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NBP Performance at a Glance

Editor's Corner

Dear Readers,

Amidst the global financial mayhem that has afflicted the international financial markets, and caused the collapse, bankruptcy or takeover of many firmly established financial institutions such as Lehman Brothers and Merrill Lynch, where world growth prospects have shrunk, where economic downturn started in the richer nations of the west has spilled over developing countries through a pull back in investment, trade and credit, where billions of dollars have been pumped by western governments into their troubled banks to prevent a complete financial meltdown and where millions of people have been pushed into poverty through job and wage cuts, there is a silver lining — the Islamic banking system which has shown resilience in the face of all this.

In the face of the financial crisis, the Islamic financial institutions have shown great flexibility and have largely escaped the fallout. The credit crunch and downturn in the global economy in 2008 did influence the Islamic finance industry, with a drop in Sukuk issuance and a fall in the value of equity funds. Islamic banks, however, have been less affected than many conventional banks because the rules governing them are totally different.

There are certain inherent factors within Islamic banking because of which they have been less affected by the international financial crisis. For one, they are not exposed to the same activities as the conventional banks; transactions by Islamic banks are backed by real assets, use of financial instruments such as derivatives is banned, selling of debt unlike most conventional European and US banks does not take place, banks do not embark upon projects which entail risk, banks' working are overseen by the Shariah Board, as well as the usual regulatory authorities, risk is shared among participants, there are limitations on sale of financial assets and their use as collateral and there is prohibition of finance for activities deemed incompatible with Shariah Law.

Dr. Umer Chapra, a senior research advisor at the Islamic Development Bank, in one of his papers '*The global financial crisis: can Islamic finance help*', says, the Islamic financial system is capable of minimising the severity and frequency of financial crisis by getting rid of the major weaknesses of the conventional system. It introduces greater discipline into the financial system by requiring the financier to share in the risk. It links credit expansion to the growth of the real economy by allowing credit primarily for the purchase of real goods and services which the seller owns and possesses, and the buyer wishes to take delivery. It also requires the creditor to bear the risk of default by prohibiting the sale of debt, thereby ensuring that he evaluates the risk more carefully.

During the last few years, the market for Islamic financial services has grown, and is estimated to have reached between $750 billion to $1 trillion by the end of 2008. There are five fully Shariah compliant banks, around 18 conventional banks that have set up windows, to provide Islamic financial services. Islamic commercial banks account for about 74 percent of the assets, investment banks 12 percent, Sukuk 11 percent, with Takaful and Funds making up for the remainder.

Islamic financial practices have been appreciated in recent months following the global financial crisis and even western governments are now thinking on these lines. The French Finance Minister reportedly stated at a forum that western financiers could learn a thing or two from the Islamic world, and that they would be making adjustments to the country's regulatory and legal framework to enable Paris to become a major market place in Islamic finance. Bloomberg Agency's report revealed that the Vatican had stated that 'Western banks should carefully examine Islamic financial regulations in order to restore confidence amongst their clients at a time of international economic crisis.'

Ayesha Mahmood

Pakistan's Sluggish Large Scale Manufacturing Sector

LSM growth declines

There are indications that Pakistan's large scale manufacturing (LSM) sector is in decline compared with the previous financial year. Data for the first seven months of FY2008-09 (July-January) show growth of LSM is down by 5.4 percent against a reasonable growth of 5.6 percent in the same period of previous fiscal year. Energy shortages, law and order situation, rising cost of utilities high cost of raw materials, surge in inflation, capacity and input constraints caused by higher import prices from the large depreciation of the rupee has lowered industrial performance. This decline is broad based, with six major sub-sectors, having 72 percent weight registering a fall in output. These include the sub-sectors of textiles, food, petroleum, automobiles, electronics and metal industries. Growth performance of pharmaceuticals, chemicals and engineering items was much below the preceding year's growth. Output of fertilizer, wood products has been relatively better over the comparable period a year ago.

Food items show fall

Among food items, vegetable ghee, sugar, cooking oil and beverages have shown substantial declines. The inability of vegetable ghee and oil industry in the formal sector to adjust prices in competition with the informal players of the industry and resulting substitution and income effects on consumers resulted in substantial decline in production says the State Bank first quarterly report on the economy for 2008-09. With a fall in the 2008-09 sugarcane crop, as both area sown and yield declined, sugar output fell by 18.3 percent. Further as sugar mills reduced the price offered to the growers, it resulted in the farmers shifting to more profitable crops.

Metals & electronics register declines

Another sub-sector which showed decline in production is metal. High international prices, coupled with a slowdown in construction activity were some of the contributory factors for lower output. Electronics registered a fall, as a rise in the rate of interest on consumer financing adversely affected the demand for consumer credit. Consumer financing for consumer durables has fallen from Rs3.2 billion as at end December 2004 to Rs1.6 billion by end June 2008.

Production of Selected Large Scale Manufacturing Items

	Percentage Change	
	FY08	FY09
	(July-January)	
Textiles	2.4	(-)0.4
Food	13.6	(-)8.2
Petroleum products	7.8	(-)8.1
Pharmaceuticals	33.0	0.5
Chemicals	3.9	0.8
Non-metallic minerals	14.6	3.9
Leather products	2.9	1.8
Paper & board	(-)5.6	0.6
Tyres & tubes	6.2	14.8
Wood products	27.4	42.8
Automobiles	2.7	(-)36.4
Metal industries	(-)0.5	(-)6.7
Fertilizers	(-)10.7	22.7
Electronics	(-)9.5	(-)15.7
Engineering items	22.1	3.5

Sources: State Bank of Pakistan

Auto-mobile industry

Pakistan's automobile industry is going through a difficult phase. Sales volume of light commercial vehicles has dropped by over 24 percent in 2008 against preceding year's sales. The industry sold 152 thousand units against 201 thousand units a year earlier.

The Pakistan Automotives Report 2008 says this could prove problematic as the government aims to increase local output of vehicles to 500,000 units by 2011 under the Automotive Industry Development Plan. The focus is to make the local auto industry more competitive, creating capacity for local design and innovation domestic competition and auto-cluster development.

As car production volume has halved over the past year or so, largely as a result of rising raw material costs and interest rates, multiplicity of taxes, exchange rate pressures, restricted financing by banks and leasing companies and economic recession, the Pakistan Association of Automotive Parts and Accessories Manufacturers have approached the government for help. Rising cost in turn is taking its toll on parts suppliers. With support from the government, the Association says that the rate of annual car output can be maintained at around 165,000 units, by utilising 50-60 percent of installed capacity.

Auto sector contributes to economy

The auto sector, comprising of 40 assemblers manufacturing cars, light commercial vehicles, buses, trucks and tractors has in recent years enjoyed unprecedented production and sales. It contributes between 2.5–2.8 percent to GDP, directly employs about 0.2 million workers and has attracted over $100 million of foreign private investment. It has saved substantial foreign exchange on imports and remains second largest tax payer in terms of its contribution to customs duty, sales tax and withholding tax.

AIDP

The government early last year initiated the Auto Industry Development Programme (covers the next five years) with the objective to take the auto sector forward, develop technologies and components, mainly the high value added components, achieve high standards of safety, quality, achieve low cost production to compete internationally.

The auto industry has adopted the Tariff System after elimination of the Deletion Programme w.e.f. July 1, 2006. Pre-announced tariffs are given to facilitate investment. The government is focusing on facilitating the industry through development of infrastructure, technology acquisition, cluster development, investment in productive assets.

The need for a development programme for the auto industry was realized at the time of elimination of local content conditions, and entering the development phase.

Projections

	2005-06	2011-12
Cars (000 Nos)	161	500
Motor Cycles (Mn Nos)	0.75	1.7
Investment (Rs bn)	98	225
Contribution to GDP (%)	2.8	5.6
Contribution to Manufacturing (%)	16	25
Contribution to		
Indirect Taxes (Rs bn)	63	190
Gross Sales Turnover (Rs bn)	214	600
Direct Employment (000 Nos)	192	250
Exports ($ mn)	35	650

Source: Auto Industry Development Programme

Auto industry suffers

The growth of the auto sector received a setback a year back, as interest rates rose and subsequently the lease installment jumped having a direct impact on the consumers whose purchasing powers have decreased. Alongwith withholding taxes and 5 percent federal excise duty, it contributed to reduced sales. The recent slump has also hit the vending industry. Both the automobile manufacturers and auto parts vendors are of the opinion that the revenues from automobile sector could decline by 25 percent this year.

