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NBP Performance at a Glance

Editor's Corner

Dear Readers,

The year 2009 could be described as the year which saw signs of worldwide economic recovery. After having suffered the financial crisis, which saw a drop in corporate profits, rise in the number of banks at risk, higher government debts, weak flows of foreign investment and external demand, high unemployment rates, contraction in growth rates, economies across the globe are slowly emerging from the recession.

International financial institutions like the IMF, UN, World Bank and the OECD have revised upwards their estimates of growth across the global economy for both 2009 and 2010. The IMF in its *World Economic Outlook* released in October has predicted a 1.1 percent contraction in 2009, revised from 1.4 percent. The global economy is expected to grow by 3.1 percent in 2010, revised up from 2.5 percent. Meanwhile, the United Nations forecasts the world economy to recover in 2010, with a global growth of 2.4 percent after having fallen by 2.2 percent for 2009.

The Organisation for Economic Cooperation and Development has doubled its growth forecast for the leading developed economies next year. The economy of the Group's 30 member countries will expand by 1.9 percent next year and 2.5 percent in 2011. However, these countries will face high unemployment and huge government debt. World trade is expected to grow by 6.0 percent in 2010 and 7.7 percent in 2011 after a plunge of 12.5 percent in 2009.

Improved growth has been made possible by the initiation of rescue packages and large fiscal stimulus measures by governments worldwide since 2008. The current stimulus policies are expected to continue, so as not to derail the weak economic recovery taking place.

Later governments across the globe could be faced with the challenging task of retreating from the fiscal and monetary stimulus packages — a support that has cost governments in rich countries trillions of dollars. Budget deficits have soared. The big rich economies within the G-20 will face an average fiscal gap of 9 percent of GDP in 2010. Gross government debt in the large rich economies are expected to reach 106 percent of GDP in 2010, nearly 30 percent higher than before the crisis level.

Towards the close of 2009, world financial markets shook, as Dubai World, with nearly \$60 billion of debts asked creditors for delay in its debt repayments for at least six months, mainly linked to its two property firms, Nakheel and Limitless World. The crisis raised concerns that creditor banks could suffer significant losses if the company were to default which could subsequently lead to another round of global economic turmoil.

However, the Abu Dhabi government recently announced that it would provide support of \$10 billion to Dubai World, so that the later could meet its upcoming debt obligations. The money would help manage a number of upcoming obligations on Dubai World, including the \$4.1 billion Islamic bond of its property arm Nakheel. It would also give time to Dubai World to negotiate with creditors for a restructuring of its debts.

In Pakistan, the year 2009 saw signs of recovery in the economy which benefitted from the government's focus on macroeconomic reforms and from a decline in international commodity prices. Economic situation had deteriorated in 2008 due to domestic and external factors. Security concerns, unfavourable law & order, energy shortages, rise in international oil and commodity prices, and worsening external balances due to the global financial crisis. Key economic indicators had declined and credit rating agencies had downgraded Pakistan's rating which had increased the threat of default.

To overcome these problems, Pakistan entered into \$7.6 billion Standby Arrangement (SBA) with the IMF in November 2008. In August '09 IMF agreed to a Pakistan government request to increase lending by \$3.2 billion to meet the country's increased balance of payments needs resulting from higher oil prices. Pakistan has received the first three disbursements and is expected to get \$1.2 billion as the fourth instalment later in December. With the IMF endorsement, other International Financial Institutions have also committed assistance to Pakistan. Consequently it has added \$6.5 billion to its external liabilities in FY09, taking it to \$52.8 billion. As external debt rises, the debt service as a ratio of exports of goods and services is projected to increase from below 15 percent in 2008-09 to 20 percent by 2013-14, reflecting in part repayments of Fund credit.

Stabilization efforts together with a decline in international commodity prices have succeeded in reducing external imbalances and rebuilding foreign exchange reserves. While the economic stabilization programme has helped prop the economy, the macroeconomic progress has been uneven. A number of issues persist and are a great challenge for the government. Drop in the volume of trade, poor tax growth, risk of lower than expected aid receipts and in particular a rise in the fiscal deficit, highlight the fragility of the improvement and pose continuing risk to the recovery, states the *First Quarterly Report 2009-10* of the State Bank of Pakistan. The security and law & order conditions pose perhaps the greatest challenge, threatening investor confidence, and the investment inflows. The war on terror has displaced thousands from their homes where the operation is being conducted. Reconstruction of areas affected by military operations will have to be undertaken by the government to support rehabilitation of displaced people. According to estimates by the *Institute of Public Policy, Lahore*, indirect costs of terrorism is estimated at Rs230 billion (including cost to local economies, fall in private investment, fall in stock market capitalization, decline in travel & tourism and fall in hotel occupancy and income from associated services). The government will have to incur additional spending for the IDPs.

The Federal Budget FY10 provides Rs50 billion for IDP assistance. If however, these grants are not forthcoming, other measures will have to be undertaken to contain the fiscal deficit at 4.6 percent of GDP, which may involve cutting nonessential outlays.

Low tax revenues contains the government's efforts to meet the growing needs of the population, which has compounded in recent months by the thousands of internally displaced persons (IDPs) who have shifted to safer locations while the operation is on. It also affects government's efforts towards undertaking poverty reducing measures which can bring about a betterment in the lives of millions.

According to the UNDP Report, 55-90 million more people have fallen below the poverty line due to the recent financial crisis and the numbers are growing as the country continues to suffer from decline in manufacturing sector and closure of industries due to power crisis. Social protection strategies need more resources, which however, is not growing commensurately with the growing needs of the economy. Revenues have continued to underperform, as reliance on external assistance has grown. This has made the economy vulnerable to external shocks as seen in FY08, which led to a balance of payments crisis.

By the close of 2009, a consensus had been reached between the Centre and the provinces on the seventh National Finance Commission Award. For the division of resources among the provinces more than one factor will be taken into consideration. As against the single criterion of population, its now a multi criteria award that also includes poverty, backwardness, revenue collection and generation and population density. Smaller provinces which had faced resource constraints would now be recipients of more funds.



Pakistan's Growing Population and Development Challenges

Growing population

Pakistan's population today stands at 164 million having risen from about 34 million in 1951. Given the existing trends it is expected to reach 194 million by the year 2020. Currently growing at 2.3 percent, the population growth rate is the highest among other regional countries like Bangladesh (1.6%), India (1.6%), Nepal (2.1%) and Sri Lanka (1.2%).

Pakistan is currently ranked as the seventh most populous country and given the high population growth rate, the country would by 2050 become the 6th most populous nation. It was among the six countries that accounted for nearly half of the 76 million increase in the world population between the period 2000-2005.

With an annual addition of 2.8 million persons to the population, it presents a challenge to economic development and poverty reduction. Such a large annual addition creates a greater demand on limited resources to meet the requirements of additional population.

Growing urbanisation

Of the total population, 64 percent resides in rural areas, while 36 percent is residing in the urban areas of the country. During the period 2005-08, while rural population of the country grew by an estimated 3.5 percent, the urban population rose by more than 9.3 percent, indicating substantial migration from small towns and villages to urban centres. Urban population is likely to continue to grow in the coming years.

In the paper, *Urbanization Challenges in Pakistan: Developing Vision 2030*, the author Murtaza Haider, writes that by the year 2030, the urban population in Pakistan will constitute 50 percent of the total population. From nearly 50 million urbanites, Pakistan will be home to a massive urban population of 130 million, with one of the largest urban centres in the world.

Challenges

The level of urbanisation is now the highest in South Asia, and its urban population is likely to equal its rural population by 2030, according to a report titled *'Life in the City: Pakistan Focus'*; released by the United Nations Population Fund.

Growing urban population puts local services and amenities under severe strain and is a big challenge for policymakers. It puts pressure on the availability of food, clothing, drinking water, health care, educational facilities, housing, jobs, disposal of waste generation, public transport, energy etc. In Pakistan the share of severely food insecure population is estimated to have risen from 23 percent in FY06 to 26 percent in FY08. Rising numbers also results in degradation of environment which is affecting urban and rural areas. Forests are being depleted. Availability of agricultural land per person is as low as about 0.2 hectares and even that is under stress due to erosion, water logging and salinity.

Other indicators relevant to population show that the education sector faces major challenges, because of low levels of public spending, low access and poor quality of education, high levels of drop out from the schooling system, regional and gender inequalities.

The total labour force in Pakistan has increased from 40.5 million in 2000 to 52.2 million in 2008. Of these 2.7 million are unemployed. If the number of underemployed are also taken into account, the rate rises. According to the 1998 census, nearly 20 percent of the population is young and falls in the age group of 15-24 years. This young population is in need of education, vocational training and suitable job opportunities.

Agriculture source of livelihood

Agriculture is a source of livelihood for an estimated 80-85 percent of rural people in the world. Of the developing world's 5.5 billion people, 3 billion live in rural areas. Of these

rural inhabitants, an estimated 2.5 billion are in households involved in agriculture. In Pakistan nearly 65 percent of the population lives in rural areas and depend on agriculture for their livelihoods directly or indirectly.

Besides being a source of livelihood, agriculture can be a source of growth for the economy, a provider of investment opportunities for the private sector and a prime driver of agriculture related industries and the rural nonfarm economy.

Agriculture production is important for food security and because it is a source of income for the majority of the rural poor. With increasing population the demand for food has increased. However, a household's purchasing power will also decide whether the household can purchase enough food. In Pakistan rising inflation has eroded people's purchasing power, and with food inflation having risen to a high of 28 percent in December '08, food items at times become so costly that they are out of the reach of large numbers. Food security remains a challenge.

