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Editor's Corner

Dear readers

Recently the government initiated the Draft Fiscal Responsibility and Debt Limitation Ordinance 2002 to address the public debt problem which plagues the economy. Over the years, budgetary expenditures have risen, while there has been a lack of buoyancy in revenues, resulting in persistently large fiscal deficits. To finance the rising gap between expenditure and revenues, government has resorted to borrowing, thereby adding to the debt stock of the country.

The accumulation of public debt, has been responsible for negating government's attempts to make development sustainable and has had a series of negative ramifications on the rest of the economy. It has diverted scarce resources away from the private sector, has had negative effects on the interest rate structure in the economy and has contributed to low investment rates.

When we talk about debt burden, the fiscal deficit forms an important part of the equation. As fiscal deficit has been responsible for many of the ills facing the economy, their elimination has been high on the agenda for any structural reforms programme.

Past experience has shown that any adjustment programme that Pakistan has pursued has been weak in the area of fiscal policy. In a recent country review, the IMF showed that while progress on the structural front was broadly in line with the programme, all but one of the performance criteria for end March 2002 were met. The shortcoming was in performance criterion of the tax collection target.

Fiscal deficits averaged close to 6.5% of GDP during the 1980s and 1990s, while the ratio of public debt to GDP rose from 66% in 1980 to 101% in 2000. The interest burden of public debt grew even more sharply, quadrupling from a little less than 11% of total revenues over 1980-85 to 46% by 1999-2000. High fiscal deficits over the past many years has been primarily because of lack of fiscal discipline.

Caught in this vicious cycle of high debt payments, Pakistan has invested little in human and physical capital. Low growth in turn, has limited the capacity to service debt and reduce the debt burden. A sharp slowdown of economic growth has led to a sharp increase in the incidence of poverty, where 38% of the population today subsists below the poverty line.

The Draft Fiscal Responsibility Law puts a limit on government borrowings, and suggests the elimination of budget deficit by June 2007 and thereafter to achieve a revenue surplus. It also seeks to reduce public debt to GDP ratio to 60% by June 2012 from over 100% currently. Moreover, public debt to GDP ratio to be reduced every financial year by not less than 2.5% of the estimated GDP for the year, and social and poverty related expenditures are not be reduced below 4% of the GDP for the year. These targets are to be met through effective debt and deficit management. Will future governments be able to bring deficits down to the goal mentioned in the Ordinance is a big challenge.

The Federal Government is required to place before the National Assembly periodical statements of economic, fiscal and financial policy and their results. These are mentioned in our story on page 5.

The Draft Ordinance provides a cushion to the government to depart from the principles of fiscal and debt management on grounds of unforeseen demands on its finances due to a threat to its national security or when the country is going through a major natural calamity as determine by the National Assembly.

This deviation would be a setback in meeting the targets set therein. Perhaps the government assumes that these would be the exceptions and not the rule.

It is only if the government succeeds to bring debt to sustainable levels, that it can hope to stimulate private sector growth and improve social delivery. A beginning has been made to bring better fiscal discipline in the country's budgetary operations by the initiation of the Draft Debt Limitation Ordinance. It also demonstrates the government's seriousness about checking any fiscal irresponsibility and one hopes that it is met with success.

Ayesha Mahmud

Abstract of the Bulletin

Pakistan's Debt Burden and its Management

- A persistent problem facing Pakistan is the growing debt, both external and internal. Today income per capita (Rs.24,965) is lower than per citizen indebtedness (Rs.28,784).
- The government has formulated a Draft Fiscal Responsibility and Debt Limitation Ordinance 2002, to ensure medium and long term macroeconomic stability, elimination of the revenue deficit and reduction of public debt to a prudent level.

Private Banks' Performance – 2001

- The reform process for Pakistan's financial sector initiated at the end of 1989, has gathered momentum since 1997 when a set of reforms aimed at institutional strengthening, restructuring of banks and improvement in regulatory framework was introduced.
- The financial sector has experienced a positive impact of these reforms over the past three years.
- Balance sheet analysis of 14 private banks reveals that in 2001, these banks have been aggressive in mobilizing deposits.
- Administrative expenditure for most banks remained high. Private banks are utilizing over 85% of their income to meet expenses.
- Profit of private banks surged 40% in 2001, as Askari Commercial Bank crossed Rs.1 billion level.

Trade Policy 2002-03

- The Trade Policy for FY03, envisages exports to grow by 13.4% to $10.34 billion and imports to show a 7% increase, containing it at $11.1 billion.
- The Policy has announced specific incentives for new products and for new markets and regional trade is being encouraged.
- Government continues with the policy of trade liberalisation and deregulation and more measures in this direction have been announced.

World Bank's Country Assistance Strategy for Pakistan

- The Bank Group's Assistance Strategy is to support the comprehensive reform programme, which encompasses political, institutional, economic, social and gender transformation for Pakistan's transition to a modern Islamic state.
- The Bank's lending programme will be linked to provincial reforms, macroeconomic stability and governance, enabling environment for private investment and human development.
- The Bank Group lending will continue only as long as Pakistan continues its excellent implementation performance of the past two years and remains on track in implementing the poverty reduction and economic management strategy.

Agriculture

- Inspite of facing persistent water shortages, the agricultural sector was able to record a growth of 1.4% in FY02, against a decline of 2.6% in FY01.
- Sugarcane crop has already exceeded its production target. Cotton output is on the target, while rice crop is performing satisfactorily. Wheat situation is also satisfactory. However, quality problems are hindering its exports.

Banking and Finance

- Scheduled banks deposits, advances and investments increased in the week ended August 31, 2002 over the comparable period last year.
- Foreign exchange reserves of the country have crossed $7 billion, attributable to an improvement in economic fundamentals during the last 3 years.
- The State Bank of Pakistan has announced the rules and regulations for setting up of Exchange Companies.

Market Analysis

- The market in July remained range-bound with low volumes, reflecting the lack of direction as traders preferred to wait on the sidelines for a stronger trend in either direction before taking any action. Tension with India has been the main news factor driving sentiment in the market over the last few months, and as news from that front appears to have subsided somewhat by late July, it is earnings announcements that are giving new momentum to the market. Looking beyond the short-term earnings driven rally, elections in October are a source of uncertainty for the market.

Pakistan's Debt Burden and its Management

There is hardly any doubt that the numerous problems that Pakistan is today faced with, is largely because it is a severely indebted country belonging to the same category as some of the countries of Latin America and Africa. As both public and external debt have accumulated over the years to an unsustainable level, there was a need to devise a strategy to deal with this malaise. The Draft Fiscal Responsibility and Debt Limitation Ordinance 2002 recently placed for public opinion is a step in this direction.

Debt a major economic issue

Today, Pakistan's total debt has crossed Rs.4 trillion, constituting 115% of GDP. At the end of the 1970s the ratio was 66%. The State Bank of Pakistan in its Annual Report 2000-2001 attributes the accumulation of public debt to "structural weaknesses in the domestic economy and the external account. Excessive government expenditures, stagnant tax revenues, high returns on government securities and inappropriate sequencing of financial reforms, led to a bludgeoning domestic debt profile. On the external front, large current account deficits, stagnant export revenues and declining worker remittances, effectively forced Pakistan into an unsustainable situation."

Massive increase in public debt has resulted in large debt servicing of Rs.325 billion. This has increased at an average rate of 23.5% per annum in the 1980s, and almost 17% per annum during the 1990s. Consequently, every year the government spends three fourth of its revenue on financing one single item, i.e. debt servicing, leaving only 25% of revenue to be spent on social sector, physical infrastructure, civil administration and other activities.

To finance such expenditures, the government undertakes more borrowings and the country finds itself in a severe debt trap.

1980s witnesses debt accumulation

Historically speaking much of the increase in total debt occurred during the decade of the 1980s (especially in the second half). A Social Policy and Development Centre paper *"Macroeconomic Framework for Debt Management"* by Dr. Hafiz A. Pasha explains the reasons for the rapid accumulation of debt during the decade of the 1980s.

- Major reason for the rapid increase in the 1980s was the relatively large size of the primary budget deficit* at over 3% of GDP annually, as compared to the average of 0.5% of the GDP during the 1990s.
- Real interest rate on domestic debt was higher during the 1980s.
- Extent of real exchange rate depreciation appears to have been significantly higher in the 1980s, thereby contributing to larger capital losses on external debt.

Pakistan - Debt to GDP Ratio

(% of GDP)

Years	External Debt	Domestic Debt	Total Debt
1979-80	41.0	25.5	66.5
1984-85	39.1	31.8	70.9
1989-90	48.7	43.7	92.4
1990-91	44.1	43.0	87.1
1991-92	46.2	42.9	89.1
1992-93	47.9	44.8	92.7
1993-94	53.1	44.2	97.3
1994-95	47.3	42.0	89.3
1995-96	44.1	42.2	86.3
1996-97	47.2	42.2	89.4
1997-98**	55.4	43.9	99.8
1998-99**	57.7	46.8	106.7
1999-00**	56.2	49.0	107.3
2000-01**	64.0	49.2	115.3

Source: *Macroeconomic Framework for Debt Management*
Social Policy & Development Cent
***Annual Report 2000-0*

Dr. Ishrat Husain, Governor State Bank of Pakistan in his paper *"Strategy for External Debt Management 1999-2004"*, has stated certain specific reasons as why debt is a serious problem for Pakistan's economic management.

These are stated as follows: -

- First, it crowds out public finances by pre-empting 56% of budgetary revenues necessitating serious cutbacks on essential public expenditures for promoting growth and poverty reduction.
- Second, it forces the economic managers to keep on borrowing for meeting even the non-development and recurrent expenditures to operate the state.
- Third, the annual external debt service payments falling due every year amount to $6-7 billion which consumes more than two thirds of the export earnings.
- Fourth, the stock of public debt as a percentage of revenues is over 600% which is clearly unsustainable.

* Primary budget deficit/surplus = revenue – non-interest expenditure.

It had become imperative that those at the helm of economic management find sustainable and permanent solution to manage the debt.

