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NBP Performance at a Glance

Economic Challenges for The New Government in Pakistan

With the elections of 2013 not far away, the new government that assumes office in Pakistan will face formidable challenges. There are serious issues facing the country, from the war on terror, security concerns, deteriorating law and order, sectarian killings to reviving the economy, improving governance and checking malpractices so to achieve durable development outcomes.

The growth in the economy has slowed down, and averaged 2.3 percent in the last five years. Persistent energy crisis, poor fiscal indicators, lagging social indicators, rising public debt, continuing inflationary pressures, low savings, falling investment, have all taken a heavy toll on the economy. The IMF in its *World Economic Outlook, April 2013* has stated, that in Pakistan, high fiscal deficits and a difficult business climate are contributing to a sharp fall in private investment and growth. Deep improvements in governance, and structural reforms in many areas are needed to unleash Pakistan's growth potential. Pakistan would have to address the impediments to increasing investment and to provide infrastructure, energy, educated and skilled human capital, improve business environment and level of governance.

The government that assumes office will have to prioritise the critical issues for each merits consideration, some tough decisions will have to be taken and it has to show the political will to introduce and implement meaningful reforms that can bring a positive change in the country.

One of the biggest challenges to deal with is the lack of adequate domestic resources, which can meet the expenditure requirements of the economy, without the need to depend on external financing which comes with a number

of conditionalities. Sustainable economic performance is not possible without a strong domestic revenue base. Pakistan has one of the least effective fiscal regimes in the world, as from a population of around 180 million people, around 1 percent pay taxes. The overall tax to GDP ratio has remained stagnant at around 10-11 percent over the last decade and infact has shown a decline in recent years.

Some challenges

Low revenues

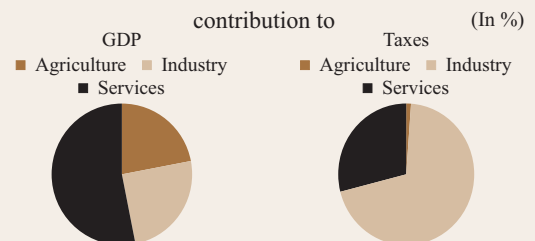
Pakistan Tax/GDP Ratio (%)

Year	Ratio (%)
2003-04	10.8
2004-05	10.1
2005-06	10.5
2006-07	10.3
2007-08	10.3
2008-09	9.5
2009-10	10.1
2010-11	9.5
2011-12	10.1

Source: Statistical Supplement Pakistan Economic Survey 2011-12

The rate compares with tax collection rates of around 14 to 15 percent of GDP in countries with similar per capita incomes. Besides the narrow tax base, the taxation system suffers from low compliance, widespread-exemptions. Exemptions granted in the last four years have cost Rs650 billion, according to the Chairman, Federal Board of Revenue. Low coverage, large informal sector, weak enforcement of laws, and a mismatch between the sources of growth in the economy and the tax revenue base are some of the other reasons for low tax collection.

Sources of Growth and Tax



The SBP *Second Quarterly Report 2012-13* on the *State of Pakistan's Economy* states, apart from the inability to introduce a broad-based value added tax, tax collection was undermined by the number of exemptions granted to various industries; tax evasion, and fake claims for refunds and rebates. Surprisingly, FBR has recently cut tax rates on certain products (including beverages, cement and sugar), which have been important sources of revenue in the past; it also removed the 1 percent withholding tax on manufacturing entities, further affecting overall tax collection. Moreover, sluggish growth in the domestic production of sugar, consumer electronics, auto products, and a fall in imports, have adversely impacted revenue collection of the Federal government. One must also realize that FBR no longer collects sales tax on services, which has been devolved down to the provincial government (Sindh started in FY12, and Punjab launched it in FY13).

Tax collection machinery be made honest

The need for taxation reform is real, but many experts believe that much larger collections will be possible even with the given system of taxation if the collection machinery was both efficient and honest. The collusion between the tax payer and the tax collector is a fundamental source of lost revenue. Despite a decade's work on improving tax administration, the results are poor partly because of vested interests and the lack of political will. This was stated by the *Fourth Annual Report 2011, Institute of Public Policy*.

The low tax ratio can be gradually increased to 14 to 15 percent over the next five years or so. However, this cannot be done by simply reducing tax evasion and strengthening federal taxation, states the Report. To increase the tax to GDP ratio by nearly 1 per cent per annum, two other pre-requisites are necessary – a growth rate of nearly 6 percent per annum in the economy, and a major effort by provinces to increase the present abysmal provincial tax to GDP ratio.

Tax system is unfair

In his paper *Accelerating Tax Reforms in Pakistan*, Dr. Manzoor Ahmad, shows how the tax system is unfair, it lets the rich get away without paying their fair share, there is no tax on wealth, and gift or inheritance (estate duty) nominal tax on agriculture, different sources of income treated differently, sales tax regime has a number of loopholes, customs tariff discriminate against the poor by taxing items consumed by them. Secondly it shows how it impedes economic growth; it relies for taxes on international trade, it discriminates against more productive economic activities, particularly manufacturing and it provides opportunities for corruption and creates distortions and makes it easy to indulge in corrupt practices. The author recommends taxing all income above a certain threshold irrespective of source, reintroduction of estate taxes, get rid of the exemptions, abolish all duty concession SROs.

The Chairman FBR in his paper. *The Future of Pakistan – in Your Hands* has aptly summed the Ideal Tax System in three words, Fairness, Growth and Revenue. Fairness – when everyone pays taxes and those who don't are punished; Growth – taxes are reasonable and promotes growth and progress; and Revenue where collection is steady and increases with demands of the country. Each individual/business has to pay his/her dues so the burden is not borne by few segments of the economy, or a limited number of individuals, but is shared across the board.

Fiscal situation

Raising tax revenue through sustained policy measures and strengthened administration both at the federal and provincial level, will bring about improvement in collections. The IMF had advised the authorities to consider credible alternative revenue measures including a modified GST and strengthening the income tax. At the same time public spending should be prudently managed to contain the overall fiscal deficit. The *Second Quarterly Report for FY2013, State Bank of*

Box

Asian Development Outlook 2013

Prospects/development challenges for the Pakistan economy, as given in the ADB Outlook is briefly given below:-

- The end of the government's 5-year term in mid-March 2013 limited political scope for major policy or structural reforms. Economic developments in FY2013 are therefore unfolding along broadly similar lines as FY2012 but with deepening concerns about sustainability and the adequacy of foreign reserves.
- The economic situation weakened further in the first half of FY2013 as official reserves declined markedly, food and general inflation both reaccelerated in January following their earlier decline, and exports stagnated while imports contracted. Economic growth is expected to slow to 3.6 percent in FY2013, with risks on the downside from possible shortfalls in agricultural production, which may offset the modest improvement in large-scale manufacturing during the first half of the year.
- With little prospect for improving energy supply or investment, growth is expected to remain weak at 3.5 percent in FY2014.
- It is expected that the current account will post a deficit on the order of 0.8 percent of GDP.
- Low reserves adequacy, at less than 2 months of imports cover as of February 2013, raises concern over external sector sustainability.
- Pressure on reserves is expected to continue, with an additional \$1.7 billion due to the IMF before the end of FY2013 and \$3.2 billion during FY2014.
- Continued weak export prospects, combined with limited import demand held down by slow domestic growth and relatively stable global prices for oil, support a projection that the current deficit will increase marginally to 0.9 percent of GDP in FY2014.
- The fiscal outlook is largely unchanged from FY2012. Revenue targets announced with the FY2013 budget are unlikely to be met, as tax receipts have grown by only 12.0 percent in the first 6 months, well below the 23.7 percent increase needed to meet budget targets.
- On the expenditure side, overruns on interest outlays and subsidies are again expected, as subsidy allocations of Rs120 billion have already been exceeded and will reach at least Rs200 billion along with a further buildup of power sector arrears.
- The deficit for FY2013 is expected to breach the 4.7 percent target and is likely to come in at 7.0 percent - 7.5 percent of GDP, excluding any payments to settle power sector arrears.
- The economy faces fundamental challenges to growth. The existing pattern of consumption-led growth with falling investment is unsustainable.
- Unchanged policies marked by the lack of structural reform, high fiscal deficits, and accommodative monetary policies will mean continued slow growth, excessive inflation, and a weakening balance of payments that drains official reserves.
- Deterioration in the power sector is the main physical constraint on growth and a major cause of financial and economic instability. Power outages are estimated to cut growth by 2 percentage points annually, making it unlikely that Pakistan will be able, without significant reform, to move toward the 7 percent growth rate needed to generate adequate employment and meaningful poverty reduction.
- Growing arrears, which reached Rs450 billion at the end of December 2012, or about 2 percent of GDP, constrain the availability of cash needed to operate existing power-generation assets at full capacity. While it will take time to move to a more efficient system for generating, transmitting, and distributing electricity, improvements to collection adjustments to pricing mechanisms, and improved management could enable higher power generation, lift the financial burden on the budget, and motivate private investment in the sector.
- Finally, achieving the major challenge of boosting agricultural productivity and strengthening food security requires improving the management, storage, and pricing of water for irrigation.
- Pakistan is one of the most water-stressed countries in the world, not far from being classified as 'water scarce', with less than 1000 cubic meters per person per year. Water demand exceeds supply, which has caused maximum withdrawal from reservoirs. At present, Pakistan's storage capacity is limited to a 30-day supply, well below the recommended 1000 days for countries with similar climate.
- Increases in storage capacity to manage periods of low snowmelt and low rainfall are required as well as the rehabilitation of the distribution system to reduce losses.

