ECONOMIC BULLETIN
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Editor's Corner

Dear Readers,

The upcoming federal budget 2012-13 is only a few weeks away. The government has the uphill task of working towards greater self reliance by enhancing its tax revenues, primarily through widening of tax base, pursuing pro-growth policies, containing its large borrowings from the banking system which have reduced the flow of loanable funds for the private sector, reducing energy shortages which continue to plague production activities. According to estimates the total cost to the economy of power load shedding in the industrial sector is around 2.5 percent of GDP. Consequently exports have suffered and loss of exports is estimated at about $1.3 billion (2009). This has led to a likely loss of industrial employment of about 535 thousand workers.

Budgetary allocations for social sectors like education and health, and water and sanitation need to be enhanced and prioritized so the country is able to meet the MDGs by 2015. Containing inflationary pressures, maintaining fiscal discipline, restraining unproductive investments, diversifying exports, improving the deteriorating law & order situation, addressing security concerns and issues of poor governance which seriously hamper effective use of economic resources and results in loss of competitiveness would greatly help in generating a conducive environment for investment and reviving economic growth.

A pressing issue facing policymakers is the need for creation of job opportunities for the youth of the country. Youth unemployment is a serious barrier to economic and social development for when the youths are unemployed it can have particularly disruptive effects for societies, which could subsequently lead to violent and anti-social activities. It is only if constructive employment strategies are developed and implemented, can the economy grow and prosper.

Today many countries are facing serious job challenges. According to the *Global Employment Trends 2012*, the world faces a challenge of creating 600 million jobs over the next decade. It further states, "this would still leave 900 million workers living with their families below the US$2 a day poverty line, largely in developing countries." While the challenge is enormous, the outlook for job creation has been worsening. The Report projects no change in the global unemployment rate between now and 2016, remaining at 6 percent of the global labour force. With respect to South Asia, the main labour market challenge is increasing labour productivity and creating enough jobs for a growing working age population. With almost 60 percent of the population under the age of 30, governments are seeking to take advantage of this demographic dividend and not let it become a cause of poor market outcomes and, ultimately, conflict and insecurity, states the report.

With regard to Pakistan, the problem is not so much the absence of economic activity but is more the low productive nature of these activities. Most poor people are working hard and long hours but in very low productive jobs. The *Pakistan Employment Trends 2011*, has identified several issues that deserve close attention by policymakers. If workers are skilled and properly trained for the jobs available in various sectors, can there be mobility from low productivity employment to industry and services. This calls for investment in education and technical vocational training for both men and women to achieve productive employment.

Job creation is critical to improve the socio-economic conditions of an individual and subsequently to lift him out of poverty. A World Bank publication, *Voices of the Poor (2000)* states, the most important path out of poverty came in the form of jobs, either through self employment — starting a business or through paid employment. In another book, *Fighting Poverty Together*, the author Aneel Karnani, while discussing about developing effective strategies to poverty reduction, the primary emphasis must be on creating employment opportunities for the poor and increasing their productive capacities by ensuring basic public services. The fight against poverty relies on raising income through job creation. Pakistan where evidence exists to show that poverty has been on a rising trend in the last few years, could greatly help alleviate existing conditions if its able to create a stable economic environment which would generate economic activity and job opportunities for the young labour force.

For any policy/plan to be successful for employment generation, it must adopt a comprehensive approach, which emphasizes creation of an enabling environment in which employment creation is placed at the centre of macroeconomic policies; promotes employment generating sectors like agriculture and livestock, small and medium enterprises, exports & services, youth entrepreneurship; upgrades skills of workforce; improves marketing; extends basic education, revamps education curricula among other steps.

Historically, agriculture has played a major role as an engine for economic growth and employment. In countries like Japan, South Korea and Thailand, rising agricultural productivity and shift to commercial crops have led to job creation, higher incomes, rural progress and growth of downstream industries. Developing agroindustries have positive effects in terms of job creation, it not only provides employment for the rural population, but also in related activities such as handling, packaging, processing, transporting and marketing of food and agricultural produce. For example, food processing is one industry which has strong direct linkages with the agricultural sector. A very small percentage of fruit and vegetable production in Pakistan is processed, compared with 30 percent in Thailand and 80 percent in Malaysia. Presence of weak infrastructure for post harvest preservation, lack of modern storage, transportation, processing and packaging facilities are an obstacle for the growth of the sector and to fully exploit its potential for export. Similarly development of dairy farming in Pakistan, where livestock and dairy sector represent 11 percent of the GDP could help in the development of commercial dairy farms or formal dairy farming structures, generating employment for thousands in the rural areas. Development of the horticulture sector which is labour intensive, could help in the overall employment and income generation of farming communities in Pakistan.

Besides focusing on sectors which have the capacity to enhance employment generating ability of the economy, young people should be encouraged to start their own businesses, which could greatly help in stimulating economic growth and employment opportunities. Entrepreneurship training could be initiated by inviting private sector to participate. In the past, self employment generation initiatives have been undertaken, like for instance the Small Business Finance Corporation's Scheme for professionals, the Youth Investment Promotion Society assistance for the educated unemployed youth, the Yellow Cab Scheme, Aik Hunar Aik Nagar (AHAN) undertaken by SMEDA to provide work opportunities in the rural areas and the more recent Rozgar Scheme for the unemployed.

As labour supply continues to expand rapidly and neither the large scale private sector nor the public sector are poised to create significant number of jobs, it is the small scale sector which does have substantial untapped potential to contribute towards this objective.

The SME sector is important to almost all economies in the world, but especially to those in developing countries, with major employment and income distribution challenges. They have played a major role in China, Japan, Korea in terms of creating employment, reducing poverty and increasing the welfare of the society. In Pakistan, SMEs employ 80 percent of the non-agricultural labour force. The key strategic issue in accelerating the growth of the small scale enterprises is to enable them to shift to the high value added, high growth end of the product market. These SSEs, include high value added units in light engineering, automotive parts, moulds, dyes, machine tools and electronics and computer software, states the report titled, Final Report of the Panel of Economists *Medium Term Development Imperatives and Strategy for Pakistan*.

However, the above can only be made possible if the budget has concrete strategy for infrastructural shortages which are causing immense damage to the economy. They are constraining growth in terms of GDP forgone, have significant implications on employment, exports and development in general. Energy requirements shall continue to increase if economic growth is to be sustained. However, not enough has been done to resolve the problem of energy shortages on a sustainable basis. The total cost to the economy of power load shedding in the industrial sector is estimated to be Rs325 billion. Factories have closed down, rendering thousands unemployed. The retrenchment of workers has significant consequences on the level of poverty in the country, where already poverty is on the rise.

Besides these, another vital element in the job creation link is to increase the investment in education and technical & vocational skills. Most of the labourers have limited or no skills to get gainful employment, but through such investments, the economy would be able to develop trained professionals and there is hope that small business and enterprises could grow, so generating opportunities for the large number of unemployed youth.

Ayesha Mahmud

Pre-Budget Challenges

The Federal Budget 2012-13 is only a few weeks away. The policymakers have a difficult task of addressing several structural factors which hamper economic growth in Pakistan, a country with abundant potential. Pakistan has confronted difficult challenges in the past few years: external and domestic, political uncertainty and security problems. In the recent past, the economy has shown weak growth, persistent inflation, rising food prices, low savings and investment ratio to GDP, high government borrowings from the central bank, weak fiscal structure as a result of which there are high budget deficits, weak private sector credit growth, severe electricity shortages adversely affecting productivity of all sectors of the economy, large loss making public enterprises, where subsidies have to be given to cover the losses, rising unemployment, where underemployment and considerable unpaid employment remain major problem, as large part of the young population is not being absorbed due to low growth and progress in education and health has slowed.

Pakistan faces difficult challenges

Pakistan has not been able to sustain high rates of growth over a period of time, unlike some of the successful economies like China, India, and Vietnam, which have sustained high rates of growth for several decades. The IMF in its report, *Pakistan - IMF Country Report, February 2012* has in one of the chapters focused upon policies that would strengthen macroeconomic and financial stability and on structural reforms to raise medium term growth. Their main policy recommendations/structural reforms needed to place Pakistan on a higher, inclusive growth trajectory is:

- strengthen public finances through revenue mobilisation, cuts in wasteful and low priority expenditure.
- reform the energy sector and
- implement financial policies to reduce inflation, protect the external position and safeguard the stability of the financial sector.
- restructure the loss-making public sector enterprises
- improve investment climate by promoting better regulation and governance
- civil service reform to improve the delivery of public services
- improved human capital to meet its large employment challenge.

Pakistan's growth performance has followed a boom-bust cycle with growth lasting not more than 4-5 years. Pakistan: *Framework for Economic Growth*, a report prepared by the Planning Commission has identified two important constraints to economic growth : - (i) inadequate market development (tax, tariff and policy distortions, entry barriers, government involvement, poor regulation etc) and (ii) lack of efficient public sector management to (a) provide core governance goods such as security of life, property, transaction and contract, (b) facilitate markets and investment with informed policy and competent regulation and (c) promote deepening of physical, human and social infrastructure.

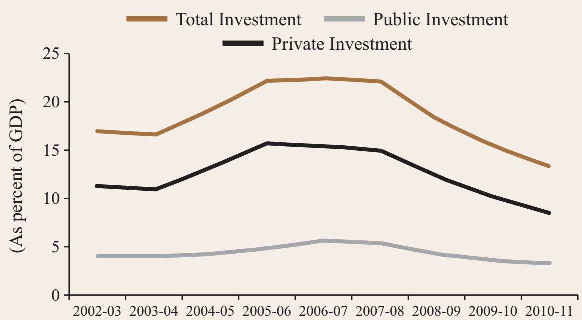
Cons-traints to growth

The new growth strategy developed by the Planning Commission, is based on sustained reform that builds efficient and knowledgeable governance structures, and recognizes the severe resource constraints that the country faces. It focuses on issues of economic governance, institutions, incentives, etc, so providing a conducive environment in which physical infrastructure could be expanded and made more productive. In short, the strategy aims to increase investment in the country and to make investment more productive.