Production and Sale of Vehicles

		2008						2009
		Jul	Aug	Sep	Oct	Nov	Dec	Jan
Passenger Cars 1300 cc & above	Production	1942	1797	2909	4190	3787	2055	3310
	Sale	1382	1517	2514	4357	3630	1561	3602
1000 cc	Production	2111	2731	1686	2526	922	917	419
	Sale	1105	2144	2495	2740	832	365	1476
800 cc & below 1000 cc	Production	4654	3642	2502	3618	2179	1562	1293
	Sale	3182	3986	3629	3782	1988	763	1836
Total Cars	**Production**	**8707**	**8170**	**7097**	**10334**	**6888**	**4534**	**5022**
	Sale	**5669**	**7647**	**8638**	**10879**	**6450**	**2689**	**6914**
Trucks	Production	492	243	258	206	155	205	140
	Sale	347	287	199	162	187	210	271
Buses	Production	108	60	30	54	30	12	24
	Sale	52	66	44	43	65	23	55
Total Trucks & Buses	**Production**	**600**	**303**	**288**	**260**	**185**	**217**	**164**
	Sale	**399**	**353**	**243**	**205**	**252**	**233**	**326**
Jeeps (4x4)	Production	182	119	137	92	66	5	8
	Sale	211	125	157	50	38	-	80
Pick-Ups	Production	1909	2174	1898	2020	1908	1432	867
	Sale	1538	1932	1242	2411	2188	1190	573
Tractors	Production	3881	4033	4302	3799	5209	5490	4831
	Sale	3525	4607	4171	3343	4603	6051	4697
Motorcycles & Three-Wheelers	Production	47109	41538	38577	43090	38638	31993	36475
	Sale	46105	41357	38958	42623	38387	32748	36562

Source: Pakistan Automotive Manufacturers Association

Box

Private Sector Assessment Pakistan: Asian Development Bank, December 2008

The private sector plays a dominant role in Pakistan's manufacturing sector which constitutes 19 percent of GDP. We give below excerpts from the above mentioned report.

The manufacturing sector in Pakistan is almost totally in the private sector with the exception of a few heavy capital goods industries identified as important from a strategic perspective. Major manufacturing sub-sectors in Pakistan include: textile which is the largest in terms of value added; food, beverage and tobacco; cement; and automobiles.

Textile Sector: Privately owned, Pakistan's textile sector is its most important component of the manufacturing sector. It contributes 46 percent to the value added of manufacturing sector as a whole and generates 8.8 percent of GDP. It is responsible for 60 percent of Pakistan's total exports, and provides employment to 38 percent of the manufacturing labor force10.

To prepare for the post-quota global trading environment that demands greater efficiency and an enhanced competitiveness level, the textile sector invested close to $6 billion for balancing, modernization and restructuring (BMR) during 1999-2006, with a focus on spinning, weaving, textile processing, and making up sectors.

After faring well for the first year in the post quota environment, textile exports dramatically slowed down and showed only a very marginal growth in FY2007. The stagnancy setting in textile exports is further confirmed by its continuing poor performance in FY2008. This is a concern not only from the perspective of the textile industry but also for the overall export performance of the country and the subsequent impact on the trade account and the balance of payments. It also brings to the fore the need to have a diversified industrial and export base to reduce dependence of the economy on any single sector in the contemporary competitive global trading environment.

Food, Beverages and Tobacco: The major components of Pakistan's food, beverages and tobacco industry are vegetable ghee, sugar, cigarettes, cooking oil, wheat milling, tea, beverages and cigarettes. In FY2008 the sector grew by around 9 percent, with sugar, tea, and beverages growing at particularly strong rates of 34.2 percent, 12.4 percent, and 24.3 percent respectively. The sector constitutes more than 14 percent of the large scale manufacturing in Pakistan. Pakistan's major exports include rice, seafood, fruits, vegetables, tobacco and raw meat.

Automobile Sector: Pakistan's automobile sector is wholly private sector owned. There are 18 automobile assemblingunits in the private sector set up as joint ventures. There are also 47 units producing motorcycles. The automobile industry, however, continues to be of modest size in terms of its contribution to GDP and employment particularly when compared to other Asian economies like the Japan, Korea, Malaysia, China and Thailand which have all exploited the catalytic role of the automobile industry in promoting broad based manufacturing sector growth.

The sector unfortunately has not had the desired impact in Pakistan for various reasons. It continues to remain protected with high import duties and other barriers to entry and competition which make it uncompetitive. The deletion program mandates a certain portion of domestically produced content.

In doing so, the program provides non-tariff based protection to both domestic assemblers of motor vehicles as well as domestic producers of parts and components. These policies discourage domestic and foreign competition and allows for small, inefficient yet profitable domestic automobile producers. Unless these structural issues are resolved, it might not be possible for an efficient Pakistani automobile sector to emerge at this stage.

Fertilizer Industry: The fertilizer industry is totally in the private sector after successful privatizations in recent years. It consists of 6 companies of which 4 are listed on the stock exchanges. Fauji Fertilizer is the major player in the market with a market concentration of 44 percent with Engro following at 17 percent market concentration.

Engro is on its way to expanding its capacity and by 2010 it is expected that its market share will increase to 35 percent. The structure of the fertilizer industry is thus expected to become a virtual duopoly, raising potential competition related issues, especially when the fertilizer industry is also marked by price distortions.

The Government subsidizes input costs for the industry by selling feedstock gas for urea (the major fertilizer produced in Pakistan) at approximately 50 percent of that charged for commercial usage. This subsidy has had a significant impact on increasing fertilizer use as a majority of the farmers use urea without conducting proper soil tests to identify fertilizer and micronutrient requirement.

Box

The danger is that excessive fertilizer use can have a detrimental impact on land quality and agricultural yields, while the runoff into waterways and water reservoirs has potentially serious environmental and health consequences. The impact of the fertilizer subsidy on market structure and long-term agricultural productivity needs to be studied and an appropriate policy response formed to mitigate its adverse impacts.

Cement Industry: The cement industry consists of 27 firms all owned by the private sector of which 21 are listed on the stock exchanges. The cement industry is witnessing a major boom on the back of both greater domestic consumer demand for housing generated by higher incomes as well as by the Government's increased spending on public sector development projects. The proposed mega infrastructure projects will continue to fuel growth in this sector.

In FY2007 cement sales grew by 31 percent to 17.53 million tons against the current total capacity of 24 million tons which is expected to rise to 37 million tons by the end of 2007 in light of capacity expansion underway. Cement exports also increased significantly in FY2007 to $103 million – from $98 million in FY2006. Cement exports increased further very strongly to $354 million in FY2008.

Key Issues Private Participation in the Manufacturing Sector: Several generic constraints impact the level and quality of private sector participation in the manufacturing sector. The first constraint stems from the lack of quality manpower which requires the addressing of the skills gap for higher labor productivity and improving international competitiveness.

The second constraint is lack of electricity and power. Electricity shortage and power outages place a huge burden on the manufacturing sector. The existing power subsidy structure subsidizes power for agriculture and domestic consumption by charging proportionately higher tariffs from the manufacturing sector. In the absence of vitally required investments, the growing energy demand in the country will only exacerbate the power supply deficit to the manufacturing sector situation in the future.

The third constraint is the inefficient factor markets especially for land and labor. Inefficient and archaic land registration and transfer laws as well as rigidities in labor laws affect investments and growth in the manufacturing sector. The new Employment Services Act should hopefully address the issue of labor market flexibility by allowing temporary labor contracts as well as rationalizing many of the existing laws governing labor welfare and levies. Finally, availability of long term finance remains an issue.

This, coupled with undeveloped corporate debt markets, generates an unfulfilled need for both long term debt instruments as well as project finance. The SME sector in particular faces a critical shortage of financial intermediation services. One of the important factors retarding access to finance is the land registration and transfer system which has effectively removed land from the pool of acceptable collateral in many cases.

Textiles the premier manufacturing industry

Textiles with the largest weight in the manufacturing sector, declined by 0.4 percent in the first seven months of FY09, against a growth of 2.4 percent in the comparable period of the preceding year. This sub-sector, which accounts for 46 percent of total manufacturing, employing 39 percent of the manufacturing labour force and was sometime back contributing over 60 percent to the total exports, is confronted with both domestic and international challenges.

The growth has been adversely impacted by factors like expensive borrowing costs, electricity and gas shortages, incentives to regional competitors by their governments, shortage of cotton etc. The recession and troubled global financial market in the US and Europe slowed their economies and affected the demand for textiles, which is experiencing a slowdown. Pakistan's textile exports, once 63 percent of total exports are now down to 53 percent.

Power outages affect business

In Pakistan, according to an estimate, businesses lose 5.6 percent in annual sales revenue owing to power outages, against a reported loss of 2 percent and 8.4 percent to Chinese and Indian counterparts respectively. In textiles, manufacturing activities have been affected by long power outages and gas shortages. This has resulted in the closure of large number of units and layoffs of thousands of workers, which has hurt both the rural as well as urban households.

The size and quality of the cotton crop affects the performance of the textile sector. According to research conducted at the State Bank of Pakistan, 60 percent growth in textile exports of Pakistan is explained by domestic cotton production. The four year low cotton output in FY08 had affected textiles performance as reflected in cotton ginning activities, that fell for three consecutive years. The domestic textile manufacturers need good quality contamination free cotton.

Raw cotton imported

If this is not available locally, raw cotton is imported, a drain on the foreign exchange. In FY08 raw cotton worth $1292 million was imported. In the period July-February 2008-09, raw cotton imports have declined to $400 million (for 240 metric tons) against $913 million (654 metric tons) of cotton imported in the same period of the preceding year. A better crop augurs well for textiles, only if it is contamination free and other constraints to production are also improved upon.

The local textile industry has not been able to benefit from the phasing out of quotas, as its other regional competitors like China, India and Bangladesh have done and are now posing a big challenge in terms of price and quality to Pakistan. The problem has been compounded in recent months by the global recession and the financial crunch, which has slowed economies of Europe and the US as a result of which many textile factories in Pakistan are faced with shrinking demand from global consumers.

Textile exports have declined by 5.6 percent during July-February 2008-09 to $6.47 billion compared to $6.85 billion in the comparable period a year earlier. With the exception of raw cotton and cotton cloth all other items showed a fall.

