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NBP Performance at a Glance

# Editor's Corner

Dear Readers,

The State Bank of Pakistan (SBP) has maintained a tight monetary stance since FY05. Within the last fourteen months, the discount rate has been raised from 10 percent in July '07 to 15 percent in November '08. In fact in the last two months, the rate has gone up by 300 basis points. In October '08 it was raised by 1 percent from 12 to 13 percent and again in November from 12 to 15 percent. The Cash Reserve Requirement (CRR) and the Statutory Liquidity Requirement (SLR) has also been increased. By actively using its policy instruments, the SBP supports the maintenance of price stability, promoting economic growth, and maintaining overall economic stability.

It focuses on targeting monetary aggregates so that these grow in line with the Government's growth targets of economic growth and inflation. At times, however, there are excessive demand pressure which enhances economic stress. Rising global commodity prices as well as the rising domestic twin deficits reflect the significant aggregate demand. These are manifesting into heightened inflationary pressures which had to be curbed.

The buildup of inflationary pressures because of the easy monetary policy prior to 2005 had compelled the SBP to adopt monetary tightening measures which would help in reducing excess demand from the economy, without affecting the growth process. Reducing domestic inflation is required, as it helps contain the cost of doing business, which is essential in improving the country's external competitive position.

The *Monetary Policy Statement, January - June 2007* had stated, 'SBP realizes that the policy measures taken earlier this year would have a further dampening effect on borrowing and spending in due course. It will take appropriate actions as and when required in pursuit of maintaining the objective of price stability without prejudice to economic growth.'

The rise in global commodity prices alongwith domestic shortages, has impacted the import bill. A continuous rise in import oil prices, alongwith higher food imports put pressure on the import bill which reached $40 billion in FY08. As exports lagged behind, the trade deficit widened. Despite inflows from workers' remittances, the current account deficit increased to $14 billion FY08 and during July-October FY09 it rose to $5.9 billion.

With financial flows slowing down, the current account deficit had to be financed by drawdown of SBP's foreign exchange reserves — depleting the reserves by $5 billion since the beginning of this fiscal year upto November 10, 2008.

On the domestic front, subsidies on oil rose to Rs.175 billion, as the government deferred raising domestic prices of fuel and products. As a result of higher government expenditures, the fiscal pressures have risen. To finance its fiscal expansion the government resorted to inflationary borrowings from the central bank with a record borrowing of Rs689 billion in FY08 and Rs369 billion in the period July - November 8, 2008.

Inflationary pressures have increased consistently in the past year, as General CPI rose within a year from 9.3 percent in October 07 to 25 percent in October '08, with food inflation in the corresponding period rising from 14.7 percent to a high of 31.7 percent. This prompted SBP to progressively tighten its monetary stance to restore macroeconomic stability.

Ayesha Mahmud

# Abstract of the Bulletin

## Economic Crisis in Pakistan

- The Pakistan economy is passing through a difficult period, both because of international developments and domestic factors.
- Increasing global oil and food prices have stressed the economy.
- Domestically it is experiencing widening of the trade and current account deficits, rising fiscal deficit, soaring food prices, falling value of Pak Rupee, depletion of foreign exchange reserves, a decline in the stock market and outflow of portfolio investment.
- Pakistan is in need of foreign assistance to avoid balance of payments crisis and meet its debt obligation.
- The Asian Development Bank has lowered its growth projection for the economy for the current fiscal year.
- Inflationary pressures have risen with food inflation having soared past 34 percent in August '08.
- The government has decided to reduce subsidies.
- Rising food prices adversely affects the poor. Food expenditures makes up for an average of about 60 percent of household expenditures of the poor in Pakistan.
- The global financial crisis has made matters worse for the South Asian Countries.
- Subsidies on oil and food products to protect the consumers has put excessive stress on the fiscal account.
- 80 percent of the fiscal deficit has been financed by the Government through borrowings from the State Bank.
- The SBP has tightened its monetary policy by raising the discount rate and changes in Cash Reserve Requirement and Statutory Liquidity Requirement.
- The trade deficit has widened as import bill has outstripped the export earnings.
- There has been an outflow of portfolio investment.
- Foreign exchange reserves have declined to $7.3 billion by October 17.
- The value of Pak Rupee has fallen.
- Pakistan is to receive $7.6 billion from the IMF.

## Market Analysis

- The stock market has remained lackluster since August 27, due to the flooring of stock prices as it has caused volumes to shrink dramatically making it hard for most investors to exit.
- The government decided to establish a support fund of Rs20 billion for the market to prop up seven stocks of state owned companies.
- The developments on the domestic economic front have been negative during the period under review.
- An economic plan is needed to boost investor confidence and revitalize the economy.

# Economic Crisis in Pakistan

A difficult period

Pakistan's economy is passing through trying times. Political uncertainty earlier in the year and the unprecedented increase in global oil and food prices has stressed the economy. It is experiencing widening of the trade and current account deficits, soaring food prices, a slide in the value of Pak Rupee, depletion of foreign exchange reserves, which is barely adequate to meet two months imports, outflow of portfolio investment and a decline in Pakistan's stock market. Electricity shortages have become the norm and as these economic hardships have mounted, it has badly affected the common man's budget.

Standard and Poor have cut the long term foreign currency rating to CCC+ from B on October 6, while on October 28, Moody cut Pakistan's credit rating by one level to B3 and warned of further cuts. Earlier it had maintained a B2 rating on the government bond but cut the outlook from stable to negative.

The economic turmoil where foreign exchange reserves have plunged more than 72 percent to about $4.0 billion in the past year has increased the risk that the country will be unable to pay the $3 billion in debt servicing costs that becomes due in the coming year. Pakistan is reported to be in need of $10–$15 billion of aid to avoid balance of payments crisis and to make adjustments to put the economy right.

Foreign assistance needed

Amidst the economic challenges facing policy makers, and with no commitment of aid coming from other bilateral sources, Pakistan is left with little choice but to seek IMF assistance. Earlier the government had insisted that seeking IMF help to avoid a balance of payments crisis was only a back up plan. The government had last approached the IMF in 1998 after the nuclear tests and the imposition of sanctions. It had come off its IMF programme in December 2004.

IMF assistance could call for conditions like, spending cuts, tax hikes, tightening of fiscal policies, which could prove difficult and impose a burden on the common man.

Growth forcasts revised

With prices of oil continuing to be high and an on-going power deficit, economic growth in FY09 is likely to remain subdued. In September 2008, the Asian Development Bank (ADB) revised its growth forecast for the country downwards. From an average of 7.5 percent in recent years, it fell to 5.8 percent last year. The ADB has lowered its projection to 4.5 percent for the current year, against the government's target of 5.5 percent set while announcing the Federal Budget earlier in June this year.

The commodity producing sectors are likely to see a slowdown. Agriculture is likely to be affected, as cotton production falls short of target due to a reduction in the sown area and to a virus attack. (Any shortfall in the size of the crop will hurt the textile industry). Power shortages, deteriorating law & order, increase in electricity tariffs, would affect the manufacturing sector prospects. Services sector is expected to show a satisfactory growth, though some of the tax measures announced in the budget and the power outages could affect the rate of growth.

Inflationary pressures

Moderating economic growth is accompanied with rising inflationary pressures. This phenomenon is not specific to Pakistan but other countries are also experiencing it. In Pakistan, CPI inflation rose as high as 25.3 percent in August '08, against 6.5 percent in August '07. Food inflation had soared past 34 percent, against 8.6 percent in the corresponding period. In September, both general CPI and food inflation had fallen.

The United Nations *Economic and Social Survey of Asia and the Pacific (ESCAP) 2008* report notes that Pakistan's main concern lay in higher food prices which rose by 10.3 percent in FY07 with its effect felt most strongly by people living on low and fixed income. The inflation was fuelled by global increases in some commodity prices, higher utility tariffs and by local supply and demand-driven factors, ESCAP said.

### CPI Inflation (YoY) by Groups

| | Weights | Sep -04 | Sep -05 | Sep -06 | Sep -07 | Sep -08 |
|---|---|---|---|---|---|---|
| I. Food Group | 40.3 | 13.1 | 7.5 | 11.3 | 13.0 | 29.9 |
| II. Non-Food Group | 59.7 | 6.3 | 9.3 | 7.0 | 5.0 | 19.2 |
| Apparel, textile, etc. | 6.1 | 2.4 | 3.9 | 4.0 | 7.6 | 16.1 |
| House rent | 23.4 | 10.2 | 11.3 | 7.3 | 7.5 | 15.0 |
| Fuel & Lighting | 7.3 | 2.8 | 6.9 | 12.1 | 2.7 | 21.5 |
| Household furniture & equipment | 3.3 | 5.7 | 5.6 | 6.7 | 6.3 | 12.7 |
| Transport & com. | 7.3 | 6.8 | 20.7 | 5.3 | -3.1 | 39.9 |
| Recreation & entertainment | 0.8 | -0.2 | -0.3 | 0.2 | 0.0 | 12.2 |
| Education | 3.5 | 2.9 | 5.4 | 7.2 | 4.8 | 16.0 |
| Cleaning, laundry, etc. | 5.9 | 4.2 | 2.9 | 4.1 | 6.5 | 19.3 |
| Medicare | 2.1 | 1.0 | 1.6 | 9.8 | 7.8 | 10.7 |
| Headline | 100 | 9.0 | 8.5 | 8.7 | 8.4 | 23.9 |

*Source: Inflation Monitor, September 2008, SBP*

Higher international prices

Internationally food prices had begun to gradually rise after mid 2000 as demand was outstripping supply. Factors that have been responsible for driving the prices higher, include among others, higher energy prices, and the related increases in prices of fertilizer and chemicals.

An increase in oil prices affects food prices through an increase in production costs (price of fertilizer goes up for its feedstock comes from natural gas, whose prices move in tandem with oil prices). Running of agricultural machinery and equipment on diesel becomes expensive and finally transportation costs go up, which affect the final prices of food products.

Domestic oil prices

In Pakistan, the impact of rising international oil prices on domestic oil prices have been substantial. As the government decided to reduce subsidy the price of oil and its products in the domestic market have risen. The price of petrol has risen to Rs81.66 per litre from Rs75.69 in July and against Rs53.60 early 2008, showing a 52 percent rise in prices within ten months. During this period, price of diesel jumped by 84.2 percent from Rs32.57 to Rs60.0 per litre. Prices of various types of fertilizer have gone up, with diammonium phosphate doubling. Transportation has become more expensive in recent months with an increase in the price of diesel and CNG. Transport & communication subindex of the CPI rose by 40 percent in September '08 over September '07.

### Top Ten Contributors to YoY CPI Inflation in September 2008

| Ranked by Weighted Contribution | | Weights | YoY change Sep-07 | YoY change Sep-08 | Weighted Contri-bution |
|---|---|---|---|---|---|
| 1 | House Rent Index | 23.43 | 7.46 | 15.03 | 14.48 |
| 2 | Wheat Flour | 5.11 | 18.75 | 55.47 | 12.59 |
| 3 | Milk Fresh | 6.66 | 12.98 | 23.15 | 7.09 |
| 4 | Vegetable Ghee | 2.67 | 33.32 | 47.50 | 6.49 |
| 5 | Rice | 1.34 | 52.84 | 72.69 | 5.21 |
| 6 | Transport Fare/Charges | 2.12 | 1.80 | 48.93 | 4.96 |
| 7 | Petrol | 1.73 | -6.91 | 52.37 | 4.37 |
| 8 | Natural Gas | 2.05 | -6.56 | 31.36 | 3.71 |
| 9 | Fresh Fruits | 1.62 | 14.05 | 35.80 | 2.65 |
| 10 | Readymade Food | 1.68 | 7.05 | 27.62 | 2.08 |
| | Total | 48.40 | | | 63.63 |

*Source: Inflation Monitor, September 2008, SBP*

Factors for rise in food prices

There are other factors also which drive up the food prices, such as increased emphasis on the production of biofuels, weather, stock levels, hoarding etc. There is increased incentive to produce biofuels as energy prices rose. The drought in Australia last year was partly responsible for limited supplies that contributed to a price hike early this year. Some countries adopt protectionist policies, so the recent food price rise cannot be explained by a single factor but is a result of a number of factors.

Land use changes in wheat exporting countries in response to increased planting of oilseeds for biodiesel production, limited expansion of wheat production that could have otherwise prevented the large declines in global wheat stocks and the resulting rise in wheat prices, states a Policy Research Working Paper of the World Bank, titled "*A Note on Rising Food Prices*". It further states, 'the combination of higher energy prices and related increases in fertilizer prices and transport costs and dollar weakness caused food prices to rise by about 35–40 percentage points from January 2002 until June 2008. These factors explain 25–30 percent of the total price increase, and most of the remaining 70–75 percent increase in food commodities prices was due to biofuels

Box

## *Double-Edged Prices*

*Oxfam Briefing Paper*

We give below excerpts from the report.

