National Bank of Pakistan
نیشنل بینک آف پاکستان

70 years of success

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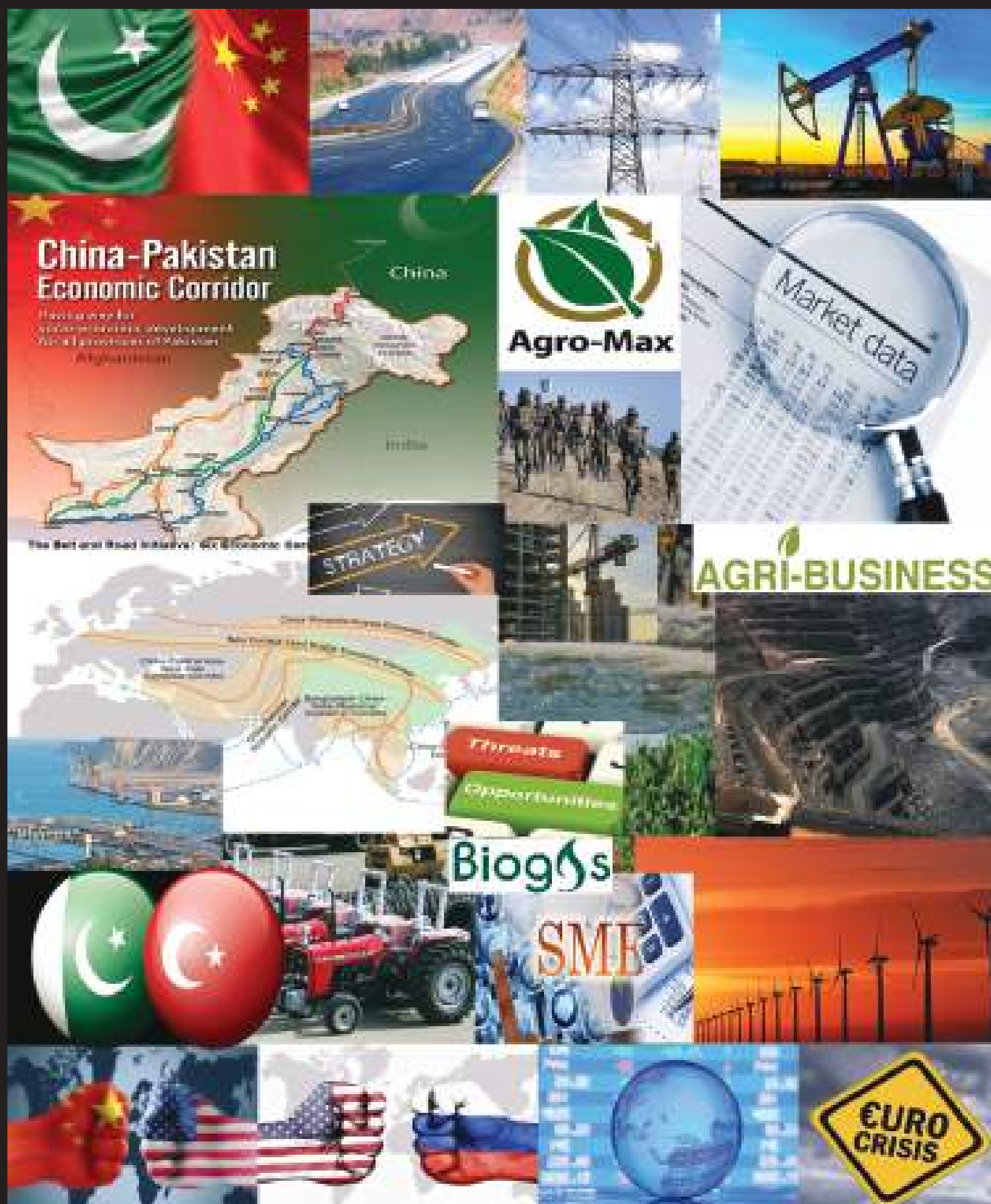


Quarterly In-House

ECONOMIC BULLETIN

Economic Research Wing, Research & Business Analytics Division
Strategy & Business Analytics Group

To be a leading bank for partnering in financial growth through innovation and service

To be a catalyst for economic growth, serving the nation through diversified product Offering, innovation, superior service quality, universal banking capabilities, Multiple delivery channels, investment in people and processes and Work towards sustainable higher returns for stake holders

People: *we will continue to value our people and will reward performance*

Service: *our main focus will be on providing superior service quality through diversification and development*