Textile Exports

(US $ Mn)

	July-February 2008-09	July-February 2007-08
Textile Group	6470.4	6853.9
Raw Cotton	77.8	30.6
Cotton Yarn	732.3	864.4
Cotton Cloth	1317.8	1248.3
Cotton Carded	9.8	11.4
Knitwear	1203.6	1236.4
Bedwear	1128.2	1259.7
Towels	422.3	383.9
Readymade Garments	819.4	935.7
Art Silk & Synthetic Textile	220.2	287.7
Made-up Articles	331.3	332.3
Other Textile Material	150.6	177.7

Sources: Federal Bureau of Statistics

There is a need to see what incentives regional competitors are enjoying, increase low cotton production, bring about an improvement in the law & order situation, the circular debt issue, the prolonged power crisis, the high cost of borrowing, manufacturing which is concentrated in textiles and needs quality upgrading and diversification among others. Addressing these challenges would go a long way in bringing about an improvement in the economy.

Box

A Report on the PERCEPTION SURVEY 2008 Overseas Investors' Chamber of Commerce & Industry

The Overseas Investors' Chamber of Commerce and Industry (OICCI) had undertaken *Perception Survey 2008*. This is an annual survey which measures the overall business environment of the country and is impact, if any, on future investment plans. It is based on responses from the 175 members of OICCI, representing foreign investors from all major sectors of the economy.

The survey questionnaire focuses on four broad areas: -

i) Overall business environment
ii) Specific characteristics of Pakistan's business environment
iii) Law & Order
iv) Perception of Government and Regulatory Authorities

We give below the major findings/results of the survey.

Overall Business Environment

Plans to invest in the coming 2 years: 76% of existing investors showed interest in continuing to invest during the next 2 years, whereas 24% chose to differ. Those who plan to continue with investments, largely belong to the financial sector and the pharmaceutical sector.

The Survey looked into the following factors to identify the reasons for such choices.

a) Business Environment

Pakistan has various positives to offer to investors. While 59% of the respondents find the *overall business climate* to be unacceptable, there are however, a significant number of foreign entities who for various reasons have expressed a desire to continue investing in the country.

Various explanations have been offered for the above findings. These include:

- Pakistan is considered to be a relatively and reasonably better environment to do business in as compared to several other countries in South Asia. Overall 71% of the responses were in favour of this opinion.
- Pakistan is also perceived to enjoy good relations with major trading partners by a striking majority (86%).
- A crucial area where the Government failed investors considerably is the domestic economy. 72% of the respondents expressed their disapproval as compared to 50% last year, reflecting a significant change in perception of members.
- Among the various national and international factors that affect the business climate of Pakistan, the Rupee-Dollar parity and constant fluctuations in exchange rate, came forth as the most significant impediment to business as rated by 90% of the respondents.
- As regard the most significant challenges to current and future business in Pakistan, the results showed that law & order and political uncertainty are considered to be the most significant and pressing of all challenges.
- The energy deficit is the next greatest perceived challenge, followed by overheads and infrastructural issues.
- Frequent power outages have resulted in an increased reliance on back up power sources, an added expense, which companies have to consider while investing in Pakistan. Cost of operations in Pakistan is, therefore, indicated as one of the top five challenges.

b) Policies and Regulations

The Government of Pakistan has various policies and mechanisms in place to facilitate business activity.

- With reference to *employment regulations* 65% saw it as favourable in terms of doing business in the country.
- The *process of poverty registration*, at least 62% were in agreement that it was serving its purpose.
- The *legal system of contract enforcement*, was perceived to exert a negative influence on investment by a significant majority.
- Pakistan has a significantly high *rate of corporate tax* (35%) in comparison with other developing countries.
- *Pakistan's overall system of Corporate Governance was viewed as effective by 79% of the respondents*.
- Another area of concern for the Government was with regard to *Policy Implementation* which was stated as the real problem as opposed to policy formulation by 70%.

Box

c) Government Machinery

The government machinery plays a key role in facilitating investors in the smooth running of their operations. 17 ministries were assessed. As per the responses, no significant difference in the *accessibility of ministries* with the change in government after the elections in February 2008 was witnessed.

d) Regulatory Bodies

Twelve regulatory bodies were selected to be analyzed by the survey respondents keeping in mind their relevance and importance in the functioning of businesses. With the exception of Water and Power Development Authority (WAPDA) and Intellectual Property Organization of Pakistan, for whom at least 70% of the respondents deemed their functioning as unfavourable, all bodies were considered satisfactory in terms of performance.

e) City Governments

The respondents were asked to rate five major industrial cities individually, depending on their geographical relevance. The City Government system of Karachi, Lahore and Islamabad were highly appreciated by at least 35% of the respondents while more than half considered it satisfactory, suggesting that the majority of the respondents were pleased with the performance of these governments.

f) Utilities

Contrary to common perception that basic facilities available within Pakistan are limited and weak, the survey responses revealed a positive outlook of the country as seen by foreign investors in this regard. *The IT and Telecommunication sector received generous reviews from all foreign investors with 92% of the respondents satisfied with the facilities these sectors have to offer.*

The country also fared well in terms of availability of natural gas which was appreciated by 66% of the respondents. Another indigenous product, the country's strong workforce, was also appreciated by a strong majority of the respondents.

However, some utilities have highly disappointed foreign investors and created an unfavourable view for overall availability of utilities. This is especially true for electric power which was spurned by almost all the respondents (99%) or 106 major foreign investors currently operating in the country.

The water and sanitation facilities also received harsh reviews from 73% of the respondents or 78 members of OICCI.

g) Law & Order

A stable law and order environment does not necessarily attract investors but it can strongly intimidate investors when the perception is negative.

Almost all the participants validated the notion that the internal law and order as well as the political situation is a serious concern at this point in time. 99% of the respondents chose to rank law and order amongst the top 5 most important challenges to current and future businesses as compared to all other issues such as energy deficit, political uncertainty and infrastructural deficits.

The survey also revealed that while most investors (83%) do not plan to curtail operations owing to the deterioration of law and order in the country, the situation has had significant impact on future investment and expansions plans for 88% of the respondents with companies being conservative in bringing further capital into the country. Almost 63% of the respondents plan to limit expansion activities during the next two years given the magnitude of the concern. It must be noted that 18 foreign investors shared that if the situation persists, they will have no option but to wind up operations from the country.

Unfortunately the state has also disappointed investors who strongly feel that the Government has not taken adequate steps to improve the scenario.

Country's Perception – At the same time, 86% of the respondents were of the opinion that the Government of Pakistan has not made significant efforts to improve the perception of the country amongst global investors.

Conclusion

The result of the survey bring forth some direct conclusions as well as indirect realizations of equal importance. For each of the issues raised, the Survey report gives recommendations in a separate chapter. The actual findings of the Survey questionnaire are given separately.

There has been an inflow of foreign investment in the various sub-sectors of manufacturing, in oil and gas exploration, and in petroleum refining. A large part of t he investment has been diversified to telecommunication and financial sectors. In the last seven years, inflow of foreign investment in the automobile sector jumped from only $1.1 million in FY02 to $111.5 million in FY08 and in cement from $0.4 million to $102.5 million, which has added production capacity in the sector. As a result, cement exports have risen. Share of foreign investment in textiles, which had risen to $59 million in FY07, has fallen to $30 million in the following year. Attracting investment in textiles would help in increasing the sector exports, but this would be forthcoming only if other challenges facing the sector are also addressed.

Net Inflow of Foreign Investment – Selected Industries

($. Mn)

Industries / Sector	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Food & Beverage	-6.0	7.0	4.0	16.2	59.5	126.3	47.9
Tobacco & Cigarettes	0.9	0.0	0.5	6.7	2.5	389.5	9.2
Sugar	0.1	0.9	0.4	4.2	5.1	16.2	9.4
Textiles	18.4	26.1	35.5	39.3	47.0	59.4	30.1
Leather & Leather Products	0.5	1.2	3.5	6.5	3.5	3.0	1.8
Chemicals	10.6	86.2	15.3	51.0	62.9	46.2	78.0
Pharmaceutical Products & Cosmetics	7.2	6.2	13.2	39.1	35.3	38.9	45.7
Petro Chemicals	2.2	0.8	1.5	1.1	9.5	6.3	27.4
Petroleum Refining	2.8	2.2	70.9	23.7	31.2	155.2	74.5
Fertilizer	0.0	0.0	0.0	3.5	-107.6	3.9	0.0
Cement	0.4	-0.4	1.9	13.1	39.0	33.7	102.5
Basic Metals & Metal Products	0.3	0.2	1.4	2.5	7.1	13.1	16.2
Machinery (electrical & non-electrical)	10.6	10.9	9.4	6.2	2.9	7.4	24.2
Electronics	15.9	6.7	7.5	10.3	18.1	12.8	22.2
Automobiles	1.1	0.6	3.3	33.1	33.1	50.4	111.5
Mining & Quarrying	6.6	1.4	1.1	0.5	7.1	23.7	42.3
Oil & Gas Exploration	268.2	186.8	202.4	193.8	312.7	545.1	634.8
Paper & Pulp	0.7	1.4	1.7	0.0	0.1	1.2	1.1
Ceramic	0.0	0.0	0.1	0.4	0.4	0.4	1.2
Rubber & Rubber Products	0.3	0.0	0.0	0.0	4.7	4.3	3.7
Total Selected Industries	340.8	338.2	373.6	451.2	574.1	1537.0	1283.7
Total Foreign Private Investment	484.7	798.0	949.4	1524.0	3521.0	5139.6	5152.8
% Share Selected Industries	70.3	42.4	39.4	29.6	16.3	29.9	24.9