In March 2001, A Debt Burden Reduction and Management Strategy was announced, where the following points formed the basis of the Debt Reduction Plan: -

Debt reduction plan

- Revival of economic growth. Economic growth to rise to 5.5% per annum by 2003-04 and to over 6% in the second half of the decade.
- Improving debt paying capacity through growth in exports, remittances and government revenues.
- Bring down the real cost of government borrowing, especially domestic borrowing.
- Accelerate the process of privatisation.
- Reduce the fiscal and current account balance of payments deficit. Fiscal deficit to be reduced to 30% in 2003-04.
- Improve the effectiveness of government expenditures, especially the use of borrowed resources.
- Pursue strong macroeconomic adjustment policies, which would lay the basis for elimination of the need for IMF assistance in about three years and obviate the need to obtain additional debt rescheduling after mid 2004.
- Put in place a debt management and monitoring system to effectively review and monitor progress of debt.

Draft fiscal responsibility and debt limitation ordinance 2002

More recently the government announced the Draft Fiscal Responsibility and Debt Limitation Ordinance 2002, with the idea to improve debt ratio and effectively stabilise the economy. Such a law was perhaps long needed to keep a check on government finances and see that it observes fiscal discipline to achieve the desired objectives. Highlights of the Draft Ordinance are given in the accompanying box.

Box Draft Fiscal Responsibility and Debt Limitation Ordinance 2002 *1*

- The Fiscal Responsibility and Debt Limitation Ordinance, 2002 extends to the whole of Pakistan.
- The Federal Government shall pursue its policy objectives in accordance with the principles of sound fiscal and debt management.
- Federal government to take appropriate measures to eliminate the revenue deficit, reduce total public debt and maintain it within prudent limits.
- The principles of sound fiscal and debt management to be pursued are: -
  - reduce revenue deficit to nil not later than June 30, 2007 and thereafter maintaining a revenue surplus.
  - reducing total public debt by end June 2012 to 60% of estimated GDP for the year and thereafter maintaining it at the level.
  - ensuring that in every financial year public debt is reduced by not less than 2.5% of GDP, and social and poverty related expenditures are not reduced below 4% of GDP.
  - not issuing new guarantees, including those for rupee lending, bonds rates of return, output purchase agreements and all other claims and commitments that maybe prescribed from time to time, for any amount exceeding 2% of estimated GDP in any financial year.
- The Federal Government may depart from the principles of sound fiscal and debt management on the grounds of unforeseen demands on finances of the government due to national security or natural calamity as determined by the National Assembly.
- The Federal Government will have to lay each year before the National Assembly statements of economic, fiscal and financial policy.
- If the Federal Government fails in meeting the prescribed targets, measures will be taken by the Government including the suspension of salaries of the Cabinet members to return to the debt reduction path latest by the end of the next two years.
- The government will take suitable measures to ensure greater transparency in its fiscal operations.
- Within two months of the promulgation of the Ordinance, the Federal Government would constitute an office to be known as Debt Policy Coordination Office. It
  - shall work under the direct supervision of Minister;
  - shall submit all the reports prepared by it to the Cabinet;
  - shall comprise 3 directors, of which 2 shall be from the private sector;
  - shall appoint directors for a term of three years and no director shall hold office for more than two terms.
- The Debt Policy and Coordination Office would be performing a host of functions like,
  - preparing the medium term budgetary statement,
  - monitoring and evaluating external and domestic borrowing strategies,
  - analyzing the foreign currency exposure of Pakistan's external debt,
  - providing consistent and authenticated information on public and external debt and government guarantees including total guarantees outstanding,
  - serve as a Secretariat for the Fiscal Responsibility and Debt Limitation Law.

Main elements of the ordinance

The whole essence of the law is to set down limits for borrowing, and issuing guarantees. As it is a Draft policy paper, there is scope for some of the targets which may seem ambitious and unrealistic to be reviewed and later rationalised after the consultative process is over.

The most important element in this Draft Ordinance is that by 2007, the government would not be borrowing for current consumption purposes, as revenue deficits are targeted to be nil by that year. The Ordinance proposes to limit the government to make borrowings only for the purpose of development expenditures and meet all its current expenditures from revenue receipts.

While revenue receipts as a proportion to GDP has dropped to around 16%, the ratio of current expenditure to GDP is higher, resulting in revenue deficits which today constitute over 2% of GDP against 1.3% in 1984-85. As a result governments have had to borrow to finance the deficit. Government borrowings has limited the access of private sector to the credit market, resulting in decline in investment and slower growth of the economy.

Past experience has shown that governments have, whenever the need arose, reduced revenue deficit, either through enhancement in prices and/or surcharges on utilities or by reducing the profit on National Saving Schemes.

The importance of revenue surplus as a source of financing development expenditure has been greatly emphasized, as it forms one of the core elements of the proposed Ordinance.

Debt/GDP ratio to be reduced

The second element of the Draft Ordinance is to bring down public debt to GDP ratio to 60%, ten years from now. To achieve this target, public debt is to be reduced by not less than 2.5% of estimated GDP for that year. Targets laid down in the Draft Ordinance can only be achieved through prudent economic policies and through accelerated pace of economic activities.

Poverty related expenditure not to fall below 4% of GDP

While greater discipline is to be ensured in government borrowing, poverty related expenditure will not be reduced below 4% of GDP. At the recent Independent Communications Network Seminar, there were suggestions that perhaps the government should have fixed some specific targets; for instance by a specified year poverty must be reduced by so much, or by such and such year, specific number of jobs would be created, or by a said year, literacy would be raised by this much percentage. Likewise other targets for housing, health and other sectors. In other words fixing of specific targets would have been more meaningful.

No new guarantees

The Ordinance also aims at not issuing new guarantees, including those for rupee lending, bonds, rates of return, output purchase agreements and all other claims and commitments that may be prescribed from time to time, over 2% of the estimated GDP, provided that the renewal of existing guarantees shall be considered as issuing a new guarantee.

These conditions can be relaxed under unforeseen circumstances, due to national security or natural calamity, as determined by the National Assembly, but temporarily, giving reasons and the time frame for return to previous position.

The federal government has to place before the National Assembly, the following statements:-

i) The Medium Term Budgetary Statement,
ii) The Annual Fiscal Policy Statement,
iii) The Annual Debt Policy Statement,
iv) The Mid Year Economic Report and
v) The Annual State of the Economy Report

The various reports would be released as part of government's move towards greater transparency.

A beginning towards reducing the country's debt burden has been made by issuing of the Draft Fiscal Ordinance. It is to be seen how the incoming government manages its fiscal responsibility.

Performance of Private Banks - 2001

Reform process continues

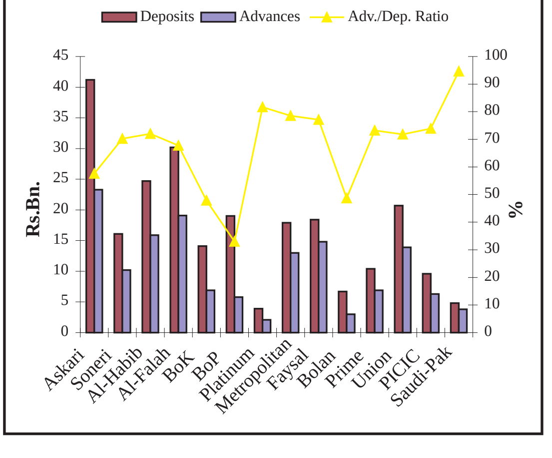
Pakistan's financial sector has been undergoing restructuring/reforms since the end of 1989. It gained momentum after the introduction of institutional strengthening measures, restructuring of banks/DFIs and improvement in regulatory frame work in 1997. The process continues todate.

The objective is to have stronger banks with improved capital adequacy, efficiency and profitability. While a complete turnaround in performance is not expected till the completion of reform process, the banking sector, however, has experienced a positive impact of these reforms over the past three years.

Good financial control is essential for any business. Identifying the key figures helps businesses to exercise better control, as well as making it easier to compare performance with the others in the field. This paper attempts to review the performance of 14 private banks operating in Pakistan during 2001, based on their annual accounts.

Deposit growth impressive

In 2001, private banks have been aggressive in mobilising deposits, that surged 24.7% over 2000, contributing 17.6% to total banks' deposits. Banks with smaller deposit base recorded substantial growth. Significant portion (49%) of private banks' total deposits is held by Askari Commercial, Al-Habib, Al-Falah and Union Bank. Bank Al-Falah recorded the highest deposit growth (47.5%). Platinum Bank and Saudi Pak Commercial recorded decline in deposits. Askari Commercial Bank continues to be the bank with the highest deposit base.



Slow growth in advances

Advances showed a single digit growth of 7.3% in 2001, in sharp contrast to 34.2% growth recorded a year earlier, because of slower growth in advances extended by Prime Commercial Bank and Union Bank. PICIC Commercial with smaller advances portfolio posted the highest growth. Platinum Commercial registered a record decline of 66.2%. Askari Commercial, Al-Habib, Al-Falah and Union Bank accounted for nearly 50% of private banks total advances.

Invest-ments rise sharply

Slower growth in advances was, however, compensated by a sharp rise in investments, which grew 71.5% in 2001 against a decline of 24.8% in 2000. All the private banks, with the exception of Bolan Bank, Union Bank and Saudi-Pak, posted sharp growth. Askari Commercial Bank continued to enjoy the highest investment portfolio.

Assets growth slows

Assets increased by 17.7%, lower over preceding year's growth of 25.6%, mainly on account of slower growth in advances. Almost 50% of assets were shared by five banks; Askari, Al-Habib, Al-Falah, Union and Faysal Bank. Askari continues to be the bank with single largest share (16.4%). Growth in assets was the highest for PICIC Commercial (40.7%). Platinum Commercial and Saudi-Pak suffered decline.

Equity rises

Shareholders' equity rose 22.4%, which is in sharp comparison with single digit growth recorded a year earlier. Bank of Khyber recorded the highest rise amongst private banks after preceding year's fall, but Askari Bank's equity remains the highest. 33% of private banks equity is held by Askari, Al-Habib, Al-Falah and Union Bank. Platinum Bank and Saudi-Pak Commercial suffered fall in their shareholders' equity.