The recent sharp increase in food prices should have benefited millions of poor people who make their living from agriculture. However, decades of misguided policies by developing country governments on agriculture, trade, and domestic markets – often promoted by international financial institutions and supported by donor countries – have prevented poor farmers and rural workers from reaping the benefits of higher commodity prices.

As a result, the crisis is hurting poor producers and consumers alike, threatening to reverse recent progress on poverty reduction in many countries. To help farmers get out of poverty while protecting poor consumers, developing country governments, with the support of donors, should invest now into smallholder agriculture and social protection.

Poor-country governments, with the support of donors, should:

- Increase public spending on agriculture to generate supply in the short term, and provide support to smallholder farmers in the longer term;
- Properly target farming sector expenditure, both in order to provide the public services required and to reach small-scale producers;
- Invest in social protection programmes to enable citizens to meet their basic needs and protect their livelihoods from potential threats;
- Consider contributing to national or regional strategic food reserves to counteract food shortages and market volatility. Assistance programmes should encourage local communities to design community-based food reserves;
- Adopt trade measures that protect small-scale producers, strategic agriculture sectors, and emerging companies;
- Avoid resorting to trade measures (such as export bans) that could exacerbate the crisis or undermine long-term development prospects;
- Support the creation and strengthening of trade unions, producer organisations, and women's group in particular, in order that they can take part in the design, implementation, and monitoring of food and agricultural policies, negotiate collectively to bring down the prices of inputs purchased, and obtain better wages and prices for their products;
- Promote access to assets and services, particularly for women farmers. Access to land, water, seeds, fertilisers, technology, loans, infrastructure, and energy is often insufficient, insecure, or too expensive;
- Address the problems of waged agricultural workers, developing and enforcing labour legislation for rural workers and establishing guaranteed employment programmes for people who remain unemployed out of season;
- Build community-level resilience to climate change to ensure that poor producers can benefit from higher food prices and both adapt to and mitigate the impacts of climate change.

In addition, rich countries, the World Bank, and other donors should:

- Coordinate their action and funding through a United Nations led mechanism, building on the work done by the High Level Task Force on food prices;
- Increase investment in development assistance to agriculture in developing countries, particularly for smallholders. Funding should be new, predictable, in grant form, and additional to health and education funding;
- Stop pressing for rapid liberalisation and opposing adequate safeguards for developing countries in multilateral, regional, and bilateral trade negotiations and agreements;
- Reform their agriculture and trade policies that permit dumping, restrict policy space, and hinder growth in developing countries, so that countries can support their own agricultural development and in turn ensure food security, which is central to poverty reduction;
- Contribute to a coordinated international response, led by the UN, which channels funds urgently to those in need, and leads on implementation of the longer-term reforms.

and the related consequences of low grain stocks, large land use shifts, speculative activity and export bans.'

Food prices and the poor

Rising food prices can have devastating effects on the poor. As food expenditures make up an average of about 60 percent of household expenditures of the poor in Pakistan, any increase can mean life and death for the extremely poor. A report, *Food Crisis in Pakistan: Real or Artificial* of the Oxfam GB, a UK based non-governmental organisation says the number of poor in the country has risen from 60 to 77 million because of food inflation. While the crisis in some countries can be attributed to the global market, for a country like Pakistan, which has a sound agricultural base, abrupt shortage of wheat flour was hard to link to external causes, the report argued. Despite persistent inflation and temporary shortages – deliberately created by traders to manipulate prices – a full-blown flour crisis came as a shock, the report sates.

Shortages of wheat flour were compounded by steep hikes in prices of all major food items – rice, pulses, edible oil, spices, the Report said.

Impact of food prices on poverty depends on several factors

While discussing the poverty impacts of rising food prices in individual countries, a World Bank paper, '*Double Jeopardy: Responding to High Food and Fuel Prices*', has identified several factors. These includes (i) the extent world market prices are passed through to domestic prices; (ii) the initial poverty level and number of people clustered around the poverty line; (iii) the number of net buyers or net sellers of the commodities in question; (iv) the share of poor people's budgets devoted to food overall and key staples in particular; (v) the extent of own-consumption relative to market purchases; and (vi) the effect of food price increases on real wages of poor people.

The Report further shows the effects of rising commodity prices on poverty differ considerably between countries and commodities, but that poverty increases are considerably more frequent and larger than poverty reductions. Urban households are typically hit harder than rural households, though many in rural areas are also net consumers of food and therefore adversely affected by price rises. The average impact of a 10 percent increase for seven key food items is to raise the poverty headcount ratio by 0.4 percentage points. The accompanying table uses these results to produce rough estimates of the poverty impact of actual food price increase between 2005-07. The variations across countries are clear – with large poverty increases in Nicaragua, Zambia, Pakistan and Madagascar and poverty reduction in Peru and Vietnam (where a significant number of poor households are net rice producers).

Poverty Rate Impacts of 2005-7 Global Food Prices Increase, % Points Change

| | | Initial $1/Day | Change: No wage | Change: With wage |
|---|---|---|---|---|
| Bolivia | | 23.2 | 2.0 | 1.8 |
| Cambodia | | 34.1 | 1.5 | 1.3 |
| Madagascar | | 61.0 | 4.7 | 3.6 |
| Nicaragua | | 45.1 | 7.8 | 7.7 |
| **Pakistan** | | **17.0** | **4.1** | **3.4** |
| Peru | | 12.5 | -0.2 | -0.3 |
| Vietnam | | 17.7 | -2.0 | -2.3 |
| Zambia | | 75.8 | 5.0 | 4.9 |
| Average | Rural | 40.8 | 2.5 | 2.2 |
| | Urban | 24.5 | 3.6 | 3.2 |
| | Total | 34.1 | 3.0 | 2.7 |

*Source: Double Jeopardy: Responding to High Food and Fuel Prices, World Bank*

Expanding existing social assistance programmes that directly targets poor households is necessary to protect South Asia's poor in the face of a dramatic increase in global food prices, a World Bank South Asia expert said early April 2008. Most countries in South Asia are net importers of food and have suffered severe terms of trade shocks of 1 percent of GDP.

The paper, *World Food Prices: South Asia's Poor at Risk*, which contains the views/ comments of the World Bank Chief Economist for South Asia has written, 'In South Asia, which has the largest concentration of poor people in the world, the increase in food prices is particularly damaging since food accounts for a substantial share of poor people's income.'

To deal with the challenges, he has suggested that targeted subsidies are a better option against untargeted subsidies. By using targeted subsidies, governments will be able to protect poor families without distorting the relative prices of food products, while reducing the overall cost to the budget. Over the long term, such schemes have to be time bound, and governments have to develop a long term strategy to address food price increases.

Targeted subsidies

Asian Development Bank (ADB) analysis shows that a 10 percent increase in food prices could drive an additional 7 million people into poverty in Pakistan; a 20 percent increase, 14.7 million; and a 30 percent increase 22 million.

The rise in poverty incidence from an increase in energy prices is estimated to be much smaller at about 1.5 percentage points. ADB's analysis also shows that, if every poor person were to be compensated to offset the loss in real expenditure caused by food and energy price increases, the Government may incur an annual cost of between Rs18.5 billion (0.3 percent of GDP) and Rs83 billion (1.3 percent of GDP).

Global financial crisis and South Asia

The global financial crisis has made matters worse for the South Asian countries who are already inflicted with higher fuel and food costs. A World Bank paper, *'Global Financial Crisis: Implications for South Asia'*, has shown: -

- Between January 2003 and May 2008 South Asia suffered a huge loss of income from a severe terms-of-trade shock owing to the surge in global commodity prices. South Asia lost substantially from both higher food and petroleum prices. Within South Asia, losses range from 36 percent of GDP for the tiny Island country of Maldives to 8 percent for Bangladesh. Much of the loss came from higher petroleum prices, where all countries lost. On the food account, Bangladesh lost most, followed by Nepal and Sri Lanka. Pakistan and India actually gained, being significant rice exporters;

- The large loss of income from the terms of trade shock was partially compensated by rising remittances. Nevertheless there has been a negative impact on the external balances of most South Asian countries. Pakistan suffered the most rapid deterioration in the current account balance, which turned from a surplus of around 4 percent of GDP in 2003 to a deficit of over 8 percent in 2008;

- The fiscal deficit widened most for Pakistan, rising from 2.4 percent of GDP in 2004 to 7.4 percent in 2008;

- Rising food and fuel prices have been a major source of inflationary pressure in South Asian countries. In Afghanistan, Sri Lanka, Pakistan, Bangladesh and Nepal, food prices made a bigger impact on inflation than fuel;

- Prices of staple food have started to come down in all South Asian countries owing to good harvests in 2008 and falling global prices. The global oil prices have also come down sharply to around $70 per barrel as compared with the spike at $150 per barrel. The combined effects of lower food and fuel prices alongwith demand management are reducing inflationary pressure in most South Asian countries except Pakistan.

The emerging global financial crisis has dampened the positive effects of a reduction in global petroleum and food prices observed over the past few months and poses downside risks to South Asia. The reports states, 'These risks can transmit from both the financial sector in terms of volume and price of foreign capital flows as well as from the real sector based on adverse effects of a global slowdown on South Asian exports, possible downward pressure on remittances, and slowdown in private and public investment owing to higher interest rates as well as lower export demand.

The second largest economy, Pakistan, is much more fragile and faces the most vulnerability in the region. High fiscal and current account deficits, rapid inflation, low reserves, a weak currency, and a declining economy put Pakistan in a very difficult situation to face the global financing crisis. Efforts are now underway to arrest the decline of the macro economy through appropriate demand management including tightening of monetary and fiscal policies.

Pakistan's ability to borrow externally is already heavily constrained and bond spreads are very high. The global financial crisis means that non-official foreign capital flows would be even more expensive than now. The contagion effects on domestic financial sector could be substantial, but stress tests suggest that the banking sector as a whole is likely to withstand the shocks. This is mainly due to the improved health of the financial sector based on past reforms.'

Higher subsidies

Subsidization of oil and food products to protect the consumers has put excessive stress on the fiscal account. In 2007-08, the subsidy bill is estimated at Rs407.5 billion, three and a half times more than the budgeted figure of Rs113.92 billion. Subsidy provided to oil refineries/oil marketing companies and others had jumped to Rs175 billion, against the budgeted figure of Rs15 billion. On the import of phosphatic and potasic fertilizer, the government provided Rs20 billion, and Rs40 billion was given for import of wheat.

The rise in subsidy bill alongwith higher interest payments had raised the fiscal deficit to 8.3 percent of GDP (as quoted in Monetary Policy Statement, July-December 2008), more than double the targeted level.

Govern-ment borrow-ings from SBP

With domestic resources falling short of the requirements, and external inflows restricted, the Government resorted to borrowings from the Central Bank. Last year around 80 percent of the fiscal deficit was financed by SBP. This was despite the Bank's advice to the Government to desist from such heavy borrowings as it is inflationary in character and leads to intensifying of inflationary pressures in the economy. By May 2008, government borrowings from the SBP reached Rs544.1 billion.

The rising fiscal deficit is a cause of great concern. The budget 2008-09, aims for a lower fiscal deficit of 4.7 percent of GDP through fiscal consolidation. The allocation for subsidies has been reduced to Rs295 billion, 28 percent less than the actual subsidy level in FY08. The government recently decided to gradually pass on the rise in the cost of fuel, which had earlier been frozen to the domestic consumers. A reduction in subsidies and rising international commodity prices had an impact on the poor.

### Budgeted/Actual Subsidies for 2007-08

(Rs Bn)

| | 2007-08 | | 2008-09 |
|---|---|---|---|
| | Budgeted | Revisied | Budgeted |
| Oil Refineries | 15.0 | 175.0 | 140.0 |
| Wheat Import | 0 | 40.0 | 20.0 |
| WAPDA | 52.9 | 113.6 | 74.6 |
| Import of Phosphatic Fertilizer | 0 | 20.0 | 20.0 |

*Source: Budget in Brief 2008-09*

Meanwhile, the SBP tightened its monetary policy by raising the discount rate and Cash Reserve Requirement. In view of the liquidity crunch that the banks were faced with, the CRR was lowered in early October.

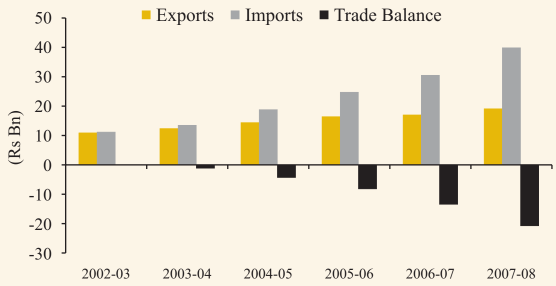
Monetary policy tightened

Most countries have disallowed government to borrow from central banks. In Pakistan, the SBP had to tighten the monetary policy to check excessive government borrowings (inflationary). Such borrowings dilute the impact of the Fiscal Responsibility Act. Financing of the fiscal deficit from SBP had resulted in huge additional liquidity injection posing serious challenges for monetary management.

