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NBP Performance at a Glance

## Editor's Corner

Dear Readers,

Pakistan is to receive \$555.6 million from the IMF, as they have completed the second review of Pakistan's economic performance under a three year programme, supported by an arrangement under the Extended Fund Facility (EFF). The IMF had approved a 36 month EFF of an amount of \$6.78 billion in Sept 2013.

Pakistan sought IMF assistance last year, as it had become necessary because of large IMF-SBA repayments, an almost non-existent foreign direct investment, a decline in State Bank's foreign exchange reserves, poor fiscal performance, and poor performance by public sector enterprises. The Pak Rupee had depreciated, the external account was under pressure, public debt had risen, external inflows were scarce and the government borrowing from the State Bank during FY13 was well above the target of zero borrowing envisaged in the budget.

After a passage of nearly six months, there has been some progress in stabilizing the economy and there is an improvement in the country's macro economic indicators. The period has also seen initiation of structural reforms. However, conditions remain challenging and a lot more needs to be done.

Inflationary pressures have eased, large scale manufacturing is showing improvement, pressure on foreign exchange reserves and Pak Rupee have eased, and the balance of payments situation which had been quite difficult is beginning to turn more positive. There has been an inflow of \$1.5bn in SBP reserves and with the privatization programme on the cards and auction of 3G licences and inflows from Coalition Support Fund should help raise substantial resources in the coming months and help improve the currency account deficit.

After the completion of the second review, IMF was of the view that additional efforts to broaden the revenue base and improve tax administration are needed, containing inflationary pressures is necessary, slippages on targeted cash transfer should be avoided, the stock of government borrowing from the State Bank of Pakistan needs to be reduced, efforts should be made to build foreign reserves, public debt management should be strengthened, the issue of high non-performing loans need to be addressed and structural reforms should continue.

In the second review under the EFF, the IMF had observed that on the fiscal side, revenues were somewhat higher than envisaged in the first quarter of FY14, spending has been slow and the phase out of electricity subsidies is on track. However, more needs to be done to raise revenues, to ensure their ability to continue meeting the deficit target. There has been an increase in SBP's foreign exchange reserves, from \$3.04 billion it rose to \$3.92 billion by February 2014 and further to \$4.8 billion by March 2014. While this is certainly a positive development, a substantial and consistent accumulation of resources is required to reach an adequate level. The government was unable to meet the end December 2013 target on its borrowings from the State Bank, as agreed with the IMF. In the first half of FY14 the government borrowed Rs462.8 billion from SBP and was unable to contain its borrowing from SBP within the limit agreed with the IMF.

A solution to the challenges Pakistan faces — security concerns, law & order, loss making public sector enterprises, energy sector, public investment, leakages and evasion of taxes would help improve the prospects for economic growth.



## Energy Poverty in Developing Countries with special reference to Pakistan

Energy  
poverty  
defined

There is no simple definition of energy poverty. The International Energy Agency defines energy poverty as a lack of access to modern energy services. These services are defined as household access to electricity and clean cooking facilities (e.g. fuels and stoves that do not cause air pollution in houses). The UNDP defines energy poverty as the inability to cook with modern cooking fuels and the lack of a bare minimum of electric lighting for reading or for other household and productive activities at sunset. The Asian Development Bank takes a slightly broader approach to defining energy poverty and says that it is, 'the absence of sufficient choice in accessing adequate, affordable, reliable, high quality, safe and environmentally benign energy services to support economic and human development.' Wikipedia defines energy poverty as 'the situation of large numbers of people in developing countries whose well-being is negatively affected by very low consumption of energy, use of dirty or polluting fuels, and excessive time spent collecting fuel to meet basic needs.'

Energy  
ladder

An Asian Development Bank report, *Energy Access and Energy Security in Asia and the Pacific*, illustrates energy poverty through the energy ladder. It shows that primary types of energy that are used by rural areas or developing countries can be arranged on a 'ladder' with traditional fuels such as wood, animal power, candles at the bottom, with more modern fuels such as electricity or refined gasoline at the top. Developing countries have been categorised into low income, middle income and high income households. For instance, in the household sector, for cooking, developing countries would be using wood, residues, dung, kerosene and biogas and some high income households coal, natural gas and electricity. Developed countries use natural gas and electricity. Kerosene is 3 to 5 times more efficient than wood for cooking and liquefied petroleum gas is 5 to 10 times more efficient than crop residues and dung.

Households at lower levels of income and development tend to be at the bottom of the energy ladder; using fuels that are cheap and not very clean or efficient. As income increases households tend to use energy types that are cleaner and efficient but would be expensive. They would move from using traditional biomass to electricity.

Health  
risks

Globally some 1.3 billion people or 18 percent of the world population have no access to electricity and a billion more only have access to unreliable electricity networks. About 2.6 billion people rely on traditional fuels such as biomass and coal to meet their basic needs. Because of indoor burning of these solid fuels in unventilated kitchens it often results in injuries and deaths. Coal for cooking causes air pollution and has serious potential health implications. Most of these deaths are in children and women. The adults also suffer from chronic lung diseases and lung cancer. World Health Organisation estimates that air pollution from use of inefficient biomass stoves, would lead to 1.5 million premature deaths per year in 2030, which is greater than estimates from malaria, tuberculosis or HIV/AIDS.

During the last two decades millions of people have attained modern energy access, especially in China and India. Increasing urbanisation, rapid economic development and ongoing energy access programmes have been important factors in this achievement. Despite this development, there are millions of others who do not have access to electricity and rely on the traditional use of biomass for cooking.

Energy access is central to sustainable development, and to human well being and poverty reduction efforts. Reliable power supplies fuels industry and commerce and telecommunication services and enables hospitals, schools, to run efficiently. It is essential for provision of clean water, sanitation, lighting, heating, cooking, running

of household appliances, refrigeration etc. Just as access to energy empowers human development, reduces work load, and frees up time for more productive activities, the lack of access to energy perpetuates the vicious cycle of poverty.

### People without access to modern energy services by region - 2011

	Without access to electricity		Traditional use of biomass for cooking	
	Population (Mn)	% Share of population	Population (Mn)	% Share of population
Developing Countries	1257	23	2642	49
Africa	600	57	696	67
Sub-Saharan Africa	599	68	695	79
Nigeria	84	52	122	75
South Africa	8	15	6	13
North Africa	1	1	1	1
Developing Asia	615	17	1869	51
India	306	25	818	66
Pakistan	55	31	112	63
Indonesia	66	27	103	42
China	3	0	446	33
Latin America	24	5	68	15
Brazil	1	1	12	6
Middle East	19	9	9	4
<b>World</b>	<b>1258</b>	<b>18</b>	<b>2642</b>	<b>38</b>

Source: IEA, World Energy Outlook 2013

There are millions of others who lack access to electricity; about 615 million people in developing Asia and nearly 600 million people in Sub-Saharan Africa. Two-thirds of the people gaining access to electricity have been in urban areas and the population without electricity access has become more concentrated in rural areas.

China and Brazil have made much progress in increasing access to electricity and are getting close to the goal of universal electrification. Improvement in electricity access is also seen in Bangladesh, Indonesia and Sri Lanka. India it is estimated has a large population of 306 million without access to electricity. For Pakistan, the World Energy Outlook 2013 states, 'experience in Pakistan serves to highlight a different element of the energy access challenge, that of achieving reliability of supply, as fuel shortages have jeopardised electricity supply and resulted in prolonged load-shedding.'

China and Brazil make progress

Power load-shedding is a major impediment to economic growth. The Sixth Annual Report 2013 of the Institute of Public Policy in one of the chapters discusses this aspect. It also shows that Pakistan has both relatively low energy consumption and per capita income as compared to India and Sri Lanka in South Asia. The somewhat early stage of development of the power sector in Pakistan is indicated by the low share of population with access to electricity at 62 percent, as compared to 66 percent in India, 77 percent in Sri Lanka, 90 percent in the Philippines and 99 percent in Malaysia. Problem is those with access to electricity face frequent power outages.

*Global Energy Trends to 2035* states, "Pakistan faces economic and energy challenges that intersect most clearly in relation to electricity supply. Around 55 million people, more than 30 percent of the population, do not have access to electricity. Of those that do have electricity, the quality of supply they receive can be a major source of frustration. While Pakistan has 23 GW of installed power generation capacity, the cost of fuel has proved to be a significant financial burden to generators, relative to the price they can charge for power, resulting in shortages and power cuts. The share of oil in the generation mix is relatively high and the doubling of electricity tariffs since 2008 has not been sufficient to compensate for rising fuel costs.

Energy challenges

The problem is made worse by a long legacy of unpaid energy bills and distribution losses (often due to theft). State-owned power companies have faced large losses and accumulated debt that government subsidies are unable to cover fully. This has resulted in power companies being unable to buy sufficient fuel, which, in turn, has prompted extensive load shedding – up to 12 hours per day in urban areas and 20 hours per day in rural areas (NEPRA, 2012). Such prolonged power shortages have a major impact on Pakistan's economy, cutting GDP growth by an estimated 2 percent (ADB, 2013)."

Cost of power outages

Power outages is imposing a large cost on the economy. In a paper, *'The Impact and Cost of Power Load-shedding to Domestic Consumers,'* the authors, Dr. Hafiz A. Pasha and Wasim Saleem, say that the costs of load shedding, to a large extent, depend on the frequency and duration of outages. Overall, on an average outages occurred 5 times a day in Pakistan in 2012, highest being in Punjab, 6 times. Various approaches were adopted in the paper for quantification of the cost incurred by different types of consumers as a result of power outages.