Integrity: *we will not compromise on integrity- zero tolerance for corruption and believe in doing the right thing*

Respect: *we respect our customers' needs, beliefs and values, working towards their benefit*

Excellence: *we will continue to strive for excellence in all that we do*

Table of contents

STATE OF PAKISTAN'S ECONOMY Q-3, FY19

{Excerpts from SBP 3rd Quarterly Report}

Overview of the Economy

Towards the end of FY19, the challenges to the macroeconomy have continued to persist. Specifically, during Jul-Mar FY19, fiscal deficit further deteriorated and while the current account gap relatively improved, its sustainability remained a concern. Meanwhile, CPI inflation averaging at 6.8% in the first 9 months of FY19 has already exceeded its 6.0% target for the current fiscal year. Furthermore, as per provisional national income accounts, GDP growth moderated to 3.3% in FY19. Thus far, these trends have yet again exposed Pakistan's structural deficiencies and its vulnerabilities to the buildup of external and internal deficits.

The moderation in GDP growth is partly a result of policy induced, demand management measures, initiated since January 2018, to contain the buildup of inflationary pressures and rising twin deficits. These policy actions led to contraction in LSM, which was further entrenched by regulatory measures. At the same time, adverse developments such as water shortages and high input costs undermined the agriculture sector performance. In the meantime, less tangible factors such as uncertainty regarding decision on the IMF program for BoP support hampered business sentiments. These developments also contributed to a slowdown in private sector credit during the third quarter of FY19.

The overall economic slowdown, along with specific import compression measures, led to a sizeable contraction in country's import bill. Exports managed to post a sizable growth in quantum terms; however, this recovery was not sufficient to offset the adverse price effect stemming from lower unit values. Nonetheless, improvement in trade deficit coupled with healthy growth in workers' remittances resulted in reduction in current account deficit from US$ 13.6 billion in Jul-Mar FY18 to US$ 10.3 billion in Jul-Mar FY19. However, slowdown in FDI inflows kept the external financing requirements at elevated levels. Thus, while the realized bilateral inflows from friendly countries did provide some support to foreign exchange reserves, its adequacy is still below the 3 month of import coverage and the overall BoP position remained weak.

In the same vein, fiscal indicators have continued to deteriorate in the first 9 months of FY19 despite a steep cut in development expenditures by 34.0%. At the same time, interest rate hikes and exchange rate depreciations accentuated the rigidities in the current expenditures. Making things worse, revenue mobilization remained weak due to stagnant tax revenues and steep fall in non-tax revenues. These trends are largely attributed to slowdown in economic activity and lack of tax effort both at provincial and federal level. As a result, the fiscal deficit increased to 5.0% of GDP; notably, the primary deficit has risen to 1.2% of GDP, which suggests that the debt servicing ability has deteriorated sharply, and the country would be requiring more debt to service its current debt.

Despite several rounds of policy rate hike, a cumulative increase of 500 bps since January 2018, inflation has rather stubbornly kept an upward trajectory. Although demand-pull pressures have lessened in intensity towards the end of FY19, the Non-Food Non-Energy component continued to climb. This is because its major impetus came from cost-push factors, including the second-round impact of exchange rate deprecation and increase in energy prices. Furthermore, food inflation that had remained benign over the past 5 years posted a sharp increase in Q3-FY19 due to supply-side bottlenecks.

In spite of being in stabilization phase led by demand management policies for the last 16 months, three challenges still stand out in Pakistan's economy.

i. First, external sector remains vulnerable.
ii. Second, fiscal consolidation remains elusive.
iii. Third, inflation continues to attain higher plateaus.

This basically suggests that current stabilization agenda needs to be reinforced with deep rooted structural reforms.

The reforms in fiscal sector are particularly long awaited especially with respect to broadening the tax base, reduction in untargeted subsidies, withdrawal of discretionary tax exemptions and privatization/restructuring of loss-making PSEs. These reforms are challenging to implement and thus demand serious realization and commitment. A cross cutting area is energy, where a massive overhaul is required across the entire value chain in terms of pricing, governance, management of circular debt and handling mechanism of IPPs.