The State Bank undertook measures to check rising inflation and risks to macroeconomic stability. The discount rate has been successively raised. The increase would induce scheduled banks to participate actively in T-bill auctions. A rise in discount rate helped push up the lending rates necessary to curb demand pressures and check the rise in inflation. More recently the Central Bank announced a further hike in the discount rate by 200 bps to a high of 15 percent.

On the external front, import growth has outstripped the rise in exports, resulting in a widening of the trade deficit. In 2007-08, the trade deficit rose to $20.7 billion, as imports touched nearly $40 billion and exports lagged at $19.2 billion.

Rising Trade Deficit




The overall decline in export growth can be attributable to the sluggish performance of the textile sector – which accounts for almost two thirds of total exports, non-textile export growth also slowed. The *South Asia Economic Report on Pakistan* states, 'the continued lack of diversification of Pakistan's export base, the concentration of exports in a few markets, and poor compliance with quality standards are major factors in the country's poor export performance, and contributed to the widening trade deficit.'

During the first quarter of 2008-09 (July-September), imports at $10.82 billion were double the exports of $5.27 billion. The trade deficit stood at $5.6 billion against $3.6 in the comparable period a year earlier.

Decline in the export of textiles

A breakup of exports show a substantial jump in the export of rice. There was a decline in the export earnings from textile, carpets & rugs, leather tanned, plastic materials, gems etc. As against $417 thousand earned from the export of handicrafts last year (July-September), earnings were nil in the quarter under review.

Exports ($ Mn)

| | July-Sept 2008 | July-Sept 2007 |
|---|---|---|
| Rice | 551.2 | 230.4 |
| Textiles | 2705.3 | 2726.5 |
| Raw Cotton | 25.8 | 7.2 |
| Cotton Yarn | 298.2 | 348.0 |
| Cotton Cloth | 495.2 | 473.4 |
| Knitwear | 496.5 | 514.2 |
| Bedwear | 441.2 | 493.7 |
| Towels | 173.3 | 133.9 |
| Readymade Garments | 354.5 | 390.8 |
| Synthetic Textiles | 189.1 | 118.6 |
| Chemicals & Pharmaceuticals | 199.1 | 133.8 |
| Leather & Leather Manufactures | 247.0 | 251.1 |

*Source: Federal Bureau of Statistics*

A 34.3 percent increase in imports is attributable to surge in the oil import bill and higher import of wheat, power generating machinery, palm oil. Import of telecom (mobile phone and other apparatus) showed a fall.

Food import bill

Given domestic shortages, the country imported $315.5 million worth of wheat ($5.27 million worth of wheat was imported in July-September '07) which alongwith price increases of palm oil and other products raised the food import bill by 47 percent.

Imports ($ Mn)

| | July-Sept 2008 | July-Sept 2007 |
|---|---|---|
| Wheat | 315.5 | 5.3 |
| Tea | 66.0 | 45.5 |
| Palm Oil | 418.4 | 333.6 |
| Power Generating Machinery | 385.0 | 190.9 |
| Telecom | 381.1 | 540.0 |
| Textile Machinery | 74.0 | 100.6 |
| Petroleum Crude & Products | 3851.7 | 2006.1 |
| Fertilizer | 257.4 | 201.5 |
| Plastic Materials | 341.0 | 300.2 |
| Iron & Steel Scrap | 117.9 | 172.4 |
| Iron & Steel | 303.1 | 312.6 |

*Source: Federal Bureau of Statistics*

Let us look at the change in unit prices of major exports and imports.

Exports – Unit Prices

($ mt)

| | July-Sept 2008 | July-Sept 2007 |
|---|---|---|
| Rice | 890.3 | 526.8 |
| Raw Cotton (000 Sq. Mtr) | 1331.2 | 1103.7 |
| Cotton Yarn | 2349.1 | 2269.2 |
| Cotton Cloth | 981.2 | 956.3 |
| Knitwear ($ / Doz) | 17.76 | 19.70 |
| Bedwear | 5178.4 | 5702.3 |
| Towels | 3730.2 | 4276.7 |
| Readymade Garments ($ / Doz) | 38.5 | 39.1 |
| Leather Tanned (000 Sq. Mtr) | 19.04 | 16.4 |
| Leather Garments | 461.8 | 397.1 |
| Petroleum Products | 806.7 | 717.3 |
| Plastic Materials | 1300.6 | 1281.5 |
| Cement | 78.4 | 52.4 |

During the above quarter unit prices had improved for most of the export items, except for some like, knitwear, bedwear, towels and readymade garments. Of the items imported, unit prices had risen for petroleum, raw cotton, iron and steel, palm oil.

### Imports – Unit Prices

($ MT)

| | July-Sept 2008 | July-Sept 2007 |
|---|---|---|
| Wheat | 411.3 | 479.3 |
| Tea | 2159.5 | 1890.1 |
| Palm Oil | 1182.0 | 772.7 |
| Petroleum Products | 889.5 | 478.8 |
| Petroleum Crude | 854.0 | 483.1 |
| Raw Cotton | 1554.6 | 1391.0 |
| Synthetic Fibre | 1965.4 | 1964.0 |
| Fertilizer | 900.0 | 339.2 |
| Plastic Materials | 1583.4 | 1502.0 |
| Iron & Steel | 958.0 | 511.4 |
| Paper & Paper Board | 850.0 | 762.0 |

*Source: Federal Bureau of Statistics*

Subsidy bill rises

Rising international prices of oil, palm oil, fertilizer, iron and steel have adversely affected the unit value of import of these items. The government did not upto the recent past, pass on the increase in oil prices to the consumers and they were left unchanged. By giving subsidies to oil marketing companies, the subsidy bill soared to Rs407 billion over the budgeted level of Rs114 billion. Consequently fiscal deficit grew without due regard to the availability of resources. Rise in fiscal deficit and limited non-bank and external resources resulted in excessive recourse to central bank's borrowings.

The widening trade deficit has been responsible for the rising external current account deficit, which grew to $14 billion, equivalent to 8.4 percent of GDP in FY08. The deficit continues on an upward trend largely due to strong import demand and higher international commodity prices.

During July-September FY09, portfolio investment declined more than eight times the level of July-September FY08. There was an outflow of $172.75 billion against an inflow of $24.15 billion in the comparable period last year.

Direct investment meanwhile, has shown an increase of 10.0 percentage, rising to $1.11 billion against $1.01 billion in the comparable period. But because of the decline in portfolio investment total inflows have fallen by 6.8 percent.

Pakistan's foreign exchange reserves have been depleting rapidly due to a growing gap between imports and exports. By October 17, 2008, the reserves had plunged to $7.3 billion a 35 percent decline in the last four months (stood at $11.28 billion on June 27 '08) and is about half the size of the record $16.5 billion it touched in October last year. The reserves are sliding largely due to high import bill and capital outflows.

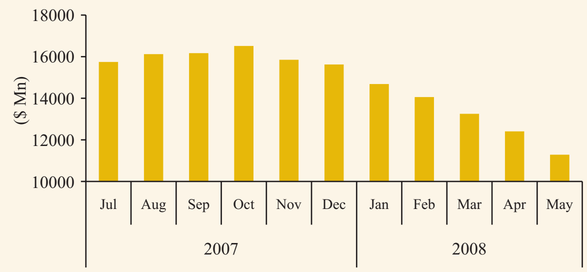
### Countrywise Foreign Investment Inflows

($ Mn)

| Countrty | 2008-09 (July-September) | | | | 2007-08 (July September) | | | |
|---|---|---|---|---|---|---|---|---|
| | Direct | Portfolio | | | Direct | Portfolio | | |
| | | Private | Public | Total | | Private | Public | Total |
| Singapore | 218.9 | -4.4 | | 214.5 | 16.6 | -20.3 | | -3.7 |
| Malaysia | 205.7 | 0.0 | | 205.7 | -0.8 | 0.0 | | -0.8 |
| USA | 210.0 | -110.2 | | 99.8 | 476.2 | 74.8 | | 551.0 |
| Norway | 50.3 | 0.0 | | 50.3 | 20.3 | 0.0 | | 20.3 |
| UK | 72.5 | -34.4 | | 38.1 | 92.5 | 22.3 | | 114.7 |
| Hong Kong | 34.9 | -16.5 | | 18.4 | 30.2 | -10.1 | | 20.2 |
| Switzerland | 41.8 | -26.4 | | 15.4 | 41.3 | -20.2 | | 21.1 |
| Japan | 21.7 | -0.4 | | 21.3 | 28.5 | 2.4 | | 30.9 |
| Mauritius | 19.4 | 0.5 | | 19.9 | 31.6 | 6.5 | | 38.1 |
| Australia | 18.8 | -6.5 | | 12.3 | 12.8 | -26.4 | | -13.6 |
| Others | 216.9 | 27.8 | | 244.7 | 265.4 | -4.9 | | 260.5 |
| Debt Securities | | | -2.2 | -2.2 | | | -31.5 | -31.5 |
| GDRs | | | | 0.0 | | | | 0.0 |
| **Total** | **1111.0** | **-170.5** | **-2.2** | **938.3** | **1014.5** | **24.2** | **-31.5** | **1007.2** |

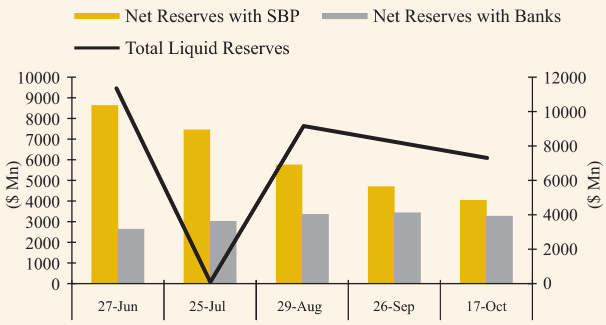
*Source: Board of Investment*

Foreign Exchange Reserves




Of the $7.3 billion reserves, the State Bank holds $4.0 billion, equal to less than two months of imports, while $3.3 billion are the net reserves with banks. Declining reserves have increased the risk that the country will be unable to pay the $3 billion in debt servicing costs due in the coming year.

Foreign Exchange Reserves




Standard & Poor, which had cut the long term foreign currency rating on October 6, further lowered it to CCC from CCC+ and its long term local currency rating to CCC+ from B-.

The value of Pak Rupee has fallen in recent months because of weak economic fundamentals – outflow of portfolio investment, eroding foreign exchange reserves, rising trade deficit, slow inflow of foreign investment, inflationary pressures among other factors.

The Pak Rupee has fallen during the year in the interbank market by 29 percent from Rs62.3667 in January '08 to Rs80.4331 in October. In the kerb market the Rupee was trading as high as Rs84.40 to the dollar on October 17.

Besides weak macroeconomic fundamentals, (mainly shrinking foreign inflows) the supply and demand conditions also determines the value of Pakistani Rupee. In recent weeks the demand for US dollar had increased which caused the rupee's depreciation.

The dollar rupee exchange rate has depreciated by 15 percent since the beginning of FY09. Rupee depreciation and fast falling reserves have generated concerns regarding the viability of the balance of payments.

Changes in Exchange Rates

| | Monthly Average Rate (Rs/US$)* | % Appreciation/Depreciation | |
|---|---|---|---|
| | | Month to Month | Cumulative since June 2007 |
| 2007 | | | |
| Jul | 60.3978 | 0.38 | 0.38 |
| Aug | 60.5145 | -0.19 | 0.18 |
| Sep | 60.6376 | -0.20 | -0.02 |
| Oct | 60.6795 | -0.07 | -0.09 |
| Nov | 61.0003 | -0.53 | -0.61 |
| Dec | 61.1798 | -0.29 | -0.91 |
| 2008 | | | |
| Jan | 62.3667 | -1.90 | -2.79 |
| Feb | 62.6185 | -0.40 | -3.18 |
| Mar | 62.7500 | -0.21 | -3.29 |
| Apr | 63.5556 | -1.27 | -4.61 |
| May | 67.6009 | -5.98 | -10.32 |
| Jun | 67.2563 | 0.51 | -9.86 |
| Jul | 70.5896 | -4.72 | -14.12 |
| Aug | 74.2926 | -4.98 | -18.40 |
| Sep | 77.1668 | -3.72 | -21.44 |
| Oct | 80.4331 | -4.06 | -24.63 |
| Periodwise Appreciation/Depreciation during | | | |
| June 2007 to January 2008 | | | -2.79 |
| January to October 2008 | | | -22.46 |

* Interbank average floating rate

State Bank of Pakistan has taken following measures to stabilize the exchange markets since end-April 2008.

