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Editor's Corner

Dear Readers,

The powerful earthquake on October 8, measuring 7.6 on the Richter scale, caused widespread destruction in Azad Kashmir and the northern areas of Pakistan. It was by far the deadliest in the sub-continent and compares with others with a similar intensity, Gujrat (2001), Quetta (1935) and San Francisco (1906).

The magnitude of the disaster and the human misery is immense. The quake triggered landslides, wiping out entire villages, leveling numerous building in the city of Muzaffarabad, Bagh, Balakot, and Rawalakot, destroying infrastructure, undermining and threatening livelihoods of millions of people and rendering 2.5 million – 3.5 million homeless. Thousands have died, been maimed, severely injured or made destitute. Innumerable are unaccounted for, and the vast majority of the rest who have been made homeless are at risk of dying from the cold and the spread of diseases. Worrisome of all are the hundreds of children who have become orphans, or those who have lost a limb or two and the young women who have lost their male members and who no longer have the family support. What will become of them?

In addition to the enormous human toll, the earthquake and its aftermath poses a large cost to the country. The government faces the daunting challenge of reconstruction and rehabilitation. The government had estimated a need for $5.2 billion. At the recently concluded donors conference, the international donors pledged $5.827 billion, which includes $3.9 billion in soft loans and remaining $1.9 billion in grant. The later includes cash, in kind, donations to NGOs, the AJK and NWFP governments and contribution to the President's Relief Fund. The affected region will need rebuilding everything ranging from the destroyed houses to the physical infrastructure (the network of roads and utility services), the social service facilities (education, health and public health), the government buildings, and the community services (water supplies, sewerage and drainage). The government and other agencies have the arduous task of gathering accurate information of the extent of damage, of the number of families whose homes have been destroyed and those who have lost their families, so they could be adequately compensated at the earliest. It is in such situations that the bad elements also come forward to benefit; and if care is not taken resources would tend to spread out thinly or vanish entirely.

The areas devastated by the earthquake are amongst the poorest in Pakistan. The Social Policy and Development Centre, in its Annual Review 2001, has in one of its chapters measured regional deprivation. Some of the districts like Shangla, Batagram, Mansehra are among the most deprived areas of NWFP. The earthquake has added to human miseries and devastated their economies. Now the local economy lies in ruins and the people have lost their source of livelihood, as they were primarily engaged in agricultural activities. Due to landslides, agricultural lands have been eroded and livestock destroyed. The restoration of livelihood activities for survivors, should assume one of the foremost tasks of the government. Areas that can be restored for some small agricultural and livestock activities in the shortest possible time, will help people to resume their work and eke out a living.

The ILO estimates that total employment in the affected areas was around 2.4 million at the time of the disaster and that over 2 million of these workers and their families were living below the poverty line of less than $2 per person per day before the disaster struck. Now that they have lost their source of employment, they are likely to fall in extreme poverty. The reconstruction and rehabilitation programmes for the region will have to incorporate programmes aimed at generating new employment and other income producing opportunities says the ILO. The joint ADB and World Bank Report also emphasize the need for rapid rebuilding of people's livelihoods. Once the reconstruction work begins, large numbers of the local population could find work opportunities.

While Pakistan has received international support, and local non-profit organizations working in the affected areas are receiving large donations, alongwith food, water, clothing, medicines, tents and blankets, the task ahead of rebuilding entire cities/ villages is awesome. Available resources would have to be judiciously utilized amongst the urgently competing priorities.

Dr. Ishrat Husain, Governor State Bank of Pakistan recently spoke about trying to resettle the 3 million people in "clusters", so that it becomes feasible for the government to provide them with basic facilities. Dispersed over large areas they have no access to basic services and languish in poverty.

The scale of human tragedy has among others also raised the question of better standards of buildings/houses to be built in future. This region is seismically active, and as earthquakes cannot be predicted accurately enough to know when people should be evacuated, the government should ensure that buildings that are put up adhere to adequately defined building codes which should be rigorously enforced.

A report titled "Pakistan 2005 Earthquake: Preliminary Damage & Needs Assessment" prepared by Asian Development Bank and World Bank has measured the economic impact of the earthquake. Preliminary estimates show the cost of reconstruction of lost assets and of the restoration of public services to be around $3.5 billion. Of this, the cost of the direct damage sustained due to the earthquake totals Rs135.1 billion (US$2.3 billion) where the largest component of this damage is to private housing, followed by transport sector, education sector, agriculture and livestock.

The fiscal and macroeconomic impact on the economy will be adverse. The economy on the whole, may see a slightly slower growth falling by around 0.4 percentage points the joint Asian Development Bank and World Bank report. GDP growth is expected to be around 6 percent, lower against the target of 7 percent set earlier in the year. A lower cotton and sugarcane crop, plus the additional impact of the earthquake is likely to bring output growth down by 1 percent. The rescue and relief operation and the reconstruction to be undertaken in the weeks to come will cost the public exchequer a significant sum, at least for the next five years. If enough resources are generated both through external assistance and contribution to the President's Relief Fund, the impact on the Budget for FY06 may not be significant. If resources fall short of the expenditure the budget deficit could increase. The earthquake is expected to increase the fiscal deficit by between 0.5-1.0 percent.

The government could then either go for concessional credit at soft terms, or cut down the Rs300 billion Public Sector Development Programme for FY06. In the latter case resources will have to be diverted from earmarked sectors towards the reconstruction of the devastated region. Reallocation of resources will hurt areas from where development funds are being diverted. The choices available to the government are difficult. The earthquake may cause an increase in imports of fuel, food and construction material. Any delay in aid inflows to finance GoP earthquake expenditures would aggravate pressure on the balance of payments.

In Pakistan's worst ever natural disaster, however, one witnessed solidarity, where every citizen contributed his/her bit. It reinforced a sense of community. While the task ahead is arduous, the government is firm in its resolve to rebuild and rehabilitate the devastated areas.

Ayesha Mahmud

Abstract of the Bulletin

Era of High Oil Prices

- § Growing demand for oil, primarily in Asia's emerging economies has exerted pressure on oil prices. China and India together have accounted for almost 40 percent of the growth in demand since 1990.
- § Oil demand is expected to remain robust next year.
- § While consumption of oil is growing, there are severe capacity constraints, which are pushing up prices. There has occurred a lack of investment in appropriate refining capacity.
- § Opec is producing close to its capacity.
- § Low investment when oil prices were low for capacity investment and expansion has resulted in today's limited spare capacity.
- § The world economy seems to have weathered the oil price increase well.
- § The outlook for the Pakistan economy is generally positive, but high oil prices were expected to add to inflationary pressures and worsen the balance of payments position.
- § High oil prices had raised Pakistan's oil import bill to $3.8 billion in FY05.
- § Pakistan has designed attractive policies to encourage investors into exploration of oil and gas in the country.
- § In the next five years, local production of oil and gas is expected to start declining due to depletion of resources.
- § The country is looking into the option of enhancement of coal production and other indigenous conventional energy resources.
- § The Government has set up an Alternate Energy Development Board, mandated to promote the utilisation of renewable energy.
- § It has set a target of achieving 10 percent share of alternate / renewable energy in the energy mix by the year 2015.

Interest Rate Outlook

- § Inflation as measured by CPI eased in the month of October.
- § Methodology of calculating core inflation has changed.
- § Government is faced with a widening fiscal deficit, non-materialization of privatisation proceeds.
- § Current account deficit has widened and the trade deficit has also risen.
- § Stable interest rates foreseen in the short term.

Market Analysis

- § The market during September-October 2005 rose by 6 percent on an average daily volume of shares.
- § Pre-Trade Verification System introduced.
- § The Securities & Exchange Commission of Pakistan has prohibited stock brokers of transacting business with fellow brokerage houses from October 1, '05.

Pakistan - IMF Country Report

- § Macroeconomic performance has been favourable, with growth in GDP, manufacturing and exports. Import growth reflects both higher oil prices and strong demand, including for machinery.
- § Progress has been made in structural reforms.
- § The key challenges facing Pakistan are to sustain the strong growth, while tackling existing and emerging vulnerabilities.
- § Health and education expenditures are still relatively low in international comparison.

Era of High Oil Prices

Recent months have witnessed a rapid increase in oil prices, generated in large part by increased global demand which grew by 3.3 percent in 2004. Demand in Asia's emerging economies has grown fast, in particular oil demand by China has surged, outstripping real GDP growth. Between 1990 and 2003, for the world as a whole, annual demand for oil grew at 1.3 percent, while for China and India combined it expanded at 7 percent. Together, these two countries have accounted for almost 40 percent of the growth in demand since 1990. Emerging markets and developing countries have witnessed a faster growth of their economies, which has expanded demand for oil to satisfy their growing transport, industry and residential sectors. Despite substantial increase in oil prices, demand remains robust. As a whole, the increase in developing Asian demand accounted for nearly half of global demand expansion in 2004. Though oil demand is projected to rise slowly between 2005 and 2006, it will remain robust.

Rising demand for oil

According to estimates, oil consumption is expected to grow from an average of 82.4 million barrels per day (mbpd) in 2004 to 92 mbpd in 2010 and 139 mbpd in 2030. Though consumption is rising, there are severe capacity constraints which are pushing up prices. Investment in refining capacity has been low and further the type of refining capacity now required is not available. For quite sometime, world oil demand was driven by high quality, 'light' crude, but recent additions to production capacity have largely been in the heavy grades of crude, which are more difficult and costly to refine. Lack of investment in appropriate refining capacity has pushed retail prices up.