Pakistan, mentions the challenging fiscal situation the country faces because of the sluggish growth in tax revenues, mounting interest payments on domestic public debt, and inappropriate financing mix of the budget deficit with heavy reliance on expensive domestic sources due to drying up of external funds. Meeting the annual budget deficit target of 4.7 percent of GDP seems very unlikely.

Growing financing needs

Large fiscal deficits are difficult to finance especially when foreign assistance is limited. As a result, budgetary management relies on the containment of investment spending and borrowings from the banks or non bank sources. Also a number of public sector enterprises incur large losses, and subsidies have to be provided to cover these losses, which divert resources from more productive spendings. According to various estimates, the current annual losses of principal public enterprises, Pakistan International Airlines, Pakistan Steel, Pakistan Agriculture Storage and Supplies Corporation (PASSCO) and Pakistan Electric Power Company (PEPCO), add up to 1.5 to 2.0 percent of GDP. In FY12, subsidies were budgeted at Rs166.4 billion, but revised estimates show them to be much higher at Rs512.3 billion, or 2.6 percent of the GDP. The government's growing financing needs is a challenge. It has had to borrow domestically and externally as a means of bridging the continuing fiscal imbalances.

Fiscal Trends (% of GDP)

	2006-07	2007-08	2008-09	2009-10	2010-11
Tax Revenue	10.2	10.0	9.2	9.3	9.4
Total Revenue	14.9	14.3	14.1	14.2	12.5
Total Expenditure	20.7	21.7	19.3	20.5	18.9
Current Expenditure	15.8	17.7	15.6	16.3	16.1
Development Expenditure	5.0	4.0	3.5	4.5	2.8
Overall Deficit	5.8	7.4	5.2	6.3	5.9*
Revenue Deficit	0.9	3.0	1.5	2.1	3.6

* Excluding arrears of electricity bills

Source: Fifth Annual Report 2012, Institute of Public Policy

Consequently the deficit financed by borrowing has resulted in the accumulation

Public debt rises

of public debt in Pakistan, giving rise to the heavy burden of debt servicing. Pakistan's total debt reached Rs14.6 trillion as of end December 2012; where domestic government debt was Rs8.3 trillion, domestic public sector enterprises debt Rs322 billion, and Rs5.95 trillion was external debt. External inflows remained weak, while Treasury bills held by the banking system contributed significantly to the growth in debt. Both debt repayment capacity indicators deteriorated during the second quarter of FY13, on account of heavy interest payments on domestic debt and sluggish foreign exchange earnings, states the SBP Report.

Interest Payments on Domestic Debt

	First Half		Absolute Change
	FY12	FY13	
Permanent	48.0	78.7	30.7
Floating	176.6	286.1	109.5
Treasury bills	93.6	196.1	102.4
3 months	7.1	22.6	15.5
6 months	76.5	24.7	(-)51.8
12 months	10.1	148.8	138.8
MRTBs	83.0	90.1	7.1
Unfunded	114.7	121.0	6.3
Total Interest Payment	351.4	500.2	148.8

Source: State Bank of Pakistan

The government has borrowed extensively from the banking sector for financing its fiscal deficit, as external sources of finance remained weak. *The SBP Second Quarterly Report for FY13* states, that the government mostly relied on commercial banks for financing and actually retired a part of its borrowing to the State Bank during the first half of FY13. The sharp rise in government borrowing from commercial banks is not only reducing the supply of funds for the private sector, but also complicating liquidity management.

During the first half of FY13, the fiscal authorities borrowed Rs518.1 billion from the banking system. Within the banking system, the government relied heavily on commercial

banks and borrowed Rs734.3 billion during the first half of FY13, and at the same time, the government retired Rs216.2 billion to the SBP. Expansion of credit to public sector enterprises in this period, was largely driven by a bailout package for the Pakistan Steel Mills, lending to power sector holding company and borrowing by Pakistan International Airline Company to repay its long term loan.

There has been a sharp rise in interest payments because of a significant rise in domestic debt in recent years which constitutes 38 percent of overall current spending. It consumes large chunk of resources, which could have been utilized for productive development purposes, this stimulating the domestic economy. This rising debt burden is now dominating the government's fiscal accounts, states the SBP Report and fiscal management has become more challenging following a slowdown in revenue collection.

Rise in interest payments

Last year the State Bank of Pakistan Governor had said Pakistan will not face any risk in making repayments to the IMF. Despite economic challenges, Pakistan is not facing a situation which requires emergency external assistance. The fiscal deficit and the lack of external financing will continue to challenge Pakistan. As regards pressure on the country's foreign exchange reserves, he said it will be challenging, but manageable.

Economic managers will have to comply in bringing about structural reforms in various areas of the economy, while going to the IMF. Some measures have been adopted and reforms introduced, but more needs to be done, as has been shown in the IMF report on Pakistan. The IMF had in their Report shown the need for further fiscal adjustment. A substantial increase in tax revenue is a necessary condition for sustainable deficit reduction, but another attempt should be made at implementing the reformed General Sales Tax. This could generate upto 3 per cent of GDP in additional tax revenue. The problems in the power sector and loss making PSEs will need to be resolved, to remove these large drains on budgetary funds and to make room for more productive uses of public funds, especially for health, education, and poverty alleviation through better targeted transfers, and to improve public service delivery, said the Report.

Structural reforms needed

Pakistan

	(Annual % change)		
	Projections		
	2012	2013	2014
Real GDP	3.7	3.5	3.3
Consumer Prices	11.0	8.2	9.5
Current Account Balance	-2.0	-0.7	-0.8
Unemployment	7.7	9.2	10.7

Source: World Economic Outlook: Hopes, Realities, Risks, IMF, 2013

Pakistan is likely to approach the IMF for a new funding package as external position is weakening. Financial flows have weakened and central bank reserves have fallen. In 2008, the country had secured a \$11 billion IMF loan package, but the IMF had suspended the programme in 2011 after economic reform targets were missed. These related to bringing reforms to the General Sales Tax, the power sector, reducing subsidies while protecting the most vulnerable and bringing revenue and expenditure reforms while improving compliance.

IMF

Provinces will need to raise more of their own tax revenues. The effort to improve tax administration and tax compliance will have to continue unabated. Implementation of reforms has been lacking, reflecting a lack of broad political ownership. Improving Pakistan's energy supply remains a key priority on the structural reforms agenda.

The major challenge for the new government would be to address the problems of the power sector which has cost the country immensely. Energy shortages have not only constrained

Cons-
trained
production

growth in terms of GDP foregone, but have had their implications on industrial production, employment, exports and brought untold miseries to millions of consumers. Power outages are considered to be the primary cause of constrained production activities in a number of industries. Energy intensive industries (petroleum, iron and steel, engineering and electrical) shaved off 0.2 percentage points from real GDP growth in 2010-11 and 2011-12. Because of the severe energy shortages, industrial utilization capacity remains low, reports the *Pakistan Economic Survey 2011-12*. Shortage of electricity has also triggered social unrest, creating law and order problems in many cities across Pakistan.

Cost of
power
crises

The estimated cost of power crises to the economy is approximately Rs380 billion per year, around 2 percent of GDP, while the cost of subsidies given to the power sector to the exchequer in the last four years (2008-12) is almost 2.5 percent of GDP (Rs1100 bn). The liquidity crunch in the power sector has resulted in underutilization of installed capacity of upto 4000 MW. It has also affected investment in power sector, states the *Economic Survey 2011-12*. Since 2006-07, when the present energy crisis began, the demand and supply gap has widened, with the deficit ranging between 4000-4500 MW. In May 2011, the shortfall had surpassed 7000 MW. There are prolonged outages, forcing shutting down of large number of industrial units, leading to large scale unemployment.

State of Industry Report 2012, NEPRA states, that about 3000 MW of new generation has been added to the system over the past couple of years. However, there is large quantum of suppressed demand, which is being added every year outpace the new addition to generation. It is feared that the gap between supply and demand would continue to widen, as the current plans would not be adequate to meet the needs of the sector even around 2020.

Issues
facing the
power
sector

There are number of issues facing the power sector and no improvements can be brought in the economy, unless the new government that assumes office after the May elections addresses these grave concerns on priority basis and takes necessary drastic steps. The colossal circular debt is damaging, the subsidy being provided to the sector, leaves little for other productive uses and takes away 19.5 percent of current expenditure, the high cost of energy mix adds to the burden of circular debt, the transmission and distribution systems need to be strengthened, low recoveries of the billed amount have to be checked and appropriate measures taken.

The leakages in electricity transportation from grids to the ultimate consumers have to be controlled and offenders punished. The NEPRA Report says, 'essentially it is not the installed capacity which is needed. Most of the times, it was the lack of money to generation companies for buying the expensive fuel oil, forcing them to curtail their outputs. Technical availability and efficiency of generation plants was compromised due to lack of timely maintenance and rehabilitation. Capacity is not the real issue; it is the corporate debt issue, which has fully engulfed operations of the sector.'