Sharp rise in income

Total income recorded a double-digit growth of 19.5% in 2001, against a rise of 6.1% in the preceding year. Ten banks contributed towards the accelerated growth. While Bank Al-Falah recorded the highest increase (48.9%), Askari Bank continues to enjoy the highest income. Nearly 74% of private banks' total income was shared by five banks (Askari, Al-Habib, Al-Falah, Union and Faysal Bank).

Key Performance Indicators - Private Banks

(Rs. Million)

Banks	Assets		Equity		Deposits		Advances		Investment	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Askari Commercial Bank	38454.3	50980.4	2214.0	2557.0	30359.8	41200.2	17892.6	23291.4	8651.4	11705.9
Soneri Bank	20117.2	20540.7	1272.6	1543.0	14029.6	16053.9	10931.0	10198.9	3165.6	4942.3
Bank Al-Habib Ltd.	24225.8	28976.8	1322.1	1532.1	17822.6	24696.8	14722.0	15901.9	1289.4	5663.9
Bank Al-Falah Ltd.	28854.6	40098.0	900.6	1361.2	20481.6	30207.3	15242.3	19131.5	4874.7	11396.6
Bank of Khyber	15356.0	17228.8	635.5	1116.6	12332.3	14122.9	5746.2	6925.7	2894.8	5712.9
Bank of Punjab	21275.2	24802.7	2179.6	2254.9	17028.4	19034.7	6143.7	5771.5	3816.0	5969.9
Platinum Commercial	9725.2	5406.2	774.4	706.9	6416.4	3990.6	6355.0	2147.0	760.8	1111.4
Metropolitan Bank	20769.7	27144.9	1452.7	1785.3	13136.0	17902.4	11367.1	12987.7	2614.3	8264.6
Faysal Bank Ltd	24883.6	26029.2	2399.6	2524.1	17524.4	18432.6	12965.9	14772	2393.1	2479.7
Bolan Bank Ltd	8296.2	8443.5	592.2	856.5	5243.2	6684.7	2813.4	3001.9	891.9	630.0
Prime Commercial Bank	10908.2	14525.7	1127.9	1286.8	8264.1	10366.7	6794.0	6853.0	1983.9	4138.4
Union Bank	27089.9	30128.1	1077.6	1265.6	17171.3	20721.0	13345.9	13869.4	3804.6	2720.2
PICIC Comm.Bank Ltd.*	9569.0	13464.3	692.4	804.0	5370.6	9618.6	4745.8	6329.6	1353.7	2911.4
Saudi Pak Commercial**	9949.3	9512.9	-216.8	517.7	5579.1	4815.5	6047.7	3784.5	1572.6	1094.8
Total	**269474.2**	**317282.2**	**16424.4**	**20111.7**	**190759.4**	**237847.9**	**135112.6**	**144966.0**	**40066.8**	**68742.0**

Banks	Interest Income		Interest Expense		Net Income		Non-Fund Based Income		Total Income	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Askari Commercial Bank	3212.8	4250.9	2273.7	2902.5	939.1	1348.4	627.4	796.3	3840.2	5047.2
Soneri Bank	1815.7	1893.2	1391.0	1454.9	424.7	438.3	365.9	536.0	2181.6	2429.2
Bank Al-Habib Ltd.	1966.4	2591.0	1484.8	1806.7	481.6	784.3	353.8	357.8	2320.2	2948.8
Bank Al-Falah Ltd.	2261.8	3387.4	1724.0	2515.0	537.8	872.4	269.5	382.4	2531.3	3769.8
Bank of Khyber	1732.1	1728.6	1498.4	1401.1	233.7	327.5	129.3	149.3	1861.4	1877.9
Bank of Punjab	1934.8	2173.0	1083.3	1113.1	851.5	1059.9	290.6	239.5	2225.4	2412.5
Platinum Commercial	700.2	653.9	562.1	524.9	138.1	129.0	163.9	93.6	864.1	747.5
Metropolitan Bank	1667.7	2187.5	1131.3	1487.5	536.4	700.0	382.0	438.0	2049.7	2625.5
Faysal Bank Ltd	2350.0	2475.6	1950.3	1996.3	399.7	479.3	538.6	646.3	2888.6	3121.9
Bolan Bank Ltd	472.1	697.9	293.4	409.4	178.7	288.5	156.4	65.9	628.5	763.8
Prime Commercial Bank	1060.9	1155.7	683.3	697.3	377.6	458.4	192.4	233.4	1253.3	1389.1
Union Bank	1751.1	2450.2	1435.6	1852.6	315.5	597.6	499.8	666.5	2250.9	3116.7
PICIC Comm.Bank Ltd.*	1018.0	1046.5	690.0	753.7	328.0	292.8	161.7	242.3	1179.7	1288.8
Saudi Pak Commercial**	703.1	588.1	722.4	540.0	-19.3	48.1	147.0	47.8	850.1	635.9
Total	**22646.7**	**27279.5**	**16923.6**	**19455.0**	**5742.4**	**7776.4**	**4278.3**	**4895.1**	**26925.0**	**32174.6**

Banks	Revenue		Admn Expenses		Total Expenses		Profit/Loss (BT)	
	2000	2001	2000	2001	2000	2001	2000	2001
Askari Commercial Bank	1566.5	2144.7	679.4	852.9	3088.6	4038.7	751.6	1008.5
Soneri Bank	790.6	974.3	348.7	361.9	1787.7	1878.0	393.9	551.2
Bank Al-Habib Ltd.	835.4	1142.1	402.5	538.8	1917.0	2397.8	403.2	551.0
Bank Al-Falah Ltd.	807.3	1254.8	503.0	743.6	2131.0	3245.6	400.3	524.2
Bank of Khyber	363.0	476.8	208.2	234.2	2017.3	1715.2	-155.9	162.7
Bank of Punjab	1142.1	1299.4	678.7	837.0	1905.8	1991.2	319.6	421.3
Platinum Commercial	302.0	222.6	166.5	184.1	718.5	834.7	145.6	-87.2
Metropolitan Bank	918.4	1138.0	318.3	368.9	1481.9	1882.8	567.8	742.7
Faysal Bank Ltd	938.3	1125.6	355.2	395.6	2445.2	2421.8	443.4	700.1
Bolan Bank Ltd	335.1	354.4	322.0	308.9	615.7	753.8	12.8	10.0
Prime Commercial Bank	570.0	691.8	326.2	361.3	1094.7	1148.0	158.6	241.1
Union Bank	815.3	1264.1	716.6	1040.0	2240.0	3107.8	10.9	8.9
PICIC Comm.Bank Ltd.*	489.7	535.1	263.5	234.4	1063.0	993.0	116.7	295.8
Saudi Pak Commercial**	127.7	95.9	192.5	194.6	1717.3	1418.3	-867.2	-782.4
Total	**10001.4**	**12719.6**	**5481.3**	**6656.2**	**24223.7**	**27826.7**	**3724.4**	**5217.5**

Growth Rates - Private Banks

in %

Banks	Assets		Equity		Deposits		Advances		Investment	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Askari Commercial Bank	23.94	32.57	8.19	15.49	24.64	35.71	37.04	30.17	-0.32	35.31
Soneri Bank	13.46	2.11	15.39	21.25	14.41	14.43	40.20	-6.70	-55.51	56.13
Bank Al-Habib Ltd.	21.92	19.61	13.10	15.88	26.28	38.57	34.75	8.01	-71.98	339.27
Bank Al-Falah Ltd.	37.27	38.97	0.59	51.14	29.46	47.49	47.59	25.52	-2.37	133.79
Bank of Khyber	16.33	12.20	-10.35	75.70	19.65	14.52	-0.24	20.53	-40.42	97.35
Bank of Punjab	16.83	16.58	19.55	3.45	13.38	11.78	-0.11	-6.06	-23.54	56.44
Platinum Commercial	27.94	-44.41	7.71	-8.72	33.08	-37.81	46.29	-66.22	-8.02	46.08
Metropolitan Bank	15.97	30.69	18.39	22.90	8.60	36.29	28.21	14.26	-47.76	216.13
Faysal Bank Ltd	27.33	4.60	26.98	5.19	21.73	5.18	47.73	13.93	-27.91	3.62
Bolan Bank Ltd	40.69	1.78	0.27	44.63	8.04	27.49	51.00	6.70	45.50	-29.36
Prime Commercial Bank	3.14	33.16	15.00	14.09	6.56	25.44	36.48	0.87	-25.00	108.60
Union Bank	89.31	11.22	5.19	17.45	75.16	20.67	77.47	3.92	16.94	-28.50
PICIC Comm.Bank Ltd.*	1.68	40.71	9.01	16.12	-15.16	79.10	-3.79	33.37	16.77	115.07
Saudi Pak Commercial**	21.07	-4.39	-134.95	338.79	19.48	-13.69	13.12	-37.42	30.50	-30.38
Total	**25.62**	**17.74**	**6.43**	**22.45**	**21.81**	**24.68**	**34.25**	**7.29**	**-24.78**	**71.57**

Banks	Interest Income		Interest Expense		Net Income		Non-Fund Based Income		Total Income	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Askari Commercial Bank	-4.10	32.31	-8.53	27.66	8.65	43.58	16.47	26.92	-1.25	31.43
Soneri Bank	10.16	4.27	8.50	4.59	15.94	3.20	9.65	46.49	10.07	11.35
Bank Al-Habib Ltd.	4.67	31.76	2.88	21.68	10.61	62.85	37.24	1.13	8.60	27.09
Bank Al-Falah Ltd.	18.68	49.77	16.94	45.88	24.63	62.22	42.14	41.89	20.80	48.93
Bank of Khyber	39.44	-0.20	13.42	-6.49	-396.20	40.14	-69.50	15.47	11.72	0.89
Bank of Punjab	-14.42	12.31	-27.93	2.75	12.39	24.47	68.37	-17.58	-8.55	8.41
Platinum Commercial	1.82	-6.61	3.59	-6.62	-4.82	-6.59	3.67	-42.89	2.16	-13.49
Metropolitan Bank	8.19	31.17	6.14	31.49	12.78	30.50	3.16	14.66	7.21	28.09
Faysal Bank Ltd	26.77	5.34	-7.92	2.36	-251.23	19.91	-13.31	20.00	16.71	8.08
Bolan Bank Ltd	0.90	47.83	15.06	39.54	-16.06	61.44	88.66	-57.86	14.11	21.53
Prime Commercial Bank	-3.53	8.94	-16.26	2.05	33.10	21.40	18.69	21.31	-0.67	10.84
Union Bank	28.91	39.92	29.90	29.05	24.61	89.41	33.60	33.35	29.92	38.46
PICIC Comm.Bank Ltd.*	14.58	2.80	-14.21	9.23	289.55	-10.73	-60.12	49.85	-8.83	9.25
Saudi Pak Commercial**	-26.23	-16.36	-5.41	-25.25	-110.19	349.22	5.15	-67.48	-22.22	-25.20
Total	**7.15**	**20.46**	**-0.33**	**14.96**	**38.17**	**35.42**	**1.13**	**14.42**	**6.14**	**19.50**

