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Editor's Corner

Dear readers,

The year 2002 saw the restoration of stability in the economy, major reforms in key public institutions and the initiation of a process of improvement in governance of public utilities. Despite some difficulty at the beginning of the year consequent to the spill over effects of 9/11, the economy managed to do reasonably well.

Growth in the economy picked up as major crops sub-sector rebounded after increase in water availability. There was a substantial jump in the inflow of remittances, exports picked up and the import bill was dominated by machinery imports. The government managed to contain the oil and food import bill. The Pak Rupee strengthened during the year helped by monetary discipline, which kept inflationary pressures in check. Consequently, the Rupee appreciated by 8.8% against the US dollar to close at Rs.58 by end December 2002. Appreciation of the rupee has helped in the form of a lower cost of external debt and cheaper imported inputs. Meanwhile, foreign exchange reserves have risen and presently cover over 11 months of imports. This compares with an average coverage of 3-4 weeks over most of the decade of the 90s. Higher reserves, reinforced by better prospects of the economy, have led to an improvement in the credit rating by both creditors and credit rating agencies.

Though exports have picked up, the need to focus on enhancing efficiency and value addition and the need to diversify the export base and export markets, especially to regional markets, will remain important areas of focus. Growth in large-scale manufacturing continues to remain sluggish. Private sector credit demand has not picked up despite the lowering of interest rates on lending by the banks. This reduction is partially explained by much greater equity injection by companies post 9/11 and a major increase in capital raised by large corporates through TFCs. The textile sector, with the largest weight (19%) in total manufacturing, has not shown any perceptible growth despite a significant rise in investment in BM&R by the industry and a considerable export growth.

While the macro economy has turned around from a deteriorating situation to a perceptibly improving one, investment and unemployment remain problem areas. For growth to pick up to a sustainable level, there is a need for industrial revival. This needs to be coupled with an appreciable improvement in exports. In addition, inequalities in income will have to be lessened through enabling policy measures, which should also be linked to poverty reduction measures. The social indicators must also be improved for bringing about a meaningful improvement in the lives of a large majority of the people. All of this requires an attractive investment climate and continued good governance.

Having achieved stability in the economy and with the easing of pressures on the external sector, we are now poised for the next phase of reforms. There is a need to increase the low investment rates of the past and work towards faster growth of employment from the existing investment. Increased public sector investment and higher private sector credit to labour intensive sectors like small and medium enterprises, housing, construction, are key for employment generation and poverty reduction. Reforms of public utilities must continue and tax collections be judiciously utilised and not wasted on subsidies. With a stable macroeconomic environment, good governance and improved infrastructure the scenario could change bringing forth improved yields.

Good governance requires clear accountability for the use of public resources, a civil administration serving the public interest, and respect for the rule of law through the creation of a sound enabling environment. The government needs to continue a credible and a political accountability process to instil respect for the rule of law.

In the banking sector, in the year 2002, steps were taken towards fostering good governance, strengthening the capacity to extend credit at lower cost, restructuring state owned banks. These included privatising United Bank Ltd., offloading 20% shares of National Bank of Pakistan, strengthening smaller banks and improving banks' non-performing loans. A Small and Medium Enterprise Bank was established to remove credit constraints faced by small enterprises towards expansion of business. Micro-credit institutions Khushali Bank (in the public sector) and First Micro Bank (in the private sector) started operations, with particular emphasis on the credit needs of small borrowers in rural areas. The year also saw the emergence of Meezan Bank, Pakistan's first commercial Bank operating purely on Shariah compliant transactions.

One hopes the year 2003 brings economic stability and success in the weaker areas of the economy.

Ayesha Mahmud

Abstract of the Bulletin

Effectiveness of Foreign Aid – International Experience

§ While many developing countries have received large amounts of aid, not all, have been able to successfully utilize the assistance received.

§ Effectiveness of foreign aid depends to a large extent on the soundness of economic management policies being pursued in the recipient countries and the extent of coordination between the donors in these countries.

§ Well designed assistance assists in a higher GDP growth, in reducing income poverty and in providing opportunity to improve the living standard of the people.

Savings Behaviour in Pakistan

§ Pakistan's savings rate is lower compared to other South Asian countries with similar per capita income.

§ National savings are primarily composed of private savings defined as corporate and household savings. Public savings have generally been low because of imprudent fiscal management by public institutions, corporations etc. National savings finance the bulk of total investments.

§ National Savings Organization through their various saving instruments are major mobilizers of savings from the public.

Agriculture

§ A weak agricultural growth (1.4%) in FY02 was due to a decline in wheat, rice and sugarcane production.

§ A higher wheat production target, 20.3 million tonnes has been set for the 2002-03 crop. Target for rice production has been lowered, while cotton output is targeted at 10.1 million bales. Production of sugarcane has exceeded the target.

Banking and Finance

§ In the week ended December 28, 2002 scheduled banks deposits grew by 17.9%, advances by 3.4%, and investment in securities doubled over last year's corresponding figure.

§ Approved foreign exchange has more than doubled over last year's figure.

§ The State Bank of Pakistan has reduced its discount rate to 7.5% and brought down the yield on T-bills rate.

Market Analysis

§ The 12-month rally floundered in November as political uncertainty finally took its toll. However, the start of December saw a resurgence, and the Index firmly broke the 2500 mark on December 18. Hence the rally seen over the last 14 months continues and we expect the market to reach its lifetime high of 2660 in the very near future. Excess bank liquidity, low interest rates, strong expected corporate earnings, and continuing positive investor sentiment all point in this direction.

Effectiveness of Foreign Aid – International Experience

Many developing countries have received large amounts of aid for extended periods. Not all, however, have been able to successfully utilize the assistance received. Effective utilisation is measured along several dimensions. Among others, one of the principal yardstick for measuring the effectiveness of aid is the extent to which progress has been achieved in the alleviation of poverty in the aid receiving country. Whether the recipient country has been able to successfully utilize the assistance received in raising incomes, reducing infant mortality and significantly lowering poverty and having a positive effect on growth.

Aid benefits some countries

International evidence suggests that some countries have benefited more than others. Foreign aid has been a success in Botswana and Korea in the 1960s, Indonesia in the 1970s, Bolivia and Ghana in the late 1980s and Uganda and Vietnam in the 1990s. There are however, instances when foreign aid has been an unmitigated failure. For instance, in Zaire, aid has done little good. While the country received more than $10 billion between 1960-2000, large amounts were misutilised. In Tanzania, inspite of receiving large amounts of aid for building roads over an extended period, these did not improve the road network because of lack of maintenance. Zambia is another example, when aid money could not bring about any substantial improvement and proved ineffective in generating reform.

Factors influencing aid effectiveness

Foreign aid has been effective at times in some places and ineffective in others. Much depends on the interplay of two main factors – the soundness of economic management in the recipient countries and the extent of coordination between the donors in these countries. It has been seen that in countries, where economic management is sound, aid leads to higher private investments, more rapid growth, low infant mortality and a faster decline in poverty. In countries, where economic management has been poor, aid has had little effect on development.

Aid in isolation to good policies can be of little effective value. Vietnam in the early 1980s is a good example of how a large amount of financial aid could have no impact in an environment of distorted institutions and policies. Despite large Soviet aid there was no progress in poverty reduction or improvement in social indicators. Economic management was poor. There was no private sector initiative, trade regime was closed, large fiscal imbalance was financed by printing money leading to hyper inflation.

Targeted aid brings improvement

World Bank research has shown that if the aid is provided under the right circumstances and with the right design it promotes development. Well targeted aid increases investment, has high overall economic payoffs. There is World Bank evidence which shows that every dollar of assistance given by IDA, leads to nearly two dollars of additional private investment and subsequent returns are greater. By improving investment climate it attracts both domestic and foreign investment.

China is an example of a country where aid in support of a country owned development strategy helped improve the investment climate and encouraged private sector led growth and poverty reduction. World Bank's assistance to China had a significant impact in sustaining the reform momentum.

World Bank research has shown that development assistance has generally accelerated growth and poverty reduction. Evidence demonstrates that aid can generally be used effectively for poverty reduction, where reasonably good policies are in place. In the late1990s, overall aid allocation shifted in favour of countries with good policies. By 1997-98, good policy countries received $28 per capita in net disbursements, or almost twice as much as the poor policy countries ($16.4 per capita).