While demand for food has grown, with more mouths to feed, production has fluctuated over the years as the agriculture sector suffers from various problems, such as traditional methods of farming, low yields, inadequate plant protection measures, shortages of irrigation water among other factors. Food items like wheat, pulses, sugar, edible oil, have in the recent past been imported to meet local shortages.

The crop sector has gradually declined from 65 percent of agricultural activity in 1990-91 to 45 percent in 2008-09, while the livestock sub-sector now contributes nearly 52 percent of agriculture value added.

Pakistan produces good quality citrus fruits, mangoes, apples, apricots, peaches, grapes, dates, and condiments. However, the sector is missing major revenue generating opportunities and self-sustaining export

potential because of inadequate presence of units of processing, packaging and refrigeration near the fruit growing areas. Citrus and other fruits are consumed fresh and can be utilized in processed forms, such as juices, jams and jellies and preserved in tins.

All kinds of fruits and vegetables are grown in Pakistan. According to a report, an estimated 30-35 percent of Pakistan's mango crop rots before reaching any market place. Similar is the case with apricots and plums which rapidly spoil in warm weather. These get easily damaged in transportation. If these farmers are trained in sun drying techniques and small factories are set up in fruit growing areas, large quantities of fruit can be canned and then marketed throughout the country over a period of time. In this way the farmers will get a good price.

Besides working on the farms, millions of the rural poor depend on livestock for their livelihood. It is widely recognized as the main source of cash income for the landless. Livestock sector, a sub-sector of agriculture contributes 51.8 percent of agriculture value added, and 11 percent to GDP. The value of livestock is 6 percent more than the combined value of major and minor crops. With its growing share in agriculture the future growth of agriculture is expected to be led by the livestock sub-sector.

The livestock sub-sector is critical to rural Pakistan as it provides food and draught power for farming. It provides security against crop failures particularly in barani areas. With growing urbanisation, demand is growing for meat, milk, dairy products and other livestock products in the urban centres, which now have better access to the more perishable livestock products.

Pakistan is endowed with a large livestock population, with the best breeds of cattle, buffalo, sheeps and goats. They have good meat production. Pakistan is among the five large milk producing countries of the world.

Food security for growing population

Growing livestock sub-sector

Fruits/vegetables

Milk and meat demand to grow

The Annual Plan 2009-10 estimates meat production to reach 2.96 million tons by 2009-10 against output of 2.7 million tons in 2007-08, while milk production for human consumption will rise to 36.3 million tons against 34.0 million tons in the comparable period. Poultry meat production contributes 19 percent of the total meat production in the country. Because of the high prices of mutton, poultry has become popular among consumers.

Within the livestock sector, milk is the largest and single most important commodity. Millions of landless/small land holding farmers are responsible for the bulk of milk produced in the country. According to FAO, 80 percent of the milk in the country is produced in rural areas, while 20 percent in peri urban and urban areas. Most of the milk marketed is raw milk, while processed milk makes up for 10-15 percent of the total.

With rising population both in rural and urban areas, demand for this product has gone up. Supply of milk to meet domestic demand has usually lagged, and import of powdered milk becomes necessary to bridge the gap.

In the paper, *'Milk Marketing and Value Chain Constraints'*, M. Tariq, M. I. Mustafa, A. Iqbal and H. Nawaz, Department of Livestock Management, University of Agriculture, Faisalabad - 2008 write that "milk production and marketing in Pakistan is dominated mainly by the informal private sector, only 3-5 percent of total production is marketed through formal channels."

Infrastructure facilities insufficient

The infrastructure of milk marketing is insufficient to ensure product quality; proper transportation of milk also requires cold storage facilities to maintain its quality. According to an ADB report, milk losses due to unavailability of cold storages are estimated at about 15-20 percent of the total milk production in some areas. The farmers sell the milk to the middlemen who pays them a fixed amount. He then transport it to urban areas and sells at a higher price.

Processing plants have introduced a number of dairy products like yogurt, drinking yogurt flavoured milk, cream, butter, ghee, cheese, ice cream etc. Most of the processing capacity is concentrated near large markets and away from potential sources of milk.

What is needed is that livestock products must be processed and packed according to international standards. We have relatively cheaper livestock products compared to those of Australia and New Zealand and can increase exports of our livestock products to the Middle East market.

Food safety regulations and hygiene standards have to be ensured because of public health considerations, a perishable commodity like milk requires a good distribution system, a cold chain system that allows timely delivery to processing plants. If training is imparted to the farmers on how to make cottage cheese, large quantities can be produced and marketed locally at reasonable rates.

Demands of a growing population

Growing population demands food security, employment opportunities, health services and educational facilities. If human resources are educated and have the right skills, they can find decent employment opportunities, increase productivity and progress in their workplace. Human resource development improves the skill levels of the workforce. When the majority of the labour force possess the right skills, knowledge and required training can a change for the good be forthcoming. Studies have shown that the quality of human resources is influenced by the person's education, improvement in health and nutritional levels among other factors.

Pakistan's poor educational indicators

While some countries have made considerable progress in expanding the coverage of the education system, Pakistan lags in educational progress. Comparing selected educational indicators, Pakistan has poor educational performance in relation to other countries of the region, it also registers substantial gender disparities. Public expenditure on education has been low over the last six decades and it

is therefore not surprising that it should compare poorly with other countries in terms of its education indicators.

Developing human resources

Government's strongest motivation for expanding the education system is the perceived need to better the quality of the country's human capital. An educated labour force will enhance productivity, inducing technical change towards higher economic growth. Skill development through education benefits the economy. Economies that have been relatively more successful have been shown to owe much of their achievements to their human capital in general, and to their educational levels in particular.

In today's globalized world, where firms have to compete not only on the basis of price, but also on the basis of quality, the demand for skilled labour has been rising. With growing pressure of competition, firms are ensuring price competitiveness, enhancing quality, timeliness and the capacity to introduce new products and services effectively. Greater emphasis is being laid on developing human resources.

Countries such as Singapore, Taiwan, Thailand, Korea and Malaysia which invested heavily in their HR development through education, training, skill development have shown economic gains. Whereas countries such as Pakistan that have historically invested less in HRD have fallen behind in socio economic progress, produced low quality products, have poor technology and a large unskilled labour force. The economy does not have a knowledgeable workforce needed for achieving the required value addition and productivity.

Technical/vocational education

Technical and vocational education is important for the development of trained labour force required for the socio economic development of the country. With a growing population between the ages of 10 to 25 who are in the labour market, many a times find difficulty in getting a job because their education and training have not provided them

with appropriate skills to find a decent job in the labour market. With changing times better skilled workers are being preferred over semiskilled and unskilled workers. Upgrading skills to enhance productivity of labour force would contribute towards increasing the country's competitiveness.

The availability of schools and teachers plays a vital role in the education system. At the national level, availability of public schools has worsened during the last two decades. According to estimates, in 1992-93 one public school was available for 248 children in the 5-14 age group. This increased to 264 children in 1999-2000, indicating a relative decline in the availability of schools, states the *SPDC Annual Review 2002-03, The State of Education*. The Report has shown the poor physical conditions of public schools, where many are without a building, or without a boundary wall, or electricity and basic facilities are missing.

Similarly given the growing skill requirements in the ever changing work environment, vocational and technical education and setting up of specialized institutes of good quality has become necessary. Significant investment is needed in education, both formal and vocational.

A public private partnership is necessary to achieve the desired goals of human resource development.

In Pakistan, high population growth rate without a commensurate increase in expenditure on health has resulted in facilities which are inadequate. Health expenditure as a percentage of GDP was at a dismal low of 0.55 percent in FY09, having fallen from 0.58 percent in FY01. Health indicators reflect poor performance. The number of people per hospital and per dispensary has deteriorated over the years, as population increase has not been accompanied by investing in health related infrastructure. The number of hospitals, dispensaries, BHU established in last ten years has shown poor development.

Health Facilities

Years	(Nos)			
	Hospitals	Dispensaries	RHCs	BHUs/Sub Health Centres
1999	879	4583	530	5185
2000	876	4635	531	5171
2001	907	4625	541	5230
2002	906	4590	550	5308
2003	906	4554	552	5290
2004	916	4582	552	5301
2005	919	4632	556	5334
2006	924	4712	560	5336
2007	945	4755	562	5349
2008	948	4794	561	5310

Source: Economic Survey 2008-09

Pressure on energy resources

The country's growing population is exerting tremendous pressure on available energy resources. Currently Pakistan faces an acute energy crisis caused by insufficient energy generation, increasing demand and inefficient use of energy resources.

Pakistan's energy mix is highly dependent on oil and gas, which provide 79 percent (31% oil & 48% gas) of the country's primary energy supplies. The rest is from hydroelectricity (11%), coal (9%) and nuclear (1%).

When oil prices in the international market rose to a high of \$137 a barrel in May 2008, Pakistan's oil import bill shot up to \$11.4 billion in FY08, constituting 28.5 percent of total import bill. This is a drain on the country's foreign exchange.

To overcome energy shortages and lessen its dependence on imported oil Pakistan needs to develop its renewable energy resources like hydropower, solar and wind. These if tapped effectively can contribute towards energy security. Development of indigenous energy resources would not only save on the oil import bill, provide energy independence but would have direct/indirect impact on poverty alleviation and contribute towards the socio-economic development of the area.

Countries like China, Kazakhstan, Central American countries are developing alternative energy to meet their requirements. Kazakhstan, given its unique geographical location in the wind belt of the Northern hemisphere has built

Alternative energy resources

wind power stations and wants to develop alternative energy as it aims to alleviate dependence on oil and gas. Similarly China is spending billions on alternative energy as its energy use rises steeply.