New growth strategy

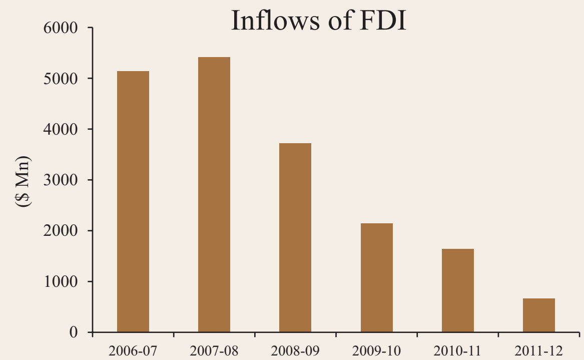
Investment has declined in Pakistan in recent years, due to both domestic and external factors. Slowdown in the global economy affected foreign direct investment in the economy and demand for exports, while deteriorating security situation, serious energy shortages, poor governance and institutional weaknesses, high cost of capital in recent years affected investment negatively. It has fallen from an average of 19.1 percent during FY01-06 to 13.3 percent in FY11. Pakistan's investment rate compares unfavourably with world averages. This a major source of concern for sustainable growth in the economy. Will the forthcoming budget be able to provide a conducive environment for businesses for augmenting capital stock?

Structure of Savings & Investment



Similarly foreign investment which lends support to domestic investment in a resource constrained economy like Pakistan has too suffered. How is the federal budget going to address investors' concerns over governance issues, energy and the prevailing security situation which has prevented growth in foreign direct investment is to be seen.

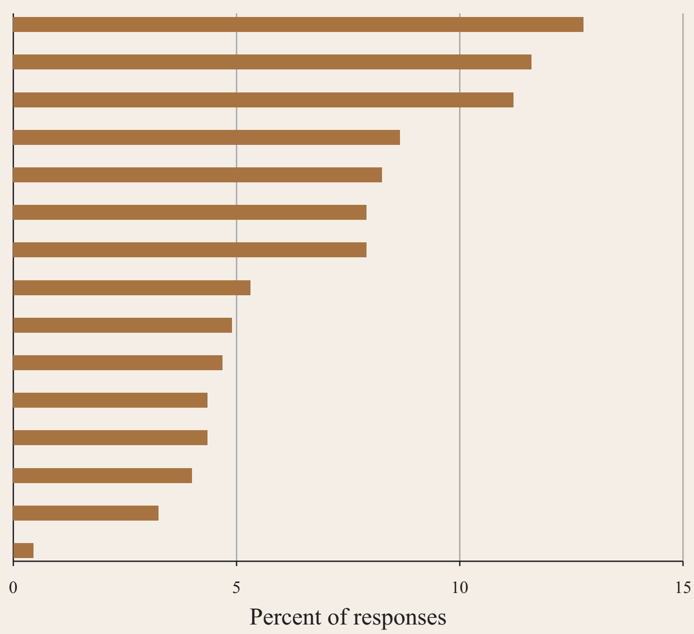
Pakistan has low savings rate 13.8 percent, compared to 34.2 percent for emerging and developing countries. Savings levels have to be raised to make more resources available for investment.



The Global Competitiveness Report 2011-12 has identified the problematic factors for doing business. These factors are seen by business executives as the most problematic for doing business in their economy. From a list of 15 factors, respondents were asked to select the five most problematic and rank them from 1 (most problematic) to 5.

The most problematic factors for doing business in Pakistan

Government instability/coups	12.8
Corruption	11.6
Policy instability	11.2
Inadequate supply of infrastructure	8.7
Inefficient government bureaucracy	8.3
Access to financing	7.9
Inflation	7.9
Poor work ethic in national labor force	5.3
Inadequately educated workforce	4.9
Tax rates	4.7
Crime and theft	4.4
Tax regulations	4.4
Foreign currency regulations	4.0
Restrictive labor regulations	3.3
Poor public health	0.5



Source: The Global Competitiveness Report 2011-12

In Pakistan, government instability, corruption, policy instability, inadequate supply of infrastructure and inefficient government bureaucracy greatly impeded the business in the economy.

Energy shortages

On the physical infrastructure side, Pakistan is faced with severe electricity shortages. Electricity outages for long hours have affected all sectors of the economy. The Planning Commission of Pakistan estimates that the country loses the equivalent of 3-4 percent of potential growth due to power outages. The country suffers from insufficient energy supply, for while energy demand has increased significantly, supply has failed to match this growth. Last year's SBP Annual Report, had attributed this to failures with respect to, setting up viable new power projects to augment supply, increasing exploration of natural gas, crude oil and coal, tapping regional markets and setting up infrastructure for energy imports and incentivizing development of renewable energy sources.

Consumption of indigenous natural gas has grown rapidly in all sectors of the economy, driven by growing availability of gas and a low, government-controlled gas price as compared with alternate fuel prices. If current gas policies persist, Pakistan's natural gas supply is expected to decline from 4 billion cubic feet per day in 2010-11 to less than 1 billion cubic feet per day by 2025-26. This will lead to growing gas shortfall and lower GDP growth rate over the next 15 years.

A focus of the forthcoming Federal Budget on a strategy that offers long term energy solutions for Pakistan could greatly help the economy aim for sustainable development and growth.

Pakistan Energy Outlook 2010-11 to 2025-26 prepared by the Petroleum Institute of Pakistan has identified a set of *Energy Blueprints* which requires progressive and bold approaches and if implemented, could allow the energy sector in Pakistan to grow, so becoming the engine for the social and economic development of the country. If however, the country continues with short term approach and reactive policies, (business as usual) termed as 'Scramble', energy deficits would continue leading to low GDP growth rates, low employment and increased poverty levels in Pakistan.

Need to focus on energy weak-nesses

Policymakers need to address Pakistan's energy weaknesses, build on its strengths so to bring sustainable energy and growth to Pakistan. In the recent past, the failure to have a consistent energy policy has affected the country's economic performance over an extended period and the resurgence of circular debt has presented new challenges. Circular debt has emerged due to nonpayment of electricity subsidies by the government, default on payments by energy consumers, and buildup of payables and receivables within the energy sector, says the SBP Report.

While augmenting energy supply is crucial, managing demand has also become very necessary. In addition transmission and distribution losses be addressed, electricity theft needs to be checked, and reduce collection losses and strengthen bill collection.

Need for raising revenues

A major issue facing policymakers while formulating the Federal Budget for the next fiscal year, is the dire need of raising much needed revenues. The question arises whether this would lead to further taxing the complaint tax payer or would the budget take bold steps to broaden the tax base and subject all those who earn above the income tax threshold (which is currently Rs350,000 per annum) regardless of the source of income to income tax. This requires sustained commitment at the highest level over a period of time and pursing a policy which is fair, efficient and less corrupt.

Without burdening the existing tax payers, the government must try and bring large segments who are not paying any tax into the tax net, especially the wealthy who evade taxes and is a cause of concern for the government, as the country suffers from low tax ratios. Addressing this problem requires concerted efforts, aimed not only at increasing government revenue but also at improving the fairness of the tax system. Any measure taken to increase government revenue, should also consider its distributional effects, as well as its impact on efficiency and long term growth.

Govt expenditure needs are substantial

Government tax revenue at about 10 percent of GDP is one of the lowest in the world. Government expenditure needs are substantial, notably subsidies (mostly electricity subsidies) and interest payments which consume nearly half of current expenditure. Resulting revenue shortfalls lead to large budget deficits, which have to be financed either by containment of investment spending or borrowing from the banking system, as foreign assistance is limited. Since the last many years, the government sets an ambitious target for FBR tax collection, which is revised during the year, but at the end of the year this revised target is also missed.

Tax Revenue Target

(Rs Bn)

Year	Target	Revised
2007-08	1030.5	1005.6
2008-09	1251.5	1180.5
2009-10	1493.6	1483.0
2010-11	1778.7	1679.4

Source: Budget in Brief, Various Issues

Some heads of current expenditure, including interest payments and expenditure on defence are rigid and hard to adjust. This renders fiscal consolidation a challenge and as a result the burden of adjustment usually falls on development expenditure.

Major Current Expenditure Heads

(Rs Bn)

	2008-09		2009-10		2010-11	
	Budget	Revised	Budget	Revised	Budget	Revised
Interest Payments	523.2	630.3	647.1	666.5	698.5	728.0
Defence	296.1	311.3	342.9	378.1	442.2	444.6
Subsidies	74.6	92.8	119.9	229.0	126.7	395.8

Source: Budget in Brief, Various Issues

Many a times development outlays have to be adjusted to accommodate reallocation of funds to other activities, such as on account of security spending and the floods from which the country suffered twice in the recent past. As the fiscal space for expanding development spending is limited the new growth approach to spurring sustainable growth and development is appropriate. Here the Report has emphasised enhancing productivity rather than look to increase its volume substantially.

Pakistan's fiscal deficit has risen to 6.6 percent of GDP in 2010-11, as tax revenues failed to pick up and while spending was contained, but higher spending on security, subsidies and interest crowded out the productive spending.

Government borrowings

As domestic resources fall short of financing budget deficits, either investment spending has to be contained or government resorts to borrowings from the banking system. During the current year government borrowings for budgetary support have been Rs373 billion from the scheduled banks and Rs218 billion from the State Bank of Pakistan during July 1 to March 30, FY12, states the Monetary Policy Statement, April 2012. This shows a year-on-year growth of 56.5 percent and 18.5 percent respectively. Growth in private sector credit slowed and was only 4.2 percent in the period mentioned. The Monetary Policy further states, 'despite a decent growth in deposits, the banks continue to prefer financing the fiscal deficit as opposed to searching avenues, taking risk, and building partnerships to facilitate credit to the private sector.'