Good policies and coordination among donors assists aid effectiveness

In other words, donors emphasis has shifted from investment to incentives, i.e. from capital to the underlying institutions and policies that promote growth. Research findings have shown that countries have been held back not by a financing gap, but by the lack of good policies. For it is now the macroeconomic climate, the fiscal, monetary and trade policies being pursued which provides a fertile environment for growth. There is statistical evidence which shows that foreign assistance is generally an effective tool for reducing poverty and accelerating growth, when reasonably good policies are in place.

Besides the policies being pursued in the recipient countries, which determines the effectiveness of aid, the degree of coordination among donor agencies, multilateral institutions, and the private sector is also of significance. There are instances in developing countries, where often there is little coordination amongst donors. Take the example of Guinea, where the cost of building a primary school can range from $130 to as much as $878 a sq. mt., depending on the donor country managing the project. For the same amount, one donor could build seven times more schools than another. In Ghana, a common donor approach sparked crucial improvements in the country's primary healthcare programme. In India, a united donor front on important education policy issues led to big reforms in teacher training and financing.

In Pakistan, female enrollment has traditionally been low. In the province of Balochistan, donors worked with local communities to meet their needs. Government helped to start new schools, on the condition that the community would commit a certain level of female participation. The local community had control over hiring teachers. Female enrollment jumped.

Well designed assistance can help communities find ways to provide improved services. If donors can align their efforts and cut down on this fragmentation of programmes, the result will yield many million of aid dollars that could be put to better use, building schools, health clinics and providing clean water for poor communities. If the international community aims to meet the Millennium Development Goals of halving global poverty by 2015, it becomes necessary to improve the effectiveness of aid by improving coordination among donor agencies, multilateral institutions, civil society and the private sector.

There is existing evidence which substantiates this. World Bank research has shown that aid generally has a large effect in good management environment. 1% of GDP in assistance translates to a sustained increase in growth of 0.5 percentage points of GDP. Some countries with sound management have received only small amounts of aid and have grown at 2.2% per capita. The good management, high aid group, however, grew much faster, 3.7% per capita. There is no such difference for countries with poor management.

Those receiving small amounts of aid have grown sluggishly (if at all), as have those receiving large amounts. It has also been seen that assistance to well managed countries increases private sector confidence and supports important public services. In poorly managed countries, aid crowds out private investment.

Fast growing countries reduce poverty

It was in the 1960s that governments began to give increased attention to the problems of growth and income distribution and on the basic needs of poor people. Reduction of income poverty assumed priority. It has been seen that countries that have reduced income poverty the most are those that have grown the fastest, and poverty has grown fastest in countries that have stagnated economically. Between 1992 and 1998, for example, the share of the population in poverty fell on average of 5% to 8% annually in fast growing Uganda, India, Vietnam, and China. In Nigeria, by contrast, per capita consumption fell 16% between 1992 and 1996 and the poverty share increased by half, from 43% to 66% of the population.

Aid is more than just money. It is actually a combination of money and ideas. In countries that lack the policies and institutions to make good use of large financial flows, aid agencies can at times foster a climate for successful reform without offering large scale financial assistance. For one cannot ignore people who live in countries that lack the policies, institutions and governance necessary for sustained growth and effective use of aid. Another reason why donors have given so much assistance to poor countries with weak policies is that they hope that aid will induce policy reform.

Experience shows that this has helped many recipient countries. For instance, in Vietnam in the late 1980s donors helped not by providing large financial resources, but by providing training and technical assistance. By 1992, the country had relatively sound policies and when aid commenced it proved effective. Of the world's 40 poorest countries in 1986, Vietnam enjoyed the highest growth over the next decade.

A World Bank study, *"The Role and Effectiveness of Development Assistance: Lessons from World Bank experience,"* has shown that assistance works best and can only be sustained when the recipients are strongly committed to development and in charge of the process. Countries that introduce reforms, go for institutional development and financial aid benefits them the most. It is an effective means of supporting poor countries and poor people when it is well allocated. At times advice and capacity building complements the financial flows, especially in those poor countries and in those that do not have the capacity to absorb significant finance transfers. Advice is acceptable when linked to resource transfer.

Savings Behaviour in Pakistan

Savings for development

High savings and investment rates are important in view of their strong and positive association with the GDP growth rate. Higher savings can finance higher investment and lead to faster growth. Rapid GDP growth is needed to generate more employment and better living standards. It is also important for reducing poverty given the existence of inequality in the distribution of income and subsequent lack of affordability by the poor.

The consumption pattern of poorer section of population is a major obstacle to growth in domestic savings. The South Asian countries have low level of domestic savings, which are inadequate to meet the investment requirements, consequently they have to rely on foreign investment.

Domestic Savings as % of GDP

	1998	1999	2000	2001	2002
Bangladesh	21.8	20.8	22.0	21.0	20.7
India	21.7	23.2	23.4	23.0	23.6
Sri Lanka	19.1	19.5	17.3	17.3	17.5
Pakistan	14.3	11.4	13.5	12.8	14.6
Bhutan	12.7	13.5	17.2	27.5	27.5
Malaysia	48.7	47.3	46.8	42.3	41.8
Singapore	50.8	48.8	49.3	45.8	44.5
Hong Kong	30.1	30.4	32.3	31.1	34.9
Korea	34.4	33.5	32.6	31.1	30.5
China	39.8	39.4	38.9	38.1	37.9
Thailand	36.5	29.9	30.2	27.5	26.3
Philippines	16.7	18.7	21.0	22.1	20.2
Indonesia	26.5	20.2	25.7	25.5	23.0

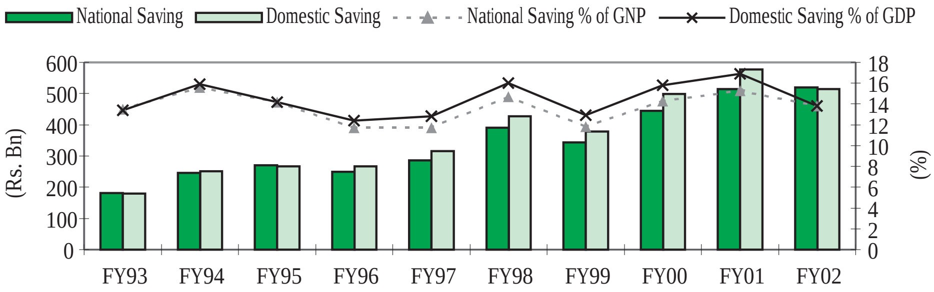
Source: Asian Development Outlook 2002

Low domestic savings

Savings are crucial for Pakistan's economic development. Historically Pakistan has had one of the lowest rate of savings in Asia. According to the Asian Development Outlook 2002, savings rate in many Asian countries like China, India, Bangladesh, Bhutan, Malaysia, Singapore, Thailand, Hong Kong and Korea ranges between 20.7% to 44.5%, but in Pakistan domestic saving rate in the past one decade has averaged 14.4%.

Unfortunately Pakistan's efforts todate in mobilizing savings to finance development have not been fruitful. The rate of national savings in the 1990s remained unchanged at around 14%, while that of domestic savings it ranged between 14%-16%. In FY01, there was slight improvement in these rates as these rose to 15.3% and 16.9 % respectively. In the past decade, growth in domestic savings averaged 11.4% and national savings 11.1%.

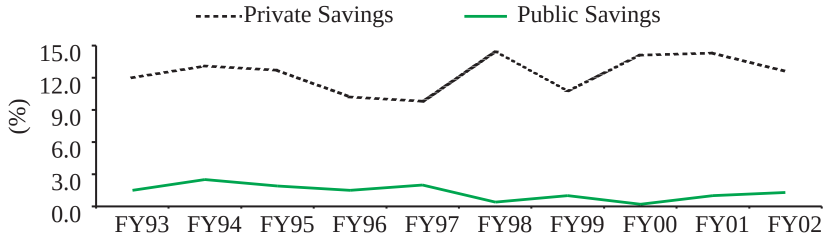
National/Domestic Savings



Public savings

Public savings have been particularly low, 1.3% of GNP in the past one decade (1993-02). During this period, the ratio slipped from an average of 1.9% in the five years ended FY97 to 0.8% in the five years ending FY02. In these years, the ratio fell from a high of 2% in FY97 to a low of 0.2% in FY00. While growth in public savings has been somewhat erratic during the period, there has been some rise in the last two years. The government's effort to raise savings through taxation has not been able to generate adequate revenues from the private sector, due to the inelastic character of the tax system and heavy reliance on indirect taxation. The public sector contribution to national savings has been negligible due to the inefficiency of state enterprises and rising non-development expenditure.