Source: State Bank of Pakistan

Commercial Banks' Credit to Private Sector
Major Industries

(Rs. Bn)

	2003	2004	2005	2006	2007	2008*	Annual Average Growth % 2003-08
Public Sector Banks	**339.79**	**272.42**	**346.75**	**422.183**	**485.02**	**529.85**	**10.67**
Manufacturing**	160.17	113.68	147.52	173.61	189.87	218.28	8.55
Textiles	89.86	61.55	73.17	82.67	83.70	98.73	3.91
Readymade Garments	8.124	1.805	3.225	3.37	6.147	6.289	18.02
Leather & Manufactures	0.873	0.804	1.06	0.999	1.54	1.42	12.91
Coke & Refined Petroleum Prod.	0.213	1.625	0.347	0.602	0.252	0.277	121.91
Chemicals & Products	9.342	3.439	6.766	7.903	7.625	18.32	37.42
Basic Metal[a]	3.993	1.137	3.279	3.309	9.844	11.55	66.52
Non Metallic Minerals	7.791	4.862	12.282	16.13	18.859	19.34	33.16
Machinery & Equipment[b]	5.09	4.63	6.22	7.13	6.61	7.85	10.28
Road Motor Vehicles & Transport Equipment	0.996	2.693	4.428	4.23	3.167	3.63	43.97
Food Products & Beverages	24.592	21.496	30.226	37.574	40.66	38.31	10.95
Sports Goods	1.145	0.463	0.655	1.268	0.535	0.492	1.93
Furniture & Fixture	1.469	0.27	0.298	0.080	0.040	0.457	169.62
Other Industries	55.864	51.901	66.018	83.489	92.212	88.234	10.54
Domestic Private Banks	**521.243**	**1011.377**	**1327.44**	**1670.591**	**1953.505**	**2101.55**	**35.13**
Manufacturing**	304.607	543.119	655.68	777.489	867.19	924.42	27.15
Textiles	159.192	270.032	329.544	358.848	383.344	400.04	22.35
Readymade Garments	13.349	20.036	19.82	27.653	37.37	38.64	25.41
Leather & Manufactures***	8.711	12.305	13.944	13.91	15.94	15.76	13.56
Coke & Refined Petroleum Prod.	5.146	7.98	9.958	13.758	13.236	16.95	28.46
Chemicals & Products	20.506	36.389	39.597	54.357	65.218	80.68	33.45
Basic Metal[a]	5.653	12.797	17.871	24.263	32.74	35.16	48.82
Non Metallic Minerals	9.923	23.773	31.512	55.086	68.209	66.84	53.75
Machinery & Equipment[b]	11.04	20.703	24.988	32.652	43.689	43.36	34.39
Road Motor Vehicles & Transport Equipment	2.722	6.279	10.539	13.873	13.424	13.51	45.51
Food Products & Beverages	41.508	74.395	88.062	99.274	126.917	139.07	29.55
Sports Goods	1.273	3.793	3.24	4.303	3.098	3.46	39.97
Furniture & Fixture	0.322	0.936	1.325	1.319	2.897	2.39	66.79
Other industries	25.262	53.701	65.28	78.193	61.108	68.56	28.85
Foreign Banks	**111.717**	**152.884**	**163.164**	**118.026**	**86.171**	**86.65**	**-2.10**
Manufacturing**	58.531	71.947	76.561	52.25	42.43	44.07	-3.47
Textiles	24.942	29.587	29.825	22.907	13.753	13.94	-8.47
Readymade Garments	2.112	3.789	5.433	1.413	1.63	1.51	11.36
Leather & Manufactures***	1.214	1.628	1.961	1.114	0.416	0.511	-5.69
Coke & Refined Petroleum Prod.	0.334	0.569	0.84	2.815	1.459	1.686	64.10
Chemicals & Products	9.041	9.34	9.023	4.909	4.827	7.16	0.20
Basic Metal[a]	0.712	1.454	1.844	0.65	0.988	1.156	27.06
Non Metallic Minerals	3.313	3.547	8.166	6.17	5.562	3.491	13.15
Machinery & Equipment[b]	2.768	3.363	3.305	1.77	2.427	2.223	0.41
Road Motor Vehicles & Transport Equipment	0.467	0.862	1.95	3.176	3.165	2.704	51.75
Food Products & Beverages	5.818	8.684	7.496	4.939	4.539	5.097	1.13
Sports Goods	0	0	0	0	0.029	0.025	-13.79
Furniture & Fixtures	0.118	0	0.022	0	0	0	0.00
Other industries	7.692	9.124	6.696	2.387	3.635	4.567	1.12
All Commercial Banks	**972.754**	**1436.681**	**1837.358**	**2210.8**	**2524.699**	**2718.05**	**23.55**
Manufacturing**	523.308	728.746	879.761	1003.349	1099.49	1186.77	18.31
Textiles	273.996	361.166	432.537	464.429	480.796	512.712	13.82
Readymade Garments	23.585	25.63	28.478	32.436	45.147	46.439	15.15
Leather & Manufactures***	10.798	14.737	16.965	16.023	17.896	17.691	11.32
Coke & Refined Petroleum Prod.	5.693	10.174	11.145	17.175	14.947	18.913	31.18
Chemicals & Products	38.889	49.168	55.386	67.169	77.67	106.16	22.53
Basic Metal[a]	10.358	15.388	22.994	28.222	43.572	47.865	36.99
Non Metallic Minerals	21.027	32.182	51.96	77.386	92.63	89.671	35.99
Machinery & Equipment[b]	18.898	28.696	34.513	41.552	52.726	53.433	24.15
Road Motor Vehicles & Transport Equipment	4.185	9.834	16.917	21.279	19.756	19.844	45.22
Food Products & Beverages	71.918	104.575	125.784	141.787	172.116	182.477	21.16
Sport Goods	2.418	4.256	3.895	5.571	3.662	3.977	16.98
Furniture & Fixtures	1.909	1.206	1.645	1.399	2.937	2.847	18.30
Other industries	39.634	71.734	77.542	88.921	75.635	161.361	40.43

** as of June ** includes mining & quarrying *** includes footwear*
a - includes fabricated metal products b - includes radio, TV and communication equipment

Consumer Financing Classified By Borrowers

(Rs. Bn)

Borrowers / Banks	2003	2004	2005	2006	2007	2008*
Public Sector Banks						
House Building Finance	0.3	1.38	2.26	4.96	9.38	9.41
Transport & Car Finance	2.1	0.31	0.66	0.15	1.44	1.73
Consumer Durables	0.8	2.20	0.60	0.59	0.63	1.34
Personal Loans	14.7	22.96	42.65	45.34	54.55	53.38
Credit Cards	0.0	0.06	0.13	0.00	0.39	0.002
Sub Total - Consumer Financing (CF)	17.8	26.9	46.3	51.0	66.4	65.86
Public Sector Banks' Advances	339.8	272.42	346.75	422.18	485.02	529.85
CF Share in Public Sector Advances (%)	5.25	9.88	13.35	12.09	13.69	12.43
CF Share in Commercial Banks Total (%)	24.29	18.48	18.12	15.74	18.13	18.47
Domestic Private Banks						
House Building Finance	3.29	12.91	24.88	39.14	52.18	55.36
Transport & Car Finance	11.36	42.77	75.01	100.37	106.17	98.25
Consumer Durables	0.24	0.93	1.04	0.97	0.41	0.26
Personal Loans	17.49	26.75	51.26	68.77	79.89	80.26
Credit Cards	3.56	6.33	15.15	27.35	36.88	34.96
Sub Total - Consumer Financing (CF)	35.94	89.69	167.34	236.60	275.53	269.09
Domestic Private Banks Advances	521.24	1011.38	1327.44	1670.59	1953.50	2101.55
CF Share in Private Banks' Advances (%)	6.90	8.87	12.61	14.16	14.10	12.80
CF Share in Commercial Banks Total (%)	48.95	61.61	65.48	72.97	75.24	75.47
Foreign Banks						
House Building Finance	2.16	4.02	5.73	3.88	1.96	2.15
Transport & Car Finance	5.13	6.17	7.90	5.56	5.26	4.48
Consumer Durables	0.00	0.00	0.00	0.02	0.01	0.003
Personal Loans	7.16	12.02	16.33	15.53	7.09	5.5
Credit Cards	5.20	6.77	11.97	11.80	9.96	9.47
Sub Total-Consumer Financing (CF)	19.65	28.98	41.93	36.59	24.28	21.60
Foreign Banks Advances	111.72	152.88	163.16	118.03	86.17	86.65
CF Share in Foreign Banks' Advances (%)	17.59	18.96	25.70	31.00	28.17	24.93
CF Share in Commercial Banks Total (%)	26.76	19.91	16.41	11.28	6.63	6.06
All Commercial Banks						
House Building Finance	5.76	18.31	32.87	47.98	63.52	66.92
Transport & Car Finance	18.55	49.25	83.57	106.08	112.87	104.46
Consumer Durables	1.01	3.13	1.64	1.58	1.05	1.60
Personal Loans	39.36	61.73	110.24	129.44	141.53	139.14
Credit Cards	8.76	13.16	27.25	39.15	47.23	44.43
Sub Total-Consumer Financing (CF)	73.43	145.58	255.57	324.23	366.20	356.56
All Commercial Banks Advances	972.76	1436.68	1837.35	2210.80	2524.69	2718.05
CF Share in Commercial Banks' Advances (%)	7.55	10.13	13.91	14.67	14.50	13.12
Commercial Banks Share in All Banks' Advances (%)	88.78	93.54	94.95	96.10	96.61	96.53
Specialised Banks						
House Building Finance	0.15	0	0.12	0.21	0.10	0.001
Transport & Car Finance	0.10	0.008	0.038	0.08	0.16	0.012
Consumer Durables	0.03	0.06	0.05	0.06	0.07	0.057
Personal Loans	0.13	0.05	0.084	0.12	0.59	0.166
Credit Cards	0.00	0.00	0.00	0.00	0.00	0.00
Sub Total - Consumer Financing (CF)	0.41	0.12	0.29	0.47	0.91	0.24
Specialised Banks Advances	122.99	99.21	97.79	89.73	88.51	97.58
CF Share in Specialised Banks' Advances (%)	0.33	0.12	0.30	0.52	1.03	0.24
CF Share in All Banks CF (%)	0.55	0.08	0.11	0.14	0.25	0.07
All Banks						
House Building Finance	5.91	18.31	32.99	48.19	63.62	66.92
Transport & Car Finance	18.65	49.26	83.61	106.16	113.03	104.47
Consumer Durables	1.04	3.19	1.69	1.63	1.11	1.66
Personal Loans	39.49	61.78	110.32	129.56	142.12	139.31
Credit Cards	8.76	13.16	27.25	39.15	47.23	44.43
Sub Total - Consumer Financing (CF)	73.84	145.69	255.86	324.69	367.11	356.79
Total Advances - All Banks	1095.75	1535.89	1935.14	2300.53	2613.20	2815.63
CF Share in All Banks Advances (%)	6.74	9.49	13.22	14.11	14.05	12.67
Commercial Banks' CF % All Banks CF	99.45	99.92	99.89	99.86	99.75	99.93