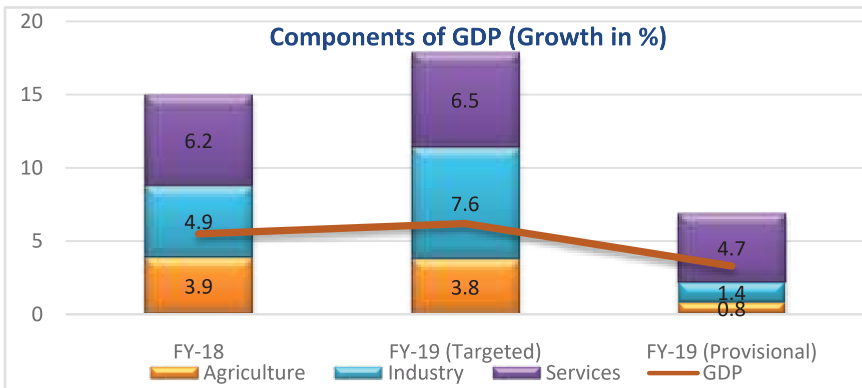
As for the balance of payments, role of private sector would be equally important as of the government in terms of reducing the structural deficit. The government has to provide affordable infrastructure, competitive markets, skill development and business facilitation. The private sector, on the other hand, has to focus on adoption of innovation and technology to improve product and market diversification.

Selected Economic Indicators

		FY-17	FY-18	FY-19R
			Growth Rate %	
Real GDP	Jul-Jun	5.2	5.5	3.3
CPI	Jul-Mar	4.0	3.8	6.8
Private sector credit	Jul-Mar	9.9	9.1	10.2
Money supply (M2)	Jul-Mar	5.9	4.8	5.1
Export	Jul-Mar	-0.1	11.9	-1.3
Import	Jul-Mar	14.7	18.8	-3.7
Tax Revenue	Jul-Mar	7.5	16.2	2.8
Exchange Rate	Jul-Mar	0.0	-.2	-13.7
			Billion USD	
SBP's Reserves	Mar	16.5	11.6	10.5
Worker Remittances	Jul-Mar	14.1	14.8	16.1
FDI in Pakistan	Jul-Mar	2.0	2.6	1.3
Current Account Balance	Jul-Mar	-8.0	-13.6	-10.3
			As % of GDP	
Fiscal Balance	Jul-Mar	-3.9	-4.3	-5.0
Current Account Balance	Jul-Mar	-2.6	-5.7	-4.7
Investment	Jul-Mar	16.2	16.7	15.4

Real Sector

The economy experienced a noticeable moderation as the real GDP growth decelerated to 3.3% in FY19, compared to 5.5% growth last year. This slowdown had already been anticipated on account of policy measures taken to rein in the persistent twin deficits. While the resultant weakening in economic activities was broad-based, the industrial sector, particularly manufacturing activities, bore the brunt of these measures. At the same time, the agriculture sector remained beset with water shortages and increased cost of major inputs, which constrained the production of important crops. The services sector also faced the fallout from the weak performance of commodity-producing sectors.



Agriculture:

The performance of the agriculture sector remained subdued during FY19, growing marginally by 0.8%; this was significantly lower than the 3.9% growth in FY18 and the target of 3.8% for the year. It owed primarily to a considerable contraction in the crop sector, which declined by 4.4% compared to a growth of 4.7% in FY18. There was a marked decline in production of a number of major crops. This was largely attributable to reduction in area under cultivation, mainly caused by sowing period water shortages, and hike in prices of basic inputs such as fertilizer, seeds and pesticides. Meanwhile, livestock, the dominant sub-sector within agriculture, managed to grow by 4.0%. Its contribution not only compensated for the loss in crop sector, but also helped the overall agriculture sector to post marginal growth.

Growth in %			
	FY-18	**FY-19 (T)**	**FY-19 (P)**
Crop Sector	4.7	3.6	-4.4
Livestock	3.6	3.8	4.0
Forestry	2.6	8.5	6.5
Fishing	1.6	1.8	0.8
Overall	**3.9**	**3.8**	**0.8**

Industry:

As the impact of macroeconomic stabilization measures intensified, the performance of the industrial sector slowed to 1.4% during FY19. The impact of macroeconomic stabilization policies coupled with regulatory measures was most evident in construction and manufacturing activities.

Growth in %			
	FY-18	**FY-19 (T)**	**FY-19 (P)**
LSM	5.1	8.1	-2.1
Mining & Quarrying	7.7	3.6	-2.0
Electricity Gen &Dist	-9.1	7.5	40.5
Construction	8.2	10	-7.6
Overall	**4.9**	**7.6**	**1.4**

On one hand, fiscal consolidation measures resulted in reduced public sector development spending, while CPEC related expenditure also witnessed marked deceleration during FY19. On the other hand, regulatory measures such as increase in regulatory duties, and shifting from furnace oil-based electricity generation had a spillover impact on construction-allied activities, pharmaceuticals, automobiles, and POL production.