Pakistan has considerable potential of wind energy in the coastal belt of Sindh, Balochistan and in the desert areas of Punjab and Sindh. This renewable source of energy has however, not been utilized significantly.

The coastal belt of Pakistan is blessed with a wind corridor that is 60 km wide (Gharo-Kiti Bundar) and 180 km long (upto Hyderabad). This corridor has the exploitable potential of 50000 MW of electricity generation through wind energy. Wind sites have been exploited in coastal areas of Balochistan and some Northern areas. Most of the remote villages in the South can be electrified through micro wind turbines.

Shortages of housing units

Growing population exerts demand for housing units. Currently about 300,000 housing units are being constructed against an annual demand of 650,000 units, with a backlog of 6.5 million houses. Construction of housing units entails increased demand for cement, wood, sanitary ware, iron and other related items. If issues of inadequate legal and regulatory systems and limited housing finance for the poor is resolved, construction activity would pick up and the growing population could be provided with some kind of shelter.

The Government has initiated schemes which targets to provide housing for all, particularly the low income people. The housing policies and programmes would satisfy basic needs of the poor and construction of low income housing will be a priority.

Emphasis is now being placed on a joint public-private approach, which would improve land supply, transport and communication links, ensuring reliability of energy and water supplies, improvement in waste management and drainage, improving information system on land and finance, among others.

Credit concentration

Banking sector credit is concentrated in a few sectors. Sectoral distribution of bank credit is highly skewed towards the manufacturing sector, with a share of nearly 40 percent in the overall commercial banks' advances. Within the manufacturing sector, the textile industry is the prime receiver of bank credit with its share in the total at 17 percent or 39.6 percent of manufacturing.

Concentration of credit in a few sectors of the economy makes the financial sector vulnerable to the performance of these sectors. The share of manufacturing in real GDP is less than that of agriculture but its share in bank credit is higher compared with the credit share of agriculture.

Some increase in banks' outreach

In recent years the outreach of credit to those sectors and sections of society which had remained neglected in the past has shown some penetration. The *Financial Stability Review 2008-09, State Bank of Pakistan*, states, "the extent of financial penetration in the SME, Agriculture, Housing and Microfinance sectors is very low. Considerable progress has been made only in the agriculture sector, which has a penetration of around 32.5 percent as of end CY08, whereas the outreach of the remaining sectors is generally less than 10 percent." Despite various improvements, many areas are still under-penetrated and account for a relatively less share of the total banking credit.

Sectoral Outreach

	No of Borrowers CY08 (000)	Potential Market	Current Outreach as % of Potential Market
SMEs	223	3.16 mn SMEs	7.2
Agriculture	1996	6.6 mn farm households	32.9
Mortgage Loans	493	6 mn houses required	8.2
Microfinance Loans	1733	30 million customers	5.8

Source: State Bank of Pakistan

The Report identifies some of the reasons for under penetration. Banks generally do not

find these sectors commercially viable due to various reasons such as lack of adequate collateral, high transaction costs, greater performance sensitivity to economic fluctuations, inadequate credit history of borrowers etc. In order to increase penetration by facilitating banks, State Bank of Pakistan has launched several initiatives in recent years.

Diversifying their lending away from traditional sectors, banks increase their outreach to other sectors of the economy and play a role towards poverty alleviation and help in bringing about an improved sector working.

Credit concentration

Credit concentration of loans increases the element of risk for the banking sector. In the last year or so when domestic economic activities slowed down, because of the impact of global recession, energy shortages and poor law & order situation, the potential risk of losses due to default on repayment of loans increased. All segments of economic activity showed a rise in the infection ratio. The non-performing loans of the banking sector rose to Rs421.63 billion (as of Sept '09).

Sectoral concentration of loans, as in the case of the corporate sector (61%), where textile alone constitutes 17 percent of banks loan portfolio, carries significant implications for the overall risk profile of the banking sector.

Given the SBP initiatives to increase banks' outreach to other sectors of the economy and the growing population of Pakistan which exerts demand for increased food, water, energy, housing, educational facilities, health care, employment, transport and a host of other services the banks are well positioned to take advantage of the emerging situation and could broaden the access of their financial services, thereby reducing sectoral risk and playing a much more active part in the economic growth of the country.

NPLs of the Banking Sector

The slowdown of the global economy, national security concerns, a worsening law & order situation, energy shortfall and uncertain external environment, affected the business environment in Pakistan. Slowdown in domestic economic activities increased the potential risk of losses due to default on repayment of loans. As a result, the banking sector has seen a substantial increase in non-performing loans (NPLs) during the last one year or so, signifying substantial increase in credit risk. NPLs have risen to Rs421.6 billion in the quarter ended September '09. The NPLs to loan ratio increased to 12.36 percent.

NPLs to Total Loans (%)

	2005	2006	2007	2008	Mar '09	Jun '09	Sept '09
Public Sector Banks	10.0	9.0	8.4	16.3	17.5	16.8	17.4
Local Private Banks	6.4	5.2	6.5	8.6	9.7	9.8	10.5
Foreign Banks	1.2	1.0	1.6	2.9	3.6	4.5	5.3
Commercial Banks	6.7	5.7	6.7	9.9	11.0	11.1	11.7
Specialized Banks	46.0	39.1	34.3	28.8	29.0	25.8	31.4
All Banks	8.3	6.9	7.6	10.5	11.5	11.5	12.4

Source: Quarterly Performance Review of the Banking System, SBP (March & September '09)

NPLs to loans ratio rises

NPLs to total loans ratio has increased for all category of commercial banks. For public sector banks, the ratio rose from 10 percent in 2005 to 17.4 percent in September '09, for local private banks from 6.4 percent to 10.5 percent and for foreign banks from 1.2 percent to 5.3 percent. During this period the ratio for specialized banks dropped from 46 percent to 31.4 percent.

Table-1 shows bank-wise NPLs to Advances ratio. In 2008, banks showing a sharp increase in NPLs to Advances ratio, included Saudi Pak Bank, NIB Bank, myBank, Bank of Khyber and Samba Bank.

Among the large commercial banks, National Bank of Pakistan (NBP) with gross advances of Rs457.8 billion in 2008, had NPLs of Rs56.46 billion, while Habib Bank Limited (HBL) with higher advances of Rs484.5 billion, had NPLs of Rs40.5 billion. The NPLs to advances ratio for NBP is higher at 12.33 percent compared to 8.27 percent for HBL.

Standard Chartered Pakistan has a 12 percent NPLs to Advances ratio, against 7.2 percent for United Bank Limited (UBL), 6.7 percent for MCB and 4.5 percent for Bank Al-Falah. (*Table-1*).

Category-wise analysis of NPLs shows an increase across all classifications. (*Table-2*). A significant increase has taken place in doubtful category, which represents influx of most of the fresh NPLs. This trend indicates that in the months ahead, banks might have to provide additional loan losses and face constrained earnings.

Segment-wise infection of loan portfolio shows that the ratio has increased for all segments.

Segment-wise Infection of Loan Portfolio (%)

Sectors	NPLs to Loan Ratio		% Share in Loans
	Dec '08	Sept '09	
Corporate	8.9	12.67	61.00
SMEs	15.8	22.93	9.69
Agriculture	15.8	21.14	4.54
Consumers	6.9	11.10	9.03
<i>Credit Cards</i>	5.5	9.07	1.03
<i>Auto Loans</i>	5.9	8.19	2.16
<i>Consumer Durables</i>	7.8	7.79	0.03
<i>Mortgage Loans</i>	7.4	14.18	2.27
<i>Other Personal Loans</i>	7.8	11.52	3.54
Commodity Finance	1.4	0.81	11.70
Staff Loans	1.0	1.17	2.11
Others	10.0	16.71	1.93
Total	9.1	12.36	100.00

Source: Quarterly Performance Review of the Banking System, SBP (March & September '09)

Corporate, SMEs & Agriculture have high infected portfolio

The Corporate, SMEs and Agriculture, representing 75.23 percent of the overall advances portfolio are responsible for the major increase in infected portfolio. The corporate sector which received 61 percent of the total banks advances, saw a rise in infected portfolio from 8.9 percent in December '08 to 12.67 percent in September '09. The agriculture sector which receives 4.5 percent of total advances has a higher infection of advances portfolio (21.14%). NPLs of the SME sector has shown a substantial increase, having risen from 15.8 percent in December '08 to 22.93 percent in September '09.

The following table shows the sector-wise advances and NPLs. Among the various sectors, NPLs to loans ratio of textile, sugar, financial, auto & transportation, cement, individuals have increased quite substantially.

Sector-wise Advances and NPLs (%)

Sectors	NPLs to Loan Ratio		Share in	
	Dec '08	Sept '09	Loans	NPLs
Textile	14.6	20.57	17.18	28.6
Electronic & transmission of energy	3.4	6.98	11.74	6.64
Agribusiness	8.9	8.26	5.59	3.74
Chemical & Pharmaceuticals	7.7	7.24	3.59	2.10
Cement	6.6	11.10	2.64	2.36
Sugar	9.1	18.73	1.68	2.54
Auto & Transportation	7.5	14.53	2.16	2.54
Financial	5.4	15.20	1.41	1.74
Shoes & Leather Garments	8.6	12.61	0.62	0.63
Insurance	0.0	0.23	0.02	-
Individuals	8.7	12.22	13.44	13.4
Others	8.6	11.08	39.93	35.8
Total	9.1	12.36	100.00	-

Source: Quarterly Performance Review of the Banking System, SBP (March & September '09)

NPLs by business segments

Non-performing loans by business segments for selected banks (Table-3) shows that the NPLs of NBP are the highest at Rs56.46 billion as at end December '08, a 47.3 percent rise over a year earlier. This is followed by HBL at Rs40.0 billion, a 44.6 percent increase against the preceding year, and UBL at Rs27.8 billion, a 26.5 percent rise over the previous year.