Decline in private sector credit

The *IMF Country Report on Pakistan February 2012*, attributes decline in bank lending to private sector to, deterioration in the macro-economic situation, which has contributed to lower demand from the private sector and a rise in private sector non-performing loans which has reduced banks' willingness to lend. As a result the economy has to bear the costs in terms of decline in investment to GDP ratio and low economic growth. The economy needs revival of private sector growth, for which fiscal and energy reforms are needed.

Pre Budget Proposals for Federal Budget 2012-13

Box

Prof. Dr. Khawaja Amjad Saeed
Principal, Hailey College of Banking & Finance
University of Punjab

Prof. Dr. Khawaja Amjad Saeed has suggested a 12 point charter for the economy of Pakistan to help meet the socio-economic challenges. These are given as under: -

1 Domestic resource mobilization should be accelerated to ensure that we produce a surplus in the revenue budget for 2012-13. This ought to meet the three components of revenue expenditure namely; debt servicing, cost of running the government and defence.

2 The consequential surplus generated in the forthcoming budget should be made available for financing Annual Development Plan of Pakistan for 2012-13.

3 For accelerating domestic resource mobilization, the golden principle of Public Finance should be followed. This includes taxation of income for all above the threshold prescribed by the Parliament of Pakistan. At present the threshold for subjecting income to income tax is Rs350,000/- per annum. Irrespective of cast and creed or sources of income, everybody ought to be included in the taxable limit and subjected to income tax. In this respect, except for pensioners and widows, all exemptions relating to income tax should be withdrawn. This bold step can be taken by the democratic government.

4 Annual Development Programme of Pakistan for 2012-13 should have most minimum reliance on external assistance and bank borrowing. It should be financed out of domestic resources, which should be accelerated through single item agenda of quantum jump in domestic resource mobilization. A courageous step is the need of hour. This bold step will ensure financial defence of Pakistan.

5 All public enterprises and autonomous bodies may be vested with financial autonomy with no burden of their losses on the Federal Budget of Pakistan. This will off-load around Rs625 billion losses which at present, the budget is absorbing. It is interesting to note that the annual losses of only three autonomous bodies namely; Pakistan Railways, PIA and Pakistan Steel Mills aggregate to a total amount equivalent to the amount allocated to the defence of Pakistan. This ought to be taken as a wake-up and serious call.

6 Good Governance should be ruthlessly implemented and all unethical practices should be eradicated in all walks of life, irrespective of the status of the persons. Any deviation or departures should be brought to justice.

7 Provincial Governments have been given substantial amounts under the 7th NFC Award. In fact, a sum of Rs1.2 billion was projected for distribution in the Federal Budget 2011-12. The provinces of Pakistan should be logistically helped in excellent fiscal management. They must raise new taxes within their provinces and must respond to the golden rule of public finance namely, generating revenue surplus to meet their ADP needs without asking the Federal Government for any allocation of grant or assistance.

8 Government employees and pensioners may be given appropriate rise in their emoluments to protect their wage basket against inflationary impact.

9 Projection for employment generating activities may also be released. Instead of executing Collective Bargaining Agreement (CBA), the role may be redefined by switching to Productivity Sharing Agreements (PSAs) so that the raise in salaries/wages of the workers is self-financing and non-inflationary.

10 A serious note should be taken by the government and regulatory agencies for restructuring financial sector of Pakistan by substantially reducing non-performing loans. These ought to be restricted to 4% of loan portfolio to ensure a sound financial structure.

11 The role of Professional Accountants in general and that of Cost and Management Accountants in particular should be duly recognized and they should be associated in strengthening frontiers of Financial Management in Pakistan. Appropriate legal and other logistically supported actions be undertaken in this respect.

12 Economic strategy with breakthrough approach in agriculture, industry (with special emphasis on mineral development) and services sector be developed for ensuring prosperity across the board in Pakistan through poverty alleviation, promotion of employment opportunities, ensuring high standard of living and going beyond meeting the basic needs of common man.

Box

Economic and Social Survey of Asia and the Pacific – 2012

Economic & Social Commission for Asia and the Pacific, United Nations

The recently released ESCAP report *Economic and Social Survey of Asia and the Pacific 2012* reviews the economies in the region and looks at the challenges confronting the Asia-Pacific region. We give below excerpts from the Report about the macroeconomic performance and challenges confronting Pakistan.

- GDP growth in Pakistan slowed considerably to 2.4% in 2011 from 3.8% in 2010, mainly due to prevailing security concerns, the exogenous shock from elevated oil prices and unprecedented floods in a large part of the country. Severe shortages of electricity and natural gas in the country have also hampered economic growth.

- Both savings and investment ratio to GDP fell in 2011. The investment ratio stood at 13.4%, the lowest level since 1974.

- Pakistan has been facing double digit inflation for some years now. Inflation rose 13.9% in 2011 as compared to 11.7% in 2010, driven mainly by high food and energy prices. Food prices rose sharply on the back of major supply disruptions, owing to the devastating floods as well as a spike in imported food stuff prices. The severe energy shortages also put a damper on production of goods and services and contributed to the high inflation and weak economic growth problem.

- Pakistan lowered its policy rate by 50 basis points in July 2011 and 150 basis points in October 2011, after hiking it several times. This was done even though inflation remained high. The moves were aimed to stimulate private investment and economic growth.

- The Government of Pakistan is finding it difficult to contain the budget deficit, estimated at 6.6% of GDP in 2011 as compared to 6.3% of GDP in 2010. The high fiscal deficit in 2011 can be partly attributed to increased security expenditures, the adverse impact of the floods and higher subsidies. To reduce the deficit, the Government is making efforts to improve tax compliance and broaden the tax base. A major share of the fiscal deficit is being financed by domestic sources, resulting in a rapid rise in domestic public debt, which, in turn, is fuelling concerns about macro stability and monetary management. To achieve sustainable economic growth, the Government implemented fiscal reforms that aim to widen the tax base to include untaxed or under-taxed segments (agriculture and services), improve tax administration and restructure loss-making public sector enterprises.

- In Pakistan, the external sector registered a surplus on the current account, making it a bright spot of the economy in 2011. Exports increased by 29.3% and workers' remittances reached an historic level of more than $11.2 billion in 2011. Rising prices of value-added textiles helped propel the rapid growth of exports enabling the country to record a marginal current account surplus (0.1% of GDP) in 2011 after many years of deficits. Foreign exchange reserves increased. However, a large current account deficit is expected in 2012 and financing it could be problematic due to the suspension of the IMF Stand-By Arrangement.

- GDP in Pakistan is projected to grow by 4% in 2012.While this is an improvement from 2.4% growth in 2011, it still reflects several difficulties being faced by the economy.

- To fight against poverty, countries need to continue to implement economic reforms to improve productivity, strengthen public institutions, improve economic governance and build social safety nets to protect the more vulnerable segments of the population. To promote more inclusive growth, the provision of basic services, such as health care and education, should remain the principal priority in the policy agendas of all governments. Generating ample employment opportunities are crucial for the poor to earn a livelihood. Official unemployment rates are low: for example, 4.9% in Sri Lanka and 5.6% in Pakistan in 2010. This is partly due to the fact that the informal sector is large in these economies, making it difficult to obtain a precise estimate of open unemployment.

- On the physical infrastructure side, several countries in the subregion, such as Bangladesh, Nepal and Pakistan, are facing severe electricity shortages. Electricity outages for long hours have been affecting productivity of all sectors of these economies.

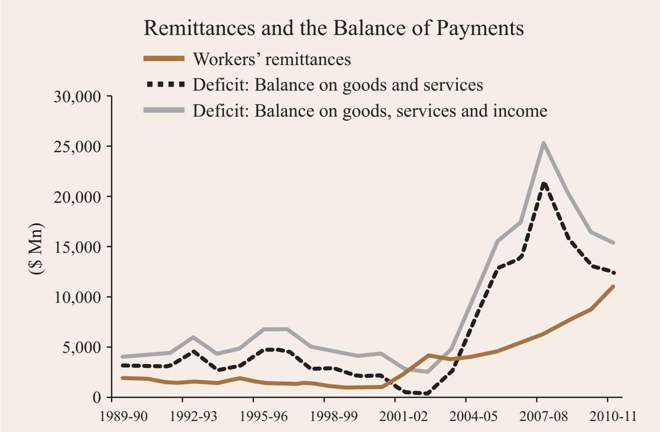
- To address energy shortages, the following measures must be undertaken urgently: setting up viable new power projects; minimizing transmission and distribution losses, including theft of electricity; increasing exploration of natural gas, crude oil and coal; tapping of regional markets and setting up infrastructure for energy imports; and incentivizing the development of renewable energy resources. Due to limited public resources, involvement of the private sector should be enhanced and public-private partnerships should be encouraged.

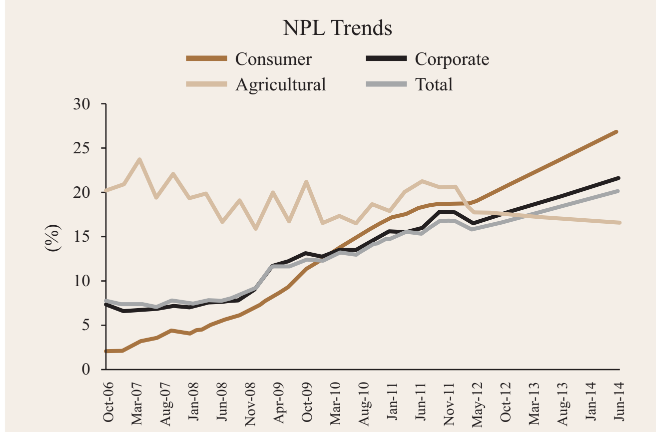
Another worrying factor for policymakers is the growing public debt. These have crossed Rs12 trillion by FY11 accounting for 67.2 percent of GDP, against Rs8.7 trillion in FY09, a jump of nearly 39 percent. The rapid accumulation of debt is imposing high costs on the productive resources of the economy; in terms of debt servicing, 5.8 percent of GDP and interest payments consume 33.6 percent of the total current expenditure. Government expenditure on public sector development programme are less.