** End-June*

Pakistan Industries — Challenges of Free Market Era

*Engr. M. A. Jabbar**

The political economy of the world trading system needs to be embedded for the economic development of the country through an industrial policy framework. Economic changes are the processes of capital accumulation and productive investments. The capital accumulated needs to be used for productive investment, for attempting successful economic transformation with the help of state which would own the industrial policy formulated and as well provide fiscal, monetary, tariff incentives/adjustments for ensuring the sustained return on investments. The co-ordinations between these becomes complimentary once the consistency of the policy and the assurances of its endurances during recessionary periods are also well taken care by state intervention.

The country still does not own a clarity of destination for industrial developments, which are targeted by a well consulted industrial policy providing optimum use of resources for industrialization and development of engineering in the country. It may not be irrelevant to quote the Minister of Industries & Production and Special Initiatives that the industrial policy is still under preparation which would provide support through consultative participation by the stakeholders.

The country needs an industrial policy just like China fixed bench marks for future development of industry in 1999 before joining WTO. The Chinese policy divided the industrial sector into segments with recommendation of the level of state intervention, according to the future planned developments of the different segments of the industrial sector. The concept of dividing the supporting level by state was/is in accordance with the liberalization, to conclude with Doha round to settle the draft on Non Agriculture Market Access. This settlement of Doha Development Agenda will provide for the future of cross border movements of industrial goods at the tariff levels. The developed and developing countries would have different tariff levels. Developed countries would be given lesser time limit, up to 5 years, for decreasing their bound rates to the level as per formula cut to be agreed in Non Agriculture Market Access (NAMA) negotiations. However, developing countries, including Pakistan, would be given time level of 9 years for tariff reduction. These tariff levels across the borders of the member countries of WTO would fix the policy space in Pakistan for manufacturing of industrial goods on the basis of comparative advantages in the country, on the basis of available level of technology, on the basis of consumption of human and social capital and on the basis of other associated factors to cast the competitiveness of goods for sharing imports and bid sharing of exports in overseas markets.

Pakistan which has experienced a recent slowdown of macro economic stability appears to be concerned with economic stabilization and is making efforts for improving the macro economic indicators. Economic stabilization would need more focus on increasing the strength of domestic manufacturing to compete against imports and to reduce the unemployment. The E-stabilization would also create qualitative surpluses and produce cost competitive industrial goods to permeate into global market.

The present situation at WTO would require Pakistan to formulate an industrial policy which would take care of likely outcomes of modalities and agreement on NAMA. This will fine tune the industrial policy of Pakistan. The adoption of industrial policy frame work should provide immunity from adverse review of the trade policy regime of Pakistan by WTO. The whole trade regime of Pakistan comes under the review by WTO as a requirement exercise for all the members of WTO to ensure compliance of world trade rules. It would be very much necessary to understand the band of such movements of tariff reductions because Pakistan has a policy space which does not travel beyond the tariff tool which is used for

* *Chairman, SITE Association of Industry*

industrialization in the country. One can always recall ECC decisions on imposition of regulatory duties, decreasing and increasing of duties on exports to conduct trade and to protect the domestic industry. The tariffs are reduced or increased as regulatory duty on ad-hoc basis and duties on exports are withdrawn or imposed for conducting the trade regime of Pakistan.

Pakistan, quite a number of times has to seek the IMF bailout package, which conflicts with the home grown policy desires to protect the domestic industry. The agreements with the IMF sometimes even include asking no tampering with the tariff and fiscal policies. The support policies by SBP to improve the competitiveness of industrial produce to encourage further capital accumulations for investment in the green and productive areas is also barred being objectionable and encroaching upon trade liberalization. Therefore the industrial policy is now trilaterally influenced; influence of WTO regime, influence of internal weaknesses, and influence of economic stabilization plan for medium and long term. The Technical Barriers to Trade is becoming increasingly important for satisfying the domestic consumers. This also creates obligations for exports of industrial goods which have to be integral part of the industrial policy.

The domestic manufacturing sector has recorded a decline. The production of large scale manufacturing has been affected by a number of factors; the cost of doing business, increase in electricity and gas tariffs not on yearly basis but on an adhoc basis as deemed necessary to comply with the conditions of donors to reduce the subsidies or to reduce the fiscal deficit.

Thus the available capacity is under-utilized which empirically has been proved through the conduct of comparative surveys in the regional markets. Alone against China, we are less productive by 164% and due to non implementation of standardization in the country, we face the charges of violation of standards by the importing country. The industrial pattern of Pakistan has relied largely on exports of cotton related manufacturing. Pakistan, the 4th largest producer of cotton, has very marginal share in the global market of half a trillion dollar of textile and clothing, reasons of which we may be interested to establish.

Pakistan is witnessing a substantial rise in the exports of non traditional products as well as products other than cotton related partly because of global market price increases for certain commodities. Sustaining this trend requires policy support. In other words, one can say that the various segments of the industrial sector, need to be promised a policy structure so that with the capital and the investment of the entrepreneurs, with supportive role by the state, a public private partnership could be established to get things moving at a reasonable pace.

The point of focus is to support the much needed industrial policy, providing administrative guidance for sectoral development so to attract capital accumulation; for productive investments has to become the basis for gaining the trust of the local investors, as well as foreign investors in the industrial economy of the country. Pakistan needs to focus on diversification as is suggested after the trade policy review of Pakistan by WTO.

The two large sub sectors of the industrial economy of Pakistan; automobile and textile, are affected mainly by the internal weaknesses and partly by the external pressures. Some of the analysts believe that both these sectors have to blame the internal infirmity as the reason for the decline.

The other group of analysts also think that as far as the textile is concerned, it could not tune itself to the world requirements. It kept itself limited to low value added products in which many countries with not much comparative advantage have become better competitors due to their internal strength. One also can agree that sometimes the anti dumping duties for the developing countries including Pakistan against the GSP plus for the LDCs also harms some of our exports.

The automobile industry of Pakistan which developed on the basis of deletion programmes provided opportunities for development of engineering base in the country. The Trade Related Investment Measures (TRIMs), an agreement of the WTO seized the deletion programme of the country for obvious reasons, Pakistan being WTO member.

Automobile industry; development of domestic manufacturing of parts was facilitated by the deletion programme, policy incentives and policy protections provided by the government of Pakistan to assemblers of vehicles. WTO did not entertain the request for allowing extensions and relaxations in continuing with deletion programme. The mandatory use of the local component could not sustain the obligations of TRIMs agreement which does not allow the preference of use of local components over imports as policy dictates. Government of Pakistan had to succumb to the advice of Pakistan WTO mission in Geneva that continuation of deletion programmes would be non-desirable as the trade policies under review for the country would be objected in the WTO.

The development of domestic vending industry became state support less as the rollback of the deletion was substituted by the Tariff Based System. This Tariff Based System in exchange of rollback of deletion programme allowed levy of additional duties on imports of domestically produced automotive parts is vide statutory regulatory order. The life of this statutory regulatory order is expiring on 30th June 2009. Post June 30, the imports of locally manufactured parts will provide more fierce competition depriving local market for domestic manufacturers of auto parts.

The available market for auto part manufacturers is restrained by no policy obligation placed on local assemblers to buy local parts, earlier which used to be supplied against mandatory deletion programmes. The Engineering Development Board which is the policy custodian for issuing guiding principles to promote engineering industry including automotive parts hence forth has to innovate replacements of deletion policies for providing market access for domestic manufacturing. The assemblers now can prefer to import the parts at higher rate of duty than help the market admit the domestic vending industry.