Refinery bottle-necks put additional pressure on petroleum prices

Meanwhile, Opec which supplies 40 percent of the total world output and about 55 percent of the oil traded internationally is now producing close to its capacity. Supply costs in non-Opec countries are high in terms of unit exploration, development and production costs. Despite an increase in Opec production, sustained strong demand in 2004 coupled with supply disruptions have reduced spare capacity. Low investment when oil prices were low for capacity investment and expansion has resulted in today's limited spare capacity.

Limited spare capacity

Global Oil Market Demand, Capacity and Prices

	Dec '02	Dec '03	Dec '04	Dec '05	Dec '10
Capacity[1]	79.9	80.0	81.7	83.3	93.0
Demand[1]	76.9	78.1	80.0	81.5-82.0	89-93
Excess Capacity	3	1.9	1.7	1.3-1.8	0-4.0
Excess Capacity as % of Total Capacity	3.8	2.4	2.1	1.6-2.2	0-4.3
Average Price[2]	25.0	28.9	37.8	46.5	38.8

1 million barrels per day, excludes natural gas liquids.
2 Average annual spot prices of West Texas International, Brent Crude & Dubai Fateh.

Source: IEA & IMF Staff Projection

While demand for crude is likely to grow rapidly, it requires large investments which have been estimated by the IEA at $90 billion a year. A significant part of the increased demand is to come from rapidly growing Asian economies. The IMF in a Report *'Oil Market Development & Issues* March 2005', has listed some factors which are obstacles to investment in the sector. These are mentioned below:

Impedi-ments to invest-ment in the oil sector

- § Price and demand uncertainties.
- § Specific constraints in oil exporting countries competing demands for social and infrastructure expenditures and, in some cases, high public debt levels have limited the funds available for investment in the oil sector.
- § Limited openness to foreign investment is often a major disincentive for international oil companies.
- § Downstream investment (pipelines, refineries, and tankers) has also lagged behind the growth in global oil demand in recent years.
- § The shortage of existing refining capacity is particularly marked in heavy crude oil.
- § The main obstacle to downstream activity in industrial countries has been environmental considerations.

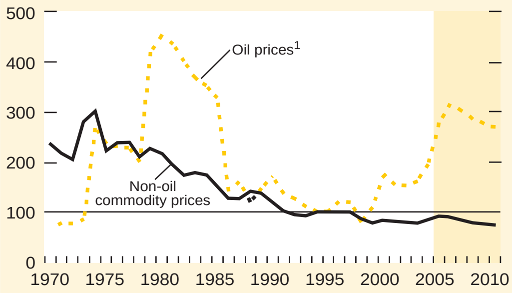
The average price of oil has risen from $19 per barrel in December 2001 to $32 by end of 2003, and further to $53 by October 2004 and crossed $70 in August 2005. A substantial further increase cannot be ruled out.

Prices rise

While in 2002-04, demand was the most significant factor driving up prices, supply constraints and uncertainty over the future costs

Oil prices rising sharply

Increased demand and, more recently, supply contraints are driving oil prices to their highest point since the early 1980s.
(real commodity prices; 1995 = 100)



Note: Shaded areas indicate IMF staff projections.
1Simple average of spot prices of U.K. Brent. Dubai Fateh, and West Texas Intermediate crude oil.

Source: IMF Survey, Volume-34

of oil production loom behind the most recent rises. Unlike the 1990s, when Opec provided a stable anchor and could satisfy excess demand, now in view of its near to capacity production; strong demand has put pressure on production capacity thereby contributing to upward price pressures. Low investment in refining capacity in the past remains a serious concern.

World economic outlook steady

The world economy seems to have weathered the oil price increase well, where global GDP growth is high and inflation remains low. The IMF's latest World Economic Outlook (WEO) sees global growth at a healthy 4.3 percent for both 2005 and 2006, inspite of rising oil prices. The WEO projects 3.5 percent US growth for 2005 and 3.3 percent in 2006, slightly below 4.2 percent in 2004.

Japan's economy is expected to grow at 2 percent. With its high level of energy efficiency, the country may not be as badly affected as other regional economies by high oil prices, states the ADB 2005 Update. Growth in euro area is projected at 1.2 percent for 2005, down from 2.0 percent in 2004. 'Though the impact of higher oil prices will also be felt in the euro zone, early signs of cyclical recovery are now apparent in some economies, including Italy and the Netherlands,' ADB 2005, Update.

For developing Asia, GDP growth is expected to slow by about 0.8 percentage point from 7.4 percent to 6.6 percent. Several factors, in addition to higher oil prices, may have contributed to softening says, the ADB Outlook 2005 Update. It further says, for much of 2004, and in early 2005, impacts ran largely from global demand to oil prices, not the other way round, thereby limiting the negative effects of higher oil prices on consumer and investor confidence. Further, during this period, the escalation in oil prices was gradual, suggesting that impacts too may stretch out over time.

Asia's high dependence on oil imports

Asia remains vulnerable to an oil shock, because of its high dependence on oil imports. While the region produces a mere 10 percent of the world crude oil supply, it consumes about 24 percent of the world crude oil supply. The cost of oil imports has risen, notably in China and India. It is estimated that oil imports cost India $15 billion, while China imported about $13.4 billion in 2003.

Oil and energy dependency in Asia

Given below is a table which shows developing Asia's reliance on oil in 2003. The ADB Outlook 2005 Update, measures dependency in four ways, using five indicators: oil self sufficiency; intensity of oil use in energy consumption; energy intensity of GDP, both at market and at purchasing power parity exchange rates; and per capita oil consumption.

Oil and Energy Use – Developing Asia, 2003

	Oil self-sufficiency	Intensity of oil use in energy consumption	Energy intensity of GDP		Oil consumption per capita (barrels)
			Nominal	PPP	
South Asia	-0.690	0.352	3.072	0.573	0.7
Afghanistan	-1.000	0.533	-	-	0.1
Bangladesh	-0.919	0.288	1.553	0.301	0.2
Bhutan	-1.000	0.121	3.866	0.972	0.5
India	-0.649	0.343	3.230	0.588	0.8
Maldives	-1.000	1.000	1.610	0.480	5.0
Nepal	-1.000	0.500	1.363	0.225	0.2
Pakistan	-0.817	0.383	3.439	0.729	0.8
Sri Lanka	-1.007	0.846	1.425	0.338	1.5

- = data not available, PPP = purchasing power parity.

Notes: 1. The oil self-sufficiency index is oil production less consumption, divided by consumption; a positive number indicates self-sufficiency. No domestic oil production is equal to –1.0. 2. Intensity of oil use in energy consumption is petroleum consumption divided by energy consumption. 3. Energy intensity of GDP, for both nominal GDP (at market exchange rates) and GDP measured at purchasing power parity, is expressed relative to the average of the G7 countries, which is normalized to 1.

Source: ADB Outlook 2005 Update

The oil self-sufficiency index measures oil production less consumption in relation to oil consumption. Thus a value of –1 signifies that a country has no oil production and is totally reliant on oil imports; a positive number means that a country is a net exporter. The intensity of oil use in energy consumption index measures the share of oil in an economy's primary energy consumption. If a country relies only on oil to produce energy, the value of the index is 1; if no oil is used in producing its energy, the value is 0.

The third and fourth indicators show a measure of the energy intensity for an entire economy (energy consumption divided by GDP). This measure is standardized on the energy intensity of the G7 countries. For example, a value of 2 would mean that the country in question uses twice the energy as the G7 average per unit of GDP.

In a paper, *'The Impact of Higher Oil Prices in Low Income Countries and on the Poor'* UNDP/ESMAP (United Nations Development Programme/World Bank Energy Sector Management Assistance Programme), the author Robert Bacon has studied the various links through which oil price rises impact lower income countries and the policies that maybe adopted to mitigate some of the effects by these oil price increases.

The Impact of Higher Oil Prices

§ The net oil import bill increases. Lowest income oil importers suffer the most from the direct impact of higher oil prices on the balance of payments.

§ Following an oil price rise, world GDP falls, so there is an additional impact on oil importers as they see their exports of other goods fall.

§ Households, which are consumers of certain petroleum products, (kerosene, LPG, and gasoline) and who also purchase other goods whose costs are impacted by oil product prices (diesel for transportation) will fell the effect of higher oil prices in their household expenditure, unless the government subsidizes them.

  So in countries where petroleum products are subsidized, the impact of higher oil prices will not be directly felt by households, but the worsening of the government's fiscal position will result in less government spending then would otherwise have been possible.

§ The vulnerability of a country to oil price rises is measured by the ratio of net oil imports to GDP. One has to understand the ratio in terms of three component parts.

  Oil Imports/GDP = (oil imports/total oil use) x (total oil use/ total energy use) x (total energy use/GDP)

ADB outlook on Pak economy

The Asian Development Bank in an update on Pakistan's economy, gives a generally positive outlook for the economy, but points out that high oil prices were expected to add to inflationary pressures and worsen the balance of payments position. "If international oil prices remain at current levels, or go higher, projections for imports, the fiscal deficit and inflation may have to be revised upward, while any negative impact on the global economy could lead to lower growth of exports", says the Update.

For 2006, the economy is now projected to grow by 6.5 percent, i.e. 0.5 percentage point lower than forecast earlier; prospects diminished somewhat by the increase in global oil prices. Higher oil prices and volumes had raised the oil import bill to $3.8 billion in FY05. Imports are forecast to grow at about 18 percent in FY06, because of continuing economic growth, a larger oil bill and planned import of wheat and other essential food items.