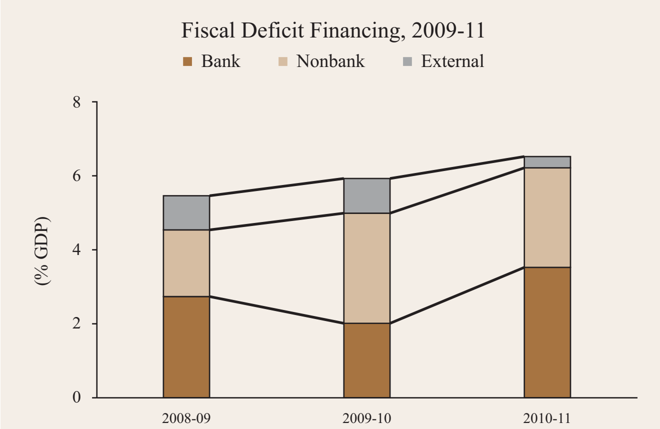
The debt problem reflects that the fiscal effort on the part of successive governments has not been able to meet the growing revenue needs of the economy. If the government had been able to raise the tax-GDP ratio, from the low rate of 9.2 percent compared to 15 percent in Sri Lanka and 16 percent in India, the public debt would have been lower. The need is for tax mobilisation as well as expenditure reform. If prudent fiscal management is pursued, it will slow debt accumulation and the servicing cost.

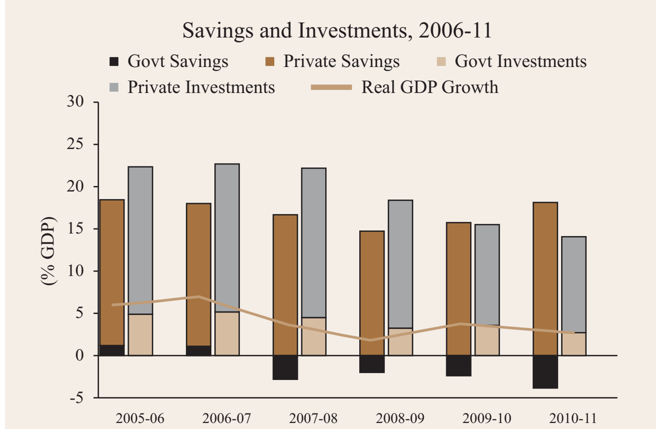
Some other factors deserving policymakers focus are job creation, containing inflation, enhancing spending on social sectors and poverty alleviation so the country is able to meet the MDGs by 2015.

Pakistan Selected Economic Indicators









Source: Pakistan IMF Country Report February 2012

Selected Economic Indicators

	Afghanistan	Bangladesh	Bhutan	India	Nepal	Pakistan	Sri Lanka
GDP Growth (%)							
2009	22.5	5.7	6.7	8.0	3.8	1.7	3.5
2011	5.7	6.7	5.4	6.9	3.5	2.4	8.3
Gross Domestic Savings Rate (as % of GDP)							
2009	-	21.1	27.2	33.8	9.4	10.7	17.9
2011	-	19.6	-	32.1	6.7	5.5	15.4
Gross Domestic Investment Rate (as % of GDP)							
2009	-	24.4	41.2	36.6	31.7	18.2	24.4
2011	-	24.7	-	37.6	30.2	13.4	29.9
Inflation Rate (%)							
2009	-8.3	6.7	3.0	12.4	12.6	20.8	3.5
2011	10.5	8.8	8.3	8.4	9.6	13.9	6.7
Budget Balance (as % of GDP)							
2009	-	-3.9	1.8	-6.5	-5.0	-6.0	-9.9
2011	-	-4.4	-6.4	-5.9	-3.8	-6.6	-6.9
Current Account Balance (as % of GDP)							
2009	-2.8	2.8	-10.8	-2.8	4.2	-5.7	-0.5
2011	0.1	0.9	-24.0	-3.6	-0.9	0.1	-7.8
Merchandise Export Growth Rate (%)							
2009	-25.9	10.3	-13.8	-3.5	-3.4	-6.4	-12.9
2011	-	41.5	-	29.3	9.5	29.3	5.4
Merchandise Import Growth Rate (%)							
2009	10.5	4.1	-9.6	-5.0	8.4	-10.3	-27.1
2011	-	41.8	-	30.4	8.8	14.5	50.7
Foreign Direct Investment Inflows (Mn $)							
2008	300	1086	28	42546	1	5438	752
2010	76	913	12	24640	39	2016	478
Workers' Remittances (Mn $)							
2000	-	1958	-	12738	111	1075	1142
2010	-	10838	4	53044	3336	9667	4116
Net Enrolment in Primary Education (as % of primary school-aged children)							
2000	-	-	58.2	79.1	71.1	-	-
2010	-	92.2	87.8	92.1	-	74.1	93.6
Population Undernourished (%)							
2007	-	26	-	19	17	25	20
Fixed Telephone Mainlines (per 100 population)							
2010	0.5	0.6	3.6	2.9	2.8	2.0	17.2
Mobile Cellular Subscribers (per 100 population)							
2010	41.4	46.2	54.3	61.4	30.7	57.1	83.2
Household Electricity Consumption (kwh per capita)							
2009	-	79	-	121	39	201	142

Source: Economic & Social Survey of Asia and the Pacific - 2012, United Nations

Selected Banks' Gross Advances and Non Performing Loans

(Rs.Bn)

Banks	Gross Advances											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Selected Banks Total	**665.42**	**713.47**	**667.68**	**796.10**	**1129.87**	**1449.11**	**1810.97**	**2017.90**	**2345.03**	**2449.86**	**2618.59**	**2624.81**
National Bank of Pakistan	158.62	196.34	166.08	189.0	249.84	299.42	348.37	374.73	457.83	530.86	538.61	592.37
Habib Bank Limited	204.75	199.00	200.07	213.74	292.40	350.43	371.36	403.48	435.71	432.28	473.41	460.00
United Bank Limited	99.34	105.55	88.39	111.55	160.03	219.27	260.91	325.67	390.90	343.38	368.70	366.31
MCB Bank	90.98	82.84	85.14	104.01	144.01	188.14	206.85	229.73	272.85	269.72	274.14	248.13
Allied Bank Limited	62.30	59.90	54.00	49.99	69.95	119.51	151.70	178.53	223.64	249.89	267.77	262.13
Bank Alfalah	16.36	20.22	29.44	50.37	90.29	120.42	152.24	175.68	197.93	197.40	218.43	211.40
Standard Chartered Bank Pakistan	-	-	-	-	-	-	142.31	135.27	137.72	141.23	157.90	151.61
Askari Bank	18.56	24.24	31.34	46.35	71.62	88.40	102.73	108.19	139.83	147.62	168.43	167.38
Faysal Bank	14.51	25.38	23.23	31.15	51.73	63.52	74.50	86.62	88.62	98.38	151.20	165.48

Banks	Non Performing Loans (NPLs)											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Selected Banks Total	**158.00**	**170.12**	**154.21**	**142.57**	**131.37**	**118.97**	**116.89**	**134.70**	**197.01**	**257.81**	**311.86**	**332.16**
National Bank of Pakistan	30.32	44.26	43.71	39.77	36.10	33.74	36.26	38.32	56.46	70.92	86.64	88.16
Habib Bank Limited	54.05	56.22	53.01	47.73	44.51	41.36	26.92	24.59	36.08	42.30	46.68	51.31
United Bank Limited	38.08	32.18	21.03	18.92	20.10	16.96	16.26	22.35	27.84	39.10	48.59	51.11
MCB Bank	12.44	13.44	12.03	11.00	8.84	8.40	8.57	10.73	18.27	23.24	24.54	26.66
Allied Bank Limited	16.77	16.88	18.24	17.83	15.38	12.58	10.48	11.36	13.77	16.28	18.69	20.45
Bank Alfalah	1.55	1.58	1.54	2.85	2.94	1.06	2.31	4.71	8.93	16.19	18.32	19.09
Standard Chartered Bank Pakistan	-	-	-	-	-	-	8.90	10.99	16.53	21.39	22.10	25.70
Askari Bank	1.09	1.16	1.25	1.28	1.10	2.37	3.66	6.91	11.69	17.72	21.60	23.64
Faysal Bank	3.70	4.40	3.40	3.20	2.40	2.50	3.54	4.75	7.44	10.67	24.70	26.04

Banks	NPLs/Gross Advances Ratio											
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Selected Banks Total	**23.74**	**23.84**	**23.10**	**17.91**	**11.63**	**8.21**	**6.45**	**6.68**	**8.40**	**10.52**	**12.32**	**13.13**
National Bank of Pakistan	19.11	22.54	26.32	21.05	14.45	11.27	10.41	10.23	12.33	13.36	16.09	14.88
Habib Bank Limited	26.40	28.25	26.50	22.33	15.22	11.80	7.25	6.09	8.28	9.79	9.86	11.15
United Bank Limited	38.33	30.49	23.79	16.96	12.56	7.73	6.23	6.86	7.12	11.39	13.26	13.95
MCB Bank	13.67	16.22	14.13	10.58	6.14	4.46	4.14	4.67	6.70	8.62	8.95	10.74
Allied Bank Limited	26.92	28.18	33.78	35.67	21.99	10.53	6.91	6.36	6.16	6.51	6.96	7.80
Bank Alfalah	9.47	7.81	5.22	5.65	3.26	0.88	1.52	2.68	4.51	8.20	8.39	9.03
Standard Chartered Bank Pakistan	-	-	-	-	-	-	6.25	8.12	12.00	15.15	14.00	16.95
Askari Bank	5.84	4.79	3.99	2.76	1.54	2.68	3.56	6.39	8.36	12.00	12.82	14.12
Faysal Bank	25.50	17.34	14.64	10.27	4.64	3.94	4.75	5.48	8.40	10.85	16.34	15.74

