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NBP Performance at a Glance

Editor's Corner

Dear Readers,

Wheat, the staple diet of the country's population, grown at over 38 percent of the cultivated area, contributes 14.4 percent to agriculture value added and 3.0 percent to GDP. Recent weeks have seen an increase in the price of this essential food item in the domestic market. In 2006-07 a production of 23.5 million tonnes was achieved from an area of 8.58 million hectares. This production level surpassed the set target of 22.5 million tonnes by 4 percent. This output level, according to the Economic Survey 2006-07, was highest wheat production in the country's history. Despite achieving such high levels, shortages occurred and prices spiraled upwards.

Prices have risen from Rs14 per kg in May '07, to as high as Rs32-34 per kg in the open market by mid-January 2008. When compared to flour prices of Rs22.35/kg in New Delhi, Rs35.0/kg in Colombo and Rs23.14/kg in Dhaka, the local prices in May last were the lowest in the region.

Given domestic consumption of around 22 million tones annually, the crop harvested was sufficient to retain some stocks after meeting the entire domestic requirement. Some quarters in the business are, however, of the opinion that perhaps the wheat crop was overstated and declared a bumper crop. Actual production was below 23.5 million tonnes. The private sector was encouraged to participate in the wheat procurement operations through support of various banks. The State Bank of Pakistan had issued instructions to banks to extend cash margin facilities for procurement of domestically produced wheat. Substantial quantity of wheat was allowed to be exported by the private sector. There was perhaps no proper mechanism to have a check on wheat exports. To make matters worse, smuggling to a neighbouring country continued where prices were higher and so did hoarding by some unscrupulous elements in this business. This resulted in shortages in the domestic market.

To restrain exports, the government had imposed 35 percent regulatory duty on the export of the commodity to Afghanistan to check its outflow. Recently the government imposed a ban on the export of wheat flour to Afghanistan through the private sector to stabilize its price in the local market. The State Bank of Pakistan has also issued instruction to banks that they shall also ensure that private sector borrowers including flour mills are not accommodated to provide financing facilities for retirement of the loans availed by them from other banks for wheat procurement to avoid hoarding of wheat.

The shortage of wheat flour and the resulting high prices has badly affected the common man's budget who is already groaning under inflationary pressures. In the month of December '07, while CPI inflation rose by 8.8 percent, the food sub-group with a 40 percent weight in the CPI basket recorded an increase of 12.21 percent, primarily because of rising wheat and wheat flour prices. These rose by 14.75 percent and 12.73 percent over December '06 respectively. An increase in the price of this basic food deprives the family of the primary source of calories and adversely affects the poor household's cost of living.

In the month of November 2007, nearly 12 million MT of wheat un-milled of a value of $12.3 million was imported. Compared to November '06, current months' imports were 92 percent higher in terms of value and 66.4 percent in terms of quantum. More imports are planned as the Government has decided that the Trading Corporation of Pakistan will import one million tonnes of wheat to augment the public sector wheat stocks. Shipments of wheat have arrived in recent weeks because of which the supply situation has improved. The government has also fixed the price of flour to be supplied through utility stores, whose quota has been raised. Also the wheat quota of flour mills has been raised to curb rising prices.

The government provides wheat subsidy to keep the commodity price affordable in the market. In fiscal '07, as against a budgeted figure of Rs2 billion as subsidy to TCP for import of wheat, the revised figure was Rs116 million. While the government initiated a number of schemes to help the poor under the Poverty Reduction Strategy Programme, the federal and provincial governments also implemented general food subsidy schemes for wheat and atta (flour).

For fiscal 2007-08, the Federal Committee on Agriculture has set a wheat production target of 24.0 million tonnes to be harvested from an area of 8.578 million hectares. Public sector wheat procurement target has been fixed at 7 million tonnes, while in the preceding year, the target was fixed at 5 million tonnes. The increase in procurement would ensure better returns to the wheat growers.

Ayesha Mahmood

Pakistan Economy – The Year in Review – 2007 Challenges for 2008

Economy faced with challenges

In the outgoing year 2007, Pakistan's economy was faced with an array of challenges; rising trade and current account deficit, rising inflation, increasing fiscal deficit, energy shortages among others. A combination of generally sound macroeconomic policies being pursued by the government has given the economy the resilience to face these hurdles and to perform reasonably well. However, some macroeconomic fundamentals remained strained. In its first quarterly report for 2007-08 on the State of Pakistan Economy, the State Bank of Pakistan states, "the risks to the economy are increasing as it is clear that neither the global nor the domestic economic environment is as benign as in past years."

Event of Dec 27 and its aftermath

The death of Benazir Bhutto, the former prime minister of Pakistan on December 27, and its aftermath has impacted the domestic economy. The event also sent international stock markets falling and boosted prices for oil and gold. Fears about unrest in the region had a direct effect on oil prices. On the opening day of 2008, oil prices hit a record high at $100 a barrel. Prices of oil have doubled from the rates seen in January 2007 and have more than quadrupled since 2002. Among other factors, like the violence in Nigeria and Algeria, the latest price rise is also attributable to the death of Pakistan's former prime minister. At the same time gold rose to as much as $830.05 an ounce, which was its highest since November 26. Its price had already risen 30 percent this year.

KSE-100 index declines

The Karachi Stock Exchange was closed for three days of mourning and when it reopened on the first day the KSE-100 index witnessed a decline of 696.25 points to close at 14,075.83 points. The market also witnessed dull trading activity and market capitalization declined. However, activity at the stock market picked up in the following days as things settled down after the Election Commission announced February 18, as the new election date.

Huge financial losses

In the aftermath, there was an outflow of portfolio investment from the equity market, in the month of January '08 (upto January 8), there was a cumulative outflow of $104.9 million from SCRA (Special Convertable Rupee Account); trade and industry experienced huge financial losses; near 700 bank branches were damaged and export orders suffered.

This paper reviews the performance of the major sectors of the economy during 2007, the stumbling blocks faced and the challenges the new government that assumes office after the elections in February '08, will face.

The economy has grown at an average rate of slightly over 7.0 percent in the last five years, and a 7.2 percent annual target was set for FY07-08, supported by growth in agricultural and services sector. The Federal Budget too, is supportive of economic growth, with a large Public Sector Development Programme.

GDP growth to be below target

Economic growth, however, is likely to be below the target, as agricultural growth may slowdown due to lower harvests of cotton and rice crop because of lower acreage under these crops. Recent reports have shown that cotton crop is likely to face a shortfall of about 1.5 million bales. A sizeable crop in the cotton growing belt of upper Sindh and lower Punjab has been damaged by pests. However, if the rabi crops perform well, and sugarcane crop touches new highs of 62 million tonnes alongwith a robust livestock sub-sector, the realization of the 4.8 percent agricultural growth target could be possible.

Investment in livestock

The livestock sub-sector has performed well recently. It is attracting increasing investment in the production, processing, transportation, and storage of dairy products. The government has initiated a special programme for livestock development and more recently launched mega projects to raise meat and milk production. Under this, more livestock farms would be established with the help of the private sector, and thousands of small farms would be linked with the market.

Despite a growing services sector, contributing over half of GDP in FY07, agriculture continues to be a fundamental instrument for sustainable development and poverty reduction and for meeting the Millennium Development Goals of halving poverty and hunger by 2015.

WDR 2008 focuses on agriculture

The latest *World Development Report 2008* calls for greater investment in agriculture in developing countries. While 75 percent of the world's poor live in rural areas, a mere 4 percent of official development assistance goes to agriculture in developing countries. According to the Report, for the poorest people, GDP growth originating in agriculture is about four times more effective in reducing poverty than GDP growth originating outside the sector.

The Report has offered ways for moving out of poverty if individual countries make concerted efforts to develop their staple food sector, horticulture, poultry, aquaculture, as well as dairy markets.

Initiatives to develop agriculture

Domestically, a number of initiatives have been undertaken to develop the agricultural sector, which presently accounts for 22 percent of GDP and employs 45 percent of the labour force. Besides focusing on improving crop production/yield, the sub-sectors of agriculture, like livestock, which has linkages with other sectors, including rural development and poverty alleviation is receiving priority. It has a lot of potential which needs to be tapped.

PRSP for socio economic development

Talking of poverty, the government had in 2001 launched the Poverty Reduction Strategy Paper as Interim PRSP and then as a comprehensive PRSP in December 2003. The PRSP since then has assumed the status of the key economic strategy document of the government for the socio economic development of the country.

PRSP II

The Government has prepared a new Poverty Reduction Strategy — known as PRSP-II to address some of the challenges the economy is faced with. How to sustain the ongoing growth momentum within a stable macroeconomic environment is the biggest challenge going forward. There are also the challenges of job creation, further reducing poverty and meeting the MDGs targets, strengthening the country's physical infrastructure to support 7-8 percent growth in the medium term and, most importantly, how to reap the benefits of demographic transition that is currently taking place in Pakistan.

The later would require massive investment in human capital which will, in turn, enhance productivity. As the share of working age population increases, it is leading to a decline in dependency ratio. A decline in dependency ratio will increase savings and therefore, investment, which will be a key determinant of strong economic growth.

PRSP II built around seven pillars

The strategic framework for PRSP-II is built around a set of seven pillars — drivers of economic growth and macroeconomic stability, crafting a competitive advantage, harnessing potential of the people, financial sector deepening and economic development, provision of world class infrastructure, effective governance and management and targeting the poor and the vulnerable.

While Pakistan has made some progress in reducing poverty, a lot more needs to be done, as there is no room for complacency. According to the stipulations of the Fiscal Responsibility and Debt Limitation Act, expenditure on social sectors would be at least 4.5 percent of GDP in any given year and allocations on health and education would double as a percentage of GDP over the next ten years.

Pro-poor budgetary expenditure

Pro-poor budgetary expenditure has shown some increase over the last few years, rising from 4.63 percent of GDP in FY04 to 5.72 percent in FY06 and to a projected 5.2 percent in FY07. The country faces formidable

Box

IMF Executive Board Concludes 2007 Article IV Consultation with Pakistan

December 20, 2007

The IMF Executive Board recently concluded the 2007 Article IV consultation with Pakistan. We give below excerpts from the summary report.

Pakistan has experienced a remarkable turnaround in its economic performance since 2001-02. Sound macroeconomic management and wide-ranging structural reforms have contributed to high real GDP growth, a reduction in the debt burden, and an improved business climate. Adherence to pro-poor policies has helped lower poverty rates. Increasingly, Foreign Direct Investment (FDI) and portfolio flows have become an important source of external financing.

Economic developments during the fiscal year ending in June 2007 remained favourable. Real GDP growth increased to 7 percent, with a recovery in agriculture and a strong performance of large-scale manufacturing and services; the debt ratio continued to decline; and the international reserves position strengthened further. The disinflation process, however, slowed somewhat, with average inflation persisting near 8 percent.

Strong capital inflows boosted the overall balance of payments, but the current account deficit widened for the third consecutive year. The growth of exports and private transfers slowed, offsetting a significant decline in import growth. As a result, the current account deficit reached 4.9 percent GDP (US$7 billion) in 2006-07. A surge in FDI flows and portfolio inflows resulted in a record-high surplus in the financial account. Overall, gross official reserves increased by US$3.5 billion, to US$14.3 billion by end-June 2007. The rupee continued to fluctuate within a narrow band against the US dollar, and the real effective exchange rate remained broadly stable.

The fiscal stance was kept broadly unchanged in 2006-07, with the fiscal deficit (excluding grants) estimated at 4.3 percent of GDP, the same as in 2005-06. The public debt ratio declined by an additional 3 percentage points to about 55 percent of GDP. Progress on privatisation and other structural reforms was mixed.

