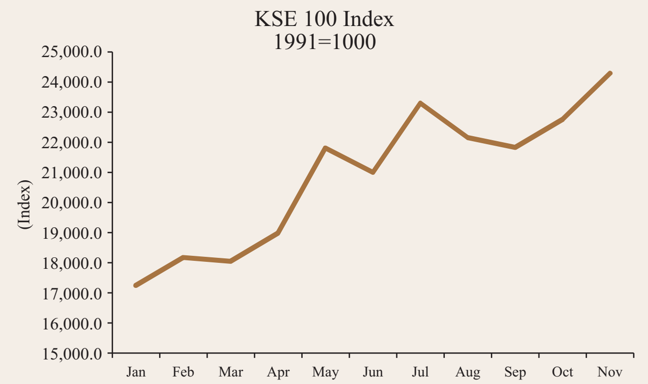


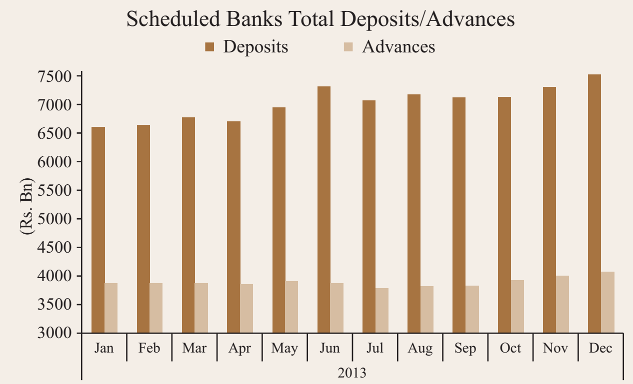


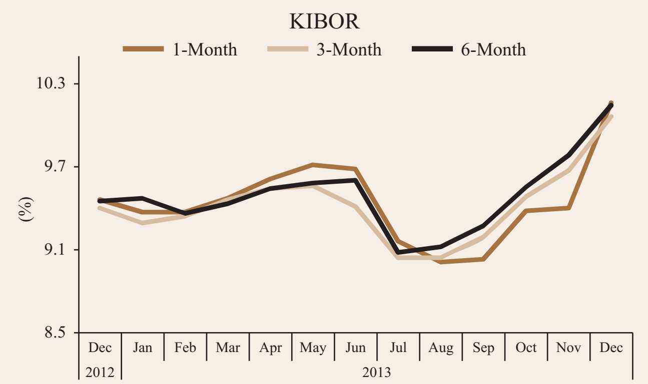


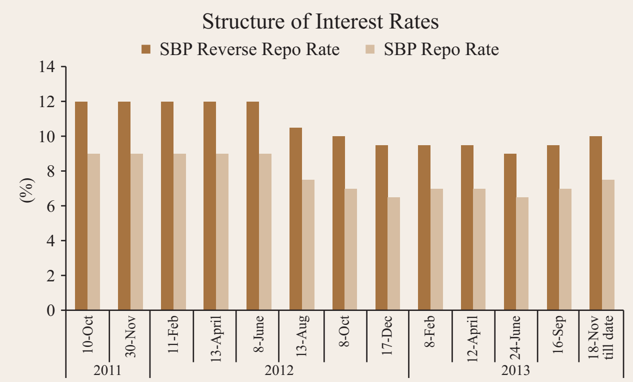


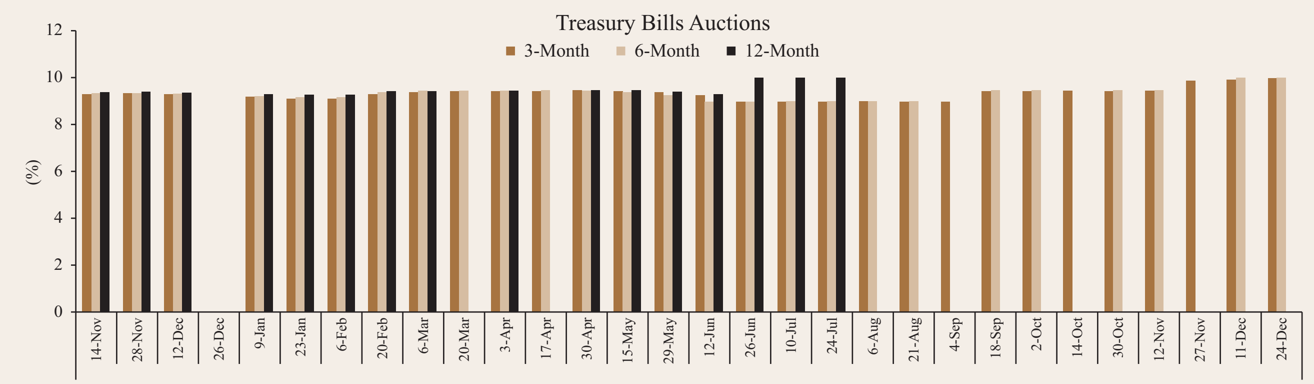


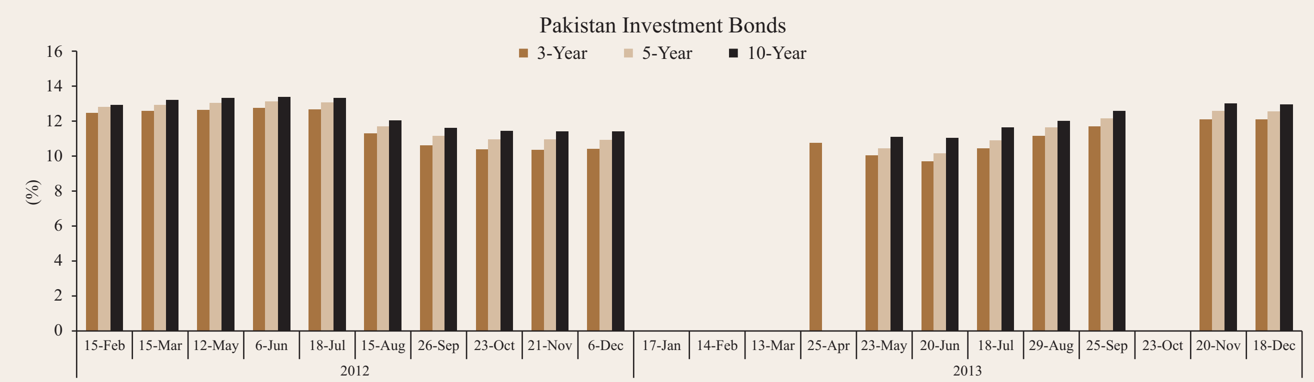

KSE 100 Index
1991=1000
(Index)
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov


Scheduled Banks Total Deposits/Advances
Deposits
Advances
(Rs. Bn)
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
2013


KIBOR
1-Month
3-Month
6-Month
(%)
Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
2012
2013


Structure of Interest Rates
SBP Reverse Repo Rate
SBP Repo Rate
(%)
10-Oct 30-Nov 11-Feb 13-April 8-June 13-Aug 8-Oct 17-Dec 8-Feb 12-April 24-June 16-Sep 18-Nov till date
2011
2012
2013


Treasury Bills Auctions
3-Month
6-Month
12-Month
(%)
14-Nov 28-Nov 12-Dec 26-Dec 9-Jan 23-Jan 6-Feb 20-Feb 6-Mar 20-Mar 3-Apr 17-Apr 30-Apr 15-May 29-May 12-Jun 26-Jun 10-Jul 24-Jul 6-Aug 21-Aug 4-Sep 18-Sep 2-Oct 14-Oct 30-Oct 12-Nov 27-Nov 11-Dec 24-Dec


Pakistan Investment Bonds
3-Year
5-Year
10-Year
(%)
15-Feb 15-Mar 12-May 6-Jun 18-Jul 15-Aug 26-Sep 23-Oct 21-Nov 6-Dec 17-Jan 14-Feb 13-Mar 25-Apr 23-May 20-Jun 18-Jul 29-Aug 25-Sep 23-Oct 20-Nov 18-Dec
2012
2013

Financial Position of Selected Banks
Dec 2012 - Sept 2013

(Rs. Bn)