The results of the study show that the total outage cost on average to each residential consumer is almost Rs31,000 per annum. This cost rises sharply by income level of a consumer. For households with monthly consumption expenditure of upto Rs15000, the outage cost annually is Rs8800. For the highest expenditure group of households, the cost rises to Rs75,200. They also affect home based activity. Following high levels of load shedding the share of expenditure on electricity cuts into consumption of food, clothing and basic services like education and health, especially by low income groups.

The cost of load shedding to industry have reached a high level, around 9 percent or more of sectoral value added or almost 2 percent of GDP. These losses have been accompanied by significant declines in profitability, employment and exports.

While hundreds of millions of people have attained modern energy access over the last two decades in several developing countries, because of rapid economic development, increasing urbanisation and on-going energy access programmes, there are still large numbers who do not have access to electricity and millions of others who rely on the traditional use of biomass for cooking.

There is now growing recognition for universal access to energy. Modern energy is crucial to achieving a range of social and economic goals relating to poverty, health, education,

equality, and environmental sustainability. Improving access to affordable and clean energy services for the poor would go a long way in helping improve their incomes, health, educational attainment, and environmental quality. A country's ability to provide equitable access to energy services is therefore at the heart of any country's effort to achieve the MDGs and reduce poverty.

Energy inputs such as electricity and fuels are essential to cook, generate jobs, for industrial activities, transportation, commerce. Lack of electricity prevents many children especially girls to attend school because their labour is needed to carry wood and water and takes them away from productive activities. Indoor air pollution from traditional fuels and stoves affects health.

Energy and MDGs

### Electricity Access in 2011

	Population without electricity (Mn)	Electrification Rate (%)	Urban Electrification Rate (%)	Rural Electrification Rate (%)
Bangladesh	61	60	90	48
Nepal	7	76	97	72
Pakistan	56	69	88	57
Sri Lanka	3	85	96	84

Source: IEA, World Energy Outlook 2013

	Population without access to electricity		Population relying on traditional use of biomass for cooking	
	Population (Mn)	% Share of population	Population (Mn)	% Share of population
Pakistan	56	31	112	63
India	306	25	818	66

Unless substantial progress is made on improving energy access, the UN Millennium Development Goals will be difficult to achieve. Although energy is not an explicit part of the MDGs, the provision of modern energy services is recognised as a critical foundation for sustainable development. Energy can contribute to the achievement of many of these goals, as it helps improve the livelihoods of the poor in developing countries. A report by International Energy Agency *'Energy Poverty How to make Modern Energy Access Universal'* has shown the importance of modern energy in achieving the MDGs.



## Energy and the MDGs

Goal and target	Some direct and indirect contribution of cleaner/affordable energy options
<p>MDG 1. Extreme poverty and hunger:</p> <p>To halve between 1990 and 2015, the proportion of the world's people whose income is less than one dollar per day.</p> <p>To halve, between 1990 and 2015, the proportion of people who suffer from hunger.</p>	<ul style="list-style-type: none"> <li>▪ Cleaner burning fuels and electricity can reduce the large share of household income spent on cooking, lighting and heat. The bulk of staple foods (95%) need cooking before they can be eaten and need water for cooking.</li> <li>▪ Post-harvest losses can be reduced through improved electric-powered preservation (for example, drying and smoking) and chilling/freezing.</li> <li>▪ Energy technologies such as wind pumps and treadle pumps can be used for irrigation in order to increase food production and improve nutrition. Access to affordable energy options from gaseous and liquid fuels and electricity can assist enterprise development.</li> <li>▪ Electrically driven machinery can increase productivity and provide opportunities for income generation.</li> <li>▪ Local energy supplies can often be provided by small-scale, locally owned businesses creating employment.</li> </ul>
<p>MDG 2. Universal primary education:</p> <p>To ensure that, by 2015, children everywhere will be able to complete a full course of primary schooling.</p>	<ul style="list-style-type: none"> <li>▪ Lighting at homes (e.g., through solar lanterns) allows children to study after school hours, with a significant impact on learning outcomes.</li> <li>▪ Lighting in schools can assist in retaining teachers, especially if their houses are electrified.</li> <li>▪ Availability of electricity can enable access to educational media and communication in school and, at home, can facilitate distance learning.</li> <li>▪ Access to energy can provide opportunities for using specialized equipment for teaching.</li> <li>▪ Cleaner energy systems and efficient building design can reduce heating/cooling costs and thus school fees.</li> <li>▪ Energy can help create more child-friendly environments, thus improving attendance at school and reducing dropout rates.</li> </ul>
<p>MDG 3. Gender equality and women's empowerment:</p> <p>To ensure that girls and boys have equal access to primary and secondary education, preferably by 2005, and to all levels of education no later than 2015.</p>	<ul style="list-style-type: none"> <li>▪ Availability of cleaner energy options can free girls' and young women's time from survival activities (gathering firewood, fetching water etc).</li> <li>▪ Good-quality lighting can facilitate home study and organization of evening classes for girls and women who are often housebound due to traditional family responsibilities.</li> <li>▪ Affordable and reliable energy options can broaden the scope for women's enterprises, thereby fostering employment and income generation among women.</li> <li>▪ National decision-making by women representatives, especially on energy use at household level, can be beneficial, hence improving energy access among the poor.</li> </ul>
<p>MDG 4. Child mortality:</p> <p>To reduce by two-thirds, between 1990 and 2015, the death rate for children under the age of five.</p>	<ul style="list-style-type: none"> <li>▪ GEA estimates for 2005 put the burden of disease caused by household air pollution at about 2.2 million premature death annually, mostly affecting children and women. Gathering and preparing traditional fuels exposes young children to health risks and can reduce time spent on childcare.</li> <li>▪ Cleaner energy options facilitate the provision of nutritious cooked food and space heating, while boiled water contributes to better health.</li> <li>▪ Improved energy options can provide access to better medical facilities for pediatric care, including vaccine refrigeration and equipment sterilization.</li> <li>▪ Energy can be used to purify water or pump clean groundwater locally, which can reduce the burden of water-borne diseases.</li> </ul>
<p>MDG 5. Maternal health:</p> <p>To reduce by three-quarters, between 1990 and 2015, the rate of maternal mortality.</p>	<ul style="list-style-type: none"> <li>▪ Clean cooking fuels and equipment can reduce pregnant women's exposure to indoor air pollution and improve health.</li> <li>▪ Improved energy options can provide access to better medical facilities for maternal care, including laboratory services, medicine refrigeration, equipment sterilization, and operating theatres, as well as safer caesarean sections.</li> <li>▪ Improved energy options can also help retain qualified medical personnel in remote rural areas.</li> <li>▪ Cleaner energy options can reduce excessive workloads and heavy manual labor (carrying heavy loads of fuelwood and water), which could adversely affect a pregnant woman's health and well-being.</li> </ul>
<p>MDG 6. HIV/AIDS, malaria and other major diseases:</p> <p>By 2015, to have halted and begun to reverse the spread of HIV/AIDS, malaria, and other major diseases that afflict humanity.</p>	<ul style="list-style-type: none"> <li>▪ Electricity in health centers can help provide medical services at night, retain qualified staff, and allow the use of more advanced medical equipment (e.g., sterilization).</li> <li>▪ Energy for refrigeration can facilitate vaccination and medicine storage for the prevention and treatment of diseases and infections.</li> <li>▪ Energy is needed to develop, manufacture, and distribute drugs, medicines and vaccinations.</li> <li>▪ Electricity can enable access to health education media through information and communications technologies.</li> </ul>
<p>MDG 7. Environmental sustainability:</p> <p>To stop the unsustainable exploitation of natural resources.</p> <p>To halve, between 1990 and 2015, the proportion of people who are unable to reach or afford safe drinking water and sanitation.</p>	<ul style="list-style-type: none"> <li>▪ Increased agricultural productivity can be facilitated by the greater use of electric-powered machinery and irrigation, which in turn reduces the need to expand the amount of land under cultivation.</li> <li>▪ Increased renewable energy technology use can contribute greatly to alleviation of deforestation and reduction of green house emissions that lead to climate change.</li> <li>▪ Cleaner burning fuels can reduce greenhouse gas emissions, which contribute to climate change conversion technologies.</li> <li>▪ Simple cleaner energy solutions such as low-cost sterilization of drinking water can save many lives.</li> </ul>
<p>MDG 8. Global partnership for development</p>	<ul style="list-style-type: none"> <li>▪ Global and subregional partnerships are valuable for ensuring cross-border trade and exchange of skills in cleaner energy options as well as joint lower-cost development of transmission interconnections.</li> </ul>

Box

***The Importance of Modern Energy in Achieving the MDGs***

*Goal 1: Eradicate extreme poverty and hunger.* Access to modern energy facilitates economic development by providing more efficient and healthier means to undertake basic household tasks and means to undertake productive activities more generally, often more cheaply than by using the inefficient substitutes, such as candles and batteries. Modern energy can power water pumping, providing drinking water and increasing agricultural yields through the use of machinery and irrigation.

*Goal 2: Achieve universal primary education.* In impoverished communities children commonly spend significant time gathering fuelwood, fetching water and cooking. Access to improved cooking fuels or technologies, facilitates school attendance. Electricity is important for education because it facilitates communication, particularly through information technology, but also by the provision of such basic needs as lighting.

*Goal 3: Promote gender equality and empower women.* Improved access to electricity and modern fuels reduces the physical burden associated with carrying wood and frees up valuable time, especially for women, widening their employment opportunities. In addition, street-lighting improves the safety of women and girls at night, allowing them to attend night schools and participate in community activities.

*Goal 4; 5; and 6: Reduce child mortality; Improve maternal health; and Combat HIV/AIDS, malaria and other diseases.* Most staple foods require cooking and reducing household air pollution through improved cooking fuels and stoves decreases the risk of respiratory infections, chronic obstructive lung disease and lung cancer (when coal is used). Improved access to energy allows households to boil water, thus reducing the incidence of waterborne diseases. Improved access advances communication and transport services, which are critical for emergency health care. Electricity and modern energy services support the functioning of health clinics and hospitals.