The authorities' economic program for 2007-08 envisages real GDP growth of 7.2 percent. The budget deficit target has been set at 4 percent of GDP, below last year's outcome, and in its July Monetary Policy Statement, the State Bank of Pakistan announced tighter monetary conditions to slow broad money growth to 13.7 percent by the end of 2007-08.

The favourable economic performance and structural reforms to improve the business climate have spurred capital inflows in recent years. At the same time, Directors noted that inflation remains relatively high, the external current account deficit has widened, and Pakistan's external financing needs remain large. Continued vigilance is required to reduce vulnerabilities and maintain investor confidence in light of recent political uncertainties and developments in the global credit markets.

Looking ahead, Executive Directors considered Pakistan's main challenge to be the maintenance of high growth while lowering inflation and reducing the external current account deficit to a more sustainable level. This will require continued tight fiscal and monetary policies. In this regard, Directors encouraged the authorities to strengthen the fiscal program for 2007-08 to complement monetary tightening, particularly by reducing energy subsidies and capital spending.

Executive Directors welcomed the tightening of the monetary stance since mid-2007. Directors regretted the re-emergence of central bank financing of the budget, and stressed the need to adjust the interest rates in treasury bill auctions as needed in order to ensure that the government's 2007-08 domestic borrowings requirement is fully met through the commercial banks or non-bank institutions.

Looking beyond 2007-08, Directors stressed that further fiscal consolidation will be required to reduce inflation and the external current account deficit while lessening pressures on real interest rates. Directors called for a broadening of the tax base, including through expanding taxation of the agricultural and services sectors and reducing tax exemptions.

Directors encouraged the authorities to vigorously implement structural reforms in order to sustain growth and poverty reduction. They underscored the need to modernize the energy sector's regulatory and tariff framework and revive the privatization process. It will also be important to reduce subsidized central bank credit to certain sectors and disengage the central bank from development financing, to further deepen domestic financial markets and enhance the efficiency of financial intermediation, and to move forward with plans to shift from the use of short-term government financing instruments to long-term securities.

They also encouraged the authorities to resist pressures to reinstate ad hoc tariff and non-tariff barriers, and to press ahead with their plans for further trade liberalization. Directors welcomed the recent enactment of regulations governing legislation to combat money laundering and terrorism financing.

Primary Education Indicators

Population	Gross Enrolment Ratio (%)	Net Enrolment Ratio (%)	Repetition Rate (% of total enrolment)	Pupil-Teacher Ratio
South Asia	**110.5**	**87.21**	**4.1**	**40.1**
Afghanistan	92.9	-	-	65.2
Bangladesh	108.9	93.8	7.0	53.5
Bhutan	-	-	12.9	37.9
India	116.2	89.7	3.2	40.2
Maldives	103.5	89.7	11.3	18.2
Nepal	113.3	78.0	21.7	39.7
Pakistan	82.1	66.2	-	37.5
Sri Lanka	97.7	97.1	5.1	22.5

Post-Primary Education and Literacy

Population	Progression to Secondary School (%)	Gross Secondary Enrolment Ratio (%)	Gross Tertiary Enrolment Ratio (%)	Literacy Rate	
				Adult (% of people ages 15 and above)	Youth (% of people ages 15-24)
South Asia	**84.8**	**49.3**	**10.4**	**59.5**	**74.3**
Afghanistan	-	15.6	1.1	28.1	34.3
Bangladesh	95.4	51.3	6.5	-	-
Bhutan	82.5	-	-	-	-
India	85.1	53.5	11.8	61.0	76.4
Maldives	60.2	72.8	0.2	96.3	98.2
Nepal	75.8	45.7	5.6	48.6	70.1
Pakistan	69.0	27.2	3.2	49.9	65.5
Sri Lanka	97.0	82.5	-	90.7	95.6

Child Health Indicators

Population	Malnutrition (% of children under 5)				Treatment (% of children under 5)			
	Height-for-Age	Year of Data	Weight-for-Age	Year of Data	ARI	Year of Data	Diarrhoea	Year of Data
South Asia	**43.5**	**2004**	**45.3**	**2004**	**21**	**2004**	**22**	**1999**
Afghanistan	-	-	39.3	2004	28	2003	48	2003
Bangladesh	43.0	2004	47.5	2004	20	2004	35	2000
Bhutan	40.0	1999	18.7	1999	-	-	-	-
India	44.9	1999	46.7	1999	64	1999	22	1999
Maldives	24.8	2001	30.2	2001	22	2001	43	2001
Nepal	50.5	2001	48.3	2001	24	2001	-	-
Pakistan	36.8	2001	37.8	2002	-	-	-	-
Sri Lanka	13.9	2001	29.7	2001	-	-	-	-

Source: South Asia Economic Report, Social Sectors in Transition, Asian Development Bank

challenges to improve primary education, maternal and child health and other human development indicators. Expenditure on education and health has grown only marginally in the last few years. On health from 0.48 percent of GDP in FY04 to 0.57 percent in FY07 and on education from 1.73 percent to 2.12 percent in the corresponding period.

MDGs

Pakistan in the year 2000 agreed to a set of goals, known as the Millennium Development Goals for the year 2015. The MDGs promote poverty reduction, education, gender equality, maternal health, environmental sustainability, and global partnership and aim at combating child mortality, HIV/AIDs and other diseases.

South Asia reduces poverty

In the last decade, South Asia has been able to reduce absolute poverty, as the number of people living on less than $1 a day dropped from 41 percent in 1990 to 29 percent in 2003. The access to primary education has increased in the Region, accompanied by an improvement in girls' access to primary education compared with that of boys. However, gender disparities are still a concern at higher levels of education.

Disparities across socio-economic groups

While child mortality has declined from 130 deaths per 1000 live births in 1990 to about 91 in 2004, significant disparities continue to exist across socioeconomic groups and are a matter of concern. Maternal mortality remains high and this can only be brought down if there is increase access to reproductive health care. HIV/AIDs prevalence has increased among the adults.

An Asian Development Bank report on economic and development issues in South Asia, titled, *'South Asia Economic Report, Social Sectors in Transition, June 2007'*, provides individual country data on the Millennium Development Goals. This data provides an opportunity to view the status of Pakistan with regards to MDGs vis-a-vis other South Asian countries.

	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Goal 1 – Eradicate Extreme Poverty and Hunger								
Population Below $1 (PPP) Per Day Consumption (%)								
1990	-	34	-	42	-	44	48	4
Latest Year	-	30 (2003)	-	31 (2003)	1 (2004)	25 (2004)	20 (2003)	1 (2003)
Population Undernourished (%)								
1990-1992	-	35	-	25	17	20	24	28
2001-2003	-	30	-	20	11	17	23	22
Goal 2 – Achieve Universal Primary Education								
Net Enrolment Ratio in Primary Education								
1990	27	71	14	-	87	81	33	90
2000	-	89	-	82	96	70	58	-
Latest Year	-	94 (2004)	-	90 (2004)	90 (2002)	78 (2003)	66 (2004)	97 (2004)
Percent of Pupils Starting Grade I Reaching Grade 5								
1991	-	-	82	59	-	51	-	92
2000	-	66	91	59	-	46	-	-
Latest Year	-	65 (2003)	91 (2000)	79 (2003)	-	61 (2004)	70 (2004)	-
Goal 3 – Promote Gender Equality and Empower Women								
Gender Parity Index in Primary Level Enrolment								
1991	0.55	0.86	0.76	0.76	0.97	0.63	-	0.95
Latest Year	0.44 (2004)	1.03 (2004)	-	0.93 (2004)	0.97 (2004)	0.91 (2005)	0.73 (2004)	0.99 (2003)
Gender Parity Index in Secondary Level Enrolment								
1991	0.51	0.52	-	0.60	1.02	0.46	0.48	1.08
Latest Year	0.21 (2004)	1.11 (2003)	-	0.80 (2004)	1.14 (2004)	0.86 (2005)	0.73 (2004)	1.00 (2004)
Gender Parity in Tertiary Level Enrolment								
1991	0.48	0.20	-	0.54	-	0.33	0.58	0.55
Latest Year	0.28 (2004)	0.50 (2002)	-	0.66 (2004)	2.37 (2004)	0.40 (2004)	0.80 (2004)	-
Goal 4 – Reduce Child Mortality								
Children Under-Five Mortality Rate (per 1000 live births)								
1990	260	149	166	123	111	145	130	32
2004	257	77	80	85	46	76	101	14
Infant Mortality Rate (0-1 year old, per 1000 live births)								
1990	168	100	107	84	79	100	100	26
2004	165	56	70	62	35	59	80	12

	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
Goal 5 – Improve Maternal Health								
Maternal Mortality Rate (per 100,000 live births								
1990	1700	850	1600	570	390	1500	340	140
2000	1900	380	420	540	110	740	500	92
Births Attended by Skilled Health Personnel (%)								
Base Year	9 (1990)	10 (1994)	16 (1990)	34 (1993)	55 (1990)	7 (1991)	19 (1991)	85 (1990)
Latest Year	14 (2003)	13 (2004)	37 (2003)	43 (2000)	70 (2001)	15 (2004)	23 (2001)	96 (2000)
Goal 6 – Combat HIV/AIDs, Malaria, and Other Diseases								
People Living with HIV (15-49 years old, percentage)								
2001	-	-	-	0.8	-	0.4	0.1	<0.1
2005	<0.1	<0.1	<0.1	0.9	-	0.5	0.1	<0.1
Prevalence of Malaria (per 100,000 people)								
2000	937	40	285	7	-	33	58	1110
Prevalence of Tuberculosis (per 100,000 people)								
1990	826	640	371	570	155	616	430	109
2004	661	435	184	312	57	257	329	91
Goal 7 – Ensure Environmental Sustainability								
Proportion of the Population Using Improved Drinking Water Sources								
1990	4	72	-	70	96	70	83	68
2004	39	74	62	86	83	90	91	79
Proportion of the Population Using Improved Sanitation Facilities								
1990	3	20	-	14	-	11	37	69
2004	34	39	70	33	59	35	59	91
Slum Population as Percentage of Urban Population								
1990	98.5	87.3	70.0	60.8	-	96.9	78.7	24.8
2001	98.5	84.7	44.1	55.5	-	92.4	73.6	13.6
Goal 8 –Develop a Global Partnership for Development								
Debt Service as Percentage of Exports of Goods and Services and Net Income from Abroad								
1990	-	34.8	5.3	29.3	4.0	15.2	22.9	14.8
2000	-	10.7	4.7	15.4	4.0	7.3	20.7	10.8
Latest Year	-	6.9 (2004)	4.7 (2002)	18.1 (2003)	4.5 (2004)	8.9 (2004)	22.8 (2004)	8.8 (2004)

Source: South Asia Economic Report, Social Sector in Transition, June 2007 ADB

Data available for the first quarter of FY08, shows that large scale manufacturing growth decelerated to 6.9 percent, the lowest growth since FY03. However, excluding electronics (which has a 2.5 percent weight in LSM) the growth rate for LSM was around 8 percent.

Mixed performance of main industries

A mixed picture emerges while viewing the performance of the main industries. While textiles showed a weakness due to lower cotton crop and weak external demand, food, beverage and tobacco sub-sector growth accelerated. In the later category however, ghee and cooking oil production was weaker and there exists a large dependency on imported edible oil. As a result, the domestic industry is sensitive to international price movements of edible oil.

Automobiles industry growth slowed down due to lower production of cars and jeeps. Domestic demand remains strong alongwith availability of autofinancing. Construction sector continues to perform well and substantial foreign direct investment flew into the sector during the quarter. Meanwhile the cement industry has grown, receiving impetus from both local and external demand. Production capacity has been enhanced due to substantial investment in recent years.

Inflationary risks persist

Inflationary risks continue to persist in the economy. The uptrend witnessed in CPI inflation during the last few months is largely a result of continued rising food prices. The food group contributes 60.9 percent to the overall increase in CPI. This increase is concentrated basically in five heads, house rent index, wheat flour, vegetable ghee, fresh milk and rice.