	National Bank of Pakistan	Habib Bank Limited	MCB Bank	United Bank Limited	Allied Bank	Bank Al-Falah	Standard Chartered Bank	Bank of Punjab	Bank of Khyber
Assets									
Dec-12	1316.16	1610.30	765.89	960.21	632.30	536.46	388.87	332.11	82.18
Mar-13	1223.60	1616.70	759.11	936.50	629.56	544.72	415.27	311.58	76.62
Jun-13	1388.56	1632.08	775.15	967.27	683.57	556.49	405.15	329.39	85.56
Sep-13	1273.19	1431.50	746.52	941.82	681.03	575.92	418.17	317.56	85.66
Equity									
Dec-12	119.43	119.02	88.15	82.77	43.27	25.68*	50.33*	10.73*	10.78
Mar-13	100.37	118.13	92.02	78.82	45.56*	24.01*	46.86*	5.93*	11.09*
Jun-13	102.77	123.79	94.66	81.11	47.00*	24.96*	50.31*	5.25*	11.33
Sep-13	103.69	116.95	96.62	85.55	48.56*	26.87*	49.11*	11.48*	11.58
Deposits									
Dec-12	1038.09	1214.96	545.06	755.26	514.70	457.12	266.67	266.05	60.04
Mar-13	925.71	1249.10	565.79	704.49	529.88	450.56	285.91	269.13	56.97
Jun-13	1145.81	1258.81	610.34	754.64	570.22	479.62	289.84	295.72	68.79
Sep-13	1020.94	1184.27	584.23	772.71	570.85	493.00	305.56	275.32	68.12
Advances (Net)									
Dec-12	661.34	499.81	239.58	385.83	271.11	233.93	135.18	149.60	26.69
Mar-13	651.79	489.62	240.38	352.05	269.72	232.88	132.92	138.02	26.28
Jun-13	644.87	481.45	223.09	363.11	261.63	234.66	133.59	139.33	27.10
Sep-13	639.63	451.91	224.24	369.39	243.72	236.29	137.29	143.29	33.07
Investment (Net)									
Dec-12	342.96	797.09	402.06	381.24	267.68	189.48	131.97	129.52	45.67
Mar-13	332.75	870.47	402.73	411.51	258.49	200.52	155.24	115.77	39.47
Jun-13	396.74	850.06	410.22	424.52	288.40	205.40	149.98	105.27	40.51
Sep-13	351.95	729.72	405.07	403.60	323.10	215.12	141.81	119.73	37.49
Interest Income									
Dec-12	101.12	116.77	68.35	75.38	49.51	46.07	31.13	24.66	7.20
Mar-13	23.93	31.30	16.71	17.00	12.73	10.57	7.54	5.77	1.79
Jun-13	25.64	30.25	16.25	18.35	13.42	10.86	7.65	5.75	1.68
Sep-13	23.27	28.91	15.49	18.07	13.94	10.85	7.52	5.77	1.84
Interest Expenses									
Dec-12	56.55	59.01	27.50	35.73	31.18	27.50	11.65	22.52	4.61
Mar-13	15.10	18.11	6.99	8.21	7.72	6.74	2.86	5.29	1.04
Jun-13	14.44	17.20	7.17	9.30	8.04	6.82	2.99	5.12	0.97
Sep-13	14.96	15.16	5.81	8.55	7.97	6.19	2.89	4.74	1.10
Net Interest Income									
Dec-12	44.57	57.76	40.85	39.64	18.33	18.57	19.48	2.14	2.59
Mar-13	8.83	13.18	9.72	8.78	5.00	3.82	4.68	0.47	0.75
Jun-13	11.19	13.05	9.08	9.05	5.38	4.03	4.66	0.62	0.71
Sep-13	8.31	13.75	9.68	9.52	5.97	4.65	4.63	1.03	0.73
Non Interest Income									
Dec-12	24.80	15.96	9.15	17.19	14.24	7.28	7.31	3.19	0.97
Mar-13	5.58	3.86	2.35	3.85	2.51	1.86	1.59	0.81	0.16
Jun-13	7.40	4.16	3.49	4.77	2.38	2.03	1.79	1.24	0.18
Sep-13	5.20	4.09	2.71	4.62	2.35	2.06	1.06	0.85	0.14
Admn Expenses									
Dec-12	36.73	31.06	17.06	25.45	14.68	15.20	13.85	4.43	1.66
Mar-13	8.79	7.78	4.03	6.18	3.48	4.00	3.56	1.19	0.46
Jun-13	8.37	9.23	3.90	6.51	3.70	4.08	2.52	1.35	0.46
Sep-13	8.88	9.07	4.69	6.49	4.04	4.43	1.76	1.31	0.49
Profit/(Loss) B.T									
Dec-12	24.06	34.89	32.05	28.41	16.14	6.78	9.10	1.40	1.57
Mar-13	4.31	7.90	8.67	5.85	3.96	1.52	2.16	0.51	0.47
Jun-13	3.68	7.96	9.02	6.41	3.91	1.22	5.02	1.03	0.35
Sep-13	0.06	9.07	8.04	7.09	3.84	2.03	4.15	0.50	0.32
Profit/(Loss)A.T									
Dec-12	16.88	22.35	20.94	19.28	11.88	4.55	5.91	1.63	1.08
Mar-13	3.03	5.09	5.76	3.95	2.82	1.01	1.39	0.33	0.31
Jun-13	2.98	5.42	6.11	4.31	2.70	0.93	3.28	0.67	0.24
Sep-13	0.23	6.06	5.29	4.66	2.81	1.37	2.67	0.32	0.25

(Rs. Bn)