Banks	Revenue		Admn Expenses		Total Expenses		Profit/Loss (BT)	
	2000	2001	2000	2001	2000	2001	2000	2001
Askari Commercial Bank	11.65	36.91	15.43	25.54	-2.76	30.76	5.50	34.18
Soneri Bank	12.94	23.24	22.01	3.79	11.75	5.05	3.03	39.93
Bank Al-Habib Ltd.	20.51	36.71	20.83	33.86	8.69	25.08	8.18	36.66
Bank Al-Falah Ltd.	29.98	55.43	24.94	47.83	22.40	52.30	12.95	30.95
Bank of Khyber	5.19	31.35	1.71	12.49	25.77	-14.98	-350.24	204.36
Bank of Punjab	22.78	13.77	-6.00	23.32	-17.45	4.48	156.30	31.82
Platinum Commercial	-0.40	-26.29	19.27	10.57	4.84	16.17	-9.28	-159.89
Metropolitan Bank	8.57	23.91	4.43	15.90	6.54	27.05	9.00	30.80
Faysal Bank Ltd	162.83	19.96	-8.05	11.37	-15.79	-0.96	-203.45	57.89
Bolan Bank Ltd	13.29	5.76	11.50	-4.07	13.22	22.43	82.86	-21.87
Prime Commercial Bank	27.86	21.37	5.98	10.76	-2.59	4.87	14.93	52.02
Union Bank	29.97	55.05	92.53	45.13	35.06	38.74	-85.27	-18.35
PICIC Comm.Bank Ltd.*	0.00	9.27	1.70	-11.04	-0.04	-6.59	-49.39	153.47
Saudi Pak Commercial**	-61.21	-24.90	42.38	1.09	67.92	-17.41	-1335.33	-9.78
Total	**19.26**	**27.18**	**15.87**	**21.43**	**7.25**	**14.87**	**16.02**	**40.09**

Major portion of the total income was generated through interest income (nearly 85%), despite some reduction in the lending rates. More than 55% of private banks' total interest income was shared by five banks (Askari Commercial, Al-Habib, Bank Al-Falah, Union Bank and Faysal Bank).

Rising interest expense

Interest expense rose nearly 15% after having declined in the preceding year. Highest increase was contributed by Bank Al-Falah (45.9%) Private banks utilised more than 71% of their interest income to finance interest expenses. Saudi Pak used nearly 92% of its interest income to meet its interest expenses, while Bank of Punjab used 51%, the lowest amongst all private banks.

Net interest income one-third of total income

After adjusting for interest expenses, net interest income of all private banks showed 35.4% growth, contributing 24% to total income. Highest growth was at Al-Habib (62.8%). Two banks crossed Rs1 billion mark, with Askari Bank registering highest net interest income followed by Bank of Punjab. Net Interest income to total income ratio was the highest for Bank of Punjab (44%) and lowest for Saudi Pak (7.6%).

Non fund based income grows

Non-fund based income of private banks grew by 14.4%, against preceding year's growth of only 1.1%. Though PICIC Commercial posted a record growth(49.8%), non-fund based income was the highest at Askari Commercial and lowest at Saudi Pak whose growth declined. Bank of Punjab, Platinum Commercial, Bolan Bank also recorded falls.

During 2001, the share of non fund based income to total income was 15%. It accounted for 38.5% of private banks' net revenue, down from 42.3% the previous year. The ratio is the highest for Faysal Bank(57.5%) and lowest for Bank of Punjab and Bolan Bank (around 18.5%).

Net revenue rises

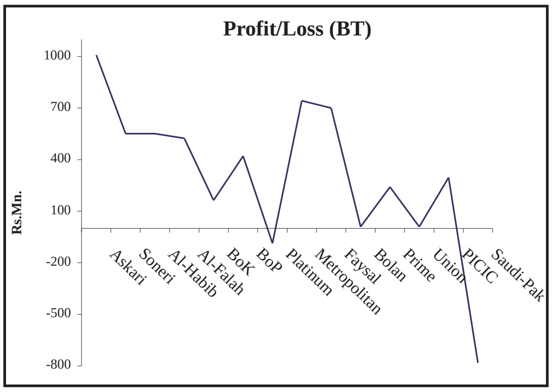
Net revenue (Net interest income plus non-fund based income) available for meeting administrative expense rose by 27%. All banks, with the exception of Platinum Commercial and Saudi Pak, contributed to this growth. Bank Al-Falah and Union Bank recorded highest growth exceeding 55% but Askari Bank continued to earn the highest net revenue, which exceeded Rs2 billion in 2001. In 2000, only two banks had net revenue exceeding Rs1 billion but in 2001, the number of such banks increased to 7.

Double digit growth in expenses

Banks annually incur a significant amount of expenses on their operations. These expenses rose by 14.9%, except for four banks (Khyber, Faysal, PICIC and Saudi-Pak) which suffered decline. Askari Commercial continued to incur the highest expenditure amongst the private banks. Interest expense constituted almost 70% of total expenses. This ratio was the highest at Faysal Bank (82%) and lowest at Bank of Punjab (56%).

Improved profit-ability

Concerted efforts to boost income from investments, proved successful in improving profitability of private banks. Cumulative profit (BT) jumped 40% in 2001. Askari Commercial was the only bank to post a pre-tax profit exceeding Rs1 billion. Union Bank posted the smallest profit for the second consecutive year. Saudi Pak Commercial was able to reduce its previous year's loss by nearly 10%. Platinum Bank suffered a loss against previous year's profit.



Key Ratios

High cost of funds

Ratio analysis judge the financial strength of a company. It indicates how the business is performing. Two costs ratios (Cost of funds and Intermediation cost) have great importance for banks. Banks prefer low cost funds. In 2001 the cost of funds ratio for private banks fell marginally to 8.1% from 8.6% a year earlier. Most banks were offering attractive interest rates to mobilize deposits despite 2 percentage fall over a year earlier. Bank of Khyber posted the highest cost (9.6%) Average cost of funds of four major banks, Askari, Al-Habib, Al-Falah and Union, was 7.4%, lower than the total private banks' average.

Intermediation cost still high

Intermediation cost of private banks recorded only a modest fall and remained over 3% in 2001. It was the highest for Prime Commercial Bank (5.5%) and lowest (1.8%) for Bank of Khyber. For the four major private banks, intermediation cost was in the range of 2.1% to 3.9%.

Advances to deposit ratio exceeds 90% of most banks

Equally important for banks is the Advances to Deposit ratio. While the ratio averaged 65.3% for all private banks, it reached more than 70% for 9 banks, with Saudi Pak Commercial recording the highest (94.6%). It was less than 60% for four banks; where Bank of Punjab recorded the lowest advances to deposit ratio (33%). If banks investment is also taken into account, the ratio exceeds 90% in eight banks.

The profitability ratios, measured by return on equity (RoE), return on assets (RoA), return on deposits (RoD) and pre-tax profit margin, are indicators of the ability of the banks to use available resources efficiently. Average RoE increased to 28.6% in 2001 from 23.4% in 2000, as profit recorded substantial growth during the year. Two banks Platinum Commercial and Saudi Pak Commercial posted a negative return on equity.

Highest RoE at Bank Al-Falah

RoE of six banks was above average. Bank Al-Falah recorded the highest ratio (46.3%) followed by Askari Commercial, PICIC Commercial, Soneri and Al-Habib, Union Bank had the lowest RoE of 0.8% due to lower profit.

Return on Assets (RoA) indicates how successfully a bank employs its assets to generate earnings. The ratio improved only slightly to 1.8% from 1.5%. RoA of six banks was more than 2%, which was above the average of all private banks.

High RoA at Metropolitan Bank

Metropolitan Bank recorded the highest RoA (3.5%), while four banks posted below average ratio, with Union Bank recording a meager 0.03% return for the year. Platinum Commercial and Saudi Pak Commercial posted negative return.

Lowest RoD at Union Bank

Return on Deposits (RoD) increased to 2.7% from 2.4% with four banks registering above 3% return. Highest return was recorded by Metropolitan Bank (4.8%). Among the major private banks, RoD of Askari Commercial was slightly above the private banks average, while Al-Habib and Al-Falah had below average return and Union Bank recorded the lowest return (0.04%).

High pre-tax profit margin at Metropolitan Bank

Pre-tax profit margin increased from 13.8% to 21.4%. All the banks, with the exception of Platinum Commercial and Saudi Pak Commercial, recorded positive pre tax profit margin. Metropolitan Bank registered the highest margin (28.3%). PICIC Commercial, Soneri Bank and Faysal Bank had an average pre tax profit margin of 22.7%. Pre tax profit margin of Askari, Al-Habib and Al-Falah was in the range of 13.9% to 20%, lower than Metropolitan and PICIC Commercial Bank.

Efficiency ratios measure:

- how much working capital is tied up.
- how effective it is in making its money work.
- how good is the management in controlling cost and maximizing revenues.

Highest capital ratio at Platinum Bank

While calculating capital ratio (Equity to Total Assets) it was observed that the ratio was less than unity for all private banks and remained unchanged at 0.06 basis point during the period under review. However, for individual banks, capital ratio was slightly higher in six banks ranging between 0.08 to 0.13 and lower in four banks. It represented a significant improvement from negative 0.02 to positive 0.05 at Saudi-Pak. Platinum Bank recorded the highest capital ratio (0.13) amongst the private banks.

Capital to Risk Assets (CRA) ratio increased from 12.2% to 13.9%. It increased in ten banks and declined in four.