Power sector issues require long term planning, no adhoc arrangements which provide temporary relief. Crucial reforms are needed to restructure the entire power sector. The burden of energy subsidies have to be addressed, as this jeopardizes fiscal sustainability and remains a stumbling block to higher growth by squeezing out much needed health, education and infrastructure spending. Immediate measures are needed to bring the cost of energy mix down by reducing the country's dependence on imported oil, which consumes 38 percent of the total import bill, and move towards hydro, coal, wind power and other indigenous resources.

Box

The Causes and Impact of Power Sector Circular Debt in Pakistan
March 2013

The mentioned report was commissioned by the Planning Commission of Pakistan and funded by the United States Agency for International Development (USAID). It seeks to identify the primary causes of the current circular debt and what steps can be taken not only to reduce the debt but also continue with the reform process. We give below extracts from the said report.

- This report addresses the circular debt issue in relation to the Pakistan power sector. Circular debt is the amount of cash shortfall within the Central Power Purchasing Agency (CPPA) that it cannot pay to power supply companies. This shortfall is the result of (a) the difference between the actual cost of providing electricity in relation to revenues realized by the power distribution companies (DISCOs) from sales to customers plus subsidies; and (b) insufficient payments by the DISCOs to CPPA out of realized revenue as they give priority to their own cash flow needs. This revenue shortfall cascades through the entire energy supply chain, from electricity generators to fuel suppliers, refiners, and producers; resulting in a shortage of fuel supply to the public sector thermal generating companies (GENCOs), a reduction in power generated by Independent Power Producers (IPPs), and an increase in load-shedding.
- According to estimates, the circular debt at the end of FY12 was Rs872.41 billion, representing approximately 4 percent of the national nominal GDP.
- Load-shedding has adversely affected the economy and disrupted social life in the country. It is estimated that in 2008, load-shedding in the industrial sector cost the country over Rs210 billion, over \$1 billion from export earnings and a potential displacement of 400,000 workers. The adverse impact of load-shedding is much higher if the impact on the agriculture and services sectors is included.
- The primary causes of circular debt include:
 - Poor governance.
 - Delays in tariff determination by an inadequately empowered regulator compounded by interference and delay in notification by the Government of Pakistan. Delays in tariff determination and notification contributed Rs72.19 billion to the circular debt for FY12.
 - A fuel price methodology that delays infusion of cash to the power sector.
- Poor revenue collection by the DISCOs. Poor revenue collection contributed Rs86.9 billion to the circular debt in 2012.
- Non-payment of electricity dues by private consumers is one of the largest contributors to circular debt.
- Delayed and incomplete payment by the Ministry of Finance (MoF) on Tariff Differential Subsidy (TDS) and Karachi Electric Supply Company (KESC) contract payments. The outstanding balance of the TDS to be paid by the MoF was Rs106.02 billion at the end of 2012, which adds to the circular debt.
- Prolonged stays on fuel price adjustments (FPAs) granted by the courts.
- Transmission and distribution (T&D) losses and theft. DISCOs T&D losses for FY12 contributed Rs22.78 billion to the circular debt.
- Secondary causes are those which indirectly contribute to the circular debt. These include thermal inefficiencies of the GENCOs; inadequate budgeting of subsidies; unfavorable generation mix; impact of court decisions on payments to the DISCOs; LPS; neglect of demand-side management, energy efficiency and renewable energy; legacy payments; and payables to CPPA for power purchased.
- The Report gives the following recommendations:-
 - The primary tasks before the GoP are to remove the current overhang of circular debt on the power sector, and to prevent its recurrence. Major sector reforms and improvements in governance are needed to prevent its recurrence.
 - To resolve these problems, the GoP needs to achieve two tasks:
 - a) Remove the circular debt from the books of energy sector entities (DISCOs, CPPA) and take responsibility for the mismanagement of the power sector reform process. Move the circular debt amount to the government's debt, reallocate in consumers tariff or place a tax on the consumer to recovery over time.
 - b) Undertake specific policies and programs to improve the governance and performance of energy sector entities to decrease costs, increase cash flow, and ensure operational/financial integrity of the sector.
 - The GoP needs to ensure effective management and operation of the power sector as well as its long-term financial viability.

Focus on alternate and renewable energy

The country has enormous hydro, coal and wind energy. Focusing on alternate and renewable energy technologies would not only reduce reliance on conventional energy sources but would also promote local industries. For instance, if the government develops a programme to replace gas geysers with solar water heaters, it would not only cut down gas consumption, but also promote those units manufacturing gas heaters. While the bulk of coal consumption in the country is used by cement, only 1.4 percent is used for power generation. The country needs large coal based power plants, small and large hydroplants and the huge potential of solar energy must be harnessed. The government has a detailed policy for development of renewable energy for power generation. All that is needed is political will and sincere implementation of policies.

Impact of investments on education & health

Investments in education and health have an impact on the individual and society. Such investments help the individual to live healthier, and lead a more productive life, contributing to society. Investments in health affect outcomes throughout the course of life. Childhood exposure to disease have been linked to lower development, schooling attainment and learning in adolescence. Poorer health in adulthood affects economic outcomes, reflected in absence from work and lower earnings. Similarly education is a powerful tool for reducing poverty and laying the foundation for sustained economic growth. Investment in education determines an individual's ability to perform productively, earn higher wages, have better living standards and with the appropriate job related skill the individual builds his capabilities and becomes competitive in the market.

Thus development is no longer limited to growing incomes or outputs in terms of gross domestic product, but is widened to include human dimensions such as empowering people

with education, health and good governance, says the *Human Development Report 2012*.

The emerging demographic trend shows a growing population between the ages of 10 to 25 who will enter the labour market expecting to find jobs, only to find that their education and training has not provided them with the appropriate skills.

Economic gains through appropriate policies

Economic gains can accrue from this demographic dividend if the government pursues appropriate policies with regard to education, vocational/technical training, public health, generation of enough employment opportunities to productively employ the additional labour force. Without the appropriate set of policies to benefit from the rising youth labour force, the demographic dividend could infact be a demographic challenge – a cost to the economy. Young people without jobs could be a serious threat to peace and security, spread of crime and conflict. Good policies can work wonders and the growth in the young labour force can be an asset rather than a burden.

The country is coping with rapid population growth. Pakistan's population is expected to exceed 260 million by 2030 and 335 million by 2050. More young people will enter the labour force, creating opportunities only if the country pursues right policies. The young people have to be provided with the right kind of education, better health, jobs.

Stephen P. Cohen one of the authors of *The Future of Pakistan*, states, Educating the youth bulge is a popular idea, but there has been no effective state action, either at the national or provincial level; instead, young people get whatever education they can. The likely results, as shown in survey after survey, are shocking: the youth bulge will turn into a bulge of the middle-aged and discontented, ill-equipped for the modern world.

Pakistan has been placed at the 145th position out of 187 countries in terms of the *Human Development Index*. It has been classified among the countries in the category of low human development. Sri Lanka meanwhile

is classified among the medium human development category.

The table below shows that the expected years of schooling in Pakistan is 6.9 against India's 10.3, Nepal 8.8 and Sri Lanka 12.7.

Human Development Index and its Components

HDI Rank	Human Development Index (HDI) (Value)	Life expectancy at birth (years)	Mean years of schooling (years)	Expected years of schooling (years)	Gross National Income (GNI) per capita (constant 2005 PPP \$)	GNI per capita rank minus HDI rank	Non-income HDI (Value)	
97	Sri Lanka	0.691	74.9	8.2	12.7	4943	12	0.768
134	India	0.547	65.4	4.4	10.3	3468	-10	0.568
141	Bhutan	0.522	67.2	2.3	11.0	5293	-36	0.500
145	Pakistan	0.504	65.4	4.9	6.9	2550	-7	0.526
146	Bangladesh	0.500	68.9	4.8	8.1	1529	11	0.566
157	Nepal	0.458	68.8	3.2	8.8	1160	8	0.524
172	Afghanistan	0.398	48.7	3.3	9.1	1416	-13	0.407

Source: UNDP

Access to education remains a significant challenge in Pakistan, and while enrollment rates in primary level have improved, but access remains far from universal, and there are significant regional, urban-rural and gender disparities. Compared to other South Asian countries, Pakistan is lagging behind in key

education indicators, with one of the lowest primary net enrolment rates and the largest number of out of school children in the region, states the *Human Development in South Asia 2012* report. Access issues are even larger at higher levels of education. In addition, the quality of education is poor at all levels of

Pakistan key education indicators compared to other South Asian Countries

	Adult literacy rates (% aged 15 and above) (2005-09*)	Net primary enrolment (%) (2008-11*)	Percentage of children reaching grade 5 (% of grade 1 students) (2006-10*)	Children not in primary schools (million) (2008-11*)	Pupil teacher ratio (Primary) (2009-11*)
India	63	92	68.5	2.278	40**
Pakistan	56	74	61.5	5.125	41
Bangladesh	56	86	66.2	1.835	43
Afghanistan	--	--	--	--	44
Nepal	59	--	61.7	--	30
Sri Lanka	91	94	98.6	0.102	24
Bhutan	53	88	95.5	0.011	25
Maldives	98	96	--	0.001	12

* Data refer to recent year available ** Data refer to 2004

Source: Human Development in South Asia, 2012

education drop out rates are high, and learning achievements low. On the supply side the Report says the lack of adequate number of schools and trained teachers throughout the country are two of the most difficult

barriers to education. The education system also suffers from teacher absenteeism, a high dropout rate, poor completion rates in elementary education and inequalities between genders/regions.