	Askari Bank Limited	Faisal Bank	Bank Al-Habib	Soneri Bank	Metropoliton Bank	NIB Bank	Meezan Bank	Citibank	Barclays Bank
Assets									
Dec-12	353.06	313.06	453.10	158.62	300.85	190.86	274.44	85.17	47.78
Mar-13	363.62	324.85	445.96	166.71	289.04	179.73	283.42	56.15	50.28
Jun-13	340.30	331.36	474.76	162.40	341.77	161.90	299.66	64.91	53.61
Sep-13	355.90	318.60	444.27	162.37	283.57	166.15	314.60	65.78	50.59
Equity									
Dec-12	17.68	18.73	21.17	11.40	26.07	14.40	15.48	9.02	6.82
Mar-13	17.84	19.05	19.32	11.69	24.73	14.14	16.48	9.49	6.93
Jun-13	13.49	19.50	20.50	11.95	25.68	14.48	17.43	8.61	6.98
Sep-13	16.89	20.04	21.83	12.34	26.51	14.65	16.87	8.94	7.06
Deposits									
Dec-12	306.94	240.71	340.39	120.83	217.80	91.04	230.43	64.29	29.96
Mar-13	295.98	238.93	346.29	129.45	205.15	84.64	235.02	35.63	33.37
Jun-13	293.32	242.80	364.77	134.27	218.82	89.46	260.35	37.75	33.71
Sep-13	303.68	246.70	369.66	133.04	224.10	97.74	268.09	44.10	37.72
Advances (Net)									
Dec-12	143.72	172.30	147.87	76.83	106.91	71.59	88.68	18.26	17.74
Mar-13	148.12	172.49	142.10	78.38	115.45	70.73	84.70	12.00	19.68
Jun-13	140.32	174.89	150.83	82.95	106.96	72.68	86.30	10.90	17.40
Sep-13	136.84	182.50	154.83	81.04	111.90	75.18	90.92	10.68	16.86
Investment (Net)									
Dec-12	145.38	88.00	249.75	59.52	160.85	83.80	152.46	31.34	19.40
Mar-13	156.84	86.10	255.67	64.32	138.21	70.60	170.68	19.35	22.39
Jun-13	145.81	104.45	269.59	56.86	180.23	55.86	172.50	34.27	25.07
Sep-13	160.95	78.37	235.39	56.72	130.74	41.29	177.54	32.02	25.85
Interest Income									
Dec-12	32.40	28.80	41.47	14.07	27.14	13.99	21.84	8.26	4.49
Mar-13	7.29	6.58	9.68	3.36	5.93	3.43	5.57	1.16	0.89
Jun-13	6.33	6.80	9.52	3.42	5.79	3.41	5.81	1.26	0.95
Sep-13	7.00	7.08	8.92	3.27	5.71	2.96	5.82	1.12	0.98
Interest Expenses									
Dec-12	22.97	19.84	26.10	9.22	18.83	11.13	11.38	3.03	2.73
Mar-13	5.10	4.29	6.16	2.18	4.00	2.54	2.90	0.42	0.54
Jun-13	4.67	4.62	6.04	2.18	3.72	2.64	3.12	0.61	0.59
Sep-13	4.52	3.92	5.34	2.12	3.43	2.16	3.13	0.53	0.60
Net Interest Income									
Dec-12	9.43	8.96	15.36	4.84	8.31	2.86	10.45	5.23	1.76
Mar-13	2.18	2.29	3.53	1.19	1.93	0.89	2.67	0.74	0.35
Jun-13	1.66	2.19	3.48	1.24	2.07	0.77	2.69	0.65	0.36
Sep-13	2.48	3.16	3.58	1.15	2.28	0.80	2.68	0.58	0.38
Non Interest Income									
Dec-12	4.12	5.28	2.97	1.86	5.46	2.40	2.40	2.46	0.40
Mar-13	0.82	1.05	0.80	0.51	1.43	0.53	0.75	0.62	0.12
Jun-13	0.88	1.19	1.00	0.55	1.52	0.77	0.81	0.65	0.02
Sep-13	1.07	1.36	1.21	0.73	1.03	1.05	0.87	0.41	0.16
Admn Expenses									
Dec-12	9.04	10.81	8.80	4.25	5.75	5.33	7.19	4.48	1.97
Mar-13	2.20	2.53	2.36	1.03	1.56	1.29	1.96	0.86	0.32
Jun-13	2.46	2.61	2.43	1.20	1.58	1.24	2.05	0.62	0.44
Sep-13	2.53	2.85	2.69	1.27	1.60	1.37	2.16	0.54	0.43
Profit/(Loss) B.T									
Dec-12	1.73	1.84	8.87	1.72	5.04	0.44	5.23	2.32	-1.04
Mar-13	0.42	0.32	1.76	0.46	1.11	0.55	1.49	0.87	0.17
Jun-13	-6.75	0.61	1.94	0.37	1.57	0.45	1.42	0.84	0.08
Sep-13	0.17	0.80	1.80	0.53	1.38	0.34	1.41	0.50	0.12
Profit/(Loss)A.T									
Dec-12	1.26	1.42	5.45	1.10	3.40	0.26	3.51	1.42	-1.15
Mar-13	0.28	0.26	1.16	0.30	0.76	0.51	0.98	0.51	0.11
Jun-13	-4.38	0.49	1.28	0.25	1.02	0.32	0.95	0.54	0.05
Sep-13	0.16	0.55	1.26	0.37	0.83	0.17	0.94	0.33	0.08

Market Analysis

Market Review – November 2013

Winning streak continues despite economic woes

The market, in the month of November continued its winning streak by closing at an all time high level. Surprisingly, this is happening despite economic issues worsening as SBP reserves hit more than decade low. Smooth transition on Military & Judicial landscape do remain the bright spot propelling the market up, with Foreigners again remaining the biggest buyer. On a MoM basis, the benchmark KSE-100 index augmented by 6.7 percent to close at 24.3k level. A whooping return of more than 30 percent was witnessed in Food Producers sector as UPFL, RPMPL & Nestle have ascended by 30-93 percent due to rumors of buy back on similar lines as Unilever. The month of November saw volumes improve by 27 percent to average 147mn shares/day, while value traded depicted a higher increase of 58 percent MoM.

As foreign flows continue to pour in the emerging economies over continued QE program, this trend should continue at least till Feb-2014, with only hitch for the local market possible from worsening PKR outlook. While the market continues its uptick, the macro numbers are going downhill with rupee devaluation continuing as SBP reserves will go below the USD3bn mark. Things continue to look challenging with CPI expected to again enter double digits after remaining in single digit for seventeen months. We expect a tight monetary policy stance at least till the next couple of monetary policy meetings, which would further stretch the current valuations.