With respect to NBP, NPLs of the textile sector at Rs17.96 billion are the highest amongst other segments of business, constituting 31.8 percent of the total NPLs of the Bank. This holds true for other banks also. In case of HBL, NPLs in textile category was Rs11.0 billion or 27.5 percent of the Bank's NPLs, while the textile segment of NIB Bank was responsible for 50 percent of the Bank's NPLs.

NPLs in 'others' category is quite substantial. In case of Allied Bank of Pakistan, NPLs in the 'others' category is Rs8.89 billion or 64.5 percent of Bank's NPLs. For Standard Chartered it is Rs6.56 billion or 32.8 percent, and for Bank Al-Falah it is Rs3.26 billion or

36.5 percent of Bank's total NPLs. In case of NBP, NPLs outstanding against 'others' was Rs12.3 billion in 2008, constituting 21.8 percent of the Bank's NPLs. For HBL it was Rs9.4 billion or 23.5 percent of its total NPLs.

In the 'individual' category for NBP, the NPLs have risen three fold, from Rs896 million in 2007 to nearly Rs3 billion in 2008. UBL has the highest NPLs in this category, Rs8.2 billion, constituting 29.5 percent of the NPLs of the Bank.

Table-4 shows NPLs to advances ratio. For NBP, the NPL to advances ratio for textile is 26.7 percent compared to 11.5 percent for HBL, 11.7 percent for UBL, 8.3 percent for MCB. Standard Chartered has a ratio as high as 31.4 percent.

NPLs to advances ratio

NPLs to advances ratio by business segments shows that for NBP the ratio has deteriorated in 2008 over 2007 for chemicals & pharmaceuticals, cement, rice processing, sugar, electrical appliances, individuals very sharply, among other (details given in Table-4). The ratio shows an improvement for food & tobacco, oil, gas, petroleum and energy.

For the other large banks, besides textiles, the NPLs to advances ratio has increased for electronic & electrical appliances, and automobile & transport implying consumer loans have gone bad.

The textile sector due to its major share in the loan portfolio of banks has provided the largest increase in NPLs. In the case of NBP, while textiles is a major recipient of the advances its share in the advances portfolio has fallen from 16.2 percent in 2006 to 14.7 percent in 2008. A similar trend is witnessed for UBL, MCB, ABL, Bank Al-Falah. For other sectors like oil, gas, petroleum & energy the share has risen from 10.7 percent to 14.7 percent, for fertilizers from 0.7 percent to 2.8 percent and for hotel & services from 0.9 percent to 2.3 percent in the same period.

It would be in the interest of the banks if they rationalize their concentration profile and strengthen the vigilance of their large exposure.

(Table-1)

NPLs to Advances (Gross)

(%)

Banks	2000	2001	2002	2003	2004	2005	2006	2007	2008
Major Banks	23.66	23.83	22.71	17.64	11.33	7.95	6.39	6.55	8.41
National Bank of Pakistan	19.11	22.54	26.32	21.05	14.45	11.27	10.40	10.23	12.33
Habib Bank Limited	26.40	28.25	26.50	22.33	15.22	11.80	8.09	6.86	8.27
United Bank Limited	38.33	30.49	23.79	16.96	12.56	7.73	6.23	6.86	7.26
MCB Bank	13.67	16.22	14.13	10.58	6.14	4.46	4.14	4.67	6.69
Allied Bank Limited	26.92	28.18	33.78	35.67	21.99	10.53	6.91	6.36	6.16
Bank Alfalah	9.47	7.81	5.22	5.65	3.26	0.88	1.52	2.68	4.49
Standard Chartered Pakistan	-	-	-	-	-	-	6.25	8.12	12.14
Askari Bank	5.84	4.79	3.99	2.76	1.54	2.68	3.56	6.39	8.36
Bank of Punjab	14.77	22.01	18.82	6.46	2.92	2.11	2.29	2.45	NR
Faysal Bank	25.50	17.34	14.64	10.27	6.64	3.94	4.75	5.48	7.94
Other Domestic Banks	11.95	13.54	9.32	7.20	5.70	5.34	4.13	6.14	10.90
Bank Al-Habib	0.79	1.16	2.01	1.82	0.43	0.68	0.55	0.27	0.85
Prime Bank	16.05	12.00	10.19	6.55	3.58	3.04	-	-	-
Metropolitan Bank	1.11	1.00	0.58	0.36	0.22	0.20	-	-	-
Habib Metropolitan	-	-	-	-	-	-	0.52	0.88	1.59
Saudi Pak Bank	30.19	71.20	30.79	16.21	10.63	23.76	14.68	19.54	33.65
Meezan Bank	-	20.23	4.72	0.83	0.48	0.92	1.50	1.56	5.04
Union Bank	16.21	16.11	8.37	6.93	6.84	5.67	-	-	-
Picic Commercial	17.37	7.36	4.21	2.88	1.84	1.76	-	-	-
NIB Bank	-	-	-	20.32	11.85	3.47	3.20	14.31	23.08
Soneri Bank	2.64	2.99	2.33	1.68	1.06	1.08	0.98	3.14	6.45
Bank of Khyber	25.96	31.47	37.52	44.19	27.25	23.61	28.71	18.90	22.30
mybank	32.76	29.34	25.40	14.04	12.79	13.51	7.27	5.42	30.84
First Women Bank	21.50	14.22	13.19	7.18	3.98	2.00	1.55	2.72	4.99
KASB Bank	-	18.80	78.84	13.10	6.98	9.39	6.89	4.12	17.78
Atlas Bank	-	-	-	-	14.49	1.60	5.98	8.02	6.90
Bank Islami Pakistan	-	-	-	-	-	-	0.00	1.95	2.78
Dubai Islamic Bank	-	-	-	-	-	-	0.00	0.23	0.16
Dawood Islamic Bank	-	-	-	-	-	-	-	0.00	0.89
Arif Habib Bank	-	-	-	-	-	-	8.97	1.57	16.32
J S Bank	-	-	-	-	-	-	6.06	2.19	4.68
Samba Bank*	-	-	-	-	48.24	38.84	49.75	26.30	22.76
Emirates Global Islamic	-	-	-	-	-	-	0.00	0.00	0.14
Khushhali Bank (Micro Credit)	-	-	-	-	-	-	-	-	2.23
Foreign Banks	4.10	3.27	3.31	2.55	1.56	1.31	1.88	3.71	6.05
Standard Chartered Bank	4.58	2.61	3.17	3.13	1.98	0.79	-	-	-
Habib Bank A G Zurich	2.48	4.08	2.96	1.84	1.38	0.95	-	-	-
Citibank	5.20	3.46	3.54	3.00	1.63	1.54	1.08	2.04	4.48
RBS**	0.88	0.24	0.23	0.20	0.14	0.52	2.76	6.59	10.46
HSBC	9.86	7.31	7.28	2.50	1.57	1.23	0.65	0.39	0.87
American Express	3.04	3.42	3.41	6.36	5.13	13.45	-	-	-
Deutsche Bank	1.66	2.17	3.59	2.45	0.00	0.00	0.00	0.00	0.00
Barclays	-	-	-	-	-	-	-	-	0.00
Albaraka Islamic Bank	2.89	3.30	3.98	3.70	2.78	3.79	2.50	1.82	5.86
Oman Bank International	1.55	1.31	1.68	4.42	2.98	2.79	4.12	20.00	12.66
Rupali Bank	27.45	80.87	94.18	86.67	92.11	93.33	-	-	-
Mashreq Bank	25.00	22.38	32.88	-	-	-	-	-	-
Credit Agricole	2.58	2.13	1.99	-	-	-	-	-	-
IFIC	3.33	3.79	4.60	-	-	-	-	-	-
Bank of Ceylon	6.07	11.11	10.77	-	-	-	-	-	-
All Banks Total	19.04	19.53	17.19	13.55	9.02	6.71	5.54	5.90	8.75

NR Not Released

* Formerly Crescent Bank

** Formerly ABN Amro

- Indicates mergers/acquisitions/name changed

Source: Banks Annual Reports

(Table-2)

Classification of NPLs

(Rs. Bn)

	2006	2007	2008
National Bank of Pakistan			
OAEM	0.40	0.57	0.66
Substandard	2.60	4.52	6.21
Doubtful	1.88	2.92	9.79
Loss	31.40	30.31	39.80
Total	36.30	38.32	56.46
Habib Bank Limited			
OAEM	0.66	0.80	1.20
Substandard	3.66	7.24	7.27
Doubtful	2.88	2.25	10.39
Loss	22.83	17.41	21.19
Total	30.03	27.69	40.05
United Bank Limited			
OAEM	0.36	0.63	0.91
Substandard	1.76	4.97	5.47
Doubtful	1.68	2.76	6.62
Loss	12.94	13.98	15.90
Total	16.74	22.35	28.90
Muslim Commercial Bank			
OAEM	0.09	0.10	0.10
Substandard	0.49	0.85	5.44
Doubtful	0.47	1.70	2.60
Loss	7.51	8.07	10.13
Total	8.57	10.72	18.27

OAEM
(Other assets
especially mentioned):

This represents non-performing portfolio of agricultural financing classified as OAEM as per the requirements of Prudential Regulations for Agricultural Financing issued by SBP.

Substandard:

Where mark-up/interest or principal is overdue by 90 days or more from the due date.

Doubtful:

Where mark-up/interest or principal is overdue by 180 days or more from the due date.