Source: Banks' Annual Reports

Gross Advances By Sectors - Selected Banks

(Rs. Mn)

Type of Business	National Bank of Pakistan						Habib Bank						United Bank					
	2009	% Share	2010	% Share	2011	% Share	2009	% Share	2010	% Share	2011	% Share	2009	% Share	2010	% Share	2011	% Share
Chemicals & Pharmaceuticals	3156	0.6	4940	0.9	3453	0.6	24589	5.3	24518	5.2	20924	4.5	6082	1.6	6218	1.7	5956	1.6
Agribusiness	23453	4.4	27067	5.0	29924	4.8	23030	5.0	32331	6.8	30349	6.6	50894	13.3	53034	14.4	47099	12.9
Textiles	71668	13.5	69925	13.0	66317	10.6	83341	18.0	83561	17.7	71249	15.5	61665	16.1	61145	16.6	59692	16.3
Cement	8936	1.7	7118	1.3	10472	1.7	15783	3.4	14560	3.1	10130	2.2	6508	1.7	6803	1.8	4503	1.2
Sugar	8898	1.7	13103	2.4	15147	2.4	3229	0.7	2992	0.6	4490	1.0	7069	1.8	8154	2.2	7126	1.9
Rice Processing	8128	1.5	9645	1.8	9934	1.6	-	-	-	-	-	-	-	-	-	-	-	-
Shoe & Leather Garments	833	0.2	1010	0.2	1204	0.2	2134	0.5	2276	0.5	1916	0.4	2200	0.6	2447	0.7	2261	0.6
Automobile & Transport Equipment	3664	0.7	2820	0.5	3167	0.5	8568	1.8	7394	1.6	9762	2.1	5213	1.4	4455	1.2	5019	1.4
Transportation & Telecommunication	24824	4.7	34500	6.4	38481	6.1	19466	4.2	17618	3.7	12983	2.8	17110	4.5	22737	6.2	14559	4.0
Real Estate/Construction	7893	1.5	7820	1.5	9790	1.6	-	-	2829	3.3	2635	3.6	26088	6.8	21867	5.9	17972	4.9
Electronics & Electrical Appliances	7268	1.4	7537	1.4	9047	1.4	13117	2.8	13673	2.9	15886	3.5	2144	0.6	2386	0.6	2646.0	0.7
Food & Tobacco	1581	0.3	1966	0.4	1594	0.3	5441	1.2	7207	1.5	8245	1.8	7301	1.9	6849	1.9	8992	2.5
Fertilizers	14461	2.7	18004	3.3	19007	3.0	-	-	-	-	-	-	5729	1.5	6824	1.9	6871	1.9
Metal Products	16579	3.1	18883	3.5	26444	4.2	5521	1.2	8244	1.7	7069	1.5	567	0.1	2266	0.6	336	0.1
Production & Transmission of Energy	86110	16.2	62242	11.6	54116	8.6	38642	8.3	49567	10.5	52855	11.5	41179	10.8	39057	10.6	41159	11.2
Hotel & Services	14208	2.7	16572	3.1	13850	2.2	-	-	-	-	-	-	2692	0.7	2709	0.7	2660	0.7
Individuals	74550	14.0	76673	14.2	86220	13.8	36902	8.0	31419	6.6	25307	5.5	78997	20.7	65803	17.8	50089	13.7
General Traders	18422	3.5	22122	4.1	16951	2.7	32846	7.1	42971	9.1	47980	10.4	11559	3.0	20776	5.6	13784	3.8
Public/Govt	72749	13.7	64157	11.9	64621	10.3	97917	21.1	85840	18.1	73370	16.0	-	-	-	-	-	-
Financial	12557	2.4	14477	2.7	21123	3.4	9614	2.1	16197	3.4	15068	3.3	5485	1.4	4896	1.3	12282	3.4
Others	50924	9.6	58028	10.8	126137	20.1	43245	9.3	30221	6.4	49746	10.8	43996	11.5	30266	8.2	63301	17.3
Total	**530862**	**100.0**	**538609**	**100.0**	**592365**	**100.0**	**463385**	**100.0**	**473418**	**100.0**	**459964**	**100.0**	**382478**	**100.0**	**368692**	**100.0**	**366307**	**100.0**
Public/Govt	*152317*	*28.7*	*133982*	*24.9*	*117084*	*18.7*	*97917*	*21.1*	*86841*	*18.1*	*73370*	*16.0*	*66894*	*17.5*	*64861*	*17.6*	*62708*	*22.1*
Private	*378546*	*71.3*	*404627*	*75.1*	*475282*	*75.8*	*365468*	*78.9*	*387577*	*81.9*	*386594*	*84.1*	*315584*	*82.5*	*303830*	*82.4*	*303598*	*77.9*

Gross Advances By Sectors - Selected Banks

(Rs. Mn)

Type of Business	MCB						Allied Bank						Bank Alfalah						Standard Chartered Bank Pakistan					
	2009	% Share	2010	% Share	2011	% Share	2009	% Share	2010	% Share	2011	% Share	2009	% Share	2010	% Share	2011	% Share	2009	% Share	2010	% Share	2011	% Share
Chemicals & Pharmaceuticals	15198	5.6	12991	4.7	13430	5.4	13154	5.3	15940	5.9	18921	7.2	5917	3.0	5099	2.3	6264	3.0	7806	5.5	12055	7.6	8892	5.9
Agribusiness	2606	1.0	2542	0.9	2613	1.1	450	0.2	496	0.2	554	0.2	13784	7.0	16454	7.5	16829	8.0	2346	1.7	3412	2.2	4983	3.3
Textiles	31378	11.6	40354	14.7	37394	15.1	45258	18.1	39540	14.7	40618	15.5	28301	14.3	34784	15.9	32860	15.5	22818	16.2	31206	19.8	30107	19.9
Cement	3886	1.4	3648	1.3	2391	1.0	15133	6.1	14151	5.3	12674	4.8	3005	1.5	2454	1.1	1596	0.8	5935	4.2	8586	5.4	10662	7.0
Sugar	6328	2.3	9063	3.3	8881	3.6	3315	1.3	6860	2.6	3281	1.3	3081	1.6	2396	1.1	3800	1.8	2250	1.6	2552	1.6	3098	2.0
Rice Processing	-	-	-	-	-	-	-	-	-	-	-	-	4919	2.5	7252	3.3	6506	3.1	-	-	-	-	-	-
Shoe & Leather Garments	2279	0.8	2782	1.0	3935	1.6	802	0.3	803	0.3	1091	0.4	792	0.4	948	0.4	1941	0.9	797	0.6	1245	0.8	1651	1.1
Automobile & Transport Equipment	2293	0.9	477	0.2	517	0.2	3206	1.3	3517	1.3	4310	1.6	3048	1.5	2975	1.4	2596	1.2	1604	1.1	2833	1.8	1536	1.0
Transportation & Telecommunication	58748	21.8	67013	24.4	56787	22.9	5274	2.1	4781	1.8	4583	1.7	5264	2.7	2992	1.4	4136	2.0	4816	3.4	8362	5.3	11196	7.4
Real Estate/Construction	-	-	2435	-	2357	0.9	14015	5.6	12349	4.6	7601	2.9	5651	2.9	4095	1.9	3041	1.4	-	-	-	-	-	-
Electronics & Electrical Appliances	2205	0.8	2203	0.8	2920	1.2	-	-	-	-	-	-	1627	0.8	4555	2.1	3292	1.6	3912	2.8	2662	1.7	1590	1.0
Food & Tobacco	-	-	-	-	-	-	-	-	-	-	-	-	4176	2.1	4827	2.2	4342	2.1	-	-	-	-	-	-
Fertilizers	-	-	-	-	-	-	-	-	-	-	-	-	4847	2.5	6933	3.2	6847	3.2	-	-	-	-	-	-
Metal Products	-	-	-	-	-	-	2296	0.9	2209	0.8	2502	1.0	4951	2.5	6365	2.9	6011	2.8	-	-	-	-	-	-
Production & Transmission of Energy	37941	14.1	36348	13.3	20846	8.4	35973	14.4	43182	16.1	49103	18.7	15618	7.9	20497	9.4	20506	9.7	22963	16.3	30315	19.2	20923	13.8
Hotel & Services	6643	2.5	4537	1.7	5585	2.3	186	0.1	150	0.1	224	0.1	-	-	-	-	-	-	-	-	-	-	-	-
Individuals	27050	10.0	22007	8.0	17456	7.0	6122	2.4	6627	2.5	7019	2.7	35800	18.1	31598	14.5	27145	12.8	29315	20.8	31786	20.1	18705	12.3
General Traders	18565	6.9	22120	8.1	20129	8.1	10912	4.4	13448	5.0	12449	4.7	7745	3.9	7435	3.4	8066	3.8	-	-	-	-	-	-
Public/Govt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial	6866	2.5	4269	1.6	3445	1.4	5544	2.2	3077	1.1	4001	1.5	4067	2.1	2389	1.1	7871	3.7	5691	4.0	638	0.4	2295	1.5
Others	47736	17.7	43790	16.0	49449	19.9	88247	35.3	101400	37.8	93219	35.6	44210	22.4	53774	24.7	47748	22.6	30977	21.9	22254	14.1	35972	23.7
Total	**269722**	**100.0**	**274144**	**100.0**	**248135**	**100.0**	**249887**	**100.0**	**268530**	**100.0**	**262137**	**100.0**	**197403**	**100.0**	**217822**	**100.0**	**211397**	**100.0**	**141230**	**100.0**	**157906**	**100.0**	**151610**	**100.0**
Public/Govt	*79707*	*29.6*	*78725*	*28.7*	*49079*	*19.8*	*50892*	*20.4*	*58359*	*21.7*	*48949*	*18.7*	*32019*	*16.2*	*32294*	*15.0*	*23618*	*11.0*	*24498*	*17.3*	*26829*	*17.0*	*9171*	*6.0*
Private	*190015*	*70.4*	*195418*	*71.3*	*199056*	*80.2*	*198995*	*79.6*	*210170*	*78.2*	*213188*	*81.3*	*165384*	*83.8*	*186138*	*85.0*	*187779*	*89.0*	*116732*	*82.7*	*131077*	*82.7*	*142438*	*94.0*