At the same time, tight monetary policy increased financial costs, and exchange rate depreciation also impaired activities of certain industrial segments. Bank credit to the private sector, especially working capital loans, surged substantially due to increase in inventories and prices of raw material, further escalating costs, while loans for fixed investment witnessed deceleration during FY19.

Despite these adverse developments during the year, some sectors managed to register healthy performances; for instance, small scale and household manufacturing and the electricity generation and distribution and gas distribution. Growth in the latter sub-sector touched historical highs as relatively efficient CPEC-related (RLNG and coal-based) energy projects replaced inefficient furnace oil-based plants, coupled with an upward adjustment in energy prices.

Services:

The services sector grew by 4.7% during FY19. This represented a slowdown compared to last year and was also much lower than the annual target of 6.5%.

Growth in the wholesale and retail trade segment more than halved during FY19 compared to last year. On one hand, the lackluster performance of the commodity-producing sectors dragged the output of the subsector to some extent. On the other hand, despite a net contraction in LSM and crops, the increase in wholesale and retail trade still reflects higher price impact of imports, due to exchange rate depreciation, despite the decline in their growth in FY19.

Growth in %			
	FY-18	**FY-19 (T)**	**FY-19 (P)**
Wholesale & Retail	6.6	7.8	3.1
Transport, Storage & Comm.	2.1	4.9	3.3
Finance & Insurance	7.0	7.5	5.1
Gen. Govt. Services	11.8	7.2	8.0
Overall	**6.2**	**6.5**	**4.7**

Transport, storage and communication performed better during FY19 compared to a year earlier. Growth in road transport, one of the heavyweight segments, nearly doubled compared to last year. Also noteworthy was the continuing improvement in the railways segment. According to official sources, Pakistan Railways generated higher earnings during Jul-Mar FY19 compared to a year earlier, having introduced 24 new trains as well as a trains tracking system which helped improve fuel efficiency. On the other hand, growth in the air transport segment remained at 3.4%, similar to last year.

Finance and insurance also witnessed a slowdown compared to last year. Lower growth in gross value addition by scheduled banks, which have the greatest share in the segment, set the tone for the moderation in the face of subdued growth of deposits while their investments declined. Meanwhile, performance of the equity market remained dismal. Since the portfolio of insurance companies and mutual funds is largely dominated by investments in equity market, that also adversely effected the segment's performance.

Inflation and Monetary Policy

The headline CPI inflation rose steeply from 6.0% in H1-FY19 to 8.3% in the 3rd quarter. Cost - push factors were mostly responsible:

(i) managing the high level of twin deficits necessitated upward adjustments in administered prices (of mainly petrol, gas and electricity), which not only directly inflated CPI's energy component (and by extension, transport services), but also escalated manufacturing cost;

(ii) the impact of a sharp increase in the rupee-dollar parity was felt across a number of items within the CPI basket; and

(iii) supply-side constraints and higher transportation costs led to a surge in food prices (these prices had remained low and stable over the past 5 years).

Furthermore, house rents posted a sharp YoY increase during Q3-FY19 due to base effect – quarterly revision in house rents was unusually modest in Q3-FY18.

Importantly, the persistence of the large twin deficits weighed heavily on the near- to medium-term inflation outlook. Moreover, further adjustments in energy tariffs as well as continued pressures on the exchange rate also meant that cost pressures were not likely to dissipate. Therefore, the Monetary Policy Committee decided to continue with monetary tightening and increased the policy rate by a cumulative 75 bps during the review period, taking the cumulative adjustment since the beginning of the recent tightening cycle to 500 bps by end of Q3-FY19.

On the monetary policy implementation front, voluminous budgetary transactions in the banking system complicated liquidity management during the 3rd quarter. In particular, commercial banks continued to eye higher cut-offs in auctions of government securities and were not willing to roll-over maturing debt at prevailing rates. As a result, the government had to borrow excessively from the SBP to finance the fiscal deficit and to repay commercial banks' debt. On aggregate, the government retired Rs 2.0 trillion to banks during Q3-FY19 – a record-high level for any quarter. To absorb the excess liquidity from the market and to keep overnight rates close to the policy rate, the SBP had to conduct 52 OMOs (mop-ups only) during the quarter.

The entrenched liquidity surpluses in the interbank market can also be explained by the weakening momentum of private sector credit in the wake of unfavorable macroeconomic conditions. After posting a sizable expansion in the preceding quarter, credit offtake suddenly and sharply slowed down to just Rs 41.1 billion in Q3-FY19, as compared to Rs 177.4 billion in the same period last year.