Key Ratios - Private Banks

in%

Banks	Cost of Funds		Intermediation Cost		Pre-Tax Margin		Admn Exp. to Revenue		Expense to Income	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Askari Commercial Bank	7.25	7.08	2.48	2.38	19.57	19.98	43.37	39.77	80.43	80.02
Soneri Bank	8.14	7.99	2.65	2.41	18.06	22.69	44.11	37.14	81.94	77.31
Bank Al-Habib Ltd.	7.35	7.41	2.52	2.53	17.38	18.69	48.18	47.18	82.62	81.31
Bank Al-Falah Ltd.	7.63	7.94	2.77	2.93	15.81	13.91	62.31	59.26	84.19	86.09
Bank of Khyber	11.66	9.64	1.84	1.77	-8.38	8.66	57.36	49.12	108.38	91.34
Bank of Punjab	6.34	5.57	4.24	4.64	14.36	17.46	59.43	64.41	85.64	82.54
Platinum Commercial	7.30	7.94	2.96	3.54	16.85	-11.67	55.13	82.70	83.15	111.67
Metropolitan Bank	6.61	7.04	2.52	2.38	27.70	28.29	34.66	32.42	72.30	71.71
Faysal Bank Ltd	10.06	9.05	2.23	2.20	15.35	22.43	37.86	35.15	84.65	77.57
Bolan Bank Ltd	4.72	5.57	6.38	5.18	2.04	1.31	96.09	87.16	97.96	98.69
Prime Commercial Bank	7.34	6.33	4.07	3.88	12.65	17.36	57.23	52.23	87.35	82.64
Union Bank	7.48	6.95	5.31	5.49	0.48	0.29	87.89	82.27	99.52	99.71
PICIC Comm.Bank Ltd.*	8.14	7.23	4.50	3.13	9.89	22.95	53.81	43.80	90.11	77.05
Saudi Pak Commercial**	9.19	5.93	3.76	3.74	-102.01	-123.04	150.74	202.92	202.01	223.04
Total	**8.62**	**8.12**	**3.48**	**3.45**	**13.83**	**21.43**	**54.81**	**52.33**	**89.97**	**86.49**

Banks	RoE		RoA		RoD		Capital Ratio		CRA Ratio	
	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001
Askari Commercial Bank	35.28	42.28	2.16	2.26	2.75	2.82	0.06	0.05	13.77	11.58
Soneri Bank	33.16	39.15	2.08	2.71	3.00	3.66	0.06	0.07	12.68	13.33
Bank Al-Habib Ltd.	32.37	38.61	1.83	2.07	2.53	2.59	0.06	0.05	9.71	9.32
Bank Al-Falah Ltd.	44.58	46.35	1.61	1.52	2.21	2.07	0.04	0.03	7.02	6.58
Bank of Khyber	-23.19	18.57	-1.09	1.00	-1.38	1.23	0.05	0.05	11.68	13.83
Bank of Punjab	15.97	19.00	1.62	1.83	1.99	2.34	0.10	0.13	32.56	37.22
Platinum Commercial	19.50	-11.77	1.68	-1.15	2.59	-1.68	0.09	0.10	13.96	17.42
Metropolitan Bank	42.38	45.87	2.94	3.54	4.50	4.79	0.07	0.08	13.24	13.30
Faysal Bank Ltd	20.67	28.44	2.00	2.75	2.78	3.89	0.10	0.10	19.73	17.75
Bolan Bank Ltd	2.16	1.38	0.18	0.12	0.25	0.17	0.08	0.09	25.29	24.91
Prime Commercial Bank	15.04	19.97	1.48	1.90	1.98	2.59	0.10	0.09	17.91	17.69
Union Bank	1.04	0.76	0.05	0.03	0.08	0.05	0.05	0.04	10.07	8.61
PICIC Comm.Bank Ltd.*	17.58	39.53	1.23	2.57	1.99	3.95	0.07	0.06	13.72	13.51
Saudi Pak Commercial**	-429.84	-520.04	-9.55	-8.04	-16.92	-15.05	0.02	0.02	3.54	3.06
Total	**23.38**	**28.56**	**1.54**	**1.80**	**2.34**	**2.70**	**0.07**	**0.06**	**13.51**	**13.04**

* Gulf Commercial Bank (previously Schon Bank) was acquired by Pakistan Industrial Credit & Investment Corporation and renamed PICIC Commercial Bank in April 2001.

** Prudential Bank's management and control was handed over to Saudi Pak Industrial & Agricultural Investment Company by the State Bank of Pakistan.
The bank commenced operations with the new name Saudi Pak Commercial Bank in September 2001.

High CRA ratio at Bank of Punjab

CRA was the highest at Bank of Punjab (39.1%) followed by Platinum Bank (32.9%), Bolan Bank (28.5%), Prime Bank (18.8%) and Faysal Bank (17.1%). Askari, Al-Habib, Al-Falah and Union had a capital ratio in the range of 9.1% to 11.0%, lower than private banks' total.

Expense to income ratio 223% at Saudi-Pak Commercial

Expenditure to income ratio indicated that in 2001, private banks used over 86% of their income to cover their expenses. Though this was a slight improvement over 2000, the ratio is on the higher side. It was almost 100% in Union Bank, where entire income was used to meet expenditure. Saudi Pak posted the highest ratio (223%) amongst all private banks followed by Platinum Bank (111.7%). The ratio at Metropolitan Bank was the lowest (71.7%).

Admn to revenue ratio 52% for private banks

Private banks used slightly over 52% of their revenue to cover administrative expenses in 2001. Administrative expenses constituted nearly 24% of the total expenses. Annual growth under this head continued to be in double digit. Growth in administrative expense was the highest (47.8%) at Bank Al-Falah, while in the absolute terms, Askari Bank and Bank of Punjab incurred highest expenses. Bolan Bank and PICIC Commercial were able to reduce their administrative expenses in 2001.

Due to high expenditure under this head, three banks utilised significant portion of their revenue to cover their expenses. For the second year in a row, administrative expense exceeds bank's revenue at Saudi Pak, where administrative expense to revenue ratio increased from 151% to 203%, and at Platinum Bank the ratio rose from 55% to 83%. Though the ratio dropped for Bolan Bank and Union Bank, it still remains high at 87% and 82% respectively. Metropolitan Bank enjoyed the lowest ratio (32%) amongst all private banks.

Conclusion

Increased competi-tion

Pakistan's banking sector reform process gained momentum since 1997. The objective was to have stronger banks and improvement in the level of competition and efficiency in the financial system.

The banking sector is showing signs of improvement though complete turnaround is not expected till the completion of the reform process.

Mixed picture

Balance Sheet analysis of 14 private banks for 2001 reveals a mixed picture. These banks have been aggressive in raising deposits. Larger private banks continue to enjoy a high deposit base. Banks with smaller deposit base have performed well in acquiring more deposits and recording double digit growth. Investment portfolio of all banks showed a sharp rise but growth in advances has slowed.

Shrinking spread

Despite downward trend in interest rates and shrinking spread, both interest income and interest expense have shown double digit growth. Growth in non-fund based income has slowed somewhat, but it still constitutes over 61% of revenues indicating improved working at branches.

High operating costs

Administrative expenses have risen with Union Bank's being the highest. The analysis reveals that a large propotion of income of private banks is being utilized to cover these expenses. There is significant increase in operating costs of larger private banks.

Improved profit

Concerted efforts to boost income from investments have proved successful in improving profit of private banks. Bank of Khyber was able to convert its loss for 2000 into profit in 2001. However, Platinum Bank and Saudi-Pak Commercial Bank suffered losses.

Smaller banks improving

Bank of Khyber has highest cost of funds and lowest intermediation cost. Union Bank, Platinum Bank and Saudi-Pak Commercial Bank are showing weak indicators, while Askari Commercial, Al-Habib, Al-Falah, Bank of Punjab, Soneri Bank, Faysal Bank, Metropolitan Bank and PICIC Commercial Bank are showing strong indicators.

Trade Policy 2002-03

Trade deficit to improve

The trade policy FY03, envisages a 13.4% increase in exports and a 7% growth in imports. Exports are expected to rise to $10.347 billion, based on the premise of a favourable trade environment, a stable exchange rate, spin-off effects from investment in the textile sector and an easy access to export finance. On the other hand, imports projected to grow at a relatively slower rate, are to be contained at $11.1 billion, resulting in a narrowing of the trade deficit to $700 million.

It has adopted a policy direction approach rather than the traditional fiscal incentives approach. Recourse to subsidies have been avoided, as it is felt that they have a distortionary affect and competitiveness of goods exported can be ensured through the exchange rate mechanism.

The Trade Policy seeks to build upon the earlier announced National Export Strategy, with emphasis on, a sound macroeconomic framework, capacity development of exporting enterprises, enhanced market access, improving the social and physical infrastructure and lowering barriers to fresh entry.

For export earnings to cross the $10 billion target, would depend to a large extent on global growth prospects, efforts made towards standardisation, higher value added products and geographical diversification, and how ably Pakistan adjusts to WTO challenges, especially China's membership to the organisation.

Export target a challenge

Exports in the past have not crossed $10 billion and meeting this year's target remains a challenge. Better economic growth prospects in major trading partners is transmitted directly through higher trade. The US, our major trading partner, is projected to lead world economic growth in the year 2002. If growth picks up there as projected, it would help boost Pakistan's export earnings, as 25% of the total earnings originates from that country.

Much would also depend on the cotton crop (60% of exports are cotton based) and on value addition that takes place. There have been some problems with regard to the produced quality of raw cotton exported, for many a times it is found to be contaminated. Emphasis is being placed on harvesting of clean cotton, and some districts had been chosen for growing of clean cotton. The number of such districts has been extended in the new Trade Policy.

While textiles continue to form the bulk of export earnings, efforts have been made to diversify into other non traditional products, though their share remains small. A good move in this year's policy has been the incentivisation provided for new products/new areas.

New products/ areas receive incentives

Freight subsidy of 25% will be given for new products, i.e. products whose annual export has not been more than US$5 million in the last three years. Similar freight subsidy will be provided for new markets, i.e. Latin America, Africa, East Europe and Oceania or for any country where Pakistan's total exports have averaged less than US$10 million in the last three years. Exports to these regions combined is only 9%. A low rate of presumptive income tax of 0.75% will be applied to new products and markets.