Consumer Prices

(Rs/Kg)

	03-01-08	04-01-07	% Change
Wheat flour avg quality	20.44	13.34	53.22
Wheat avg quality	18.97	12.27	54.60
Vegetable ghee loose	103.32	71.11	45.30
Rice Basmati Broken	34.00	21.37	59.10
Milk Fresh (Ltr)	29.55	25.32	16.71
Vegetable ghee Tin	291.76	223.03	30.82
Cooking oil Tin	291.76	225.69	29.27

Source: Federal Bureau of Statistics

The current wheat crisis in the country has pushed the wheat flour price sky high, but is expected to recover as domestic supplies improve. Pressure on prices of edible oil, however, are likely to be sustained, unless steps are taken to increase domestic production.

Food inflation high

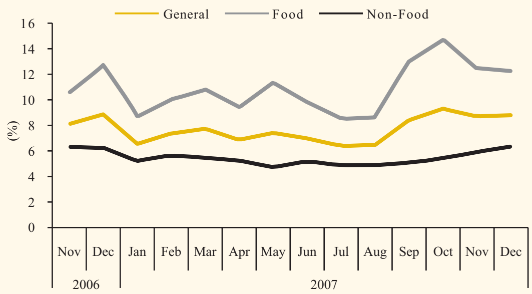
While CPI food inflation rose to as high as 14.7 percent in October '07, the non-food component grew by 5.4 percent. In the following month, food inflation slowed to 12.5 percent, while the non-food prices increased marginally to 5.9 percent. CPI inflation (year-on-year) rose by 2.6 percentage points during January-December 2007, largely driven by a rise of 3.5 percentage points in food inflation during the period. Food inflation had slightly subsided by December, as in October the year-on-year increase was 6 percentage points.

The non-food component of the CPI has witnessed a slower increase, and it was only since November that this component has started to increase. The impact of persistent increase in food and fuel prices are gradually being reflected in the CPI inflation. The recent price increase announced in electricity and gas rates from January 2008, would put pressure on the non-food component of CPI in the coming months.

Core inflation gradually rising

Core inflation (non-food non-energy) has been gradually rising, implying that the prices of a broader range of CPI basket is now being impacted by the cost push of high commodity prices. During the year 2007, core inflation dropped down to 5.2 percent in May '07 from 6.0 percent in February. But later has shown signs of picking up and by December it had risen to 7.2 percent.

CPI Inflation



Average Retail Prices of Essential Commodities 1999-2007

(Rs per unit)

Commodities	Unit	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	% Change FY07 over FY00
Grains										
Wheat (Avg.Qlty)	100 kgs	819.00	867.00	829.00	873.00	1025	1168	1155	1196	46.0
Wheat Flour (Avg.Qlty)	100 kgs	835.00	980.00	961.00	1014.00	1171	1328	1306	1364	63.4
Rice Basmati (Broken)	100 kgs	1571.00	1535.00	1549.00	1807.00	1904	2019	2016	2311	47.1
Rice Irri-6	100 kgs	1251.00	1156.00	1151.00	1223.00	1306	1541	1605	1759	40.6
Sugar, Tea & Pulses										
Tea (Sup.Qlty)	250 gm	48.95	53.73	57.00	61.50	64.68	61.99	62.62	68.39	39.7
Sugar (open market)	40 kgs	844.40	1084.40	914.90	830.80	760.40	938.00	1246.40	1274.00	50.9
Gur (supirior quality)	40 kgs	792.40	1052.40	924.80	818.00	790.00	959.60	1436.00	1570.00	98.2
Masoor Pulse	40 kgs	1441.20	1478.80	1536.40	1536.00	1416.00	1724.40	1800.40	1782.40	23.7
Moong Pulse (Washed)	40 kgs	1202.00	1212.00	1374.40	1218.40	1119.20	1266.40	1891.20	2261.20	88.1
Mash Pulse	40 kgs	1535.00	1935.20	1770.00	1502.40	1422.80	1540.80	2116.40	2820.40	83.7
Gram Pulse (Avg.Qlty)	100 kgs	2507.00	2952.00	3489.00	3113.00	2417.00	2935.00	3112.00	4138.00	65.1
Vegetables & Fruits										
Potato (Avg.Qlty)	100 kgs	938.00	974.00	1143.00	943.00	858.00	1494.00	1818.00	1722.00	83.6
Tomato (Avg.Qlty)	100 kgs	1525.00	1724.00	1712.00	1330.00	1910.00	2503.00	1948.00	2743.00	79.9
Onions (Avg.Qlty)	100 kgs	685.00	1072.00	959.00	870.00	1109.00	1383.00	1205.00	2095.00	205.8
Garlic	40 kgs	1206.40	1122.80	1597.20	1364.40	1312.80	1769.20	2323.60	2472.40	104.9
Banana	Doz.	20.88	22.11	22.14	21.96	23.02	25.11	28.18	32.51	55.7
Ghee & Cooking Oil										
Vegetable ghee (loose)	40 kgs	1965.60	1792.00	1968.00	2210.00	2393.60	2384.40	2358.00	2832.40	44.1
Vegetable ghee (Tin)	40 kgs	2639.20	2454.88	2707.84	3148.32	3204.48	3266.40	3258.08	3584.96	35.8
Cooking oil	40 Ltrs	2670.88	2490.24	2735.52	3194.88	3263.68	3279.84	3270.56	3591.68	34.5
Mustard oil	40 kgs	2445.20	2276.80	2360.00	2416.00	2540.40	2625.20	2668.00	3068.40	25.5
Livestock & Poultry										
Beef (cow/buffalo with bone)	kg	56.78	56.01	55.19	61.21	75.45	94.83	106.86	117.87	107.6
Mutton (Goat Avg.Qlty)	kg	108.64	109.38	111.53	124.98	154.30	185.19	202.10	224.07	106.3
Chicken (Farm)	kg	50.90	50.65	52.04	54.01	57.50	66.43	66.08	74.16	45.7
Eggs Hen (Farm)	12 Dozs	291.24	316.20	342.84	368.28	360.36	449.40	420.84	459.72	57.8
Milk (Fresh)	40 Ltrs	716.40	729.20	716.80	734.00	768.40	851.60	956.00	1068.8	49.2
Milk Powder (nido)	400 gms	110.00	114.03	116.00	88.00	94.75	102.63	108.50	126.47	15.0
Curd	40 kgs	874.80	897.20	876.00	934.00	933.20	1030.00	1135.20	1253.60	43.3
Fuel, Gas & Energy Charges										
Kerosene	40 Ltrs	520.00	673.60	743.20	899.20	998.00	1164.40	1447.60	1563.60	200.7
Petrol Super	50 Ltrs	1411.50	1467.00	1580.00	1654.00	1695.50	2037.50	2760.50	2,800.00	98.4
Gas	/mmbtu	231.44*	248.55*	259.26*	76.92	79.45	84.60	88.08	99.79	29.7
Electricity	upto 50 units	1.28	1.46	2.18	2.45	2.55	2.42	2.41	2.49	94.5
Fire-wood	40 kgs	99.93	104.04	99.30	104.20	118.14	135.96	166.03	191.7	91.8
Cloth Unstitched										
Coarse Latha	100 Mtrs	2376.00	2411.00	2681.00	2684.00	2880.00	3208.00	3426.00	3505.00	47.5
Voile Printed	100 Mtrs	3220.00	3304.00	3330.00	3374.00	3452.00	3614.00	3674.00	3790.00	17.7
Lawn	100 Mtrs	7627.00	7777.00	7079.00	6992.00	6996.00	7262.00	7642.00	7969.00	4.5
Shirting	100 Mtrs	5828.00	5910.00	5517.00	5559.00	5678.00	5994.00	6236.00	6545.00	12.3
Miscellaneous										
Rock Salt (Powder)	40 kgs	134.00	137.20	127.60	128.40	128.00	140.00	157.60	187.20	39.7
Red Chillies (Avg.Qlty)	40 kgs	3308.80	2670.00	3133.60	3034.80	2952.00	3065.60	2829.60	3786.4	14.4
Cigarettes	12 pkt	60.48	60.12	69.84	72.72	72.96	82.80	86.76	95.76	58.3
Match Box (40/50 Sticks)	100	50.00	50.00	51.00	51.00	51.00	53.00	62.00	71.00	42.0
Washing Soap	50 cakes	340.50	345.00	368.50	374.00	374.00	373.50	386.50	406.5	19.4
Bread Plain (Medium Size)	Doz.	131.52	134.04	133.68	133.92	141.24	159.00	170.76	184.08	40.0
Gold	10 gm	4973.00	5363.00	5865.00	6378.00	7328.00	8216.00	10317.00	12619.0	153.8
Silver Tezabi	100 gm	9100.0	9200.0	9300.0	9000.0	9200.0	11800.0	18000.0	22800.0	150.5

** Gas units are 100cms for FY'00, FY'01 & FY'02. From FY'03 onwards these have been changed to MMBTU*

Domestic oil prices remain un-changed

While crude oil prices have touched US$100 in the international market, in Pakistan prices remained unchanged in 2007. The Oil and Gas Regulatory Authority (OGRA) has maintained the maximum ex-depot sale price at the following level.

Product Price

Rs/Litre

	Jan 1, 2008	Jan 1, 2007
Moror Spirit	53.70	57.70
HOBC	64.88	64.88
Kerosene Oil	35.23	35.23
Light Diesel Oil	32.57	32.57

Govern-ment providing subsidy

The price determination is carried out by OGRA in accordance with the formula prescribed by the Federal Government. By maintaining the prices unchanged, the government has absorbed the impact of increasing international oil prices for the present. The government is presently providing a subsidy of Rs15.50 per litre on kerosene oil and Rs14.70 per litre on light diesel oil against Rs4.12 and Rs1.68 respectively in January 2007. The subsidy is for the benefit of the common man.

Subsidies involve fiscal costs

Continuing giving subsidies to the oil marketing companies on account of ever increasing international oil prices has helped contain a significant part of inflationary pressures on the economy, though it has put pressure on government finances. Subsidies involve fiscal costs, affecting the fiscal deficit target. The government is examining the issue of increasing petroleum prices. While the government delays passing the high energy prices directly to the consumers, generally business pass the higher costs of energy to their consumers.

It has been the State Bank's tight monetary policy which has curbed demand pressures and kept core inflation in check. Also to fuel inflationary pressures are the substantial increase in government borrowings from the central bank, which rose to Rs191.3 billion during July-December '08, exceeding the annual ceiling.

Fiscal deficit likely to surpass target

Fiscal indicators have been strained in recent months. The fiscal deficit which was slightly higher over the target last year, is expected to surpass its budgeted target of 4 percent this year. The government has been borrowing from the banking system to help fund its fiscal deficit. Last year, Federal Board of Revenue (FBR) tax collection at Rs846 billion had exceeded the target, but this year there maybe some revisions to the tax revenue target of Rs1030.5 billion in the wake of the aftermath of the death of Pakistan's former prime minister.

Net Tax Collection by FBR (Jul-Oct)

(Rs.bn)

	FY06	FY07	FY08
Direct Taxes	59.3	82.5	94.7
Sales Tax	86.6	97.6	114.3
Federal Excise Duty	16.9	19.5	23.3
Customs	38.5	37.7	39.1

Source: State of Pakistan's Economy, SBP First Quarterly Report 2007-08

Revenue balance (difference between total revenue and current expenditures) has moved into a deficit, subsidies are likely to be above budgetary provisions, primary deficit (total revenue minus non-interest total expenditure) has increased, and there has occurred a deceleration in the growth of tax revenue.

Expendi-ture continue to grow

Meanwhile, expenditures continue to grow, due to strong increases in both current and development spending. The rise in current expenditure is primarily because of large interest payments on domestic debt, and increasing defence expenditures. The increase in development expenditure is encouraging if it brings an improvement in the country's infrastructure and social indicators.