SBP steps to stablize exchange market

- Exchange companies have been required to surrender a minimum of 15 percent, instead of earlier 10 percent, of foreign currency received by them from home remittances to the interbank markets. (Circular Date: April 29, 2008.

- Limits on advance payments that were relaxed last year have been tightened. Now Advance import payments will only be allowed against letter of credits and that too only to the extent of 50 percent. Advance payments against contracts are now not allowed. Last year advance payments against letter of credit and firm registered contracts were allowed to importers via banks to the extent of 100 percent (Circular Date: April 29, 2008)

- Exchange companies have been directed to transfer foreign currency from their nostro accounts held outside Pakistan to commercial banks in Pakistan and henceforth exchange companies will have to close all nostro account abroad (Circular Date: May 9, 2008).

- Exchange companies have been encouraged to focus on promoting home remittances and companies can only effect outward remittances to the extent of 75 percent of the home remittances mobilized by the respective company (Circular Date: May 9, 2008).

- In order to meet the demand of foreign currencies within Pakistan, the Exchange Companies have been directed to surrender their surplus foreign currency to State Bank – earlier exchange companies were exporting most of the foreign currency, except dollars abroad. Now exchange companies, besides dollar, will not be able to export Pound Sterling, Euro and UAE Dirhams (Circular Date: May 9, 2008).

- On July 8, 2008 SBP took the following measures with immediate impact: (1) Forward booking against all types of imports have been suspended temporarily. (2) Advance payments against import Letter of Credit has been further reduced from 50 percent to 25 percent. (3) All foreign exchange for oil payments will now be made available from State Bank of Pakistan. (4) Foreign exchange dealing time for customer and interbank transactions has been restricted. (5) In order to further strengthen monitoring mechanism of transactions made through Exchange Companies, all Exchange Companies will be required to take prior approval of State Bank for all transactions of US$50,000 or above on account of outward remittances or sale of foreign currencies to the customers.

- SBP recently suspended the licence of an Exchange Company, for violation of its rules & regulations.

Rupee has touched new lows in the recent past.

| New Levels | Date (2008) | Buying (Rs) | Selling (Rs) |
|---|---|---|---|
| Rs65/- | Apr, 23 | 65.1 | 65.2 |
| Rs70/- | Jul, 7 | 69.8 | 70.1 |
| Rs77/- | Aug, 15 | 76.9 | 77.0 |
| Rs78/- | Sep, 25 | 78.2 | 78.3 |
| Rs84/- | Oct, 17 | 83.7 | 83.9 |

IMF loan package

Pakistan is currently discussing a possible loan package from the IMF. It wants financial assistance from the Fund to meet the balance of payments difficulties the country is experiencing as a result of high food and fuel prices and depleting foreign exchange reserves.

Like other emerging economies, Pakistan was badly hit by soaring global oil and food prices over the past year.

While Pakistan has been exploring other sources of funds by seeking possible financial help from friendly countries and financial institutions, in order to avoid stringent IMF conditions, but the efforts have not brought any positive results. Pakistan needs more than $5 billion soon to avoid defaulting on international debts.

Past IMF conditio-nalities

Past IMF programmes, requiring Pakistan to agree to austerity measures, were deeply unpopular. These have entailed measures like, stronger fiscal adjustment, tighter monetary stance, strengthening revenue mobilisation, reducing energy subsidies, lowering external current account deficit, expanding the tax base, including through expanding taxation of the agricultural and services sectors and reducing tax exemptions, privatisation, trade liberalisation among others.

The IMF, the World Bank and other multi-lateral lending institutions have played a major role in providing financial and policy advice to Pakistan over the last number of years. In the past, Pakistan has signed several agreements with the IMF, but due to varying reasons most of them remained incomplete.

Pakistan and the IMF 1998 – 2000
Financial Arrangements with the IMF

(SDR Mn)

| Period | | Amount Agreed | Amount Drawn | % Undrawn |
|---|---|---|---|---|
| May 1972 - Nov 1983 | | 1598 | 1393 | 13 |
| Dec 88 - Dec 91 | SAF | 382 | 382 | 0 |
| Dec 88 - Mar 90 | SBA | 273 | 194 | 29 |
| Sep 93 - Sep 94 | SBA | 265 | 88 | 67 |
| Feb 94 - Feb 97 | ESAF | 606 | 172 | 72 |
| Feb 94 - Feb 97 | EFF | 380 | 123 | 68 |
| Dec 95 - Mar 97 | SBA | 562 | 295 | 48 |
| Oct 97 - Oct 00 | ESAF | 682 | 265 | 61 |
| Oct 97 - Oct 00 | EFF | 455 | 113 | 75 |
| 1998 - 1999 | | 3605 | 1632 | 55 |
| Nov 00 - Sep 01 | SBA | 465 | 465 | 0 |
| Dec 01 - 2004 | PRGF | 1410 | | |

*Source: Pakistan and the IMF: 1988-2002, Ishrat Husain*

Pakistan is among the largest recipients of World Bank financial assistance. In FY07, it provided $985 million, making it the seventh largest borrower in the world. Pakistan is expecting around $1 billion from the World Bank.

Pakistan: World Bank Group
Financial Operations

($ Mn)

| | FY02 | FY03 | FY04 | FY05 | FY06 | FY07 |
|---|---|---|---|---|---|---|
| Commitments | | | | | | |
| IBRD | ... | ... | 50 | 347 | 315 | 100 |
| IDA | 800 | 297 | 731 | 500 | 1161 | 885 |
| Disbursements | | | | | | |
| IBRD | 38 | 40 | 13 | 203 | 149 | 154 |
| IDA | 830 | 316 | 290 | 778 | 1061 | 1030 |
| Repayments | | | | | | |
| IBRD | 255 | 257 | 277 | 299 | 289 | 265 |
| IDA | 71 | 83 | 96 | 111 | 117 | 170 |
| Debt Disbursed and Outstanding | | | | | | |
| IBRD | 2820 | 2706 | 2526 | 2406 | 2247 | 2132 |
| IDA | 5097 | 5604 | 6020 | 6651 | 7627 | 8700 |

The IMF and the Pakistan authorities have reached an agreement on the key elements of an economic programme to be supported by US$7.6 billion loan, subject to the approval of the IMF Executive Board. It is a 23 month Stand by Arrangement. The amount of the financial support is substantially higher than the country's quota (US$1526.3 million).

Pakistan is facing a serious balance of payments crisis. The IMF has extended the loan with the objective to correct the macroeconomic imbalances through a tightening of fiscal and monetary policies and to help protect the poor.

Pakistan has sought funding from Friends of Pakistan group, comprising representatives from the UAE, Australia, Canada, Britain, US, China, Saudi Arabia, Turkey, European Union, UN, Japan and Germany.

It needs investment across a broad range of sectors such as infrastructure, energy, agriculture and services.

## Doing Business 2009

*Starting a Business*

| Indicator | Pakistan | India | Bangladesh | Afghanistan | Sri Lanka | Nepal | Bhutan | Maldives |
|---|---|---|---|---|---|---|---|---|
| Procedures (number) | 11 | 13 | 7 | 4 | 4 | 7 | 8 | 5 |
| Time (days) | 24 | 30 | 73 | 9 | 38 | 31 | 45 | 9 |
| Cost (% of income per capita) | 12.5 | 70.1 | 25.7 | 59.5 | 7.10 | 60.2 | 8.50 | 11.5 |

*Dealing with construction permits*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Procedures (number) | 12 | 20 | 14 | 13 | 21 | 15 | 25 | 9 |
| Time (days) | 223 | 224 | 231 | 340 | 214 | 424 | 183 | 118 |
| Cost (% of income per capita) | 734.0 | 414.7 | 739.8 | 14918.9 | 1485.5 | 248.4 | 158.4 | 26.3 |

*Employing Workers*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Rigidity of Employment Index (0-100) | 43 | 30 | 35 | 27 | 27 | 42 | 7 | 0 |
| Firing cost (weeks of salary) | 90.0 | 56.0 | 104.0 | 0.0 | 169.0 | 90.0 | 10.0 | 9.0 |

*Registering Property*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Procedures (number) | 6 | 6 | 8 | 9 | 8 | 3 | 5 | no practice |
| Time (days) | 50 | 45 | 245 | 250 | 83 | 5 | 64 | no practice |
| Cost (% of property value) | 5.3 | 7.5 | 10.4 | 7.0 | 5.1 | 6.3 | 0.0 | no practice |

*Getting Credit*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Strength of Legal Rights Index (0-10) | 6 | 8 | 8 | 1 | 4 | 5 | 2 | 4 |
| Depth of Credit Information Index (0-6) | 4 | 4 | 2 | 0.0 | 5 | 2 | 0 | 0 |
| Public registry coverage (% adults) | 4.9 | 0.0 | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Private bureau coverage (% adults) | 1.5 | 10.5 | 0.0 | 0.0 | 8.7 | 0.2 | 0.0 | 0.0 |

*Protecting Investors*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Strength of Investor protection index (0-10) | 6.30 | 6.0 | 6.70 | 7.0 | 5.3 | 5.3 | 4.0 | 5.30 |

*Paying Taxes*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Payments (number per year) | 47 | 60 | 21 | 8 | 62 | 34 | 19 | 1 |
| Time to pay taxes (hours per year) | 560 | 271 | 302 | 275 | 256 | 408 | 274 | 0 |
| Total tax rate (% profit) | 28.90 | 71.50 | 39.50 | 36.40 | 63.70 | 34.10 | 39.80 | 9.10 |

*Trading Across Borders*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Documents to export (number) | 9 | 8 | 6 | 12 | 8 | 9 | 8 | 8 |
| Cost to export (US$ per container) | 611 | 945 | 970 | 3000 | 865 | 1764 | 1210 | 1348 |
| Time to export (days) | 24 | 17 | 28 | 74 | 21 | 41 | 38 | 21 |
| Documents to import (number) | 8 | 9 | 8 | 11 | 6 | 10 | 11 | 9 |
| Cost to import (US$ per container) | 680 | 960 | 375 | 2600 | 895 | 1900 | 2140 | 1348 |
| Time to import (days) | 18 | 20 | 32 | 77 | 20 | 35 | 38 | 20 |

*Enforcing Contracts*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Procedures (number) | 47 | 46 | 41 | 47 | 40 | 39 | 47 | 41 |
| Time (days) | 976 | 1420 | 1442 | 1642 | 1318 | 735 | 225 | 665 |
| Cost (% of Claim) | 23.80 | 39.60 | 63.30 | 25.0 | 22.80 | 26.80 | 0.10 | 16.50 |

*Closing a Business*

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Time to go through insolvency (Years) | 2.8 | 10.0 | 4.0 | 0 | 1.70 | 5.0 | 0 | 6.70 |
| Cost of insolvency (% of estate) | 4.0 | 9 | 8.0 | 0 | 5.0 | 9 | 0 | 4.0 |
| Recovery rate (cents on the dollar) | 39.2 | 10.4 | 23.2 | 0 | 43.4 | 24.5 | 0 | 18.2 |