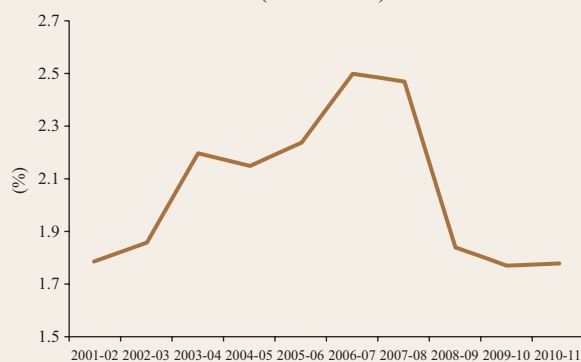
South Asian Countries Selected Education Indicators

HDI Rank	Educational Attainment		Gross Enrolment Ratio			Education Quality			
	Adult literacy rate	Population with at least secondary education	Primary	Secondary	Tertiary	Primary school teacher trained to teach	Satisfaction with education quality	Primary school dropout rate	
	(% ages 15 and older)	(% ages 25 and older)		(%)		(%)	(% satisfied)	(% of primary school cohort)	
	2005-2010	2010	2002-2011	2002-2011	2002-2011	2005-2011	2011	2002-2011	
92	Sri Lanka	91.2	73.9	99.0	87.0	15.5	--	77.9	1.4
136	India	62.8	38.7	118.0	60.0	16.2	--	74.8	34.2
140	Bhutan	52.8	34.4	111.0	70.0	8.8	91.5	--	9.0
146	Bangladesh	56.8	35.1	--	--	10.6	58.4	81.6	33.8
146	Pakistan	54.9	31.2	95.0	34.0	5.4	84.2	60.5	38.5
157	Nepal	60.3	28.3	115.0	44.0	5.6	80.7	73.0	38.3
175	Afghanistan	--	20.3	97.0	46.0	3.3	--	58.5	--

Source: Human Development Report 2013

Budget spending on education has fallen from 2.5 percent in FY2006-07 to 1.8 percent in FY2010-11.

Trends in Public Expenditure on Education (% of GDP)



While the demographic transition taking place in the country is providing host of opportunities for increasing economic growth, the Report adds that it does not guarantee it unless accompanied by social and economic policies that allocate resources to train and make efficient use of human capital. This suggests that appropriate government policies for education and training of the youth are pre-requisites to reap the benefits of the demographic dividend.

Health facilities lacking

Providing adequate health facilities to the growing population is an enormous challenge for the government. Pakistan's health sector suffers from insufficient funding, mismanagement, inefficiencies, poor governance, inappropriate use of resources, inconsistencies of health policies, corruption and poor implementation of reforms. While the government's health budget has been progressively increasing over the last several years, the ratio of health expenditure to GDP has remained more or less static at around 0.5 – 0.6 percent in the last decade.

The sector is facing a host of challenges – diseases like HIV/AIDs, polio has still not been eradicated, diarrhoeal diseases, hepatitis, malnutrition remains widespread and its rates have not changed significantly over the last two decades, slow progress in improving infant and maternal mortality rates, malaria and other diseases.

Achieving the health related MDGs seem out of reach, says the *Human Development in South Asia 2012*. High mortality rates are in part due to poor access to safe water and sanitation facilities.

South Asian Countries Selected Health Indicators

HDI Rank	Immunization Coverage		Underweight children (moderate and severe)	Mortality Rates			Health Care Quality		
	DTP	Measles		Under-five	Female	Male	Physicians	Satisfaction with health care quality	
	(% of one year-olds)		(% of children under age5)	(deaths per 1000 live births)	(per 1000 adults)		(per 1000 people)	(% satisfied)	
	2010	2010	2006-2010	2010	2009	2009	2005-2010	2007-2009	
92	Sri Lanka	99	99	21.1	17	82	275	0.5	83
136	India	83	74	42.5	63	169	250	0.6	67
140	Bhutan	94	95	12.7	56	194	256	0.0	--
146	Bangladesh	98	94	41.0	48	222	246	0.3	69
146	Pakistan	90	86	31.3	87	189	225	0.8	41
157	Nepal	85	86	38.6	50	159	234	0.2	80
175	Afghanistan	86	62	32.9	149	352	440	0.2	46

Source: Human Development Report 2013

Poverty, rising income inequality low savings, lack of employment opportunities are some of the other issues which need to be focused upon. Poverty remains a serious concern in Pakistan. Inadequate access to basic services, low spending on social sectors, rising food prices, lack of employment have all contributed towards the persistence of poverty in the country in Pakistan.

In Pakistan there is growing inequalities of income. The extent and depth of inequality has increased over time. The Pakistan Economic Survey 2010-11 states, ‘that due to good growth performance during the period 2000-06, the number of poor has declined but economic growth has failed to put any distributional impact in Pakistan.’

Inequality of income breeds poverty. With unequal distribution of income, those belonging to the low income strata of population have to cut back on food expenditure, have little or none for their children’s education and healthcare, and clothing takes the first cut as the household budget shrinks, have little to spend on utilities and with time as basic needs are not met they descent into poverty. This is a cause of grave concern for the government, which has to see

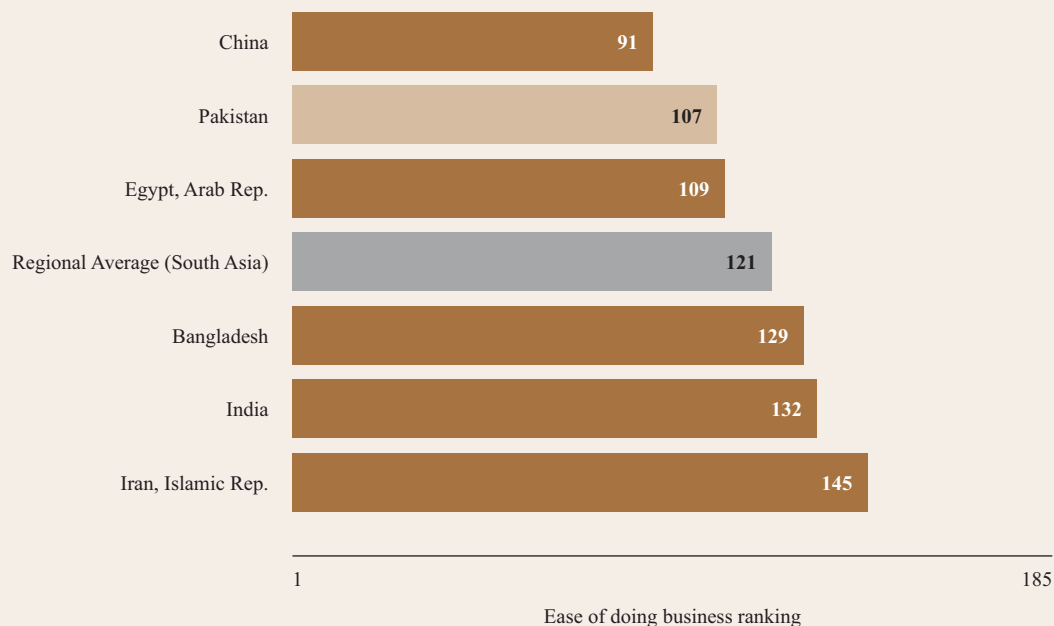
the distributional aspect of growth. Denying people the fulfilment of their basic needs can lead to widespread discontent in society.

Despite its critical significance, savings rate has remained low and cannot meet the investment levels needed for sustained growth of the economy. Little has been done to enhance domestic resource mobilization efforts in the economy. There are a number of factors which are responsible for low savings. These include among others; increasing disparity in incomes have promoted consumption rather than savings, lack of employment opportunities and thereby absence of income, persistent inflation has resulted in a fall in household income’s purchasing power, lack of saving instruments in the market, lack of financial literacy, emergence of credit fostering consumption boom, fall in real interest rates because of inflation.

Every effort needs to be made to raise the savings rate so to get a desirable investment level and hence sustained growth in the economy. Without concerted efforts to raise domestic savings, the country will not be able to get out of its debt trap, moderate inflationary pressures and achieve self sustaining growth.

Doing Business in Pakistan
The Business Environment
The World Bank and the International Finance Corporation

How Pakistan and comparator economies rank on the ease of doing business.



	Doing Business 2013 Rank	Doing Business 2012 Rank	Change in Rank
	107	104	↓-3
Topic Rankings	DB 2013 Rank	DB 2012 Rank	Change in Rank
Starting a Business	98	97	↓-1
Dealing with Construction Permits	105	105	No change
Getting Electricity	171	166	↓-5
Registering Property	126	126	No change
Getting Credit	70	67	↓-3
Protecting Investors	32	29	↓-3
Paying Taxes	162	160	↓-2
Trading Across Borders	85	80	↓-5
Enforcing Contracts	155	156	↑1
Resolving Insolvency	78	77	↓-1

The table summarizes Doing Business 2013 data. It ranks (out of 185 economies) and the rankings are by each topic.