Given that the Fiscal Responsibility and Debt Limitation Act, 2005 requires a revenue surplus by FY08 onwards, the deficit indicates the need to contain the rise in current spending.

It maybe mentioned that FBR tax collection has improved in recent years, as both direct and indirect taxes have grown. This has resulted in an increase in the tax GDP ratio.

Box

High Oil Prices Challenge Policymakers

By Kevin C. Cheng and Valerie Mercer-Blackman
IMF Research Department, November 20, 2007

- Geopolitical risk, disrupted supply, weak dollar, capacity limits are influences
- Could boost inflation, roil monetary policy, hit low-income countries
- Further price shocks could have significant negative impact on growth

With oil prices heading toward $100 a barrel, the rise in energy costs is a new worry for consumers at a time of continued concerns in major economies about fallout from the credit crunch.

The average petroleum spot price (APSP) reached a new high of over $93 on November 7. The three main benchmark prices for oil all reached record highs around the same time, with West Texas Intermediate closing at almost $97, Brent at $94, and Dubai at almost $89.

The recent oil price surge was sparked by geopolitical concerns about growing tensions in the Middle East and some weather-related production shutdowns, underscoring that in an environment of limited spare oil production capacity and declining inventories, prices have become highly sensitive to news that may indicate possible future supply shortages. The weakening dollar also played a role. But more fundamentally, spare capacity remains low and market conditions are expected to remain very tight.

Oil demand growth has remained robust, supported by strong growth in emerging markets, particularly China and the Middle East. While the International Energy Agency recently revised oil demand downward in the fourth quarter of 2007 because of the slowing US economy, global demand is expected to remain strong in 2008.

In contrast, supply has lagged behind and inventories are falling. During the first nine months of 2007, world oil supply declined moderately by 0.1 millions of barrels per day (year on year), reflecting a decline in OPEC's output and limited output growth in oil- producing countries that are not members of OPEC. As a result, commercial inventories in OECD countries fell in the third quarter and October, a period normally marked by inventory accumulation.

Supply is lagging demand growth because of the increasing technological and economic challenges for oil production. As a result, tight market conditions are expected to persist and possibly intensify, assuming strong GDP growth continues in emerging markets such as China and India.

Analysis by the IMF shows that, over time, a prolonged price surge will certainly have the effect of curtailing demand – especially in the United States – by inducing greater substitution into other energy sources and by increasing incentives to conserve energy. But in the short term, demand may be insensitive to price changes.

High oil prices have not so far had much of an impact on global activity and inflation. The limited impact reflects the demand-driven nature of the runup in oil prices since 2002, as well as lower energy intensity, more competitive labor markets, and the improved credibility of monetary policy frameworks. For developing countries in particular, strong global growth and the rise in nonfuel commodity prices have mitigated the impact of higher oil prices on many countries' trade balances.

That said, the recent oil price surge will likely boost headline inflation in the months ahead (headline or total inflation includes volatile food and energy price components whereas core inflation typically excludes these volatile items). The direct effect of the recent oil price rise on headline inflation in the United States is estimated to be around ½ percentage point by the end of the year.

The impact in other advanced economies will likely be smaller because reliance on private transportation is lower, and because prices have risen less in other currencies. However, central banks may find that they have less room for maneuver in responding to weakening demand caused by the recent financial turbulence, given that higher fuel costs could have second-round effects on other prices and on wages.

The situation is particularly challenging in some emerging market and developing countries where overheating pressures are of greater concern, and rising fuel and food costs may put pressure on household budgets and external balances. In particular, for many low-income oil-importing countries, the recent oil price increase will raise their import bill and could put strain on fiscal positions.

Looking ahead, with market conditions so tight, any significant supply disruption could push prices higher still. In particular, spare production capacity remains below its historical comfort zone, and the majority of it is sour crude from Saudi Arabia, which is difficult to refine into the low-sulfur distillates demanded by OECD countries.

According to most oil market forecasters, this situation is not likely to improve anytime soon, as limited new exploration opportunities will constrain supply. Assuming that strong GDP growth continues in the emerging market countries, high and volatile oil prices could accordingly become the norm for some time.

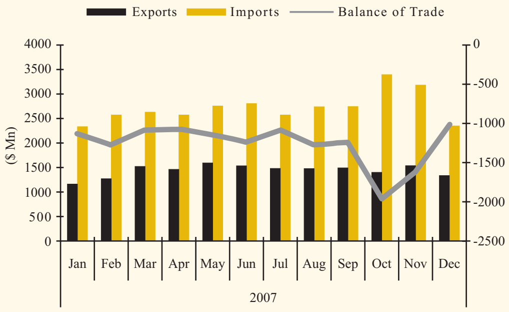
Growing trade deficit

The widening trade deficit is an area of concern for the government. In FY07, the deficit had widened to US$9.9 billion, as export growth slowed down. The Annual Plan 2007-08, targets exports to grow to $18.92 billion and imports to increase moderately to $29.55 billion. As a result the trade account is projected to be in deficit by $10.63 billion during FY08.

Exports show a fluctuating trend

Month-wise data for 2007 shows that exports have shown a fluctuating trend, rising in the first three months of the year, declining in mid year and again growing in the closing months. Imports started to increase from September onwards and in October rose by nearly 24 percent, while exports fell by 5.63 percent. The trade deficit in the month widened to $1.97 billion over $1.24 billion in the preceding month.

Balance of Trade



Trade deficit widens

During the first six months of FY08 (July-December) exports grew by 3.67 percent to $8715.8 million over $8407.4 million in the corresponding period of FY07. Imports meanwhile, grew by 13.8 percent to $16,953.8 million against $14,894.7 million in the corresponding period. The trade deficit during this period subsequently widened to $8238.0 million against $6487.3 million a year earlier.

Textile exports sluggish

During July-November 2007-08, export of textiles constituting 61 percent of total export earnings declined marginally to $4.48 billion over the comparable period of last fiscal when it fetched $4.51 billion. In this category, exports of raw cotton, cotton yarn, cotton cloth, cotton carded, bedwear, towels, readymade garments witnessed declines. "The sluggish performance of the textile sector indicates that the sector continues to reel under the pressure of enhanced competition, and that strategies to revive this sector have not yielded any substantial results," states the SBP, first quarterly report for FY08 on the State of Pakistan's Economy.

The Report further says, "the export performance in general and particularly of the textile sector is likely to remain hampered. The textile sector exports may suffer from increased competition, as safeguard measures imposed on China's exports to the EU and the US are scheduled to end soon. Moreover, persistent domestic inflation and likely slowdown in the US and EU economies would increase the cost of production on one hand and lower the demand of this sector in its two major markets on the other".

Other manufactured goods exports have shown a near 23 percent increase, with growth recorded in the export of sports goods, tanned leather, leather manufactures, footwear, surgical goods, chemicals & pharmaceuticals, jewellery among others.

International oil prices impact oil import bill

Imports during the first five months of FY08, aggregated $14,603.6 billion, 18.4 percent higher over the import bill of $12,330.6 billion in the corresponding period last year. Import of petroleum products and crude which makes up for about 26 percent of the import bill rose by 14.7 percent during the period. Rising international oil prices have started to exert influence on POL import bill. The rise in petroleum crude was also contributed by large quantum impact owing to an increase in the capacity utilisation of refineries. The POL import bill is likely to expand due to substantial rise in international market.

A substantial increase was also witnessed in the import of transport vehicles and equipment especially, buses, trucks & heavy vehicles, motorcycles. Machinery group imports rose, the largest share of the increase came from telecommunication imports.

Meanwhile, the current account deficit has been on the rise in recent years, mainly due to higher imports to meet the needs of the economy. During July-November FY08, the current account deficit widened to $4.78 billion against $4.08 billion in the corresponding period of FY07. This was due to a widening trade deficit and a growing services account imbalance.

Macro-economic funda-mentals have improved

Pakistan's macroeconomic situation has improved as a result of initiation of wide ranging structural reforms and conducive economic policies. However, while economic growth has averaged 7 percent in the past four years, and investment to GDP ratio has risen, alongwith improvement in key macro-economic variables, some key challenges remain to be fully addressed.

Challen-ges for 2008

The economy faces daunting challenges and some difficult decisions in 2008, as inflationary risks persist, accompanied by widening current account and trade deficits, tough competition for local textile industry, large oil payments, energy shortages, growing joblessness, fiscal pressures, income disparities, gender gaps in schooling, health facilities which lag behind other South Asian countries, improving governance and further reducing poverty.

The review of the economy mentioned in earlier pages, has mentioned the widening deficits, and price pressures. Raising exports, through higher value added categories of textiles and of food groups especially fish, fruits and vegetables through compliance of the sanitary and phyto-sanitary standards alongwith focus on promotion of other exports would help in containing the trade deficit.

The government is considering the proposal of raising oil prices, in the domestic market, for the subsidy the government provides for not raising petroleum prices is exerting pressures on expenditures and the fiscal deficit.

While the economy has generated new jobs annually, a lot more needs to be done, with regard to creating new jobs and developing the skill level of the workforce and also improving their real wages, which have eroded because of high inflation. Only if Pakistan economy can maintain a growth of 7-8 percent annually can it productively absorb the growing labour force. The government has and continues to encourage growth of sectors with job potential and where poverty is pervasive — rural non-farm, SMEs, domestic commerce etc.

Agriculture contributes to poverty reduction for vast majority of the poor live in rural areas. Government has taken initiatives in agri and rural development. Both urban and rural poverty has decreased in all provinces, but rural poverty remains high. Growth that enhances the welfare of the rural poor is essential for Pakistan's future. Mention maybe made of recent government initiatives to develop the livestock sector, for this sector has been recognized as an important factor in enabling the growth and stability of income for rural households.

Energy crisis is looming ahead, because of an increase in demand and a rather slow improvement in supply. The major energy consuming sectors of the country are industrial (38.3%), transport (32%), residential & commercial (25%), agriculture (25%) and others (2.2%). The lack of sustained and affordable energy to industry has restrained economic growth and created problems for industrial growth and investment. The shortfall in electricity generation is now affecting all sectors.

The development of cheap and indigenous energy sources needs to be encouraged. Power projects need to be set up, to meet the growing demand.

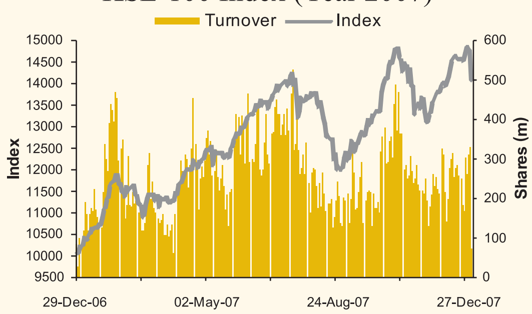
Though there has been recent improvements in health coverage to achieve MDGs, but renewed efforts to expand coverage in rural areas needs more attention. Similarly, gender gaps remain large in school. Government expenditure on education and health has to be raised to improve social indicators.

Market Analysis

Market Review

The KSE-100 index during the year under review depicted mainly a strong bullish as compared to 2006 despite a few jolts from a number of political developments throughout the year such as the judicial crisis, imposition of emergency and assassination of Benazir Bhutto. Overall, the KSE-100 Index jumped by 40.19% or 4,035 points for the year ended December 31, 2007 to 14,075 points on an average daily volume of 257.81m shares. The KSE-30 Index gained 33.51% or 4,195 points. Looking back at the last 12 months, the market can be segmented into 4 distinct phases: 1) bullish beginning; 2) short-lived correction; 3) Ramadan rally; and 4) emergency.