*Covers the period June 2007 to June 2008*

*Source: Doing Business 2009 South Asia*

## Financial Position of Commercial Banks Registered in Pakistan

| | Date of Commencement of Business | As of June 2008 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Paid up Capital (Rs. Bn) | Reserves (Rs. Bn) | Assets (Rs. Bn) | Deposits (Rs. Bn) | Advances (Rs. Bn) | Profit After Tax (Rs. Bn) | Earning Per Share (Rs) | Branch Network (Nos) | Credit Rating | |
| | | | | | | | | | | Short Term | Long Term |
| Habib Bank | 25-08-1941 | 7.59 | 23.60 | 735.71 | 584.85 | 411.36 | 7.50 | 9.75 | 1400 | A-1+ | AA+ |
| Allied Bank | 31-12-1942 | 6.46 | 5.48 | 344.70 | 293.97 | 168.45 | 2.51 | 3.88 | 757 | A1+ | AA |
| MCB Bank | 09-07-1947 | 6.28 | 35.88 | 450.34 | 350.72 | 228.98 | 7.68 | 12.22 | 1038 | A1+ | AA+ |
| National Bank of Pakistan | 08-11-1949 | 8.97 | 18.54 | 788.12 | 621.53 | 173.42 | 8.10 | 9.03 | 1243 | A-1+ | AAA |
| United Bank | 24-07-1959 | 10.12 | 12.82 | 576.02 | 465.54 | 328.55 | 5.59 | 5.53 | 1100 | A-1+ | AA+ |
| First Women Bank | 21-11-1989 | 0.28 | 0.22 | 8.04 | 6.40 | 3.09 | 0.05 | 1.67 | 38 | A2 | BBB+ |
| Bank of Punjab | 30-07-1989 | 5.29 | 7.43 | 217.85 | 180.82 | 142.85 | -2.63 | -4.97 | 272 | A1+ | AA- |
| Soneri Bank | 28-09-1991 | 4.11 | 1.88 | 81.61 | 64.73 | 45.83 | 0.47 | 1.13 | 90 | A1+ | AA- |
| Askari Bank | 09-10-1991 | 4.06 | 7.59 | 194.21 | 153.32 | 114.04 | 0.05 | 1.01 | 155 | A1+ | AA |
| Bank Al-Habib | 15-10-1991 | 4.79 | 2.80 | 167.36 | 136.75 | 93.25 | 1.25 | 2.61 | 203 | A1+ | AA |
| Bank of Khyber | 17-09-1991 | 4.00 | 1.34 | 34.43 | 24.40 | 11.14 | 0.11 | 0.27 | 34 | A-2 | BBB+ |
| Bank Al-Falah | 21-06-1992 | 8.00 | 2.95 | 333.02 | 287.77 | 180.02 | 1.69 | 2.12 | 231 | A1+ | AA |
| Saudi Pak Commercial Bank | 05-04-1994 | 5.00 | 0.22 | 50.83 | 42.35 | 27.62 | -0.81 | -1.54 | 55 | A-3 | A- |
| Faysal Bank | 03-10-1994 | 5.30 | 3.57 | 137.31 | 99.61 | 87.61 | 0.75 | 1.41 | 111 | A-1+ | AA |
| KASB Bank | 13-10-1994 | 4.02 | 0.17 | 53.66 | 44.33 | 32.65 | 0.08 | 0.39 | 41 | A1+ | A |
| Meezan Bank | 31-01-2002 | 4.54 | 0.81 | 71.74 | 57.84 | 38.30 | 0.44 | 0.98 | 111 | A-1 | A+ |
| NIB Bank | 02-10-2003 | 28.44 | 8.46 | 177.98 | 112.12 | 85.43 | -0.73 | 0.23 | 240 | A1+ | AA- |
| Samba Bank* | 31-03-2004 | 8.77 | 0.04 | 18.47 | 10.22 | 5.70 | -0.13 | -0.15 | 28 | A-1 | A |
| Bank Islami Pakistan | 18-10-2004 | 4.28 | - | 16.58 | 11.35 | 5.39 | -0.01 | 0.024 | 36 | A2 | A- |
| mybank | 26-04-2005 | 4.24 | 0.41 | 45.47 | 31.96 | 23.03 | 0.43 | 1.02 | 69 | A1 | A |
| Dubai Islamic Bank Pakistan | 27-05-2005 | 5.13 | - | 27.31 | 22.09 | 16.53 | -0.16 | -0.30 | 18 | A-2 | A |
| Arif Habib Rupali Pakistan | 09-12-2005 | 4.50 | 1.86 | 25.30 | 15.54 | 16.44 | 0.21 | 0.47 | 13 | A-2 | A |
| Atlas Bank | 14-02-2006 | 5.01 | 0.52 | 30.70 | 22.18 | 17.50 | -0.20 | -0.39 | 31 | A2 | A- |
| Standard Chartered Pakistan | 19-05-2006 | 38.72 | 1.95 | 276.38 | 173.81 | 126.27 | 1.31 | 0.34 | 176 | A-1+ | AA+ |
| JS Bank | 15-03-2006 | 5.11 | 0.01 | 24.16 | 14.08 | 9.57 | 0.16 | -0.31 | 11 | A2 | A- |
| Habib Metropolitan Bank | 16-10-2006 | 6.02 | 6.70 | 192.45 | 128.97 | 101.22 | 1.57 | 2.60 | 100 | A1+ | AA+ |
| Emirates Global Islamic Bank | 13-02-2007 | 4.50 | - | 13.36 | 7.25 | 7.35 | -0.04 | -0.08 | 25 | A2 | A- |
| Dawood Islamic Bank | 10-04-2007 | 4.00 | 0.02 | 8.49 | 4.07 | 1.72 | 0.01 | 0.070 | 11 | A-2 | A- |
| RBS Bank** | 30-08-2007 | 13.47 | -6.38 | 117.59 | 89.48 | 70.93 | 0.08 | 0.06 | 79 | A1+ | AA |

* *The Crescent Bank now operates as a subsidiary of SAMBA Financial Group of Saudi Arabia, which acquired 68.42% shares of the bank and was renamed as Samba Bank Limited effective October 21, 2008*

** *Following amalgamation of ABN Amro Bank's Pakistan branches with the Royal Bank of Scotland (RBS) Limited in October 2007, the bank has been renamed as RBS Bank effective August 1, 2008.*

## Deposits By Types

| Deposit Type | 1998* | 1999* | 2000* | 2001* | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Public Sector Banks** | | | | | | | | | | |
| *Current Deposits* | | | | | | | | | | |
| Amount (Rs.Bn) | 163.32 | 161.03 | 148.23 | 249.77 | 104.41 | 186.79 | 113.36 | 120.65 | 139.61 | 184.60 |
| No. of Accounts (Mn) | 5.19 | 4.65 | 3.92 | 4.17 | 2.38 | 3.31 | 2.70 | 3.07 | 3.22 | 2.78 |
| *Savings Deposits* | | | | | | | | | | |
| Amount (Rs.Bn) | 390.40 | 432.18 | 537.07 | 563.60 | 337.20 | 398.39 | 261.73 | 267.20 | 284.08 | 316.90 |
| No. of Accounts (Mn) | 21.78 | 21.36 | 21.54 | 21.67 | 12.17 | 11.61 | 7.64 | 7.55 | 7.80 | 5.44 |
| *Fixed/Term Deposits* | | | | | | | | | | |
| Amount (Rs.Bn) | 257.75 | 261.71 | 255.95 | 234.21 | 130.14 | 87.12 | 66.58 | 90.47 | 165.63 | 192.46 |
| No. of Accounts (Mn) | 1.66 | 1.92 | 1.50 | 0.92 | 0.41 | 0.19 | 0.10 | 0.09 | 0.06 | 0.09 |
| **Sub Total** | | | | | | | | | | |
| Amount (Rs.Bn) | 856.93 | 916.07 | 1002.48 | 1102.20 | 591.64 | 693.93 | 458.15 | 489.14 | 571.05 | 708.50 |
| No. of Accounts (Mn) | 29.38 | 29.33 | 28.03 | 27.65 | 15.16 | 15.23 | 10.53 | 10.81 | 11.24 | 8.41 |
| **Domestic Private Banks** | | | | | | | | | | |
| *Current Deposits* | | | | | | | | | | |
| Amount (Rs.Bn) | --- | --- | --- | --- | 151.79 | 230.00 | 403.06 | 495.72 | 556.20 | 686.11 |
| No. of Accounts (Mn) | --- | --- | --- | --- | 2.42 | 2.61 | 3.27 | 3.66 | 4.28 | 5.00 |
| *Saving Deposits* | | | | | | | | | | |
| Amount (Rs.Bn) | --- | --- | --- | --- | 397.97 | 544.79 | 836.75 | 848.26 | 914.88 | 1135.78 |
| No. of Accounts (Mn) | --- | --- | --- | --- | 9.86 | 9.59 | 12.49 | 10.79 | 9.98 | 9.78 |
| *Fixed/Term Deposits* | | | | | | | | | | |
| Amount (Rs.Bn) | --- | --- | --- | --- | 148.72 | 140.40 | 221.62 | 480.17 | 688.83 | 833.91 |
| No. of Accounts (Mn) | --- | --- | --- | --- | 0.44 | 0.38 | 0.41 | 0.48 | 0.64 | 0.81 |
| **Sub Total** | | | | | | | | | | |
| Amount (Rs.Bn) | --- | --- | --- | --- | 725.51 | 953.82 | 1516.12 | 1878.41 | 2213.44 | 2713.00 |
| No. of Accounts (Mn) | --- | --- | --- | --- | 13.06 | 12.90 | 16.47 | 15.16 | 15.09 | 15.76 |
| **Foreign Banks** | | | | | | | | | | |
| *Current Deposits* | | | | | | | | | | |
| Amount (Rs.Bn) | 25.53 | 25.42 | 26.47 | 32.44 | 34.11 | 45.60 | 54.17 | 64.96 | 26.25 | 22.48 |
| No. of Accounts (Mn) | 0.10 | 0.10 | 0.11 | 0.13 | 0.15 | 0.16 | 0.17 | 0.23 | 0.19 | 0.13 |
| *Savings Deposits* | | | | | | | | | | |
| Amount (Rs.Bn) | 83.12 | 68.71 | 64.42 | 83.79 | 82.04 | 92.72 | 92.33 | 87.72 | 41.88 | 32.89 |
| No. of Accounts (Mn) | 0.24 | 0.23 | 0.23 | 0.23 | 0.21 | 0.22 | 0.20 | 0.18 | 0.06 | 0.05 |
| *Fixed/Term Deposits* | | | | | | | | | | |
| Amount (Rs.Bn) | 99.66 | 76.44 | 89.85 | 87.74 | 63.22 | 48.40 | 76.90 | 89.27 | 73.05 | 56.80 |
| No. of Accounts (Mn) | 0.05 | 0.04 | 0.04 | 0.03 | 0.03 | 0.02 | 0.02 | 0.02 | 0.01 | 0.01 |
| **Sub Total** | | | | | | | | | | |
| Amount (Rs.Bn) | 213.38 | 175.54 | 186.54 | 207.062 | 183.33 | 194.40 | 227.54 | 245.92 | 142.15 | 113.00 |
| No. of Accounts (Mn) | 0.40 | 0.38 | 0.38 | 0.40 | 0.39 | 0.40 | 0.39 | 0.43 | 0.27 | 0.19 |
| **All Banks** | | | | | | | | | | |
| *Current Deposits* | | | | | | | | | | |
| Amount (Rs.Bn) | 188.95 | 186.46 | 174.69 | 282.21 | 290.31 | 462.39 | 570.59 | 681.32 | 722.05 | 893.19 |
| No. of Accounts (Mn) | 5.92 | 4.75 | 4.03 | 4.29 | 4.94 | 6.08 | 6.14 | 6.96 | 7.69 | 7.90 |
| *Savings Deposits* | | | | | | | | | | |
| Amount (Rs.Bn) | 473.52 | 500.85 | 601.49 | 647.39 | 817.22 | 1035.90 | 1190.80 | 1203.18 | 1240.84 | 1485.58 |
| No. of Accounts (Mn) | 22.02 | 21.59 | 21.76 | 21.90 | 22.24 | 21.42 | 20.33 | 18.52 | 17.85 | 15.26 |
| *Fixed/Term Deposits* | | | | | | | | | | |
| Amount (Rs.Bn) | 357.40 | 338.15 | 345.80 | 321.95 | 342.08 | 275.92 | 365.11 | 659.91 | 897.51 | 1083.17 |
| No. of Accounts (Mn) | 1.71 | 1.95 | 1.54 | 0.96 | 0.88 | 0.59 | 0.53 | 0.60 | 0.72 | 0.91 |
| **Sub Total** | | | | | | | | | | |
| Amount (Rs.Bn) | 1070.31 | 1091.61 | 1189.01 | 1309.27 | 1500.47 | 1842.14 | 2201.81 | 2613.47 | 2926.65 | 3534.50 |
| No. of Accounts (Mn) | 29.77 | 29.71 | 28.41 | 28.04 | 28.61 | 28.53 | 27.38 | 26.41 | 26.60 | 24.36 |

* *Figures under Public Sector Banks from 1998 to 2001 indicate combined total for Pakistani commercial banks as Public Sector Banks and Domestic Private Banks. Breakup is available from 2002 onwards.*