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

Non Performing Loans By Business Segments - Selected Banks

(Rs. Mn)

Type of Business	National Bank of Pakistan			Habib Bank			United Bank			MCB Bank			Allied Bank			Bank Al Falah			Standard Chartered Bank Pakistan		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
Chemicals & Pharmaceuticals	1826	2441	2320	484	646	589	309	226	220	153	149	204	133	128	373	60	150	114	186	104	253
Agribusiness	2219	1873	2110	3744	3157	3504	1508	1430	1492	713	417	416	11	152	192	426	506	508	2	17	17
Textiles	24952	26432	28724	15121	18395	20233	9841	13820	15269	3863	4259	5225	3504	5090	5070	2620	2122	4221	7092	6621	7647
Cement	5125	5060	5091	500	700	2264	4	-	-	-	532	362	-	-	-	1	-	-	-	-	-
Sugar	2832	3200	4137	432	433	360	34	34	243	1178	1160	1266	-	-	-	-	-	-	-	-	-
Rice Processing	1869	1875	2546	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shoe & Leather Garments	215	430	260	219	312	173	242	227	259	118	128	127	2698	65	56	-	-	-	20	16	16
Automobile & Transport Equipment	893	1354	1311	1276	1319	1905	751	727	338	134	114	69	-	-	-	73	193	226	615	455	400
Transportation & Telecommunication	3397	3319	3350	261	261	261	-	-	-	49	139	126	358	361	361	-	-	-	-	-	-
Real Estate/Construction	908	2255	2472	1805	1418	1387	4106	3885	4178	68	127	172	799	2622	2370	-	-	-	-	-	-
Electronics & Electrical Appliances	2426	322	5421	2707	2802	2801	543	365	256	339	323	340	-	-	-	-	-	-	-	-	-
Food & Tobacco	456	1238	1018	446	443	528	795	1259	1247	-	-	-	-	-	-	-	-	-	-	-	-
Fertilizers	380	2698	3258	-	-	-	6	7	7	-	-	-	-	-	-	-	-	-	-	-	-
Metal Products	1468	1473	572	491	671	912	2	-	-	-	-	-	774	775	866	-	-	-	-	-	-
Production & Transmission of Energy	1685	11607	3572	1614	1809	2051	2928	3049	2434	-	2	-	842	843	839	-	-	-	550	376	276
Hotel & Services	787	448	817	-	-	-	489	486	486	479	615	939	-	61	63	-	-	-	-	-	-
Individuals	3013	2884	4972	2522	2426	946	11143	13238	14267	2805	3605	3625	239	48	37	3491	3997	3495	3552	4691	6003
General Traders	5612	5386	4679	3549	4737	5641	1025	1167	1629	5010	4516	4631	1863	2354	2206	795	616	703	-	-	-
Public/Govt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial	529	1410	905	5	1299	798	10	2152	2299	870	1275	1448	650	281	344	-	-	-	-	-	-
Others	10331	11610	3238	7133	5849	6960	5365	6521	6493	7015	7183	7715	4429	5909	7675	8720	10735	9830	9371	9828	11085
Total	**70923**	**87315**	**88161**	**42309**	**46677**	**51313**	**39101**	**48593**	**51117**	**22794**	**24544**	**26665**	**16281**	**18688**	**20452**	**16186**	**18320**	**19097**	**21388**	**22108**	**25697**

NPLs to Gross Advances Ratio

(%)

Type of Business	National Bank of Pakistan			Habib Bank			United Bank			MCB Bank			Allied Bank			Bank Al Falah			Standard Chartered Bank Pakistan		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
Chemicals & Pharmaceuticals	57.9	49.4	67.2	2.0	2.6	2.8	5.1	3.6	3.7	1.0	1.1	1.5	1.01	0.8	2.0	1.0	2.9	1.8	2.4	0.9	2.8
Agribusiness	9.5	6.9	7.1	16.3	9.8	11.5	3.0	2.7	3.2	27.4	16.4	15.9	2.44	30.6	34.7	3.1	3.1	3.0	0.1	0.5	0.3
Textiles	34.8	37.8	43.3	18.1	22.0	28.4	16.0	22.6	25.6	12.3	10.6	14.0	7.74	12.9	12.5	9.3	6.1	12.8	31.1	21.2	25.4
Cement	57.4	71.1	48.6	3.2	4.8	22.3	0.1	0.0	-	-	14.6	15.1	-	-	-	0.03	-	-	-	-	-
Sugar	31.8	24.4	27.3	13.4	14.5	8.0	0.5	0.4	3.4	18.6	12.8	14.3	-	-	-	-	-	-	-	-	-
Rice Processing	23.0	19.4	25.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shoe & Leather Garments	25.8	42.6	21.6	10.3	13.7	9.0	11.0	9.3	11.5	5.2	4.6	3.2	336.4	8.1	5.1	-	-	-	2.5	1.3	1.0
Automobile & Transport Equipment	24.4	48.0	41.4	14.9	17.8	19.5	14.4	16.3	6.7	5.8	23.9	13.3	-	-	-	2.4	6.5	8.7	38.3	16.1	26.0
Transportation & Telecommunication	13.7	9.6	8.7	1.3	1.5	2.0	-	-	-	0.1	0.2	0.2	6.8	7.6	7.9	-	-	-	-	-	-
Real Estate/Construction	11.5	28.8	25.3	-	-	-	15.7	17.8	23.2	-	-	-	5.7	21.2	31.2	-	-	-	-	-	-
Electronics & Electrical Appliances	33.4	4.3	59.9	20.6	20.5	17.6	25.3	15.3	9.7	15.4	14.7	11.6	-	-	-	-	-	-	-	-	-
Food & Tobacco	28.8	63.0	63.9	8.2	6.1	6.4	10.9	18.4	13.9	-	-	-	-	-	-	-	-	-	-	-	-
Fertilizers	2.6	15.0	17.1	-	-	-	0.1	0.1	0.1	-	-	-	-	-	-	-	-	-	-	-	-
Metal Products	8.9	7.8	2.2	8.9	8.1	12.9	0.4	0.0	-	-	-	-	33.7	35.1	34.6	-	-	-	-	-	-
Production & Transmission of Energy	2.0	18.6	6.6	4.2	3.6	3.9	7.1	7.8	5.9	-	0.01	-	2.3	2.0	1.7	-	-	-	2.4	1.2	1.3
Hotel & Services	5.5	2.7	5.9	-	-	-	18.2	17.9	18.3	7.2	13.6	16.8	-	40.7	28.1	-	-	-	-	-	-
Individuals	4.0	3.8	5.8	6.8	7.7	3.7	14.1	20.1	28.5	10.4	16.4	20.8	3.9	0.7	0.5	9.8	12.6	12.9	12.1	14.8	32.1
General Traders	30.5	24.3	27.6	10.8	11.0	11.8	8.9	5.6	11.8	27.0	20.4	23.0	17.1	17.5	17.7	10.3	8.3	8.7	-	-	-
Public/Govt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial	4.2	9.7	4.3	0.1	8.0	5.3	0.2	44.0	18.7	12.7	29.9	42.0	11.7	9.1	8.6	-	-	-	-	-	-
Others	20.3	20.0	2.6	16.5	19.4	14.0	12.2	21.5	10.3	14.7	16.4	15.6	5.0	5.8	8.2	19.7	20.0	20.6	30.3	44.2	30.8
Total	**13.4**	**16.2**	**14.9**	**16.5**	**9.9**	**11.2**	**10.2**	**13.2**	**14.0**	**8.6**	**9.0**	**10.7**	**6.5**	**7.0**	**7.8**	**8.2**	**8.4**	**9.0**	**15.1**	**14.0**	**16.9**

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

Market Analysis

Market Review – March-April, 2012

Market robust

The market was robust throughout the month of March, with the KSE-100 index up 883.88 points (6.86% MoM) to 13,761.76 as of March 30, 2012, compared with 12,877.88 as of February 29, 2012. Turnover was very robust too, with daily volumes averaging at 335.59m shares, up 81.5% from February's average of 184.89m shares. The net inflow of foreign funds in the market during the month according to the NCCPL figures comes to US$8.4m while the first nine months of FY12 net outflow stands at US$141.27m. Up till March 15 the market experienced a bull run. The average daily turnover during this period was 199.72m shares.

The main drivers behind the positive momentum were:

- Institutional buying interest in oil, energy, cement and fertilizer stocks on the back of positive expectations of earnings and payout announcements.
- The Federal Finance Minister's announcement on January 21 to accept all the proposals of the SECP regarding the modalities of the CGT collection and freezing the tax rates for CGT for the next 2 years, as well.
- Positive net foreign inflow in the bourses, the net foreign inflow during this period was US$29.69m.
- During the fourth week of February, the GoP arranged a financing facility of PKR151bn from domestic banks for the PEPCO to pay off liabilities towards IPPs and other companies.

The month ends on a strong note

From March 16 to the end of the month, the KSE entered into a choppy phase but finished strongly in the final week of March in which the KSE-100 Index gained 310 points or 2.3% to close at 13,761 on an average daily turnover of 326.25m shares. The net foreign outflow during this period was US$6.35m.