KSE-100 index increased by 6.7 percent in November with smaller sectors showing a much larger gain compared to index heavy weight Oil & gas sector. The month of November saw volumes improve to average 147mn shares/day (27% MoM rise), while value traded depicted a higher increase of 58 percent. Surprisingly, this is happening despite economic issues worsening as SBP reserves hit more than decade low. Smooth transition on Military & Judicial landscape do remain the bright spot propelling the market up, with Foreigners again remaining the biggest buyer. A whooping return of more than 30 percent was witnessed in Food producers sector as UPFL, RPMPL & Nestle have ascended by 30-93 percent due to rumors of buy back on similar lines as Unilever, while some are of the view that portfolio allocation within the Food producers is shifting due to Efoods woes. Among the key sectors, Auto sector also saw a hefty gain with all the companies showing an almost double digit rise as Auto assemblers again go gradual price rise as PKR deteriorates. PTC's robust performance led the telecom sector while GSP status theme continues to drive the textile sector.

Future outlook

Foreigners again remained biggest buyers in November, a trend which is visible since mid-October as US Govt. debt deal got extended and concerns over Fed stimulus program were eased. However, the last week of November did witness a net outflow from the foreigners side, but still the market closed positive, on a WoW basis. Individuals and Mutual Funds were again the biggest sellers during the month.

While the market continues its uptick, the macro numbers are going downhill with rupee devaluation continuing as SBP reserves will go below the USD3bn mark. Things continue to look challenging with CPI expected to again enter double digits after remaining in single digit for seventeen months. We expect a tight monetary policy stance at least till the next couple of monetary policy meetings, which would further stretch the current valuations. As foreign flows continue to pour in the emerging economies over continued QE program, this trend should continue at least till Feb-2014, with only hitch for the local market possible from worsening PKR outlook.

2013 Review

Winning streak continues despite economic woes as politics took centre stage

After witnessing robust activity in 2012, the market continued its winning streak to again give another whopping 50 percent YoY return in 2013. Smooth political (the biggest catalyst of 2013), Military and Judicial transition is the key reason for the index making a new high, despite issues on the economic front remaining to be tackled with. Taking a look at monthly index change shows that the index closed positive eight times during 2013, with the highest monthly index change of +2.8k witnessed in the election month of May. After two consecutive month-on-month decline in August and September, the market rebounded sharply in 4Q2013 to clock in the highest QoQ rise of 3.5k points for 2014.

2013 saw volumes improve by 29 percent YoY to average 223mn shares/day, while value traded depicted a higher increase of 64 percent YoY. Sector wise comparison shows that Cement and Textile sector again remained the biggest outperformer (similar to 2012) as per market cap change. Chemical sector remained the biggest underperformer in 2013 due to inability to raise local prices due to falling international Urea and DAP prices and gas price uncertainty. Participants wise activity also depicts a similar scene as last year with Foreigners remaining the biggest and only worthwhile buyers, while Mutual Funds & Companies again remained the biggest sellers.

Market remained unfazed by economic woes as it banks on PML-N to deliver

The key determining factor for market's re-rating in 2013, in our view, is the majority gained by PML-N in Pakistan's first ever smooth democratic transition. Investors all over the world dislike uncertainty and such a smooth transition was not being anticipated pre-election. Another decisive factor which has boosted the KSE, especially in May, was PML-N being able to gain a majority in National Assembly (better than our expectation) meaning it now has a clear cut mandate to follow its economic manifesto of restructuring and privatization. The current government has a clear cut mandate of five years and with its majority is now able to better negotiate and deliver on terms set with USA, IMF & to revive the economic growth.

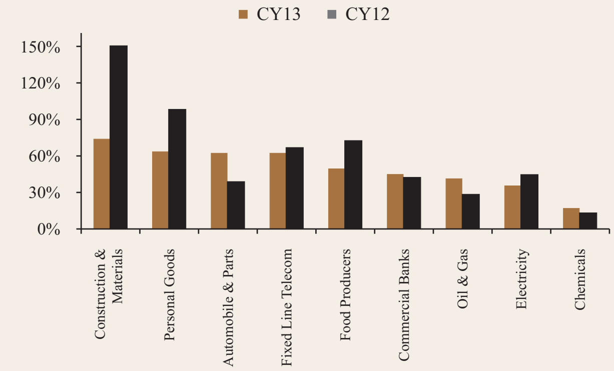
While the market continued its uptick, the macro numbers went downhill in 2013 with rupee devaluation continuing as SBP reserves touched twelve year low of USD3bn mark. Entry in a new IMF program along with rising bilateral assistance has been the saving grace for the balance of payment position. On the inflation front, monthly CPI after touching a multi year low of 5.1 percent in May started its uptick due to reversal of base effect, food price hike and electricity tariff increase. Following the hike in CPI numbers and other economic issues, the central bank reversed its monetary policy stance in 2H2013, and from September onwards increased it by 100bps to 10 percent.