Pakistan's commercially exploitable energy resources consist of oil, gas, coal and hydropower and a substantial base of traditional fuels in the form of fuel wood, and agricultural and animal wastes.

Currently, exploration activities are being carried out over an area of about 151,400 sq. kms, where local and foreign operators 18 (5 local) are involved. Of the wells explored, oil and gas has been discovered in 176 of them (oil 51 and gas 125), where the success rate is 1:3.5.

Friendly investment environment

Pakistan has the potential of producing 27 billion barrels of oil and 280 TCF of gas. So far it has exploited 0.8 (3 percent) and 42 (15 percent) respectively. The Government of Pakistan has provided an investment friendly environment for the energy sector to attract local and foreign investors. As a result of the reforms initiated and the various measures

Box Higher Oil Prices: Asian Perspective and Implications for 2004-05,

by Gyn-Young Park, Asian Development Bank

Given below are excerpts from the above mentioned paper, which has attempted to quantify the impact of an oil price shock on Asia's economic outlook for 2004-05.

Given the importance of oil imports in Asia, a scenario analysis would allow policymakers to prepare for possible outcomes. Two alternative oil price scenarios are considered. First, a "temporary" hike to $40 per barrel for one year from the second quarter of 2004 to the first quarter of 2005 (Scenario I). Second, a "sustained" high price at $40 per barrel through the end of 2005 (Scenario II). The baseline scenario assumes that oil prices stay constant at $30 per barrel over the entire projection period for 2004-05.[1]

Table 1 summarizes the impact of a $10 per barrel hike in oil prices on 10 Asian countries in 2004. The reduction in GDP is limited to 0.2 percent while inflation rises by 0.5 percent for Asia excluding Japan, as the secondary price effect has not fully materialized. Among the net oil-importing Asian countries, Philippines, Singapore, and Thailand are affected the most. In the first year, the most direct impact is felt in trade balances (as a percent of GDP), while the severity of the adverse terms of trade effect varies from country to country, depending on various factors such as the share of oil imports in national income, efficiency of national energy use, and availability of alternative fuels. The results reflect the high dependency of the Asian countries on oil imports. With the exception of Japan, which boasts of relatively higher energy efficiency and lower oil intensity, net oil-importing developing Asia experiences considerable deterioration in its trade balances and corresponding decreases in real income and outputs. The trade balances deteriorate, ranging from –0.3 percent in the PRC, to –1 percent in the Philippines, and to –1.1 percent in Thailand. On the other hand, Indonesia, whose gasoline exports more than compensate its oil imports, gains from the oil price increase; while Malaysia, despite its oil exports, experiences a slight deterioration in its trade accounts and a GDP loss, reflecting the stronger growth in its consumption and imports.

Table 1. Impact of an Oil Price Rise on Selected Asian Economies in 2004

(Percentage changes from the base case unless otherwise specified)

	GDP	Trade Balance (% of GDP)	Consumer Prices
Asia	-0.1	-0.3	0.5
Asia ex. Japan	-0.2	-0.5	0.5
PRC	-0.2	-0.3	0.1
Hong Kong, China	-0.1	-0.3	0.1
India	-0.2	-0.6	0.7
Indonesia	0.1	0.9	0.5
Japan	-0.1	-0.2	0.4
Korea	-0.2	-0.9	0.3
Malaysia	-0.3	-0.2	0.7
Philippines	-0.4	-1.0	0.7
Singapore	-0.4	-1.1	0.7
Taipei, China	-0.1	-0.7	0.2
Thailand	-0.4	-1.1	0.7

Table 2 presents the simulation results in a year after the oil price increase. In Scenario I, the oil price returns to the baseline oil price of $30 per barrel from the second quarter of 2005 onward after the initial increase by $10 per barrel from the second quarter of 2004 to the first quarter of 2005. Asia excluding Japan would experience a loss of 0.6 percent or $21.7 billion in real GDP. The trade balances recover in 2005, as windfall gains of oil exports are channelled into increased spending by the oil-exporting countries for non-oil exports of oil-importing countries. The simulation shows that the secondary price effect has exerted downward pressure on domestic demand in 2005. Unlike the first year, where the supply side force following the adverse terms of trade shock dominated the impact on the real GDP, the demand side impact through higher price levels in the economic adjustment process further reduces the real income in the second year, despite the dissipating terms of trade effect. Overall, countries that experience higher inflation such as India, Malaysia, Philippines, Singapore, and Thailand suffer proportionately bigger losses in real income.

Table 2. Impact of an Oil Price Rise on Selected Asian Economies in 2005

(Percentage changes from the base case unless otherwise specified)

	Scenario I ($40: 2Q 2004 - IQ 2005			Scenario II ($40: 2Q 2004 - 4Q 2005		
	GDP	Trade Balance (%) of GDP	Consumer Prices	GDP	Trade Balance (%) of GDP	Consumer Prices
Asia	-0.5	0.0	0.5	-0.6	-0.3	1.0
Asia ex. Japan	-0.6	0.1	0.5	-0.8	-0.4	1.1
PRC	-0.6	0.2	0.3	-0.8	-0.1	0.5
Hong Kong, China	-0.5	-0.5	0.2	-0.6	-0.8	0.3
India	-0.6	-0.1	0.9	-0.8	-0.7	1.7
Indonesia	0.0	0.1	0.6	0.1	0.9	1.3
Japan	-0.4	-0.1	0.3	-0.5	-0.3	0.7
Korea	-0.5	0.0	0.4	-0.6	-0.8	0.8
Malaysia	-0.7	0.8	0.7	-0.9	0.3	1.4
Philippines	-1.5	-0.4	0.7	-1.9	-0.9	1.4
Singapore	-1.2	-0.2	0.6	-1.7	-1.3	1.3
Taipei, China	-0.3	0.0	0.2	-0.4	-0.6	0.3
Thailand	-1.7	-0.1	0.8	-2.2	-1.2	1.5

The secondary price effect seems to intensify, as the oil price spike stays longer. In Scenario II where the oil price stays at $40 until the end of 2005, inflation climbs by more than 1 percent for Asia as a whole. Accordingly, the loss of real income amounts to 0.8 percent or $28.8 billion for Asia excluding Japan, while the direct impact on the trade balances is little different from the 2004 results. Inflation is particularly higher in India, Indonesia, Malaysia, Philippines, Singapore and Thailand, increasing by more than one percentage point in 2005. The country variation of price effects is significant, depending on the current inflation and domestic demand conditions. In addition, the pass-through of an oil price increase to domestic prices and/or existing energy price control through tax and subsidies would influence the variation.

[1] This baseline assumption of $30 per barrel, though higher than the historic average, is roughly in line with the oil price baseline in ADB (2004). Neither is the alternative of $40 per barrel far from realistic given that the level was actually breached in May 2004, and oil futures indicate an average of $40 for the later half of 2004. In fact, the benchmark WTI Cushing reached $40.07 per barrel on 11 May 2004 and its monthly average stayed high at $40.234 in May. Since then, oil prices have come down to around $36 per barrel.

undertaken, the energy sector has emerged as one of the most attractive sectors in the country. A number of international companies are carrying out exploration activities in the oil and gas sector. The major operator companies are POL, OGDC, OPI, PPL, BHP, BP among others.

Attractive policies for the investors

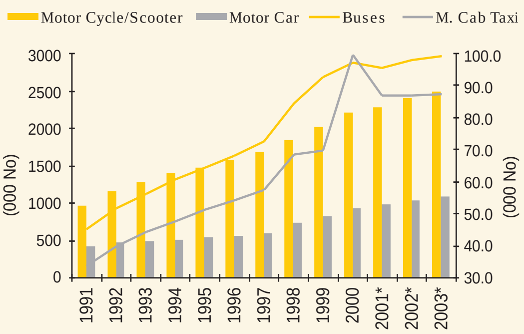
Pakistan encourages exploration of oil and gas in the country and has designed transparent policies for the investors. Lucrative fiscal terms are offered for onshore and offshore drilling, like for instance, royalty @12.5 percent of well head value, corporate income tax capped to 40 percent, guaranteed percentage payment in foreign exchange, accelerated depreciation allowance, cost of oil/gas recovery limited to 85 percent among a host of other incentives. The government has offered 20 blocks for bidding in the Upper, Middle and Lower Indus Basin.

While currently local production of oil and gas is increasing, it is projected to start declining with their depletion in about five year's time. Unless new gas discoveries are made and there is an acceleration in the oil and gas exploration, the future demand of power plants operating on oil and gas, and by the transport sector, would be met through either imported fuel or accelerated exploration of indigenous hydel and coal reserves.

Trans-port & energy sector largest consu-mers of oil

The transport sector is the second largest consumer of energy, closely following the industrial sector. These two sectors together consume 70 percent of the available energy in the country. With the increase in the number of motor vehicles on the road in Pakistan the demand for oil has gone up.

Selected Motor Vehicles on Road in Pakistan 1991-2003



* Estimated

The country is looking into the option of enhancement of coal production and other indigenous conventional energy resources. Potential coal reserves are about 185 billion tonnes. The focus is on improving coordination between federal and provincial agencies; integrated coal and power planning, improved coal extraction and utilisation technologies.

Coal demand to rise

According to reliable energy demand projections, coal demand is expected to increase from a share of 6 percent in total energy mix to 14 percent by FY20, while the share of oil is anticipated to decline from 31 percent to 26 percent, and of gas from 50 percent to 44 percent.