Loss:

*a) Where mark-up/interest or principal is overdue by one year or more from the due date.
b) Where Trade Bills (Import/Export or Inland Bills) are not paid/adjusted within 180 days of the due date.*

(Table-3) Non-Performing Loans By Business Segments – Selected Banks

	(Rs. Mn)																					
	National Bank of Pakistan		Habib Bank		United Bank		MCB Bank		Allied Bank		Bank Al Falah		Standard Chartered Bank Pakistan									
	2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008	2006	2007	2008							
Chemicals & Pharmaceuticals	1554	1528	3884	104	99	240	752	780	165	33	22	118	236	192	260	26	33	49	157	144	529	
Agribusiness	1103	1698	1602	1865	4806	6322	913	1356	1625	320	268	912	366	335	153	104	210	338	318	477	2	
Textiles	11884	14556	17965	10373	8718	11034	4804	5540	7898	1088	1279	2912	3123	1591	2147	495	717	2059	2095	3166	5759	
Cement	2183	1193	2506	201	15	500	25	20	32	1	0.75	0.3	*	*	*	15	11	3	*	*	*	
Sugar	1524	1340	1721	434	*	615	37	35	35	36	21	388	*	*	*	*	*	*	*	*	*	
Rice Processing	321	819	1806	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	
Shoes & Leather Garments	178	108	264	517	487	499	147	8	97	93	71	107	*	*	*	*	*	*	15	15	14	
Automobile & Transport Equipment	318	362	935	232	525	935	145	150	783	45	3	116	*	*	*	7	77	98	36	30	1093	
Transportation & Telecommunication	223	70	1300	*	*	*	*	3	14	27	35	73	301	946	1104	*	*	*	*	*	*	
Real Estate/Construction	138	335	271	*	*	*	451	2270	3059	160	85	80	*	*	*	*	*	*	*	*	*	
Electronics & Electrical Appliances	146	168	2716	172	178	2825	119	150	240	303	133	558	*	*	*	*	*	*	*	*	275	493
Food & Tobacco	1074	969	377	953	1519	687	770	786	714	*	*	*	437	351	310	*	*	*	*	*	*	*
Fertilizers	192	211	256	*	*	*	*	71	37	*	*	*	*	*	*	*	*	*	*	*	*	*
Metal Products	1922	1994	2535	120	118	36	272	258	398	*	*	*	*	*	*	*	*	*	*	*	*	*
Oil, Gas, Petroleum & Energy	978	1216	130	*	27	29	154	*	154	2	2	4	*	*	*	*	*	*	200	*	*	*
Hotel & Services	9	57	417	*	*	*	246	127	202	167	288	296	*	*	*	*	*	*	*	*	*	*
Individuals	355	896	2999	383	650	956	3156	6601	8206	262	784	1444	121	169	158	839	1749	2489	2593	3068	2710	
General/Wholesale & Retail Trade	3880	1662	2338	875	1821	1824	551	848	964	4371	5178	3465	802	624	746	341	797	636	*	*	*	
Public/Government	*	*	*	667	101	1160	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Financial	66	60	105	2304	2338	2969	138	133	20	65	53	2094	*	*	*	*	*	*	*	64	*	
Others	8212	9076	12335	10833	6311	9422	3575	2876	3196	1598	2502	5702	5093	7147	8894	482	1111	3262	3477	3751	6557	
Total	36260	38318	56462	30033	27693	40053	16255	22012	27839	8571	10725	18269	10479	11355	13772	2309	4705	8934	8896	10990	17157	

Source: Banks Annual Reports

* Not given in the Bank's Annual Reports.

Selected Banks' NPLs to Gross Advances Ratio – By Business Segments

(Table-4)

	National Bank of Pakistan		Habib Bank		United Bank		MCB Bank		Allied Bank		Bank Al Falah		Standard Chartered Bank Pakistan								
	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007							
	2008		2008		2008		2008		2008		2008		2008								
Chemicals & Pharmaceuticals	33.1	57.5	74.5	0.8	0.6	1.0	16.7	17.9	3.3	0.7	0.3	0.8	-	-	2.1	0.9	1.3	1.8	9.4	14.2	
Agribusiness	5.4	7.7	6.9	6.5	18.1	21.5	12.9	9.4	5.7	16.9	13.2	8.8	2.8	2.7	0.7	1.2	2.7	8.0	30.2	19.4	0.2
Textiles	21.1	25.4	26.7	15.4	10.3	11.5	8.1	8.6	11.7	3.8	3.6	8.3	8.6	4.1	4.7	1.9	2.4	7.5	10.6	21.7	31.4
Cement	19.2	12.3	24.0	1.7	0.1	3.3	0.6	0.2	0.6	-	-	-	-	-	-	0.9	0.4	0.1	-	-	-
Sugar	23.4	17.0	23.0	14.4	0.0	10.7	0.4	0.4	0.5	0.6	0.4	6.0	-	-	-	-	-	-	-	-	-
Rice Processing	4.5	7.6	20.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Shoe & Leather Garments	16.1	16.5	34.1	23.2	18.5	18.1	5.3	0.3	3.1	6.0	3.4	5.3	-	-	-	-	-	2.2	3.1	2.4	2.4
Automobile & Transport Equipment	7.0	6.4	25.5	3.5	5.1	7.6	5.4	2.4	8.4	6.1	0.6	4.8	-	-	0.2	1.3	2.5	2.2	0.7	15.4	15.4
Transportation & Telecommunication	1.5	0.3	5.3	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.2	3.1	6.1	13.6	-	-	-	-	-	-
Real Estate/Construction	4.6	4.5	3.7	-	-	-	6.1	22.5	14.0	-	-	-	-	-	-	-	-	-	-	-	-
Electronics & Electrical Appliances	3.2	1.2	36.4	4.2	1.5	19.1	1.5	3.3	5.1	13.0	7.9	20.2	-	-	-	-	-	0.0	18.1	26.3	26.3
Food & Tobacco	44.6	53.4	20.0	7.7	29.3	11.7	15.4	16.3	9.6	-	-	-	7.9	3.6	1.8	-	-	-	-	-	-
Fertilizers	7.6	6.5	2.0	-	-	-	0.0	1.4	0.7	-	-	-	-	-	-	-	-	-	-	-	-
Metal Products	36.5	70.6	78.3	0.9	3.7	0.8	63.1	4.6	42.8	-	-	-	-	-	-	-	-	-	-	-	-
Oil, Gas, Petroleum & Energy	2.6	3.3	0.2	0.0	0.1	0.1	1.1	0.0	0.4	-	-	-	-	-	-	-	-	13.4	0.0	0.0	0.0
Hotel & Services	0.3	0.9	3.9	-	-	-	18.5	4.7	6.3	3.7	7.6	7.2	-	-	-	-	-	-	-	-	-
Individuals	0.6	1.1	4.0	0.7	1.5	3.0	5.9	9.6	9.1	1.3	2.5	4.4	2.3	3.5	2.9	1.7	4.0	5.7	4.4	5.4	7.1
General/Wholesale & Retail Trade	33.9	10.7	12.5	8.8	13.2	7.5	4.6	5.6	7.3	20.4	22.5	13.9	13.9	8.3	7.0	3.1	6.9	5.5	-	-	-
Public/Government	0.0	0.0	0.0	1.8	0.2	1.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financial	0.5	0.4	1.1	35.1	16.8	14.8	2.8	2.7	0.3	0.4	0.3	20.0	-	-	-	-	-	0.1	4.6	0.0	0.0
Others	14.2	25.8	21.3	14.0	8.6	13.2	7.2	6.5	6.2	2.2	3.7	13.9	20.9	18.0	18.3	2.0	3.9	9.5	9.8	12.5	21.2
Total	10.4	10.2	12.3	8.1	6.9	8.3	6.2	6.9	7.1	4.1	4.7	6.7	6.9	6.4	6.2	1.5	2.7	4.5	6.3	8.1	12.1

-As NPLs figures for the sector are not given in the respective Banks' Annual Report, the ratio could not be computed.

Source: Banks Annual Reports

Quarterly Performance of Selected Banks – 2009

(Rs. Bn)

