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Editor's Corner

Dear Readers,

As 2012 draws near, it is time to look back at some of the breaking news that influenced world events in 2011. The year saw a series of protests and demonstrations, and the one that swept the Middle East and North Africa stood out. The power of the people toppled long standing regimes, from the bloodless coup in Egypt to the civil war that tore through Libya, resulting in a fall of its government. *Occupy Wall Street* was another people powered movement that began in September in Manhattan, New York with the objective to protest against injustice in society. It was primarily an outcry against corrosive power of major banks and multinational corporations, corporate greed and income inequality. During the year, nature played havoc with Japan, as it was hit by a record 9.4 magnitude earthquake, which triggered a roaring tsunami, which tore towns apart and pulled them into the ocean. The disaster was compounded by the meltdown of three reactors at the tsunami damaged Fukushima nuclear power plant. The year also saw the death of Osama Bin Laden and the Apple Computer co-founder, Steve Jobs, the man who revolutionalised computer technology. The UN marked October 31, as the day when the world's population reached 7 billion people. In the midst of turmoil, the world witnessed a fairy tale royal wedding of Kate and William.

On the international front, the year saw the global economy facing yet another economic slowdown; deepening of the crisis in the euro area as the eurozone debt crisis that began in smaller countries such as Greece spread to the large core economies of Italy and Spain; increased financial stability risks; stock markets recording their most volatile trading sessions and most indices ended down for the year; oil supply concerns because of unrest and disruptions in North Africa and the Middle East and in more recent weeks, Iran's threats to shut the Strait of Hormuz. Oil prices averaged $95.11 in 2011, having touched a record high of $115 in May, and any supply disruption could send prices to record highs next year. Bullion posted a gain of 10 percent for 2011, its smallest annual rise in three years. At the end of the year, it was down around 19 percent from a record $1920.30 per ounce in September. Global food prices remained high during the year, and domestic prices were more volatile in low income and landlocked countries than in middle income countries and countries with port access.

In the currency market, worries about sovereign debt levels, dragged the euro lower, as it ended the year down more than 8 percent against Japanese currency. The euro's troubles have benefited the dollar and yen, both of which tend to attract safe haven flows during times of trouble. From around $1.33 in January, the euro soared to $1.4939 by May, but then began a steady descent, and on December 30, the euro traded at $1.2940. Against a basket of major currencies, the dollar finished the year up 1.3 percent, its second consecutive annual rise.

Changes taking place in the global economy has seen emerging economies gaining prominence, while the industrialised economies struggle with slow growth, high unemployment and huge indebtedness. According to a report, governments of the world's leading economies have more than $7.6 trillion of debt maturing this year, with most facing a rise in borrowing costs. The Brazilian economy has overtaken the UK as the sixth largest economy in the world, outpacing Russia and India. BRIC economies (Brazil, Russia, India and China) are expected to grow further, leaving behind the European countries.

Until the year 2000, developed economies accounted for about two-thirds of world economic growth. Today that has changed. Emerging economies now account for more than two-thirds of global growth of which

China accounts for about half. Fareed Zakaria in his book, *The Post American World*: *Release 2.0*, writes about the rise of other countries in the world, about the transformation that is taking place, about the level playing field that is now being provided to many other countries around the world. Countries have acquired new roles, and the world is likely to see more challenges and greater assertiveness from rising nations, says the author.

A World Bank Report, *Global Development Horizons 2011: Multipolarity: The New Global Economy*, shows that there are changes taking place in the global economy. As the world enters the second decade of the 21st century, the distribution of global growth will become more diffuse, with no single country dominating the global economic scene. Emerging economies are rising to become a powerful force in international production, trade and finance. Developing countries share of international trade flows has risen steadily from 30 percent in 1995 to an estimated 45 percent in 2010. Much of this rise has been due to an expansion of trade not between developed countries and developing countries, but among developing countries. Similarly, more than one third of FDI in developing countries currently originates in other developing countries.

The year 2011 has witnessed a modest slowing of global economic activity, contributed by the earthquake and tsunami in Japan and the political turmoil in the Middle East. World Bank report *Global Economic Prospects*, says global GDP is projected to slowdown to 3.2 percent in 2011 after growing by 3.8 percent in 2010. Growth in high-income countries are projected to be reduced to 2.2 percent in the year, and improve to 2.6 percent in 2012. Aggregate growth in developing countries is expected to be a strong at 6.3 percent. However, growth by developing countries is likely to be impacted adversely if conditions worsen in the Middle East and if oil prices were to rise sharply, or if there is a poor harvest which could cause domestic food prices to rise.

At the home in 2011, the economy suffered from the aftermath of the 2010 floods, acute energy shortages, natural gas shortages intensifying, and affecting power generation, urban violence and lawlessness, the ongoing war on terror with its ramifications for the economy, inability to implement fiscal reforms, rising public debt which reached Rs11 trillion, and loss making public sector enterprises continuing to drain scarce fiscal resources. Financing of fiscal deficit remained a challenge, government borrowings from commercial banks showed an increase of 74.5 percent, inflation continued to remain in double digits with food inflation remaining high and foreign direct investment continued to decline as investors concern over governance issues, energy and the prevailing security situation hindered its growth.

Ayesha Mahmud

Pakistan's Health Sector – A Brief Overview

Good health is essential to sustained economic development

Health plays a key role in the well being of an individual, as good health has a positive effect on the efficiency and productivity of the labour force, thereby contributing to economic growth. Pakistan suffers from a high population growth and low human development, as available health facilities get thinly distributed. The country has been placed alongwith Kenya, Bangladesh, Myanmar, Nigeria, Senegal in the category of countries with low human development. Although the Human Development Index has improved from 0.359 in 1980 to 0.504 in 2011, this improvement has been slow. In Sri Lanka, the ratio improved from 0.539 to 0.691 in the same period, while in India the progress has been much faster, as it started with a lower ratio (0.344) in 1980 and rose to 0.547 by 2011. In terms of HDI ranking, Pakistan is ranked 145th of 187 countries, while India is placed at 134, Nepal at 157 and Sri Lanka at 97.

Health sector challenges

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.

Health & Nutrition Expenditures

(Rs. Bn)

Fiscal Year	Public Sector Expenditure (Federal & Provincial) Total Health Expenditure	Development Expenditure	Current Expenditure	Health Expenditure as % of GDP
2000-01	24.28	5.94	18.34	0.72
2001-02	25.41	6.69	18.72	0.59
2002-03	28.81	6.61	22.21	0.58
2003-04	32.81	8.50	24.31	0.57
2004-05	38.00	11.00	27.00	0.57
2005-06	40.00	16.00	24.00	0.51
2006-07	50.00	20.00	30.00	0.57
2007-08	60.00	27.22	32.67	0.57
2008-09	74.00	33.00	41.10	0.56
2009-10	79.00	38.00	41.00	0.54
2010-11	42.00	19.00	23.00	0.23

Source: Pakistan Economic Survey 2010-11

Sector under-performs

The sector's underperformance is the result of decades of neglect. Child and maternal mortality continue to remain high, alongwith high burden of communicable diseases. Children suffer from malnutrition, diarrhoea, water borne diseases, birth related problems, unhealthy dietary habits. Slow progress in maternal mortalilty ratio (260 per 100,000 live births) is attributed to high fertility rate, low rate of births attended by skilled health personnel, illiteracy, malnutrition and insufficient access to emergency obstetric care services. The average life expectancy at 67 years is well comparable with Bangladesh, Nepal and Thailand.

Health Related Indicators

	Life Expectancy at birth (years) Male 1990	Male 2009	Female 1991	Female 2009	Child mortality rate (per 1000) Male 2004-09	Female 2004-09	Maternal mortality ratio* (per 100,000 live births) 2004-09
Pakistan	60	67	61	67	14	22	276
Bangladesh	53	66	55	68	16	20	348
Nepal	54	66	54	68	21	18	281
Sri Lanka	66	71	73	78	-	-	39
India	58	63	58	66	9	12	254

** National estimates*

Source: World Development Report 2012

	One year olds lacking immunization against DTP (%)	Measles (%)	Mortality Underfive (per 1000 live births)	Adult (per 1000 people) F	M
Pakistan	15	20	87	189	225
Bangladesh	6	11	52	222	246
Nepal	18	21	48	159	234
Sri Lanka	3	4	15	82	275
India	34	29	66	169	250

Source: Human Development Report 2011

As health outcomes are poor, Pakistan is unlikely to meet many of the targets set out in the MDG health related goals. While there have been improvements in the health status of Pakistani population over the last six decades, key health indicators lag behind in relation to international targets articulated in the Millennium Declaration.