AEDB set up

Some development of renewable energy sources has been undertaken, primarily for rural areas. The Government has set up an Alternate Energy Development Board, mandated to promote the utilisation of renewable energy i.e. solar, wind, mini/micro hydels and biomass. It focuses on promotion of renewable energy for remote locations and off grid power generation. Development of renewable energy would upgrade village life while lowering urban migration, reduce reliance on firewood and provide power to pump water for irrigation where possible.

Global investment in renewable energy is now estimated at a record $30 billion in 2004. Government support for renewable energy is growing rapidly and at least 48 countries now have some type of renewable energy promotion policy. According to a report 'Global Status Report', nearly 40 million households worldwide heat their water with solar collectors, most of them installed in the last five years. The Report says several renewable technologies, small hydro, modern biomass, wind, solar, geothermal and bio-fuels are competing with conventional fuel in four distinct markets: power generation, hot water and space heating, transportation fuels and rural energy supplies.

Pakistan, like some of the other countries is working towards increasing the share of renewables in the national energy mix. It has set a target of achieving 10% share of alternative/renewable energy in the energy mix by the year 2015.

Energy Mix Plan Projections

	Current		Short Term		Medium Term				Long Term			
	2004		2010		2015		2020		2025		2030	
Total MTOE	50.8		79.39		120.18		177.35		255.37		361.31	
Oil	15.20	30%	20.69	26%	32.51	27%	45.47	25.7%	57.93	22.7%	66.84	18.5%
Natural Gas	25.45	50%	38.99	49%	52.98	44%	77.85	44%	114.84	45%	162.58	45%
Coal	3.30	6.5%	7.16	9%	14.45	12%	24.77	14.0%	38.28	15%	68.65	19%
Hydro	6.43	12.7%	11.03	13.9%	16.40	13.6%	21.44	12.1%	30.50	12%	38.93	10.8%
Renewable	0.00	0.0%	0.84	1.1%	1.60	1.3%	3.00	1.7%	5.58	2.2%	9.20	2.5%
Nuclear	0.42	0.8%	0.69	0.9 %	2.23	1.9%	4.81	2.7%	8.24	3.2%	15.11	4.2%

Source: Medium Term Development Framework 2005-10, Planning Commission, Government of Pakistan

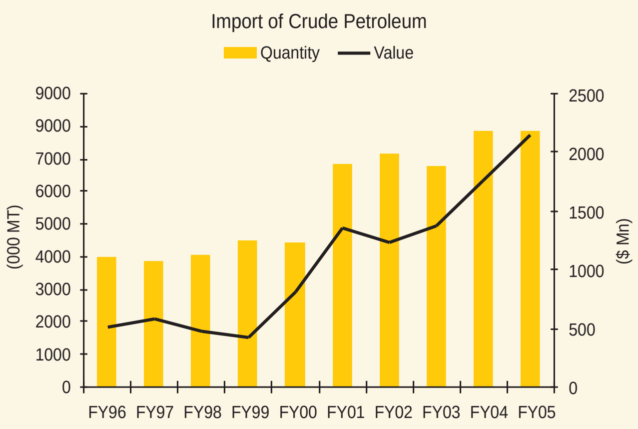
Today the available energy supplies are not enough to meet the rising demand in the country. The deficit is met through imports. This puts a strain on the import bill and subsequently the country's balance of payments position. Renewable fuels, once developed would reduce the country's dependence on imported oil.

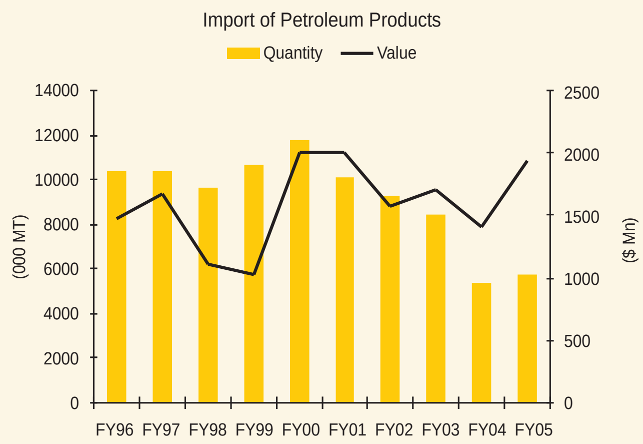
Renewable resources that can be exploited commercially include wind energy, solar energy, micro hydel, bio-energy etc. These, once exploited can be used to supplement existing energy resources.

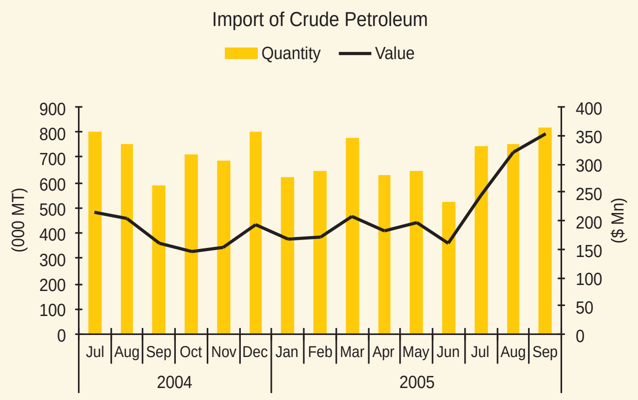
In the next five years, local production of oil and gas would start declining due to depletion of resources. Unless new gas discoveries are made, there would be a deficit of gas. If the gap is not met through indigenous supply, there would be a need to import gas, for which requisite infrastructure would have to be laid. Some of the deficit would also be met by accelerated exploitation of indigenous hydel and coal reserves, while imported fuel would be required to meet the future demand of power plants operating on oil and gas.

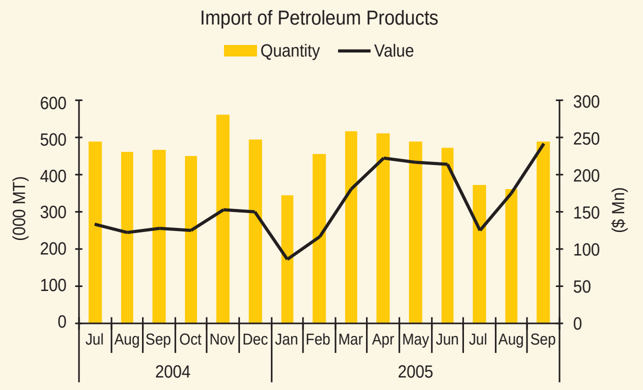
The main objectives of the energy sector development are: (i) to enhance the exploitation of hydropower, and exploration and production activities of oil, gas and coal resources, and increase the share of coal and alternate energy in overall energy mix, (ii) to optimise utilization of the country's indigenous resource base to reduce dependence on imported fuel through an institutionalised strategy, (iii) to create an environment conducive to the participation of the private sector, and (iv) to develop the energy scenario in the context of regional perspective.

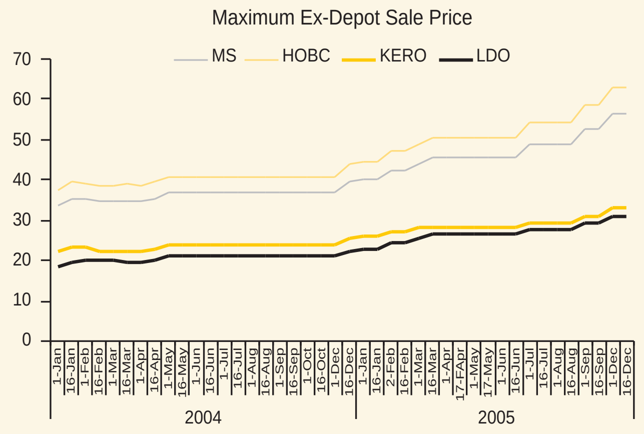
Oil Statistics

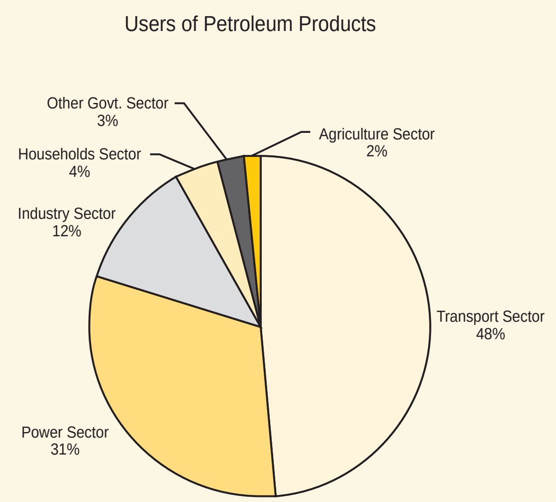












Interest Rate Outlook

Inflation eases in October

Inflation in the country eased off to 8.27 percent in October, as opposed to 8.53 percent in September. CPI during July-Oct'05 declined to 8.55 percent against 9.06 percent in the corresponding period last year. Food inflation took a substantial dip to 6.41 percent as opposed to 7.52 percent in September. Though an increase in prices is usually witnessed across the board during the month of Ramadan leading to inflationary pressures but a hike in prices took place before the commencement of Ramadan hence muting their effect in October. Moreover, high base effect also came into play as inflation during Oct '04 stood at 8.70 percent.