After closing at a 4-year high on March 15 of 13,451, the market activity became mixed with bouts of dips and recoveries. This could be seen as the ascent of the KSE-100 Index which began in the middle of January was losing some steam and hence, needed some time to consolidate before setting a new direction. The profit taking activity that began on March 16 continued into the first day of the third week. The KSE-100 Index shed 219 points on March 19 to 13,297 on the back of fear that foreign investors would be offloading their shares soon and the news that SNGPL stopped the gas supply to ENGRO's Enven plant since March 16.

Index surges

The market came back with a bang on March 20 as the Index surged by 225 points to close at 13,303. The bounce back can be attributed to the news that the gas supply to Enven was restored on March 19, and production would commence from March 23 and buying activity in major Index stocks from the cement, oil, fertilizer and banking sectors. The euphoria was short-lived though as the market retreated back into the negative zone on both March 21 and 22 as the Index shed 29 points to end the week at 13,273. Investors took a cautious approach in the wake of the resumption of the Prime Minister's contempt of court case which led to profit taking in selective energy and banking stocks.

Index closes at a high

The market went into the bullish gear immediately from the start of the final week of March on the back of anticipation of the Presidential Ordinance regarding amnesty and CGT being promulgated at the beginning of April. Despite the sale of Hub Power shares by International Power and the poor law and order situation in Karachi due to target killing of political workers of major parties, the Index went from strength to strength. The positive trend might be attributed to institutional buying interest in major stocks from various sectors led by cement and banking stocks. From March 26 to 28, the KSE-100 Index surged by 302 points or 2.3% to close at a 46-month high of 13,575. The market dipped slightly on March 29 to close at 13,559. The market bounced back on March 30 on the back of buying interest in mainly cement and banking scrips. The KSE-100 Index jumped by 202 points to end both the month and quarter at 13,761.

Market slightly volatile

The market was slightly volatile during April 2012 due to the promulgation of the Presidential Ordinance regarding the CGT issue, positive foreign inflow and uncertainty over the political scenario in the wake of the Prime Minister's conviction in the contempt case by a 7-member bench of the Supreme Court. The KSE-100 Index gained 228 points or 1.66% during April 2012 to close at 13,990 while the KSE-30 Index increased by 138 points or 1.14% to 12,252. The average daily turnover during April 2012 was 314.08m shares compared to 335.59m shares during March. The net inflow of foreign funds according to NCCPL figures during the month under review was US$22.06m while the fiscal year-to-date net outflow was US$119.21m and the calendar year-to-date net inflow as US$38.19m.

Modest gains in the first week

The market began the first week of April on the back foot as the KSE-100 Index shed 98 points on April 2 to close at 13,663. There was profit taking in energy and banking stocks as the government increased the returns on NSS certificates. The market bounced back over the next 2 days due to buying interest in various oil, power, cement and banking stocks on the back of speculation that the Presidential Ordinance would be promulgated soon. The KSE-100 Index gained 281 points to close April 4 on a 47-month high at 13,945. The market reverted back to profit taking on April 5 as the Index shed 113 points to end the day at 13,831. The market posted modest gains on April 6 to end the first week of the month at 13,875. The Index rose by 113 points (0.83% WoW) on an average daily turnover of 386.8m shares.

Corrective phase

The market was in a corrective phase for most of the second week. The KSE-100 Index shed 76 points (-0.55% WoW) for the week to close at 13,799 on April 13 on the back of average daily turnover of 374.10m shares. The market started the week in the negative due to minor profit taking in selective major Index stocks. The KSE-100 Index shed 10 points to close April 9 at 13,864. The KSE-100 Index gained 38 points on April 10 to end the day at 13,903 due to renewed foreign and institutional buying interest in selective energy and banking scrips. The market experienced a slide over the next 2 days because of the news that the government has decided to import 0.6m tons of urea hitting the share prices of fertilizer stocks hard. In addition, there were jitters among investors regarding the implementation of the much anticipated reformed CGT regime. The KSE-100 Index shed 209 points over April 11 and 12 to close at 13,693. The market ended the week on April 13 on a positive note due to buying interest in selective major stocks.

Mixed market

The market was mixed and slightly volatile during the third week of April. The Index rose by 137 points (0.99% WoW) to close at 13,936 on April 20. The average daily turnover fell by 28.2% WoW to 268.7m shares. The market began the week on a slightly negative note. The KSE-100 Index shed 35 points in the first 2 days to close April 17 at 13,764. The selling pressure in the market was driven by the sell-off in shares of big banks as the SBP in its Monetary Policy Statement on April 13 increased the minimum rate on savings accounts from 5% to 6% effective from May 1.

In addition, there was selling pressure in fertilizer stocks on April 17 when FFBL posted a higher loss than expected in its 1QCY12 announcement. Fortunately, the market bounced back on April 18 because of speculation that the SRO regarding the relaxation of CGT would be notified soon. The KSE-100 Index gained 173 points on April 18 to end the day at 13,937. There was minor profit taking in energy stocks on April 19 that led to the Index shedding 8 points to close at 13,929. The market was range bound on April 20 as the KSE-100 Index attempted to close above the psychological barrier of 14,000 but faced resistance. The Index gained only 7 points on April 20 to close out the week at 13,936.

Index rises by the end of the month

The market was again mixed throughout the final six sessions of the month as the first part of the week was positive due to the exuberance shown by investors over the promulgation of the Presidential ordinance and buying activity by foreign investors. However, the last 3 sessions of the month saw the Index shed 227 points to end April at 13,990 because of the uncertainty in the political situation. The Index rose by only 53 points (0.39%) from April 20 to 30.

The average daily turnover during this period was 241.34m shares. The market started the week on a bullish note on the back of anticipation of the Presidential Ordinance being promulgated (which happened on April 24) soon and healthy corporate profits during the current round of quarterly announcements. The KSE-100 Index during the first 3 days of the week jumped by 281 points or 2.0% to end April 25 at 14,217. In addition to the exuberance over the ordinance, buying activity in major stocks by foreign investors further consolidated the sanguine sentiments in the market.

Albeit buying activity across the board, bank stocks were in the limelight, especially the big banks that have posted very good first quarter earnings. PTCL may have acted as a drag on the Index as it did not declare a cash dividend with its 3QFY12 results as many investors and analysts were expecting it would, given its track record. The market experienced profit taking from April 26 to 30 as the KSE-100 Index shed 227 points as the conviction of the Prime Minister in the contempt case by the Supreme Court has led to confusion over the fate of the Prime Minister along with the poor law and order situation in certain parts of Karachi.

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

Book/Report Reviews

The Future of Pakistan
Stephen P. Cohen and others
Vanguard Books (2012)

This book is a collection of 18 essays by scholars from around the world who have tried to determine the major factors influencing Pakistan's future. Pakistan is a country of growing importance to the United States and to the rest of the world. The first essay in the book, Pakistan: Arrival and Departure written by Stephen P. Cohen identifies 19 factors grouped into four clusters which are important in shaping Pakistan. The first cluster discusses the economy, demographics, urbanization, education; the second is about identity of Pakistan's people; the third cluster talks about the ability of Pakistanis to work for or against a common goal and includes bureaucracy and structure of government, while the last cluster includes the policies and attitudes of important foreign states as well as how globalization affects the various factors.

It is the interplay between some of these critical factors which seems likely to shape the future. The author has identified some warning signs, which point to the urgent issues and these are; unwillingness to deal quickly with economic issues, unwillingness/inability to rebuild state institutions, absence of governance at the top, the begging bowl, fresh crisis with India and further appeasement of Islamists.

In another article, Pakistan's Future: Muddle Along, the author Kanti Bajpai argues that there are six possible futures for Pakistan, three more radical and three more moderate.

Some of the writers have identified factors impacting Pakistan's future. William Milam in his article Factors Shaping the Future has identified six major factors, while Joshua T. White in his article, The Perils of Prediction has chosen to focus on three factors, while Hasan Askari Rizvi in his article, At The Brink talks about five major challenges.

The last essay focuses on Pakistani youth's perceptions and preferences and attempts to analyze them in light of the socioeconomic realities that their country is likely to face over the projected period.

Pakistan
A Hard Country
Anatol Lieven
Published by the Penguin Group (2011)

Pakistan is a country of growing importance to the world. This book analyzes both Pakistan's internal problems and the sources of Pakistan's internal resilience and describes the threats the country faces from the Taleban and their allies. It also examines the policies of the Pakistani security establishment towards Afghanistan and India, since these have had an impact on domestic developments. The first chapter, Introduction: Understanding Pakistan is followed by the chapter, The Struggle for Muslim South Asia. The later chapter tries to draw from the history of the region, and of Islam in South Asia, those events and elements which are of greatest relevance to the situation in which Pakistan finds itself today.

Part two of the book is an analysis of the social, religious and political structures of Pakistan. The chapter on Justice describes the jirga and panchayat mechanism, the miserable relations between the judiciary and the police, the long delays in court cases, the miserable conditions in which ordinary policemen work, etc. The chapter, The Military describes Pakistan's military, which is one of the largest, has a strong measure of popular support, is the largest middle class employer. It goes on to describe its relations with India, the question of links to Islamist terrorists raises particular fears in the west because of Pakistan's possession of nuclear weapons.

Regarding the country's political structure, patronage and kinship form the basic elements of the Pakistani political system. As far as most of the political parties are concerned, these do not exist in the form taken as the norm in the west. The nature of the Pakistani political system has made it possible for the military to seize power, which has been followed by long periods of military rule. It goes on to describe on how Pakistani political system works. The various political parties of Pakistan have also been described.

Part three of the book is about the four provinces of Pakistan, while part four is titled the Taleban. The deep religious, ethnic and tribal roots of the Pakistani Taleban date back hundreds of years and were revived by the Soviet invasion of Afghanistan and the struggle against it. In the concluding chapter, the author states; that Pakistan, though a deeply troubled state, is also a tough one. In the long run, the greatest threat to Pakistan's existence is not insurgency, but ecological change.