The decline in the manufacturing sector is also due to restrictions in the auto financing. All the assemblers in Pakistan have already reduced the estimates of productions by almost 50%. The shrinkage of the market is increasing the cost of manufacturing of domestic parts and the local vending industry. The industry is under extreme pressure to sustain the paying back of loans on the acquired capital in anticipation of the estimated growth of domestic manufacturing of vehicles of all types. These estimations under the Auto Industrial Development Plans (AIDP) for 5 years is becoming unlikely to carryon.

The assemblers have been signaling preferences for earlier termination of TBS and have favored to import auto parts for assembling from India on equal amount exports of vehicles. There are disagreements amongst assemblers and domestic manufacturers of auto parts on policy issues. The reliance of the automotive vending industry on the OEMs requires to be extended beyond to share the replacement market. The allocation for locally manufactured automotive parts in the replacement markets is hostage to similar imports at gross under invoiced values. Imports of similar parts at lower declared values lower the cost of imported items at a level which cannot be competed by the domestic manufacturer in the market psyche giving preferences for sale of lower priced goods irrespective of quality consideration.

The imports of substandard low priced, high duty evaded automotive parts are stumbling blocks for domestic manufacturer of parts in his access to the market. While customs allows clearance of auto parts irrespective of the standard, the trade policy specifically says that no imports of goods shall be allowed if the standards are not comparative to those applied to the domestic manufactured goods.

Local automotive industry is producing parts which are certified, approved as per Japanese Industrial Standards (JIS), Korean Standard (KS) and as per standards of international repute.

Automobile industry in Pakistan is highly documented and labor intensive. With less than 3% share in the gross domestic product, it pays about 10% of the total federal taxes. The automobile industry merits Government consideration, in view of its given position. The industry has made investments in anticipation of the 5 year plans approved by government promising increase in the volumes as per the projections of AIDP.

The market entrance for the indigenous manufactured parts has to be ensured by giving incentives to the assemblers to prefer use of the domestic manufactured parts. The market for locally manufactured parts can be improved by imposition of 100% LC margins on imports of those automotive parts which are domestically manufactured. The government can also provide preferences of supply for the domestic manufactured parts against imports as a matter of policy incentive.

The Government may consider imposing a freeze on payment of principal amount for 2 years for automotive vending industry and as well as applying the same rate of markups as are available for EFS and long term financing at almost half of the prevalent KIBOR rates. It improves the engineering base of the country due to diversified engineering available in the auto parts manufacturing. The sheet metal working, the plastic flow processes, engineering combination manufacturing, composite engineering and almost all the processes in engineering that are available in the domestic manufacturing of the automobile parts in the country.

It may be mentioned that Pakistan Association of Automotive Parts and Accessories Manufacturers (PAAPAM) is concerned and has told the government that there is a likelihood of closure of auto parts industries. The said communication to the government says that the industry is currently on the verge of collapse and needs to resolve its problems, so to bail out auto industrial companies from accumulated loans and interests. They have said in the said communication that a financial package making bank credit payment viable and providing some public sector equity may be some of the points the government should consider for the betterment of the industry.

Automobile industry is experiencing a steep slump, largely because of the declining sales and plummeting production volumes arising out of the prevailing macro economic situation. Sales have fallen by more than 50% against the sustained and recorded growth during the past five years. This has caused a decline in profits which could pose a big challenge for the government in the form of declining taxes and increasing unemployment. The crisis could be contained with the mutual co-operation between the government and auto industry.

The structure of the policy on which the automobile industry is resting maybe mentioned as follows:

- TBS was approved by the ECC/Cabinet for 3-years in 2006-07 which is to end by June 2009. No substitute has been proposed by EDB under consultative mechanism. It is a roll back of deletion but is a policy room for improving the price competitiveness of domestic parts.

- AIDP is a five year tariff policy document running in its 2nd year in which certain components mentioned in the 5-year tariff plan are to go at higher rate i.e. 50%, If TBS is not continued the AIDP will collapse.

- During the era of Deletion Programmes, OEMs were bound to follow the localization/ indigenization process which almost is seized since introduction of TBS but in certain cases, there has been roll-back of localized parts as most of the OEMs prefer to import the localized parts at higher rate instead of procuring it locally. This process should be stopped and local industry with the concurrence of EDB may reactivate the process of localization and strengthen the same.

- EDB, in the national interest and in the interest of local industry, at the time of issuance of lists of importable items, may

ask OEMs reason for the import of localized parts as the SRO 656(I)/2006 is silent on the import of localized parts because under SRO 656(I)/2006 only CKD rate of duty is mentioned whereas additional duty is mentioned under SRO 693(I)/2006.

- EDB may be technically strengthened by deploying technical staff, conversant with tariff structure so that the lists of importable items viz-a-viz SRO 693(I)/2006 and 1st Schedule of Customs Act 1969 are fairly assessed.

PAPAAM may evaluate the TBS to analyze its progress/performance during last two years viz-a-viz localization of automotive components.

Textile Industry

Pakistan has remained heavily dependent on its textile sector for its export revenue which constitutes more than half of the total export earnings. The reason is that Pakistan has moved down the value added chain, increasing investments in lower value added products, with reduced investments in higher value added items. SBP could have checked this situation during the apportionment of the credit allocations and their utilization.

Pakistan is still exporting raw cotton and cotton cloth rather than focusing more on finished garments. Exporting of one bale of cotton deprives the exchequer of export revenue equivalent to eight items, if this cotton bale had been converted into garments. The deceleration in the export revenue of textiles has been a drag on the overall export revenue earnings. This trend does not augur well for the industry, which has been allocated a higher share from the resources relative to the other sectors.

Pakistan did not prepare itself for the adjustments required for promoting trade of textile and clothing in the global market before termination of textile quota system on January 01, 2005. We did not focus on value added products or make inroads in less competing categories in the developed world. Textile Vision 2005 targeted the textile and clothing exports for over US $15 billion revenue earnings but the results are self explanatory.

Since the end of the quota system more than 300 knitwear units have closed down and many more are vulnerable and may add to the list of closed units. More closures of textile and clothing units is imminent due to reduced support of the government, in the form of subsidies and their payment in time. We see now extensions or moratorium in payment of principal amounts of long term loans and extensions of adjustment of part 1 and part 2 EFS financings as public policy support in the resource constrained situation. In addition, Government has been supporting freight subsidy costs and also been providing subsidy of 50% for hiring consultants to improve the efficiency, look for new markets and establish overseas offices.

A number of initiatives, like holding of exhibitions, marketing support, sectoral initiatives for textile & clothing industry have been taken in the trade policy. One must appreciate the government's steps which have focused more on the textile and clothing, relative to other sectors, as seen through a number of policy initiatives structured in the trade policy. However, the virus of internal drawbacks is not restricted to textile and clothing but has an effect on the other segments of the industrial sector also. Some of the reasons for the present deceleration in exports are a result of the global economic slowdown.

Pakistan's main markets are EU and US. At a recent visit of the US commercial counselor to the office of the Site Association of Industry, he said that even if US provides increased market access, the exports may not rise, for Pakistani products are limited to certain categories of lower value added products. An increase of low value added products in US market will not make much addition to the revenue earnings. The problems faced by textile industry of Pakistan are primarily due to domestic policies/factors and internal disadvantages.

The exports of textile during the first half of 2008-09 rose by a mere 0.5 percent. The anti dumping duty imposed by the European Commission on import of bedlinen from

Pakistan for a period of five years expired on March 3, 2009. It is expected the move will help the exporters to compete in the EU market and result in more export earning due to easing of the price with the elimination of the anti dumping duty. The buyer and seller have now 5% price margin to negotiate with shared advantage for both the parties.

An overview of the textile sector of Pakistan in the economy, shows its contribution to exports, employment, foreign exchange earnings, investment and value added makes it the single largest manufacturing sector for Pakistan. It contributes around 9 percent to GDP, employs 38 percent of the total manufacturing labour force, and contributes more than 50 percent of total merchandise exports.

Exports were recorded at about $10.5 billion in 2007-08, where the products make a mix of cotton, yarn and knitwear. Garment made-ups and bedwear made up for half of the earnings last fiscal year. Agreement on textile and clothing classifies the textile and clothing trade into two categories. Textile includes yarn, fabric and made-ups, and clothing represents readymade garments.

Textile industry has made an investment of about $5 billion during the last decade. Import of textile machinery has registered an increase of more-than 15% during the last decade rising from $370.2 million to $438 million.

Some of the challenges faced by the textile sector of Pakistan:

- Need to improve the technological base.
- Need to undertake research and development.
- Need to develop physical and human capital.
- Need to standardize products.
- Need to move from low value added products to high valued added products

Some of the external challenges and opportunities for Pakistan's textile industry:

- Bilateral agreements for front state to have market access in E.U. and U.S.
- Forecasting imposition of anti dumping duties with close coordination between WTO Mission Pakistan in Geneva and National Tariff Commission.