Health Profile

	India	Pakistan	Bangladesh	Nepal	Sri Lanka	Bhutan	Maldives	South Asia (weighted average)
Population with access to safe water (%)								
– 2000	81	88	79	83	80	91	91	82
– 2008	88	90	80	88	90	92	91	87
Population with access to sanitation (%)								
– 2000	25	37	46	23	82	62	81	29
– 2008	31	45	53	31	91	65	98	36
Child immunization rate								
One-year-olds fully immunized against measles (%)								
– 2000	50	59	72	77	98	78	99	54
– 2009	71	80	89	79	96	98	98	74
One-year-olds fully immunized against DPT (%)								
– 2000	60	62	81	80	99	92	98	63
– 2009	66	85	94	82	97	96	98	72
Physicians (per 1,000 people)								
– 1998-2001	0.51	0.66	0.23	0.05	0.43	0.05	0.78	0.49
– 2004-07	0.58	0.78	0.30	0.21	0.55	0.02	0.92	0.57
Maternal mortality ratio (per 100,000 live births)								
– 2000	390	340	500	550	59	420	110	394
– 2008	230	260	340	380	39	200	37	245
Contraceptive prevalence rate (% of women aged 15-49)								
– 1999-2001	47	28	54	39	70	31	42	46
– 2006-08	54	30	53	48	68	35	39	51
People with HIV/AIDS								
People Living with HIV/AIDS (Adults and Children) (000)								
– 2001	2,700	51	7.5	56	3.0	-	-	2,818T
– 2009	2,400	98	6.3	64	2.8	<1.0	<1.0	2,571T
People with HIV/AIDS adults (% age 15-49)								
– 2001	0.5	0.1	-	0.5	-	-	-	0.5
– 2009	0.3	0.1	<0.1	0.4	<0.1	0.2	<1.0	0.3
Public expenditure on health (% of GDP)								
– 2000	1.3	0.6	1.1	1.3	1.8	5.3	4.1	1.2
– 2009	1.4	0.9	1.1	2.1	1.8	4.5	5.2	1.3
Population without access to safe water								
% of total population								
– 2000	19	12	21	17	20	9	9	18
– 2008	12	10	20	12	10	8	9	13
Population without access to sanitation								
% of total population								
– 2000	75	63	54	77	18	38	19	71
– 2008	69	55	47	69	9	35	2	64
Child malnourished (weight for age) (% of children under-five)								
– 2006-08	43.5	31.3	41.3	38.8	21.1	14.1	25.7	41.5
Under-five mortality rate (per 1,000 live births)								
– 2000	92.7	107.7	89.6	85.4	20.7	106	53.3	92.9
– 2009	65.6	87.0	52.0	48.2	14.7	78.6	12.7	65.7

Source: Human Development in South Asia 2010-11

The Planning Commission, Government of Pakistan in the report titled, *Pakistan Millennium Development Goals Report 2010*, shows the progress made towards each of the 8 goals. The progress made towards the achievement of the health related MDGs continue to vary across the range of different goals and indicators of each goal. Goals 4, 5 and 6 relate to child mortality, maternal health, and combating HIV&Aids, malaria and other diseases respectively. Under 5 mortality rate is to decline to 52 by 2015. Over 1990-91 to 2010, child mortality declined from 140 to 89 per thousand live births. MTDF was to reduce the rate to 77 (2009-10). Infant mortality is to be reduced to 40 by 2015 (it is 63.3 in 2010).

Progress towards health related MDGs

A UNDP report on Pakistan says, "there seems very little possibility of meeting the MDGs." Special efforts would be required to meet the targets. With respect to child immunisation against measles, there are weaknesses in service delivery planning, implementation and overall management resulting in sub-optimal access and utilisation of immunisation services. Lady health workers coverage is to be universal by 2015. This has increased significantly and the target seems to be easily achievable.

There has been slow progress in improving child health outcomes, because of a number of factors. These include among others, illiteracy, gender inequality, lack of access to safe drinking water, inadequate sanitation, food insecurity, high prevalence of communicable diseases and malnutrition. Better sanitation and supply of potable water would cut down on diseases, especially diarrhoeal disorders and parasite borne illnesses. Reducing the incidence of disease would automatically reduce the burden of the health sector.

High maternal mortality

Pakistan suffers from a high rate of maternal mortality. MDG target is reducing the ratio from 533 per 100,000 live births to 140 by 2015. In 2008, the ratio was 260. To achieve the target would be challenging and require immense resources and efforts. Only 39 percent of births are attended by skilled health personnel, and their absence involves great risk for mothers. The effective way to prevent maternal deaths is that deliveries must be attended by skilled personnel who can recognize danger signs and treat or refer any complications that arise.

In some parts of the country, primary health care facilities are lacking, at places facilities lack female staff, which restrict women's access to health care facilities or travelling over long distances to reach the health facility. Pakistan has considerable distance to go to meet the MDG target of halving maternal mortality to 140, and increasing the proportion of births attended by skilled health personnel. Achieving some of the targets of other indicators of Goal 5 would be challenging and require herculean efforts, states the Report.

Health Facilities and Personnel

(Nos)

Year	Hospitals	Dispensaries	Rural Health Centres	Basic Health Units	MCH Centres	Doctors (000)	Dentists	Lady Health Visitors	Mid Wives	Nurses
2001	907	4625	541	5230	879	97	4612	5669	22711	40019
2002	906	4590	550	5308	862	103	5058	6397	23084	44520
2003	906	4554	552	5290	907	108	5531	6599	23318	46331
2004	916	4582	552	5301	906	113	6128	6741	23559	48446
2005	919	4632	556	5334	907	118	6743	7073	23897	51270
2006	924	4712	560	5336	906	123	7438	8405	24692	57646
2007	945	4755	562	5349	903	128	8215	9302	25261	62651
2008	948	4794	561	5310	908	134	9013	10002	25534	65387
2009	968	4813	572	5345	906	140	9822	10731	26225	69313
2010	972	4842	577	5344	909	145	10508	11510	27153	73244

Source: Pakistan Statistical Yearbook 2011

Millennium Development Goals

Goal 4: Reduce Child Mortality

Indicators	Definitions	1990-91	2000-01	2004-05	PRSP Target 2005-06	MTDF Target 2009-10	MDG Target 2015
Under-five mortality rate	No. of deaths of children under five year of age per thousand live births	140	105	100	80	77	52
Infant mortality rate	No. of deaths of children under 1 year of age per thousand live births	102	77	73	63	65	40
Proportion of fully immunised children 12-23 months (%)	Proportion of children of 12 to 23 months of age who are fully vaccinated against EPI target diseases	75	53	77(M:78 F:77)	82	90	>90
Proportion of under 1 year children immunised against measles (%)	Proportion of children 12 months of age and received measles vaccine	80	57	78	80	90	>90
Proportion of children under five who suffered from diarrhoea in the last 30 days and received ORT (%)	Proportion of children under 5 years suffering from diarrhoea in past 30 days	26	12	16	n/a	16	>10
Lady Health Workers' coverage of target population (%)	Households covered by Lady Health Workers for health care services	n/a	33.6	80	83	90	100

Goal 5: Improve Maternal Health

Indicators	Definitions	1990-91	2004-05	2008-09	MTDF Target 2009-10	MDG Target 2015
Maternal Mortality Ratio (MMR)	No. of mothers dying due to complications of pregnancy and delivery per 100,000 live births	533	400	n/a	300	140
Proportion of births attended by skilled birth attendants	Proportion of deliveries attended by skilled health personnel MOs, midwives, LHVs)	18	48	41	60	>90
Contraceptive Prevalence Rate	Proportion of eligible couples for family planning programmes using one of the contraceptive methods	12	n/a	78	51	55
Total Fertility Rate	Average number of children a woman delivered during her reproductive age	5.4	n/a	3.75	2.7	2.1

Goal 6: Combat HIV & Aids, Malaria and other Diseases

Indicators	Definitions	1990-91	2001-02	2004-05	PRSP Target 2005-06	MTDF Target 2009-10	MDG Target 2015
HIV prevalence among 15-24 year old pregnant women (%)		n/a	0.03	0.03	n/a	n/a	Baseline to be reduced by 50%
HIV prevalence among vulnerable group (e.g., active sexual workers) (%)		n/a	0.03	2	n/a	n/a	Baseline to be reduced by 50%
Proportion of population in malaria risk areas using effective malaria prevention and treatment measures. (%)	Proportion of population living in 19 high risk districts of Pakistan having access and using effective malaria prevention and treatment as guided in roll back malaria strategy	n/a	20	30	25	50	75
Incidence of tuberculosis per 100,000 population	Total number of TB cases per 100,000 population	n/a	177	160	133	130	45
Proportion of TB cases detected and cured under DOTS (Direct Observed Treatment Short Course). (%)	Proportion of TB cases detected and managed through DOTS strategy	n/a	25	40	70	80	85

MDG 6 seeks to combat HIV&Aids, malaria and other diseases. Many of the targets identified seem to be approaching successful completion by the end of 2015.

Physical achievements for health sector show improvement in some health indicators over the years.

While health care personnel have increased over time, but their ratio to the country's population leaves much to be desired. Population per doctor ratio which stood at 1212 in 2008-09 had increased to 1222 in FY11, while the population to bed ratio increased from 1575 to 1701 in the same period, implying personnel and facilities to be thinly distributed over the population.

Pakistan's health system

The health system of Pakistan consists of public and private sectors. With the passage of the 18th Amendment, the subject of health has been devolved to the provinces, alongwith necessary resources through NFC Award as well as allocation of funds through Federal PSDP for health programmes. Healthcare in Pakistan is administered mainly in the private sector. The public sector was until recently led by the Ministry of Health, however, the Ministry was abolished in June 2011 and all health responsibilities were devolved to provincial Health Department which had until now been the main implementers of public sector health programmes.