CY13 similar to the previous year in more than one respect

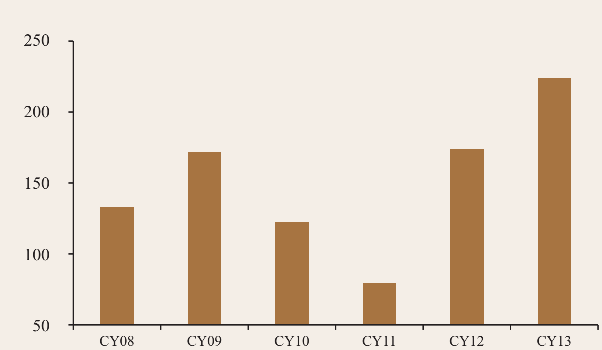
Surprisingly, 2013 turned out to be similar to 2012 in more than one respect. Firstly, the overall return during both the calendar years has remained 50 percent. Secondly, the top two outperforming sectors in 2013 according to market cap change are also the same as previous year i:e Cement (Coal price decline and interest rate cut) and Textiles (GSP plus status, Yarn exports to China & DR cut). The biggest underperformer is again the Chemical sector as all the major players in the sector mostly underperformed, barring Engro. The third feature which shows the similarity between 2013 & 2012 is the participant wise activity with Foreigners again remaining the biggest net buyers (pumping liquidity in the market) which helped KSE-100 index in sustaining its spectacular performance in 2013 as well. Similarity was also witnessed on the selling side with Mutual funds and Companies again clocking in as the biggest net sellers.

Taking a look at monthly activity of Foreigners shows that they remained buyers throughout the year with biggest inflows registered during May & June (Unilever buyback). A hefty outflow from the foreigners side was witnessed in July, but this was also a one-off, due to Kapco deal. While Oil & Gas and Banking sector remain the biggest sectors of the market, continued outperformance of Cement and Textile sector has increased their weight from 2.3 percent & 3.6 percent to 5.0 percent and 5.8 percent, respectively from 2011 to 2013.

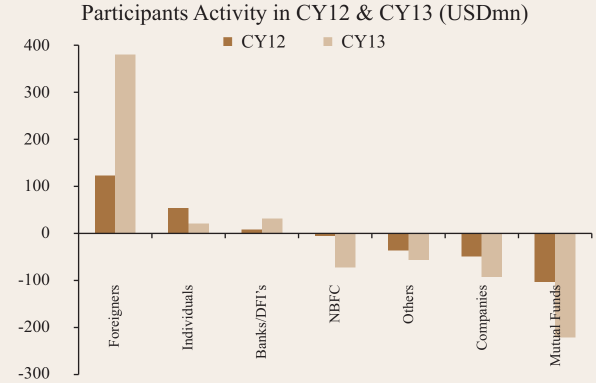
Key Sector Return in CY12 & CY13



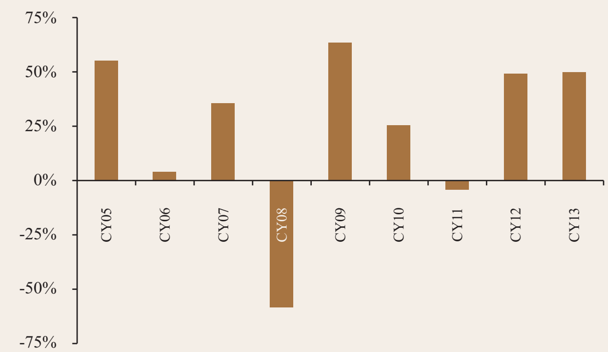
KSE All Share Turnover (Mn)



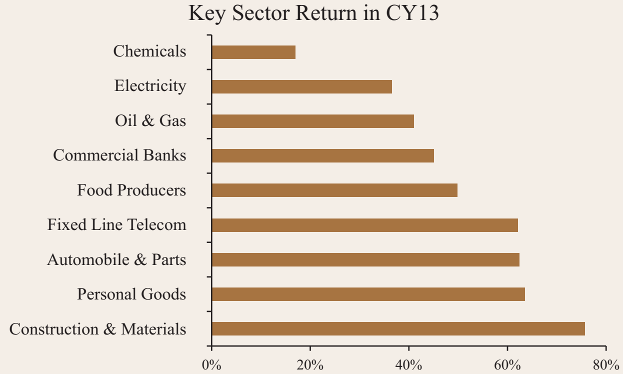
Participants Activity in CY12 & CY13 (USDmn)