	Major Banks							Provincial Bank
	National Bank of Pakistan	Habib Bank	United Bank	MCB Bank	Allied Bank	Bank Al-Falah	Standard Chartered Bank	Bank of Khyber
Assets								
2008								
December	817.8	717.3	605.1	443.6	366.7	349.0	264.6	31.3
2009								
Q1 March	841.6	712.6	622.4	456.4	347.7	328.8	278.5	29.9
Q2 June	901.1	760.8	632.7	467.7	385.6	344.5	287.5	33.8
Q3 September	865.1	771.2	593.1	468.8	379.2	346.7	308.5	34.7
Deposits								
2008								
December	624.9	572.4	483.6	330.3	297.5	300.7	174.5	24.7
2009								
Q1 March	640.5	569.2	469.3	338.3	284.7	273.3	186.2	21.8
Q2 June	692.7	616.0	508.7	361.8	312.8	295.6	189.9	23.3
Q3 September	653.5	608.0	452.4	362.1	301.6	294.8	203.3	22.3
Advances								
2008								
December	413.0	439.0	371.1	262.5	213.0	192.7	125.6	12.6
2009								
Q1 March	405.3	400.2	360.1	244.1	192.5	177.6	124.0	11.3
Q2 June	452.1	438.9	368.4	258.8	212.2	188.4	123.2	11.2
Q3 September	435.5	450.5	352.0	238.3	210.5	179.3	128.1	10.5
Investment								
2008								
December	170.8	124.6	116.3	96.3	82.6	76.0	29.6	9.0
2009								
Q1 March	185.9	144.8	144.0	125.3	88.2	77.6	60.0	10.7
Q2 June	208.7	136.5	129.1	116.1	86.3	65.0	66.1	13.1
Q3 September	240.5	146.0	133.9	142.9	91.8	89.0	75.5	16.6
Equity								
2008								
December	81.4	61.3	42.2	52.2	20.8	14.6	44.0	5.7
2009								
Q1 March	85.6	60.6	46.1	54.8	21.6	18.5	44.0	5.5
Q2 June	82.2	64.3	46.4	56.7	23.2	19.8	44.2	5.2
Q3 September	86.4	69.3	49.1	59.1	23.8	20.2	44.3	5.6
Interest Income								
2008								
December	60.9	61.2	52.3	40.0	30.6	31.0	23.3	2.9
2009								
Q1 March	18.8	18.2	16.3	13.0	10.2	9.3	6.6	0.9
Q2 June	18.5	18.5	15.5	12.8	9.8	8.6	6.6	0.8
Q3 September	18.7	18.6	14.7	12.3	10.4	8.7	6.6	0.8
Interest Expense								
2008								
December	23.9	25.5	24.1	11.6	16.6	20.3	6.9	1.9
2009								
Q1 March	9.3	7.8	8.2	3.9	5.4	6.5	2.3	0.6
Q2 June	9.0	8.0	7.7	3.9	5.9	6.1	2.6	0.6
Q3 September	9.0	8.3	6.3	3.8	5.5	5.9	2.7	0.5
Net Interest Income								
2008								
December	37.1	35.6	28.1	28.5	14.0	10.7	16.4	1.0
2009								
Q1 March	9.5	10.4	8.1	9.1	4.3	2.8	4.3	0.3
Q2 June	9.5	10.4	7.8	9.0	4.4	2.5	3.9	0.2
Q3 September	9.7	10.3	8.3	8.5	4.9	2.8	3.9	0.3
Non Interest Income								
2008								
December	16.4	10.3	10.4	5.8	4.2	5.2	6.6	0.3
2009								
Q1 March	3.7	1.9	2.1	1.7	1.2	1.2	1.4	0.05
Q2 June	3.3	2.7	3.7	1.1	2.2	1.6	2.3	0.06
Q3 September	4.3	2.5	1.9	1.2	1.3	1.2	1.6	0.2
Admn. Expense								
2008								
December	18.2	20.3	15.5	7.5	8.1	10.5	12.4	0.7
2009								
Q1 March	5.1	5.5	3.9	2.6	2.1	2.7	3.3	0.2
Q2 June	4.9	5.2	4.1	2.3	2.4	2.5	3.2	0.2
Q3 September	5.4	5.3	4.2	2.4	2.4	2.8	2.5	0.2
Profit/(Loss) B.T								
2008								
December	23.0	15.9	13.9	21.9	6.1	1.8	1.1	0.2
2009								
Q1 March	6.3	5.5	3.9	6.2	2.2	0.7	0.05	-0.2
Q2 June	3.4	5.0	2.8	5.4	2.4	0.7	0.2	-0.4
Q3 September	5.3	6.2	3.1	6.0	2.8	0.6	0.2	0.3
Profit/(Loss) A.T								
2008								
December	15.5	10.0	8.3	15.4	4.2	1.3	0.7	0.1
2009								
Q1 March	4.2	3.5	2.5	4.1	1.4	0.4	0.03	-0.2
Q2 June	2.1	1.9	1.8	3.6	1.6	0.7	0.2	-0.3
Q3 September	3.8	4.0	2.1	4.0	2.0	0.5	0.1	0.2

		Domestic Private Banks										
		Askari Commercial Bank	Soneri Bank	Bank Al-Habib	Mybank	Habib Metropolitan Bank	Faysal Bank	KASB Bank	Silkbank*	Samba Bank Limited	NIB	Meezan Bank
Assets												
2008	<i>December</i>	206.2	81.0	177.3	39.8	182.4	138.2	51.8	55.6	16.5	178.9	85.3
2009												
<i>Q1</i>	<i>March</i>	204.6	88.0	196.9	38.8	189.3	149.7	59.8	61.8	21.4	185.6	89.2
<i>Q2</i>	<i>June</i>	222.2	87.3	211.9	43.4	207.3	153.4	60.3	63.1	18.2	191.2	99.7
<i>Q3</i>	<i>September</i>	240.8	89.0	222.4	39.4	234.3	158.7	59.0	66.4	17.6	189.0	108.1
Deposits												
2008	<i>December</i>	167.7	61.6	144.4	28.0	128.4	102.8	35.1	41.1	9.9	104.6	70.2
2009												
<i>Q1</i>	<i>March</i>	157.3	66.3	156.2	26.1	119.4	106.1	42.6	44.8	9.2	107.9	73.0
<i>Q2</i>	<i>June</i>	180.7	66.5	171.7	28.4	131.5	105.8	43.2	48.7	10.0	99.9	81.6
<i>Q3</i>	<i>September</i>	191.4	68.4	175.9	23.0	134.5	109.3	42.0	47.4	10.2	105.9	87.7
Advances												
2008	<i>December</i>	128.8	47.6	100.2	20.9	108.3	89.8	32.2	31.1	6.2	80.3	39.5
2009												
<i>Q1</i>	<i>March</i>	120.2	44.6	93.3	19.3	102.0	92.0	31.5	32.0	7.0	78.2	35.7
<i>Q2</i>	<i>June</i>	129.1	45.9	103.7	19.2	105.4	94.8	30.1	32.6	7.0	84.5	37.8
<i>Q3</i>	<i>September</i>	125.0	47.2	95.5	18.9	99.1	94.2	30.7	33.2	6.1	80.0	37.2
Investment												
2008	<i>December</i>	35.7	14.1	48.2	10.3	53.6	30.2	9.5	12.0	3.8	35.2	14.5
2009												
<i>Q1</i>	<i>March</i>	33.8	21.6	70.0	10.1	62.4	33.2	16.3	13.6	6.2	43.4	20.8
<i>Q2</i>	<i>June</i>	39.6	21.8	75.0	13.2	78.0	41.4	15.8	16.3	4.1	46.4	17.8
<i>Q3</i>	<i>September</i>	58.3	27.0	93.1	10.4	108.3	47.7	14.8	19.7	5.7	47.2	21.6
Equity												
2008	<i>December</i>	12.0	7.0	10.0	5.9	16.2	10.1	8.8	3.1	5.5	41.0	6.3
2009												
<i>Q1</i>	<i>March</i>	12.4	7.2	10.1	5.1	17.2	10.4	8.6	2.6	5.3	41.4	6.6
<i>Q2</i>	<i>June</i>	12.6	7.0	10.8	4.6	18.0	10.6	7.9	2.0	5.0	41.5	8.6
<i>Q3</i>	<i>September</i>	13.2	7.1	11.4	4.7	18.9	11.1	7.9	1.8	4.7	41.7	8.7
Interest Income												
2008	<i>December</i>	18.4	7.8	14.6	3.6	16.0	13.4	4.9	4.6	1.8	15.2	6.8
2009												
<i>Q1</i>	<i>March</i>	5.6	2.4	5.2	0.8	4.6	4.2	1.5	1.4	0.5	4.7	2.5
<i>Q2</i>	<i>June</i>	5.4	2.3	5.5	0.9	5.1	4.1	1.1	1.5	0.5	4.6	2.4
<i>Q3</i>	<i>September</i>	5.5	2.2	5.5	0.9	5.5	4.2	1.3	1.5	0.4	4.4	2.4
Interest Expense												
2008	<i>December</i>	10.7	4.5	8.0	2.8	10.9	8.5	4.4	4.2	1.0	10.8	3.1
2009												
<i>Q1</i>	<i>March</i>	3.2	1.6	3.0	0.7	2.9	3.1	1.5	1.3	0.3	3.3	1.1
<i>Q2</i>	<i>June</i>	3.1	1.7	3.2	0.8	3.5	2.8	1.4	1.5	0.3	3.3	1.2
<i>Q3</i>	<i>September</i>	3.5	1.6	3.3	0.7	3.9	2.9	1.3	1.5	0.3	3.0	1.3
Net Interest Income												
2008	<i>December</i>	7.7	2.9	6.6	0.8	4.9	4.9	0.4	0.4	0.7	4.4	3.7
2009												
<i>Q1</i>	<i>March</i>	2.4	0.8	2.3	0.1	1.8	1.1	0.05	0.01	0.2	1.4	1.4
<i>Q2</i>	<i>June</i>	2.3	0.6	2.3	0.1	1.5	1.3	-0.3	0.07	0.2	1.3	1.2
<i>Q3</i>	<i>September</i>	2.0	0.6	2.2	0.2	1.6	1.3	0.02	-0.005	0.2	1.4	1.2
Non Interest Income												
2008	<i>December</i>	2.7	1.2	2.5	0.9	4.2	2.3	0.7	0.4	0.1	2.4	0.7
2009												
<i>Q1</i>	<i>March</i>	0.6	0.3	0.5	0.04	0.9	0.5	0.1	0.2	0.03	0.4	0.2
<i>Q2</i>	<i>June</i>	0.6	0.3	0.5	0.2	1.0	0.7	0.2	0.2	0.02	0.3	0.5
<i>Q3</i>	<i>September</i>	0.8	0.3	0.6	0.1	0.9	1.0	0.2	0.2	0.006	0.6	0.5
Admn. Expense												
2008	<i>December</i>	5.9	1.7	4.3	0.9	3.1	3.3	1.8	1.9	0.4	6.4	2.6
2009												
<i>Q1</i>	<i>March</i>	1.7	0.5	1.3	0.3	0.9	0.9	0.5	0.6	0.3	1.4	0.8
<i>Q2</i>	<i>June</i>	1.7	0.5	1.2	0.2	0.8	1.2	0.7	0.6	0.4	1.2	0.9
<i>Q3</i>	<i>September</i>	1.8	0.5	1.4	0.3	0.9	1.1	0.6	0.7	0.4	1.3	0.9
Profit/(Loss) B.T												
2008	<i>December</i>	0.5	1.0	3.6	-0.8	4.7	1.8	-1.8	-2.8	-1.0	-11.0	0.9
2009												
<i>Q1</i>	<i>March</i>	0.5	0.4	1.0	-0.1	1.4	0.4	-0.2	-0.5	-0.2	0.8	0.4
<i>Q2</i>	<i>June</i>	0.4	-0.3	1.2	-0.5	1.1	0.4	-1.6	-0.6	-0.3	0.3	0.4
<i>Q3</i>	<i>September</i>	0.9	0.1	1.0	0.06	1.3	0.7	-0.1	0.1	-0.3	0.3	0.2
Profit/(Loss) A.T												
2008	<i>December</i>	0.4	0.7	2.4	-0.3	3.2	0.3	-1.0	-2.0	-0.7	-7.4	0.6
2009												
<i>Q1</i>	<i>March</i>	0.3	0.3	0.7	-0.8	0.9	0.3	-0.2	-0.5	-0.2	0.4	0.3
<i>Q2</i>	<i>June</i>	0.3	-0.2	0.7	-0.4	0.8	0.2	-0.7	-0.6	-0.3	0.2	0.2
<i>Q3</i>	<i>September</i>	0.6	0.08	0.6	0.06	1.0	0.5	-0.1	-0.2	-0.3	0.2	0.1