KSE-100 Index (Year 2007)



Bullish beginning

The market ended 2006 with a whimper and fortunately this lackluster performance did not spill over into the start of the new year. The KSE-100 Index at the start of 2007 charged right out of the starting blocks with a strong rally that saw it jump by over 4,100 points or 41% to 14,202 on July 13. This was a tremendous performance despite the ongoing judicial crisis at the time which began in March. The rise in the Index during this period can be attributed to the following factors:

- Announcement by the Prime Minister on January 8 to extend the capital gains tax exemption for another year till June 2008 and the deferment of stamp duty (0.01% of face value) for 2 years by the Sindh Government on the transfer of shares;

  Continued foreign buying and local buying (due to the influx of new funds) and ample liquidity (although CFS close to cap but rates were extremely low). The SCRA figures during FY2006-07 peaked to US$ 978m, the highest after the mid '90';

- Record cement sales during April - May 2007 triggered by full swing construction activity in the summer season, the past practice of the government of rushing to meet the PSDP targets during the last quarter of the fiscal year and strong regional demand alongside greater capacity to cater to the increase in demand.

  Moreover, the hike in PSDP spending to PKR 520bn announced in the FY08 budget led to the cement sector remaining on the radar screen of most investors and punters. At the risk of stating the obvious, there is a strong positive correlation between development spending and cement sales and we expect strong cement sales during FY08 which will bode well for the sector;

- The Federal Budget FY2007-08 was largely in line with expectations with the exception of introduction of capital gains tax on the banking sector that subsequently was extended by the CBR for another year. The Budget also introduced few tax incentives with regards to private equity investments, development of REITS and Mergers and Acquisitions. Specifically, M&As were declared a non-taxable event.

Short-lived correction

During the 6 week period from July 13 to August 27 saw the KSE-100 Index shed over 2,200 points or nearly 16% from it all-time high of 14,202 to 11,955. The main reason for the slump in the market was the deteriorating law and order situation in the aftermath of the siege of the Lal Masjid in Islamabad likely led to panic selling by both local and foreign investors and the political uncertainty with the restoration of the Chief Justice of Pakistan on July 20.

The market movement during August was dominated by the various political developments. The early part of the month was dominated by confusion about the imposition of emergency rule in the country as it was widely reported in both the print and electronic media on August 8-9. The KSE-100 Index on August 9 plunged by 385 points and set a record at the time for the largest intraday drop of 616 points. Clarification from the government did not come until later that evening after the damage was done on the capital markets that emergency was not going to be imposed.

Besides the political uncertainty, the other factor which has negatively impacted the local bourses has been the global liquidity crisis due to the U.S. subprime mortgage fiasco which has led to selling pressure from foreign funds as illustrated by the outflow from SCRAs during August at US$91.7m.

Ramadan rally

Near the end of August, the market began to recover due to a technical rebound as there was institutional support in selective large cap scrips at the lower levels. Also, investor sentiment became slightly positive at this time due to various news reports about a rapprochement between President Musharraf and Ms. Bhutto.

This rally continued into the month of Ramadan (September 14 to October 11) as the KSE-100 Index surged by around 1,600 points or 12% during this period. Political developments such as the re-election of President Musharraf on October 6 had a positive impact on investor sentiment. In addition to political events, the inflow of liquidity from foreign funds played a major role in the rally as there was around US$459m net inflow as per SCRA figures during September to October. Also, institutional buying interest in key sectors such as oil due to international crude oil prices touching US$90 a barrel and cement because of robust sales during 1QFY08 on the back of strong export sales.

From the August 27 to the end of the October, the KSE-100 Index jumped by over 2,300 points or nearly 20% to 14,319.

Emer-gency

The imposition of emergency and issuance of the Provisional Constitutional Order (PCO) on November 3 had an immediate adverse impact on investor sentiments. The first trading day after the imposition of emergency on November 5 saw the KSE-100 Index drop 636 points, at the time, the largest single day decline on closing basis in the history of the KSE. The selling pressure in the market can likely be attributed to foreign funds and weakholders.

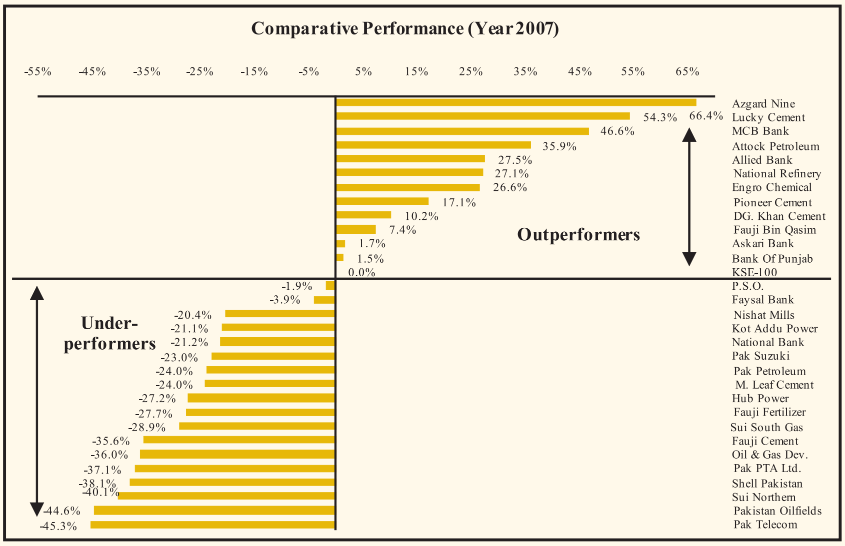
The condemnation of most Western governments such as the US and UK added to the negative sentiments as there were also threats of sanctions if emergency was not lifted soon and general elections not held on schedule. From the beginning of the month to November 16, the KSE-100 Index shed over 1,200 points to 13,082 along with declining daily turnover.

However, the market staged a modest recovery because of positive developments such as the Supreme Court validates the imposition of emergency and PCO and dismissing all the petitions regarding the eligibility of President Musharraf as a presidential candidate paving the way for him to take oath as a civilian president on November 29. Also, the President announced the lifting of PSO and emergency would be on December 16.

The market continued its recovery into December mainly because of buying interest in second and third tier stocks as well as selective major Index scrips. However, the assassination of Ms. Bhutto on December 27 led to a shock in capital markets around the world not just local bourses. The KSE-100 Index experienced a record decline in both intraday and closing basis on December 31 in reaction to her untimely demise. From November 16 to the end of the year, the KSE-100 Index posted a recovery of 994 points or 7.60 percent.

Looking ahead to 2008

In the aftermath of the tragic demise of Ms. Bhutto, we expect the equity markets to remain volatile until the election is held. Investor confidence both local and foreign has been shaken by this event and so, the inflow of foreign investment in the local bourse which was a key driver in the performance of the markets during 2007 may be minimal in the beginning of the new year until the political scenario becomes clearer. However, the fundamentals of the Pakistan market are attractive relative to the regional benchmarks. The local market is trading at a forward FY08 PEx of 9.87 when compared to the regional average of 14.91x. In addition, the historical average PEx (1995 to 2007) for Pakistan comes to 12.16x, suggesting a potential upside of 23% for 2008. We expect that the market would recover in the medium term in the light of the tragic event mentioned above.



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

Quarterly Performance of Banks – 2007

(Rs. Bn)

	Public Sector & Provincial Banks					Privatised Banks				
	National Bank of Pakistan	First Women Bank	Bank of Punjab	Bank of Khyber	Sub Total	Habib Bank	United Bank	MCB Bank	Allied Bank	Sub Total
Assets										
2006	635.1	9.0	164.9	27.2	836.2	590.3	423.4	342.1	252.0	1607.8
2007										
Q1 March	633.7	8.0	191.3	30.5	863.5	587.5	435.6	361.4	263.3	1647.8
Q2 June	709.6	8.4	218.0	36.5	972.5	654.7	499.6	383.8	294.8	1832.9
Q3 Sept	668.0	8.1	223.0	34.5	933.6	653.0	483.4	382.6	280.1	1799.1
Deposits										
2006	501.9	7.0	137.7	19.1	665.7	459.1	335.1	257.5	206.0	1257.7
2007										
Q1 March	504.5	6.4	163.5	22.0	696.4	468.3	352.4	280.7	216.9	1318.3
Q2 June	553.3	7.0	172.0	23.9	756.2	517.5	403.0	300.9	230.9	1452.3
Q3 Sept	522.9	6.8	191.4	23.1	744.2	528.1	380.8	287.9	233.6	1430.6
Advances										
2006	316.1	3.1	101.3	9.2	429.7	349.4	247.3	198.2	144.0	938.9
2007										
Q1 March	306.9	2.8	106.6	9.7	426.0	343.6	251.5	186.8	139.9	921.8
Q2 June	331.8	2.8	118.3	10.9	463.8	355.0	279.8	193.9	152.8	981.5
Q3 Sept	320.5	2.6	120.6	10.3	454.0	345.6	279.9	190.5	143.5	959.5
Investment										
2006	139.9	3.1	28.2	8.6	179.8	119.6	67.4	63.5	47.0	297.5
2007										
Q1 March	144.9	2.8	43.2	10.6	201.5	130.7	90.6	97.8	61.6	380.9
Q2 June	163.4	2.6	64.0	14.3	244.3	153.2	107.0	113.9	73.5	447.6
Q3 Sept	180.3	2.7	70.0	14.7	267.7	187.0	116.2	123.3	79.9	506.4
Equity										
2006	53.0	0.9	10.7	2.9	67.5	45.2	27.2	35.7	16.2	124.3
2007										
Q1 March	57.4	0.9	11.4	2.9	72.6	47.4	28.4	38.6	16.5	130.9
Q2 June	59.2	1.0	12.5	5.6	78.3	50.7	30.9	40.9	17.9	140.4
Q3 Sept	65.1	1.0	14.7	5.7	86.5	54.4	32.4	42.9	18.5	148.2
Interest Income										
2006	43.8	0.7	11.6	1.9	58.0	43.7	33.0	28.8	17.2	122.7
2007										
Q1 March	11.6	0.2	4.0	0.6	16.4	11.9	9.6	7.6	5.2	34.3
Q2 June	12.3	0.2	4.4	0.6	17.5	11.6	10.1	8.0	5.4	35.1
Q3 Sept	12.4	0.2	4.7	0.6	17.9	13.5	10.5	8.1	5.3	37.4
9 Months (Jan-Sept)	36.4	0.5	13.1	1.8	52.1	37.0	30.2	23.7	15.9	106.8
Interest Expense										
2006	13.6	0.2	7.6	1.3	22.7	13.2	12.1	4.5	6.8	36.6
2007										
Q1 March	3.4	0.05	3.0	0.4	6.9	4.2	3.8	1.6	2.3	11.9
Q2 June	4.2	0.04	3.5	0.4	8.1	4.5	4.0	2.2	2.4	13.1
Q3 Sept	4.1	0.03	3.8	0.5	8.4	5.3	4.3	2.0	2.4	14.0
9 Months (Jan-Sept)	11.9	0.1	10.2	1.4	23.8	14.0	12.1	5.8	7.2	39.1
Net Interest Income										
2006	30.2	0.5	4.0	0.6	35.3	30.5	20.9	21.2	10.4	83
2007										
Q1 March	8.1	0.1	1.0	0.1	9.3	7.7	5.8	6.0	2.9	22.4
Q2 June	8.2	0.1	0.9	0.2	9.4	7.0	6.1	5.8	3.0	21.9
Q3 Sept	8.3	0.1	0.9	0.1	9.4	8.2	6.2	6.1	2.8	23.3
9 Months (Jan-Sept)	24.5	0.4	2.9	0.4	28.4	23.0	18.1	17.9	8.7	67.7
Non Interest Income										
2006	12.2	0.06	3.0	0.3	15.6	8.5	6.9	5.0	2.4	22.8
2007										
Q1 March	1.6	0.01	0.6	0.04	2.3	2.2	2.1	1.3	0.7	6.3
Q2 June	2.5	0.03	1.0	0.2	3.7	2.5	2.2	1.8	0.9	7.4
Q3 Sept	4.7	0.01	2.1	0.2	7.0	2.5	2.2	1.6	1.2	7.5
9 Months (Jan-Sept)	8.9	0.06	3.7	0.4	13.4	7.1	6.4	4.7	2.8	21
Admn. Expenses										
2006	13.4	0.3	1.7	0.4	15.8	15.4	10.9	6.5	5.2	38
2007										
Q1 March	3.4	0.07	0.4	0.1	4.0	3.9	2.9	1.9	1.4	10.1
Q2 June	3.4	0.08	0.6	0.1	4.2	4.1	3.4	0.7	1.4	9.6
Q3 Sept	3.7	0.08	0.5	0.1	4.4	4.3	3.4	2.0	1.6	11.3
9 Months (Jan-Sept)	10.4	0.2	1.5	0.4	12.6	12.9	9.7	4.6	4.4	31.6
Profit/(Loss) B.T										
2006	26.3	0.3	4.8	0.2	31.6	18.8	14.3	18.5	6.7	58.3
2007										
Q1 March	6.7	0.05	1.0	0.07	7.8	5.1	4.6	5.2	2.0	16.9
Q2 June	7.3	0.07	1.3	0.1	8.8	5.1	4.4	5.9	2.1	17.5
Q3 Sept	8.2	0.06	2.4	0.1	10.8	5.9	2.1	5.3	2.2	15.5
9 Months (Jan-Sept)	22.2	0.2	4.8	0.3	27.9	16.1	11.1	16.4	6.3	49.9
Profit/(Loss) A.T										
2006	17.0	0.2	3.8	0.2	21.2	12.7	9.5	12.1	4.4	38.7
2007										
Q1 March	4.3	0.03	0.8	0.04	5.2	3.3	3.0	3.7	1.4	11.4
Q2 June	4.7	0.05	1.0	0.1	5.9	3.3	2.6	3.9	1.4	11.2
Q3 Sept	5.7	0.03	2.2	0.1	8.0	3.5	1.5	3.6	1.4	10.0
9 Months (Jan-Sept)	14.8	0.1	4.1	0.3	19.6	10.2	7.1	11.2	4.1	32.6