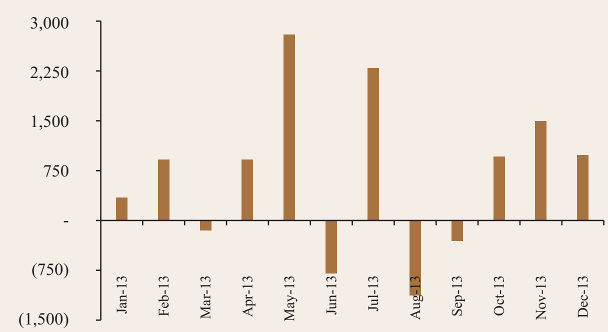
KSE-100 Index Yearly Return



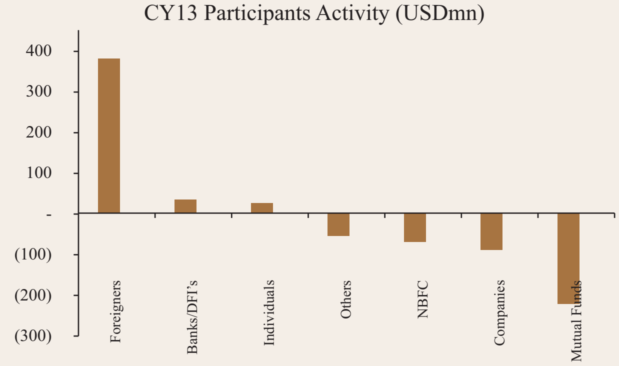
Key Sector Return in CY13



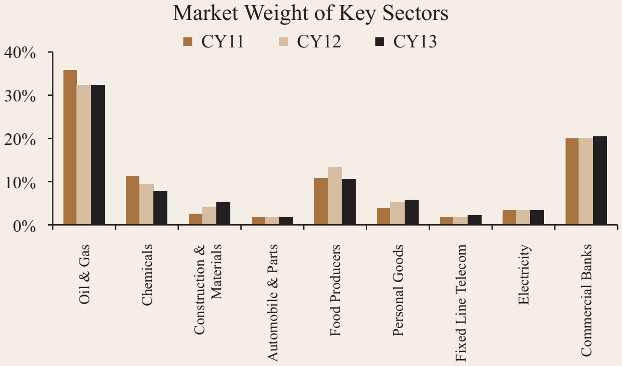
KSE-100 Index CY13 Monthly Change



CY13 Participants Activity (USDmn)



Market Weight of Key Sectors



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

Country	Population 2011 (Mn)	GDP Size 2011 ($ Bn)	Per Capita GDP 2011 ($)	Exchange Rate Local Currency to US$ (2011)	Total Reserves 2012 ($ Bn)	Total External Debt 2011 ($ Bn)	Current Account Balance 2012 ($ Bn)	Good and Services 2012 ($ Bn)		Market Capitalization (% of GDP) 2012	Interest Rate 2012 (%)		Domestic Credit to Private Sector (% of GDP) 2012
								Exports	Imports		Deposits	Lending	
Afghanistan	32.4	18.9	586	46.747	7.1	2.6	-2.7	3.6	6.7	NA	NA	15.0	4.9
Azerbaijan	9.3	63.4	6813	0.7897	11.2	8.4	15.0	36.7	17.4	NA	10.2	18.3	20.1
Bangladesh	150.5	106.2	706	74.1524	12.7	27.0	2.6	27.6	37.7	15.1	11.7	13.0	49.6
Bahrain	1.3	25.8	19512	0.376	5.4	NA	3.2	22.9	13.9	59.1	1.1	6.0	70.0
Canada*	34.5	1736.9	50565	0.9895	68.5	NA	-62.3	547.1	583.3	110.7	0.5	3.0	NA
China*	1324.4	7203.8	5439	6.4615	3387.5	685.4	193.1	2167.2	1935.4	44.2	3.0	6.0	131.6
France	65.1	2775.5	42642	0.7194	184.5	NA	-57.2	768.6	817.6	69.8	2.3	NA	116.0
Germany	82.2	3604.1	43865	0.7194	248.8	NA	238.4	1728.7	1525.6	43.7	NA	NA	101.9
Hong Kong	7.1	243.3	34161	7.784	317.3	NA	3.5	561.5	560.8	420.9	0.0	5.0	198.1
Japan	126.5	5870.4	46407	79.807	1268.1	NA	60.9	910.8	1014.8	61.8	0.5	1.4	176.7
Kazakhstan**	16.2	186.4	11503	146.6208	28.3	124.4	7.7	97.0	60.1	11.7	NA	NA	37.2
Republic of Korea	48.4	1116.2	23067	1108.2921	327.7	NA	43.3	663.6	622.3	104.5	3.7	5.4	148.0
Kyrgyzstan	5.4	5.9	1098	46.1439	2.1	5.5	-1.4	3.1	6.5	2.5	5.3	12.8	NA
Kingdom of Saudi Arabia	28.1	597.1	21262	3.75	673.7	NA	164.8	399.4	215.2	52.5	NA	NA	37.6
Pakistan	176.7	208.9	1182	86.3394	13.7	60.2	-2.1	31.2	48.3	18.9	8.0	13.5	16.4
Tajikistan**	7.0	6.5	935	4.6103	0.63	3.3	-0.8	1.2	4.8	NA	7.7	25.2	13.0
Turkmenistan	5.1	25.7	5042	2.85	NA	0.4	NA	NA	NA	NA	NA	NA	NA
USA	313.1	14991.3	47882	1.00	574.3	NA	-440.4	2212.5	2747.1	119.0	NA	3.3	192.4
Uzbekistan*	27.8	45.5	1641	1706.611	NA	8.4	NA	NA	NA	NA	NA	NA	NA

* *Representative Offices* ** *Subsidiary* NA *Not Available*

Source: Statistics Division, United Nations and World Development Indicators 2013

Book/Report Reviews

Pakistan Education Atlas 2012
Ministry of Education & Training
United Nations World Food Programme

The Pakistan Education Atlas 2012 is the second of its series, the first was launched in 2010. This project is a result of collaboration between the UN World Food Programme and the National Education Management Information Systems at the Academy of Educational Planning and Management, Ministry of Education and Training, Government of Pakistan. This issue of the Atlas has incorporated certain indicators at the tehsil level, whereas the earlier issue had data for the education indicators upto the district level.

The Atlas gives educational statistics for all districts of the country both for rural and urban areas and for primary schools and middle and secondary schools.