*Goal 7: Ensure environmental sustainability.* Modern cooking fuels and more efficient cookstoves can relieve pressure on the environment caused by the unsustainable use of biomass. The promotion of low-carbon renewable energy is congruent with the protection of the environment locally and globally, whereas the unsustainable exploitation of fuelwood causes local deforestation, soil degradation and erosion. Using cleaner energy also reduces greenhouse-gas emissions and global warming.

*Goal 8: Develop a global partnership of development.* Electricity is necessary to power information and communications technology applications.

The above shows that access to electricity helps generate jobs and contributes towards poverty reduction; it allows children especially girls to attend primary school, as it spares them from carrying wood and water; as women do most of the household chores it leaves little or no time for productive activities and attending school; and lack of access to energy affects health.

At home the Pakistan Millennium Development Goals Report 2013, shows the progress towards achieving the 34 indicators of the MDGs. Data available shows that Pakistan is on track to achieve the targets on 10 indicators, whereas its progress on 24 indicators is off track. The goals of eradicating extreme poverty and hunger, gender inequality and reducing child mortality is unlikely to be met, says the Report.

While the progress towards the MDGs in Pakistan have been influenced by many

factors, but lack of clean and affordable energy has also stifled income generating activities and hampered the provision of basic services such as healthcare and education. In their paper '*The Impact and Cost of Power Load shedding to Domestic Consumers*,' Dr. Hafiz A. Pasha and Wasim Saleem have shown that power load shedding has led to significant losses of output, employment and exports. Households have faced severe disruptions due to the high and growing incidence of load shedding.

The paper has quantified the cost of load shedding to households in Pakistan. It is access to both reliable and clean energy and its continuous supply, that can bring about a change in people's life. In Pakistan power outages have badly affected industrial and commercial activities, rendering thousands jobless, thus fostering poverty and with no income making it difficult for families to send

their children to school or provide them with healthcare facilities. Outages disrupt household activities and preparation for work/study (especially by children). The high share of expenditure on electricity is cutting into consumption of food, clothing, and basic services like education and health, especially by the low income groups. It also leads to the reduction in nutrition levels, particularly of children. Children of school going age who should be in schools are forced to look for work.

Poverty Reduction Strategy Papers (PRSPs) in the Asia region have placed strong emphasis on the role of energy as a driver of macro-economic growth and all have explored the connections between energy and reducing income poverty. All the PRSPs made explicit connections between energy and macro economic development and reducing income poverty (MDG 1). All in all, the Asian PRSP placed considerable emphasis on the role of energy as a driver for economic growth. Pakistan PRSP noted that ‘access to electricity will enable pumping of sub-soil water for domestic and agricultural purposes that will enhance productivity.’

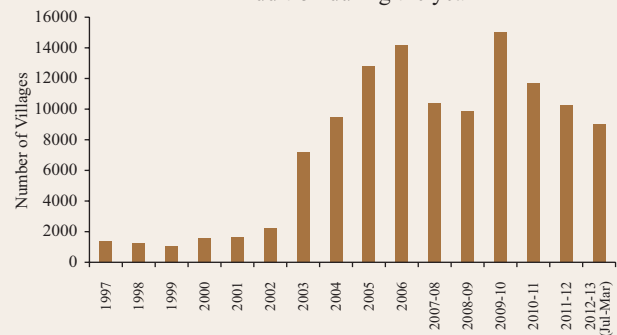
PRSPs  
focus on  
energy

The strategy for poverty reduction in the Poverty Reduction Strategy Paper II was based on nine pillars and Integrated Energy Development Programme was one of the pillars. Rapid urbanization has brought tremendous challenges as cities absorb higher populations. It was felt that promoting energy efficiency, fuel diversity would have a direct impact on the poor and ensuring availability of affordable energy was a central pillar for Pakistan’s future development. PRSP II (2010) has stated ‘access to electricity in the country is quite high, but the proportion of consumers using less than 60 units per month per household is equally high. Per capita electricity consumption (402 kwh) is less than one-sixth the world average of 2516 kwh.

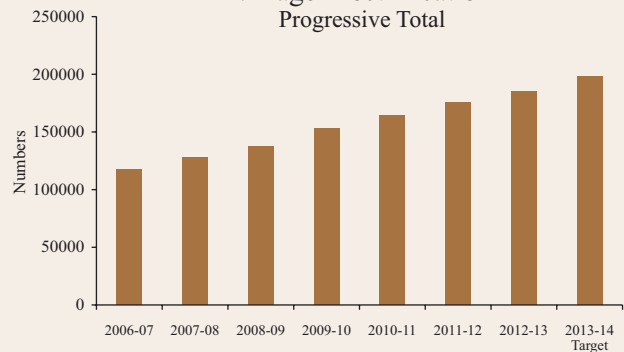
Successive governments have been pursuing programme of village electrification. The village electrification programme was an

integral part of the Poverty Reduction Strategy and sought to increase the productive capacity and to raise the social economic standards of the population living in far-flung areas.

Village Electrification  
Addition during the year



Village Electrification  
Progressive Total



In rural Pakistan, most of the households suffer from energy poverty. Without access to modern energy sources like electricity and natural gas, households rely on various sources like firewood, plant and animal waste to meet their energy needs. Young girls who should be attending schools, have to spend time collecting firewood and dung. At night because there is no electricity school going children cannot study and have to do all their school work during the day. Besides the inconvenience to collect firewood, animal and plant waste, the technology used to put those sources of energy in action are quite inefficient. There are health costs alongwith economic costs, the WHO estimates upto 1.6 million deaths annually mainly women and children caused by indoor smoke inhalation from households cooking fires.



Energy needs of rural areas

As two-thirds of the total population of Pakistan is settled in rural areas, their energy needs can hardly be overlooked. While the rural electrification process is an on-going programme, the dependence of rural households on non-conventional sources of energy to meet their needs is substantial. These non-conventional energy sources can be improved upon, so that health of people is not affected. For instance, promoting the installation of biogas units in rural areas, which uses cattle dung would help improve efficiency and people would have clean fuel, than using cattle dung directly as a source of fuel. Households that burn solid fuels, such as biomass or coal for household energy are affected by health problems. It is, therefore, necessary that people have access to affordable electricity which will drastically improve their well-being and reduce mortality rates in poor and remote areas. Every year 2 million people die by breathing toxic fumes from wood, coal and animal waste and 800,000 children die annually because of exposure to open fires and outdated cookstoves.

Pakistan is among the top 10 countries that use biomass for energy, and most of the users are rural households. However, the share of industrial users is also growing. Technology has been developed which is being used to meet the energy demand of various sectors. Refuse Derived Fuel Plants utilize municipal solid waste, and Tire Derived Fuel uses old shredded tires. Incinerators specifically build to use poultry waste are producing energy for the cement and brick kilns sector. Poultry waste biogas plants are being set up to provide electricity. Using agricultural and industrial by-products is a positive step as it would reduce dependence on an already stretched national energy grid. Focusing on their further development would reduce rural household dependence on piped gas.

Wind and solar power

Wind and solar power have a significant role in the future overall electricity generation. It will not only play a role as fuel savers, but would provide electricity to vast majority of

Role of coal

the population who reside in rural areas. In remote isolated locations where grid supplied electricity will involve high costs of transmission, wind and solar can be economically attractive. It would also eliminate most of the health and environmental problems.

Today coal is playing an important role in delivering energy access, because it is widely available and of relatively low cost. Access to energy is a fundamental prerequisite for modern life and a key tool in eradicating extreme poverty across the globe. Coal is the world's largest source of electricity, accounting for around 40 percent of global electricity production.

The largest growing economies today are powered by coal and have significant coal reserves. The increase in coal consumption across the globe has predominantly been due to demand for greater electricity generation in China, India and other non-OECD countries which have seen total power generation double. Well over half of this new power generation has come from coal. China alone now uses as much coal as the rest of the world. Between the period 1981 and 2008, China lifted 662 million people out of poverty.

Coal played a key role in achieving such a significant reduction in poverty in China. During the period 1980-2008 Chinese annual coal consumption increased by more than 400 percent from 626 million tonnes to 2.7 billion tonnes.

Electrification is a vital component of China's poverty alleviation programme which has built up basic infrastructure and created local enterprises throughout China. As a result, from 1985 to 2003, electricity production in China rose by over 1500 Twh, of which around 80 percent is coal-fired.

In India also, the increasing use of coal reflects significant growth in the economy which in turn increases demand for electricity as well

as materials in which coal is a key component of production such as steel and cement. It is estimated that around 295 million people today still live in energy poverty in India. It is expected that much of the future energy demand in India will be met by coal. The Indian Government anticipates an additional 60 GW of coal fired power generation to be built in the country by 2017 which would increase total coal fired capacity to approximately 175 GW.

Pakistan's coal reserves are estimated at 185 billion tonnes. Small tonnages of indigenous coal are used for electricity generation and by households, but by far the largest portion is used to fire brick kilns. A substantial bulk of electricity generated is by coal fired power stations. Pakistan has huge coal resources but the share of coal in energy is low. If the share of consumption of coal in electricity generation is increased, oil imports could be reduced, saving foreign exchange. In Pakistan there has been a shift from hydro to thermal generation, and more recently from natural gas to fuel oil as the primary fuel for electricity generation which has caused fuel crisis in the country's power sector. They have contributed to an increase in power supply costs.