Private/Public Savings Ratio



Private savings

Private sector contribution to national savings has however, been encouraging. There has been a gradual rise in private savings in the past one decade with growth averaging 12.4%. Private savings having risen to a high of 14.3% in FY01, dropped to 12.6% in FY02. Compared with neighbouring countries having similar per capita income, Pakistan's private savings continue to be low. Private savings consist of corporate and household savings. While corporate sector's contribution to national savings has risen marginally, it still remains small as the sector is at a developing stage. Households are the major savers. The government has been encouraging greater saving in the private sector through a package of saving schemes and by allowing financial institutions to introduce various saving schemes.

National & Domestic Savings

(Rs.Bn)

	Fiscal Year									
	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
National Savings	182.0	246.2	269.9	249.8	286.1	391.3	343.7	444.8	514.6	519.9
Public	*20.2*	*38.9*	*35.4*	*31.3*	*47.9*	*9.8*	*28.6*	*7.8*	*32.6*	*47.9*
Private	*161.8*	*207.3*	*235.5*	*218.5*	*238.2*	*381.5*	*315.1*	*437.0*	*482.0*	*472.0*
Domestic Savings	180.3	250.8	266.9	266.4	315.6	427.5	378.7	498.4	577.4	514.9

The Savings Organization in Pakistan is the major mobilizer of private savings, as it offers lucrative schemes, catering to the demands of various segments of society. Financial institutions too, offer schemes to mobilize deposits and channel them towards productive avenues.

Mobilizing bank deposits

At present, the 20 domestic and 18 foreign banks operating in Pakistan, are engaged in mobilizing deposits by offering various schemes. In the past five years, bank deposits have grown by 24% averaging 4.5% per annum. While nationalized commercial banks account for single highest share of 59% in total deposits, its share has fallen from 80% in the 1980s.

Saving deposits of all banks which constitute 48% of total deposits have risen by 80% in the past five years (1997-01). Commercial banks offer profits on such savings on six monthly basis, which currently ranges between 3.25% to 11%..

Banks offer higher profits ranging between 7% to 14% on term deposits of 1 to 5 years maturity. Banks' term deposits have, however, declined in the past five years by almost 30% and constitute only 20% of total deposits. Significant decline of 19.7% has been recorded in term deposits of nationalized banks between 1997 and 2001.

Saving Deposits Mobilisation by Banks

(Rs. Mn)

Name of Bank	1997	1998	1999	2000	2001
National Bank of Pakistan	60,187	77,866	85,415	96,376	105,261
Habib Bank Limited	86,924	109,780	122,475	138,535	154,326
United Bank Limited	31,223	42,376	47,420	61,170	68,949
First Women Bank	907	1,130	1,575	1,926	4,513
Muslim Commercial Bank	41,454	58,898	65,191	75,389	89,807
Allied Bank Limited	18,634	25,380	27,545	-	-
Bank of Khyber	1,227	3,012	3,160	3,754	4,270
Bank of Punjab	5,074	5,740	6,506	8,524	10,206
Askari Commercial Bank	9,510	13,596	14,866	19,987	27,411
Bank Al-Falah	4,313	5,715	8,734	10,286	18,171
Bank Al-Habib	3,986	3,384	2,951	6,806	11,324
Soneri Bank	5,555	6,817	7,434	8,831	10,199
Faysal Bank	7,214	8,441	6,160	7,398	8,147
Bolan Bank	935	1,080	1,370	2,042	3,027
Platinum Commercial Bank	2,314	2,420	2,707	4,476	2,851
Metropolitan Bank	2,672	2,971	3,855	4,822	7,514
Union Bank	5,337	6,143	6,209	11,696	14,978
Prime Commercial Bank	3,966	6,120	6,103	6,384	7,945
Picic Commercial Bank	1,602	3,040	3,926	3,181	4,811
Saudi Pak Commercial Bank	964	2,312	3,249	3,496	3,284
Al-Baraka Islamic Bank	334	259	-	-	-
ABN Amro	10,399	8,742	7,935	12,176	16,899
American Express	4,727	3,935	3,512	3,100	3,197
Citibank	17,534	18,723	19,664	12,862	16,835
Credit Agricole Indosuez	1,061	1,131	927	722	1365
Standard Chartered Bank	5,899	5,337	5,617	15,260	18,055
Habib Bank AG Zurich	2,899	2,460	2,297	2,569	3,616
Societe General	835	1,101	659	1505	997
Hongkong & Shanghai Banking Corp.	2,135	2,691	2,916	1,488	1,776
Mashreq Bank	1,572	1,354	1,019	1,628	861
Doha Bank	893	866	1,096	579	91
Oman Bank	80	190	170	50	79
Bank of Tokyo	277	178	130	125	123
IFIC Bank	524	262	300	459	611
Deutsche Bank		2,276	1,820	2,773	2,136
Emirates International	6,255	6,859	5,881	6,108	7,570
Rupali Bank	86	92	22	19	16
Bank of Ceylon	37	54	45	66	65

Source: Banks' Annual Reports

Fixed Deposit Mobilisation by Banks

(Rs. Mn)

Name of Bank	1997	1998	1999	2000	2001
National Bank of Pakistan	96,668	77,796	79,596	50,344	42,822
Habib Bank Limited	59,754	75,381	77,107	75,696	72,883
United Bank Limited	36,726	38,734	38,151	38,307	38,747
First Women Bank	645	470	364	971	1069
Muslim Commercial Bank	35,263	33,038	35,474	28,550	28,275
Allied Bank Limited	16,062	25,846	28,873	-	-
Bank of Khyber	3,520	5,423	5,933	7,223	8,327
Bank of Punjab	5,314	7,092	4,273	4,077	4,633
Askari Commercial Bank	6,424	6,918	6,182	5,679	7,741
Bank Al-Falah	3,689	4,109	4,038	6,746	7,735
Bank Al-Habib	6,287	6,933	8,224	2,186	2,833
Soneri Bank	2,319	2,723	3,255	3,169	3,344
Faysal Bank	4,499	2,663	1,914	2,511	4,205
Bolan Bank Ltd	2,437	1,381	1,009	828	542
Platinum Commercial Bank	590	1,314	1,199	1,173	397
Metropolitan Bank	4,385	5,105	5,192	4,434	5,500
Union Bank	2,232	2,290	1,539	707	2,046
Prime Commercial Bank	912	701	544	403	516
Picic Commercial Bank	1,601	1,766	1,320	1,115	3,218
Saudi Pak Commercial Bank	833	626	292	1085	949
Al-Baraka Islamic Bank	1314	1527	-	-	-
ABN Amro	6,724	6,374	6,744	11,189	11,498
American Express	7,079	3,433	1,217	1,986	1,800
Citibank	36,773	26,764	16,024	13,181	16,099
Credit Agricole Indosuez	1,133	621	372	1120	2356
Standard Chartered Bank	8,433	7,344	6,141	5,942	6,775
Habib Bank AG Zurich	7,084	7,296	8,144	8,720	9,989
Societe General	2,414	1,809	1,283	1,568	629
Hongkong & Shanghai Banking Corp.	4,053	2,896	1,727	2,732	3,648
Mashreq Bank	2,754	3,105	2,813	3,356	2,638
Doha Bank	1,073	719	979	329	53
Oman Bank	714	1,165	1,078	83	172
Bank of Tokyo	443	204	1,315	1,007	6
IFIC Bank	182	619	518	458	560
Deutsche Bank	-	744	607	1370	902
Emirates International	3,148	3,618	3,197	3,310	3,540
Rupali Bank	147	159	137	7	6
Bank of Ceylon	1585	1499	1,609	21	23

Source: Banks' Annual Reports

In addition, local and foreign banks also offer various saving schemes which are popular among the general public. Some of the schemes are as under: -

Monthly Income Schemes

Scheme	Annual Yield (%)	Maturity	Minimum Investment (Rs)
MCB Mahana Khushali	9.50	5-years	10,000
Faysal Izafa	9.0-10.0	1-6 months	25,000
Askari Bachat Certificates	12.0-13.0	3-5 years	25,000
Platinum Mahana Munafa	12.50-14.0	3-5 years	25,000
Prudential* Mahana Plan	12.0-14.0	2-5 years	25,000
IFIC Super Munafa	11.0-12.0	6-12 months	25,000
IDBP Mahana Munafa	11.35-14.60	1-7 years	25,000

* Prudential Bank's management and control has been acquired by Saudi Pak Industrial & Agricultural Investment Company. The bank is operating as Saudi Pak Commercial Bank since September 2001.