In the short term, of course, Western policy towards Pakistan will be shaped by developments in Afghanistan, but this policy should not be dictated by those developments. For Pakistan is in the end a great deal more important and potentially dangerous than Afghanistan.

Financial System and
Economic Development — Pakistan
Shakil Faruqi
Published by: Lahore School of Economics (2011)

The book is in two volumes, and is basically meant as a reference for students studying banking, financial system and financial markets at academic institutions. Volume I discusses topics on Banking and Financial System with focus on financial system structure and its components, while the main topics in Volume II consist of Securities Markets in Pakistan, their structure and operations.

Volume I Banking and Financial System has 14 chapters, with 2–4 sections in each of the chapters. Beginning with the description of the structure, role and functions of the Financial System, the basic concepts and their definitions, the structure of the financial system, financial savings and deposit mobilization it goes on to describe the Credit system, the patterns of credit allocation, how far the banking system has been responsive to the credit needs of priority sectors, sectors like SMEs, exporting, housing and others? the issue of non-performing loans, and issues of banking system credit. Chapter 9 is about Islamic Banking & Finance — its structure and operations and operational framework. Chapter 10 talks about the fiscal operations of Government, the emergence of public debt and the foreign sector. The later chapters describe the financial reforms, banking regulation and supervision, managing banking system soundness and solvency and managing the financial system in post reform era.

Volume II of the text book is on Financial Markets. It has 11 chapters. The volume begins with some preliminaries, the structure and core functions and the interlinkages between financial markets and the economy. It is followed by a chapter on Securities Markets, Pakistan, followed by an understanding of the participants of Financial Markets. Fundamentals of financial markets have been explained, while one of the chapters discusses the short term financial markets – money market and treasury bills.

Chapter 6 describes foreign currency market, both the formal and informal, while chapter 7 is about Capital Markets. It describes its fundamentals, SECP role and functions, the two regulators (SBP & SECP) Pakistan's corporate sector, etc. Long term Debt Markets (Bond Market) Stock Market, and issues of future growth of stock market form the themes of the next three chapters. The last chapter of the book attempts to bring together leading elements of analysis, assessments, perceptions and vast material presented in two volumes of this book, but it does so around the theme of the chapter, that the future development of financial system and markets is increasingly bound to integration with global economy and global finance.

Pakistan Economy – Key Economic Indicators

	Unit	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Output and Prices								
GNP Size (MP)	Rs.bn	6634	7773	8831	10452	13070	15403	18847
GDP Size (FC)	Rs.bn	6123	7158	8235	9921	12110	14066	17107
Income Per Capita	$	724	823	905	1022	1017	1068	1122
Real Growth	(%)							
GNP		8.7	5.6	6.7	3.7	4.0	5.1	2.8
GDP		9.0	5.8	6.8	3.7	1.7	3.8	2.4
Agriculture		6.5	6.3	4.1	1.0	4.0	0.6	1.2
Manufacturing		15.5	8.7	8.3	4.8	-3.6	5.5	3.0
Services Sector		8.5	6.5	7.0	6.0	1.7	2.9	4.1
Prices	(%)							
Consumer Price Inflation		9.3	7.9	7.8	12.0	20.8	11.7	13.9
Wholesale Price Inflation		6.8	10.1	6.9	16.4	18.2	12.6	23.3
Food Inflation CPI		12.5	6.9	10.3	17.6	23.7	12.5	18.0
Non Food Inflation CPI		7.1	8.6	6.0	7.9	18.4	11.1	10.6
Core Inflation†		7.2	7.5	5.9	8.4	17.6	11.0	9.7
GDP Deflator		7.0	10.5	7.7	16.2	20.0	11.9	18.8
Gold Tezabi (Karachi)	Rs./10 grams	8216	10317	12619	16695	22195	29587	37658
Petrol Super	Rs/Ltr	40.74	55.12	56.00	57.83	67.68	67.56	75.70
Kerosene Oil	Rs/Ltr	29.11	36.19	39.09	43.44	66.79	72.65	84.89
Wheat Flour (Avg. Quality)	Rs/Kg	13.28	13.06	13.64	18.07	25.64	28.77	29.56
Savings and Investment	% GDP							
National Savings		17.5	18.2	17.4	13.6	12.5	13.1	13.6
Domestic Savings		15.4	16.3	15.6	11.5	9.8	9.3	9.3
Gross Fixed Investment		17.5	20.5	20.9	20.5	16.6	13.8	11.8
Public Sector		4.3	4.8	5.5	5.4	4.3	3.6	3.3
Private Sector		13.1	15.7	15.4	15.0	12.3	10.2	8.5
Public Finance								
Revenue Receipts (Fed Govt)	% GDP	13.8	14.2	14.9	13.7	13.2	13.8	11.7
Tax Revenue	% GDP	8.9	9.4	9.7	9.9	9.8	10.0	8.9
Total Expenditure	% GDP	17.2	18.5	19.1	18.7	16.5	17.4	14.8
Fiscal Deficit	% GDP	3.3	4.3	4.3	7.6	5.3	6.3	4.0
FBR Tax Collection (Fed Govt)	Rs.bn	590.4	713.5	847.2	1007.2	1161.2	1328.6	1558.0
Direct Taxes	% share	31.0	31.5	39.4	38.4	38.2	39.8	38.7
Indirect Taxes	% share	69.0	68.5	60.6	61.6	61.8	60.2	61.3
Internal Debt Outstanding	Rs.bn	2158	2337	2610	3275	3861	4654	6017
Funded Debt	% Internal Debt	59.8	62.3	64.0	68.8	67.1	68.7	72.5
Unfunded Debt	% Internal Debt	40.1	37.7	36.0	31.2	32.9	31.3	27.5
Monetary Sector								
Growth of Monetary Assets M2	%	19.3	15.2	19.3	15.3	9.6	12.5	16.0
Currency in Circulation	Rs.bn	665.9	740.4	840.2	982.3	1152.2	1295.4	1501.4

†*non-food non-energy*

	Unit	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Credit to Private Sector	Rs.bn	1712	2114	2480	2890	2907	3020	3141
Credit to Public Sector	Rs.bn	752	834	927	1510	2034	2441	3020
Borrowings for Budgetary Support	Rs.bn	647	708	810	1365	1681	2011	2602
Resident Foreign Currency Deposits	Rs.bn	180	196	207	263	280	345	368
Demand Deposits / Money Ratio	%	32.1	31.9	65.0	65.5	62.4	62.2	60.5
Capital Market (KSE)								
Listed Capital	Rs.bn	439	496	631	706	782	910	920[†]
Market Capitalisation	Rs.bn	2068	2801	4019	3778	2121	2732	3217
Listed Companies at KSE	Nos	659	658	658	652	651	652	638[†]
Banking Sector								
Scheduled Banks Deposits[a]	Rs.bn	2428	2817	3373	3812	4138	4693	5489
Scheduled Banks Advances[b]	Rs.bn	1694	2071	2376	2816	3080	3174	3311
Non-Performing Loans All Banks	Rs.bn	177	173	214	314	432	548	579
Lending and Deposit Rates	weighted average							
Deposits	% per annum	1.37	1.96	2.60	4.13	4.44	4.29	4.53
Advances	% per annum	8.81	10.61	11.55	12.49	14.25	13.63	13.46
Open Market Operation	weighted average							
SBP 3-Day Repo[1]	% per annum	9.00	9.00	9.50	12.00	14.00	12.50	14.0
Treasury Bills Yield - 6 Months	% per annum	7.96	8.49	8.90	11.47	14.01	12.59	11.92
KIBOR - 6 Months (Offer)	% per annum	8.46	9.36	10.4	10.5	14.2	12.4	13.4
Pakistan Investment Bonds - 5 yrs	weighted average	7.50	9.65	10.0	10.80	14.33	12.56	14.03
Interbank Call Rates (Overnight)	%	6.10	8.80	8.90	9.90	11.35	11.0	12.41
SBP Export Finance Rate	%	6.50	7.50	6.50	6.50	6.50	8.00	10.0
External Sector								
Exports	$ bn	14.39	16.45	17.00	19.05	17.69	19.29	24.81
Imports	$ bn	20.59	28.58	30.54	39.97	34.82	34.71	40.41
Balance of Trade	$ bn	6.18	12.01	13.40	20.20	16.92	15.18	15.27
Current Account Balance	$ mn	1534	4990	6878	13874	9261	3946	268
Workers' Remittances	$ mn	4168	4600	5494	6451	7811	8906	11201
Foreign Investment in Pakistan	$ mn	1677	3872	6960	5454	3209	2739	1999
Direct	$ mn	1525	3521	5140	5410	3720	2151	1635
Portfolio	$ mn	153	351	1820	44.3	-510	588	365
Debts								
External Debt and Liabilities	$ bn	35.8	37.6	40.5	46.2	52.3	57.4	61.8
Domestic Debt Outstanding	Rs.bn	2158	2337	2610	3275	3861	4654	6017
Internal Debt as % of GDP	%	33.5	30.7	30.1	32.0	30.3	31.4	33.3
National Saving Schemes	Rs.bn	940	936	1004	1094	1361	1585	1820
Total Reserves	$ mn	13338	14354	18890	13436	13971	17921	20941
Gold	$ mn	917	1268	1344	1926	1935	2575	3117
Liquid Fx Reserves	$ mn	12421	13086	17546	11510	12036	15346	17824
Exchange Rate (Average for year)	Rs/US$	59.3576	59.8566	60.6342	62.5465	78.4983	83.8017	85.5017

[†] *July-March* [a] *excludes deposits of scheduled banks* [b] *excludes advances to scheduled banks*

[1] *SBP 3 day repo rate was renamed as SBP reverse repo rate wef August 17, 2009*

Source: Pakistan Economic Survey 2010-11
Annual Report 2010-11, State Bank of Pakistan