Comparison of Electricity Generation by sources (2012) (%)

	Gas	Oil	Coal	Hydle, Nuclear or Import
India	9.2	0.8	71.0	19.0
Bangladesh	73.0	20.4	3.4	3.2
Pakistan	29.0	35.0	0.1	35.7

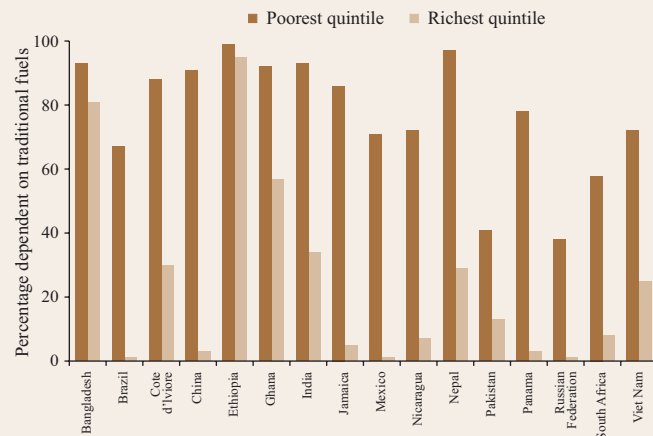
Source: Pakistan Economic Survey, 2012-13

In an article, *Energy Access and Energy Security in Asia and the Pacific*, Asian Development Bank 2013, the author Benjamin K Sovacool has shown that energy poverty and deprivation results in four major consequences: poverty, death, gender inequality, and environmental degradation.

Poverty and energy deprivation is closely associated with energy expenses. Generally

a significant portion of income of poor households is directly spent on energy fuels. Besides direct costs there are indirect costs involved associated with collecting and using that energy such as healthcare costs, or loss of time or injuries. One study looking at Asia has noted that the poor typically pay more for energy needs yet receive poorer quality energy services due to inefficient technologies.

Energy Access according to Poorest and Richest Quintiles in Selected Countries



Energy poverty has serious public health concerns. 3 billion people still rely on traditional biomass and coal with 2 million deaths per year associated with indoor burning of these solid fuels in unventilated kitchens. Households that use solid fuels generate indoor air pollution which has serious health impact, as it leads to diseases, premature deaths, and disability. The World Health Organisation states, 'The inefficient burning of solid fuels on an open fire or traditional stove indoors creates a dangerous cocktail of not only hundreds of pollutants, primarily carbon monoxide and small particles, but also nitrogen oxides, benzene, butadiene, formaldehyde, polyaromatic hydrocarbons, and many other health-damaging chemicals.'

According to the United Nations Development Programme, about 3 billion people still rely on burning solid fuels such as biomass or coal, for household energy. Doing away with these traditional methods, will improve the health

Coal reserves

Consequences of energy poverty

**Electricity Production, Sources and Access**

Country	Electricity production Kilowatt hours billions 2011	Source of electricity production						Access to electricity	
		Coal % of total 2011	Natural gas % of total 2011	Oil % of total 2011	Hydropower % of total 2011	Renewable sources % of total 2011	Nuclear power % of total 2011	% of population 2010	% of population 2010
Afghanistan	--	--	--	--	--	--	--	--	30.0
Bangladesh	44.1	1.8	91.5	4.8	2.0	0.0	0.0	0.0	46.5
Bhutan	--	--	--	--	--	--	--	--	--
China	4715.7	79.0	1.8	0.2	14.8	2.2	1.8	1.8	99.7
Hong Kong	39.0	71.2	28.5	0.3	0.0	0.0	0.0	0.0	--
India	1052.3	67.9	10.3	1.2	12.4	5.0	3.2	3.2	75.0
Indonesia	182.4	44.4	20.3	23.2	6.8	5.2	0.0	0.0	73.0
Korea Rep	520.1	43.2	22.3	3.2	0.9	0.6	29.8	29.8	--
Malaysia	130.1	40.7	44.7	7.7	5.9	1.0	0.0	0.0	99.4
Myanmar	7.3	7.6	21.7	0.4	70.3	0.0	0.0	0.0	48.8
Nepal	3.3	0.0	0.0	0.1	99.9	0.0	0.0	0.0	76.3
Pakistan	95.3	0.1	29.0	35.4	29.9	0.0	5.5	5.5	67.4
Philippines	69.2	36.6	29.8	4.9	14.0	14.6	0.0	0.0	83.3
Singapore	46.0	0.0	78.0	18.4	0.0	2.3	0.0	0.0	100.0
Sri Lanka	11.6	8.9	0.0	50.2	39.7	1.2	0.0	0.0	76.6
Thailand	156.0	22.3	68.3	1.3	5.2	2.8	0.0	0.0	87.7
Vietnam	99.2	21.1	43.9	4.8	30.1	0.1	0.0	0.0	97.6
World	22158.5	41.2	21.9	3.9	15.6	4.2	11.7	11.7	77.6
South Asia	1215.8	59.0	14.5	4.4	13.8	4.3	3.2	3.2	70.7

Source: World Development Indicators 2013

and quality of life of millions, especially women and children. Many clinics in the developing world operate without electricity, leading to high disease and mortality rates.

Access to affordable lighting will improve the standard of medical care and reduce mortality rates in poor and remote areas.

### Health Impacts of Indoor Air Pollution

Health Outcome	Evidence	Population	Relative Risk
Acute infections of the lower respiratory tract	Strong	Children aged 0–4 years	2.3
Chronic obstructive pulmonary disease	Strong	Women aged more than 30 years	3.2
	Moderate	Men aged more than 30 years	1.8
Lung cancer	Strong	Women aged more than 30 years	1.9
	Moderate	Men aged more than 30 years	1.5
Asthma	Specified	Children aged 5–14 years	1.6
	Specified	Adults aged more than 15 years	1.2
Cataracts	Specified	Adults aged more than 15 years	1.3
Tuberculosis	Specified	Adults aged more than 15 years.	1.5

Note: “Strong” evidence means many studies of solid fuel use in developing countries supported with data from studies of active and passive smoking, urban air pollution, and biochemical and laboratory studies. “Moderate” evidence means at least three studies of solid fuel use supported by evidence from studies on active smoking and on animals. “Specified” means strong evidence for specific ages or groups. “Relative risk” indicates how many times more likely the disease is to occur in people exposed to IAP than in people not exposed.

Source: ADB Economic Working Paper Series, December 2013

Energy poverty affects an individual’s educational attainment and his/her health. Time is spent on collection of fuel wood or water which may be at a distance, if fuel wood has to be stocked for winter months it means more than one trip and more time spent. Then women also suffer from indoor air pollution cooking on rudimentary stoves. All this takes a toll on her health and has educational impact because of absenteeism and increased illness.

The educational impacts of energy poverty include absenteeism and increased illness. Numerous medical studies have documented a strong connection between the effects of indoor air pollution and acute respiratory infections in children which is the principal cause of absence from school in many countries. Modern energy access can therefore improve both education and gender equality as shown in the Table below which depicts a variety of ways it can enhance the status of women by saving time and improving health.

### Benefits of Modern Energy Services for Women

Energy Source	Benefits		
	Practical	Productive	Strategic
Electricity	Pumping water, reduced need to haul and carry mills for grinding, improved conditions at home through lighting	Increased possibility of activities during evening hours, refrigeration for food production and sale, power for specialized enterprises and small businesses	Safer streets, participation in evening classes, access to radio, television, and the Internet
Biomass (Improved cookstoves)	Improved health, less time and effort gathering fuelwood, more time for childcare	More time for productive activities, lower cost of space and process heating	Improved management of natural forests
Mechanical	Milling and grinding, transport and portering of water and crops	Increased variety of enterprises	Access to commercial, social and political opportunities

Source: ADB Economic Working Paper Series, December 2013

The mentioned paper states, ‘the environmental impacts of energy poverty include deforestation and changes in land use

as well as green house gas emissions. Where wood is scarce or the population is dense, the demand for fuel is large resulting in

deforestation and land degradation. When wood supplies are scarce, people often switch to burning crops which threatens food security. Apart from environmental damage, fuelwood-driven deforestation increases the burden on collectors and farmers and increases fuel prices. As stockpiles are depleted, women and children must travel longer distances to collect fuel which requires more time and energy, and fuel collection often interferes with farming and other rural livelihoods that rely on trees for income. Deforestation also causes significant price increases for fuelwood. As deforestation in Bangladesh has accelerated, the demand for wood has outpaced supply causing the price to increase from \$0.35 per bundle in 1980 to \$1.27 per bundle in 1991 and \$1.69 per bundle in 2007, which is nearly 50 percent of the typical rural annual household budget.

People who lack access to cleaner and affordable energy suffer from lower incomes, poor living conditions and they spend significant amounts of their limited income on unhealthy forms of energy that provide poor and unsafe services. Lack of access to energy is an important contributor to the poverty levels in developing countries, particularly in Sub-Saharan Africa and some parts of Asia. Lack of energy affects agricultural and economic productivity, and the ability to improve living conditions. This

results in low earnings, malnourishment, and no surplus cash. Poor continues to remain poor and consequently they cannot afford to pay for cleaner or improved forms of energy.

However, when the poor gains access to stable electricity supplies or cleaner fuels, it helps support job creation, commerce, and other economic activities which helps them accumulate small savings. The latter facilitates access to education, and health services, improved nutrition and better housing which in turn enables them to gradually escape their poverty.

The Report, *Energy, Poverty and Development* states, 'In order to ensure that modern, cleaner and affordable forms of energy are accessed by poor people, the right choice of energy supply has to be made. For example, largescale renewable energy technologies have lower running costs, hence might be, in the long term, the most attractive options. In addition, some fossil fuels such as LPG can also be attractive due to their cleaner combustion and higher efficiency characteristics. Based on political and policy considerations, there is need to minimize any delays to the satisfying the basic need of the poor. Therefore, appropriate solutions to overcoming social injustice and the conditions of inequality that entrench poverty and reproduce underdevelopment must be achieved within the shortest possible time.'