Metho-dology changed

Government seems to be ready to play with any idea to put the monster of inflation back to sleep and as a part of the relentless efforts, government changed the methodology of calculating core inflation. In spite of this, core inflation rose to 7.81 percent in October, against 7.58 percent in September. Previously, core inflation was calculated using Consumer Price Index with the exclusion of "Food" and "Fuel and Lightning" group, which was known as "Non-Food, Non-Oil Inflation". But now it is more of "Non-Food, Non-Energy Inflation" as it excludes the following items from the core inflation basket:

1. Food	→	Prices are quite volatile and susceptible to changes on the domestic front.
2. Petrol 3. Diesel 4. Kerosene	→	Susceptible to price shocks emanating from international markets. Less responsive to monetary tightening.
5. CNG 6. Gas	→	Good supplements for petrol and diesel. Prices are set locally and remain non-volatile during their enforcement.
7. Electricity	→	Power tariffs are set locally. Revised once or twice a year and remain non-volatile during their enforcement.

Inflation lurks in the shadows

Despite some easing of inflation, it continues to lurk in the shadows. Though it has allowed our policy makers to take a breath of fresh air, however it threatens to strike back if not taken care of. Among other concerns the government is faced with; widening fiscal deficit in the wake of falling tax collections, non-materialization of privatization proceeds ($2.6bn of PTCL remain unrealized) and the failing promises of international pledges (Approx. pledges of $1.4bn but received $380mn so far) by overseas sources after the natural disaster that hit the country on October 8.

Current account deficit widens

Current account deficit showed a deficit of $1.427bn in first quarter of FY06, compared to a surplus of $119mn in the same period last year. Trade deficit is also on the fore front as trade gap for July-Oct '05 stood at $3.37bn, 161 percent higher than $1.29bn in the corresponding period last year. Exports depicted an increase of 22.9 percent and amounted to $5.51bn during the first four months of the current fiscal; whereas imports registered a growth of 59 percent to $8.88bn during July-Oct '05.

Exchange rate under pressure

Though the pledges for foreign aid were expected to ease off the pressure from the rupee-dollar parity; their non-materialization and depletion of reserves, which slipped by $135.6mn to $11.5446bn on November 12, are likely to keep the exchange rate under constant pressure. State Bank, however, would like to keep the parity regulated but it remains in the danger zone of touching the US$/PKR 60 mark. The recent spike in ready dollar resulted in nostros being short and thus the buy/sell pressure led the premiums spiraling downward. Moreover, December always witnesses a corporate pressure which may put further pressure on the parity.

Stable interest rates

State Bank marginally lowered the cut-off for one year T-Bill to 8.7784 percent from 8.7907 percent levels after seven consecutive auctions in a row; whereas six months cut-off yield remained constant at 8.1388 percent plane. Evidence of inflation tapering off will lead to rate cuts, irrespective of the fact that lower inflation emanates from calculation changes or high base effects. However, the rate slashes are not expected to be in the same vein as those in 2001-2003. We reiterate our previous stance of stable interest rates in the short term, however a few auctions down the lane; the economy may witness gradual, yet minimal, decrease in cut-off yields.

Government may also go for a long-awaited PIB auction, in addition to issuance of Rupee Sukuk Bonds, in order to bridge its fiscal deficit which is bound to shoot up due to increased expenditure and meager resources to match in the wake of October 8 earthquake.

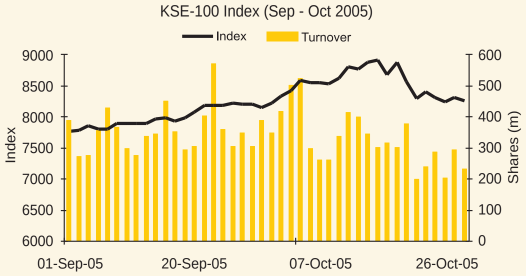
(Contributed by Treasury Management Group, National Bank of Pakistan)

Market Analysis

The market during the period under review rose by over 6 percent on an average daily volume of 340m shares. The upward rally during the two-month period was led by the banking (especially top tier banks) and the cement sector stocks. The index during the period has twice been able to cross the 9000 level during intra day activity but has not been able to sustain beyond that crucial point.

Pre-Trade Verification System

On the risk management front, pre-trade verification system was introduced on the exchanges during the month of September and the SECP has decided to prohibit stockbrokers to transact business from fellow brokerage houses from October 10, 2005. Corporate announcements for quarter ended Sep '05 have shown robust growth in the bottom-line of companies. On the economic front, the central bank has revised its targets on major macro-economic variables in the light of the devastating earthquake in the country and other factors. Uncertainty regarding the outcome of the privatization of PTCL is still haunting the market with the government now making a last desperate attempt to save the billion dollar deal from failing.



The Mar '05 crisis highlighted several procedural and structural flaws in the operating mechanism of the KSE. The SECP since then has become more vigilant with regard to risk management to ensure that such an eventuality does not take place in the future. Amongst various initiatives, the regulator together with the exchange developed a system known as 'Exposure Monitoring System' (for the purpose of pre-trade verification) which went live on the stock exchanges throughout the country from Sep 12, 2005.

The objective of the PTVS is to ensure that at any point in time, members have timely, relevant and reliable information so as to allow the KSE management to monitor their exposure on a real time basis. It effectively puts a limit on day trading activity by a broker and also ensures that the capital adequacy requirements are not being violated.

Broker to broker transactions

In an attempt to make share trading more transparent and to curb systematic risk of the market, the SECP has decided to prohibit stockbrokers to transact business with fellow brokerage houses from Oct 10, 2005. The decision has been taken to bring the bourses in line with best international practices along with other objectives which include ensuring that brokerage houses do not exceed their capital adequacy limit and preventing the 'pump and dump' practice of artificially influencing market prices.

Corporate Earnings

Corporate earnings have portrayed tremendous increase during the last fiscal year, a trend which has continued in the current fiscal year. The bottom-line of companies have well been able to benefit from the higher than anticipated growth in the overall economy. The remarkable increase in the profitability of companies has not gone unnoticed in the capital markets and share prices have been adjusted to reflect the fact. The country's economy is considered to be as one of the fastest growing in Asia and the GDP is expected to grow between the range of 6 percent-8 percent during the current fiscal year which should bode favorably for major industrial sectors and companies within those sectors.

Key risks to the market
Inflation and interest rates
What has happened?

The SBP began to tighten the monetary policy gradually during the last fiscal year. The delayed reaction by the central bank has been accused of raising the level of inflation beyond control (the general YoY inflation as measured by the CPI was at 11.10 percent in Apr '05 - the highest in about eight years). In order to curb the level of inflation, the central bank adopted a more aggressive approach in tightening monetary policy. It raised its discount rate by 150 bps to 9 percent during Apr '05 and also has been very active in conducting 'Open Market Operations' in order to wipe out excess liquidity from the banking system. Since the last few auctions held, the SBP has marginally raised the cut-off yields on T-Bills of various maturities suggesting that the period of aggressive hikes in interest rates is now over.

SBP tightens monetary policy

On the contrary, the central bank has not been successful in taming the level of inflation and especially core inflation (i.e. excluding food and energy) which has shown a rising trend since Jun '05. The government has revised its current fiscal year target for GDP growth and inflation level at 6.3 percent - 6.8 percent and 7.7 percent - 8.3 percent respectively. The government does not want to hurt the growth momentum in the economy and private sector credit off-take which may be the motive behind the central bank's action to start leveling off interest rates.

The increasing trend in the level of inflation has haunted the government in the past which has introduced a variety of measures to bring the level of inflation to desired levels with varying degrees of success. Continued upsurge in international oil prices has been a major factor behind increasing inflation. However, the government's decision to absorb some of the impact of rising oil prices by taking a hit on the collection of petroleum development levy has to some extent helped in containing the level of inflation. The prices of motor spirit have increased by over 60 percent in the international markets since last year whereas the government has increased prices by 42 percent only.

Can the inflation level be brought under control?

International oil prices finally appear to have stabilized around US$60/ barrel (US Crude) following the efforts put in by OPEC and Middle Eastern countries to raise daily oil production. The government in the recent past has also attempted to contain inflation by subsidizing wheat prices along with increased production of the commodity (although subsequently floods within the country foiled the strategy). The government has set a target of 22m tons of wheat production for the current fiscal year.

The real lending and borrowing rates still lie within the negative zone and it is expected that they would be adjusted further so as to adequately compensate investors for the loss in their buying power. The problem here is that the cut-off yields on T-Bills are almost at par with the discount rate and an adjustment to the discount rate would soon be required. As mentioned earlier, the central bank's decision to raise interest rates further may hurt demand for private credit and a trade-off will have to be made between the GDP growth and the level of inflation within the economy. According to latest press reports, private sector credit borrowing from banks has fallen drastically by over 41 percent during Jul-Oct ‘05 to Rs40.859bn.

Trade deficit, its impact on forex reserves and exchange rate

The soaring trade deficit is mainly attributable to the rising import bill on account of higher international oil prices and machinery. The Government of Pakistan has absorbed a total of Rs68.5bn since May last year on account of subsidizing oil prices. The full year target for the trade deficit falls between the range of 2.9 percent - 3.2 percent of GDP. The widening current account balance is running down on hard earned forex reserves which in turn can lead towards a devaluation of the local currency. Total reserves have dropped by about US$1.5 billion over a period of one year from about US$13 billion to US$11.6 billion at present.