	Local Private Banks																				
	Askari Bank	Soneri Bank	Bank Al Habib	Bank Al Falah	Standard Chartered Bank	Mybank	Habib Metro-politan Bank	Faysal Bank	Prime* Comm. Bank	KASB Bank	PICIC Comm. Bank	Saudi Pak Comm. Bank	Meezan Bank	Crescent Comm. Bank	Dubai Islamic Bank	Atlas Bank	Arif Habib Rupali Bank	NIB Bank Limited	JS Bank	Bank Islami Pakis-tan	Sub Total
Assets																					
2006	166.0	70.7	115.0	275.7	249.9	26.4	148.7	115.5	52.3	26.5	70.3	59.1	46.4	8.1	8.4	17.0	5.7	46.4	12.5	4.0	1524.6
2007																					
Q1 March	163.8	70.7	122.9	264.7	254.2	33.2	160.4	126.0	47.6	27.7	77.3	63.9	49.8	14.5	11.6	17.7	6.9	52.0	14.9	6.3	1586.1
Q2 June	180.6	77.0	132.0	310.1	285.4	37.1	169.1	142.6	41.9	34.9	79.4	66.6	59.7	18.2	14.8	22.2	9.6	85.7	19.3	7.8	1794.0
Q3 Sept	178.5	74.0	133.2	312.5	261.6	37.2	173.1	144.3	-	37.5	82.5	60.8	64.2	19.0	17.1	21.9	13.8	109.7	20.8	10.0	1771.7
Deposits																					
2006	131.8	53.0	91.4	239.5	156.9	19.2	102.5	74.4	40.7	21.3	59.5	49.0	34.4	5.6	4.3	8.8	2.5	30.6	7.2	1.8	1134.4
2007																					
Q1 March	126.8	53.1	98.6	227.6	169.7	25.4	113.1	81.5	37.3	22.1	66.2	46.7	37.5	6.4	7.6	9.9	3.7	32.8	10.1	2.7	1178.8
Q2 June	142.3	56.4	106.7	270.7	178.5	26.2	118.8	97.8	29.5	26.8	68.7	46.5	45.1	10.2	10.1	12.7	5.1	40.7	14.4	4.2	1311.4
Q3 Sept	142.4	58.0	109.3	260.2	172.5	28.0	132.0	105.9	-	30.6	62.2	43.5	51.7	11.1	12.4	12.6	7.4	45.3	11.7	6.2	1303.0
Advances																					
2006	99.2	35.4	71.0	150.0	132.5	13.5	83.3	74.5	32.1	14.5	34.9	29.0	27.0	2.4	3.3	7.8	1.4	31.1	1.7	0.9	845.5
2007																					
Q1 March	97.2	36.2	70.0	149.1	125.0	16.7	83.3	79.1	29.6	15.0	34.7	30.1	27.1	2.2	4.4	7.0	1.4	34.6	1.8	1.5	846.0
Q2 June	97.2	34.6	67.7	155.8	128.1	18.5	82.8	81.6	28.0	20.1	33.3	31.4	28.8	3.1	7.0	7.9	2.5	40.0	4.7	2.2	875.3
Q3 Sept	94.9	35.8	68.0	149.3	122.7	19.3	83.0	79.8	-	22.6	30.3	30.3	29.8	3.5	9.0	7.1	4.6	43.1	5.0	3.5	841.6
Investment																					
2006	28.6	16.7	21.0	56.5	34.8	3.0	39.6	22.5	11.6	4.7	15.7	15.7	2.9	2.2	0.8	3.6	1.7	6.6	2.6	0.5	291.3
2007																					
Q1 March	30.8	16.9	26.4	53.3	40.9	9.4	44.5	22.2	6.9	6.0	25.2	23.1	2.8	2.5	1.5	4.5	3.2	10.4	4.9	0.4	335.8
Q2 June	36.2	20.3	39.9	76.2	42.8	11.0	49.6	30.2	4.6	6.3	28.0	24.5	4.5	5.4	1.3	6.4	5.0	30.1	3.6	0.6	426.5
Q3 Sept	42.7	18.9	44.2	89.8	43.2	11.2	62.0	33.2	-	8.2	25.3	21.1	9.8	3.9	2.1	6.6	5.6	35.0	5.3	1.9	470.0
Equity																					
2006	9.6	5.2	6.2	10.6	40.6	3.9	10.7	9.1	3.8	2.6	4.5	2.9	4.8	1.6	3.5	3.1	3.1	4.4	3.0	2.0	134.7
2007																					
Q1 March	10.1	5.4	6.2	11.2	42.0	4.1	11.3	8.7	3.8	2.4	4.7	3.9	4.9	7.3	3.4	3.1	3.1	4.4	3.4	2.9	146.3
Q2 June	10.9	5.7	6.9	11.8	43.2	4.4	11.8	9.4	3.5	2.6	4.8	4.2	5.2	7.1	3.3	3.1	3.1	18.1	3.4	2.9	165.4
Q3 Sept	11.2	6.0	7.4	13.6	44.5	4.6	12.6	10.4	-	2.9	5.0	4.1	5.4	7.0	3.9	3.1	6.2	22.6	3.3	3.2	176.9
Interest Income																					
2006	12.6	5.5	7.9	21.2	14.9	1.7	7.3	9.7	4.5	1.8	5.8	3.7	2.7	0.5	0.2	0.9	0.1	3.5	0.002	0.1	104.6
2007																					
Q1 March	3.6	1.6	2.3	5.8	5.6	0.6	2.9	2.6	1.0	0.5	1.6	1.2	1.0	0.1	0.2	0.3	0.09	1.3	0.2	0.08	32.4
Q2 June	3.7	1.6	2.5	6.2	5.6	0.7	2.8	3.1	0.9	0.6	1.7	1.4	1.1	0.3	0.2	0.3	0.1	1.5	0.2	0.1	34.4
Q3 Sept	3.9	1.5	2.4	6.8	5.8	0.8	3.0	3.0	-	0.8	1.6	1.2	1.2	0.4	0.3	0.3	0.2	1.9	0.4	0.2	35.7
9 Months (Jan-Sept)	11.2	4.7	7.3	18.8	17.0	2.1	8.7	8.7	1.9	2.0	4.9	3.8	3.2	0.8	0.7	1.0	0.4	4.8	0.8	0.4	103.2
Interest Expense																					
2006	7.0	3.8	4.0	15.2	4.4	0.9	4.4	6.1	2.8	1.4	3.5	3.3	1.5	0.6	0.03	0.1	0.02	2.5	0.001	0.02	61.6
2007																					
Q1 March	2.1	1.1	1.3	3.8	1.5	0.4	1.8	1.5	0.6	0.4	1.0	1.1	0.5	0.1	0.06	0.3	0.04	0.9	0.01	0.03	18.5
Q2 June	2.2	0.9	1.5	4.1	1.6	0.6	1.9	2.0	0.5	0.5	1.2	1.2	0.6	0.2	0.1	0.3	0.06	1.0	0.2	0.05	20.7
Q3 Sept	2.3	1.0	1.5	4.4	1.7	0.6	2.1	2.0	-	0.6	1.1	1.1	0.7	0.2	0.1	0.3	0.07	1.4	0.3	0.08	21.6
9 Months (Jan-Sept)	6.6	3.3	4.3	12.3	4.9	1.6	5.9	5.5	1.8	1.6	3.3	3.4	1.8	0.6	0.3	0.9	0.2	3.3	0.6	0.2	61.8
Net Interest Income																					
2006	5.6	1.8	3.8	6.0	10.4	0.8	2.9	3.6	1.8	0.4	2.3	0.4	1.2	-0.07	0.1	0.1	0.1	1.0	0.005	0.08	42.3
2007																					
Q1 March	1.5	0.5	1.0	2.0	4.0	0.2	1.0	1.0	0.6	0.1	0.5	0.05	0.5	-0.04	0.03	0.03	0.05	0.4	0.006	0.04	13.6
Q2 June	1.5	0.4	1.1	2.1	4.0	0.1	0.9	1.2	0.4	0.1	0.5	0.2	0.5	0.1	0.1	0.01	0.05	0.5	0.06	0.07	13.8
Q3 Sept	1.6	0.5	1.0	2.4	4.1	0.2	0.9	0.9	-	0.2	0.5	0.1	0.5	0.1	0.2	0.01	0.1	0.5	0.05	0.07	13.9
9 Months (Jan-Sept)	4.6	1.4	3.1	6.5	12.1	0.6	2.8	3.1	1.0	0.4	1.5	0.4	1.5	0.2	0.4	0.05	0.2	1.5	0.2	0.2	41.8
Non Interest Income																					
2006	2.1	0.8	1.4	3.2	3.7	0.5	1.7	2.8	0.7	0.6	0.9	0.7	0.7	0.08	0.03	0.03	0.02	0.05	-	0.04	20.1
2007																					
Q1 March	0.6	0.2	0.4	1.0	1.3	0.1	0.6	0.3	0.1	0.1	0.2	0.2	0.2	0.03	0.03	0.04	0.04	0.1	0.08	0.01	5.6
Q2 June	0.7	0.3	0.6	1.1	1.5	0.3	0.8	0.5	0.07	0.3	0.2	0.3	0.3	0.07	0.09	0.1	0.07	0.2	0.2	0.02	7.6
Q3 Sept	0.6	0.3	0.5	2.8	1.7	0.3	0.8	1.4	-	0.3	0.2	0.2	0.3	0.03	0.06	0.1	0.08	0.2	0.03	0.05	10.0
9 Months (Jan-Sept)	1.9	0.8	1.6	4.9	4.5	0.7	2.2	2.2	0.2	0.7	0.6	0.7	0.8	0.1	0.2	0.2	0.2	0.5	0.3	0.08	23.9
Admn. Expenses																					
2006	3.2	1.0	2.4	5.9	5.2	0.6	1.3	1.9	1.6	0.9	1.4	1.3	1.0	0.6	0.8	0.3	0.09	1.2	0.001	0.1	30.8
2007																					
Q1 March	0.9	0.3	0.7	1.8	2.5	0.2	0.6	0.5	0.4	0.2	0.3	0.3	0.4	0.2	0.3	0.09	0.08	0.4	0.1	0.09	10.4
Q2 June	1.1	0.3	0.8	2.0	2.7	0.2	0.6	0.7	0.5	0.3	0.4	0.3	0.4	0.3	0.3	0.1	0.2	0.5	0.2	0.1	12.0
Q3 Sept	1.5	0.3	0.8	2.4	2.8	0.2	0.6	0.9	-	0.3	0.4	0.3	0.4	0.2	0.4	0.2	0.09	0.5	0.2	0.1	12.6
9 Months (Jan-Sept)	3.5	0.9	2.3	6.1	7.9	0.5	1.8	2.1	0.9	0.8	1.1	0.9	1.2	0.7	1.0	0.4	0.3	1.4	0.5	0.3	34.6
Profit/(Loss) B.T																					
2006	3.3	1.4	2.7	2.6	7.2	0.6	3.1	3.9	0.5	0.053	1.3	-0.4	0.8	-0.9	-0.6	-0.1	0.05	0.03	-	-0.03	25.5
2007																					
Q1 March	1.1	0.4	0.6	1.0	2.2	0.2	1.0	0.9	0.01	0.03	0.3	-0.1	0.3	-0.3	-0.2	-0.02	0.02	0.04	0.009	-0.03	7.5
Q2 June	0.6	0.4	1.0	0.8	1.7	0.3	1.0	0.9	-0.3	0.02	0.1	0.3	0.3	-0.1	-0.2	-0.02	0.05	0.2	0.03	-0.01	7.3
Q3 Sept	0.6	0.5	0.7	2.6	2.0	0.3	1.0	1.3	-	0.2	0.3	-0.1	0.3	-0.2	-0.2	-0.09	0.1	0.003	-0.1	-0.006	9.2
9 Months (Jan-Sept)	2.3	1.3	2.3	4.4	5.9	0.7	3.1	3.1	-0.3	0.4	0.7	0.01	0.9	-0.6	-0.6	-0.1	0.1	0.3	-0.07	-0.06	24.4
Profit/(Loss) A.T																					
2006	2.2	1.0	1.8	1.8	5.6	0.5	2.1	2.8	0.4	0.1	1.0	-0.3	0.6	-0.6	-0.4	0.009	0.09	0.009	-	-0.008	18.8
2007																					
Q1 March	0.7	0.2	0.4	0.7	1.4	0.2	0.7	0.6	0.008	0.03	0.2	-0.1	0.2	-0.3	-0.1	-0.001	-0.01	0.02	0.007	-0.01	4.8
Q2 June	0.8	0.3	0.7	0.6	1.2	0.3	0.5	0.6	-0.3	0.2	0.1	0.2	0.2	-0.1	-0.1	-0.02	0.01	0.1	0.03	-0.01	5.4
Q3 Sept	0.4	0.3	0.5	1.8	1.3	0.2	0.7	1.0	-	0.2	0.2	-0.07	0.2	-0.2	-0.1	-0.05	0.08	0.006	-0.1	-0.001	6.4
9 Months (Jan-Sept)	1.9	0.8	1.6	3.0	3.9	0.6	1.9	2.3	-0.3	0.4	0.6	0.03	0.7	-0.5	-0.3	-0.05	0.1	0.2	-0.08	-0.04	16.8