## Performance Highlights of Five Major Banks

### Balance Sheet

(Rs. Mn)

Heads	NBP			HBL			MCB			UBL			ABL		
	Dec-12	Dec-13	Growth %	Dec-12	Dec-13	Growth %	Dec-12	Dec-13	Growth %	Dec-12	Dec-13	Growth %	Dec-12	Dec-13	Growth %
Investments	343,538	397,959	16	777,185	794,986	2	402,069	449,006	12	349,590	423,777	21	267,403	363,379	36
Advances	654,690	615,420	-6	460,071	523,859	14	239,583	248,243	4	364,364	390,813	7	271,084	267,001	-2
Deposits	1,036,739	1,101,139	6	1,141,165	1,316,991	15	545,061	632,330	16	699,936	827,848	18	514,707	608,412	18
Total Assets	1,309,528	1,364,341	4	1,518,006	1,612,658	6	767,075	815,508	6	896,535	1,009,739	13	633,706	734,196	16
Total NPLs	92,038	115,617	26	50,667	45,021	-11	25,562	23,268	-9	57,347	52,630	-8	20,668	19,424	-6
Provision against NPLs	72,142	89,737	24	41,691	37,202	-11	22,380	19,450	-13	43,464	44,097	1	17,753	18,242	3
NPL / Total Advances	12.7%	16.4%	29	10.1%	8.0%	-21	9.8%	8.7%	-11	14.1%	12.1%	-14	7.2%	6.8%	-5
Net NPL / Net Advances	3.0%	4.2%	38	2.0%	1.5%	-23	1.3%	1.5%	16	3.8%	2.2%	-43	1.1%	0.4%	-59

### Profit and Loss

(Rs. Mn)

Heads	NBP			HBL			MCB			UBL			ABL		
	Dec-12	Dec-13	Growth %	Dec-12	Dec-13	Growth %	Dec-12	Dec-13	Growth %	Dec-12	Dec-13	Growth %	Dec-12	Dec-13	Growth %
Gross Interest Revenue	100,092	99,028	-1	114,400	118,181	3	68,356	65,064	-5	73,507	72,846	-1	49,503	54,222	10
Cost of Funds	56,418	60,823	8	58,324	64,744	11	27,500	27,196	-1	34,948	34,910	0	31,142	32,552	5
Net Interest Revenue	43,674	38,205	-13	56,076	53,437	-5	40,856	37,868	-7	38,560	37,936	-2	18,361	21,670	18
Non-Interest Revenue	23,849	25,570	7	12,390	15,122	22	9,153	11,171	22	17,131	18,114	6	13,794	9,603	-30
Total Revenues	67,524	63,774	-6	68,466	68,559	0	50,010	49,039	-2	55,691	56,050	1	32,155	31,273	-3
Provisions	11,060	20,401	84	5,506	906	-84	291	(2,888)	-	4,499	1,448	-68	1,362	628	-54
Administrative Expenses	35,085	36,295	3	28,664	33,937	18	17,665	19,639	11	24,163	26,795	11	14,639	15,884	9
Pre-tax Profit	21,378	7,079	-67	34,297	33,715	-2	32,054	32,288	1	27,029	27,807	3	15,835	14,761	-7
After-tax Profit	14,941	5,500	-63	22,000	21,910	0	20,941	21,495	3	18,007	18,614	3	11,641	14,643	26
EPS	7.0	2.6	-63	16.5	16.4	0	20.4	21.2	4	14.6	15.2	4	11.2	14.1	26

### Key Ratios - Peer Banks

(In %)

Ratios	NBP		HBL		MCB		UBL		ABL	
	Dec-12	Dec-13	Dec-12	Dec-13	Dec-12	Dec-13	Dec-12	Dec-13	Dec-12	Dec-13
Return on Assets (pre-tax)	1.7	0.6	2.7	2.2	4.5	4.1	3.2	2.9	2.8	2.2
Return on Assets (After-tax)	1.2	0.4	1.7	1.4	2.9	2.7	2.2	2.0	2.0	2.1
Return on Equity (pre-tax)	19.5	6.6	33.7	29.2	38.2	34.7	36.2	33.3	38.8	30.2
Return on Equity (After-tax)	13.7	5.4	21.6	19.0	25.0	23.1	24.1	22.3	28.5	30.0
Yield on Earning Assets	9.2	8.4	9.4	8.1	10.7	9.0	9.7	8.3	10.8	9.0
Cost of Funds	6.3	5.9	5.2	4.7	4.8	4.2	4.8	4.2	6.1	5.4
Expense / Revenue	0.52	0.57	0.41	0.48	0.34	0.38	0.42	0.46	0.45	0.50
Non-Int. inc. as % of total income	42.0	57.7	19.6	22.4	18.5	21.5	33.2	33.1	44.3	31.1

(Contributed by Business Performance Review Wing, Financial Control Division, NBP)

## Pak Rupee Appreciation Impact & Outlook

After devaluing by around 6 percent against USD in the 1HFY14, Pak Rupee has surprisingly appreciated by a hefty 7 percent in 3QFY14TD, making it one of the best performing currencies in the world during CY14. After the SBP forex reserve touched a multiyear low of around USD3bn in February, things seem to be finally improving with an unexpected USD1.5bn received under the Pakistan Development Fund (PDF) head contributed by a friendly nation. The surprise

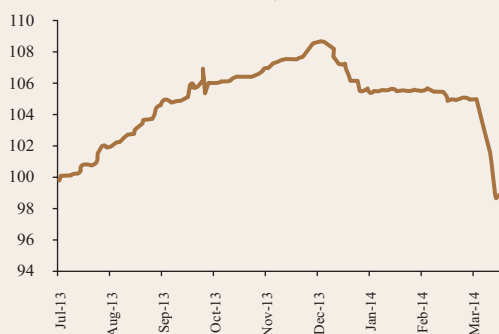
signed with Saudi Arabia and Kuwait and further receipts under PDF in future as well. These developments are game changers, so if they do materialize, we foresee that Pak Rupee will remain range bound at current level throughout the calendar year. Absence of development on this front, however will likely result in rupee devaluation.

While not denying the positives from recent Pak Rupee appreciation, we are of the view that negatives outweigh the positives given the structural deficit issue which the country faces. Compared to US\$ 6bn forex reserves of SBP in June 2013 (US\$ 11bn in June 2012), these reserves currently stand at US\$ 4.6bn, despite the US\$ 1.5bn grant. Thus, to show no devaluation on FY14TD basis is a bit questionable. If this trend continues, then the trade deficit will render further pressure on precarious forex reserves.

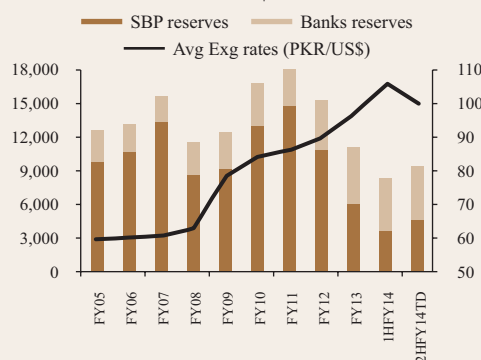
On the equity market front, the impact of Pak Rupee appreciation is overall negative, since the key sectors earnings are directly or indirectly dollar linked. On the flip side, a stable Pak Rupee may lead higher foreign portfolio investment and eventual inflation/interest rate decline may result in rerating for the market.

- Lower Inflation: Since majority of the items in the CPI basket directly or indirectly follow international prices, the recent Pak Rupee appreciation should lead to relief on the inflation front from this end. A speedy impact will be visible in the government controlled fuel prices and other energy prices (electricity & gas tariffs) while impact on other items will require administrative measures by the government if it is to translate into CPI numbers. The subsequent impact of lower inflation would be lower interest rates, which can aid in spurring the domestic economic activity.
- Lowering of foreign debt: Another positive for the government is that its foreign debt

PKR versus US\$ in FY14TD



Reserves breakup (US\$ mn) and PKR/US\$ trend



addition in reserves has had a knock on effect on different speculators and exporters who were storing US dollar in anticipation of further rupee decline.

Whether the current trend is sustainable or not is difficult to answer because of lack of clarity over further quantum of receipts under the PDF. Government circles are hinting towards oil deferral payment agreement to be

Positives of Pak Rupee appreciation on the economy

quantum & servicing cost reduces due to Pak Rupee appreciation. As of 2QFY14 end, the total external debt & liabilities of Pakistan stood at USD59.6bn (Govt. external debt of USD44bn). Thus for every one rupee appreciation, Pakistan's total external debt & liability reduces by ~PKR60bn. At current PKR value, this amount would have reduced by around PKR417bn QoQ, assuming no change in debt quantum. Since the interest rate of foreign debt is very low, we feel that the real gain lies on account of translation gain and not savings on interest rate cost.

- Rise in FDI: Investors around the world look for consistent economic policies. A stable Pak Rupee going forward may result in comfort for foreign investors intending to invest in Pakistan, resulting in higher FDI's, which is much below its potential and historical peak.
- Exports becoming uncompetitive: The recent 7 percent appreciation has a direct impact on our exports competitiveness especially in context of fierce regional competition from textile exports hub such as China, India, Bangladesh and Vietnam. Textile exporters have long maintained their inability to successfully outpace regional competitors due to gas crises and higher power tariffs vis-à-vis others, so the recent appreciation will likely result in severe blow over their export quantum and margins.
- Imports burgeoning: Similarly, as the exports become uncompetitive, imports become cheaper due to Pak Rupee appreciation resulting in higher appetite for imported goods. The country already has a very high GDP concentration of consumption expenditure (88%), with a negative net exports contribution. Recent Pak Rupee move will only go on to increase the trade deficit.
- Tax revenues to falter: A decent quantum of FBR's tax revenue collection is done

Negatives of Pak Rupee appreciation on the economy

through customs duty (12% of FBR's tax revenue), so this head will suffer a shortfall. Similarly, a bigger blow will come from reduced sales tax collection on imports (22% of FBR's tax revenue). For example, as prices of Fuel and electricity are adjusted downwards, governments GST collection of these heads will also decrease.