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	2012
Selected Banks Total	665.42	713.47	667.68	796.10	1129.87	1449.11	1810.97	2017.90	2345.03	2449.86	2532.30	2531.73	2890.91
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	592.36	730.14
Habib Bank Limited	204.75	199.00	200.07	213.74	292.40	350.43	371.36	403.48	435.71	432.28	435.00	416.26	460.07
United Bank Limited	99.34	105.55	88.39	111.55	160.03	219.27	260.91	325.67	390.90	343.38	320.09	315.19	351.74
MCB Bank	90.98	82.84	85.14	104.01	144.01	188.14	206.85	229.73	272.85	269.72	274.14	249.91	262.39
Allied Bank Limited	62.30	59.90	54.00	49.99	69.95	119.51	151.70	178.53	223.64	249.89	268.50	262.14	288.89
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	284.34
Standard Chartered Bank Pakistan	–	–	–	–	–	–	142.31	135.27	137.72	141.23	157.90	151.61	159.64
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	162.85
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	190.85

Banks	Non Performing Loans (NPLs)												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	346.34
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	88.74
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	50.67
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	57.34
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	25.56
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	20.67
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	22.18
Standard Chartered Bank Pakistan	–	–	–	–	–	–	8.90	10.99	16.53	21.39	22.10	25.70	27.12
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	26.51
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	27.55

Banks	NPLs/Gross Advances Ratio												
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
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	13.12	11.98
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	12.15
Habib Bank Limited	26.40	28.25	26.50	22.33	15.22	11.80	7.25	6.09	8.28	9.79	10.73	12.33	11.01
United Bank Limited	38.33	30.49	23.79	16.96	12.56	7.73	6.23	6.86	7.12	11.39	15.18	16.22	16.30
MCB Bank	13.67	16.22	14.13	10.58	6.14	4.46	4.14	4.67	6.70	8.62	8.95	10.67	9.74
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	7.15
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	7.80
Standard Chartered Bank Pakistan	–	–	–	–	–	–	6.25	8.12	12.00	15.15	14.00	16.95	16.99
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	16.28
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	14.44

Source: Banks' Annual Reports

Gross Advances By Sectors - Selected Banks

(Rs. Mn)

Type of Business	National Bank of Pakistan			Habib Bank			United Bank											
	2010 % Share	2011 % Share	2012 % Share	2010 % Share	2011 % Share	2012 % Share	2010 % Share	2011 % Share	2012 % Share									
Chemicals & Pharmaceuticals	4940	0.9	3453	0.6	4792	0.7	24518	5.2	20924	5	19345	3.9	6218	1.7	5956	1.6	6437	1.6
Agribusiness	27067	5.0	29924	5.1	34129	4.7	32331	6.8	30349	7	30587	6.1	53034	14.4	47099	12.9	54820	13.4
Textiles	69925	13.0	66317	11.2	71144	9.7	83561	17.7	71249	15	62541	12.5	61145	16.6	59692	16.3	59757	14.6
Cement	7118	1.3	10472	1.8	9683	1.3	14560	3.1	10130	2	7246	1.4	6803	1.8	4503	1.2	2393	0.6
Sugar	13103	2.4	15147	2.6	16520	2.3	2992	0.6	4490	1	4497	0.9	8154	2.2	7126	1.9	12020	2.9
Rice Processing	9645	1.8	9934	1.7	11998	1.6	-	-	-	-	-	-	-	-	-	-	-	-
Shoe & Leather Garments	1010	0.2	1204	0.2	1414	0.2	2276	0.5	1916	0	1991	0.4	2447	0.7	2261	0.6	2142	0.5
Automobile & Transport Equipment	2820	0.5	3167	0.5	3730	0.5	7394	1.6	9762	2	11153	2.2	4455	1.2	5019	1.4	6134	0.4
Transportation & Telecommunication	34500	6.4	38481	6.5	66934	9.2	17618	3.7	12983	3	11062	2.2	22737	6.2	5988	1.6	9959	2.4
Real Estate/Construction	7820	1.5	9790	1.7	9147	1.3	2829	3.3	2635	4	1581	1.5	21867	5.9	17972	4.9	16563	4.0
Electronics & Electrical Appliances	7537	1.4	9047	1.5	8369	1.1	13673	2.9	15886	3	15045	3.0	2386	0.6	2646	0.7	2892	0.7
Food & Tobacco	1966	0.4	1594	0.3	1874	0.3	7207	1.5	8245	2	8229	1.6	6849	1.9	8992	2.5	12740	3.1
Fertilizers	18004	3.3	19007	3.2	15191	2.1	-	-	-	-	-	-	6824	1.9	6871	1.9	4438	1.1
Metal Products	18883	3.5	26444	4.5	43644	6.0	8244	1.7	7069	2	6614	1.3	2266	0.6	336	0.1	371	0.1
Production & Transmission of Energy	62242	11.6	54136	9.1	98762	13.5	49567	10.5	52855	11	36131	7.2	39057	10.6	41159	11.2	56735	13.9
Hotel & Services	16572	3.1	13850	2.3	15814	2.2	-	-	-	-	-	-	2709	0.7	2660	0.7	3960	1.0
Individuals	76673	14.2	86220	14.6	130666	17.9	31419	6.6	25307	6	33098	6.6	65803	17.8	50089	13.7	47553	11.6
General Traders	22122	4.1	16951	2.9	15672	2.1	42971	9.1	47980	10	51346	10.2	20776	5.6	13784	3.8	17509	4.3
Public Sector Commodity Operators	64157	11.9	64621	10.9	59483	8.1	85840	18.1	73370	16	107627	21.4	-	-	-	-	-	-
Financial	14477	2.7	21123	3.6	16085	2.2	16197	3.4	15068	3	23920	4.8	4896	1.3	12282	3.4	9310	2.3
Others	58028	10.8	91504	15.4	95090	13.0	30221	6.4	49746	11	69749	13.9	30266	8.2	71872	19.6	83357	20.4
Total	538609	100.0	592366	100	730141	100.0	473418	100.0	459964	100.0	501762	100.0	368692	100.0	366307.0	100.0	409090	100
<i>Public/Govt</i>	133982	24.9	117084	19.8	233573	32.0	86841	18.1	73370	16.0	107627	21.4	64861	17.6	62708	22.1	105576	25.8
<i>Private</i>	404627	75.1	475282	80.2	496568	68.0	387577	81.9	386594	84.1	394135	78.6	303830	82.4	303598	77.9	303514	74.2

Gross Advances By Sectors - Selected Banks

(Rs. Mn)

Type of Business	MCB			Allied Bank			Bank Alfalah			Standard Chartered Bank Pakistan		
	2010 % Share	2011 % Share	2012 % Share	2010 % Share	2011 % Share	2012 % Share	2010 % Share	2011 % Share	2012 % Share	2010 % Share	2011 % Share	2012 % Share
Chemicals & Pharmaceuticals	12991 4.7	13430 5.4	10887 4.1	15940 5.9	18921 7.2	20429 7.1	5099 2.3	6264 3.0	6181 2.5	12055 7.6	8892 5.9	11397 7.1
Agribusiness	2542 0.9	2613 1.0	2474 0.9	496 0.2	554 0.2	2559 0.9	16454 7.5	16829 8.0	23441 9.4	3412 2.2	4983 3.3	5715 3.6
Textiles	40354 14.7	37114 14.9	37796 14.4	39540 14.7	40605 15.5	44546 15.4	34784 15.9	32860 15.5	37275 15.0	31206 19.8	30107 19.9	29111 18.2
Cement	3648 1.3	2391 1.0	1340 0.5	14151 5.3	12674 4.8	9371 3.2	2454 1.1	1596 0.8	1591 0.6	8586 5.4	10662 7.0	5482 3.4
Sugar	9063 3.3	8881 3.6	11374 4.3	6860 2.6	3281 1.3	5511 1.9	2396 1.1	3800 1.8	7512 3.0	2552 1.6	3098 2.0	2785 1.7
Rice Processing	-	-	-	-	-	-	7252 3.3	6506 3.1	10306 4.1	-	-	-
Shoe & Leather Garments	2782 1.0	3935 1.6	3351 1.3	803 0.3	1091 0.4	455 0.2	948 0.4	1941 0.9	1156 0.5	1245 0.8	1651 1.1	2543 1.6
Automobile & Transport Equipment	477 0.2	517 0.2	350 0.1	3517 1.3	4310 1.6	2630 0.9	2975 1.4	2596 1.2	2266 0.9	2833 1.8	1536 1.0	2439 1.5
Transportation & Telecommunication	67013 24.4	56787 22.7	60303 23.0	4781 1.8	4583 1.7	5554 1.9	2992 1.4	4136 2.0	3869 1.6	8362 5.3	11196 7.4	10027 6.3
Real Estate/Construction	2435 -	2357 0.9	512 0.2	12349 4.6	7601 2.9	7823 2.7	4095 1.9	3041 1.4	4717 1.9	-	-	-
Electronics & Electrical Appliances	2203 0.8	2920 1.2	2581 1.0	-	-	-	4555 2.1	3292 1.6	3191 1.3	2662 1.7	1590 1.0	1755 1.1
Food & Tobacco	-	-	-	-	-	-	4827 2.2	4342 2.1	6578 2.6	-	-	-
Fertilizers	-	-	-	-	-	-	6933 3.2	6847 3.2	8022 3.2	-	-	-
Metal Products	-	-	-	2209 0.8	2502 1.0	2536 0.9	6365 2.9	6011 2.8	7619 3.1	-	-	-
Production & Transmission of Energy	36348 13.3	20846 8.3	29779 11.3	43182 16.1	49103 18.7	45509 15.8	20497 9.4	20506 9.7	31967 12.9	30315 19.2	20923 13.8	24144 15.1
Hotel & Services	4537 1.7	5565 2.2	8408 3.2	150 0.1	224 0.1	768 0.3	-	-	-	-	-	-
Individuals	22007 8.0	17456 7.0	14526 5.5	6627 2.5	7019 2.7	7658 2.7	31598 14.5	27145 12.8	26238 10.6	31786 20.1	18705 12.3	17223 10.8
General Traders	22120 8.1	20129 8.1	16157 6.2	13448 5.0	12449 4.7	11022 3.8	7435 3.4	8066 3.8	6201 2.5	-	-	-
Public Sector Commodity Operators	-	-	-	-	-	-	-	-	-	-	-	-
Financial	4269 1.6	3445 1.4	2625 1.0	3077 1.1	4001 1.5	5707 2.0	2389 1.1	7871 3.7	7305 2.9	638 0.4	2295 1.5	2684 1.7
Others	43790 16.0	51528 20.6	59930 22.8	101400 37.8	93219 35.6	116811 40.4	53774 24.6	47748 22.6	52911 21.3	22254 14.1	35972 23.7	44341 27.8
Total	274144 100.0	249914 100	262392 100.0	268530 100.0	262137 100.0	288889 100.0	218432 99.7	211397 100.0	248346 100.0	157906 100	151610 100.0	159646 100.0
Public/Govt	78725 28.7	49079 19.6	61853 19.6	58359 21.7	48949 18.7	77366 26.8	32294 15.0	23618 11.0	45606 18.0	26829 17.0	9171 6.0	10827 7.0
Private	195418 71.3	199055 80.4	200539 76.4	210170 78.2	213188 81.3	211523 73.2	186138 85.0	187779 89.0	202740 82.0	131077 82.7	142438 94.0	148819 93.0