Capital Growth Certificates

Scheme	Annual Yield (%)	Maturity	Minimum Investment (Rs)
Askari Bachat Certificate	12.0	3 years	10,000
MCB Capital Growth	9.50	5 years	10,000
Fidelity Mega Growth	13.82	51 months	50,000
NDLC Nayab Growth	13.0-14.0	3-5 years	10,000
PICIC UD Capital Plus	11.0	3 years	100,000
Platinum Deposit CG	13.82	3 years	10,000
IDBP Besh Baha	13.62	As per schedule	50,000
IFIC Super Saving	11.50	6 months	50,000
Soneri Capital Growth	12.0	5 years	5,000

Savings mobilization under National Savings Scheme

National saving schemes are also sold through the network of commercial banks and post offices. Post offices offer the largest network of saving bank services in the country. Serving as an agent of Ministry of Finance they have been playing a crucial role in encouraging and mobilizing savings since long. In fact in most of the remote areas, it is the only service available. Pak post saving banks also offer a number of very attractive saving bank schemes.

The National Saving schemes offered by the National Savings Organization and also sold through the network of commercial banks and post offices are: -

Defence Saving Certificates

§ Certificates are issued for ten years but are encashable any time after one month.
§ Certificates are transferable from one city and one person to another city and another person.
§ Certificates are available in the denominations of Rs.500 to Rs.1 million.
§ No maximum limit of investment.

Special Saving Certificates

- Three years scheme, but investment can be withdrawn any time after one month.
- These certificates are available in the denomination of Rs.500, Rs.1000, Rs.5,000, Rs.10,000, Rs.50,000, Rs.100,000, Rs.500,000, Rs.1,000,000/-
- Profit is paid on the completion of each period of six months.
- No maximum limit of investment.

Regular Income Certificates

- Five years regular scheme.
- Rs.880 monthly profit on account of Rs. 100000 subject to 10% withholding tax.
- Profit is payable on monthly basis.
- Both single and joint purchase permitted.
- No maximum limit of investment.
- Exempt from zakat deduction.

Special Saving Account

- 6.50% p.a. on Account from which withdrawals are made through cheque.
- 7.00% p.a. on other accounts.
- Easy and simple transfer of account to any Post Office branch within the country.
- No maximum limit of investment.

Monthly Income Account

Monthly deposits from Rs.500/- to Rs.5000/- in this account for continuous 72 months entitle the investor to receive an amount equal to his monthly deposit every month, after maturity period (72 months) until the account is closed.

NSS shows impressive perform-ance

The National Savings Organization showed impressive performance in FY 02. In FY02 net savings mobilized by the organization under NSS were 97% higher compared to FY01. The bulk of savings amounting to Rs.57.5 billion or 80% of total was constituted by Defence Saving Certificates and Special Saving Certificates. Savings mobilised through the NSS had touched a peak of Rs. 129.5 billion in 1999. The improvement was primarily due to an increase in rate of profit offered on saving accounts, DSC and SSC.

Savings Mobilised By National Savings Schemes

(Rs. Mn)

End-June	Defence Saving Certificates	Regular Income Certificates	Special Saving Certificates	Others	Total
1993	5490	1120	15,439	(19008)	3041
1994	11370	4244	5656	10910	32180
1995	20655	4023	7423	1845	33946
1996	20144	4732	12345	4656	41877
1997	31405	16472	14902	(4014)	58765
1998	32272	54409	20195	(5889)	100987
1999	38350	59099	24957	7155	129561
2000	41212	26112	19396	4687	91407
2001	16580	8643	9431	1698	36352
2002	21217	10909	36300	2490	70916

Source: Monthly Bulletin, November 2002
State Bank of Pakistan

Saving centres working under the Central Directorate of National Savings have been effective in mobilizing savings in Pakistan. This office is an attached department of the Finance Division and performs deposit bank functions by selling government securities through a network of 366 saving centres. The seven schemes currently in operation include, Defence Saving Certificates (DSC), Special Savings Certificates/Accounts, National Deposit Certificates, Saving Accounts, Regular Income Certificates, Mahana Amdani Account and Prize Bonds. They have been the largest mobilizers compared to post offices and banks.

National Saving Schemes
(Outstanding Amount)

(End June: Rs. Mn)

Schemes	1998	1999	2000	2001 R	2002 P
A. Accounts (i,ii/1 to 4)	**37,821.9**	**45,964.4**	**51,193.7**	**52,731.2**	**55,537.4**
(i) National Saving Centres	23,783.2	28,647.8	30,841.8	26,738.5	23,539.6
(ii) Post Offices	14,038.6	17,316.6	20,351.9	25,992.7	31,997.8
1. Saving Account	8,024.7	10,321.3	10,124.6	8,019.6	7,752.8
2. Khas Deposit Accounts	486.7	436.2	397.5	360.7	354.1
3. Mahana Amdani Accounts	1,869.3	1,885.8	1,899.7	1,952.5	2,371.1
4. Special Saving Accounts	27,441.2	33,321.05	38,771.9	42,398.4	45,054.4
B. Certificates (i,ii,iii/5 to 11)	**374,981.2**	**496,435.2**	**582,608.2**	**617,430.2**	**685,642.2**
(i) National Saving Centres	270,177.1	353,890.9	410,132.2	438,320.2	484,331.2
(ii) Post Offices	27,918.2	36,005.5	43,679.1	48,198.3	53,378.7
(iii) Banks	76,886.0	106,538.8	128,796.9	130,911.7	147,932.3
5. Defence Saving Certificates	168,840.2	207,190.0	248,401.8	264,982.1	286,199.4
6. National Deposit Certificates	132.1	83.4	57.2	40.7	33.7
7. Khas Deposit Certificates	340.35	320.0	307.1	294.8	290.4
8. Premium Saving Certificates	0.5	0.5	0.5	0.5	0.5
9. Special Saving Accounts (Registered)	118,965.9	143,922.6	163,318.4	172,749.6	209,049.7
10. Special Saving Accounts (Bearer)	1,702.3	819.3	312.0	508.3	304.8
11. Regular Income Certificates	85,000.1	144,099.5	170,211.1	178,854.3	189,763.7
C. Prize Bonds	**71,058.0**	**81,183.7**	**81,151.4**	**91,542.4**	**103,130.1**
Total (A+B+C)	**483,861.1**	**623,583.3**	**714,753.3**	**761,703.2**	**844,309.7**

(R) Revised
(P) Provisional

Source: Annual Report 2001-02
State Bank of Pakistan

Mark up Rate/Profit Rate on Debt Instruments Available in the Market 2001-2002

Sr.#	Scheme	Markup/Profit Rate	Maturity Period	Tax Status
1.	Prize Bonds			
	i) Rs.200, Rs.750/-	6.0%	Two month holding period	Taxable@10%
	ii) Rs.1500/-, Rs.7,500/-, Rs.15,000/- and Rs.40,000/-	6.0%	Two month holding period	Taxable@10%
2	Special US$ Bonds		The rates are effective from	
	a) 3 years maturity	LIBOR+1.00%	September 1999. If bonds	
	b) 5 years maturity	LIBOR+1.50%	are encashed before one	
	c) 7 years maturity	LIBOR+2.00%	year no profit will be paid	
3.	Unfunded Debt			
	Defence Saving Certificates	14.13% p.a	(on 10 years maturity)	Non Taxable
	Special Saving Certificates (Registered)	12.70% p.a	3 years	Non Taxable
	Regular Income Certificates	12.48% p.a.	5 years	Taxable
	Mahana Amdani Accounts	12.25% p.a.	(on 5 year maturity)	Taxable on installment
	Saving Accounts	7.80% p.a.	Running account	Non Taxable

Source: Economic Survey 2001-02
Government of Pakistan

Factors for low savings rate in Pakistan

There are both cultural and economic factors behind low savings rate. Among the major factors contributing to a lower savings rate, is the absence of a savings culture, poor saving habits, particularly among the rural population due to their traditional customs, low level of income and low literacy level and consequent poverty among a large majority.