In the book *Choked Pipes*, the author, Sania Nishtar, has described a number of health systems that exists in their own right in Pakistan. The Armed Forces health system provides coverage to 6.29 million servicemen and their dependents. In the Fauji Foundation system, funds generated are used for a range of social services including health which are delivered to 9.1 million ex-military servicemen and their dependants. This accounts for 5.8 percent of the country's population. Under the Employees Social Security Institute, more than 6.8 million individuals are secured. There are health services delivered by Pakistan's autonomous quasi-state organizations and Pakistan's corporate/commercial entities. Together they provide health coverage to an estimated 3.73 million employees and their dependents or 2.38 percent of the country's population. These together almost fully cover for 16.59 percent of Pakistan's population for healthcare costs.

The book further states, "outside of these arrangements is the much larger mixed health system characterized by roles played by public and private providers. Additionally 0.32 percent of the population are covered under safety net arrangements. With this the total number of individuals covered for health stands at 26.62 percent of the country's population. The remaining 73.38 percent of the population is not fully covered for health and predominantly seeks care by making out-of-pocket expenditures at the point of care in the Mixed Health System where the public and the market systems run in parallel."

Health workforce deficiency

The *World Health Organization*, has stated in a report *Health System Profile Pakistan*, that the country is listed as one of 57 countries with critical health workforce deficiency. There is no well defined policy and plans for human resource development. Education and training curricula for the health manpower do not match the health needs of the country. Educational institutions are ill equipped to prepare healthcare providers for appropriate health service delivery. The public sector continues to heavily invest its scarce resources in the development of medical colleges and universities rather than investing in improving quality and quantity of nursing institutions, public health schools and technicians training institutions.

In an article, *NGOs and government partnership for health systems strengthening: A qualitative study presenting viewpoints of government, NGOs and donors in Pakistan*, the authors Iram Ejaz and others, have shown that public sector in Pakistan has been deficient in the capacity to deliver equitable and quality health services and thus has been grossly underutilized. Political instability, lack of

Box

Choked Pipes
Reforming Pakistan's Mixed Health System

Sania Nishtar
Oxford University Press (2010)

The book presents an overview of efforts made in the last 62 years to reform Pakistan's health system, and the lessons learnt. It has highlighted the impediments, which hinder efforts aimed at development in general. The book has attempted to frame the discussion such that Pakistan's example can be of relevance to other developing countries as well. The author has emphasized the need for reform in key areas relevant to governance to the success of reform within the health system. Strong institutions have to be built for any reform in health systems. The author says, the most important impediment to reform in Pakistan is the country's public sector institutional culture, which is focused on short term goals as opposed to evidence based, long term enduring actions with potential to bring sustainable change.

We give below excerpts from the book, highlighting the author's vision for reforming Pakistan's health system.

- The ultimate objective of health reform is to secure better health outcomes.
- The reality is that the right to health has been neglected and violated in many parts of the world.
- Recently, however, there has been a burgeoning international trend towards progressive interpretation of rights. Currently, there are 115 countries in the world, which recognize the constitutional right to health.
- Various attempts have been made in the past to 'reform' the healthcare system in Pakistan. A plethora of new initiatives and 'reforms' were introduced at various points in time by different governments. However, weaknesses in institutional capacity to sustain and support initiatives led to their discontinuation with changing governments or withdrawal of donor support. Most 'reforms' have remained poorly-evaluated and lessons learnt, if any, were seldom factored into planning.
- There are some important lessons to be learnt from the historical account of attempted healthcare restructuring. First, it is important to appreciate that there have been many attempts in the past to bring about change in the health sector. Health systems restructuring has been promoted and supported more actively by multilateral financial institutionsand some bilateral donors as opposed to WHO, which has played an important role in disease prevention and control. However, despite many attempts, there have been no efforts to promote a consolidated vision for reform and institutions such as the Ministry of Health, which could have spearheaded reform, have not invested in building capacity to mainstream transformational change.

  Secondly, institutions also lack the capacity to monitor and evaluate and consolidate lessons learnt.

  Thirdly, there appears to be no institutional memory or commitment to build on work in the pipeline and consolidate efforts underway. Successive governments have adopted options while subsequent governments have disregarded them.
- Health is an inter-sectoral responsibility. A number of factors are, therefore, responsible for poor health status of the country's population. These include the following:
  - *Broader issues implicit in the social determinants:* inequities in daily living conditions are an important determinant of health status. With more than 25 percent of the population of Pakistan living below the poverty line of less than $1 a day and 46 percent illiterate, the country suffers an inherent disadvantage in this regard.
  - *Poor governance:* malpractices and corruption are recognized within health systems globally, and are known to have an independent negative effect on health outcomes. Issues of governance and corruption have been identified as one of the key impediments to leveraging the potential within Pakistan's extensive health infrastructure.
  - *Low public investments in the health sector:* public sector spending on health amounts to $8.86 per capita, per annum in Pakistan.
  - *Political factors, conflict, and disaster:* the overall political and security situation in a country has a deep bearing on health status.
  - *Poor performance of the health system:* The health status snapshot articulated earlier in this chapter is evidence of poor health status of the country's population.
- There are a number of critical weaknesses in Pakistan's public management system in the healthcare sector.
- The major disparity in health financing in Pakistan, as in many other developing countries, relates to the predominance of private means of financing – out-of-

pocket payments – as opposed to public means of financing healthcare.

- Reform of health financing within a given setting has to be grounded in local realities. It must take into account, existing sources of health expenditure and pooling, orientation of the health system, the socio-political landscape, and most importantly, the institutional capacity of the country to restructure. Often, radical approaches are recommended for reforming health financing in Pakistan.
- Radical measures can be pursued only if Pakistan transforms into a high-resource country with the majority of its workforce in the formally employed sector, a country with stable institutions capable of sustainably implementing major policy change. Until then, reform of health financing will have to centre on a number of locally feasible approaches suited to different settings within the country.
- The first priority is to ensure funding of essential services by allocating a higher share of revenues for health. Concomitantly, there is the need to improve returns on spending by maximizing efficiencies, reducing duplicative costs, minimizing pilferages, mainstreaming innovation, and ensuring that revenue allocation is equitable.
- Secondly, there is the need to pool for financial risk protection for those in the informally employed sector.
- Appropriate use of technology can be instrumental in mainstreaming efficiency and transparency in the use of social protection funds.
- Thirdly, health financing strategies for those in the formally employed sector should centre on maximizing pooling through insurance.
- In addition, there is a need to promote private health insurance, balancing financial incentives with appropriate safeguards, and explore incentives for corporate sector employers in order to encourage them to subscribe.
- Although commonplace, malpractices are by no means solely characteristic of the functioning of the health system in Pakistan. They are rampant in many other developing as well as developed countries around the world.
- Of all these malpractices, staff absenteeism, dual job-holding, theft of supplies, and procurement discrepancies are predominantly relevant to public sector healthcare delivery.
- Issues of staff absenteeism, dual job-holding, and lack of motivation to perform can be addressed largely by creating market-compatible incentives within the state system. If this can be combined with impartial accountability and fair performance-rewarding system, institutional and individual behaviours are bound to change.
- Any effort in the health sector within the domain of medicines and related technologies should primarily be focused on making qualilty essential medicines affordable and accessible for all, as a priority.
- However, outside of a few examples, most of which are in the private sector, technology has not been leveraged to promote equity and qualilty in health systems. The health sector must capitalize on the telecommunications boom in the country to promote evidence-based, demand-driven, sustainable, and standards compliant e-health. The government must play its role by enacting approrpirate legislation, defining e-health standards in consultation with various stakeholders.
- Health reform is not a sectoral phenomenon. In addition to health related policy, regulatory, institutional, and legislative dimensions, health reform is deeply interlinked with macroeconomic management, effectiveness of governance at the broader state level, and several social sector processes. These factors can have a more sustained impact on shaping health systems performance compared to isolated planning within the health sector.
- The *Reform Agenda* outlined in this publication has a multidimensional character. It recognizes that reform within the healthcare sector is a profoundly political process and that reform as a public policy agenda should be tailored to the local context with respect to economic realities, political circumstances, and administrative capacities of local institutions.
- The *Reform Agenda* articulates five priority areas. First and foremost, it underscores the need for a multi-stakeholder 'sign-up' to a *Reform Agenda*.
- The second priority is to address broader constraints within the remit of the political economy and inequities of power, money, and resources, which are one of the strongest determinants of health status achievement.
- Thirdly, increasing the base of public sources of financing for health is deemed critical.
- In the fourth place, market harnessing regulatory approaches have been flagged as a priority.
- Lastly, broader directions for reforming public and market service delivery arrangements should be complemented with additional measures. Notable amongst these are the strategic use of technology.

ownership of the programmes by every next government and frequent transfers of the healthcare providers are further worsening the functioning of the public sector at large. The country's healthcare system has always been inadequate and inept in meeting the needs of the ever growing populace.

Need for public-private partnership

The paper captures the need and the opportunity of public private partnership in Pakistan and presents a framework for a meaningful engagement of the government and the private and nonprofit NGOs. Involving the NGOs for health system strengthening may eventually contribute to create a healthcare system reflecting an increased efficiency, more equity and good governance in the wake of the MDGs. Since many years these NGOs have endeavoured to fill the gaps. Health planning becomes far more participatory and consultative, with the inputs of all stakeholders.