* Formerly Saudi Pak Commercial Bank Limited

		Foreign Banks					
		Citibank	RBS	HSBC	Deutsche Bank AG	Oman International Bank	Barclays*
Assets							
2008	<i>December</i>	101.7	108.1	48.4	21.7	3.4	24.6
2009							
<i>Q1</i>	<i>March</i>	109.3	103.9	47.6	15.7	3.4	30.6
<i>Q2</i>	<i>June</i>	103.2	105.7	48.3	16.0	3.7	35.3
<i>Q3</i>	<i>September</i>	94.2	96.1	51.5	15.1	3.7	39.5
Deposits							
2008	<i>December</i>	65.5	79.1	36.5	10.3	0.5	14.6
2009							
<i>Q1</i>	<i>March</i>	65.2	75.0	38.8	4.3	0.5	19.0
<i>Q2</i>	<i>June</i>	62.4	77.8	39.9	7.4	0.5	23.9
<i>Q3</i>	<i>September</i>	63.6	72.8	43.0	6.2	0.5	28.2
Advances							
2008	<i>December</i>	41.9	67.9	25.3	6.3	0.3	9.7
2009							
<i>Q1</i>	<i>March</i>	37.5	60.6	25.4	5.1	0.2	12.8
<i>Q2</i>	<i>June</i>	32.9	54.4	22.0	3.7	0.4	14.0
<i>Q3</i>	<i>September</i>	27.2	50.6	20.7	3.1	0.4	13.7
Investment							
2008	<i>December</i>	9.2	19.0	1.9	1.0	-	9.3
2009							
<i>Q1</i>	<i>March</i>	27.8	17.4	3.2	0.2	-	8.8
<i>Q2</i>	<i>June</i>	45.5	27.1	3.9	-	-	12.7
<i>Q3</i>	<i>September</i>	36.0	27.1	4.0	-	-	12.6
Equity							
2008	<i>December</i>	9.5	8.3	5.0	4.6	2.7	6.3
2009							
<i>Q1</i>	<i>March</i>	9.9	8.0	5.2	4.2	2.8	6.6
<i>Q2</i>	<i>June</i>	10.0	7.4	5.3	4.9	2.8	6.6
<i>Q3</i>	<i>September</i>	8.9	6.8	5.4	5.4	2.8	6.6
Interest Income							
2008	<i>December</i>	11.5	11.5	4.1	1.0	0.04	0.8
2009							
<i>Q1</i>	<i>March</i>	2.6	3.3	1.3	0.3	0.011	0.7
<i>Q2</i>	<i>June</i>	2.6	3.0	1.2	0.2	0.014	0.8
<i>Q3</i>	<i>September</i>	2.5	2.8	1.1	0.3	0.015	0.9
Interest Expense							
2008	<i>December</i>	4.1	5.6	2.4	0.4	0.05	0.3
2009							
<i>Q1</i>	<i>March</i>	1.2	1.5	0.7	0.05	0.014	0.5
<i>Q2</i>	<i>June</i>	1.3	1.8	0.7	0.06	0.016	0.5
<i>Q3</i>	<i>September</i>	1.2	1.6	0.7	0.06	0.017	0.5
Net Interest Income							
2008	<i>December</i>	5.8	5.8	1.6	0.6	-0.01	0.5
2009							
<i>Q1</i>	<i>March</i>	1.4	1.8	0.5	0.2	-0.003	0.3
<i>Q2</i>	<i>June</i>	1.3	1.2	0.5	0.2	-0.002	0.3
<i>Q3</i>	<i>September</i>	1.3	1.2	0.5	0.2	-0.002	0.3
Non Interest Income							
2008	<i>December</i>	3.5	3.8	0.8	1.0	0.8	0.03
2009							
<i>Q1</i>	<i>March</i>	1.3	0.9	0.3	0.5	0.001	0.003
<i>Q2</i>	<i>June</i>	0.4	1.2	0.3	0.9	0.001	0.003
<i>Q3</i>	<i>September</i>	0.5	0.5	0.3	0.3	0.002	0.04
Admn. Expense							
2008	<i>December</i>	5.1	6.5	1.9	0.8	0.06	1.7
2009							
<i>Q1</i>	<i>March</i>	1.0	1.6	0.5	0.2	0.01	0.7
<i>Q2</i>	<i>June</i>	0.9	1.3	0.5	0.2	0.01	1.1
<i>Q3</i>	<i>September</i>	1.0	1.4	0.6	0.2	0.01	1.0
Profit/(Loss) B.T							
2008	<i>December</i>	0.1	-0.6	0.3	0.8	-0.04	-0.6
2009							
<i>Q1</i>	<i>March</i>	0.6	-0.3	0.2	0.4	-0.009	-0.4
<i>Q2</i>	<i>June</i>	0.008	-0.4	0.1	0.7	-0.01	-0.9
<i>Q3</i>	<i>September</i>	0.09	-0.8	-0.7	0.3	-0.02	-0.7
Profit/(Loss) A.T							
2008	<i>December</i>	0.8	-0.5	0.3	0.5	0.04	0.1
2009							
<i>Q1</i>	<i>March</i>	0.3	-0.3	0.1	0.3	-0.009	-0.3
<i>Q2</i>	<i>June</i>	0.003	-0.6	0.08	0.5	-0.01	-0.6
<i>Q3</i>	<i>September</i>	0.1	-0.6	0.05	0.2	-0.02	-0.6

* The Bank Commenced its Operations on July 23, 2008

Market Analysis

Market Review – CY2009

The KSE-100 index during the year under review was one of recovery and consolidation near the end of the year. Overall, the KSE-100 Index gained 60.0 percent or 3,521 points for the year ended December 31, 2009 to 9,386 points on an average daily volume of 170.93 million shares as compared to 132.91 million during CY08. The KSE-30 Index improved by 79.6 percent or 4,364 points to close the year at 9,849. Looking back at the last 12 months, the market can be segmented into 5 distinct phases: 1) bearish start; 2) sharp recovery; 3) pre and post budget activity; 4) foreign liquidity driven rally and; 5) dull and lackluster finish.

Bearish start

The market experienced a moderate rally at the beginning of January due to the launch of the NIT managed support fund on January 1 that would buy stock in government owned enterprises such as OGDC, PPL and NBP. In addition, the SECP on January 10 amended section 95A of the Companies Ordinance 1984 to allow listed companies to buy back their own shares and hold them as treasury shares, which may be re-issued under the regulations being prescribed by the Commission. These events led to renewed buying activity in large cap scrips especially in the energy sectors and dividend paying stocks such as FFC. The news of the launch of the NIT state enterprise fund was one of the major drivers behind this minirally as it led to positive sentiments among investors.

However, the exuberance did not last long as profit taking set in along with foreign and local institutional selling activity in major Index stocks led to a steady decline in the Index from January 12 to January 26. From the beginning of the year to January 26, the KSE-100 shed around 1,050 points or 18 percent to 4,815 on average daily turnover of 129.38 million shares.

The market experienced a sharp recovery for the next two-and-a-half months from January

Sharp recovery

26 to April 20. The KSE-100 surged by over 3,000 points or about 64 percent to 7,902 on an average daily volume during this period of 213.67 million shares. The main drivers behind this recovery were related to positive news flow relating to both macroeconomic and political developments such as the following:

- The Ministry of Finance in consultation with the SECP allowed relief to listed companies from IAS 39 for CY2008. As indicative by the circular, the impairment loss if any recognized as on December 31, 2008 due to valuation of listed equity investments in available-for-sale category to be shown under equity; this impairment charged in equity would be amortized over 4 quarters in 2009 in the P&L account;
- The attractive valuations of major blue chip stocks in terms of both PE multiples and dividend yields;
- The restoration of then deposed Chief Justice of the Supreme Court of Pakistan Iftikhar Muhammad Chaudhry on March 16 after some considerable struggle and political turbulence;
- The Friends of Democratic Pakistan Group pledged PKR 5.28 billion in aid in Tokyo on April 17 and;
- The SBP on April 20 cut the policy rate by 100bps to 14 percent indicating a gradual shift in tight money policy stance.