*Source: Various issues of Statistics on Scheduled Banks in Pakistan, SBP*

## Type of Deposits & Rate of Return*

| Deposit Type | Unit | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Current Deposits | Rs. Bn | 188.85 (-12.0) | 186.46 (-1.27) | 174.69 (-6.31) | 282.21 (61.5) | 290.31 (2.9) | 462.39 (59.3) | 570.59 (23.4) | 681.32 (19.4) | 722.05 (6.0) | 893.19 (23.7) |
| No. of Accounts | Thousand | 5293 | 4750 | 4028 | 4291 | 4941 | 6076 | 6139 | 6960 | 7689 | 7904 |
| Deposit per Account | Rs.000 | 35.68 | 39.25 | 43.37 | 65.78 | 58.75 | 76.10 | 92.95 | 97.89 | 93.91 | 113.01 |
| Weighted Average Rate of Return | % per annum | - | - | - | - | - | - | - | - | - | - |
| Savings Deposits | Rs. Bn | 473.52 (16.9) | 500.85 (5.8) | 601.49 (20.1) | 647.39 (7.6) | 817.22 (26.2) | 1035.89 (26.8) | 1190.80 (15.0) | 1203.18 (1.04) | 1240.84 (3.13) | 1485.58 (19.7) |
| No. of Accounts | Thousand | 22021 | 21591 | 21763 | 21898 | 22243 | 21416 | 20327 | 18517 | 17845 | 15263 |
| Deposit per Account | Rs.000 | 21.50 | 23.20 | 27.64 | 29.56 | 36.74 | 48.37 | 58.58 | 64.98 | 69.54 | 97.33 |
| Weighted Average Rate of Return | % per annum | 7.36 | 6.25 | 5.56 | 4.55 | 3.48 | 1.33 | 0.93 | 1.66 | 1.92 | 2.07 |
| Fixed/Term Deposits | Rs. Bn | 357.40 (10.9) | 338.15 (8.6) | 345.80 (2.26) | 321.95 (-6.9) | 342.08 (6.25) | 275.92 (-19.3) | 365.11 (32.3) | 659.91 (80.7) | 897.51 (36.0) | 1083.17 (20.7) |
| No. of Accounts | Thousand | 1708 | 1950 | 1536 | 956 | 881 | 587 | 527 | 599 | 716 | 907 |
| Deposit per Account | Rs.000 | 209.29 | 173.41 | 225.10 | 336.64 | 388.44 | 469.89 | 692.67 | 1102.11 | 1253.15 | 1194.02 |
| Weighted Average Rate of Return | % per annum | 10.21 | 9.02 | 8.27 | 8.05 | 6.15 | 2.53 | 2.75 | 4.92 | 5.95 | 6.25 |
| a) 6 months & over but less than 12 months | Rs. Bn | 37.98 (-8.3) | 32.34 (-14.86) | 42.14 (30.28) | 31.35 (-25.6) | 39.22 (25.09) | 33.06 (-15.7) | 51.44 (55.6) | 103.46 (101.3) | 141.06 (36.3) | 178.09 (26.3) |
| No. of Accounts | Thousand | 160 | 170 | 137 | 97 | 75 | 44 | 34 | 69 | 89 | 63 |
| Deposit per Account | Rs.000 | 237.62 | 190.28 | 307.92 | 323.39 | 525.41 | 759.38 | 1530.86 | 1501.46 | 1580.95 | 2811.91 |
| Weighted Average Rate of Return | % per annum | 9.15 | 8.73 | 7.55 | 7.44 | 5.53 | 2.44 | 2.63 | 4.78 | 5.88 | 5.87 |
| b) 12 months & over but less than 2 years | Rs. Bn | 49.62 (-9.4) | 47.96 (-3.34) | 37.66 (-21.5) | 43.39 (15.2) | 50.09 (15.5) | 37.51 (-25.1) | 51.48 (37.2) | 98.28 (90.9) | 160.71 (63.5) | 233.36 (45.2) |
| No. of Accounts | Thousand | 202.46 | 235 | 166 | 107 | 89 | 80 | 57 | 80 | 110 | 311 |
| Deposit per Account | Rs.000 | 245.10 | 204.46 | 227.29 | 405.64 | 559.77 | 467.22 | 906.07 | 1232.22 | 1462.15 | 749.59 |
| Weighted Average Rate of Return | % per annum | 9.03 | 8.45 | 8.24 | 8.26 | 5.89 | 2.64 | 2.73 | 5.75 | 5.95 | 6.85 |
| c) 5 years & over | Rs. Bn | 78.22 (10.6) | 90.64 (15.88) | 86.31 (-4.8) | 84.35 (-2.3) | 91.65 (8.6) | 63.68 (-30.6) | 66.27 (0.9) | 64.77 (0.7) | 109.45 (68.9) | 90.92 (-17.0) |
| No. of Accounts | Thousand | 547 | 693 | 552 | 400 | 308 | 190 | 191 | 164 | 138 | 191 |
| Deposit per Account | Rs.000 | 143.02 | 130.78 | 156.38 | 210.68 | 297.48 | 334.37 | 336.30 | 395.16 | 792.13 | 474.99 |
| Weighted Average Rate of Return | % per annum | 13.80 | 11.21 | 10.03 | 9.43 | 7.66 | 3.43 | 3.57 | 4.96 | 6.01 | 7.16 |
| Total Deposits | Rs. Bn | 1070.31 (7.4) | 1091.61 (1.99) | 1189.01 (8.9) | 1309.27 (10.1) | 1500.47 (14.6) | 1842.14 (22.7) | 2201.81 (19.5) | 2613.47 (18.6) | 2926.65 (11.9) | 3534.50 (20.8) |
| No. of Accounts | Thousand | 29772 | 29711 | 28409 | 28044 | 28607 | 28525 | 27383 | 26406 | 26596 | 24355 |
| Deposit per Account | Rs.000 | 35.95 | 36.74 | 41.85 | 46.69 | 52.45 | 64.58 | 80.41 | 98.97 | 110.04 | 145.13 |
| Weighted Average Rate of Return | % per annum | 6.69 | 5.83 | 5.39 | 4.33 | 3.35 | 1.13 | 0.95 | 1.86 | 2.53 | 2.66 |

*Figures in bracket are annual % change*
** WA (Weighted average)*

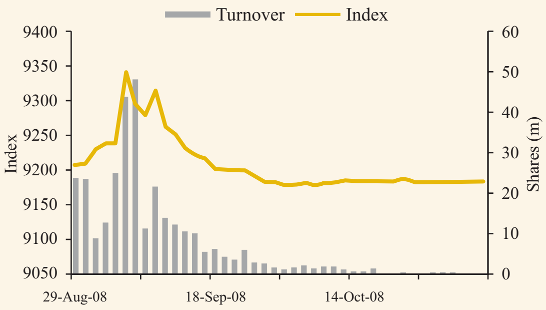
*Source: Various issues of Statistics of Scheduled Banks in Pakistan, SBP*

# Market Analysis

*Market Review*

The market remained dull and lackluster since August 27 due to the flooring of stock prices, as it has caused volumes to shrink dramatically making it hard for most investors to exit. This has limited the investor reaction to such significant events such as the meltdown of the financial sector in the USA and UK, bombing of the Marriott hotel in Islamabad on September 20 and recent quarterly financial results. The KSE-100 Index during the two-month period of September and October 2008 shed 25 points to close at 9,182 on October 31, 2008. The average daily turnover during the period under review was only 7.05m shares traded.

KSE-100 Index (September-October 2008)




There was no trading activity in the first week of the month due to the Eid-ul-Fitr holidays. However, domestic economic and security issues dominated the news flow as well as the global financial meltdown witnessed in the western countries such as the USA and Europe. There was a vigorous debate among the stakeholders regarding the continuation of the floor in the KSE. The broker community was in favor of continuing the floor while non-broker stakeholders including the newly appointed Advisor to the Prime Minister on Finance, Mr. Shaukat Tarin were not. In the end, it was decided that the floor on the exchange would be lifted from October 27, which led to further inactivity in the bourses as participants took a wait-and-see approach. On October 22, the government decided to establish a support fund of PKR 20bn that would be utilized to prop up 7 stocks of state-owned companies (OGDC, PPL, PSO, SNGPL, SSGC, Kapco and NBP). In addition, the government has given PKR 30bn guarantee to foreign investors, who would avail put options on the 7 state-owned entities. NIT would manage both mechanisms. However, a few days before the floor was scheduled to be lifted, the KSE Board of Directors decided not to due to concerns expressed by the brokers regarding the mechanics of the put option and finalization of government funds of PKR 20bn.

Continuation of the floor at KSE

Support fund set up

The developments on the domestic economic front have been negative during the month under review. On October 6, the Standard & Poor's Rating Service downgrade Pakistan's long-term foreign currency sovereign credit rating from 'B' to 'CCC+.' During 1QFY09 (July to September 2008), the banking system was experiencing an acute liquidity crunch due to the deteriorating economic conditions and rumors circulating among the public regarding the default of specific banks leading to a mad dash to withdraw cash.

Economic woes continue

It was reported in one of the major newspapers that PKR161bn has been withdrawn from the banking system during 1QFY09 and converted into US Dollar leading to allege capital flight from the country. In order to alleviate some of the liquidity pressure, the SBP on October 8 decided to slash the cash reserve requirement (CRR) on deposits up to 1 year by 200bps in two phases, 100bps on October 11 and another 100bps on November 11, which would free up around PKR 60bn in liquidity for the banks. On October 17, the central bank further cut the CRR by 200bps and exempted the time deposits of 1 year and above from Statutory Liquidity Requirement (SLR) with immediate effect. The total boost in liquidity to the banking system from all these measures would be roughly PKR 240bn.

SBP takes measures

The main economic threats continue to be rising inflation and the widening balance of payments deficit. During 1QFY09, the CPI inflation war recorded at 24.52% as compared to 7.07% for the same period last year on the back of higher commodity prices. However, the core inflation (as measured by non-food and non-energy core inflation) remains on the high side at 17.8% during September 2008 as against 6.1% during the corresponding period last year. This indicates that the tight monetary policy would remain unchanged, but there might not be a further hike in the policy rate because of the current liquidity crunch in the banking system.

The balance of payments situation remains precarious during 1QFY09 as the current account deficit surged by 74% YoY to US$ 3.95bn because of slow foreign inflows and rising imports. The trade deficit during the quarter was US$ 5.55bn, a jump of 53% from 1QFY08. The overall balance of payments deficit comes to US$ 3.33bn as against a deficit of US$ 129m during 1QFY08. One of the few positive developments in the external accounts has been the reported increase in workers' remittances of 25% YoY to US$ 1.88bn during 1QFY09. The widening external account deficit has led to a deterioration in the overall forex reserves, which has dropped below US$ 7bn from around US$ 11bn at the end of June 2008. This quick depletion in forex reserves has become an emergency case for the government.

The GoP formed the 'Friends of Pakistan' group last month while President Zardari was visiting the United Nations in New York. It was hoped that some relief in terms of cash or procurement of oil on deferred payment basis might be offered. This group is expected to meet on November 17 in the UAE, but there might not be any assistance given in hard cash if the recent statements of US Assistant Secretary of State for South Asia are to be believed. Also, President Zardari's recent visit to China did not produce any aid in terms of hard cash, but assistance in the form of investment. It appears that Pakistan is being forced to approach the IMF and informal discussions have begun in Dubai to seek a bailout package of around US$ 8-10bn for balance of payment support and to stabilize the economy. Recent news reports indicate that there is an informal understanding between the IMF and Pakistan teams on a US$9.6bn Standby Arrangement (SBA) facility for a 2-year period.

### Regional Valuation

The Pakistan market PE at 6.62x is trading at a 25% discount to the regional average of 8.78x. The regional average has dropped slightly from last month when it was 9.25x. Based on both PEx and PEG, Indonesia is the most attractive market in the region. Our estimate for sustainable market PEx is around 6.07x, which suggests that the market could slump further and thus, leading to a NEGATIVE stance for the immediate term.

Regional Valuation Comparison

| Country | 2009F PEx | 2009F EPS Growth (%) | 2009F PE/Growth |
|---|---|---|---|
| China | 9.80 | 16.96 | 0.58 |
| Hong Kong | 8.80 | 12.66 | 0.70 |
| India | 8.67 | 22.11 | 0.39 |
| Indonesia | 6.65 | 35.43 | 0.19 |
| Malaysia | 9.75 | 6.37 | 1.53 |
| **Pakistan** | **6.62** | **19.56** | **0.34** |
| Philippines | 9.66 | 13.34 | 0.72 |
| Singapore | 8.45 | 10.26 | 0.82 |
| South Korea | 9.00 | 16.06 | 0.56 |
| Taiwan | 10.52 | 11.22 | 0.94 |
| Thailand | 6.47 | 5.65 | 1.15 |

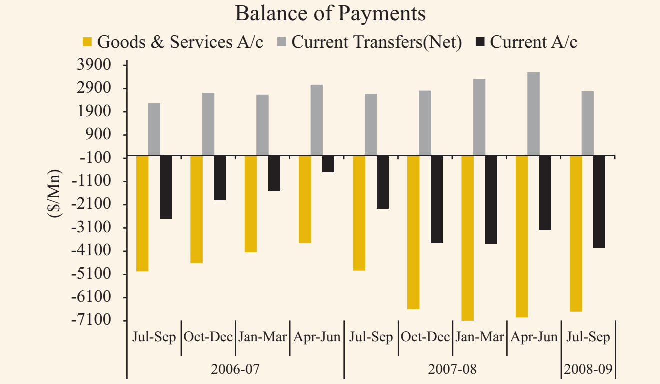
*Source: Thomson One Analytics, Date: October 28, 2008*

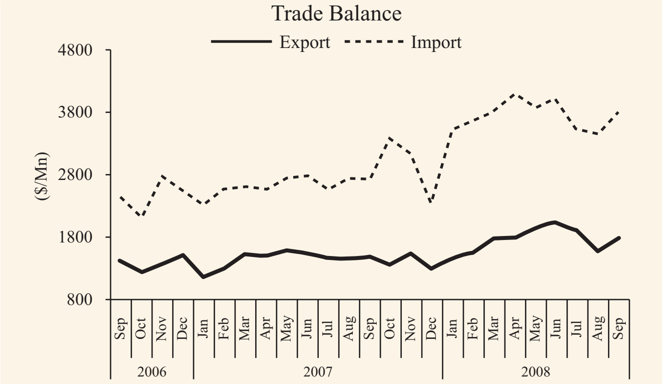
### Looking Ahead

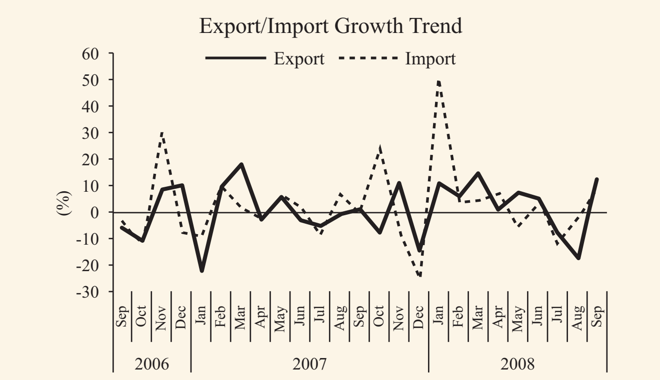
The two main events to watch out for during November would be the approval of the IMF assistance and the lifting of the floor at the KSE. However, the IMF package will only give some respite to the economic managers, but it is important that an economic plan is developed to stabilize and revitalize the country for the long run in order to boost investor confidence.