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

Non Performing Loans By Business Segments - Selected Banks

Type of Business	(Rs. Mn)																				
	National Bank of Pakistan		Habib Bank		United Bank		MCB Bank		Allied Bank		Bank Al Falah		Standard Chartered Bank Pakistan								
	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012	2010	2011	2012						
Chemicals & Pharmaceuticals	2441	2320	3358	646	589	698	226	220	313	149	204	196	128	373	405	150	114	156	104	253	335
Agriculture	1873	2110	2754	3157	3504	3528	1430	1492	1313	417	416	312	152	192	351	506	508	430	17	17	17
Textiles	26432	28724	28470	18395	20233	16750	13820	15269	15977	4259	5225	5209	5090	5070	9519	2122	4221	4971	6621	7647	7618
Cement	5060	5091	3870	700	2264	1987	-	-	-	532	362	296	-	119	39	-	-	-	-	-	-
Sugar	3200	4137	4115	433	360	415	34	243	160	1160	1266	1035	-	-	-	-	-	-	-	-	-
Rice Processing	1875	2546	2534	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shoe & Leather Garments	430	260	184	312	173	172	227	259	243	128	127	104	65	56	132	-	-	-	16	16	17
Automobile & Transport Equipment	1354	1311	1013	1319	1905	1864	727	338	265	114	69	55	-	-	-	193	226	245	455	400	358
Transportation & Telecommunication	3319	1654	1596	261	261	36	-	-	-	139	126	645	361	361	6	-	-	-	-	-	-
Real Estate/Construction	2255	2473	2345	1418	1387	316	3885	4178	4086	127	172	127	2622	2370	259	-	-	-	-	-	-
Electronics & Electrical Appliances	322	5421	6758	2802	2801	2881	365	256	201	323	340	451	-	-	-	-	-	-	-	-	-
Food & Tobacco	1238	1018	948	443	528	337	1259	1247	989	-	-	-	-	-	-	-	-	-	-	-	-
Fertilizers	2698	3258	3156	-	-	-	7	66	72	-	-	-	-	-	-	-	-	-	-	-	-
Metal Products	1473	572	537	671	912	1059	-	-	-	-	-	-	775	866	20	-	-	-	-	-	-
Production & Transmission of Energy	11607	3572	5126	1809	1719	1710	3049	2434	6481	2	-	180	843	839	240	-	-	-	376	276	128
Hotel & Services	448	817	1298	-	-	-	486	486	486	615	939	722	61	63	7	-	-	-	-	-	-
Individuals	2884	4972	5326	2426	946	1038	13238	14267	14698	3605	3625	3394	48	37	358	3997	3495	3763	4691	6003	5684
General Traders	5386	4679	5373	4737	5641	6440	1167	1629	1668	4516	4631	4076	2354	2206	478	616	703	780	-	-	-
Financial	1410	905	723	1299	798	40	2152	2299	2232	1275	1448	1108	281	344	81	-	-	-	-	-	-
Others	11610	12321	9258	5849	6960	11396	6521	6434	8163	7183	7715	7652	5909	7675	8772	10735	9830	11836	9828	11085	12968
Total	87315	88392	89159	46677	51313	50667	48593	51117	57347	24544	26665	25562	18688	20452	20668	18320	19097	22181	22108	25697	27125

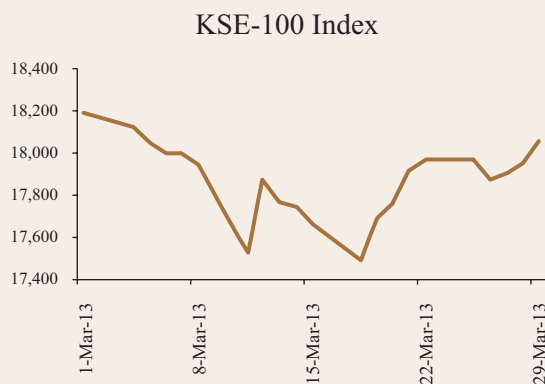
NPLs to Gross Advances Ratio

Type of Business	National Bank of Pakistan		Habib Bank		United Bank		MCB Bank		Allied Bank		Bank Al Falah		Standard Chartered Bank Pakistan					
	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010	2011	2012			
Chemicals & Pharmaceuticals	49.4	67.2	70.1	2.6	2.8	3.6	1.1	1.5	1.8	0.8	2.0	2.0	2.9	1.8	2.5	0.9	2.8	2.9
Agriculture	6.9	7.1	8.1	9.8	11.5	11.5	16.4	15.9	12.6	30.6	34.7	13.7	3.1	3.0	1.8	0.5	0.3	0.3
Textiles	37.8	43.3	40.0	22.0	28.4	26.8	22.6	14.1	13.8	12.9	12.5	21.4	6.1	12.8	11.2	21.2	25.4	26.2
Cement	71.1	48.6	40.0	4.8	22.3	27.4	0.0	14.6	15.1	22.1	-	-	-	-	-	-	-	-
Sugar	24.4	27.3	24.9	14.5	8.0	9.2	0.4	12.8	14.3	9.1	-	-	-	-	-	-	-	-
Rice Processing	19.4	25.6	21.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shoe & Leather Garments	42.6	21.6	13.0	13.7	9.0	8.6	9.3	4.6	3.2	3.1	8.1	5.1	29.0	-	-	1.3	1.0	0.7
Automobile & Transport Equipment	48.0	41.4	27.2	17.8	19.5	16.7	16.3	23.9	13.3	15.7	-	-	6.5	8.7	10.8	16.1	26.0	14.7
Transportation & Telecommunication	9.6	4.3	2.4	1.5	2.0	0.3	-	0.2	0.2	1.1	7.6	7.9	0.1	-	-	-	-	-
Real Estate/Construction	28.8	25.3	25.6	-	-	-	17.8	-	-	-	21.2	31.2	3.3	-	-	-	-	-
Electronics & Electrical Appliances	4.3	59.9	80.8	20.5	17.6	19.1	15.3	14.7	11.6	17.5	-	-	-	-	-	-	-	-
Food & Tobacco	63.0	63.9	50.6	6.1	6.4	4.1	18.4	-	-	-	-	-	-	-	-	-	-	-
Fertilizers	15.0	17.1	20.8	-	-	-	0.1	-	-	-	-	-	-	-	-	-	-	-
Metal Products	7.8	2.2	1.2	8.1	12.9	16.0	0.0	-	-	-	35.1	34.6	0.8	-	-	-	-	-
Production & Transmission of Energy	18.6	6.6	5.2	3.6	3.3	4.7	7.8	0.01	0.6	0.6	2.0	1.7	0.5	-	-	1.2	1.3	0.5
Hotel & Services	2.7	5.9	8.2	-	-	-	17.9	13.6	16.9	8.6	40.7	28.1	0.2	-	-	-	-	-
Individuals	3.8	5.8	4.1	7.7	3.7	3.1	20.1	16.4	20.8	23.4	0.7	0.5	13.4	12.6	12.9	14.8	32.1	33.0
General Traders	24.3	27.6	34.3	11.0	11.8	12.5	5.6	20.4	23.0	25.2	17.5	17.7	4.3	8.3	8.7	-	-	-
Financial	9.7	4.3	4.5	8.0	5.3	0.2	44.0	29.9	42.0	42.2	9.1	8.6	1.4	-	-	-	-	-
Others	20.0	13.5	9.7	19.4	14.0	16.3	21.5	16.4	15.0	12.8	5.8	8.2	7.4	20.0	20.6	44.2	30.8	29.2
Total	16.2	14.9	12.2	9.9	11.2	10.1	13.2	9.0	10.7	9.7	7.0	21.9	7.2	8.4	9.0	14.0	16.9	17.0

Market Analysis

Market Review – March-April 2013

The market remained volatile during the month of March with KSE-100 index first dipping to a month low of 17,500 points in mid-march, but subsequently increased to close above the 18,000 level, showing a MoM decline of 0.7 percent. As the result season ended, focus again diverted towards political issues and deteriorating economic numbers. On a MoM basis, average volumes of All Share index dipped by 31 percent, while value traded also declined by 17 percent.