Regional trade is being encouraged by providing for easier transportation of goods to international markets by road. Necessary arrangements are being formalized so that exporters can take advantage of this opportunity.

Textiles need to gear up

With the phasing out of the Multi Fibre Arrangement by 2004, when quotas will be no more, and the textile industry will have to compete internationally, the spinning sector has to prepare for the challenge and go for value addition and higher quality products. The industry will have to produce more value added items, moving away from grey cloth and low count yarn production. Recently unit prices of Pakistani goods have fallen and large quantities have to be exported to obtain the same amount as a year earlier. No support for value addition has been announced in the Trade Policy.

In recent months, the Pak Rupee has appreciated against the US dollar. While this has helped in the build up of large foreign exchange reserves, it plays unfavourably for the export sector. However, with the Rupee appreciation there has been some reduction in the cost of imported raw materials and intermediaries used by exporting goods, thus offsetting to some extent the loss of price edge of our exports in the international market.

Irritants towards export develop-ment

Creating an export market for Pakistan's products is constrained by poor infrastructure, erratic power supply, acute shortage of water, lack of standardisation practices, and poorly developed marketing techniques. Proper branding and packaging of products would help exporters meet the challenges of the fast approaching WTO regime. The quality related benchmark should be adhered.

Delay in refund of sales tax and duty drawback continues to discourage exporters. This poses cash flow problems for the exporters, who have to go to the commercial banks for their financing requirements. This adds to their financial charges and either cuts into their profit margins or reduces their ability to quote competitive prices.

Given the emerging economic scenario, after the new regime under WTO practices, Pakistan will have to gear up its exports or it will loose out in the highly competitive international market.

Box **Trade Policy 2002-03 Highlights** *2*

- Trade deficit expected to shrink to $0.7 billion as exports growth of 13.4% outstrips an expected 7.4% increase in imports.
- Exports are expected at $10.347 billion and imports at $ 11.1 billion.
- Build upon the National Export Strategy.
- Measures announced to mitigate the competitive disadvantage that Pakistani exporters face. These include:
  (i) Duties and Tax Remission for Export (DTRE) Rules 2001 being revised to make them more user friendly.
  (ii) Bring reasonable parity in the concessions available to the Export Processing Zone and Export oriented units, defined as enterprises that have exported, on an average 60% of their production during the last three years.
  (iii) Strengthen product and geographical diversification by:
    - allow freight subsidy of 25% for new products ie products whose annual export has not been more than $5 billion in any of the last 3 years. Similar freight subsidy will be provided for new markets.
    - apply the lowest rate of presumptive income tax (i.e 0.75%) in respect of these new products and markets.
  (iv) Agricultural Produce Cess levied at the rate of 0.5% ad valorem on export of a number of agricultural products is being done away with.
- Trading activity allowed in Karachi Export Processing Zone, with the exception of a negative list.
- Tax regime available to the KEPZ being reviewed.
- Plans to upgrade KEPZ facilities to regional standards.

  A review of various charges and fees will take place to check any disincentives.
- Gawadar to be made a Free Trade Zone. Necessary instruments in this regard are being prepared.
- Government continues with the policy of trade liberalisation and deregulation. More measures in this direction allowed for 2002-03.
  (i) Compulsory requirement for an exporter/importer to register with the Export Promotion Bureau done away with.
  (ii) Ensure better protection of Intellectual Property Rights. A Pakistan Intellectual Property Rights Organization to be set up to service all the intellectual property rights requirements. Necessary infrastructure being provided.
  (iii) Monetary limit on export of samples enhanced to $10,000 from the existing $5,000.
  (iv) Export of petroleum products not limited to public sector agencies only.
  (v) It has been decided to do away with the current restriction of minimum export price for rice, as recommended by Rice Exporters Association.
  (vi) Bulk import of gold/silver is currently controlled through licensing by Ministry of Commerce. The licensing requirement has been done away with, and import of gold/silver is allowed in bulk so long as the importer manages his own foreign exchange. Normal duties and taxes will be applicable.
  (vii) Mobiles phones currently imported by companies having agreement with the concerned government agencies, will henceforth be freely importable. Government levies will be automatically collected at the time of activation of the mobile telephones.
  (viii) Import of all plastic scrap will be subject to certification from the exporting country that the scrap does not include hazardous waste.
  (ix) Pakistan is a signatory to the Montreal Convention that requires a phased elimination of the use of ozone depleting substances. It has decided to ban the import of CFC gas based refrigerators and deep freezers.
- To bring about quality improvement in cotton, following steps have been taken:
  - Campaign to grow clean cotton is being extended to the districts of Bahawalpur, Sanghar and Nasirabad districts.
  - Ginning process has been given emphasis.
  - Legal instruments required for the futures market being put in place. A futures market would reduce speculative trade, mollify seasonal price fluctuations, provide a benchmark for growers, ginners, textile manufacturers and exporters.
  - Draft law for standardization of cotton has been prepared.
- Export concessions already announced will be supplemented with other measures:
- Duty drawback rates being fixed on a professional basis.
- Export Development Surcharge is currently collected at the time of shipment. This causes some inconvenience particularly when under/over shipments are involved. CBR has been directed to collect EDS through the receiving banks upon remittance of export proceeds.
- Necessary arrangements are being made for exporters so that they can transport their goods to regional markets by road.
- While participation in trade fairs and exhibitions is a good promotional tool, it is costly requiring administrative and logistical resources. For certain products where returns are not commensurate with the expense, the concept of virtual exhibition is being introduced. This concept entails promotion through electronic means.
- Cotton would face a lot of competition, following the withdrawal of quota regime in 2004 and the Chinese membership in the WTO.
- Policy relies on conventional tools of trade performance. Proposals for setting up EXIM bank has been planned.
- Improvement in the performance of existing EPZ and similar new zones has been projected. Regional trade groups Saarc/ECO performance has been almost nil.

World Bank's Country Assistance Strategy for Pakistan

CAS to support reforms

The World Bank has recently published the Country Assistance Strategy (CAS) for Pakistan, which will serve as a guide for the institution's work in Pakistan over the next three years (2003-05). Its focus is on supporting those reforms that will put the country on the path of sustainable growth and in the transition to a modern Islamic State.

Challenges for the govern-ment

While the government has been engaged in economic, political, institutional and social reforms, it continues to face formidable challenges as far as improving the investment climate, or developing human capital or reducing poverty is concerned. In the past, at times reform programmes have been aborted midway, undermining investors' confidence and preventing any lasting improvement in fiscal and external positions, as well as human development.

The development challenges that Pakistan is today faced with, may briefly be summarized as follows: -

- Large private sector operating behind high protective barriers, thereby creating an unfavourable investment climate.
- Large fiscal deficits are causing a continuous increase in public sector indebtedness.
- Significant gender gaps in both literacy and health status.
- Unsustainable current account deficits.
- Turbulent political and social developments have limited the country's growth potential.
- Crisis of public finances, public institutions and governance.
- Provincial infrastructure deficits, shortfall in service delivery relative to needs, multiplicity of provincial regulatory agencies, all discourage economic activity.

Bank Strategy

Given these challenges, and the need felt to pursue wide ranging reforms, the government is pursuing an ambitious economic reform programme, which now forms the backbone of the Interim Poverty Reduction Strategy. The World Bank's Assistance Strategy is in support of these reforms, through a programme of institutional capacity building, analytical services and demand driven lending.

Priorities of world bank program-me

The World Bank's programme priorities will be focused on the reforms to (i) strengthen macro economic stability and government effectiveness (ii) improve the business environment for growth and (iii) improve equity through support for pro-poor and pro-gender equity policies.

(i) Strengthening Macroeconomic Stability and Government Effectiveness

Macroeconomic Stability. The Bank in partnership with the IMF will support the macro economic stabilization programme agenda to restore fiscal sustainability, reduce debt, and improve the competitiveness of the economy through supportive trade, monetary and exchange rate policies.

Governance Reforms. Improving government effectiveness at all three levels, federal, provincial and district to form the core of the Bank's assistance strategy.

Devolution. The Bank will support the implementation of the devolution strategy, particularly the strengthening of district level capacity to manage public service delivery. It will focus on areas where it has a comparative advantage, in financial management, planning and budgeting and social service delivery.

(ii) Improving the Investment Climate

Improving the Incentive and Regulatory Regim. The Bank will continue to encourage the federal, and provincial governments to pursue trade liberalization and modernization of industrial, business and labour regulations that are already underway.

Within infrastructure, the bank will give strategic priority to the development of the **natural gas** sector and to the **petroleum sector,** where, focus will be on supporting the implementation of the deregulatory reforms to strengthen competition in the sector and assist with the privatization of the Oil and Gas Development Corporation Limited and Pakistan State Oil Limited. The **power sector** reforms includes the privatization of the distribution companies and of the Faisalabad Electric Supply company.

The Bank support to the **transport sector** over the CAS will be limited to analytical and advisory services. Accordingly, project lending will be limited to supporting the National Highway Authority's reforms, especially financial management.

Support for **financial sector development**, will continue to focus on deepening banking sector governance reforms, support to bank privatization and to strengthening the regulatory and supervisory capacity of the State Bank of Pakistan.

Creating conditions for accelerated, sustainable rural growth: The Bank would over the next three years, assess the adequacy of policies to accelerate rural growth; support government's strategy to improve water management and irrigation; and improve access to financial services.

(iii) Supporting Pro-Poor and Pro-Gender Equity Policies

The Bank will support the Interim Poverty Reduction Strategy Programme's core objective to promote education and health, support pro-poor rural development and community infrastructure and targeted poverty alleviation programmes.

In the **education** sector, the focus would be on improving the quality of education provided, giving priority to the poor and disadvantaged, particularly girls and children in rural areas.

In the **health** sector, the Bank will lend support to the governments' priority of strengthening the public health programmes.

Pro-Poor Rural Infrastructure and Services
In the past, the Bank has supported projects which are rural community based, infrastructure and those which directly attack rural poverty and support social protection. It will also continue, under this CAS to scale up those projects which have proven effective, such as the Pakistan Poverty Alleviation Fund.