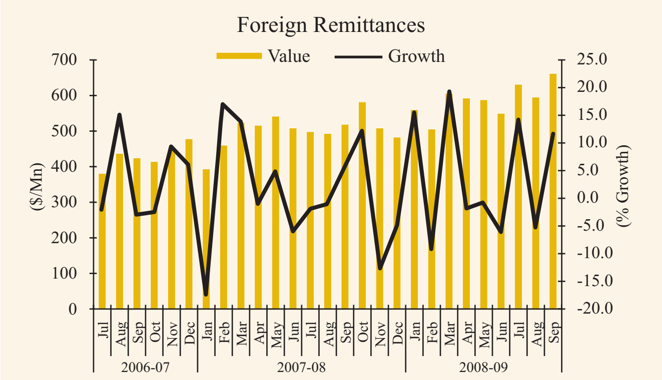
*(Contributed by Taurus Securities Ltd, a subsidiary of National Bank of Pakistan)*

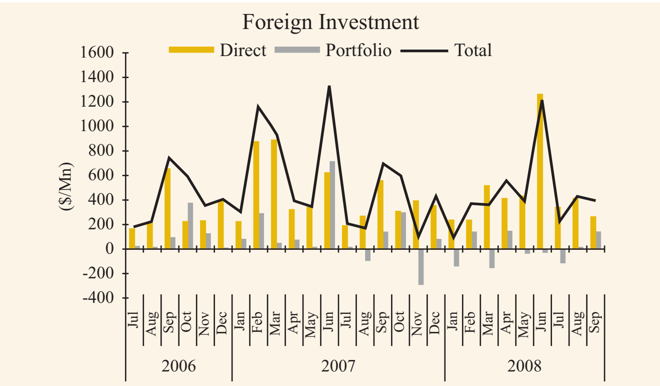
# Pakistan's External Sector, Debts and Interest Rate

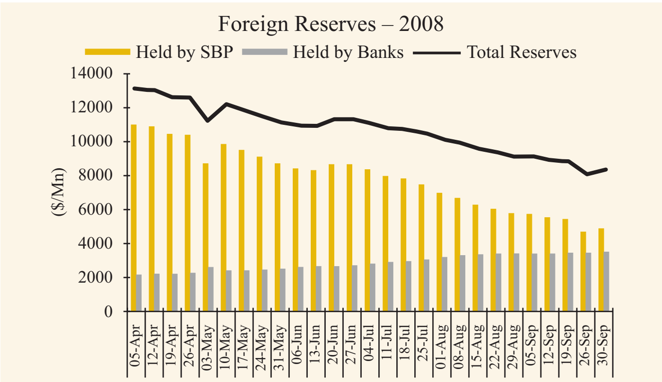


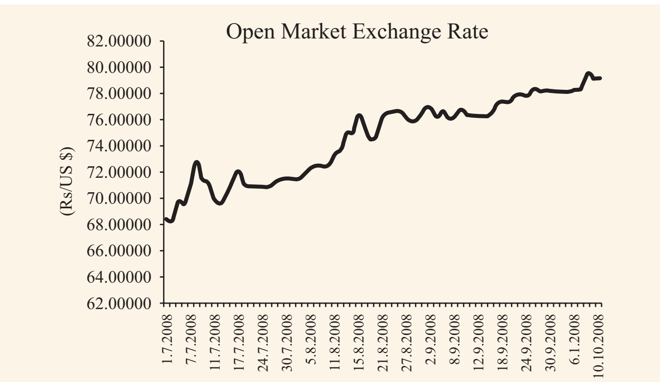



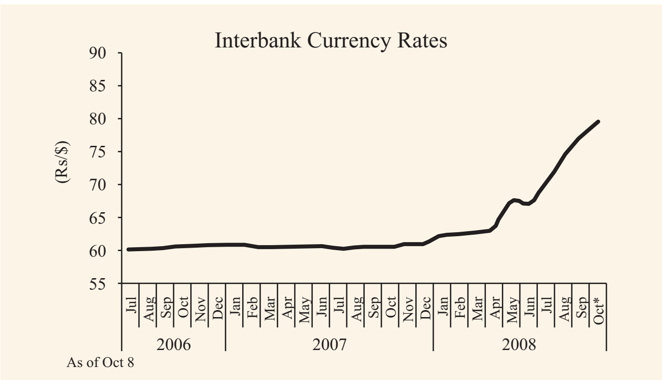



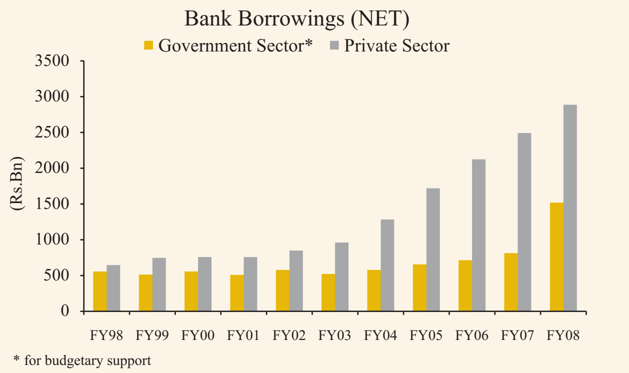



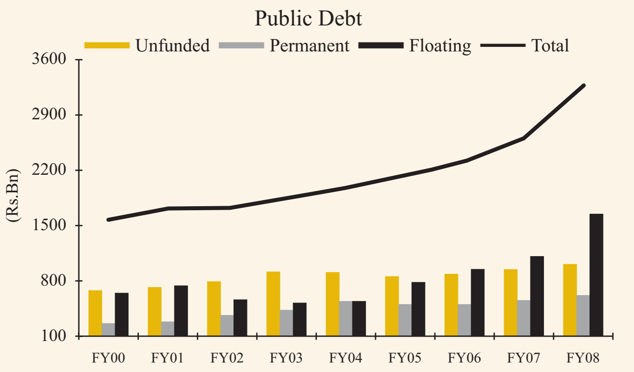



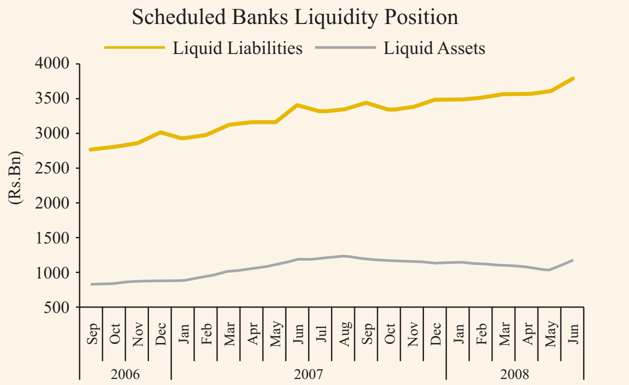



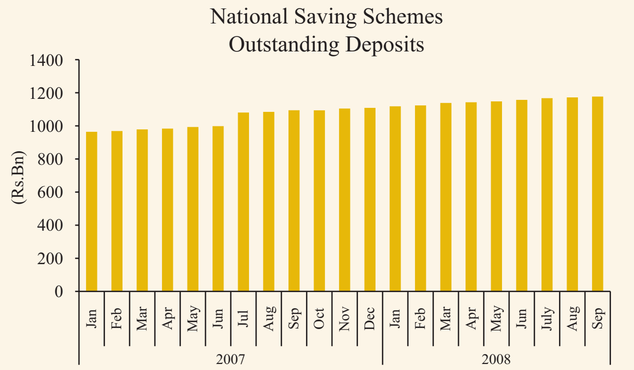



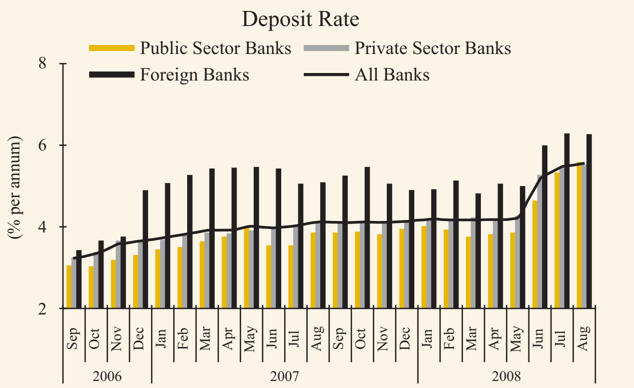



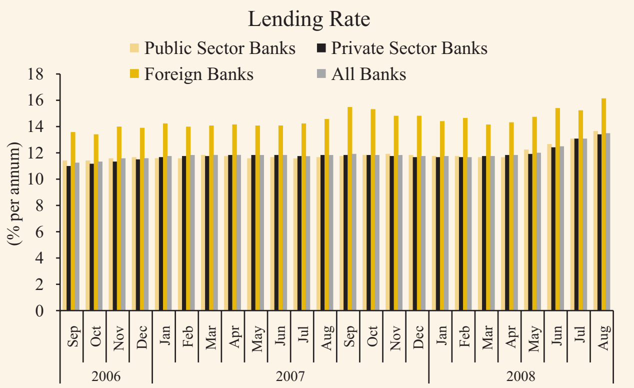

Bank Borrowings (NET)
Government Sector*
Private Sector
(Rs.Bn)
3500
3000
2500
2000
1500
1000
500
0
FY98 FY99 FY00 FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08
* for budgetary support

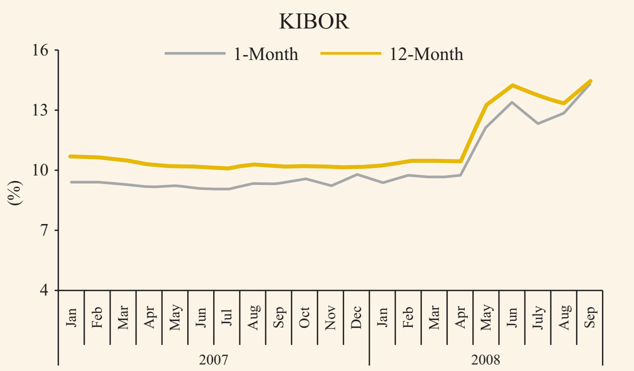

Public Debt
Unfunded
Permanent
Floating
Total
(Rs.Bn)
3600
2900
2200
1500
800
100
FY00 FY01 FY02 FY03 FY04 FY05 FY06 FY07 FY08

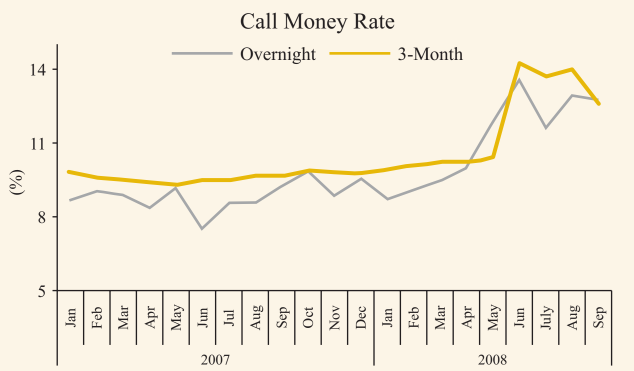

Scheduled Banks Liquidity Position
Liquid Liabilities
Liquid Assets
(Rs.Bn)
4000
3500
3000
2500
2000
1500
1000
500
Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun
2006
2007
2008