Pre and post budget activity

In the run-up to the budget, the market was slightly volatile with a hue of profit taking and selling activity from late April to mid-June. The law and order situation in both Karachi and Swat was a cause of nervousness among most investors in the early part of May.

From the last week of May to the end of June, the market movement can be described as choppy. From May 21 to May 28, the KSE-100 Index staged a moderate recovery of 318 points or 4.5 percent to 7,288 on the back of institutional support in major Index stocks

from various sectors such as fuel and energy, banking and telecom.

However, the market experienced another correction from May 28 to June 4 in which the KSE-100 Index shed 409 points to dip below the 7,000-level due to again anxiety over the budget as rumor and speculation among the investor community was rampant regarding possible new tax measures. The Index staged a minor rally to cross the 7,000-mark in the run-up to the federal budget announced on June 13, but the immediate market reaction was adverse, as there were no notable incentives for industry to stimulate activity. From April 20 to June 16, the KSE-100 Index shed 1,029 points or 13 percent to 6,872.

Foreign liquidity driven rally

From mid-June to mid-October, the KSE-100 Index experienced a huge rally driven mostly by foreign buying activity. The Index jumped by over 2,900 points or 43 percent to close at 9,845 on October 15. The cheap valuations relative to regional peers made the local market attractive to both foreign and local investors and were probably one of the key drivers during this time. During this period, the bourse witnessed a net foreign inflow of US\$ 297 million.

Dull and lackluster finish

From mid-October to the end of the calendar year, the market was dull and lackluster as the daily turnover became thin, showing a lack of interest by most investors as the focus had been diverted from large cap scrips to lower tier stocks. The uncertain security situation, as evident by the number of bomb blasts targeting both civilian and military/security targets led to apprehension among investors. Also, on the domestic political front, the controversy regarding the National Reconciliation Ordinance led to political uncertainty over the current dispensation with pressure being applied on the President to return some of his powers that were bestowed in the 17th Amendment when Pervez Musharraf was President back in 2003 back to the Prime Minister and parliament. For most of December, the Index was trading in a narrow band due to the lack of interest

among investors in the large cap stocks with preference given to lower tier scrips.

Despite the Supreme Court decision on December 16 to rule the NRO unconstitutional, the political situation remained uncertain. The Index staged a slight recovery on December 24 as the IMF Board approved the fourth tranche of US\$ 1.2 billion. The last week of the year saw the market fizzle out due to 10th Muharram terrorist attack in Karachi and lack of interest among investors.

Regional Valuation

Pakistan's 12-month forward PEx comes to 7.3 as against the regional average of 14.0, while the 12-month forward dividend yield comes to 6.35 percent as against the regional average of 2.64 percent. It is possible that the wide discount in PEx may narrow in 2010, as long as the Pakistan economy continues to show recovery and the political situation becomes stable so that liquidity from both local and foreign investors continue to flow into the bourses.

Looking Ahead

2009 has been a turnaround year for the local equity markets as the trough was reached within the first few weeks of the beginning of the year. The attractive valuations namely PEx and dividend yield led to positive portfolio inflows by both local and foreign investors. However, the last quarter of 2009 was flat due to profit taking and investor apprehension derived from political uncertainty over the NRO and shaky security situation.

We expect the economy to continue to show steady recovery, but a number of risks to the macroeconomic scenario remain. Both the domestic political and geopolitical situations are also uncertain that could lead to lower direct and portfolio investment inflow. The U.S. plans for a surge in troops to Afghanistan could have blowback implications for Pakistan that could mean more terror attacks on its soil.

Albeit some stability has come to the economy and the capital markets because of the homegrown stabilization program developed in October 2008 in conjunction with the IMF Standby Arrangement, we would still advocate a cautious approach towards equity investment and recommend a balanced approach.

Book/Report Reviews

Pakistan

*North West Frontier Province and
Federally Administered Tribal Areas*

*Preliminary Damage and Needs Assessment
Prepared by Asian Development Bank
and World Bank for GoP, November '09*

On the request of the Government of Pakistan, the World Bank and the Asian Development Bank jointly conducted a preliminary *Damage and Needs Assessment* (DNA) study of the military operations in the war on terrorism, in the most severely affected areas of NWFP, Buner, Lower and Upper Dir, Shangla and Swat, alongwith two agencies of Bajaur and Mohmand in FATA.

The assessment was carried out basically to create conducive conditions for immediate recovery and rehabilitation in the most severely crisis affected areas of NWFP and FATA. It recommends reconstruction strategies for the different social sectors — education, health, housing; for economic/productive infrastructure and physical infrastructure.

The total estimated cost of immediate reconstruction and recovery is \$1.08 billion for the five NWFP districts and two FATA agencies. The findings show that social sectors have the highest social needs (\$361 million), followed by productive sectors (\$296 million) and the reconstruction needs for physical infrastructure are estimated to be \$273 million.

The introductory chapter gives an overview of the area before the crisis and the socio economic impact of the crisis. After assessing the damages in these districts, recovery needs were identified for each sector separately. As the crisis situation has been evolving since the start of the military operations, the DNA adopted a ring-binder approach to the reconstruction needs assessment. This is essentially to ensure that as the crisis further evolves, the Government can extend the assessment to other areas using this DNA methodology.

The Damage and Needs Assessment made it easy for the government to chalk out and implement recovery strategies. These were directed at infrastructure reconstruction, livelihoods restoration, as the IDPs return home through creation of income and employment opportunities, revival of production and trade. Special attention was given to the needs of the most vulnerable and socially disadvantaged groups through focused income support programmes.

Pakistan

Balochistan Economic Report

*From Periphery to Core
(In Two Volumes)*

World Bank - May 2008

The Report is a joint effort of the Government of Balochistan, the World Bank and the Asian Development Bank.

Balochistan is endowed with vast natural and locational resources. It accounts for two-third of Pakistan's coastline, which has potential in many areas, including wind energy, mangroves and fishery. It has mines and minerals, fruits and crops and livestock. However, its economy has not done well. It has high poverty rates, poorly developed infrastructure, low social indicators, poor living standards and internal conflicts. This has resulted in poor development of the province, and Balochistan remained on the periphery of economic and institutional development, says the Report.

The Report takes stock of economic outcomes over the last decades, the strategies for inclusive economic development of generating growth, delivering service and financing development in the future; and the instruments for today's economic policies to bring about the required change.

The five main findings of the Report are: -

- There are some positive developments taking place which offer an opportunity to

move Balochistan from the periphery to the core of economic development.

- Second, in order to overcome the constraints to provincial development, Balochistan should pursue a development agenda around generating growth, delivering services and financing development.
- Third, generating growth requires leveraging Balochistan's resource and locational advantages, deepening its capacity for value addition and strengthening the foundations for business activity.
- Fourth, delivering services depends on improving the public administration, making devolution more effective and scaling up of basic services involving the private sector.
- Fifth, financing development relies on prudent management of provincial expenditures and strengthening capacity for revenue collection.

In one of the chapter 'Revitalizing Petroleum', the Report argues that the decline in gas production could be reversed if ways are found to ameliorate the security situation, a more transparent mechanism is established for the sharing of the benefits from the use of hydrocarbons with the local population in the producing zone, and the provincial government deepens its oil and gas expertise and actively supports private investors.

Though Balochistan has a long coastline, it contributes less than one-third of the country's marine fish production. The Report recommends more private sector investment, modernization of the existing harbours, construction of new harbours in some other fishing settlements, such as Jiwani, Ormara and Sonmiani, incentives for shrimp aquaculture and compliance with hygienic standards.

Balochistan needs a coherent rural strategy that promotes growth in the farm and non farm sectors. It has also to improve the delivery of social services.

*Money and Banking in Pakistan
Sixth Edition
S. A. Meenai
Revised and Expanded by
Javed A. Ansari, 2010
Oxford University Press*

This is a comprehensive book on money and banking in Pakistan, covering the period 1947 to 2009. The book has been revised and updated. The new Chapters in this edition include, Post Keynesianism and the Stock Flow Consistency Approach, Inflation, the Insurance Industry in Pakistan and Pakistan's Payment and Settlement System. New Appendices and Sections have been added and all chapters have been updated.

Part-I of the book presents the major schools of monetary theory; the classical school of Adam Smith and David Ricardo who wrote extensively about money, followed by the Marxist theory, the Keynesian theory, and the Modern Neo Classical monetary theory.

Chapter 8 talks about the objectives of monetary policy, and what monetary policy can and cannot do. The various instruments of monetary policy have been discussed and its theory in the 21st century. The author writes, 'SBP's monetary policy has failed in Pakistan. It has not stimulated growth nor has it been effective in ensuring price stability'.

Part-II has 12 chapters. The first chapter in this section gives the monetary developments from 1947 till present time. The other chapters discuss Pakistan's Financial Development, the role of the State Bank of Pakistan; Commercial Banks — structure of their balance sheet, their performance, implementation of Basel-II framework; Development Finance Institutions and Growth of Financial Markets in Pakistan. There is a chapter on Islamic Banking, the Insurance Industry, and a detailed chapter on Monetary Policy in Pakistan 1947-2009. Its a comprehensive overview of Pakistan's financial sector and useful for policy makers and researchers.

Pakistan Economy – Key Economic Indicators

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

MP=Market Prices FC=Factor Cost * Period Average

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

* Outstanding Amount

**Its on calendar year basis

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