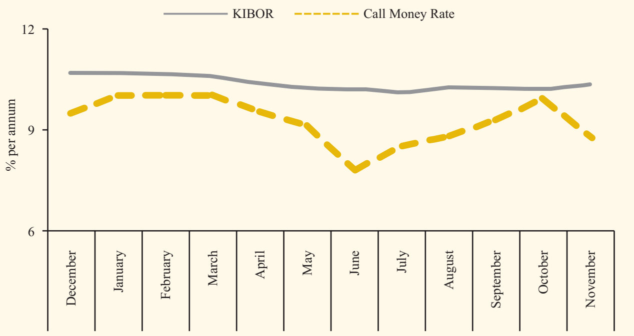
** Merged into ABN Amro in the third quarter.*

	Foreign Banks								
	Citibank	ABN Amro Bank	HSBC	Oman International Bank	Deutsche Bank	Bank of Tokyo	Sub Total	All Commercial Banks Total	Major Banks Total**
Assets									
2006	91.3	71.4	23.4	2.8	9.3	6.7	204.9	4173.5	2934.5
2007									
Q1 March	104.4	83.7	24.8	2.8	15.2	5.9	236.8	4334.2	2964.2
Q2 June	105.5	82.3	28.7	2.8	15.2	5.6	240.1	4839.5	3318.6
Q3 Sept	101.7	116.0	29.1	2.7	12.0	4.9	266.5	4770.8	3219.7
Deposits									
2006	63.1	53.1	14.7	0.6	3.3	1.5	136.3	3194.1	2287.8
2007									
Q1 March	67.6	70.1	15.8	0.6	4.5	1.1	159.7	3353.2	2346.9
Q2 June	71.2	59.5	17.6	0.6	4.5	1.8	155.2	3675.1	2597.1
Q3 Sept	80.3	95.7	21.8	0.6	3.8	1.4	203.6	3681.4	2528.6
Advances									
2006	51.3	39.7	11.2	0.4	4.1	3.8	110.5	2324.6	1636.7
2007									
Q1 March	50.9	40.7	12.0	0.4	2.9	3.0	109.9	2303.7	1600.0
Q2 June	52.8	41.0	13.5	0.3	2.9	2.9	113.3	2433.9	1694.4
Q3 Sept	51.8	67.7	15.2	0.2	3.4	2.1	140.4	2395.5	1646.9
Investment									
2006	21.9	14.0	0.2	-	1.2	-	37.3	805.9	557.3
2007									
Q1 March	28.3	14.8	0.3	-	1.2	-	44.6	962.8	650.8
Q2 June	23.0	17.4	0.3	-	1.2	-	41.9	1160.3	766.2
Q3 Sept	19.1	22.2	0.4	-	3.9	-	45.6	1289.7	862.4
Equity									
2006	6.1	4.9	2.4	2.0	2.8	2.4	20.6	347.1	238.1
2007									
Q1 March	6.4	5.4	2.5	2.0	3.0	2.4	21.8	371.6	251.6
Q2 June	6.4	5.5	2.5	2.0	3.0	2.4	21.8	405.9	265.5
Q3 Sept	6.6	6.8	2.6	2.0	3.2	2.3	23.5	435.1	282.6
Interest Income									
2006	9.0	6.8	1.2	0.04	0.4	0.3	17.7	303.0	215.6
2007									
Q1 March	2.7	2.1	0.5	0.01	0.2	0.08	5.6	88.7	60.9
Q2 June	2.5	2.3	0.5	0.01	0.2	0.09	5.7	92.7	62.9
Q3 Sept	2.7	3.5	0.6	0.01	0.1	0.07	7.0	98.0	66.3
9 Months (Jan-Sept)	7.9	9.8	1.5	0.03	0.5	0.3	20.0	281.8	190.2
Interest Expense									
2006	4.4	2.6	0.6	0.04	0.1	0.2	7.8	128.8	76.8
2007									
Q1 March	1.3	1.0	0.3	0.01	0.09	0.06	2.8	40.0	22.7
Q2 June	1.3	1.2	0.3	0.01	0.1	0.06	3.0	44.9	25.2
Q3 Sept	1.3	1.9	0.3	0.01	0.06	0.05	3.6	47.6	26.5
9 Months (Jan-Sept)	3.9	5.1	0.9	0.04	0.25	0.2	10.4	134.9	74.8
Net Interest Income									
2006	4.9	4.2	0.5	0.006	0.2	0.1	9.9	169.5	135.2
2007									
Q1 March	1.4	1.1	0.2	0.001	0.06	0.02	2.8	48.0	38.0
Q2 June	1.2	1.1	0.2	0.002	0.05	0.02	2.6	47.7	37.7
Q3 Sept	1.4	1.6	0.2	-0.003	0.09	0.02	3.3	49.9	39.7
9 Months (Jan-Sept)	4.0	4.7	0.6	-0.006	0.2	0.07	9.6	147.2	115.4
Non Interest Income									
2006	2.7	1.7	0.2	0.006	0.5	0.08	5.2	63.7	44.0
2007									
Q1 March	1.0	0.6	0.08	0.001	0.4	0.02	2.1	16.3	10.8
Q2 June	0.7	0.4	0.09	0.001	0.2	0.01	1.4	20.2	13.2
Q3 Sept	0.8	0.3	0.1	0.001	0.2	0.01	1.4	25.9	17.3
9 Months (Jan-Sept)	2.4	1.5	0.3	0.003	0.8	0.05	5.1	63.0	41.2
Admn. Expenses									
2006	4.0	2.3	0.5	0.03	0.5	0.06	7.4	92.9	65.7
2007									
Q1 March	1.0	0.7	0.2	0.01	0.01	0.01	2.0	26.4	18.7
Q2 June	1.2	0.9	0.2	0.01	0.2	0.01	2.5	28.3	18.8
Q3 Sept	1.2	1.6	0.3	0.01	0.1	0.02	3.2	31.5	21.7
9 Months (Jan-Sept)	3.5	4.1	0.6	0.03	0.4	0.05	8.7	87.4	59.5
Profit/(Loss) B.T									
2006	2.6	3.0	0.2	-0.2	0.2	0.1	5.8	121.2	97.7
2007									
Q1 March	0.8	0.5	0.09	-0.02	0.4	0.03	2.0	34.2	27.9
Q2 June	0.1	0.3	0.08	-0.04	0.03	0.07	0.5	34.0	27.9
Q3 Sept	0.5	-0.1	0.07	-0.01	0.2	0.02	0.7	36.1	28.9
9 Months (Jan-Sept)	1.4	0.7	0.2	-0.08	0.6	0.07	2.9	104.7	84.7
Profit/(Loss) A.T									
2006	1.6	2.0	0.2	-0.2	0.2	0.1	3.9	82.4	65.3
2007									
Q1 March	0.4	0.5	0.06	-0.02	0.3	0.03	1.3	22.7	18.5
Q2 June	0.08	0.2	0.04	-0.04	0.08	0.01	-0.5	21.9	18.5
Q3 Sept	0.2	-0.2	0.04	-0.01	0.05	0.02	0.1	24.5	19.2
9 Months (Jan-Sept)	0.5	0.1	0.1	-0.08	0.4	0.07	1.1	69.8	56.2

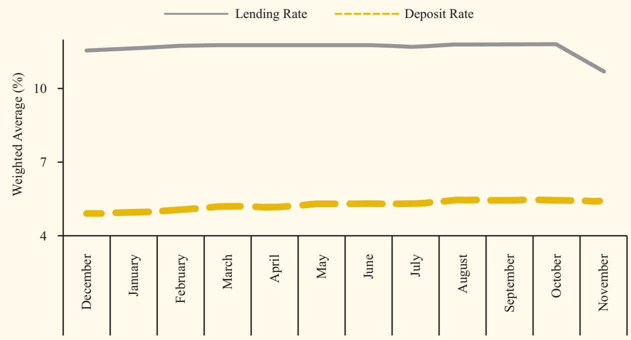
*** These include NBP, HBL, UBL, MCB, ABL, Bank-al-Falah, SCBP and Askari Bank.*