National Saving Schemes
Outstanding Deposits
(Rs.Bn)
1400
1200
1000
800
600
400
200
0
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun July Aug Sep
2007
2008


Deposit Rate
Public Sector Banks
Private Sector Banks
Foreign Banks
All Banks
(% per annum)
8
6
4
2
Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug
2006
2007
2008


Lending Rate
Public Sector Banks
Private Sector Banks
Foreign Banks
All Banks
(% per annum)
18
16
14
12
10
8
6
4
2
0
Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug
2006
2007
2008


KIBOR
1-Month
12-Month
(%)
16
13
10
7
4
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun July Aug Sep
2007
2008


Call Money Rate
Overnight
3-Month
(%)
14
11
8
5
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun July Aug Sep
2007
2008

# Pakistan Economy – Key Economic Indicators

| Key Indicators | Unit | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|---|---|---|---|---|---|---|---|---|
| **Output and Prices** | | | | | | | | | |
| GNP Size | $ bn | 65.5 | 74.5 | 87.1 | 99.6 | 111.1 | 129.1 | 146.6 | 171.3 |
| GDP Size | $ bn | 66.4 | 74.1 | 84.5 | 97.4 | 108.9 | 126.6 | 143.9 | 167.5 |
| Income Per Capita | $ | 507 | 509 | 586 | 669 | 733 | 836 | 926 | 1064 |
| Real Growth | (%) | | | | | | | | |
| GNP | | 2.0 | 5.1 | 7.5 | 6.4 | 8.7 | 5.6 | 6.7 | 6.1 |
| GDP | | 2.0 | 3.1 | 4.7 | 7.5 | 9.0 | 5.8 | 6.8 | 5.8 |
| Agriculture | | -2.2 | 0.1 | 4.1 | 2.4 | 6.5 | 6.3 | 3.7 | 1.5 |
| Manufacturing | | 9.3 | 4.5 | 6.9 | 14.0 | 15.5 | 8.7 | 8.2 | 5.4 |
| Services Sector | | 3.1 | 4.8 | 5.2 | 5.8 | 8.5 | 6.5 | 7.6 | 8.2 |
| Prices | | | | | | | | | |
| Consumer Price Inflation | (%) | 4.4 | 3.5 | 3.1 | 4.6 | 9.3 | 7.9 | 7.8 | 12.0 |
| Wholesale Price Inflation | (%) | 6.2 | 2.1 | 5.6 | 7.9 | 6.8 | 10.1 | 6.9 | 16.4 |
| Food Inflation | (%) | 3.6 | 2.4 | 2.9 | 6.0 | 12.5 | 6.9 | 10.3 | 17.6 |
| Non Food Inflation | (%) | 5.1 | 4.3 | 3.2 | 3.6 | 7.1 | 8.6 | 6.0 | 7.9 |
| Core Inflation | (%) | 4.2 | 2.0 | 2.1 | 3.9 | 8.8 | 7.0 | 6.9 | 10.2 |
| Gold Tezabi | $/10 grams | 84.6 | 97.6 | 110.5 | 126.6 | 137.6 | 171.4 | 208.2 | 266.9 |
| Motor Gasoline Premium | Rs/Ltr | 30.0 | 31.73 | 32.95 | 33.79 | 40.58 | 54.98 | 56.03 | 86.74 |
| Kerosene oil | Rs/Ltr | 17.81 | 21.02 | 18.63 | 21.76 | 25.92 | 32.55 | 35.23 | 58.45 |
| Light Speed Diesel | Rs/Ltr | 9.51 | 14.25 | 13.89 | 18.66 | 23.27 | 30.57 | 32.57 | 56.58 |
| GDP Deflator | % | 8.02 | 2.49 | 4.42 | 7.74 | 7.02 | 10.49 | 7.98 | 13.41 |
| **Savings and Investment** | | | | | | | | | |
| National Savings | % GDP | 16.5 | 18.6 | 20.8 | 17.9 | 17.5 | 18.2 | 17.8 | 13.9 |
| Domestic Savings | % GDP | 17.8 | 18.1 | 17.6 | 15.7 | 15.4 | 16.3 | 16.0 | 11.7 |
| Gross Capital Formation | % GDP | 15.8 | 15.5 | 15.3 | 15.0 | 17.5 | 20.5 | 21.3 | 20.0 |
| Public | % Gross Capital | 5.7 | 4.2 | 4.0 | 4.0 | 4.3 | 4.8 | 5.7 | 5.7 |
| Private | | 10.2 | 11.3 | 11.3 | 10.9 | 13.1 | 15.7 | 15.6 | 14.2 |
| **Public Finance** | | | | | | | | | |
| Revenue Receipts | % GDP | 13.1 | 14.0 | 14.8 | 14.1 | 13.8 | 14.1 | 14.9 | 14.7 |
| Tax Revenue | % GDP | 10.5 | 10.7 | 11.4 | 10.8 | 10.1 | 10.5 | 10.2 | 10.1 |
| Total Expenditure | % GDP | 17.4 | 18.3 | 18.5 | 16.9 | 17.2 | 18.4 | 20.6 | 21.7 |
| Fiscal Deficit | % GDP | 4.3 | 4.3 | 3.7 | 2.3 | 3.3 | 4.3 | 4.3 | 7.4 |
| Domestic Debt | Rs.bn | 1731 | 1718 | 1854 | 1979 | 2133 | 2322 | 2601 | 3257 |
| Funded | % Domestic Debt | 58.9 | 53.9 | 51.0 | 54.6 | 60.0 | 62.0 | 63.9 | 69.0 |
| Non Funded | % Domestic Debt | 41.1 | 46.1 | 49.0 | 45.4 | 40.0 | 38.0 | 36.1 | 31.0 |
| FBR Tax Collection | Rs.bn | 392 | 404 | 461 | 521 | 590 | 713 | 847 | 1001 |
| Direct Taxes | % share | 31.9 | 34.9 | 33.0 | 31.7 | 31.0 | 31.6 | 39.4 | 38.3 |
| Indirect Taxes | % share | 68.1 | 65.1 | 67.0 | 68.3 | 69.0 | 68.4 | 60.6 | 61.7 |
| **Monetary Sector** | | | | | | | | | |
| Net Domestic Assets (NDA)* | Rs.bn | 53.4 | 29.2 | 17.7 | 363.5 | 421.4 | 372.9 | 383.7 | 940.4 |
| Net Foreign Assets (NFA)* | Rs.bn | 72.7 | 206.2 | 308.9 | 43.5 | 53.7 | 73.4 | 274.6 | -316.4 |

| Key Indicators | Unit | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 |
|---|---|---|---|---|---|---|---|---|---|
| Credit to Private Sector | Rs.bn | 48.7 | 37.2 | 145.8 | 325.2 | 437.8 | 401.8 | 365.7 | 408.4 |
| Net Credit to Government | Rs.bn | -46.7 | 22.2 | -69.2 | 57.3 | 91.1 | 86.9 | 92.8 | 583.8 |
| Borrowings for Budgetary Support | Rs.bn | -32.3 | 14.3 | -46.8 | 62.9 | 67.2 | 67.1 | 102.0 | 554.6 |
| Broad Money (M2) | growth % | 8.9 | 15.4 | 18.0 | 19.6 | 19.3 | 15.2 | 19.3 | 15.4 |
| Reserve Money (Mo) | growth % | 7.1 | 9.6 | 14.5 | 15.4 | 17.6 | 10.2 | 20.9 | 21.6 |
| **Capital Market** | | | | | | | | | |
| SBP General Index | 2000-01=100 | 91.5 | 106.7 | 204.1 | 312.7 | 360.0 | 427.0 | 547.5 | 554.9 |
| KSE 100 Index | 1991=1000 | 1336 | 1770 | 3402 | 5281 | 7524 | 9989 | 13772 | 12289 |
| Market Capitalisation | $ bn | 5.3 | 6.8 | 12.9 | 23.4 | 33.7 | 45.9 | 65.7 | 74.6 |
| National Saving Scheme | $ bn | 12.0 | 14.1 | 17.0 | 17.0 | 15.7 | 15.5 | 16.5 | 17.4 |
| **Banking Sector** | | | | | | | | | |
| Scheduled Banks Deposits | $ bn | 20.1 | 23.6 | 29.1 | 34.6 | 40.7 | 46.8 | 55.7 | 60.1 |
| Scheduled Banks Advances | $ bn | 13.6 | 14.7 | 16.8 | 21.5 | 28.4 | 34.4 | 39.2 | 47.6 |
| Scheduled Banks Assets | $ bn | 31.3 | 38.3 | 44.0 | 51.9 | 60.7 | 61.0 | 77.6 | 80.7 |
| Lending and Deposit Rates | weighted average | | | | | | | | |
| Deposits Outstanding | % p.a | 4.96 | 4.17 | 1.90 | 1.61 | 2.55 | 4.01 | 5.30 | 6.94 |
| Advances Outstanding | % p.a | 13.4 | 12.0 | 7.6 | 7.2 | 9.0 | 10.9 | 11.8 | 12.42 |
| **Open Market Operation** | weighted average | | | | | | | | |
| SBP 3-Day Repo | % p.a | 14.0 | 9.0 | 7.5 | 7.5 | 9.0 | 9.0 | 9.5 | 12.0 |
| Treasury Bills Yield - 6 Months | % p.a | 12.9 | 6.3 | 1.7 | 2.1 | 8.0 | 8.5 | 8.9 | 10.85 |
| KIBOR - 6 Months | % p.a | - | 6.2 | 2.2 | 2.7 | 8.5 | 9.4 | 9.8 | 13.94 |
| Pakistan Investment Bonds - 5 yrs | % p.a | 12.99 | 9.39 | 4.16 | 5.27 | 7.50 | 9.65 | 9.53 | 9.3 |
| Overnight Call Money Rate | % | 8.96 | 6.74 | 4.23 | 1.86 | 4.34 | 8.46 | 9.37 | 13.51 |
| SBP Export Finance Rate | % | 9.00 | 6.50 | 2.00 | 1.50 | 6.50 | 7.50 | 6.50 | 6.50 |
| **External Sector** | | | | | | | | | |
| Exports | $ bn | 8.93 | 9.14 | 10.89 | 12.40 | 14.40 | 16.55 | 17.28 | 20.12 |
| Imports | $ bn | 10.20 | 9.43 | 11.33 | 13.60 | 18.77 | 24.99 | 26.99 | 35.42 |
| Trade Balance | $ bn | -1.27 | -0.29 | -0.44 | -1.20 | -4.37 | -8.44 | -9.71 | -15.70 |
| Current Account | $ bn | -1.95 | 0.09 | 3.16 | 1.31 | -1.75 | -5.67 | -7.40 | -14.46 |
| | % GDP | -2.9 | 0.1 | 3.7 | 1.3 | -1.6 | -4.5 | -5.1 | -8.6 |
| Worker Remittances | $ bn | 1087 | 2389 | 4237 | 3872 | 4169 | 4600 | 5494 | 6451 |
| Foreign Private Investment | $ mn | 182 | 475 | 816 | 922 | 1677 | 3872 | 6960 | 5172 |
| Direct | | 322 | 485 | 798 | 950 | 1524 | 3521 | 5140 | 5153 |
| Portfolio | | -140 | -10 | 18 | -28 | 153 | 351 | 1820 | 19 |
| External Debt and Liabilities | $ bn | 37.2 | 36.5 | 35.4 | 35.3 | 35.8 | 37.6 | 40.5 | 46.3 |
| | % GDP | 52.1 | 51.0 | 43.0 | 36.1 | 32.7 | 29.5 | 28.1 | 27.6 |
| Debt Servicing | $ mn | 1546 | 1190 | 1327 | 2978 | 1461 | 1572 | 1612 | 1414 |
| Gold & Forex Reserves | $ bn | 3810 | 7065 | 11472 | 13155 | 13338 | 14590 | 17924 | 11828 |
| Gold | | 566 | 667 | 725 | 831 | 917 | 1288 | 1366 | 1931 |
| Cash | | 3244 | 6398 | 10747 | 12324 | 12421 | 13302 | 16558 | 9897 |
| Crude Oil Spot Prices (Brent) | $/barrel | 26.1 | 25.5 | 28.2 | 33.0 | 55.4 | 73.3 | 71.9 | 141.0 |
| Exchange Rate (Average) | Rs/US$ | 63.4 | 60.1 | 57.7 | 57.9 | 59.7 | 60.2 | 60.6 | 62.5 |

** Yearly Flows*