- Domestic manufacturing to suffer: If the recent Pak Rupee appreciation continues, the domestic manufacturers will be driven out as imports substitute local production.

Conclusion

While not denying the positives from recent Pak Rupee appreciation, we are of the view that negatives outweigh the positives given the structural deficit issue which the country faces. A recent report by SBP highlighted that the quarterly current account deficit stood at around USD1.2bn during the last five years, if the CSF receipts are excluded. CAD in turn leads to forex reserve drawdown, in case the capital and financial account surplus is unable to stem the decline. This has been the case for Pakistan in recent years.

Compared to USD6bn forex reserves of SBP in June 2013 (USD11bn in June 2012), these reserve currently stand at USD4.6bn, despite the USD1.5bn grant. Thus to show no devaluation on FYTD basis is a bit questionable. If this trend continues, then the trade deficit will render further pressure on precarious forex reserves. While further grants may inch up the reserves, overall the economy will become consumption oriented with exports becoming uncompetitive.

Stock market impact

On the equity market front, the impact of Pak Rupee appreciation is overall negative, since the key sectors earnings are directly or indirectly dollar linked, as explained below. On the flip side, a stable Pak Rupee may lead higher foreign portfolio investment and eventual inflation/interest rate decline may result in rerating for the market.

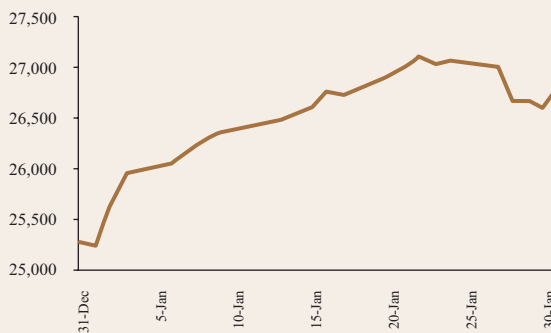
*(Contributed by Research Department, Taurus Securities Ltd, a subsidiary of National Bank of Pakistan)*

## Market Analysis

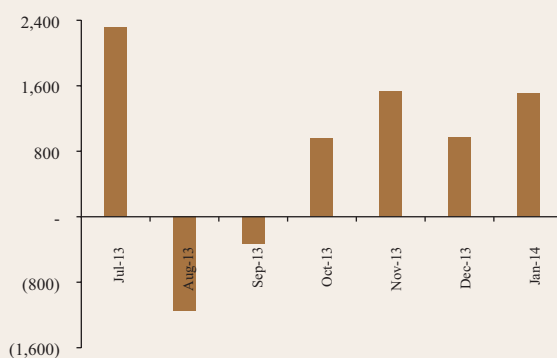
Gains in January

The market, in the month of January continued its winning streak by closing the fourth consecutive month in positive. Continued foreign inflows and improvement in macro numbers has kept the momentum going on. On a month-on-month basis, the benchmark KSE-100 index augmented by 6 percent to close at 26.8k level. Food producers and Textile companies saw handsome gain in the month of January. The month of January saw volumes improve by 46 percent to average 311mn shares/day, while value traded depicted a lower increase of 15 percent month-on-month.

KSE-100 index performance in Jan-14

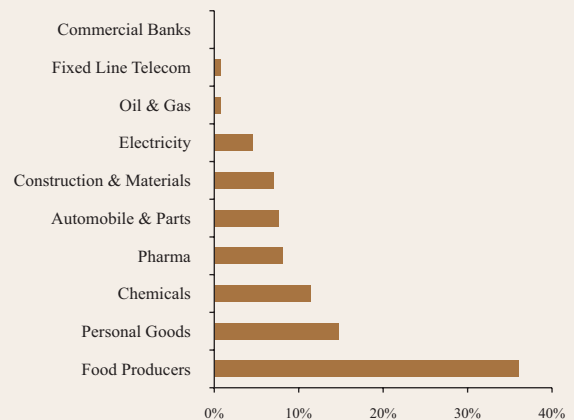


KSE-100 index FY14 monthly change



With the result season in full swing, we don't expect any major downside. As inflation is expected to remain subdued for January as well (our forecast is 7.8 percent), the macros look comfortable for now despite pressure on State Bank of Pakistan (SBP) reserves. CSF

Key sector return in Jan-14



inflow in February and 3G auction in March is expected to improve the SBP reserve level. A positive outlook from IMF over quarterly disbursement is critical for market momentum continuing. Fed tapering and its impact on frontier market also need to be kept track of. In the near term we expect foreigners and Banks/DFI's to continue to derive the market direction.

*Food Producers show remarkable month-on-month growth in January, while foreigners again remain the biggest buyers*

KSE-100 index increased by 5.9 percent in January with smaller sectors showing a much larger gain compared to index heavy weight Oil & gas and Banks. The month of January saw volumes improve to average 311mn shares/day (46 percent month-on-month rise), while value traded depicted a lower increase of 15 percent. January saw the market rise for the fourth consecutive month. Continued foreign inflows and improvement in macro numbers has kept the momentum going on.

A whooping return of 36 percent was witnessed in Food producers sector mainly due to 65 percent month-on-month rise in sector heavy weight Nestle. Among the key sectors, Textile companies also saw a hefty gain due to GSP plus theme and higher export

Market rise

numbers in December. Chemical sector was the third best performing sector, but we attribute this hike mainly due to rise in market cap of Engro Fertilizer since its listing (70 percent rise), with positive spillover effect on its holding company Engro Corporation (up 12 percent month-on-month) and also on Dawood Hercules (up 20 percent month-on-month). Other Fertilizer players' performance remained subdued due to GIDC rise and inability to pass on this cost hike.

Among the underperforming sectors, Banks closed flat month-on-month due to status quo discount rate decision by the central bank, but the multiyear high credit offtake numbers and CY13 results/payouts are expected to keep this sector in the limelight. Telecom sector also closed flat month-on-month due rumors of ICH termination after Telenor's exit.

Foreigners again remained the biggest buyers in January, a trend which is the norm since the last two years. Interestingly, the daily net FIPI position shows that the all the net buying was done the latter half of the month. Bank/DFI's were the second biggest buyers in January, most likely due to fresh allocation given to the equity desk with the start of new year. On the selling side, Others and Companies were the biggest net sellers in the outgoing month.

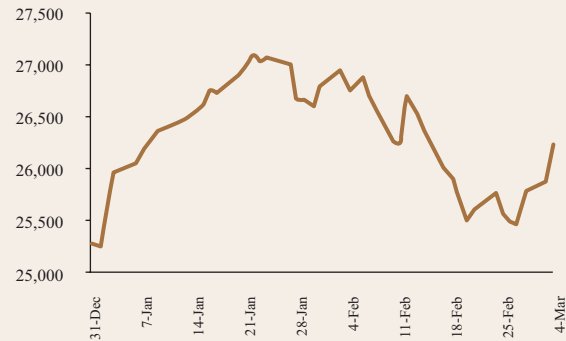
After four consecutive month-on-month rise (4.95k points hike), market in the month of February dipped by 1.0k points. While we attribute the dip mainly to profit taking, the other reasons were political issues heating up and majority of corporate results coming either inline or below expectation. Moreover, net foreign inflow also dropped to USD10mn in February versus USD32mn in January.

On a month-on-month basis, the benchmark KSE-100 index decreased by 3.7 percent to close at 25.8k level. Food producers, Personal goods, Electricity and Pharma sector remained the biggest underperformers with only

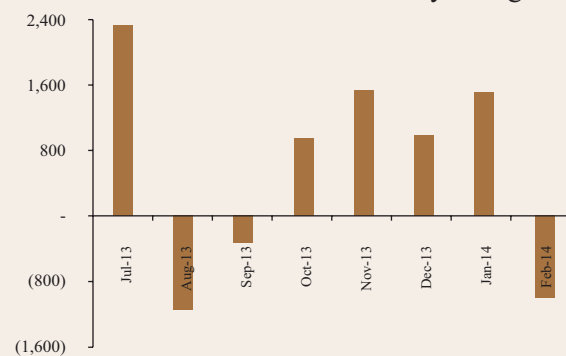
Under performing sectors

Market dips in February

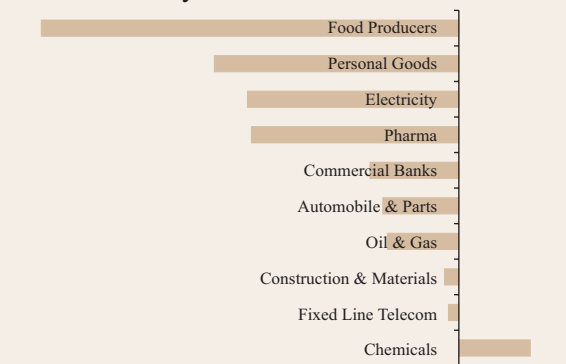
KSE-100 index performance in CY14



KSE-100 index FY14 monthly change



Key sector return in Feb-14



Chemical sector showing a gain among the key sectors in February. The month of February saw volumes falter by 24 percent to average 237mn shares/day, while value traded depicted a similar decrease of 24 percent month-on-month.