Interest Rate and Inflationary Trend

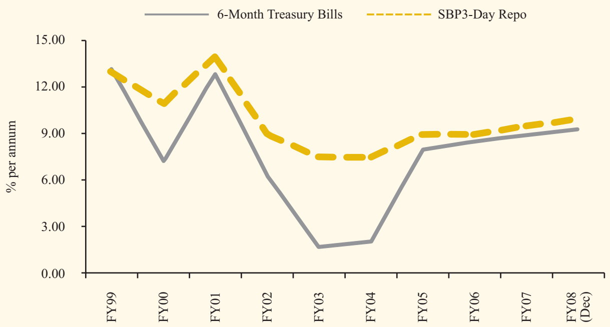
KIBOR & Call Money Rates



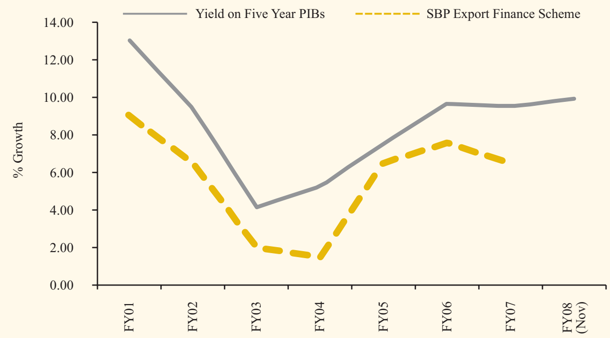
Lending & Deposit Rates



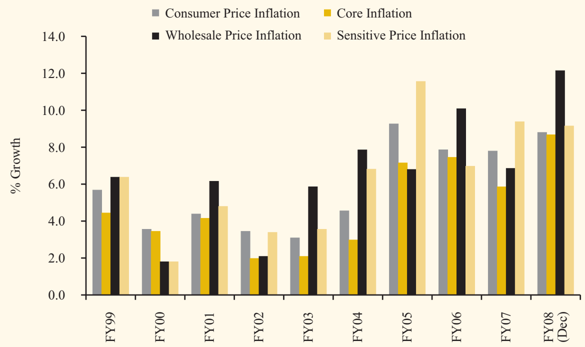
Treasury Bills & Repo Rates



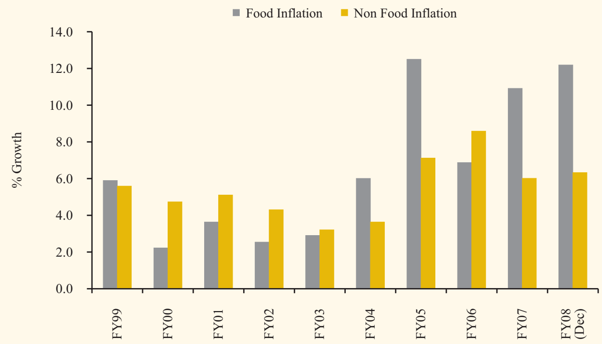
PIBs & EFS Rates



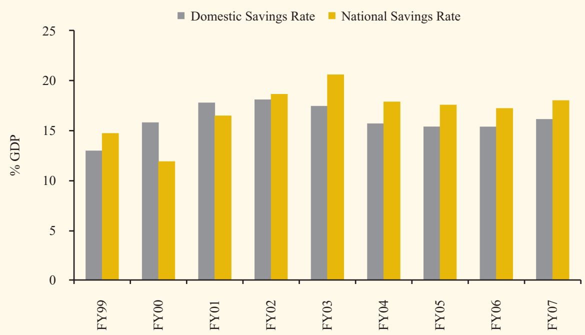
Price Indices



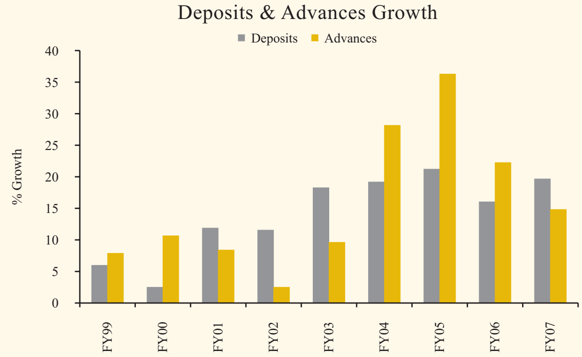
Food & Non Food Indices



Savings Rate



Deposits & Advances Growth



Book Reviews

Changing Perceptions, Altered Reality
Pakistan's Economy under Musharraf, 1999-2006, Shahid Javed Burki
Oxford University Press

A number of issues of importance to Pakistan economy have been discussed in this book. Although the book draws upon more than 70 articles of the 250 that the author has contributed to the daily Dawn, it is not a compilation of his newspaper columns. There is considerable amount of new writing and considerable rearrangement of the material published in the newspaper articles.

Only those articles have been selected for use in this book, which are pertinent for understanding Pakistan's current economic situation. It analyses the economic and social problems faced by Pakistan during the tenure of President Pervez Musharraf as well as the opportunities that exist for the country in light of its geographical situation and of the rapid changes in the structure of the global economy.

The subjects discussed in the book include economic growth, poverty and inequality; the advantages bestowed by the country's unique geographical situation; the advantages of having a large and young population at a time when rates of fertility and population growth had begun to decline in the industrial world; the enormous but still to be tapped potential of the sector of agriculture, and, finally, how the presence of large Pakistani diasporas in three parts of the globe provide another set of opportunities for economic development. The underlying theme of the book is that Pakistan has the potential to join the more rapidly growing parts of Asia if it is able to put to productive use the country's many assets.

The book opens with a brief discussion of the country's economic history; followed by a chapter which deals with Pakistan's geographical situation which has bestowed advantages to the country not enjoyed by many states in the developing world.

Chapter 3 deals with international commerce, chapter 4 treats the country's large and young population as a resource rather than as a burden. The following chapter deals with the subject of agriculture, and there is a chapter on the subject of migration of workers to other parts of the world. The last chapter provides an overview of the Pakistan economy and then provides suggestions on how Pakistan could steady its economic performance and move towards a more prosperous future.

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

The first edition of this book was published early 1999. Given the developments that have taken place in the field, the new edition comprehensively covers the changes that have taken place since.

Suggested formats of reports relating to internal audit, management audit and cost audit have been introduced in relevant chapters. Changes introduced in Companies Ordinance 1984 and affecting the Auditor have been incorporated, alongwith an addition of eleven types of special audits together with guidelines to conduct the same in the chapter on Special Audit. It also includes State Bank of Pakistan's guidelines on audit of annual accounts of Banks.

The book provides an in-depth view of the subject, as it covers a number of areas ranging from internal audits to management audits, cost audits and business investigations in the 28 chapters. The last chapter is on Code of Corporate Governance issued by the Securities and Exchange Commission of Pakistan in March 2002, where the salient features with respect to auditing are given.

The introductory chapter discusses in detail the objectives of audit, the kinds of audit and the usefulness of auditing. The tasks involved before commencement of an audit has been explained in detail in the following chapter.

The chapter on Code of Corporate Governance discusses its salient features in detail. After giving the factors that have to be included in the Director's Report to the shareholders, it discusses the composition of the Audit Committee, the frequency/attendance of meetings the reporting procedure.

Pakistan Economy – Key Economic Indicators

	FY '03	FY '04	FY '05	FY '06	FY '07
Domestic Economy					
Size*					
GNP (Rs.bn)	5027.5	5765.1	6634.2	7743.8	8867.7
GDP (Rs.bn)	4875.6	5640.6	6499.8	7593.9	8706.9
Per Capita Income (US$)	586	669	733	833	925
Growth** (%)					
GNP	6.3	7.3	8.7	6.4	6.9
GDP	4.7	7.5	9.0	6.6	7.0
Agriculture	4.1	2.4	6.5	1.6	5.0
Manufacturing	6.9	14.0	15.5	10.0	8.4
Services Sector	5.2	5.8	8.5	9.6	8.0
Consumer Price Index (%)	3.1	4.6	9.3	7.9	7.8
Wholesale Price Index (%)	5.6	7.9	6.8	10.1	6.9
Revenue Receipts (% GDP)	14.4	13.5	13.5	13.5	13.9
Tax Revenue	10.8	10.3	9.6	9.4	9.6
Total Expenditure (% GDP)	17.7	15.9	15.4	15.8	15.7
Fiscal Deficit (% GDP)	4.5	3.9	3.3	4.3	4.3
Domestic Debt (Rs.bn)	1853.7	1979.5	2150.0	2321.7	2597.0
as % GDP	38.0	35.1	33.1	30.6	29.8
Education Expenditure (% GDP)	1.86	2.20	2.13	1.92	2.42
Health Expenditure (% GDP)	0.59	0.58	0.57	0.51	0.57
State and Markets					
SBP General Index of Share Prices (2000-1=100)	204.1	323.3	362.8	427.0	547.5
KSE 100 Index	3403	5279	7450	9989	13772
Aggregate Market Capitalisation	746.4	1402.8	2036.7	2766.4	3980.8
Total Investment (% GDP)	16.8	16.6	19.1	21.7	23.0
National Savings (% GDP)	20.6	17.9	17.5	17.2	18.0
Domestic Savings (% GDP)	17.4	15.7	15.4	15.3	16.1
Reserve Money (M_O) % growth	14.5	15.4	17.6	10.2	20.9
Broad Money (M_2) % growth	18.0	19.6	19.1	15.1	19.3
Private Sector Credit as % of GDP	2.99	5.77	6.74	5.29	4.20
NPL to Advances	17.0	11.6	8.3	7.7	-
Global Links					
Exports (f.o.b.) $ mn	10974	12459	14482	16553	17080
Imports (f.o.b.) $ mn	11333	13738	18996	24994	27024
Trade Balance $ mn	(-)359	(-)1279	(-)4514	(-)8441	(-)9944
Services Account ($ mn)	(-)2	(-)1316	(-)3293	(-)4430	(-)4143
Income (net) ($ mn)	(-)2211	(-)2207	(-)2386	(-)2667	(-)3569
Current Transfers (Net ($ mn)	6642	6114	8659	10548	10562
Current Account Balance ($ mn)	4070	1811	(-)1534	(-)4990	(-)7094
External Debt & Liabilities ($ bn)	35.47	35.26	35.83	37.24	40.17
as % GDP	42.6	36.0	32.7	29.4	28.0
Total Debt to GDP (%)	78.4	70.0	64.7	59.0	56.8
Foreign Private Investment ($ mn)	816.2	921.7	1676.6	3872.5	6960.0
Portfolio	*18.2*	*(-)27.7*	*152.6*	*351.5*	*1820.4*
Direct	*798.0*	*949.4*	*1524.0*	*3521.0*	*5139.6*
Gold & Foreign Exchange Reserves ($ mn)	11472	13155	13338	14590	17924
Exchange Rate (Rs/$)average	58.4995	57.5745	59.3576	59.8566	60.6342
People					
Population (mn)	146.7	149.6	152.5	155.4	158.2
Labour Force (mn)	43.0	44.1	45.9	46.8	50.5
Literacy Rate (%)	51.6	53.0	53.0	54.0	-
Telephones (mn)	4.0	4.5	5.1	5.1	5.2
Mobile Phones (mn)	2.4	5.0	12.8	34.5	55.5
Motor Vehicles on Road (mn)	5.3	5.7	6.0	7.1	8.1

* Market Prices ** Constant Factor Cost of 1999-2000

M_o = currency in circulation + other deposits with SBP + currency in tills of scheduled banks + banks' deposits with SBP.

M_1 = currency in circulation + other deposits with SBP + scheduled banks' demand deposits.

M_2 = M_1 + scheduled banks' time deposits + resident foreign currency deposits.

Source: Annual Report 2006-07, State Bank of Pakistan Economic Survey 2006-07