The devastating earthquake during the month of Oct ‘05 has further exacerbated the problems. According to press reports, the government is working on a $10b-12bn plan for reconstruction of the quake-stricken areas. The government would arrange 45 percent of the estimated amount (through internal generation within the country and foreign donations) whereas the rest of the amount would either be met through foreign currency reserves and/or borrowing from international institutions. The country's foreign denominated liabilities at present include one billion Euro and Sukkuk bonds have a mark-up rate (at present) of 6.75 percent, which alone is causing a considerable dent to forex reserves. On the other hand, earthquake-related foreign aid flows is appreciating Pakistani rupee value in the open market. As these funds will be mobilized for construction related activities, it is feared that the balance of payments situation would worsen which in turn may also cause a depreciation of the local currency.

Privati-zation of PTCL

Pakistan's largest ever transaction is nearly on the verge of failing as the successful bidder - Etisalat did not deposit the remaining 90 percent of the bid amount by the extended deadline of Oct 28, 2005. The matter has now been referred to the Privatization Board and the Cabinet Committee on Privatization (CCOP) to take next steps of the transactions.

An official team headed by the Privatization Minister has flown to UAE to negotiate on the deal. According to latest press reports, the only issue which remains to be resolved is whether Etisalat could raise the funds in Pakistan to pay for the deal. Previously it has also been reported of asking GOP for a two year tax holiday as well as the foreign listing of the utility.

This appears to be the last desperate attempt from the government to save the deal from collapsing. In the event of the negotiations failing, the government will invite the second highest bidder China Telecom which had offered a bidding price of Rs1.409b (US$1.06/share). The government has set a target for FDI of US$3.5b for the current fiscal year, which includes 90 percent (US$2.34b) of the remaining amount of PTCL. On the assumption that the deal is canceled and if offered to the second or the third contender, the reduction in the FDI target will be as follows:

Rank	Contendors	Bid (per share) US$	Total Bid amount $ bn	Shortfall in FDI $ bn
2	Cina Telecom	1.06	1.41	0.93
3	Sing Tel	0.88	1.17	1.17

Source: press Report

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

Quarterly Performance of Banking Sector 2005 - Selected Banks

(Rs.Bn)

	Major Banks					Provincial Banks		Domestic Private Banks														Foreign Banks					
	National Bank of Pakistan	Habib Bank	United Bank	MCB Bank*	Allied Bank	Bank of Punjab	Bank of Khyber	Askari Comm. Bank	Soneri Bank	Bank Al-Habib	Bank Al-Falah	Union Bank	mybank**	Metropolitan Bank	Faysal Bank	Prime Comm. Bank	KASB Bank	Picic Comm. Bank	Saudi Pak Comm. Bank	Meezan Bank	NIB (NDLC-IFIC Bank)	Standard Chartered Bank	Citibank	ABN Amro Bank	American Express	Habib Bank AG. Zurich	KongKong & Shanghai Banking Corp.
Assets																											
2004 Dec.	549.7	487.0	272.6	259.3	154.2	66.3	23.8	107.2	49.9	77.4	154.8	77.7	13.4	67.9	78.5	40.3	16.2	52.0	42.7	19.7	16.6	94.6	66.1	57.5	8.3	41.2	12.0
2005 QI March	525.7	493.2	290.3	279.3	157.5	69.1	23.0	107.2	51.7	82.0	158.8	83.4	12.8	74.1	87.5	42.5	16.1	55.2	42.3	22.6	17.8	105.2	64.7	62.4	8.8	43.4	12.1
Q2 June	578.7	516.8	319.3	300.4	169.8	85.6	24.0	127.3	55.1	82.6	185.0	87.9	14.6	72.6	99.2	46.8	15.9	55.1	39.0	23.8	23.7	109.2	67.7	56.4	9.1	42.2	14.2
Q3 Sept	536.5	504.9	323.6	279.6	174.1	88.4	22.0	127.2	54.9	85.4	199.7	100.5	14.1	75.2	93.1	52.1	16.5	62.2	36.3	24.6	25.7	115.5	68.7	59.4	8.1	40.9	11.8
Deposits																											
2004 Dec.	465.6	404.6	230.3	22.0	126.4	54.7	15.8	83.32	37.4	62.2	129.7	63.0	10.9	48.6	56.5	30.1	11.2	44.1	33.3	13.8	10.6	76.5	47.1	48.2	5.1	28.2	8.9
2005 QI March	444.4	410.9	245.6	235	136.5	52.8	13.9	80.8	38.0	63.7	134.5	65.9	9.5	53.2	58.9	30.3	10.8	42.6	30.0	15.5	10.3	84.9	42.3	50.8	4.9	29.1	8.6
Q2 June	491.1	427.9	269.1	241.5	143.4	70.5	16.9	103.6	41.4	65.8	162.7	69.6	10.7	51.5	70.0	35.1	10.3	46.0	31.4	17.0	14.3	84.9	46.0	45.6	5.1	28.4	9.7
Q3 Sept	449.8	416.3	278.7	224.8	149.4	70.8	14.2	97.6	41.4	70.4	172.3	76.5	10.2	52.2	65.3	37.4	11.3	50.7	24.3	16.7	16.4	88.8	47.8	46.7	4.9	28.1	7.6
Advances																											
2004 Dec.	221.4	258.3	144.1	137.3	59.5	39.4	9.0	69.9	24.4	47.4	88.9	50.9	7.2	40.1	50.5	21.3	8.3	25.8	25.5	12.3	11.7	51.5	33.0	32.1	2.1	25.4	4.8
2005 QI March	230.3	267.6	156.8	139.7	66.4	41.4	9.2	71.9	27.2	50.6	92.9	57.0	7.7	43.9	57.4	22.0	9.8	29.8	25.1	14.1	13.8	52.1	35.5	33.0	2.1	26.7	4.5
Q2 June	250.9	288.3	169.6	156.1	83.0	46.8	8.2	76.4	28.2	50.0	97.3	58.8	7.7	42.0	57.3	23.1	9.6	28.3	21.3	15.6	15.5	51.4	34.6	30.1	1.2	25.6	4.6
Q3 Sept	245.6	258.3	173.1	147.9	91.5	50.0	10.1	78.7	28.8	49.2	104.0	63.4	8.7	41.0	58.3	23.7	9.1	30.3	19.6	17.7	17.5	52.4	33.9	31.7	0.9	26.8	5.7
Investment																											
2004 Dec.	144.7	134.5	55.0	67.2	57.3	16.2	6.9	17.2	14.0	14.4	35.5	6.7	1.9	15.6	12.3	6.3	2.7	13.2	9.7	1.4	1.2	13.2	1.0	6.5	1.6	7.4	0
2005 QI March	144.0	128.6	63.2	95.2	50.6	16.0	7.9	15.9	11.2	20.2	34.5	9.5	2.1	17.3	16.8	10.3	2.8	13.7	10.1	1.5	1.4	16.2	4.9	8.7	2.7	7.0	0.05
Q2 June	145.5	134.0	74.4	97.7	51.7	14.6	8.7	22.0	15.1	20.1	41.5	12.5	3.0	19.3	18.2	12.1	2.2	15.5	10.6	1.5	4.6	25.4	15.5	13.5	2.5	7.9	0.7
Q3 Sept	146.3	129.8	62.1	87.5	44.5	15.5	6.8	23.8	13.3	19.4	50.0	14.5	2.5	22.5	19.7	11.8	2.7	13.7	10.1	1.5	2.0	19.8	14.9	13.6	2.1	5.8	0.4
Equity																											
2004 Dec.	25.3	23.1	14.4	9.4	9.5	4.4	1.8	5.6	2.9	3.3	4.4	3.3	1.7	3.6	6.3	2.9	1.7	3.5	1.5	1.9	1.4	7.2	6.2	2.8	1.4	2.1	1.6
2005 QI March	27.0	23.3	14.5	10.2	9.9	4.8	1.9	6.0	3.1	3.5	5.8	3.5	1.8	3.8	6.4	3.1	1.8	3.9	1.6	2.3	1.4	7.9	6.5	3.0	1.3	2.5	1.7
Q2 June	29.1	26.1	15.6	13.2	10.5	6.0	2.0	6.4	3.4	3.8	5.9	4.1	1.9	4.1	7.4	3.2	1.8	4.2	1.9	2.4	4.2	6.1	4.9	3.1	1.4	2.3	1.7
Q3 Sept	33.7	28.7	17.2	14.9	11.5	6.4	2.1	7.0	3.5	4.2	6.4	4.6	1.9	4.5	7.5	3.3	1.8	4.0	1.9	2.5	4.2	7.1	5.3	3.7	1.4	2.4	1.7
Interest Income																											
2004 Dec.	20.9	18.1	9.2	9.3	5.2	2.6	1.1	4.5	1.9	2.4	5.6	4.3	0.6	2.8	2.8	1.6	0.6	2.3	1.9	0.5	0.8	3.7	3.1	2.2	0.2	1.6	0.3
2005 QI March	6.3	5.8	3.5	3.1	1.7	1.0	0.4	1.6	0.6	0.9	2.0	1.5	0.2	0.9	1.2	0.5	0.2	0.9	0.6	0.3	0.3	1.3	1.1	0.8	0.06	0.5	0.1
Q2 June	7.9	7.5	4.4	4.1	2.1	1.4	0.8	2.0	0.9	1.1	2.6	1.8	0.3	0.9	1.5	0.7	0.3	0.9	0.7	0.3	0.3	1.6	1.3	1.0	0.09	0.6	0.2
Q3 Sept	9.1	8.3	5.9	5.0	2.7	1.7	0.4	2.5	1.0	1.4	3.6	2.3	0.3	1.2	1.7	0.9	0.3	1.1	0.6	0.4	0.5	1.9	1.6	1.2	0.1	0.7	0.2
Interest Expense																											
2004 Dec.	6.6	4.5	1.7	2.1	0.8	0.7	0.4	1.1	0.8	1.0	2.4	1.4	0.1	1.3	1.1	0.7	0.3	1.1	1.1	0.2	0.4	0.7	0.8	0.5	0.1	0.9	0.1
2005 QI March	2.0	1.3	0.8	0.5	0.2	0.3	0.2	0.6	0.3	0.4	1.0	0.5	0.04	0.4	0.5	0.2	0.1	0.4	0.4	0.1	0.2	0.2	0.3	0.3	0.05	0.3	0.1
Q2 June	2.2	1.7	1.1	0.6	0.3	0.5	0.4	0.9	0.4	0.4	1.3	0.7	0.07	0.5	0.7	0.3	0.1	0.4	0.4	0.2	0.2	0.4	0.5	0.3	0.07	0.4	0.1
Q3 Sept	2.7	1.9	2.1	0.8	0.5	0.8	0.2	1.3	0.6	0.6	2.1	1.1	0.09	0.6	0.9	0.4	0.2	0.6	0.5	0.2	0.3	0.5	0.6	0.5	0.07	0.5	0.1
Net.Int.Income																											
2004 Dec.	14.4	13.7	7.5	7.3	4.4	1.8	0.7	3.4	1.2	1.5	3.2	2.9	0.4	1.5	1.6	1.0	0.3	1.3	0.7	0.3	0.4	3.1	2.3	1.7	0.1	0.7	0.1
2005 QI March	4.3	4.5	2.7	2.6	1.5	0.7	0.2	1.0	0.3	0.5	1.0	1.0	0.2	0.5	0.7	0.3	0.1	0.5	0.2	0.2	0.1	1.1	0.8	0.5	0.01	0.2	0.04
Q2 June	5.6	5.8	3.4	3.5	1.9	0.9	0.4	1.1	0.5	0.7	1.3	1.1	0.2	0.5	0.7	0.4	0.1	0.5	0.2	0.1	0.1	1.2	0.8	0.6	0.02	0.2	0.06
Q3 Sept	6.4	6.5	3.8	4.2	2.2	0.9	0.1	1.2	0.4	0.8	1.5	1.2	0.2	0.5	0.8	0.5	0.1	0.5	0.2	0.2	0.2	1.4	0.9	0.8	0.03	0.2	0.1
Non-Fund Based Income																											
2004 Dec.	8.3	9.8	4.4	4.0	1.7	1.1	0.2	1.6	0.5	0.9	1.5	1.6	0.1	0.8	1.8	0.6	0.1	0.7	0.4	0.4	0.1	2.1	2.1	0.7	0.3	0.3	0.2
2005 QI March	1.7	1.6	1.0	1.3	0.4	0.8	0.03	0.4	0.2	0.2	0.6	0.5	0.06	0.2	0.5	0.1	0.09	0.2	0.1	0.2	0.04	0.3	0.6	0.2	0.07	0.1	0.05
Q2 June	2.0	2.2	0.9	1.0	0.3	0.2	0.07	0.4	0.2	0.2	0.4	0.6	0.06	0.1	0.8	0.1	0.06	0.2	0.2	0.1	0.04	0.6	0.6	0.2	0.07	0.1	0.05
Q3 Sept	3.3	1.6	1.6	1.2	0.6	0.2	0.09	0.4	0.1	0.3	0.5	0.7	0.06	0.3	0.4	0.1	0.05	0.2	0.1	0.2	0.06	0.7	0.7	0.6	0.09	0.1	0.05
Admn. Expenses																											
2004 Dec.	8.9	13.8	6.7	7.0	4.1	1.1	0.3	1.8	0.6	1.3	2.7	2.6	0.4	0.8	1.1	0.9	0.4	0.8	0.5	0.4	0.4	1.8	2.5	1.1	0.4	0.5	0.2
2005 QI March	2.5	3.4	1.7	1.8	1.0	0.3	0.07	0.5	0.2	0.4	0.8	0.7	0.1	0.2	0.3	0.2	0.1	0.3	0.2	0.1	0.1	0.5	0.6	0.4	0.1	0.1	0.05
Q2 June	2.8	8.7	1.9	1.9	1.0	0.3	0.2	0.6	0.2	0.4	1.0	0.8	0.1	0.2	0.4	0.3	0.1	0.2	0.1	0.1	0.2	0.6	0.8	0.4	0.1	0.2	0.06
Q3 Sept	2.7	3.6	2.0	1.7	1.1	0.3	0.1	0.7	0.2	0.4	1.2	0.9	0.1	0.2	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.6	0.7	0.4	0.1	0.2	0.06
Profit/(Loss)B.T																											
2004 Dec.	12.0	7.2	4.9	4.2	0.5	1.7	0.3	2.8	1.0	1.0	1.7	1.4	0.1	1.4	2.2	0.5	0.05	1.1	0.5	0.2	0.03	3.5	1.7	1.1	0.01	0.5	0.09
2005 QI March	3.1	0.5	1.7	2.0	0.8	0.6	0.1	0.7	0.3	0.4	0.6	0.6	0.1	0.4	1.3	0.2	0.05	0.5	0.11	0.1	0.05	0.9	0.7	0.3	-0.03	0.1	0.04
Q2 June	4.0	2.3	1.9	2.2	1.0	1.3	0.2	0.6	0.4	0.5	0.7	0.6	0.1	0.4	1.1	0.2	0.02	0.5	0.08	0.1	-0.04	1.2	0.5	0.3	-0.004	0.2	0.05
Q3 Sept	6.0	3.7	2.9	3.5	1.6	0.8	0.1	0.9	0.4	0.6	0.8	0.7	0.1	0.6	0.8	0.2	0.01	0.5	0.01	0.2	0.04	1.4	0.8	0.8	-0.007	0.2	0.07
Profit/(Loss)A.T																											
2004 Dec.	6.2	5.7	3.7	2.5	0.2	1.4	0.3	1.9	0.6	0.5	1.1	0.8	0.08	0.8	1.8	0.3	0.1	0.9	0.3	0.2	0.1	2.5	2.0	0.7	0.05	0.4	0.06
2005 QI March	1.9	0.4	1.0	1.4	0.4	0.4	0.1	0.4	0.2	0.2	0.4	0.4	0.09	0.2	0.9	0.1	0.05	0.4	0.08	0.1	0.06	0.7	0.3	0.2	-0.03	0.1	0.02
Q2 June	2.5	1.7	1.1	1.6	0.6	1.2	0.03	0.4	0.3	0.3	0.4	0.4	0.09	0.3	1.0	0.1	0.01	0.3	0.03	0.03	-0.02	0.7	0.3	0.1	0.08	0.1	0.03
Q3 Sept	4.3	2.6	1.7	2.3	1.0	0.5	0.04	0.6	0.2	0.4	0.5	0.4	0.07	0.5	0.6	0.2	0.01	0.3	0.006	0.2	0.05	1.0	0.5	0.3	-0.007	0.1	0.04