Exports of Pakistan's Textile
Selected Commodities

(US $ Mn)

Commodities	2003-04	2004-05	2005-06	2006-07	2007-08
Raw Cotton	47.671	109.975	68	50	70
Yarn	1162.000	1087.451	1420	1428	1294
Fabrics	1766.415	2050.044	2160	2027	1933
Garments	2452.058	2722.987	3061	3346	3330
Made-up (Incl. Bedwear)	1799.938	1915.533	2456	2467	2424
Towels	403.5	520.48	588	611	615
Tents & Canvas	774.757	66.569	39	69	70
Art Silk & Synthetic Textile	470.757	300.264	200	420	490
Other Textile	75.307	152.753	219	244	274
Total	8952.4	8926.056	10211	10662	10500

Source: Trade Development Authority of Pakistan, Federal Bureau Statistics

Market Analysis

Market Review

The market performance was mixed and listless for the first two months of the new year. The KSE-100 Index during the two-month period of January and February 2009 shed 137 points to close at 5,727 on February 27, 2009. The average daily turnover during the period under review was 151.41m shares traded.

Positive sentiments

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

However, the exuberance did not last long as profit taking set in along with foreign and local institutional selling activity in major Index stocks led to a steady decline in the Index from January 12 onwards. Also, it was the beginning of another round of quarterly earnings, which did not buoy market sentiments despite the reporting of good results by the fertilizer stocks. Another positive development for the equity market was the decision of the federal cabinet to keep the discount rate unchanged instead of hiking it further as was expected a month or two back, but this decision did not stem the selling pressure either. From January 9 to January 26, the KSE-100 Index plunged by over 1,300 points or 22% to 4,815.

The Index staged a minor recovery in the last week of the month because of local buying interest, as valuations were attractive and thus, too good to ignore at the trough. There was buying across the board with fertilizer, banking and energy sector stocks in the forefront. The KSE-100 Index gained over 560 points in the final four trading days of January.

A small rally

During the first week of February, the market witnessed a small rally due to institutional buying activity in large cap stocks. The KSE-100 Index gained 220 points from the beginning of the month to February 6 to reach 5,597. However, for the following week, there was a reversal of fortune as the Index shed nearly 200 points till February 12 to close at 5,399. The decline during this period can be attributed to the controversy surrounding the treatment of impairment from investment valuation; if it should be recorded in the income statement or not according to the guidelines set in IAS 39.

SECP allows relief

The Ministry of Finance in consultation with the SECP allowed relief to listed companies from IAS 39 for CY2008. As indicative by the circular, the impairment loss if any recognized as on December 31, 2008 due to valuation of listed equity investments in AFS to be shown under equity; this impairment charged in equity would be amortized over 4 quarters in 2009 in P&L account, any upward revision in prices on the existent portfolio would be adjusted to Equity and amortized accordingly in 4 quarters.

KSE-100 index gains

This decision along with good quarterly/annual results announced by cement and banks and possible inclusion of Pakistan in the MSCI Frontier Index led to a solid rally for the period of February 13 to 19, in which the KSE-100 Index gained 623 points to break the 6,000 barrier for the first time since mid-January 2009. However, the Index could not sustain this momentum due to a combination of profit taking, negative developments on the economic front such as further slowdown in

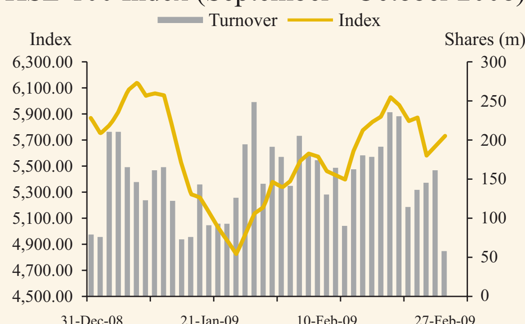
economic growth and fiscal slippages and the major political development of the disqualification of the Sharif Brothers by the Supreme Court on February 25.

The macroeconomic scenario continues to paint a mix picture as inflation remains high despite some easing and the current account deficit is narrowing slightly. The YoY headline inflation recorded during January 2009 was 20.52% while core inflation (non-food, non-energy) remains undeterred at 18.9%. The 7-month average (July-January) CPI came to 23.9% while core inflation stood at 17.6%. We expect that both headline and core inflation will gradually decline over the next few months as the government continues to implement the stabilization measures and commodities such as crude oil remain on the lower side. Thus, we believe that a cut in the policy rate by the SBP would not come before March-April.

Economic performance remains mixed

There was a positive development in the current account, as the deficit during January declined by 25% MoM to US$411m because of growth in services exports and lower commodity prices. However, the current account deficit during July to January 2008-09 period increased by 1.6% YoY to US$7.76bn. The large-scale manufacturing sector remains in a slump as industrial output declined by 4.72% during 1HFY09 due to the slowdown in the auto, electronics and petroleum sectors. A significant economic recovery will not be possible without the revival of manufacturing sector in the country and this is one of the reasons why the real GDP growth estimates for the current fiscal year are below 4%. In addition, it has been reported in a local newspaper that the IMF has scaled down the GDP growth for the current year to 2.5% and revenue target to PKR 1.3 trn; while the fiscal deficit to GDP ratio has been relaxed slightly to 4.3% from 4.2%. It is expected that the Executive Board of the IMF will approve the second tranche of US$800m by March-end.

KSE-100 Index (September - October 2008)



Regional Valuation

The Pakistan market PE at 4.79x is trading at a 58% discount to the regional average of 11.41x. Based on dividend yield, Pakistan is the most attractive at 12.15% as compared to the regional average of 5.11%.

Looking Ahead

Going forward, we still expect the market direction in the short-term to be determined by both political and geopolitical factors. The month of March could be a hot month politically, especially if the lawyers' long march and sit-down strike takes place as scheduled on March 16. The PML-N appears to be in a confrontational mood given the Supreme Court's verdict to disqualify the Sharif Brothers and the possibility of losing the government in Punjab as President Zardari has placed the province under Governor's rule for two months. Also, the success of the peace agreement in Swat would be monitored by both local and international stakeholders as there remains skepticism expressed by both local observers and the Western powers regarding negotiated settlements with militant groups.

Regional Valuation Comparison

Country	12m F PEx	12m F Dividend Yield (%)
China	13.55	1.87
Hong Kong	9.98	4.22
India	9.21	2.26
Indonesia	8.16	4.51
Malaysia	10.91	5.21
Pakistan	4.79	12.15
Philippines	9.78	4.60
Singapore	9.39	8.58
South Korea	10.82	2.36
Taiwan	24.42	8.43
Thailand	7.92	9.06

Source: Thomson One Analytics, Date: February 19,2009

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

Report/Book Reviews

Development Economics
Through the Decades
A critical look at 30 years of
the World Development Report
Shahid Yusuf
The World Bank

The book reviews the World Bank's annual World Development Report (WDR) of the past 30 years. It summarizes the coverage of the WDRs, reflecting on the major development themes and how they have contributed to policy making. Each of these reports have provided an overview of current thinking on specific themes, alongwith practical experiences. The later half of the book contains commentaries by distinguished economists, who have written on the past three decades of WDR and also given some suggesstions on WDRs to come.

The Reports reflect the issues of that particular period; whether it is poverty and the ways to reduce it, or how growth could be made environment friendly, or food security, or the importance of institutions, or the severe imbalances the countries were faced with in the early 1980s and the need for structural adjustment as interpreted by the Bank which formed the theme of the 1981 WDR. As the process of reforms were slow because financing gaps continued to constrain many countries efforts, the 1986 WDR fixed its sights on trade in agricultural products. If developing countries could increase the exports of agricultural commodities, they would to some extent reduce the financing shortfall and would lessen poverty in rural areas.

During the period 1978-2008, there has been a major change in the reports published. There has been a shift from state directed to market guided development, from structural to sectoral issues and from macroeconomic concerns to microeconomic ones.

In the chapter, *Where to Now*, the author states, "the unfinished development agenda is large and there is much for the Bank to do. The WDR can again become a vehicle for mobilizing global opinion and for guiding strategy."

Pakistan Under IMF Shadow
Fasihuddin
Institute of Policy Studies
Islamabad

Pakistan has had a long relationship with the IMF, dating back to 1958 when it sought its first financial support to overcome the balance of payments difficulties. The book reviews the changing role of the IMF over time, how its functions have enlarged as it has grown into one of the most influential institutions in the global financial sphere; the increasing influence of the Fund in the policy formulation in member countries as its effect has spread and now covers all areas of state policy and economic sectors. Its historical ties with Pakistan since it became a member in 1950 has been dealt exclusively in a chapter. The various Arrangements that Pakistan entered into with the IMF and the economic performance during that period has been analysed.

The IMF is one of the widely criticized international institutions, writes the author. The leading industrialised nations have a say in the policies and activities of the Fund and the IMF support arrangements have had an adverse impact on the recipient developing economies. The IMF needs reforms on these counts.

There are two IMF reports which assess Pakistan's performance under IMF arrangements. One report which covers the period upto 1999, observes that the economic growth generally remained depressed, financial imbalances persisted and poverty increased. The fiscal and price situations, however, showed some improvement in the later part. The Report noted that structural reforms programme have progressed in some areas but significant challenges remained.

In the last chapter, the author attempts to examine whether Pakistan is free from IMF influence and concludes with these words, "in all probability the IMF shadow is likely to persist on the horizon of Pakistan."

Advanced Auditing
Revised Edition 2007
Prof. Dr. Khawaja Amjad Saeed

The first edition of the book was published in 1999. Given the new developments that have taken place in the field of auditing, improvements were made in the contents which the revised edition incorporates. As new areas have been included there is now a wide coverage of the subjects ranging from internal audits to management audits, cost audits etc.

The chapter on Liability of an Auditor has been beefed up with more legal cases. Changes in Companies Ordinance and how it affects the Auditor have been incorporated. Eleven types of special audits together with guidelines to conduct them have been included.