Sania Nishtar in her book Choked Pipes: Reforming Pakistan's Mixed Health System states, 'reforms of health related human resources should be appropriate to the needs of the country's health system with due attention to numerical inadequacies, issues related to mal-distribution and deployment, lack of diversity, problems with capacity building, training and regulation. A human resource policy should be developed, a comprehensive and consolidated database on health related human resource should be established to enable monitoring, priority should be to address the current shortfall in certain categories and aim for desirable healthcare provider – population ratios benchmarking international recommendations. Education, training, continuing education and capacity building should be reviewed for all categories of health professionals. The government needs to pay due attention to appropriate deployment and do away with the current culture of nepotism, cronyism and patronage.'

The poor suffer

Low financial allocations and shortages of equipment and staff continues to affect the health system badly. Healthcare provider – population ratio, show inadequacies in many categories, particularly pronounced in the case of dentists, midwives, nurses, hospital beds, laboratory technicians etc. The poor quality of most government medical facilities and the lack of access by the poor forces them to go to private medical practitioners or quacks. Due to inadequate nutrition, poor living conditions, poor access to sanitation and clean drinking water, the poor are more susceptible to disease pushing them deeper into poverty. The poor suffer and have to pay a high cost of medical treatment. As their earnings are meager, and with little or no resources to fall back on, the poor have to sell their meager assets or borrow money to finance their treatment. The healthcare system thus serves to push a vulnerable household into poverty and the poor households deeper into poverty.

Improved water supply and sanitation could make a significant contribution to enhancing the quality of life of citizens. Any improvement in health in isolation will have limited impact. There is a need to bring about improvements in social and general living conditions, enhancing financing for the sector, improving governance, expanding service delivery, and addressing the critical shortfall in health related human resource and making better use of technology.

Pakistan Faces Severe Shortage of Natural Gas

Shortages of gas

Pakistan is currently faced with acute shortage of natural gas. With severe cold wave gripping Punjab and the northern parts of the country, the gas crisis continues to deepen, badly affecting the industrial sector, households and CNG stations. Supply disruption of natural gas has adversely affected the industrial operations, causing loss of revenues to the government, affecting export orders worth millions of dollars and laying of thousands of daily wage earners, who are faced with possible retrenchment if supply does not improve in the near future.

Supply of natural gas is fast depleting as demand soars. Little initiative has been taken to explore and exploit the huge gas reserves all over the country. We give below excerpts from the *State Bank of Pakistan Annual Report 2010-11, on the State of Pakistan's Economy* which explain the factors contributing to prevailing shortages of natural gas.

Gas exploration

Natural gas exploration in Pakistan has not been undertaken aggressively, and hence production has historically remained undiversified. As of FY10, natural gas was being produced from 98 fields, of which nine fields accounted for 80 percent of total daily supply. Exploration and production activity has been largely concentrated in Sindh (71 percent of total production in FY10), and the most recent significant gas discovery dates back to 1998.

Consequently, the reserve base has not witnessed significant expansion and by FY11, 49 percent of original recoverable reserves (54 TCF) had been exhausted. The country now has sufficient reserves to last just over 20 years, under the increasingly unlikely scenario that current production rates are maintained throughout. In effect, Pakistan must aggressively explore alternatives to diversify supply of this precious commodity.

Pricing structure

Part of the explanation for why gas exploration has remained subdued may be found in the pricing structure of the commodity. Exploratory prices of gas are linked to crude oil, but impact of changes in reference crude prices is not fully passed on to investors, as benchmark prices for compensation are computed on bi-annual basis only. Furthermore, exploration and production companies accrue only 50 percent of any upside price movements in the price of gas with respect to the aforementioned base level, with the remainder collected by the government in the form of a windfall levy. Producer (well-head) prices of gas therefore do not particularly incentivize exploration of the commodity, and production companies receive prices below import parity levels.

These features of domestic gas pricing may come across as peculiar at first, but are justifiable so long as the benefits accrue squarely to the country's industrial base. However, downstream pricing of the commodity has significantly subsidized residential consumers and fertilizer manufacturers at the expense of the industrial and power sectors for quite some time, which arguably leads to allocative inefficiencies. Secondly, gas prices are maintained at a uniform level throughout the country, for which the different costs of transmission and distribution are built into gas pricing notified by the ECC.

Supply demand deteriorates

For these reasons, the supply-demand position of natural gas has deteriorated significantly, and shortages of the commodity with reference to indigenous supply are projected to increase to 3,021 mmcfd by FY16 (48 percent of projected demand). Nearly half of this deficit may be bridged by imports, if arrangements presently under consideration are implemented as scheduled. However, supply rationing of natural gas is inevitable in the near future, and meaningful steps must be taken to curtail residential consumption, while prioritizing supply to the fertilizer and power sectors.

Quarterly Performance of Selected Banks – 2011

(Rs. Bn)

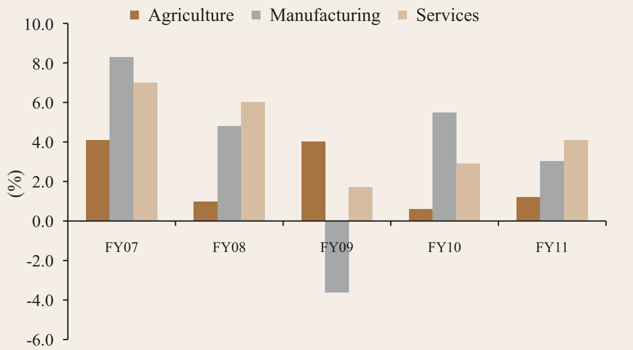
		Major Banks						Provincial Bank
		National Bank of Pakistan	Habib Bank	United Bank	MCB Bank	Allied Bank	Bank Al-Falah	Standard Chartered Bank	Bank of Khyber
Assets									
2010	*December*	1035.0	887.1	698.8	567.6	449.9	411.5	321.9	50.8
2011									
Q1	*March*	993.8	906.9	679.0	604.7	450.3	407.8	341.0	58.1
Q2	*June*	1045.2	991.0	747.2	630.2	487.8	439.5	346.0	60.2
Q3	*September*	1014.0	990.4	726.8	685.5	511.3	430.5	353.9	71.8
Deposits									
2010	*December*	832.2	721.1	550.6	431.4	371.3	354.0	220.3	37.0
2011									
Q1	*March*	759.0	712.7	529.4	462.3	372.3	339.5	235.3	37.5
Q2	*June*	830.9	820.9	593.5	496.2	406.3	369.3	236.2	45.4
Q3	*September*	798.3	801.9	557.2	482.9	385.0	366.8	235.4	40.1
Advances									
2010	*December*	477.5	435.0	333.7	254.6	253.1	207.2	139.3	18.2
2011									
Q1	*March*	484.5	435.8	333.9	259.1	241.5	199.6	147.1	17.3
Q2	*June*	503.4	431.6	333.6	260.0	241.7	198.8	151.7	21.8
Q3	*September*	513.2	407.2	325.7	241.6	232.6	195.4	150.8	21.7
Investment									
2010	*December*	301.3	245.0	224.6	213.1	121.2	113.4	72.6	19.9
2011									
Q1	*March*	270.5	272.5	223.4	250.2	127.3	119.6	86.6	32.3
Q2	*June*	271.1	327.2	269.7	260.2	143.4	148.7	79.4	29.3
Q3	*September*	251.6	368.4	267.3	309.4	207.2	144.2	107.5	41.5
Equity									
2010	*December*	103.8	81.8	60.2	69.2	31.2	19.7	48.1	5.6
2011									
Q1	*March*	98.0	80.2	58.5	71.9	33.7	20.6	46.9	5.9
Q2	*June*	102.2	84.5	62.3	75.0	34.6	21.5	47.5	6.1
Q3	*September*	104.8	89.4	65.3	77.5	35.2	22.6	49.5	9.6
Interest Income									
2010	*December*	88.5	80.0	59.3	54.8	45.0	37.5	28.0	4.2
2011									
Q1	*March*	23.2	22.2	16.7	16.0	12.3	10.7	7.7	1.5
Q2	*June*	23.8	23.1	17.3	16.9	12.3	10.7	7.5	1.6
Q3	*September*	22.6	24.9	18.5	16.8	12.7	10.7	8.2	2.0
Interest Expense									
2010	*December*	45.2	34.1	25.2	18.0	22.4	23.9	10.7	2.9
2011									
Q1	*March*	12.2	9.2	7.6	5.0	6.1	6.2	2.7	1.0
Q2	*June*	12.0	9.8	7.2	5.6	6.1	6.3	2.8	1.0
Q3	*September*	12.1	11.1	8.2	6.1	6.4	6.4	2.9	1.4
Net Interest Income									
2010	*December*	43.2	45.9	34.1	36.8	22.6	13.7	17.3	1.3
2011									
Q1	*March*	10.9	13.0	9.1	10.9	6.2	4.4	4.9	0.5
Q2	*June*	11.7	13.2	10.2	11.3	6.2	4.4	4.7	0.6
Q3	*September*	10.5	13.8	10.3	10.7	6.2	4.3	5.3	0.6
Non Interest Income									
2010	*December*	17.6	11.0	10.1	6.3	5.7	4.7	6.2	0.06
2011									
Q1	*March*	3.7	3.1	3.0	2.0	1.4	1.2	1.4	0.1
Q2	*June*	6.2	3.4	2.9	2.1	1.6	1.5	1.7	0.1
Q3	*September*	3.3	2.8	3.0	1.9	1.5	1.2	1.6	0.2
Admn. Expense									
2010	*December*	26.2	23.1	17.8	12.2	11.2	12.6	12.9	0.9
2011									
Q1	*March*	6.6	6.3	4.6	3.7	3.3	3.3	3.5	0.3
Q2	*June*	7.8	6.8	5.0	3.5	3.1	3.5	3.6	0.4
Q3	*September*	7.6	7.0	5.0	4.2	3.2	3.4	2.8	0.4
Profit/(Loss) B.T									
2010	*December*	24.4	25.1	17.7	26.3	12.3	1.4	5.6	0.7
2011									
Q1	*March*	6.4	7.3	5.0	7.8	3.8	1.4	1.9	0.3
Q2	*June*	5.3	7.2	5.2	8.3	3.7	1.6	0.8	0.4
Q3	*September*	5.1	7.8	6.5	8.0	4.1	1.7	3.2	0.4
Profit/(Loss) A.T									
2010	*December*	17.6	15.6	11.2	16.9	8.2	1.0	3.6	0.6
2011									
Q1	*March*	4.2	4.7	3.3	5.0	2.5	0.5	1.2	0.3
Q2	*June*	3.9	4.6	3.4	5.5	2.5	1.0	0.6	0.2
Q3	*September*	3.3	5.1	4.2	4.9	2.7	1.1	2.1	0.3