Other reasons include, a large and growing population a high dependency ratio, a moderate to low economic growth, less prudent fiscal management and the dearth of viable saving products available for public. The varied taxes and decreasing return on savings schemes is a disincentive.

Declining rate of return

The rates of return on various instruments of National Savings Schemes have also been further reduced by upto 2.5% on maturity, effective July 1, 2002. From a peak of 18% per annum, 10-year defence and 3-year special saving certificates now offer net profit of 10.6% and 9.9% per annum. These returns had been linked with the average yields of the Pakistan Investment Bonds of similar maturity to make them more consistent with the prevailing market rates. This was the third adjustment in the rates of return on NSS since January 2001, when it was first cut by 2%, followed by another cut of 1.5% in July 2001. Moreover, profit from investment in NSS has also been subjected to 10% withholding tax since January 2001. The exemption limit of imposing 10% withholding tax has been brought down to Rs150,000 from Rs. 3 million. Thus once highly profitable, the schemes have lost significant part of their shine. The profit of investors in NSS has come down by a third in two years.

Nominal and Real Deposit Rates on Savings Schemes 1995-2002

(%)

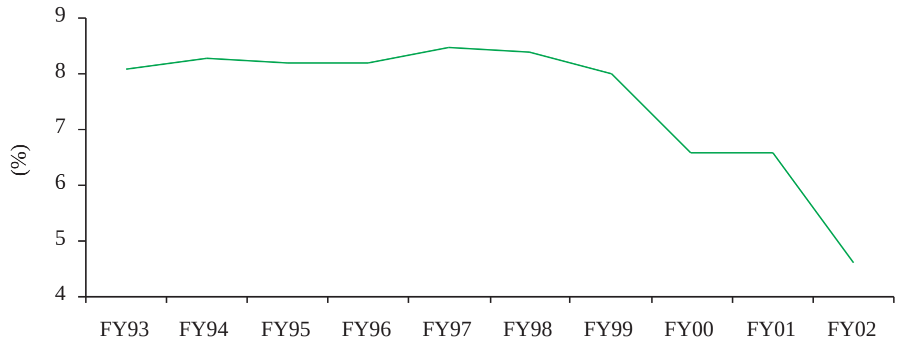
	Scheme	1995-2000		2000-01		2001-02	
		Nominal Rate (p.a)	Real Rate	Nominal Rate (p.a)	Real Rate	Nominal Rate (p.a)	Real Rate
1.	Defence Saving Certificates	17.0	9.1	15.0	10.6	14.1	11.5
2.	National Deposit Scheme	13.1	5.2	13.0	8.6	13.0	10.4
3.	Special Savings Certificate (R)	15.8	7.9	12.7	8.3	12.7	10.1
4.	Special Savings Certificate (B)	12.8	4.9	12.4	8.0	12.4	9.8
5.	Regular Income Certificates	16.4	8.5	12.5	8.1	12.5	9.9
6.	Mahana Amdani Accounts	14.9	7.0	12.3	7.9	12.3	9.7
7.	Saving Accounts	11.8	3.9	7.8	3.4	7.8	5.2
8.	Prize Bonds	10.2	2.3	6.0	1.6	6.0	3.4
	Weighted Average	15.8	7.9	11.2	6.8	11.5	8.9

(R) Registered
(B) Bearer

Source: Economic Surve

Profit rates offered on deposits of various maturities by the banks have also been reduced. The weighted average rate of return on PLS and other interest bearing deposits of all banks has come down from 8.5% in FY97 to 4.6% in FY02, a decline of nearly 4 percentage points in five years.

Weighted Average Rates of Return on Banks' Deposits
(PLS & Interest Bearing)



Attractive investment incentives needed

Pakistan is a highly consumption oriented society. Attractive investment alternatives need to be created to bring about a meaningful change in the attitude of people towards saving. As people lack the choice of saving options money has flown towards the stock market and real estate.

The defunct lottery schemes launched by local banks in 1998, were able to attract large sums from deposit holders. These schemes were popular because of a high payoff. Prize bonds yield a zero return to their holders unless the holder wins a prize, but a huge amount of funds have been invested in it because these offer a chance to win big prizes. In order to induce people to consume less and save more, there is a need to formulate constructive policies to encourage savings.

Agriculture

Weak recovery in FY02

Agricultural growth in FY02 fell below the target of 2.8 %. The growth of 1.4%, was a weak recovery over the decline of 2.6% recorded a year earlier. Major crops sub sector showed a slight improvement as sugarcane production rose. Among other major crops, wheat, rice and cotton production continued to decline, though the fall was relatively lower over the previous year. Water shortage was the key factor responsible for weak performance of the sector.

Reduced water shortages for the past two years have been largely responsible for the slow recovery in the sector. Two consecutive weak monsoons, plus the inadequate glacier and snowmelt, have been responsible for the drop in water level at the major reservoirs. Also poor resource management and planning has created a situation where increasing demand is not matched with a commensurate rise in supplies and storage capacity.

Improved prospects for FY03

In FY03, availability of water will no longer be a constraint on agricultural growth. Rains in the catchment area last year filled the major water reservoirs to their full capacity. Water levels were higher for both the Mangla and Tarbela dams, and the release of water from canal heads rose for the kharif season and is expected to continue for the rabi season (October – March). As such prospects for the agricultural sector to achieve the growth target of 2.4% in FY03 is favourable, unless there is some natural calamity.

Wheat

Production below target

Final estimates released by the Ministry of Agriculture place production for FY02 at 18.4 million tonnes, 8% short of the 20 million tonnes target and nearly 3.2% less than 19 million tonnes produced in FY01. The decline is attributable to a 2.4% fall in area cultivated to 7.98 million hectares and its yield falling to 2313 kgs per hectare. Dry weather, shortage of irrigation water and delayed sowing of the 2001-02 crop was the main cause for decline in area and yield.

Province-wise, with the exception of Balochistan, where production exceeded the target by 8%, the other three provinces recorded shortfall against their respective targets. Major shortfall was recorded by Sindh (22.2%), followed by NWFP (13%) and Punjab (6%).

Higher production target for 2002-03

The Federal Committee for Agriculture has set a production target of 20.3 million tonnes for the 2002-03 crop, up 10.3% over last season's crop. Area is targeted to be higher by 3.8% at 8.28 million hectares. A per hectare yield of 2449 kgs is required for achieving the targeted production.

Over 80% of sowing target achieved

So far the weather has been favourable. Sowing has reportedly been completed over an area of 7.123 million hectares, or 86% of the target. Punjab has brought 5.5 million hectares under wheat cultivation, achieving 92.3% of the target while10% higher acreage has been recorded for 2002-03 crop in Sindh, where sowing has been completed at over 65% of the targeted area and the process still continues.

Sufficient stocks

Against the anticipated domestic wheat requirements of a little over 20.94 million tonnes in 2002-03, total availability at the start of the season has been placed at 22.09 million tonnes, which is attributable to record harvests in FY00 and FY01.

Available estimates, place government stocks at about 5 million tonnes. Of this, over 3.4 million tonnes is held by Punjab, Sindh and Passco, who have been allowed to export 0.600 million tonnes by end December. Since April this year, 1.5 million tonnes of wheat has reportedly been exported, with private sector exporters sharing 0.800 million tonnes.

Export prospects bright

Meanwhile, the Trading Corporation of Pakistan has received the highest bid price of $133.38 per tonne for export of Pakpunjab quality of 2002 crop. World wheat prices are expected to remain high this season due to lower wheat harvests anticipated by leading producing countries. However, Pakistan is better placed to export large quantity of wheat due to its ample stocks.

Rice

Area sown falls

A production of 4.57 million tonnes to be harvested from an area of 2.089 million hectares was fixed for the season 2002-03 by the government. Production was targeted higher by 17%, while area sown is lower by 0.9%. The decline in area is due to the diversion of area to other crops like cotton and sugarcane. The Federal Committee of Agriculture, however, has proposed a lower target for rice production of 3.5 million tonnes, in view of persistent irrigation water shortfall.