Contents include introductory aspects of Auditing, Audit Task to be completed before Commencement of Audit, Audit Approach, Audit Planning, Controlling an Audit, Quality Internal Control, The Auditor of a Limited Company, Auditor's Reports, Professional Ethics, Liability of an Audit, Internal Audit, Management Audit, Cost Audit, Business Investigation, Auditing Case Laws, Auditors Report forms and Code of Corporate Governance.

Relevant aspects of Securities Exchange Commission Pakistan directives relating to internal audit, external audit and code of corporate governance have also been incorporated and nicely reviewed in the book.

Oil & Gas Exploration
& Production in Pakistan
Issues in Legal Framework on
Community Development & Environment
Sikander Brohi
Supported by Oxfam
A PDI Publication 2008

The province of Sindh has large reserves of oil and gas, but the oil and gas companies working in the province are largely violating the laws, rules and regulations governing the Corporate Social Responsibilities, Petroleum Concession Agreement, Petroleum Exploration and Production Policy 2007, The Pakistan Environmental Protection Act 1999 among other laws.

A campaign was conducted by a non-governmental organization, Participatory Development Initiatives (PDI) with the support of Oxfam GB, to bring about awareness in the local communities of the legal framework governing the exploration of oil and gas in Pakistan. Oil and gas companies have a responsibility towards the local communities as well as the local environment, during the oil and gas exploration and production phase.

Research was conducted by PDI in five districts of Sindh i.e. Thatta, Badin, Tando Allahyar, Hyderabad and Badin and this book is a result of that exercise, carried out with the objective to create an awareness among the people about the responsibilities of these companies.

The book has been divided into five chapters. While Chapter 1 is an introduction to the oil and gas resources in Pakistan, Chapter 2 *Policy Framework for Oil & Gas Exploration & Production* sets out the key aspects of the Petroleum Exploration & Production Policy 2007, which are directly/indirectly related to the local communities, their environment and livelihoods.

Chapter 3 *Legal Framework Governing Oil & Gas Exploration and Production*, sheds light on the key laws, rules and agreement documents which address the issues of community welfare and environment. Chapter 4 *Issues in Implementation of Policies & Laws in the Field*, discusses the many areas of the legal framework which are violated by the oil & gas companies in Pakistan, as the monitoring of the implementation of the policy, laws and rules by the oil and gas companies is not being properly carried out.

The last chapter gives recommendations among others on the need to bring a change in the process of awarding concession licenses, revision of the Petroleum Exploration & Production Policy 2007, capacity building of the institutions, monitoring the oil & gas company operations, legal support to local communities, increase in the penalty price on the violation of Environmental and other laws.

Pakistan Economy – Key Economic Indicators

	Unit	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Output and Prices									
GNP Size	$ bn	70.3	72.1	85.0	100.1	111.7	129.8	146.6	171.4
GDP Size	$ bn	71.3	71.7	82.4	97.9	109.4	127.3	143.9	167.6
Income Per Capita	$	501	504	579	669	732	835	927	1065
Real Growth	(%)								
GNP		1.9	5.1	7.9	6.4	8.3	5.6	6.7	6.1
GDP		1.8	3.1	4.7	7.5	8.6	5.8	6.8	5.8
Agriculture		-2.2	0.1	4.1	2.4	6.7	6.3	3.7	1.5
Manufacturing		9.3	4.5	6.9	14.0	12.6	8.7	8.2	5.4
Services Sector		3.1	4.8	5.2	5.8	8.0	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	2.5	2.8	6.0	12.5	6.9	10.3	17.6
Non Food Inflation*	(%)	5.1	4.2	3.3	3.6	7.1	8.6	6.0	7.9
Core Inflation*	(%)	4.2	2.0	2.5	3.8	7.2	7.5	5.9	8.4
Gold Tezabi	$/10 grams	91.8	95.5	109.0	127.2	138.3	172.2	208.2	267.1
Motor Gasoline Premium	Rs/Ltr	29.34	31.60	33.08	33.91	40.75	55.21	56.09	57.83
Kerosene oil	Rs/Ltr	16.84	18.58	22.48	24.95	29.11	36.19	39.09	43.44
Light Speed Diesel	Rs/Ltr	13.50	16.70	21.15	22.72	26.50	36.45	38.40	40.97
GDP Deflator	%	8.02	2.49	4.42	7.74	7.02	9.20	7.80	13.41
Savings and Investment									
National Savings	% GDP	16.5	18.4	20.6	17.9	17.5	17.7	17.8	13.3
Domestic Savings	% GDP	17.8	17.9	17.4	15.7	15.4	15.3	16.0	11.0
Gross Capital Formation	% GDP	15.8	15.3	15.1	15.0	17.5	20.5	21.3	20.0
Public	% Gross Capital	5.7	4.1	3.9	4.0	4.3	4.8	5.7	5.7
Private		10.2	11.2	11.2	10.9	13.1	15.7	15.6	14.2
Public Finance									
Revenue Receipts	% GDP	13.3	14.1	14.5	13.8	13.5	13.4	13.9	18.47
Tax Revenue	% GDP	9.9	9.2	9.5	9.2	9.1	9.2	9.6	9.6
Total Expenditure	% GDP	17.2	17.9	16.2	13.9	15.4	15.4	15.6	18.3
Fiscal Deficit	% GDP	4.3	4.3	3.7	2.4	3.3	4.3	4.3	7.4
Domestic Debt	Rs.bn	1731	1718	1854	1979	2150	2322	2601	3266
Funded	% Domestic Debt	58.9	53.9	51.0	54.6	59.4	62.0	63.9	68.8
Non Funded	% Domestic Debt	41.1	46.1	49.0	45.4	40.6	38.0	36.1	31.2
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	1498	1531	1539	1903	2329	2697	3080	4022
Net Foreign Assets (NFA)**	Rs.bn	28.3	231	540	583	637	710	985	667

** Period Average   ** End-June Stocks*

	Unit	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Credit to Private Sector	Rs.bn	750	841	949	1274	1712	2114	2480	2888
Net Credit to Government	Rs.bn	602	677	599	657	753	834	927	1510
Borrowings for Budgetary Support	Rs.bn	4999*	567	511	575	647	708	810	1365
Broad Money (M2)	growth %	9.0	15.4	18.0	19.6	19.1	15.1	19.3	15.3
Reserve Money (Mo)	growth %	7.1	9.6	14.5	15.4	17.6	10.2	20.9	22.3
Capital Market									
SBP General Index	2000-01=100	118.7	106.7	204.1	323.3	362.8	427.0	547.5	455.4
KSE 100 Index	1991=1000	1366	1770	3402	5279	7450	9989	13772	12289
Market Capitalisation	$ bn	5.8	6.6	12.8	24.4	34.3	46.2	65.7	59.9
National Saving Scheme**	$ bn	13.0	13.8	16.8	17.1	15.8	15.6	16.5	17.4
Banking Sector									
Scheduled Banks Deposits	$ bn	21.9	23.1	28.7	34.8	40.9	47.0	55.7	61.0
Scheduled Banks Advances	$ bn	13.6	14.4	16.6	21.6	28.5	34.5	39.2	45.0
Scheduled Banks Assets	$ bn	34.0	37.5	43.4	52.1	62.9	61.3	77.6	80.7
Lending and Deposit Rates	weighted average								
Deposits Outstanding	% pa	5.0	4.17	1.90	1.61	2.55	4.01	5.30	6.94
Advances Outstanding	% pa	13.97	12.03	7.58	7.20	8.98	10.90	11.80	12.42
Open Market Operation	weighted average								
SBP 3-Day Repo	% pa	14.00	9.00	7.50	7.50	9.00	9.00	9.50	12.00
Treasury Bills Yield - 6 Months	% pa	12.88	6.28	1.66	2.08	7.96	8.49	8.90	11.47
KIBOR - 6 Months	% pa	-	6.21	2.12	2.69	8.46	9.36	9.77	13.94
Pakistan Investment Bonds - 5 yrs	% pa	12.99	9.39	4.16	5.27	7.50	9.65	9.53	-
Overnight Call Money Rate	%	8.96	6.74	4.23	1.86	4.34	8.46	9.37	13.55
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	10.97	12.46	14.48	16.55	17.28	20.12
Imports	$ bn	10.20	9.43	11.33	13.74	19.00	24.99	26.99	35.42
Trade Balance	$ bn	-1.27	-0.29	-0.36	-1.28	-4.52	-8.44	-9.71	-15.70
Current Account	$ bn	-1.95	0.09	3.16	1.30	-1.78	-5.70	-7.40	-14.46
	% GDP	-2.9	0.1	3.7	1.3	-1.6	-6.6	-5.1	-8.6
Worker Remittances	$ mn	1087	2389	4237	3872	4168	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	35.5	35.3	35.8	37.6	40.5	46.3
	% GDP	52.2	50.9	42.6	36.1	32.7	29.5	28.1	27.6
External Debt Servicing	$ mn	3395	4095	3150	4969	2716	2805	2769	2923
Gold & Forex Reserves	$ mn	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)	$/barrel	26.1	25.5	28.2	33.0	55.4	73.3	71.9	141.0
Exchange Rate (Average)	Rs/US$	58.4	61.4	58.5	57.6	59.4	59.9	60.6	62.5

** Special Account-Debt Repayment Adjusted* *** Outstanding Amount*