* Formerly Muslim Commercial Bank ** Formerly Bolan Bank

Note: Total may not tally due to rounding off

Pakistan - IMF Country Report

The IMF in October 2005 published a Report on Pak economy. As the Report was finalized before the country was struck by an earthquake, the possible implications of the event have not been discussed. We give below some excerpts of the Report.

§ Persistent implementation of reforms has paid off: growth in 2004/05 was amongst the highest in the world; vulnerabilities have been reduced and Pakistan has regained access to international capital markets. Pakistan is better placed than at any time in the recent past to sustain growth over the medium term and achieve a lasting reduction in poverty.

§ In contrast to earlier experience, the 2000 Stand By Arrangement and the 2001-04 arrangement under the Poverty Reduction and Growth Facility were implemented steadfastly.

§ The political and security situation has been calmer in recent months.

§ Macroeconomic performance is favourable. GDP grew by 8.4 percent in 2004-05, with rapid growth in manufacturing, partly export driven. Inflation which had risen to 11 percent in April 2005, eased to 8.4 percent in August.

§ Equity prices, which had risen substantially over the last couple of years, suffered a correction in early 2005.

§ Exports and imports have grown. Import growth reflects both higher oil prices and strong demand, including for machinery. Gross international reserves fell somewhat to $10 billion.

§ Fiscal targets for 2004-05 were broadly met:

- o The overall deficit was 3.3 percent of GDP.
- o There was a drop in the tax to GDP ratio, because of the elimination of excises on petroleum products and a number of tax relief measures.
- o Government debt fell substantially to 61 percent of GDP.

§ The State Bank has tightened monetary policy significantly.

§ Progress has been made in structural reforms, notably privatisation. Pakistan Telecommunication Company has been privatised.

§ The key challenges facing Pakistan are to sustain strong growth over the medium term and improve living standards, while tackling existing and emerging vulnerabilities.

- o Progress on poverty reduction will require further increases in social spending, particularly on health and education.
- o Pakistan should strive to further reduce its still relatively high public debt burden.

§ A recent IFC study lists land regulations, tax administration, business registration procedures and labour regulations as significant investment barriers.

§ Pakistan is well placed to benefit from regional and global opportunities.

§ The need for export diversification to make the economy less vulnerable has been stressed.

§ The 2005-06 budget targets an increase in the overall deficit to 3.8 percent of GDP.