With KSE-100 index declining by 0.7 percent MoM, the nine month consecutive gaining streak (since June 2012) comes to an end. Post result season, market again focused towards the political issues and economic numbers which continue to deteriorate. Foreigners again remained on the forefront in terms of buying during March, while Mutual funds were the biggest sellers. Fixed line telecom and cements are the biggest outperformers during the 1QCY13, while Banks are the biggest underperformer.

Going forward, SBP reserves continues to slide downwards (expected to dip to \$5.5 billion at FY13 end), but relief on inflation front (especially for May YoY number) may cheer the market sentiments.

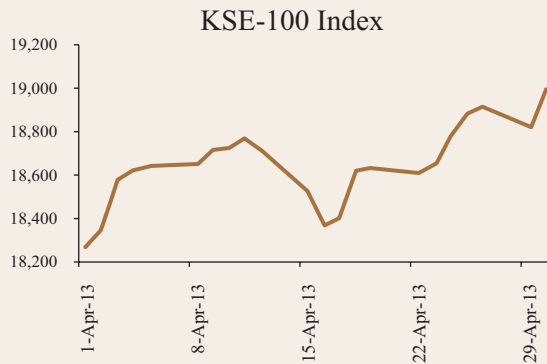
Foreigners again lead the pack in terms of net buying

In what is becoming a usual sight in NCCPL figures, foreigners continued to remain on the buying side, with net inflow of \$26 million witnessed in March while Mutual funds were on the selling side. CYTD foreigners net inflow figures have now reached \$70 million versus a mere \$15 million seen in the corresponding period last year. Adjusted for one-offs which occurred in January (between companies and individuals), 1QCY13 has seen net buying mainly from Foreigners and Banks/DFI's, while all other market participants have remained net sellers.

Telecom is the biggest outperformer in 1QCY13

Among the key sectors, Foods Producers provided the highest return in March due to robust earnings and ongoing Unilver delisting pricing issue. Cements also outperformed the market thanks to hefty MoM rise in dispatch data. During 1QCY13, Telecom sector has given an outstanding return of around 18 percent versus KSE-100 index return of 6.7 percent due to turnaround in sector earnings as they continued to book higher international call charges during the 2QFY13, as well as due to one off's in PTCL's results. During 1QCY13, Cement and Autos also outperformed the market due to improvement in volumes and expectations of better profitability going forward. Banks were the biggest underperformer in 1QCY13 due to decline in interest rates and spreads.

KSE-100 index performed exceptionally well during April registering a 5.2 percent MoM rise, after a slight decline witnessed in March. On a MoM basis, average volumes of All Share Index dipped by 10 percent, while value traded remained almost flat. Though result season was a mixed bag but the market continued its upward march towards the 19,000 level. Foreigners again remained on the forefront in terms of buying during April, while surprisingly Banks/DFI's turned into the biggest net sellers.



Though SBP reserves continued its downward slide, some hope of stability is visible thanks to talks of CSF payment and entry in another IMF program under the new government in FY14. Relief on inflation front will likely cheer the market sentiments. Formation of new government (post-election) and budget preparation will be the highlight for the month of May.

As witnessed in previous months, foreigners continued to remain on the buying side, with net inflow of \$28 million witnessed in April while Banks/DFI's were the biggest sellers. Foreigners net inflow figures have now reached \$98 million versus a mere \$20 million seen in the corresponding period last year. With locals remaining on the sideline during CY13TD, it will be interesting to see how much of this foreign inflow will continue post-election.

Foreign liquidity aids in market achieving its lofty levels

Majority of sectors post rise, with the exception of Telecom

KSE-100 index gained 5.2 percent in April helped by robust growth in almost all the key sectors. Among the key sectors, Foods Producers provided the highest return in April due to price increase witnessed in Unilever and Efoods, while hefty rise in PSMC (margins improvements) helped Auto sector become the second biggest outperformer. Among the laggards, Telecom was the biggest underperformer due to ICH issue, while Oil and Gas and Cement sector also underperformed due to lower than expected earnings in some cases.

Future Outlook

With result season over, the highlight of month would be smooth formation of new government and FY14 budget preparation. Though SBP reserves continued its downward slide, some hope of stability is visible thanks to talks of CSF payment and entry in another IMF program under the new government in FY14. Relief on inflation front will likely cheer the market sentiments.

Foreign inflows remain the key factor propelling the market to new highs and likewise keeping the locals enthusiastic. We maintain our cautious stance especially at such high levels and advice exposure in top picks only. Our top picks at current level are PSO, Kapco, Engro, NCL, DGKC & PPL.

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

Book/Report Reviews

Karachi
Our Stories in Our Words
Edited by Maniza Naqvi
Oxford University Press (2013)

This book is a collection of stories written by many individuals from all over Karachi. These short stories were written for a story writing competition arranged by Oxford University Press Pakistan. There are total of 99 stories, which tell about the life in the city.

Karachi is a city of opportunity, where people from all over the country come to earn a livelihood. As stated in the introduction of the book, 'there are stories of kindness and empathy.' And there are themes of deep income disparity and social injustice. There are themes of discomfort and guilt for one's own comfort and well being in comparison to others. There is remembrance of the time when Karachi was a city of festivity and splendour, a peaceful city where there was love and sincerity. Now there is blood and fire. There is hatred and sectarianism. In the story 'Give me back my Karachi', the writer talks about the good old days, the peace in which all lived, were there was tranquility and no hatred for each day. But all that has changed, and the writer can only say in the end, 'Give me back my Karachi! The Karachi I Knew! The Karachi I loved.

There are stories about the beach, the sea and the delicious food. Some stories reflect humour and some sorrow. There are stories about murders, violence and target killings. In one of the stories, a young man who has dreams of winning the body building contest and earning the title of Mr. Karachi, is shot and his foot becomes paralyzed for life. He writes, 'he who will succeed in delivering my city from the ruthlessness of these beasts, and will take account of the oppression of the innocent people, deserves to be crowned Mr. Karachi.' There is hope that the worst would be overruled by the good in us. Karachi has remained host to people from all over the country and can survive if given the chance.

Devolution and Social Development
Annual Review 2011-12
Social Policy and Development Centre

The Social Policy and Development Centre have published their eleventh Annual Review, entitled *Devolution and Social Development in Pakistan*. It examines the implementation issues of the decentralisation provisions of the 18th constitutional amendment and the 7th NFC Award. The first chapter of the Report is the conceptual framework for devolution and the 18th Amendment. Pakistan is faced with many economic, social and political problems. A new development paradigm is needed which can reform the existing economic systems, restore the confidence of both domestic and external investors in the country's economic future. The passage of the 18th Amendment to the Constitution of Pakistan and the 7th National Finance Commission Award is a step in this direction.

Chapter 2 draws lessons from international experience, while chapter 3 discusses major changes related to legislative and fiscal autonomy, and the status of the implementation of the 18th Amendment. Chapter 4 analyses the financial implications of the 7th NFC Award and its impact on provincial governments. The 7th NFC Award has changed the formula for resource distribution — distribution of resources among provinces has been based on multiple criteria, against the past practice when it was based solely on population.

Chapter 5 focuses on the implications of the reallocation of fiscal powers, while chapter 6 highlights the international experience with local governments and derives some principles which need to be followed in the design of the structure of local governments. Chapter 7 highlights the impact of 7th NFC Award on social sector expenditure and chapter 8 discusses a number of emerging issues which will need to be resolved through a consensus among the federating units.

*Fifth Annual Report 2012
The State of the Economy: The Punjab Story
Institute of Public Policy
Beaconhouse National University, Lahore*

The fifth Annual Report reflects on the state of the economy and covers the year 2012. The authors of the Report not only discuss the main problems the economy faces at this difficult period in Pakistan's history, but also examine the opportunities that exist for improving the economy's state and the economic and social conditions of its citizens. It also presents an in-depth analysis of Punjab. They hope to extend this analysis to other provinces in later years.

The Report has several important messages. While Pakistan is passing through a difficult time, it could emerge from it stronger and also as a respected member of the international community. It is moving from management by the military to rule by the elected representatives of the people. It has adopted constitutional changes that have brought the provinces to the centre of economic policy making. This will position the government closer to the people.

The report provides with an in-depth analysis of economic growth in Punjab as compared to the rest of Pakistan, its social sector development and regional disparities among districts and divisions in Punjab.

There has been a loss of growth momentum in Punjab, especially in recent years, primarily attributable to emergence of large infrastructure gaps of water availability for the agricultural sector and of energy for the entire economy, especially industry.