Production of basmati improves

Last season, the government had fixed a production target of 4.2 million tonnes. Against this, actual production was 3.88 million tonnes, 19.2% lower than preceding season's harvest. However, superior quality basmati variety, which is mainly produced in Punjab, recorded an increase of 0.1 million tonnes. Production of coarse variety, which is mostly produced in Sindh suffered due to water shortage.

Water shortage and white fly attack

According to the second estimates of 2002-03 crop released by the Punjab Agriculture Department, basmati production in Punjab is estimated to have risen by 13%, to 2.57 million tonnes, mainly due to effective pest control. In Sindh, however, paddy crop has reportedly been affected in some rice growing districts due to water shortage and white fly attack. In Badin district, the area cultivated under coarse variety is 30% less compared to last year, affecting yield per hectare.

Overall area sown has fallen in the season. The decline in area is mainly in Sindh where area under coarse variety has fallen by 10%. It is due to lack of early season irrigation supplies and switching over to planting crops like sugarcane and cotton by the farmer, where there are better returns. However, rice planting in Punjab reportedly increased by 40,000 hectares. Of the total rice acreage under the 2002-03 crop, 65% is basmati, 29% irri paddy and 6% other coarse varieties.

Lower export forecast

Due to decline in carryover stocks, end FY03 stocks are expected at around 0.200 million tonnes. Exports are forecast to be lower than the 1.25 million tonnes exported last year. Current estimates place basmati export at 0.500 million tonnes and irri at 0.600 million tonnes. Pakistani irri variety is facing tough competition in the international market from Thailand, Vietnam, Japan and India, and it is feared that irri exports will decline. Total rice export is expected to reach 1 million tones.

Cotton

Cotton yield lower

The Federal Agriculture Committee has proposed a production target of 10.1 million bales for the 2002-03 crop. The target is 4.7% below last season's harvest, which produced 10.6 million bales from 3.1 million hectares, reflecting a decline of 7% in yield to 579 kgs per hectare. According to a latest report, this season's crop has been sown at over 2.72 million hectares, nearly 13% lower over previous season's acreage and 6% short of the targeted area, mainly because of decline in area sown in Punjab and Sindh. Harvesting continues in both provinces.

Increase in consumption

The cotton crop assessment committee expects this season's crop to be lower against the estimated domestic consumption of 11.5-11.7 million bales. The consumption of cotton has picked up due to the revival of some textile mills and addition of new capacity in the industry. Trade circles are estimating a crop of between 9.5 - 10.5 million bales. All Pakistan Cotton Ginners Association has reported arrival of 7.9 million bales of phutti at the ginneries till mid-December. It expects another 1.6 million bales to arrive by end season. The shortfall in production is expected to be met through imports.

Increasing prices

The expected decline in cotton output over last season's harvest has increased lint prices. Lower output is attributable to lower cotton sowing this season, and increase in consumption by textile mills. As a result of recent hike of Rs.50 to Rs.100 per 40 kgs in lint prices, the prices of seed cotton is high at between Rs.800 - Rs1000 in Sindh and between Rs.900 - Rs.1055 per 40 kgs in Punjab. There is strong indication in the market that cotton prices may rise further due to expected decline in cotton production, rise in consumption and increase in international prices.

Meanwhile, world cotton production is also likely to decline by 10% over the previous season's harvest of 98.4 million bales, while its consumption is to rise by 3% to 95.20 million bales. Due to tight cotton position, cotton prices in the world market are expected to average 53 cents per lb in 2002-03, against 42 cents last season.

Anticipating increase in cotton prices, domestic ginners are reluctant to part with their unsold stocks. Despite strong cotton demand, currently ginners have reported 1.7 million bales in unsold stocks. The textile mills have so far lifted 6.7 million bales, while exporters have purchased 0.100 million bales.

Sugarcane

Production outpaced target

Till mid-November, production of the current season's crop has reportedly reached 52.5 million tonnes against the target of 46 million tones, with growers expecting a crop of 55 million tones. A rise in sugarcane production in Punjab helped total output to exceed the target. Some growers in Punjab have shifted to cultivation of sugarcane from cotton crop due to low prices being offered for their produce.

Increase in area

Despite irrigation water shortage, area under the 2002-03 crop has exceeded the target by nearly 10% and is higher by 9% over previous season's acreage. This season's acreage under sugarcane improved, because lower yield from cotton, and wheat last year forced many farmers to switch to sugarcane sowing. Rains helped in improving the availability of irrigation water.

Meanwhile, support prices for the 2002-03 crop is expected to remain unchanged for Punjab and NWFP at Rs.42 per 40 kgs and at Rs.43 per 40 kg for Sindh. Current market prices are nearly 50% above the support price and are expected to remain strong due to a sizeable demand from the sugar industry.

Crushing starts

Cane crushing is progressing well after being delayed in Sindh due to the row over prices. There are varying estimates for sugar production this season. These estimates range from 3.2 million tonnes to 4 million tonnes based on forecast increase in cane production and improvement in sucrose recovery. Last year, sugar mills produced 3.25 million tonnes of sugar, up 8% from a year earlier. Current estimates for consumption remain at 3.1 million to 3.4 million tonnes. As a result of a good crop and forecast increase in sugar production retail sugar prices have fallen to Rs.22 per kg.

Stocks rise

Stocks have increased in 2002-03 to 0.66 million tones, against 0.200 million tones in 2000-01.

Area/Production by Province

Province	Area (000 hectares)			Production (Mn. MT)		
	2000-01	2001-02	2002-03	2000-01	2001-02	2002-03^{E}
Punjab	615.5	657.0	730.0	26.7	31.8	36.2
Sindh	238.8	241.0	250.0	12.0	11.7	12.5
NWFP	106.0	106.0	107.0	4.7	4.8	4.8
Balochistan	0.7	0.7	0.6	0.32	0.32	0.32
Total	961.0	1004.7	1092.6	43.6	48.3	52.5

E estimates

Banking and Finance

Deposits continue to grow

Scheduled banks deposits continue to grow. In the week ended December 28, 2002 deposits stood at Rs.1,594.4 billion, a 17.9% increase over last year's corresponding figure of Rs.1,352.0 billion.

Advances increase

Scheduled banks advances rose to Rs.924.7 billion in the week ended December 28, 2002, a 3.4% increase over last year's corresponding figure of Rs.Rs.894.6 billion.

Investment in securities doubles

Scheduled banks investment in central government securities, Treasury bills and other approved securities has doubled in a year's time. Such investments totaled Rs.625.2 billion in the week ended December 28, over last year's corresponding figure of Rs.313.4 billion.

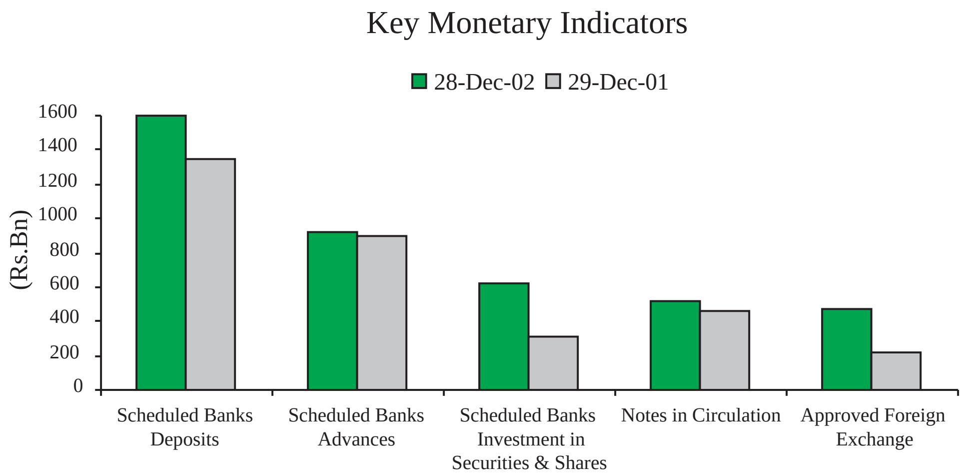
As credit demand by the private sector has not picked up, banks with surplus liquidity continue to invest in securities, in a declining rate environment. The average annual yield on Treasury Bills continues to fall and in the recent auction on December 24, the yield had fallen to 4.36% for 12-month T-bills.

Notes in circulation rise

Notes in circulation rose by 13.3% in the week ended December 28, to Rs.518.4 billion over last year's corresponding figure of Rs.457.5 billion.