		Domestic Private Banks										
		Askari Bank Limited	Soneri Bank	Bank Al-Habib Limited	Summit Bank	Habib Metropolitan Bank	Faysal Bank	KASB Bank	Silkbank	Samba Bank Limited	NIB	Meezan Bank
Assets												
2010	*December*	314.7	108.1	301.6	72.3	252.2	267.3	56.4	72.6	30.5	164.3	154.8
2011												
Q1	*March*	308.1	114.7	321.1	81.7	262.3	246.6	57.5	77.9	29.4	150.4	159.6
Q2	*June*	329.4	128.5	338.8	107.8	264.3	287.6	58.1	79.2	35.7	163.4	173.4
Q3	*September*	328.2	123.3	347.3	108.3	279.8	271.8	61.3	79.8	30.2	170.7	179.2
Deposits												
2010	*December*	255.9	82.0	249.8	61.6	160.5	195.3	46.3	55.7	14.9	99.2	131.1
2011												
Q1	*March*	249.8	87.5	258.2	69.1	167.2	190.8	46.6	58.4	14.6	100.6	134.8
Q2	*June*	274.7	92.8	279.6	89.4	182.3	203.1	48.5	63.6	15.5	91.0	148.2
Q3	*September*	255.4	92.0	290.2	85.0	171.1	206.6	50.1	62.3	16.9	86.8	151.5
Advances												
2010	*December*	152.8	54.7	125.8	38.8	119.8	133.7	29.5	44.4	12.1	74.6	54.2
2011												
Q1	*March*	139.3	58.6	129.8	38.1	126.3	133.0	28.9	46.1	12.7	70.0	50.6
Q2	*June*	147.6	54.5	118.5	59.0	114.4	142.6	28.1	47.0	13.8	67.7	47.8
Q3	*September*	150.2	56.4	106.0	56.1	104.6	148.5	27.0	45.4	12.6	61.2	46.5
Investment												
2010	*December*	102.3	35.0	137.2	20.5	101.0	86.4	13.1	13.2	11.1	51.8	55.0
2011												
Q1	*March*	113.1	39.2	145.9	15.5	107.9	71.4	14.7	14.2	8.6	39.9	69.7
Q2	*June*	125.6	55.8	180.7	26.4	116.4	101.8	14.6	14.5	13.6	59.9	88.5
Q3	*September*	121.3	47.5	201.4	29.0	141.7	78.5	17.5	12.9	11.6	64.8	89.3
Equity												
2010	*December*	14.8	8.4	14.7	3.6	21.0	16.6	1.8	4.8	7.9	7.3	10.7
2011												
Q1	*March*	15.4	8.7	14.3	3.1	21.7	16.8	1.3	4.9	8.0	6.5	11.3
Q2	*June*	15.6	9.8	15.3	5.6	22.4	17.4	-0.3	5.0	8.0	12.3	12.1
Q3	*September*	15.9	10.2	16.2	5.6	23.1	17.8	2.3	5.0	8.0	15.9	12.2
Interest Income												
2010	*December*	28.0	10.2	27.5	7.1	23.4	19.7	5.0	6.8	2.4	16.5	12.3
2011												
Q1	*March*	8.4	3.0	8.3	1.8	6.4	6.7	1.2	2.0	0.7	3.6	3.9
Q2	*June*	7.6	3.1	8.5	2.6	6.4	7.1	1.1	2.1	0.9	3.0	4.5
Q3	*September*	8.9	3.5	9.5	1.9	6.8	7.6	1.23	2.2	0.9	3.7	4.8
Interest Expense												
2010	*December*	17.9	7.2	16.7	6.1	16.4	13.9	5.1	5.9	1.3	13.5	6.6
2011												
Q1	*March*	5.5	2.0	4.9	1.7	4.7	4.5	1.2	1.5	0.4	2.9	2.0
Q2	*June*	5.5	2.2	5.3	2.3	4.5	4.8	1.3	1.6	0.5	2.8	2.1
Q3	*September*	6.2	2.3	5.8	1.8	4.8	5.1	1.25	1.7	0.5	3.1	2.2
Net Interest Income												
2010	*December*	10.0	3.0	10.8	1.0	6.9	5.8	-0.04	0.8	1.0	2.9	5.7
2011												
Q1	*March*	3.0	0.9	3.3	0.2	1.7	2.2	-0.07	0.5	0.3	0.6	1.9
Q2	*June*	2.1	0.9	3.3	0.3	1.9	2.3	-0.2	0.5	0.3	0.2	2.4
Q3	*September*	2.7	1.1	3.7	0.05	2.0	2.4	-0.018	0.5	0.4	0.6	2.6
Non Interest Income												
2010	*December*	2.2	1.2	2.1	0.6	4.4	4.0	0.6	1.1	0.3	1.7	2.5
2011												
Q1	*March*	0.6	0.5	0.6	0.09	1.4	1.4	0.08	0.2	0.06	0.4	0.6
Q2	*June*	0.8	0.5	0.7	0.07	1.2	1.3	0.08	0.2	0.04	0.5	0.5
Q3	*September*	0.5	0.5	0.6	0.4	1.0	0.5	0.2	0.2	0.02	0.8	0.8
Admn. Expense												
2010	*December*	7.8	2.6	6.2	2.7	4.2	6.6	2.5	3.2	1.4	6.9	4.4
2011												
Q1	*March*	2.2	0.7	1.8	0.7	1.2	2.8	0.5	0.9	0.4	1.1	1.4
Q2	*June*	1.9	0.9	1.9	1.2	1.3	2.8	0.6	1.0	0.4	1.2	1.5
Q3	*September*	2.3	0.8	1.9	0.6	1.2	2.6	0.6	0.9	0.3	1.2	1.5
Profit/(Loss) B.T												
2010	*December*	1.3	0.1	5.7	-3.9	4.0	0.8	-3.5	-1.2	-0.1	-12.6	2.1
2011												
Q1	*March*	0.8	0.4	1.7	-0.6	1.1	0.3	-0.5	0.2	0.04	-1.1	0.9
Q2	*June*	0.3	0.2	1.8	-1.3	0.9	0.9	-1.7	0.2	0.04	-2.7	1.1
Q3	*September*	0.5	0.4	1.4	0.2	1.1	0.6	-0.3	0.06	0.06	2.4	1.3
Profit/(Loss) A.T												
2010	*December*	0.9	0.1	3.6	-3.0	2.8	1.2	-2.7	-1.1	-1.2	-10.1	1.6
2011												
Q1	*March*	0.5	0.3	1.0	-0.5	0.8	0.2	-0.5	0.1	0.02	-0.8	0.6
Q2	*June*	0.2	0.2	1.0	-1.0	0.7	0.6	-1.7	0.06	0.01	-0.5	0.8
Q3	*September*	0.3	0.3	0.9	0.06	0.7	0.5	-0.3	0.05	0.03	1.6	0.9