With respect to regional disparities in Punjab, districts in South Punjab are less developed than districts in Central and North Punjab. Districts of South Punjab perform relatively well in terms of agriculture, but have limited economic activity in industry and services. Regional inequality in Punjab is currently most pronounced in large scale manufacturing, access to improved water supply and sanitation and health facilities.

*Human Development Report 2013
The Rise of the South:
Human Progress in a Diverse World
UNDP*

Recent years have seen progress in human development in many developing countries and their emergence onto the global stage: the 'rise of the South'. Although most developing countries have done well, a large number of countries have done particularly well – in what can be called the 'rise of the South'. Some of the largest countries like Brazil, China, India, Indonesia, South Africa and Turkey have done particularly well. But there has also been substantial progress in small economies, such as Bangladesh, Chile, Ghana, Mauritius, Rwanda and Tunisia, with their progress accelerating over the past decade. The Report analyzes the causes and consequences of these countries achievements and the challenges that they face today and in the coming decades.

The Report shows that more than 40 developing countries have made greater human development gains in recent decades than would have been predicted. This is largely attributed to sustained investment in education, health care and social programmes.

This progress is creating opportunities for the South and the North to collaborate in new ways to advance human development and confront shared challenges such as climate change, the Report says.

The Report projects that by 2020, the combined output of China, India and Brazil will surpass the aggregate production of the US, Germany, UK, France, Italy and Canada. With living standards rising in much of the South, the proportion of people living in extreme income poverty worldwide plunged from 43 percent in 1990 to 22 percent in 2008, including more than 500 million people lifted from poverty in China alone. As a result the world has already achieved the Millennium Development Goal of reducing by half the share of people living on less than \$1.25 a day by 2015.

Pakistan Economy – Key Economic Indicators

	Unit	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 ^P
Output and Prices								
GNP Size	Rs.bn	7773	8831	10452	13070	15370	18853	21679
GDP Size	Rs.bn	7158	8235	9922	12110	14034	17093	19437
Income Per Capita	\$	823	904	1015	990	1068	1258	1372
Real Growth								
	(%)							
GNP		5.6	6.7	3.7	2.1	4.1	3.5	4.0
GDP		5.8	6.8	3.7	1.7	3.1	3.0	3.7
Agriculture		6.3	4.1	1.0	4.0	0.6	2.4	3.1
Manufacturing		8.7	8.3	4.8	-3.6	5.5	3.1	3.6
Services Sector		6.5	7.0	6.0	1.7	2.6	4.4	4.0
Prices*								
	(%)							
Consumer Price Inflation		7.9	7.8	12.0	17.0	10.1	13.7	11.0
Wholesale Price Inflation		10.1	6.9	16.4	18.9	13.8	21.2	10.4
Food Inflation CPI		6.9	10.3	17.6	23.7	12.6	18.3	11.0
Non Food Inflation CPI		8.6	6.0	7.9	18.4	8.3	10.7	11.0
Core Inflation [†]		7.5	5.9	8.4	11.4	7.6	9.4	10.6
GDP Deflator		10.5	7.7	16.2	20.0	12.4	18.2	9.7
Gold Tezabi (Karachi)	Rs./10 grams	10317	12619	16695	22195	29587	37658	48444
Petrol Super	Rs/Ltr	55.12	56.00	57.83	67.68	67.56	75.70	91.33
Kerosene Oil	Rs/Ltr	36.19	39.09	43.44	66.79	72.65	84.89	103.09
Wheat Flour (Avg. Quality)	Rs/Kg	13.06	13.64	18.07	25.64	28.77	29.56	30.15
Savings and Investment								
	% GDP							
National Savings		18.2	17.4	13.6	12.5	13.3	13.2	10.5
Domestic Savings		16.3	15.6	11.5	9.8	9.5	8.6	5.6
Gross Fixed Investment		20.5	20.9	20.5	16.6	14.0	11.5	10.9
Public Sector		4.8	5.6	5.4	4.3	3.5	2.9	3.0
Private Sector		15.7	15.4	15.0	12.3	10.4	8.6	7.9
Public Finance								
Revenue Receipts (Fed Govt)	% GDP	14.1	15.0	14.6	13.2	13.9	12.4	11.7
Tax Revenue	% GDP	10.5	10.2	10.3	9.8	10.0	9.3	9.4
Total Expenditure	% GDP	18.4	20.8	22.2	16.5	17.4	14.9	13.5
Overall Budget Deficit	% GDP	4.3	4.4	7.6	5.3	6.3	6.6	8.5
FBR Tax Collection (Fed Govt)	Rs.bn	713.5	847.2	1008.1	1161.1	1327.4	1558.2	1881.5
Direct Taxes	% share	31.5	39.4	38.4	38.2	39.6	38.6	38.9
Indirect Taxes	% share	68.5	60.6	61.6	61.8	60.4	61.3	61.1
Internal Debt Outstanding	Rs.bn	2337	2610	3275	3861	4651	6012	7638
Funded Debt	% of Internal Debt	62.3	64.0	68.8	67.1	68.7	72.5	76.5
Unfunded Debt	% of Internal Debt	37.7	36.0	31.2	32.9	31.3	27.5	23.5
Monetary Sector								
Growth of Broad Money (M2)	%	15.1	19.3	15.3	9.6	12.5	15.9	14.1
Currency in Circulation	Rs.bn	740.4	840.2	982.3	1152.2	1295.4	1501.4	1673.7

^P Provisional. * The base for price indices have been changed as 2007-08 new base year. [†] non-food non-energy.

	Unit	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 ^P
Credit to Public Sector	Rs.bn	834	927	1510	2034	2441	3020	4258
Borrowings for Budgetary Support	Rs.bn	708	810	1365	1681	2011	2602	3800
Credit to Private Sector	Rs.bn	2114	2480	2890	2907	3020	3141	3376
Credit to Private Sector Enterprises	Rs.bn	196	207	114	266	351	388	257
Social Sector								
Population	Mn	155.37	162.91	166.41	169.94	171.73	175.31	178.91
Education Expenditure	as % of GNP	2.2	2.4	2.4	2.1	2.0	1.8	0.9 ^a
Literacy Rate	(%)	54	55	56	57	58	58	58 ^b
Health Expenditure	as % of GNP	0.5	0.6	0.6	0.6	0.6	0.6	0.3
Capital Market								
KSE 100 Index		9989	13772	12289	7162	9722	12496	13801
Market Capitalisation of								
Ordinary Shares	Rs.bn	2801.2	4019.4	3777.7	2120.7	2732.4	3288.7	3518.1
Banking Sector								
Scheduled Banks Deposits	Rs.bn	2817	3373	3812	4138	4693	5489	6219
Scheduled Banks Advances	Rs.bn	2071	2376	2816	3080	3174	3311	3530
Non-Performing Loans All Banks	Rs.bn	173	214	314	432	548	607	636
Lending and Deposit Rates	weighted average							
Deposits	% per annum	1.96	2.60	4.13	4.44	4.29	4.53	4.56
Advances	% per annum	10.61	11.55	12.49	14.25	13.63	13.46	12.81
Open Market Operation								
SBP Reverse Repo Rate	% end period	9.00	9.50	12.00	14.00	12.50	14.00	12.00
Treasury Bills Yield - 6 Months	% end period	8.49	8.90	11.48	12.00	12.30	13.70	11.90
KIBOR - 6 Months	% end period	9.36	9.75	13.95	12.65	12.25	13.65	11.94
Yield on 5 Years PIBs	weighted average	9.65	10.00	10.80	12.40	12.50	14.03	13.08
Interbank Call Rates (Overnight)	%	8.80	8.90	9.90	13.20	11.60	12.40	11.70
SBP Export Finance Rate	%	7.50	6.50	6.50	6.50	8.00	10.00	10.00
External Sector								
Exports*	\$ bn	16.45	16.98	19.05	17.69	19.29	24.81	23.62
Imports*	\$ bn	28.58	30.54	39.97	34.82	34.71	40.41	44.91
Balance	\$ bn	-12.01	-13.56	-20.92	-17.13	-15.42	-15.60	-21.27
Current Account Balance	\$ mn	-4990	-6878	-13874	-9261	-3946	214	4634
Workers' Remittances	\$ mn	4588	5491	6449	7811	8905	11201	13187
Foreign Investment in Pakistan	\$ mn	3872	6960	5454	3210	2739	2000	741.5
Direct	\$ mn	3521	5140	5410	3720	2151	1635	812.6
Portfolio	\$ mn	351	1820	44.3	-510	588	365	-71.1
Debts								
External Debt and Liabilities	\$ bn	37.6	40.5	46.2	52.3	61.6	66.4	65.8
Domestic Debt Outstanding	Rs.bn	2337	2610	3275	3861	4654	6012	7638
Internal Debt as % of GDP	%	30.7	30.1	32.0	30.3	31.4	33.4	37.0
National Saving Schemes (Outstanding)	Rs.bn	936	1004	1094	1361	1586	1821	2010
Gold & Foreign Exchange Reserves	\$ mn	14354	18890	13436	13971	17921	20941	16489
Exchange Rate (Average for year)	Rs/US\$	59.8566	60.6342	62.5465	78.4983	83.8017	85.5017	89.235

* Trade data compiled by Pakistan Bureau of Statistics

^a as % of GDP ^b as of FY11

Source: Pakistan Economic Survey 2011-12
Annual Report 2011-12, State Bank of Pakistan