§ The government has taken steps to offset pressure on the budget from rising international oil prices and should be able to achieve the target.

§ The IMF cautioned that inflation may not decrease soon and that somewhat tighter monetary and fiscal policies were needed.

§ Domestic and external debt to continue on their downward path, assuming that real growth steadies at 6 percent, external and domestic demand remain robust, and the fiscal deficit is restrained below 4 percent of GDP.

§ Pakistan's banking system is expanding strongly and becoming more competitive.

Loan growth, led by consumer financing, has boosted profitability.

As non-performing loans fall, the banking system's capital cushion is expanding faster than risk-weighted assets.

Stress test results underscore the need for continued supervisory vigilance.

§ The authorities have agreed that sound macroeconomic policies and ongoing strengthening of key institutions were key to reducing vulnerabilities further.

§ The IMF has encouraged authorities to further raise health and education spending. Achieving the Millennium Development Goals remains challenging for Pakistan, and health and education expenditures are still relatively low in international comparison.

Book Reviews

Some of the new books on Pakistan economy available in the market.

A. *Issues in Pakistan's Economy, by S. Akbar Zaidi, Second Edition, Oxford University Press*

S. Akbar Zaidi is the author of a number of books and has published research papers in international journals. Specializing in the field of political economy, he has written on themes as diverse as devolution, health, sociology, local government, fiscal policy and international financial institutions.

Issues in Pakistan's Economy is the second updated and revised edition. It was first published in 1999. The latest edition includes new chapters, which discuss issues of poverty, relations with India and the macroeconomic development since 1998.

Poverty is Pakistan's most pressing issue. Despite high rates of growth, one-third of the country's population lives below the poverty line. The chapter examines the trends in poverty over the last forty years, evaluates government policies in redressing these poverty trends and attempts to answer whether poverty has become a permanent phenomenon in Pakistan?

Another new chapter that has been added in the new edition is the political economy of neighbouring relations, which discusses India – Pakistan relations, the benefits and constraints of trading with India. The chapter on macroeconomic developments: 1998-2004, looks at economic issues since the mid 1990s, particularly since October 1999 and at the consequences on Pakistan's economy after 9/11.

Besides, the inclusion of new chapters, there are additions on globalisation, WTO and its impact on Pakistan, Pakistan's new local government system, the water crisis situation, the domestic and foreign debt crisis, and discusses some of Pakistan's core political economy issues and concerns which have emerged in recent years and affect both economic development and the political process.

B. *Economy of Pakistan, by Prof. Dr. Khawaja Amjad Saeed, 2005 Edition*

The book covers a number of aspects of Pakistan's economy. It discusses the government's strategy, policies adopted in pursuing the economic objectives.

The book is divided into three parts. Part-I is the Macroeconomic Framework, which covers aspects of the agricultural, manufacturing sector, balance of payments, financial sector, resource mobilization, education and health, infrastructure services and energy resources. Part-II deals with the planning experience of the country right from the beginning when the first plan was formed in 1955 and also gives the history of economic planning from 1947.

Besides this, this section also has chapters which deals with the agricultural, industrial, monetary, fiscal and commercial policies. Strategy of manpower planning since 1955 has been discussed, so has the labour policy.

Part-III of the book is the Economic Manifesto for Pakistan. A chapter analyzes the economic performance of the past and a future course of action is suggested.

C. *Production & Operations Management – 2005 Prepared by: Prof. Dr. Khawaja Amjad Saeed*

The second wave in the world saw the dawn of industrial and commercial revolution in the world. This necessitated careful handling of production aspects. Moreover the third wave, saw the rise of services sector. Hence the importance of operations became pronounced. Accordingly need arose for comprehending the concepts and applications of Production Operation Management (POM).

Prof. Dr. Khawaja Amjad Saeed has developed a manual on Production Operation Management. The manual contains: -

i Some selected articles written by him.

ii Quantitative aspects of Production Management subject.

iii Cases for analysis relating to POM.

iv Transcripts of multimedia presentation on world-renowned book entitled "Production Operation Management" authored by three well-noted professors of Bradford University.

This is the second edition of the above book.

The author has contributed several books in the past.

Pakistan Economy - Key Economic Indicators

Economy Size & Growth			FY '02	FY '03	FY '04	FY '05
GNP - Market Prices		Rs. bn	4425.4	4974.6	5657.1	6672.8
GDP - Market Prices		Rs. bn	4401.7	4822.8	5532.7	6547.6
Per Capita Income	Market Prices	Rs.	30910	33899	37802	43748
	Market Prices	US$	503	579	657	737
Growth						
GDP		%	3.1	4.8	6.4	8.4
Agriculture		%	0.1	4.1	2.2	7.5
Large-scale manufacturing		%	3.5	7.2	18.2	15.6
Services Sector		%	4.8	5.2	6.0	7.9
Rate of Inflation		%				
Consumer Price Index		%	3.5	3.1	4.6	9.3
Wholesale Price Index		%	2.1	5.6	7.9	6.8
Balance of Payments		$mn				
Exports (f.o.b)			9140	10974	12459	14450
Imports (f.o.b)			9434	11333	13738	18965
Trade Balance			(-)294	(-)359	(-)1279	(-)4515
Services Account (Net)			(-)2617	(-)2	(-)1316	(-)3317
Income(net)			NA	(-)2211	(-)2207	(-)2393
Current Transfers (Net)			5744	6642	6614	8666
Current Account Balance			2833	4070	1812	(-)1559
Fiscal Balance		% of GDP				
Total Revenue (Net)			14.2	14.9	14.3	13.7
Total Expenditure			18.8	18.6	17.3	18.3
Overall Deficit			(-)4.3	(-)3.7	(-)3.0	(-)4.6
Domestic & Foreign Debt						
Domestic Debt		Rs. bn	1717.9	1853.7	1979.5	2129.1
As % GDP			39.0	38.4	35.8	32.5
Total External Debt & Liabilities		$bn	36.532	35.474	35.258	35.834
As % of GDP			49.8	42.5	37.1	32.6
As % of Foreign Exchange Earnings			236.4	180.5	164.3	134.7
Investment & Savings		% of GDP				
Gross Investment			16.8	16.9	17.3	16.8
Gross Fixed Investment			15.5	15.3	15.6	15.3
National Savings			18.6	20.8	18.7	15.1
Domestic Savings			18.1	17.6	16.4	13.2
Foreign Investment		$mn	475.0	820.1	921.7	1676.6
Portfolio			(-)10.1	22.1	(-)27.7	152.6
Direct			484.8	798.0	949.4	1524.0
Monetary Aggregates		%				
M_1			15.2	26.2	24.0	18.4
M_2			15.4	18.0	19.6	19.3
Literacy Rate		%	50.5	51.6	54.0	
Foreign Exchange Reserves		$mn	6432	10719	12328	12623
Exchange Rate		Rs./$	61.4258	58.4995	57.5745	59.3576
Stock Market Growth Rate		%				
SBP General Index of Share Prices			10.1	91.9	53.2	15.1
Aggregate Market Capitalisation			20.2	83.1	81.9	48.3

Source: SBP Annual Report 2004-05

M_1 Outstanding stock of currency in circulation+demand deposits of schedule banks+other deposits with SBP.

M_2 M_1+Outstanding stock of time deposits+outstanding stock of FRCDs

NBP Performance at a Glance

(Rs. Bn)

Items	2000	2001	2002	2003	2004
Total Assets	371.6	415.1	432.8	468.9	549.7
Deposits	316.5	349.6	362.9	395.5	465.6
Advances	140.3	170.3	140.5	161.3	221.4
Investments	72.6	71.8	143.5	166.2	144.7
Shareholders' Equity	11.4	12.0	14.3	18.1	25.2
Pre-Tax Profit	1.03	3.02	6.04	9.01	12.02
After-Tax Profit	0.46	1.15	2.25	4.20	6.24
Earning Per Share (Rs.)	1.24	3.08	5.49	8.53	12.68
Return on Assets (Pre-Tax Profit) (%)	0.3	0.8	1.4	2.0	2.4
Number of Branches	1428	1245	1204	1199	1226
Number of Employees	15351	15163	12195	13272	13745

NBP Products

NBP Saiban

- Finance available for home purchase, home construction and home improvement.
- Period of repayment ranges between 3-20 years.
- Loans available upto a maximum of Rs.10 million.
- Mark-up choices available. Rate ranges between 9.0 - 12.85 percent. Rates subject to change.
- Minimum approval and disbursement timing.
- Limited to areas where there are no documentation, fee, resale and foreclosure related issues, so to protect the bank's interest.

NBP Advance Salary

- 15 months salary in advance (certain conditions apply).
- Minimum documentation.
- Repayable in 5 years.
- No processing charges; no collaterals, no guarantees, no insurance.
- Mark-up charged at 13 percent per annum on reducing balance method.

NBP Cash n Gold

- Facility of Rs.6000 against 10 gms of gold.
- Mark-up 11 percent per annum.
- No maximum limit of cash.
- Repayable after one year.
- Roll over facility.
- No penalty for early repayment.

NBP Kisan Dost

- Loans available for the farmers for production, development purposes, for purchase of tractors, for installation of tubewells, for purchase of agricultural implements, mirco loans, for godown construction, for construction of fish pond, for livestock farming, for milk processing, for cold storage, bio-gas plants etc.
- Mark-up 11 percent per annum.
- Loans available at the farmer's doorsteps.
- Agricultural experts to guide farmers.
- Loans available against agricultural passbooks, gold ornaments and paper security.