Approved foreign exchange jumps

Pakistan's approved foreign exchange including balances held outside Pakistan have more than doubled to Rs.467.9 billion in the week ended December 28, over last year's corresponding figure of Rs.219.1 billion.



Easing of Monetary Policy

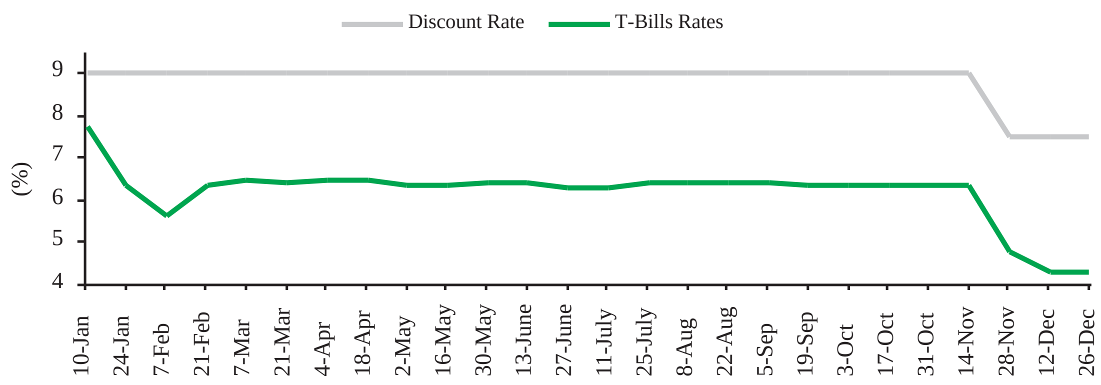
The process of monetary easing begun by the State Bank of Pakistan in July 2001, with a percentage point cut in discount rate continues. In the face of the continuing stability in the exchange rate, the discount rate was cut by another one percent point in August 01, and 2 percentage points in September followed by a 1 percent reduction to take it to a new all time low of 9% by January 02, a level left unchanged till November this year.

On November 16, the State Bank of Pakistan further reduced its discount rate by 1.5 percentage points to 7.5%. Given the exchange rate stability and containment of inflation, further lowering of discount rate was expected, as expectations of declining interest rates strengthened. This was followed by a one percentage point cut in the export refinance rate to 5.5% and lowering of the yield on six month Treasury Bills by 1.5 percentage points. This brought down the weighted average yield of six month T-bills to 5.5%.

Banks operating in Pakistan subsequently made some adjustments in their lending rates. The weighted average lending rate of all banks combined has fallen in the last four months from 11.48% at end October to 10.66% by end November. The drop has been most significant for foreign banks than for any other category of banks. Nationalised banks showed a marginal drop from 12.67% to 12.18%. Banks are expected to offset the impact of the drop in the lending rates on their profitability by exploring new areas of business.

Private sector demand for credit has remained sluggish for quite sometime. Though the prospects of the economy have improved, with domestic interest rates at their lowest, a recovery by exports, a reduction in border tensions with India, credit off-take has been weak. The first quarterly report for the year 2002-03 of the State Bank of Pakistan says that this does not necessarily mean a slowdown in economic activity. It is likely that the change in the credit pattern reflects the impact of factors, such as, (i) substantial increase in remittances a portion of which could have been used for self-financing of business activities (ii) expectations of a further decrease in domestic interest rates and (iii) political uncertainty that prevailed prior to the elections, especially with regard to the economic policies.

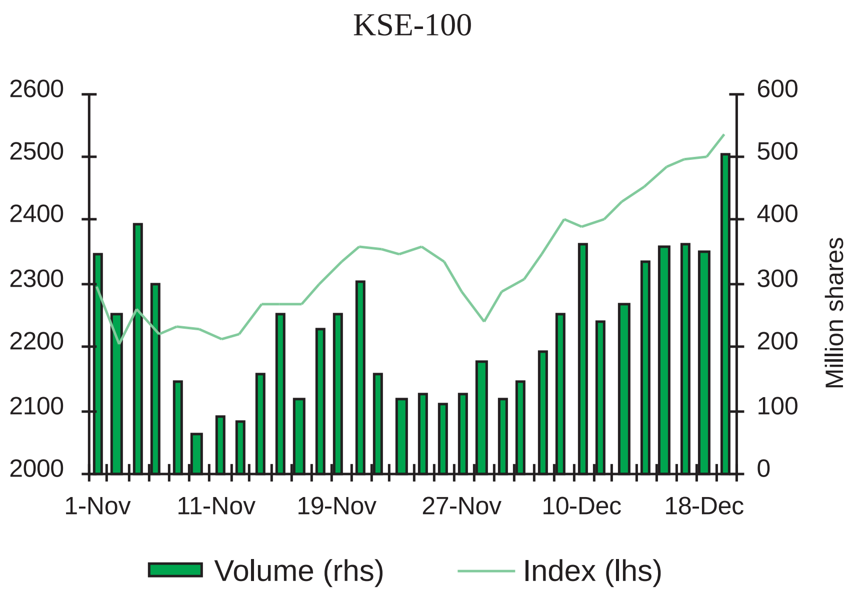
Dicount/T-Bill Rates



Market Analysis

Market Outlook

The 12-month rally floundered in November as political uncertainty finally took its toll. The KSE-100 operated within a tight range, with a brief dip to 2204 at the start of the month following long due profit taking; and saw a high of 2357 towards the latter half of the month after a cut in the SBP discount rate. By November end, the market closed up only 7 points at 2286. The start of December saw a resurgence however, and the Index firmly broke the 2500 mark on December 18. Hence the rally seen over the last 14 months continues and we expect the market to reach its lifetime high of 2660 in the very near future.



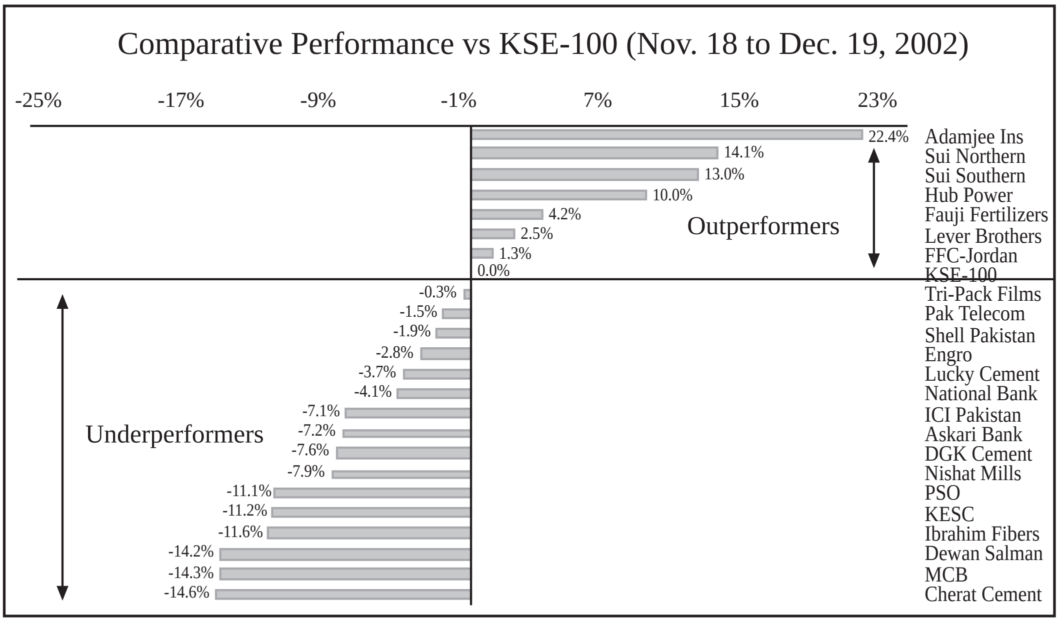
Low Interest Rates Make Yield Stocks Appealing

The 1.5% cut in the SBP discount rate announced on November 15, makes the stock market all the more attractive for investors. A reduction in the discount rate signals an overall reduction in money market rates will follow, and with lower yields on money market instruments such as T-bills and PIBs, shares should see higher valuations, especially high yield stocks such as Hubco, Fauji Fertilizer, SNGPL and PTCL. The market did rise 85 points in the three days immediately following the rate cuts, but the gains were later wiped out in most shares other than Hubco and PTCL as negative sentiment related to political uncertainty took over the market.