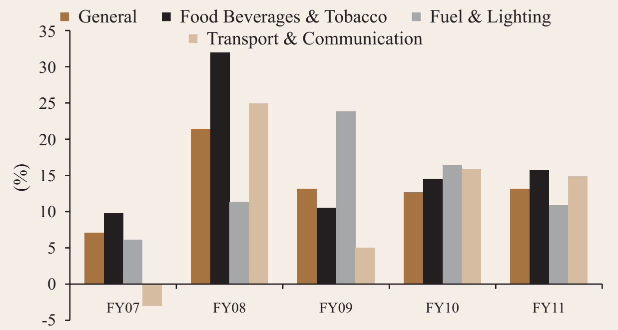
	Foreign Banks				
	Citibank	HSBC	Deutsche Bank AG	Oman International Bank	Barclays
Assets					
2010 *December*	97.4	56.9	17.4	4.2	48.3
2011					
Q1 March	94.7	59.4	24.0	4.1	53.1
Q2 June	94.5	63.5	19.8	4.1	53.4
Q3 September	96.4	63.1	23.1	4.3	54.7
Deposits					
2010 *December*	68.3	46.5	6.1	0.8	32.3
2011					
Q1 March	64.4	49.1	8.2	0.7	37.8
Q2 June	64.2	49.6	10.2	0.6	40.4
Q3 September	69.6	49.0	10.3	0.7	42.5
Advances					
2010 *December*	19.2	22.2	3.2	0.5	17.4
2011					
Q1 March	19.3	22.7	3.5	0.5	20.1
Q2 June	20.6	22.1	3.4	0.4	19.7
Q3 September	19.1	20.5	3.5	0.6	19.1
Investment					
2010 *December*	50.2	6.5	2.0	-	21.0
2011					
Q1 March	36.9	17.1	2.3	-	23.2
Q2 June	43.1	19.0	2.4	-	23.5
Q3 September	48.5	17.1	6.5	-	25.3
Equity					
2010 *December*	9.1	6.2	5.3	3.0	6.5
2011					
Q1 March	9.6	6.4	5.6	3.0	6.5
Q2 June	10.2	6.7	5.9	3.0	6.6
Q3 September	10.8	7.1	5.9	3.0	6.7
Interest Income					
2010 *December*	9.4	5.0	1.1	0.06	4.3
2011					
Q1 March	2.6	1.4	0.4	0.019	1.3
Q2 June	2.5	1.5	0.4	0.016	1.4
Q3 September	2.7	1.5	0.4	0.018	1.4
Interest Expense					
2010 *December*	4.2	2.7	0.3	0.07	2.7
2011					
Q1 March	1.2	0.7	0.1	0.022	0.8
Q2 June	1.2	0.8	0.1	0.022	0.9
Q3 September	1.1	0.7	0.1	0.021	0.9
Net Interest Income					
2010 *December*	5.1	2.3	0.7	-0.01	1.6
2011					
Q1 March	1.5	0.7	0.3	-0.002	0.5
Q2 June	1.3	0.7	0.2	0.005	0.5
Q3 September	1.6	0.8	0.3	-0.013	0.5
Non Interest Income					
2010 *December*	2.0	1.0	1.2	0.001	0.4
2011					
Q1 March	0.3	0.3	0.2	0.005	0.1
Q2 June	0.5	0.3	0.2	0.001	0.1
Q3 September	0.8	0.3	0.2	0.002	0.1
Admn. Expense					
2010 *December*	3.9	2.1	0.7	0.06	2.5
2011				0.01	
Q1 March	0.9	0.6	0.2	0.016	0.6
Q2 June	1.0	0.7	0.2	0.01	0.4
Q3 September	1.0	0.6	0.2		0.5
Profit/(Loss) B.T					
2010 *December*	1.2	0.8	1.3	-0.04	-1.2
2011					
Q1 March	0.7	0.3	0.2	-0.01	0.005
Q2 June	0.7	0.3	0.3	-0.02	0.01
Q3 September	0.8	0.5	0.3	-0.02	0.2
Profit/(Loss) A.T					
2010 *December*	0.4	0.5	0.8	-0.04	-0.8
2011					
Q1 March	0.5	0.2	0.1	-0.01	0.002
Q2 June	0.6	0.2	0.2	-0.02	0.08
Q3 September	0.6	0.3	0.2	-0.02	0.09

Economy in the Year 2011

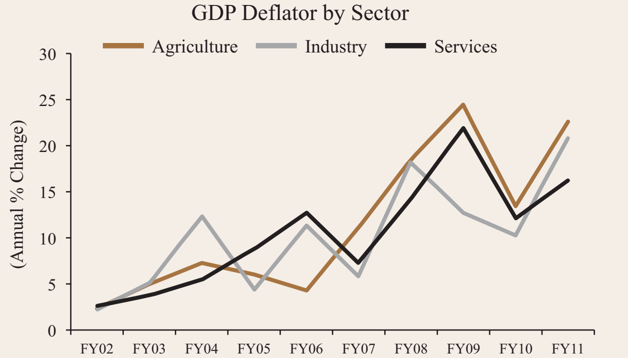
Sectoral Growth



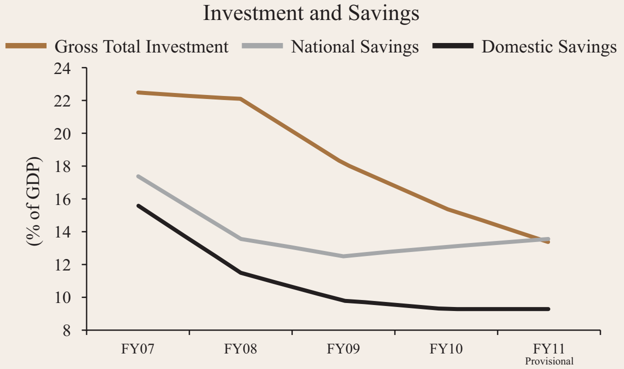
Trends in Inflation
Year-on-Year



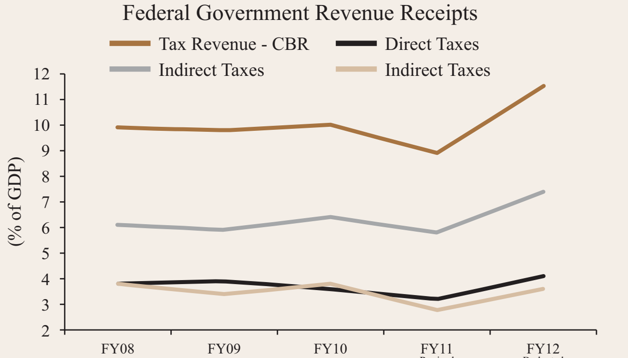
GDP Deflator by Sector



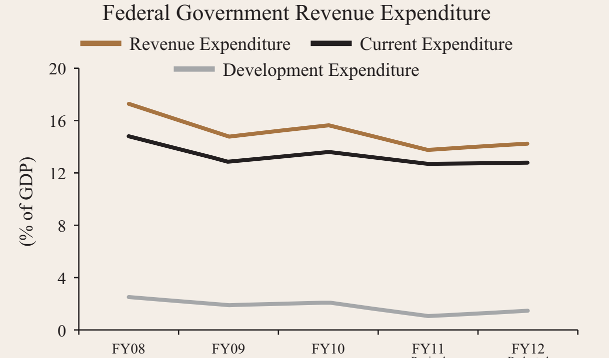
Investment and Savings



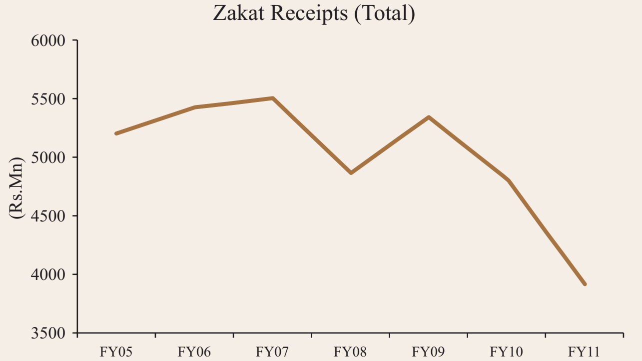
Federal Government Revenue Receipts



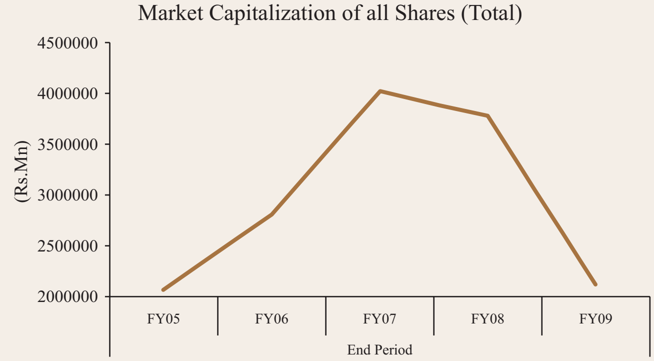
Federal Government Revenue Expenditure



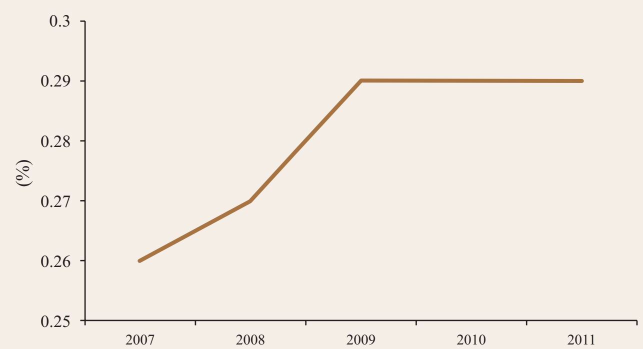
Zakat Receipts (Total)



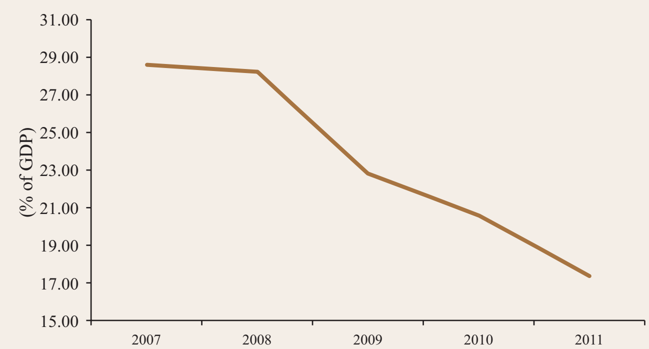
Market Capitalization of all Shares (Total)