The CAS will intensify its efforts to improve **gender equity** by better access to and quality of education and health, particularly to women and children, girls especially.

(iv) Lending Programme

Areas for deep engagement

The World Bank Country Assistance Strategy has outlined the Bank's engagement in the country, where it would focus not just on what is important, but also on areas with strong client commitment to carry out the necessary reforms.

Areas for low engagement

It would keep a low level of engagement in areas where the client has shown so far a relatively low degree of reform readiness, such as for urban development and transport or where there have been reversals of reforms or slow progress.

No lending at this level of engagement

In areas where the IMF has comparative advantage (macroeconomic stabilization), or where reforms are supported by other donors or where the commitment to reform is very low, or areas of business from which the Bank has disengaged completely (incl. financing physical investments in railways, telecom, and ports, oil & gas) no lending will take place at this level of engagement.

The Country Assistance Strategy identifies three lending scenarios, where World Bank's assistance can range from $200 million to $600 million every year during FY03-05. After the completion of the full PRSP a CAS Progress Report will be prepared. It will outline any adjustments to the assistance programme and the triggers that are considered necessary to fully align the Banks' programme with the PRSP.

The CAS identifies three lending scenarios for Pakistan. The equivalent of $400 million per year is the IDA allocation for the base case scenario and the equivalent of $600 million a year for the high case over FY03-05. In the later scenario, the Bank would resume IBRD lending from FY04.

Lending triggers for Bank Assistance

The lending scenarios will be guided by two sets of triggers; one linked to provincial reforms, another linked to each of the three pillars of the assistance strategy — macroeconomic stability and governance, enabling environment for private investment and human development.

The Bank's non lending services such as various research reports, policy dialogue, advisory support, sharing of knowledge through dissemination programs will be used to support the implementation of the PRSP.

The Bank is also working with the government on developing poverty and social monitoring systems to track changes in key intermediate and outcome indicators, including access to public services as well as income and non-income dimensions of poverty.

Finally the effectiveness of the Bank's support for the poverty alleviation strategy can be judged ultimately by Pakistan's progress towards achieving the Millennium Development Goals. The Bank plans to support the federal government to better monitor these and related key development outcomes.

Agriculture

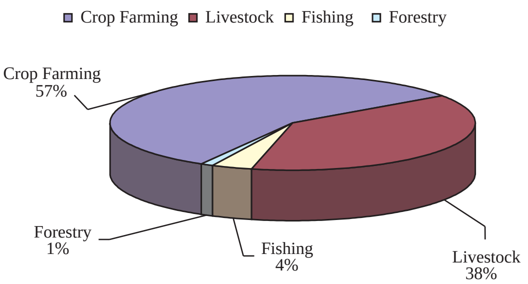
Agriculture showing improvement

Agriculture has grown at an average of 2.96% per annum in the last one decade, with wide fluctuations, from a high growth of 11.7% in 1995-96 to a steep decline of 5.3% in 1992-93. These fluctuations largely stemmed from unfavourable weather conditions, irrigation water shortages, pest attacks, adulterated pesticides and lesser attention given to its sub sectors other than crop farming.

Notwithstanding severe water shortages, the sector staged a significant recovery in growth of 1.4% in FY02, against the decline of 2.6% in the preceding year, still 60 basis points short of the growth target of 2.4%. Major crops accounting for 40% of agricultural value added, declined for the second consecutive year. For FY03, the sector has been targeted to grow by 2.4%.

In attaining the target, much will depend on the performance of major crops, whose prospects are quite favourable. Sugarcane crop is reported to have exceeded the targeted production. Cotton output is expected to meet the target, while rice crop is performing satisfactorily.

Share in Agriculture



Facing challenges

Pakistan is endowed with an immensely productive agrarian base but it is exposed to vulnerabilities. The sector is facing four challenges:

- Water shortages and poor use of water available.
- Price uncertainty and poor marketing methods.
- Narrow export base of agriculture value added, confined to crop sector while neglecting higher value added subsectors, primarily fisheries, livestock, poultry and horticulture.
- Limited supply of credit to the agricultural sector.

The government is making efforts to meet these challenges. Several measures have been under taken to address the problems. These include:

- exploring additional water resources and encouraging farmers to substitute water intensive crops with crops requiring less water.
- funding for water conservation.
- improving agriculture farming practices and designing a new policy for corporate agriculture.
- enhancing flow of credit to agriculture.

Wheat

Wheat situation satisfac-tory

Current wheat situation is satisfactory. The public sector has 7.2 million tonnes of wheat in stock, However, export of more than 1 million tonnes of wheat is unlikely. From the previous crop the country exported 0.7 million tonnes, among others to UAE, Egypt, Somalia, Ethopia, and Kenya.

Pakistan is exporting wheat to some countries of Southeast Asia like Vietnam. It is also negotiating deals with Malaysia and Indonesia. Pakistani wheat has also found a significant market in Middle East.

The country is, however, facing stiff competition with India, which is supplying low priced wheat. The landed cost of Pakistani wheat at between \$121-\$122 per tonne, is higherthan India's \$118 per tonne.

Quality problems limiting exports

The government believes that quality problems arising from lack of grading system is a major irritant limiting wheat exports. It is working to encourage greater private sector participation Government storages have large wheat stock, enough to meet supplies till end February 03.

Rice

Lower producti on target

The Federal Agriculture Committee has proposed a production target of 3.5 million tonnes for 2002-03 crop, against last season's harvest of 3.9 million tonnes.

In view of irrigation water shortage, a lower target of rice production has been fixed for the current year. Latest reports indicate 5.6% increase in area under rice cultivation in Punjab, where the 2002-03 crop has reportedly been sown at over 1.1 million hectares.

Exports fetch good price

In the first two months of the current fiscal year, the depleting stocks of rice have marred its export. Only 0.123 million tonnes could be exported during this period, 44.4 thousand tonnes less from a year earlier. However, rice exporters are fetching a good price this year. Average unit price of super basmati has risen to $570 per tonne from $555.

Cotton

Production satisfactory

Due to irrigation water shortage, the 2002-03 crop has reportedly been sown at 2.68 million hectares, down 9% from last season. Late supply of irrigation water has badly affected cotton sowing in Punjab, where area sown is 7.7% less than the target of 2.33 million hectares and also 11.8% below last season's crop. Sindh, on the other hand, has reported 5.1% increase in area over the previous season, but it is slightly lower than the target area of 0.497 million hectare.

Prospects improve

Recent rains in some cotton growing areas of Punjab and Sindh have, however, improved the prospects for a better crop. So far crop position is satisfactory and a crop of 10.0 million to 10.5 billion bales is expected. Latest field reports from Sindh confirm a bumper crop that may exceed the 2 million bales target set for the current season.

In contrast to anticipated production, consumption demand is likely to range between 12 million to 12.5 million bales, due to increase in ginning capacity. The shortfall could lead to import of 1.5 million bales.

Pressure on prices

Currently seed cotton prices are ranging between Rs.925 and Rs.1100 per 40 kg ex-gin and lint prices between Rs,1800 to Rs.2300 per 37.32 kg ex-gin. The KCA spot rate was Rs.9150 per maund of 37.324 kg at the end of August. Prices are likely to come down with the arrival of new crop in the market. Cotton trade circles have recommended a ban on its imports, in view of a huge carryover from last season's crop.

Sugarcane

Bumper crop expected

The Federal Agriculture Committee places production target for this season at 46 million tonnes, lower by 4.2% over the previous season's. Recent monsoon rains have brightened crop prospects and its yield is likely to increase by 20% to 25%. Growers are expecting a bumper crop of over 50 million tonnes.

Record sugar output anticipated

Anticipating a bumper crop, the sugar industry is expecting record sugar output that may touch 3.6 million tonnes during this crushing season, commencing end October. Sugar mills in Sindh are facing liquidity problems due to large quantity of unsold stocks lying with them. The new crushing season is likely to be delayed till mid December in Sindh so to first dispose off the surplus stock.

Weak prices and huge exportable surplus

The country had an exportable surplus of 0.25 million tonnes from last year's stocks. Millowners are of the view that low international prices for sugar and cheap imports from India during 2001 have resulted in huge carryover stocks, creating problems for the local industry.

Cheap sugar imports from India has now been banned and the government has no plans to import sugar this year. But prices of sugar in London continue their downward trend. Reports of bumper crop in China, Brazil, India and USA are exerting downward pressure on prices. Weak prices have made it difficult for sugar exporter to get rid of exportable surplus. About half a million tonnes of surplus production is expected this season.

Banking and Finance

Key Monetary Indicators

(Rs. Bn)

	August 31, 2002	Sept. 01, 2001
Scheduled Banks Deposits	1512.2	1301.9
Scheduled Banks Advances	859.8	847.3
Scheduled Banks Investment in Securities & Shares	559.5	325.1

Source: *State Bank of Pakistan*

Deposits increase

Scheduled banks deposits stood at Rs.1512.2 billion in the week ended August 31, 2002 an increase of 16.2% over the comparable week last year when these amounted to Rs.1301.9 billion.

Advances rise

Scheduled banks advances grew by 1.47% to Rs.859.8 billion in the week ended August 31 compared with Rs.847.3 billion in the comparable period last year.

Invest-ments in securities show double digit growth

Scheduled banks investment in central and provincial government securities and shares has maintained an upward trend this year. These investments totaled Rs.559.5 billion in the week ended August 31, showing an increase of 72.1% over last year's corresponding figure of Rs.325.1 billion.

While the weighted average rate on T-Bills remained unchanged at 6.43%, the banks continued to invest heavily in government paper as credit off-take remained low. Absence of credit demand from the private sector has forced banks to increase their exposure to the low yielding government securities.

Rising Forex Reserves

The total forex reserves of the country have risen to over $7 billion, providing for about 32 weeks of import bill.

Differing viewpoints have been expressed in the media about the factors responsible for reserve accumulation. Late last year it was said that the State Bank of Pakistan (SBP) was purchasing dollars from the open market. The SBP acknowledged that it did purchase almost US$ 4 billion from the open market during 1999-00 and 2000-01. As large payments towards debt servicing had to be made, the SBP had two options, either resort to commercial borrowing and add further to the debt level or purchase from the open market. It chose the later option.