Yield conscious institutional buying returned in strength in December however, and this was the primary driver behind the market's breaking the 2500 level. The high yield stocks Hubco, Engro, PTCL, Fauji and SNGPL were amongst the best performers in that period.

Earnings Season Around the Corner

By the end of January full year earnings and dividend announcements for many companies will begin. We expect to see good earnings growth YoY in all major blue chips and this will be positive for the market.



Excess Bank Liquidity

Excess bank liquidity caused by high remittances inflows, tighter lending criteria and low corporate credit demand has meant the banking sector is flush with excess cash. While banks have been slow to increase exposure to the equities market, the cut in interest rates along with the low credit demand and reduced government borrowing means that they really have no choice but to consider equity investments as a source of income to supplement low interest earnings.

The November to February period tends be the peak lending season. This is when commodities traders are most active. However, after February, this seasonal lending will fall again and this may lead to a boost bank buying in the equities market.

Outlook

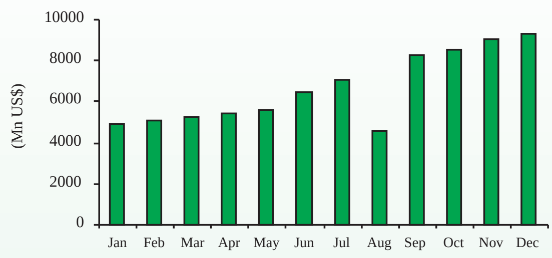
Because of the above factors, we expect the Bull Run will continue and are optimistic that the KSE-100 index will be able to break past its record high.

The only apparent cloud on the horizon is possible US war against Iraq. Were this to happen, it will create market jitters which could lead to a sharp fall in stock prices. A war will lead to a sharp rise in oil prices which will be a burden for the country. The country's trade deficit will worsen, electricity prices will rise, and cost of industrial production will be higher. However it will be positive for OMCs such as PSO and Shell. Hubco and the IPPs are protected from fuel price increases and so they too will not suffer. Hence to hedge against the eventuality of war investors should increase their exposure to the fuel and energy sectors.

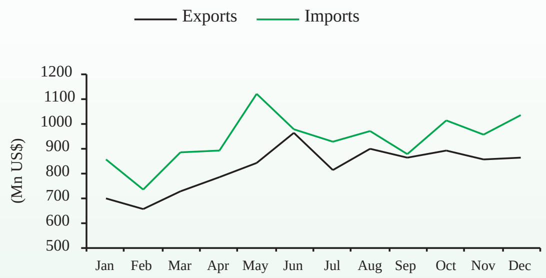
(Contributed by Taurus Securities Ltd., a subsidiary of National Bank of Pakistan)

The Year 2002 at a Glance

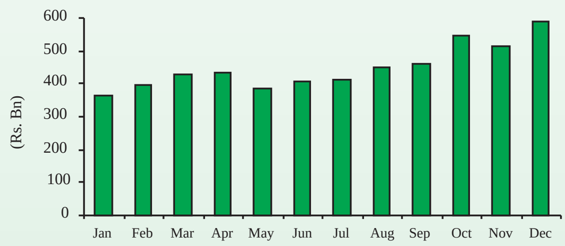
Foreign Exchange Reserves



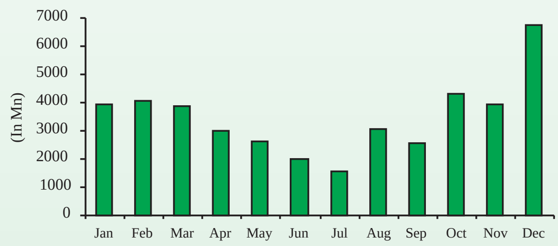
Exports & Imports



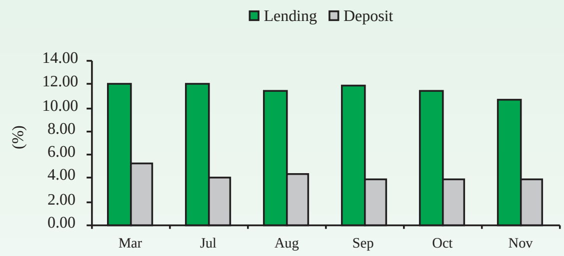
Aggregate Market Capitalisation



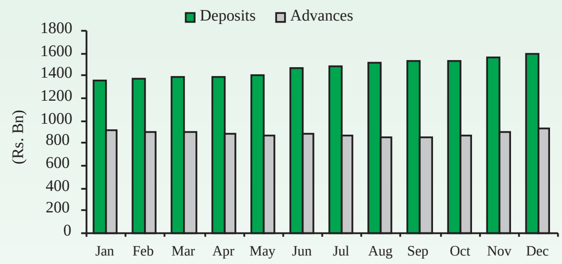
Turnover of Shares



Lending & Deposit Rates

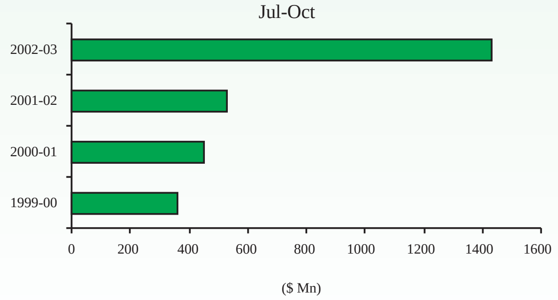


Scheduled Banks Deposits/Advances



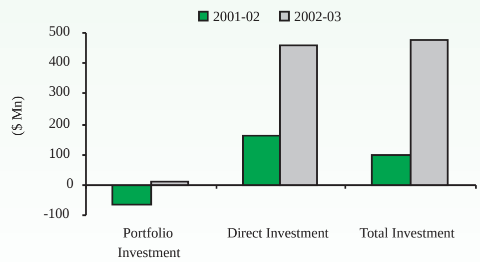
Workers Remittances

Jul-Oct



Net Inflow of Foreign Private Investment

July-November



Key Economic Indicators

Economy Size & Growth		1998-99	1999-00	2000-01	2001-02P
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	4.4	3.5
GDP Deflator		5.5	2.8	5.6	4.6
Balance of Payments	$ mn				
Exports (f.o.b.)		7528	8190	8933	9133
Imports (f.o.b.)		9613	9602	10202	9493
Trade Balance		-2085	-1412	-1269	-360
Services Account (Net)		-2618	-2794	-3142	-2620
Private Transfers (Net)		2274	3063	3898	4255
Current Account Balance		-2429	-1143	-513	1275
Fiscal Balance	% of GDP				
Total Revenue (Net)		15.9	17.1	16.0	17.1
Total Expenditure		22.0	23.6	21.3	23.7
Overall Deficit		6.1	6.6	5.3	6.6
Domestic & Foreign Debt					
Domestic Debt	Rs bn	1375.9	1559.9	1712.5	1695.5
As % GDP		46.8	49.6	50.1	46.0
Total External Debt	$ bn	31.3	32.3	32.1	33.4
Total Debt Servicing	Rs bn	343.1	353.9	340.3	412.5
As % GDP		104.2	105.4	113.2	102.0
Investment & Savings	% of GNP				
Gross Investment		15.6	16.2	16.2	13.8
Fixed Investment		14.0	14.6	14.5	12.2
National Savings		11.8	14.3	15.3	13.8
Domestic Savings	% of GDP	12.9	15.8	16.9	13.8
Foreign Investment	$ mn	403.3	543.4	182.0	474.6
Portfolio		27.3	73.5	-140.4	-10.0
Direct		376.0	469.9	322.4	484.7
Monetary Aggregates	%				
M1		33.9	14.9	3.0	14.9
M2		6.2	9.4	8.9	14.8
Interest Rates (Weighted Average)	%				
Deposits*		7.96	6.62	6.58	4.60
Advances		14.8	13.52	13.61	13.19
Gold & Foreign Exchange Reserves	$ mn	2922	2766	3810	6997
Exchange Rate++	Rs./$				
Official Rate		51.6	52.16	64.4	60.05
Open Market Rate		54.4	54.82	66.7	60.20

P Provisional
* PLS & Interest bearing
++ End-June Buying Rate

Source: Annual Report 2001-02
State Bank of Pakistan

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