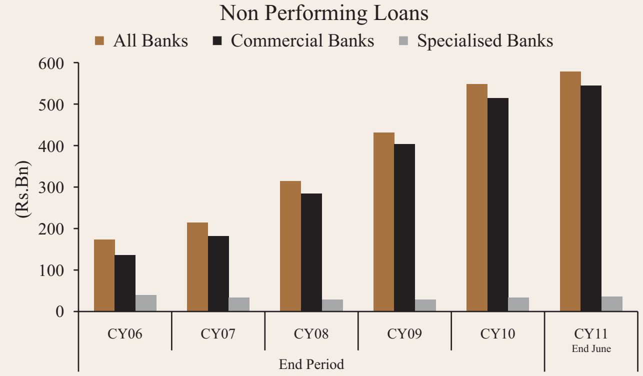
Currency to Total Deposits



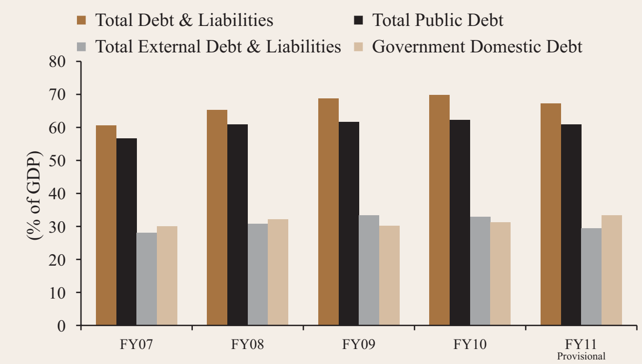
Private Sector Credit



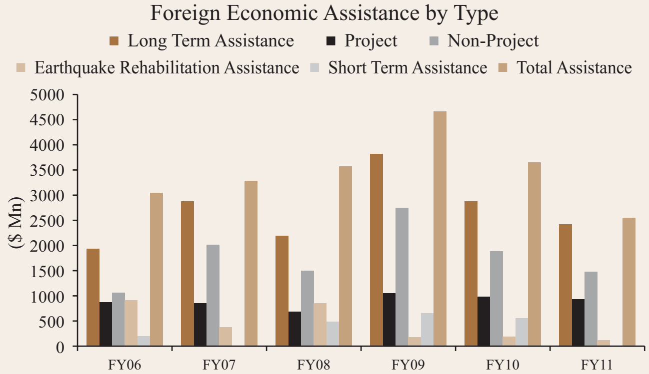
Non Performing Loans



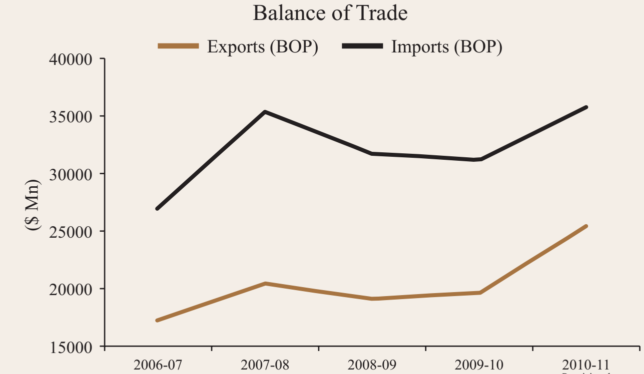
Pakistan Debt & Liabilities



Foreign Economic Assistance by Type

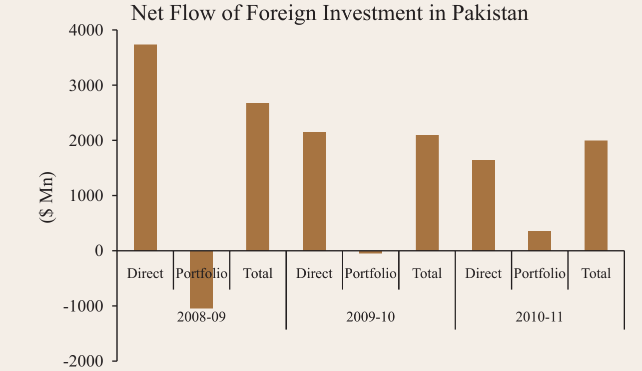


Balance of Trade



Workers' Remittances

Net Flow of Foreign Investment in Pakistan

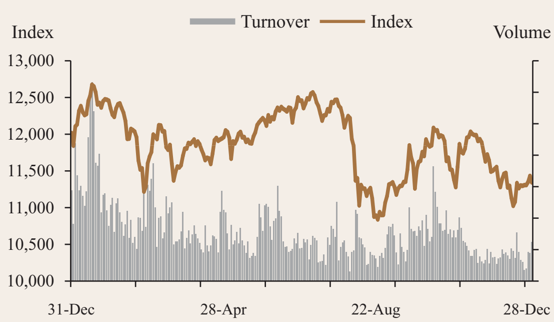


Market Analysis

Market Review – CY 2011

2011 was a challenging year for the KSE as it experienced the lowest average daily turnover in 13 years. The KSE-100 Index was volatile on the back of foreign fund outflow, poor macroeconomic fundamentals, acrimonious relations with the U.S. and precarious political situation. Overall, the KSE-100 Index shed 5.6 percent or 674 points for the year ended December 30, 2011 to 11,347 points on an average daily volume of 79.08m shares as compared to 121.11m during CY10. The KSE-30 Index decreased by 12.2 percent or 1,409 points to close the year at 10,179. According to the NCCPL figures, the net foreign portfolio outflow in the equity bourses came to US$ 127.21m during CY2011. Looking back at the last 12 months, the market can be segmented into six distinct phases: i) bullish beginning, ii) correction, iii) gradual recovery, iv) sharp descent, v) modest rebound and vi) mixed ending.

The Market (January-December 2011)



Bullish Beginning

The first two weeks of the New Year saw the KSE-100 Index remain bullish despite some turmoil on the political front. The net foreign portfolio inflow continued to drive the market with buying activity concentrated in the oil and gas sectors as international crude oil prices were unrelenting marching past US$ 90 per barrel. In addition, there was buying interest in selective banking stocks due to payout speculation. At the beginning of the month, there were negative developments on the political front.

However, the market's negative reaction was short-lived. A major driver that boosted the Index during the second week was the news on January 13 that the Ministry of Law had approved the margin trading system and that it might be introduced in February. Other developments on the macroeconomic front were the 17 percent year-on-year increase in foreign remittances to US$ 5.3bn during the first half of fiscal 2011, 18 percent year-on-year rise in the first half of fiscal 2011 trade deficit to US$ 8.2bn and headline inflation during December 2010 posting a 15.48 percent YoY rise. The KSE-100 Index jumped by 659 points or 5.3 percent from the start of the month to January 17 to close at 12,681.

Correction

From January 17 to February 25, the KSE entered into a correction in which the KSE-100 Index plunged by 1,458 points or 11.5 percent to close at 11,223.

The key factors behind the slump during this period were:

- Profit taking by institutional investors.
- Concerns on the macroeconomic front regarding the ballooning deficit and its impact on inflation.
- Reported tension in Pak-US relations due to the Raymond Davis affair.
- Most investors became nervous because of the political uncertainty in the country as the 45-day deadline approached regarding the implementation of PML-N's 10 point agenda by the PPP-led federal government.
- Investors were also wary about the methodology relating to calculation and filing of CGT, as it was reported in the local media that investors filing for the first time under CGT would be required to show their source of investment over the last 5 years.

Gradual Recovery

From February 25 to July 5, the KSE staged a gradual recovery as the KSE-100 Index surged by 1,352 points or 12.05 percent to close at 12,576 on July 5.

The key drivers behind the recovery during this period were:

- On May 5, Moody's maintained Pakistan's sovereign credit rating and stated that Pakistan did not face an immediate risk of a withdrawal of foreign aid despite accusations that it sheltered Bin Laden.
- There was renewed buying activity in oil stocks such as OGDC, PPL and PSO as there were reports in the market that OGDC's production over the next 2-3 years will be higher than originally anticipated.
- Speculation regarding budgetary measures and positive developments on the macroeconomic front with remittances during 10mFY11 reaching US$ 9bn, 10MFY11 current account surplus of US$ 748m and the trade deficit during April 2011 shrinking by 33 percent YoY to US$ 870m.
- Despite no mention of CGT exemption for individual investors announced in the federal budget on June 3, the reaction remained positive due to the absence of new tax measures or increasing existing income tax rates.
- The announcement by the government to partially deregulate the retail prices of petroleum products led to renewed interest in OMC sector and the news of discovery at Ikhlas Block (942 bpd of oil and 11mmcfd of natural gas) helped boost the share price of POL.

Sharp Descent

The market was bearish during most of July and August on the back of foreign portfolio outflow, unstable security situation in Karachi and spillover impact from a slump in global equity markets. From the beginning of July to August 23, the KSE-100 Index plunged by 1,653 points or 13.2 percent to close at 10,842. The average daily turnover during this period was 54.45m shares and the net outflow of foreign funds according to NCCPL figures was US$39.85m. The market did experience some positive spurts during this period due to positive developments on the macroeconomic situation such as the 50 bps cut in the discount rate by the SBP on July 30, foreign remittances crossing the US$11bn mark during FY11 and the FY11 current account balance posted a US$542 million surplus.