With the result season now over, we expect political development and foreigners' interest to determine the market direction. As inflation remained subdued for February as well,



chances of status quo discount rate have increased, though 50bps hike cannot be ruled out due to hefty quarterly SBP borrowing's retirement target. With forex reserves inching up in February due to multilateral flows, further rise in reserve is expected from IMF's quarterly tranche and other multilateral proceeds in March, along with telecom auction to be held in April.

*Food Producers continue their erratic behavior while other key sectors also disappoint on lower than expected results*

KSE-100 index decreased by 3.7 percent in February with smaller sectors dipping by a larger extent compared to index heavy weight Oil & Gas and Banks. The month of February saw volumes decrease to average 237mn shares/day (24 percent month-on-month dip), while value traded also depicted a similar decrease of 24 percent. After four consecutive month-on-month rise (4.95k points hike), market in the month of February dipped by 1.0k points. While we attribute the dip mainly to profit taking, the other reasons were political issues heating up and majority of corporate results coming either inline or below expectation. Moreover, net foreign inflow also dropped to USD10mn in February versus USD32mn in January.

After witnessing 36 percent return in January, Food producers sector dipped by 19 percent mainly due to sector heavyweights Nestle and NATF falling by 25 percent & 19 percent month-on-month, respectively. Astronomical price level and subdued results were the key reasons for the price fall witnessed in this

sector. Another sector whose result disappointed was Personal Goods (Textile), mainly from spinning dominated companies results, as yarn margins faltered and Chinese imports slowed. Electricity sector's biggest companies Hubco & Kapco reported half yearly results which were below analysts' consensus, thus this sector also underperformed the broader market in February. Among the key sectors, only Chemical sector saw a gain coming mainly on the back of rise in EFERT with positive spillover effect of related companies (ENGRO & DAWH).

In the month of February, Banks/DFI's and Foreigners remained the biggest buyers while Others and Mutual Funds were the biggest sellers. Interestingly, the daily net FIPI position shows that net buying remained subdued most of the month, with meaningful inflows only in the last two days.

With the result season now over, we expect political development and foreigners' interest to determine the market direction. As inflation remained subdued for February as well, chances of status quo discount rate have increased, though 50bps hike cannot be ruled out due to hefty quarterly SBP borrowing's retirement target. With forex reserves inching up in February due to multilateral flows, further rise in reserve is expected from IMF's quarterly tranche and other multilateral proceeds in March, along with telecom auction to be held in April.

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

Volumes  
fall in  
February

Future  
outlook

**Selected Economic Indicators of Countries where National Bank of Pakistan has a Presence**

Country	Population 2011 (Mn)	GDP Size 2011 (\$ Bn)	Per Capita GDP 2011 (\$)	Exchange Rate Local Currency to US\$ (2011)	Total Reserves 2012 (\$ Bn)	Total External Debt 2011 (\$ Bn)	Current Account Balance 2012 (\$ Bn)	Good and Services 2012 (\$ Bn)		Market Capitalization (% of GDP) 2012	Interest Rate 2012 (%)		Domestic Credit to Private Sector (% of GDP) 2012
								Exports	Imports		Deposits	Lending	
Afghanistan	32.4	18.9	586	46.747	7.1	2.6	-2.7	3.6	6.7	NA	NA	15.0	4.9
Azerbaijan	9.3	63.4	6813	0.7897	11.2	8.4	15.0	36.7	17.4	NA	10.2	18.3	20.1
Bangladesh	150.5	106.2	706	74.1524	12.7	27.0	2.6	27.6	37.7	15.1	11.7	13.0	49.6
Bahrain	1.3	25.8	19512	0.376	5.4	NA	3.2	22.9	13.9	59.1	1.1	6.0	70.0
Canada*	34.5	1736.9	50565	0.9895	68.5	NA	-62.3	547.1	583.3	110.7	0.5	3.0	NA
China*	1324.4	7203.8	5439	6.4615	3387.5	685.4	193.1	2167.2	1935.4	44.2	3.0	6.0	131.6
France	65.1	2775.5	42642	0.7194	184.5	NA	-57.2	768.6	817.6	69.8	2.3	NA	116.0
Germany	82.2	3604.1	43865	0.7194	248.8	NA	238.4	1728.7	1525.6	43.7	NA	NA	101.9
Hong Kong	7.1	243.3	34161	7.784	317.3	NA	3.5	561.5	560.8	420.9	0.0	5.0	198.1
Japan	126.5	5870.4	46407	79.807	1268.1	NA	60.9	910.8	1014.8	61.8	0.5	1.4	176.7
Kazakhstan**	16.2	186.4	11503	146.6208	28.3	124.4	7.7	97.0	60.1	11.7	NA	NA	37.2
Republic of Korea	48.4	1116.2	23067	1108.2921	327.7	NA	43.3	663.6	622.3	104.5	3.7	5.4	148.0
Kyrgyzstan	5.4	5.9	1098	46.1439	2.1	5.5	-1.4	3.1	6.5	2.5	5.3	12.8	NA
Kingdom of Saudi Arabia	28.1	597.1	21262	3.75	673.7	NA	164.8	399.4	215.2	52.5	NA	NA	37.6
Pakistan	176.7	208.9	1182	86.3394	13.7	60.2	-2.1	31.2	48.3	18.9	8.0	13.5	16.4
Tajikistan**	7.0	6.5	935	4.6103	0.63	3.3	-0.8	1.2	4.8	NA	7.7	25.2	13.0
Turkmenistan	5.1	25.7	5042	2.85	NA	0.4	NA	NA	NA	NA	NA	NA	NA
USA	313.1	14991.3	47882	1.00	574.3	NA	-440.4	2212.5	2747.1	119.0	NA	3.3	192.4
Uzbekistan*	27.8	45.5	1641	1706.611	NA	8.4	NA	NA	NA	NA	NA	NA	NA

\* Representative Offices \*\* Subsidiary NA Not Available

Source: Statistics Division, United Nations and World Development Indicators 2013

## Book/Report Reviews

*Bankers' Practical Advances*  
 Dr. Asrar H. Siddiqi  
 Royal Book Company - 2013

The mentioned book is on financing trade and commerce by banks and financial institutions in Pakistan. The 32 chapters in the book give in detail the proper way of processing of loan applications, types of borrowers, securities for advances, documentation needed in processing loan applications, obtaining of proper security, types of financing – against hypothecation, against pledge, against immovable property, against documents of title to goods, against life insurance policies etc. There are chapters which deal with export/import financing, bank guarantees and indemnities, borrower when it is partnership or company. The last two chapters of the book are about problem loans and classification of non-performing loans.

Lending of money is an essential function of banks for it not only contributes to their earnings, but also promotes economic development in the country. All business activity depends largely on finances provided by banks. However, great care has to be taken when making advances, both before lending and later once the amount has been disbursed. There are clear principles of lending which banks have to adhere to, and after lending to the borrower, follow up is necessary to see that the borrowed funds are being properly utilized, terms and conditions agreed upon are being followed and recovery is being made. Before lending banks study the financial indicators of the business enterprise it is going to lend to assess its financial health.

Chapter 10 explains the importance of documentation, its execution and the kinds of documents the banks uses. Another chapter discusses the processing of financing proposal. While care is taken by banks in evaluating each proposal, at times the borrower defaults. There are some early signs which gives the signal of problems arising. The bank takes remedial measures/restructure/reschedules the loan or adopts other alternatives, all of which have been explained in the book.

*Pakistan*  
*Millennium Development Goals Report - 2013*  
 Ministry of Planning, Development  
 and Reform  
 Government of Pakistan

This report is the fifth report in its series for Pakistan. It assesses the progress made towards achievement of the MDGs, what are the challenges facing it and also frames the post 2015 development agenda for Pakistan. The MDG Framework will reach its deadlilne in December 2015.

Pakistan has adopted 16 targets and 41 indicators against which progress towards achieving the Eight Goals of the MDGs is measured. Time series data, available for 34 of the indicators reveal that Pakistan is on track to achieve the targets on 10 indicators whereas its progress on 24 indicators is off track. At the provincial level, Punjab is seen to perform above the national average in 18 of the 25 MDG indicators, Khyber-Pakhtunkhwa in 8 of the 25 MDG indicators, Sindh in 9 of the 23 MDG indicators, Balochistan in 1 of the 23 MDG indicators, AJK in 13 of the 24 MDG indicators, GB for 5 of the 22 MDG indicators and FATA for 1 of the 23 MDG indicators for which data is available.

For each of the Goals the Report states: -

- Goal 1 - The country is unlikely to achieve MDG1.
- Goal 2 - Pakistan is not likely to achieve MDG2.
- Goal 3 - Pakistan is unlikely to meet MGD3.
- Goal 4 - Unlikely to attain MDG4.
- Goal 5 - Overall, Pakistan is off track on all indicators and therefore unlikely to achieve MDG5.
- Goal 6 - Pakistan is off track on three out of five indicators and therefore unlikely to achieve MDG6.
- Goal 7 - With four out of seven indicators on track, Pakistan is likely to achieve MDG7 with continued efforts; this is the only goal where the majority of indicators are on track to be attained.