The Pakistan Education Atlas 2012 has extensive data/maps on a wide range of subject related issues, covering gender parity index of enrolment, survival rate to grade five, pupil teacher ratio, pupil classroom ratio, teacher school ratio, classroom school ratio, percentage of female teachers, percentage of schools with drinking water, percentage of schools with electricity, percentage of schools with latrines and percentage of schools without building.

A low number of pupils per teacher suggest that students will have a higher chance of contact with the teachers. The pupil-teacher ratio in primary schools in urban areas shows that in the district of Bahawalnagar the ratio is 26, while in Khyber-Pakhtunkhwa it is 24 in D.I. Khan, 27 in Lakki Marwat, a low of 16 in Bar Khan (Balochistan) and 15 in Matiari, Sindh. It is as high as 67 in Awaran, 45 in Kashmore, 54 in Upper Dir, 46 in Malakand, Lower Dir and Swabi.

Chapter 1 gives gender parity index (GPI) of enrolment which reflects girl's access to education compared to that of boys. A GPI of less than 1 indicates that there are fewer girls than boys in the formal education system, while a ratio of more than 1 means that there are proportionately more girls enrolled and 10 reflects equals enrolment. Looking at district level data shows that in Hunza Nagar the ratio is 1.5, in Gilgit, Ghanche, Bagh, Muzaffarabad, the ratio is 1.1 each, while in Khuzdar it is 1.21 and in Sibi 1.26. In the districts of Sindh, the ratio ranges between 0.4-0.9, so is the case with Khyber Paktunkhwa, except for Batagram where it is 1.0. Similar ratios have been estimated for other educational indicators.

Management in the Light of Quran
Edition 2014 Series I
Prof Dr. Khawaja Amjad Saeed

This book has been written with the objective of conveying the divine messages contained in the Holy Quran among the younger generation. The specific tops covered in the book are; inter-faith dialogue, divine guidance for leadership, divine guidance for women empowerment, quran and elimination of interest, industrial relations in an Islamic Society, and finally meaning and concepts of holy quran and some Islamic finance terminologies.

The first chapter is a comparative study of Islam with other religions. It reviews the managerial thoughts on selected issues in various faiths. Chapter 2 deals with the theme of leadership in the light of holy Quran and western beliefs. Chapter 3 deals with empowerment of women. Relevant verses have been identified which could be linked to managerial roles of women. Entrepreneurish among women has been encouraged. Chapter 4 is about elimination of interest. Verses have been extracted from the Quran which conveys Allah's message of eliminating interest. Chapter 5 is on Industrial Relations in Islam. The primary purpose of the chapter is to evolve a broad framework of Industrial Relations which can fit well in an Islamic society as well as in the western world for solving the problems faced in industries the world over.

Pakistan — Selected Economic Indicators

	Unit	December 2013	November 2013	December 2012
Consumer Price Index				
(year on year change)	%	9.2	10.9	7.9
Food Inflation	%	9.3	13.0	7.7
Non Food	%	9.1	9.4	8.1
Core Inflation*	%	8.2	8.5	9.8
Wheat	Rs/10 kg	397.43	382.88	305.80
Wheat flour bag	Rs/10 kg	424.59	420.86	343.59
Rice basmati, broken Average Quality	Rs/kg	74.46	75.06	68.37
Mutton	Rs/kg	556.48	553.83	512.42
Vegetable ghee (Tin)	Rs /2.5 kg	510.76	510.68	518.53
Petrol	Rs/Ltr	114.09	114.09	103.51
Kerosene Oil	Rs/Ltr	126.72	126.75	117.60
Broad Money M2	Rs bn	-	9090.9	8254.2
Total Deposits of Scheduled Banks	Rs bn	7529.4	7309.4	6682.6
Total Advances of Scheduled Banks	Rs bn	4071.1	4008.0	3856.8
SBP Reverse Repo Rate	%	10.0	10.0	9.5
SBP Repo Rate	%	7.5	7.5	6.5
Export Refinance Rate	%	8.4	8.4	8.5
KIBOR end month (1 month)	%	10.16	9.40	9.46
Total Savings mobilized by National Saving Schemes	Rs mn	-	17722.3	25071.8
FBR Tax Collection	Rs bn	-	147.2[**]	203.1
Exchange Rate (end month)	Rs/US $		108.3849	97.1119
Gold & Foreign Exchange Reserves	Mn$	-	7989	15408
Government Domestic Debt	Rs bn	-	10,154.9[a]	8120.0[a]
as % of GDP		-	41.5	35.4
Government External Debt	Rs bn	-	4672.2[a]	4444.9[a]
external debt & liabilities as % of GDP		-	26.2[a]	27.3[a]
Total Debt & Liabilities	Rs bn	-	17,355.6[a]	15,116.8[a]
as % of GDP		-	71.0[a]	66.0[a]
KSE 100 Index month end	(1991-1000)	-	24,302.19	16,905.33
			July-Dec FY 2014	July-Dec FY 2013
Exports	$ bn		12.64	12.02
Imports	$ bn		21.67	21.92
Balance of Trade	$ bn		(-)9.03	(-)9.9
Workers' Remittances	$ bn		7.79	7.12
Net Inflow of foreign direct investment	$ mn		416.1	568.8

* *non food non energy*
** *as of August 13*
[a] *as of September*

Source: State Bank of Pakistan

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