Modest Rebound

From August 23 to October 10, the KSE-100 Index staged a modest rebound with improved turnover. The KSE-100 Index jumped by 1,250 points or 11.53 percent to 12,092. Improving security situation in Karachi on the back of Supreme Court's suo moto action and Rangers-led crackdown was the impetus for the recovery in the market during this period. In addition, the low inflation figure of 11.56 percent reported for August 2011 led to bullish sentiments among investors that a deeper rate cut by the SBP was possible in its upcoming policy statement in October. On October 8, the SBP cut the key policy rate for the second time during the current fiscal year by 150 bps to 12 percent that led to an exuberant reaction by investors on October 10.

Mixed Ending

The final eleven weeks of 2011 saw the market activity become mixed with thin turnover. The KSE-100 Index shed 744 points or 6.2 percent from October 11 to December 30 to end the year at 11,347.

Major news flows during this time were:

- Selling of 140m shares of HUBC by Xenel for US$ 60.36m.
- Continuous gas curtailment by SNGPL to fertilizer plants such as ENGRO's ENVEN and DAWH.
- Announcement by PTCL that the Technical Services Agreement with Etisalat would continue that would have a negative impact on earnings.
- Net foreign outflow on the back of the global financial crisis, political uncertainty arising from the Memogate scandal, NATO attack on a Pakistan Army check post in Mohmand Agency and conflicting news of President Zardari's health and possible resignation.
- The KSE and SECP have agreed to send a proposal to the FBR regarding changing the modalities of collection of Capital Gains Tax to make it easier for investors.
- ENGRO announced on December 22 that it would increase its urea price by PKR 100 per 50 kg bag due to gas curtailment to its ENVEN

plant, which provided an impetus for buying interest in other fertilizer scrips.

- Relaxation in margin trading rules such as reduced cash margin requirement and permitting individuals to act as financiers.

Regional Valuation

Pakistan's 12-month forward PEx comes to 5.74 as against the regional average of 11.32, while the 12 month forward dividend yield comes to 9.01 percent as against the regional average of 3.00 percent. It is possible that the broad discount in PEx may contract in 2012, as long as liquidity from both local and foreign investors flow into the bourses.

Regional Valuation Comparison

Country	12m F PEx	12m F Dividend Yield (%)
China	10.11	2.10
Hong Kong	9.97	3.23
India	10.60	1.58
Indonesia	12.67	2.50
Malaysia	12.87	3.58
Pakistan	5.74	9.01
Philippines	12.12	2.87
Singapore	11.49	3.84
South Korea	9.04	1.61
Taiwan	13.62	4.95
Thailand	10.73	3.70

Source: Thomson One Analytics, Date: December 15, 2011

Looking Ahead

The volatile nature of the market during 2011 may repeat itself in 2012 given the numerous threats originating from the economic, political and geopolitical fronts. At the same time, there are rumblings regarding a possible early election being held in 2012 in order to get out of the current quagmire that the country has been facing over the last 6 to 12 months. The uncertainty of an election outcome may also be reflected in the bourses.

The average PEx for the Pakistan market over the last 10 years comes to 9.50 while the 12-month forward PEx stands at 5.74. This suggests a potential upside of 82 percent for the KSE-100 Index. However, this is highly unrealistic given the sluggishness on the economic growth front. The expectations for GDP growth for FY12 range between 3-4 percent.

The precarious macroeconomic situation on the back of balance of payments pressure could lead to another IMF program which is unlikely as the current government has lost credibility since it suspended the current SBA back in September 2011. There might be some hope if early elections are held and a new party/coalition comes into power and introduces radical economic reforms in an attempt to revive economic growth. However, this scenario may be far fetched in the short-term but could be conceivable in the medium to long-term. The economic performance will be key in order to see the equity market shift into a bullish trend.

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

Book/Report Reviews

Advanced Auditing
Revised & Updated Edition 2012
Prof. Dr. Khawaja Amjad Saeed

The author has updated his earlier book *Advanced Auditing*, in the light of host of changes that are taking place globally. The revised edition includes updated standards on international audit, new/updated standards on internal audit, executive summaries of each chapter. References have been made to various websites, so that the readers can stay abreast of the various changes that are taking place in the field.

The book has 28 chapters. The introductory chapter defines audit, its scope, need, objectives, its various kinds and its usefulness. The following chapter discusses the various tasks that have to be undertaken before the commencement of audit. The right kind of audit approach is important for conducting the right kind of audit. The overall audit strategy has been spelled out, alongwith the audit plan.

Audit planning plays a significant role in conducting the audit. In this respect 19 aspects have been reviewed in one of the chapters. Controlling is an important part of management, and is equally applicable to audit. Chapter 6 discusses the various aspects of quality control policies and procedures, while chapter 7 explains in detail the important aspects of documentation. The concept and kinds of audit techniques have been explained in chapter 8. This chapter also includes audit sampling and other means of testing, etc.

The 11 aspects of Internal Control have been well explained; which includes its meaning, categories and principles. The auditor reviews the system of internal control before starting the audit, so to see if there is any weakness in the system and to consider the proposition of introducing test check during the course of audit. Evaluation of internal accounting control has also been touched upon.

Every stage of audit has been explained in detail. Vouching, which is a part of routine checking, verification which involves detailed procedures, and the author has developed six points technique for verification of various assets and liabilities and discussed them in detail. One of the chapter deals with various legal aspects governing the audit. After the routine checking, vouching and verification stage, comes the audit completion stage subsequent to which the auditors present their audit report. For the later stage the author has reviewed 16 cases. Then there are chapters which discuss computer audit, special audit, management audit, cost audit, professional ethics, and code of corporate governance — auditing and other aspects.

Balkanisation and Political
Economy of Pakistan
Revised Edition
Yousuf Nazar

This is a revised edition of the earlier book published in March 2008, titled The Gathering Storm. The author has changed the title for this revised edition. The book offers an analysis of Pakistan's political economy from a global perspective. The book includes analysis of Pakistan's current economic problems, and issues that have a strong bearing on Pakistan's future.

Today Pakistan is facing its gravest crisis since 1971. The war on terror and economic stagnation since 2008 has brought Pakistan to the brink again. The state is weaker, the government is dysfunctional, the people are despondent and the rich have moved billions out of the country. Pakistan risks failure as a state. The author writes, "if truly empowered, only its people can save Pakistan, but apathy seems to be the pervasive reaction in the face of the country's pathetic governance."

The book comprises of over 50 articles written over a period of time. The author feels the

21st century is going to be the Asian century. America's influence is waning and its power is on the decline. The only course is to retreat honourably. Our problem is not economic but political. It always was and which is why the people of Pakistan must understand this great and dirty bargain between Pakistan's elites and the US government. They will have to rid themselves free of this unholy alliance if Pakistan is to be saved.

Tough decisions will have to be taken to undertake difficult reforms to enable the economy to recover. In Pakistan's case, the real problem is not the IMF; it has been and continues to be the country's leadership. There are some articles on the domestic economy, while talking about tax reforms, it is stated, "Pakistan's current tax structure is anti-development, anti-growth and anti-poor. It discourages investment in the real sectors, particularly manufacturing. It passes on most of the ultimate burden of the taxes to middle and lower income classes". In its relations with China, it will have to demonstrate through its words and actions that it considers China and not the US – its best friend.

The concluding chapter states, "Disengagement, Realignment, and Empowerment can help Pakistan find its way of the quagmire and move forward. It cannot hope to transform itself unless it disengages itself from overt and covert conflicts; external and internal, realigns its foreign and economic policy focus from the West to the East, and empowers its people through genuine and not 'manipulated or rigged or hijacked' democracy."

Water:
Asia's New Battleground
Brahma Chellaney

Asia is faced with a precarious water situation that threatens its economic and political well being and environmental sustainability. Its a source of increasing competition and underlying discord between many Asian states striving for greater economic growth. Water scarcity is set to become Asia's defining crisis by mid century, creating obstacles in its path of continued rapid economic growth and stoking new interstate tensions over shared basin resources, states the author in the introduction of the book.

The book looks at water and security issues across Asia, and brings out the lessons that other continents can draw from Asia's experiences so as to avert similar resource, environmental, and security challenges. The growing water crisis has risen manifold by rapidly expanding economies, surging populations, rising per capita consumption levels and continuing rural to urban migration. The book looks at Asia's water challenges, with focus on the most populous regions — scene of rising hydropolitics, and where the geopolitical risks of greater conflict are especially serious.

The continent is facing serious constraints on natural resources, and the second chapter analyzes specific cases and also discusses the implications of water shortages on Asia's ability to feed itself.

The following chapter discusses the role that the Tibetan Plateau plays in Asia's hydrological and weather cycles, while chapter 4 talks about the international political and environmental implications of the Chinese plans to divert the Brahmaputra River's waters, including by building the world's biggest dam next to a disputed, heavily militarized border with India.

The next two chapters examine the broader Asian challenges to manage water conflicts, while the concluding chapter sums up the major test Asia confronts with respect to fresh water — a test whose outcome will shape not only Asia's water future but also its economic and political future. The policy implications of the growing water stress and competition in Asia have been discussed in detail.

Pakistan Economy – Key Economic Indicators

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

†*non-food non-energy*

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

[†] *July-March* [a] *excludes deposits of scheduled banks* [b] *excludes advances to scheduled banks* *Source: Pakistan Economic Survey 2010-11*

[1] *SBP 3 day repo rate was renamed as SBP reverse repo rate wef August 17, 2009* *Annual Report 2010-11, State Bank of Pakistan*