## Pakistan — Selected Economic Indicators

	Unit	February 2014	January 2014	February 2013
Consumer Price Index				
(year on year change)	%	7.9	7.9	7.4
Food Inflation	%	7.6	7.2	7.4
Non Food	%	8.2	8.4	7.4
Core Inflation*	%	7.8	8.1	9.6
Wheat	Rs/10 kg	402.68	397.57	-
Wheat flour bag	Rs/10 kg	431.44	424.25	-
Rice basmati, broken Average Quality	Rs/kg	73.75	73.72	-
Mutton	Rs/kg	567.87	557.32	-
Vegetable ghee (Tin)	Rs /2.5 kg	514.12	513.68	-
Petrol	Rs/Ltr	114.09	114.09	-
Kerosene Oil	Rs/Ltr	126.68	126.72	-
Currency in Circulation	Rs bn	-	2137.7	1949.0
Broad Money M2	Rs bn	-	9279.6	8218.9
Total Deposits of Scheduled Banks	Rs bn	7599.4	7566.2	6644.6
Total Advances of Scheduled Banks	Rs bn	4109.8	4127.5	3868.4
Weighted Avg. Deposits Rate - Fresh Deposits	%	-	6.14	6.08
Weighted Avg. Lending Rate - Gross Disbursement	%	-	11.02	10.53
Weighted Avg. Lending Rate - Outstanding Loans	%	-	11.17	11.52
SBP Reverse Repo Rate	%	10.0	10.0	9.5
SBP Repo Rate	%	7.5	7.5	7.0
Export Refinance Rate	%	8.4	8.4	8.2
KIBOR end month (1 month)	%	-	10.18	9.18
National Saving Schemes Outstanding Amount	Rs bn	-	2493.5	2298.7
FBR Tax Collection	Rs bn	-	153.3**	140.3
Exchange Rate (end month)	Rs/US \$	-	105.3381	98.0940
Gold & Foreign Exchange Reserves	Mn\$	-	8361	13674
Government Domestic Debt	Rs bn	-	10595.1	8590.2
KSE 100 Index month end	(1991-1000)	-	26784.34	18173.67
			July-Feb	July-Feb
			FY2014	FY2013
Exports	\$ bn		16.87	15.88
Imports	\$ bn		29.41	29.07
Balance of Trade	\$ bn		(-)12.54	(-)13.19
Workers' Remittances	\$ bn		10.25	9.23
Net Inflow of foreign direct investment	\$ mn		523.0	528.3

\* non food non energy

\*\* as of October 13

Source: State Bank of Pakistan

## Pakistan — Selected Economic Indicators

	Unit	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Output and Prices</b>								
GNP Size <i>fc</i>	Rs.bn	8893	10564	12888	14815	18476	20442	22717
GDP Size <i>fc</i>	Rs.bn	8736	10355	12542	14248	17656	19406	21616
Income Per Capita	\$	980	1053	1026	1072	1275	1323	1368
Income Per Capita	Rs	56227	64157	76635	86268	108979	118085	131543
Real Growth	(%)							
GNP		6.7	3.7	2.1	4.1	3.5	4.3	3.4
GDP		5.5	5.0	0.4	2.6	3.7	4.4	3.6
Agriculture		3.4	1.8	3.5	0.2	2.0	3.5	3.3
Manufacturing		9.0	6.1	(-4.2)	1.4	2.5	2.1	3.5
Services Sector		5.6	4.9	1.3	3.2	3.9	5.3	3.7
<b>Prices</b>								
Consumer Price Inflation	(%)	7.8	12.0	17.0	10.1	13.7	11.0	7.4
Wholesale Price Inflation		6.9	16.4	18.9	13.8	21.2	10.4	7.3
Food Inflation CPI		10.3	17.6	23.7	12.9	18.0	11.0	7.1
Non Food Inflation CPI		6.0	7.9	18.4	8.3	10.7	11.0	7.5
Core Inflation <sup>†</sup>		5.9	8.4	11.4	7.6	9.4	10.6	9.6
GDP Deflator		7.28	13.20	20.67	10.85	19.66	5.63	7.5
Gold Tezabi (Karachi)	Rs./10 grams	12619	16695	22195	29587	37658	48444	50744
Petrol Super	Rs/Ltr	56.00	57.83	67.68	67.56	75.70	92.93	101.26
Kerosene Oil	Rs/Ltr	39.09	43.44	66.79	72.65	84.89	104.84	116.07
Wheat Flour (Avg. Quality)	Rs/Kg	13.64	18.07	25.64	28.73	29.40	30.26	34.53
<b>Savings and Investment</b>								
National Savings	% GDP	14.0	11.0	12.0	13.6	14.2	12.8	13.8
Domestic Savings		12.3	9.1	9.4	9.8	9.7	7.7	9.0
Gross Fixed Investment		17.19	17.61	15.90	14.20	12.51	13.32	12.60
Public Sector		4.6	4.8	4.3	3.7	3.2	3.7	3.9
Private Sector		12.6	2.8	11.7	10.5	9.3	9.6	8.7
<b>Public Finance</b>								
Revenue Receipts (Fed Govt)	% GDP	14.0	14.1	14.0	13.8	12.2	12.1	12.1
Tax Revenue	% GDP	9.6	9.9	9.1	10.0	9.2	9.7	8.9
Total Expenditure	% GDP	19.5	21.4	19.2	17.3	14.6	13.9	16.7
Overall Budget Deficit	% GDP	4.1	7.3	5.2	6.2	6.5	6.8	8.0
FBR Tax Collection (Fed Govt)	Rs.bn	847.2	1008.1	1161.1	1483.0	1679.4	1945.7	2048.6
Direct Taxes	% share	39.4	38.4	38.2	36.4	37.3	37.6	36.0
Indirect Taxes	% share	60.6	61.5	61.8	63.6	62.7	62.4	64.0
<b>Monetary Sector</b>								
Growth of Broad Money (M2)	%	19.3	15.3	9.6	12.5	15.9	14.1	15.9
Currency in Circulation	Rs.bn	840.2	982.3	1152.2	1295.4	1501.4	1673.7	1938.2
Public Sector Borrowing (net)	Rs.bn	926	1508	2034	2441	3020	4258	5737
Borrowings for Budgetary Support	Rs.bn	810	1365	1681	2011	2602	3800	5246
Credit to Private Sector	Rs.bn	2480	2890	2907	3020	3141	3376	3357

<sup>†</sup> non-food non-energy.



	Unit	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
<b>Social Sector</b>								
Population	Mn	158.17	166.41	169.95	173.50	177.10	180.71	184.35
Education Expenditure	as % of GDP	2.4	2.4	1.8	1.7	1.8	2.2	0.9
Literacy Rate	(%)	55	56	57	58	58	58	58
Health Expenditure	as % of GDP	0.57	0.57	0.6	0.6	0.6	0.7	0.3
<b>Karachi Stock Exchange</b>								
KSE 100 Index	(1991=1000)	13772	12289	7162	9722	12496	13801	21006
Funds Mobilized	Rs.bn	4019	3778	2120	2732	3289	3518	5154
Total Turnover of Shares	Bn	54.0	63.3	28.3	43.0	28.0	38.0	54.3
<b>Banking Sector</b>								
Scheduled Banks Deposits	Rs.bn	3373	3812	4138	4693	5489	6219	7134
Scheduled Banks Advances	Rs.bn	2376	2816	3080	3174	3311	3530	3641
Non-Performing Loans All Banks	Rs.bn	214	314	432	548	607	636	616 <sup>a</sup>
Lending and Deposit Rates	weighted average							
Deposits	% per annum	2.60	4.13	4.44	4.29	4.53	4.56	4.38
Advances	% per annum	11.55	12.49	14.25	13.63	13.46	12.81	11.66
<b>Open Market Operation</b>								
SBP Reverse Repo Rate	% end period	9.50	12.00	14.00	12.50	14.00	12.00	9.0
Treasury Bills Yield - 6 Months	% end period	8.90	11.48	12.00	12.30	13.70	11.90	8.9
KIBOR - 6 Months	% end period	9.75	13.95	12.65	12.25	13.65	11.94	8.97
Yield on 5 Years PIBs	weighted average	10.00	10.80	12.40	12.50	14.03	13.08	10.05
Interbank Call Rates (Overnight)	%	8.90	9.90	13.20	11.60	12.40	11.70	9.09
SBP Export Finance Rate	%	6.50	6.50	6.50	8.00	10.00	10.00	8.4
<b>External Sector</b>								
Exports	\$ bn	16.98	19.05	17.69	19.29	24.81	23.64	24.46
Imports	\$ bn	30.54	39.97	34.82	34.71	40.41	44.91	44.95
Balance of Trade <sup>†</sup>	\$ bn	-13.41	-20.92	-16.93	-15.2	-15.27	-21.11	-20.20
Current Account Balance	\$ mn	-6878	-13874	-9261	-3946	214	-4658	-2466
Workers' Remittances	\$ mn	5494	6451	7811	8906	11201	13187	13920
Foreign Private Investment	\$ mn	6960	5454	3210	2739	2000	761	1576
Direct	\$ mn	5140	5410	3720	2151	1635	821	1456
Portfolio	\$ mn	1820	44.3	-510	588	365	-60	120
<b>Public Debts</b>								
Internal Debt Outstanding	Rs.bn	2610	3275	3861	5654	6017	7638	9521
Funded Debt	% of Internal Debt	64.0	68.8	67.1	68.7	72.5	76.5	77.5
Unfunded Debt	% of Internal Debt	36.0	31.2	32.9	31.3	27.5	23.5	22.5
External Debt and Liabilities	\$ bn	40.5	46.2	52.3	61.6	66.4	65.5	59.8
Total Debt as % of GDP	%	58.8	63.2	62.9	67.7	65.1	69.1	67.8
Domestic Debt as % of GDP	%	30.1	30.7	29.2	31.4	32.9	38.0	41.6
National Saving Schemes (Outstanding)	Rs.bn	1004	1094	1361	1586	1821	2010	2396
Gold & Foreign Exchange Reserves	\$ mn	18890	13436	13971	17921	20941	16493	11005
Exchange Rate (Average for year)	Rs/US\$	60.6342	62.5465	78.4983	83.8017	85.5017	89.2359	96.7272

<sup>†</sup> Balance of Trade = Exports+Reexports-Imports-Reimports

<sup>a</sup> March

 Source: Annual Report - 2012-13, Statistical Supplement, SBP  
 Pakistan Economic Survey 2012-13