SBP purchase US$ from open market

After September 11, it was being argued that the build up was due to non-economic factors, as Pakistan had aligned itself with the US in the war against terrorism.

Dr. Ishrat Husain, Governor State Bank of Pakistan, in his paper *"Why does Pakistan have to accumulate foreign reserves"*, his listed certain economic fundamentals, the improvement of which has been responsible for reserve build up.

During the last three years (1999-02),

Economic fundam-entals improve

- Trade gap has narrowed from $1.6 billion to $1.2 billion. Current account balance has turned surplus to $2.7 billion from a deficit of $1.9 billion.
- Fiscal deficit has been reduced from 6.1% to 4.9% of GDP.
- Remittances have jumped 2.5 times from $1,060 million to about $2,400 million.
- FDI flows have averaged around $400 million annually.
- Reprofiling of bilateral debt stock has resulted in a saving of debt servicing of $1 billion annually.
- Repayment of $4.5 billion private, commercial and short term debt and liabilities has reduced the stock of debt and thus extinguished future debt servicing obligations.
- IMF, World Bank, ADB and other donors are providing concessional assistance of about $2.5 to 3 billion annually while their hard term loans are being repaid.

The end result of the above measures is that Pakistan has generated a current account surplus for the first time in many decades and its vulnerability to external shocks has reduced to a large extent.

Exchange Companies to be Established

The State Bank of Pakistan through an Ordinance has invited commercial banks to establish Exchange Companies in Pakistan. These will be incorporated under the Companies Ordinance and a licence will be issued by SBP for commencement of operations.

Such companies will only deal in foreign exchange and would not be allowed to engage in any other activity, such as deposit taking, lending etc.

The companies would be allowed to have foreign participation in their equity upto a maximum of 50%.

Every branch of a company would be allowed to offer the complete range of services that the Exchange Company is authorized to offer.

In addition to full-fledged branches, Companies will be allowed to have franchise arrangements with other entities.

The Exchange Companies shall limit their exposure at the close of business each day at a level not higher then 50% of their capital base.

The existing money changers will continue to function for the next two years. However, no new licences will be issued and further renewal of existing money changers licences will be discontinued w.e.f. July 1, 2004.

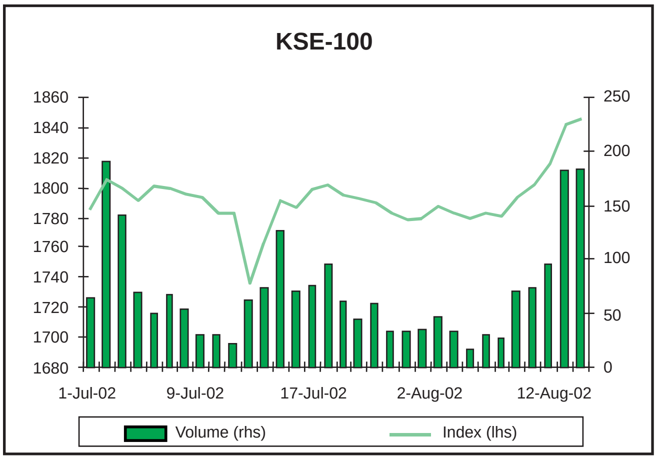
With the establishment of Exchange Companies, all transactions will be fully documented. All dealings between an Exchange Company and its customers shall be supported by official receipts. For transactions exceeding $10,000, detailed particulars of the customers shall be mentioned on the receipt.

All transactions would be properly accounted for, and the Exchange Companies would be maintaining proper accounting records and submitting reports at periodic intervals to the State Bank of Pakistan. These steps would help curb the activities of unauthorized money changers and Hundi business.

Market Analysis

Earnings/dividend expectations driving the market

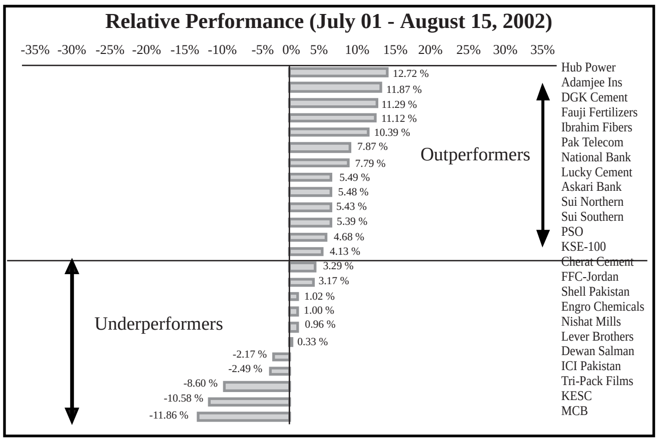
The KSE-100 index gained 17 points (1%) in the month of July in tight range bound activity. The market moved in a narrow band of 1735 and 1805. The average daily trading volume for the month declined to 67m shares from 99m shares in June. While news relating to tensions with India had been the primary factor behind market sentiment, there has been an easing of tension, which meant less volatility in the market during most of July. Earnings expectations led to greater trading activity in early August however, with the market rising to 1846 by mid-August and average daily trading volumes rising to 79 million shares.



Events in July

There was only one significant news event affecting the market during the month of July- the grenade attack in Indian occupied Kashmir momentarily affected the market and rekindled fears of tension between Pakistan and India, which resulted in a steep decline of 48 points in one day. However, the Indian response was muted, and the market quickly recovered, rising 56 points over the next two days to resume trading within its earlier tight trading range. The fact that the market recouped its losses almost instantly, and then resumed its trend range bound movement, validates our view that the market is looking fully (or close to fully) priced in the short run.

August heralded the start of the corporate earnings report season, which we think is the only foreseeable driver for the market. Given the neutral market sentiment in July- neither positive nor negative - earnings reports (particularly from the pivotals - Hubco, PTCL, PSO) will be the primary source of direction for the market in the short-term.



Outlook

However, the earnings driven upside momentum will have to contend with continued market anxiety regarding parliamentary elections in October and the post-October political structure, and the risk of another bout of Indo-Pak tension related to the September/October elections in Indian held Jammu and Kashmir. The earning's driven rally in August may be a good time for short to medium term investors to book profits before the elections.

Key Economic Indicators

Economy Size & Growth		1998-99	1999-00	2000-01	2001-02[P]
GNP - Market Prices	Rs bn	2912.8	3102.3	3365.4	3752.5
GDP - Market Prices	Rs bn	2938.4	3147.2	3416.3	3726.6
Per Capita Income	Market Prices Rs	21899	22811	24198	26413
	Market Prices US $	438	441	414	427
Growth					
GDP	%	4.18	3.91	2.45	3.61
Agriculture	%	1.95	6.09	-2.64	1.39
Manufacturing	%	3.73	1.53	7.58	4.39
Services	%	4.99	4.79	4.79	5.09
Rate of Inflation	%				
Consumer Price Index+		5.7	3.6	3.6	3.5
GDP Deflator		5.5	2.8	5.6	3.4
Balance of Payments	$ mn				
Exports (f.o.b.)		7528	8190	8925	9133
Imports (f.o.b.)		9613	9602	10170	9493
Trade Balance		-2085	-1412	-1246	-360
Services Account (Net)		-2618	-2794	-3130	-2620
Private Transfers (Net)		2274	3063	3867	4255
Home Remittances)		(1060.2)	(983.7)	(1086.6)	(2389.0)
Current Account Balance		-2429	-1143	-509	1275
Fiscal Balance	% of GDP				
Total Revenue (Net)		15.9	17.1	16.0	16.8
Total Expenditure		22.0	23.6	21.3	22.5
Overall Deficit		6.1	6.6	5.3	5.7
Domestic & Foreign Debt					
Domestic Debt	Rs bn	1452.9	1641.4	1799.2	1652.1
As % GDP		49.4	52.2	52.7	44.3
Total External Debt	$ bn	33.5	34.0	33.8	33.8 [a]
External Debt Servicing*	$ bn	1.53	1.51	1.96	0.98
Investment & Savings	% of GDP				
Gross Investment		15.6	16	15.9	13.9
Fixed Investment		13.9	14.4	14.3	12.3
National Savings		11.4	14.1	15.0	15.4
Domestic Savings		12.3	15.6	15.9	15.2
Foreign Investment	$ mn	403.3	543.4	182.0	474.6
Portfolio		27.3	73.5	-140.4	-10.1
Direct		376.0	469.9	322.4	484.7
Monetary Aggregates	%				
M1		33.9	14.9	3.1	17.3
M2		6.2	9.4	9.0	15.2
Interest Rates (Weighted Average)	%				
Deposits**		7.96	6.62	6.58	5.62 [b]
Advances		14.8	13.52	13.61	13.45 [b]
Gold & Foreign Exchange Reserves	$ mn	2371	2149	2666	4704 [c]
Exchange Rate++	Rs./$				
Inter Bank		51.6	52.16	64.4	60.05
Kerb Rate		54.4	54.82	66.7	60.20

P Provisional
\+ The base year of CPI has been changed from 1990-91 to 2000-01. Inflation
a July-March figures calculated for FY01 onwards are based on new base.
* Excluding interest on short term borrowings and IMF charges. Data from FY00 onward is inclusive of IMF & bonds.
** PLS & Interest bearing
b End-December ‘01
c end-May ‘02
++ End-June Buying Rate

Source: Economic Survey 2001-02
SBP statistical Bulletin Aug. 02

NBP Performance at a Glance

(Rs. Bn)

Items	1997	1998	1999	2000	2001
Income	34.2	34.5	35.3	33.7	35.8
Expenditure	33.2	32.4	34.8	32.7	32.8
Pre-Tax Profit/(Loss)	0.996	2.14	0.52	1.03	3.02
After-Tax Profit	0.06	0.53	0.03	0.46	1.15
Total Assets	310.6	325.1	350.4	371.6	415.1
Deposits	254.9	273.4	294.8	316.5	349.6
Advances	105.6	109.5	122.6	140.3	170.3
Investments	109.5	102.9	91.5	72.6	71.8
Number of Branches	1468	1434	1431	1228	1245
Number of Employees	18096	15785	15541	15351	15163