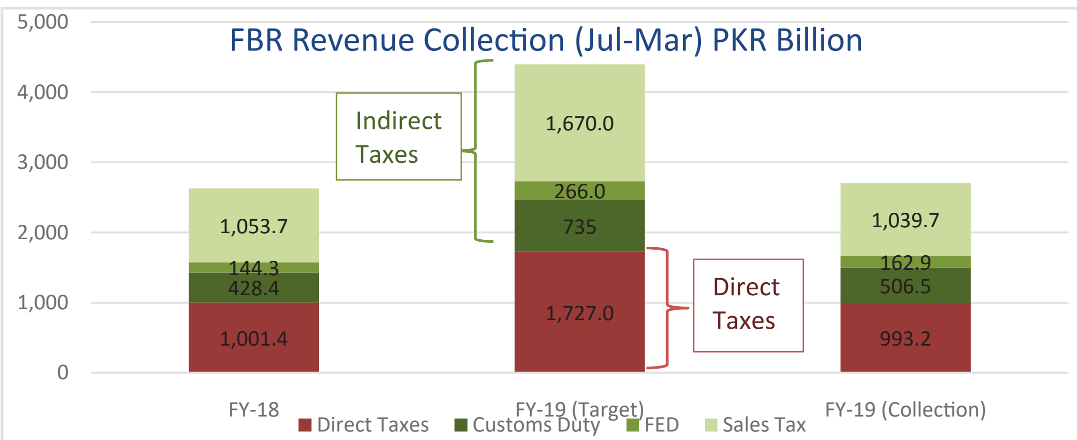
In overall terms, the subdued budgetary and private sector borrowings led to a containment in the growth of net domestic assets of the banking system during Q3-FY19. This more than offset the improvement in the net foreign assets and credit to PSEs during the quarter. As a result, the pace of monetary expansion (M2) slowed down to 1.4% during the quarter, as compared to the growth of 3.6% in H1-FY19 and 2.5% in Q3-FY18. While this slowdown conforms to the ongoing stabilization measures and may help rein in excess demand in the economy, the composition of M2 is worrisome.

Around 88% of the M2 growth during Q3-FY19 came from currency in circulation, as a substantial weakening was observed in deposit mobilization during the quarter. While the pace of deposits mobilization has remained underwhelming ever since the government had imposed withholding tax on non-filers for non-cash banking transactions, the trend in Q3-FY19 was quite concerning, as deposit growth fell to only 0.2%, from 1.8% in Q3FY18. Furthermore, the currency to deposit ratio on average touched 39.6% during the quarter. The rise in mark-up rates on NSS instruments, overall macroeconomic uncertainty, rising inflation, and expectations of further exchange rate depreciation, all extended the weak growth in bank deposits.

Fiscal Sector

The cumulative fiscal deficit during Jul-Mar FY19 stood at 5.0% of GDP, much higher than the deficit of 4.3% recorded in the same period last year. Most of the deterioration was recorded in the 3rd quarter, when the deficit reached 2.3% of GDP; it is worth noting that the deficit during the H1-FY19 had amounted to 2.7%.

A steep fall in non-tax revenues and a slowdown in tax revenue led the overall revenue collection to stagnate at last year's level. The FBR's taxes grew by only 2.8% in Jul-Mar FY19, compared with double-digit growth of 16.2% recorded during the same period last year. Meanwhile, the non-tax revenues were lower mainly due to fall in SBP profits and delay in transfer of hydel profits to the provinces.



On the expenditure front, the cumulative growth stood at 8.0% during Jul-Mar FY19, against 16.0% last year. The slowdown in growth primarily came from cuts in PSDP spending, both at the federal and provincial levels, as current expenditures grew at a much higher rate (17.7%) than they had in the same period last year (13.0%). The increase in current expenditures stemmed from higher interest payments and security-related expenses during the period.

Analysis of Fiscal Spending (PKR Billion)		
	FY-18	FY-19
Current Expenditures	**4,075.4**	**4,798.4**
Federal	2,653.3	3,180.9
Interest Payments	1,172.8	1,459.2
Defense	623.8	774.7
Public Order & Safety	94.0	106.1
Others	762.7	131.2
Provincial	1,422.1	1,617.4
Development Expenditure	**993.3**	**655.9**
PSDP	931.4	578.5
Others	61.9	77.4
Net Lending	**9.2**	**28.3**
TOTAL EXPENDITURE	**5,077.9**	**5,482.5**

Pakistan's Public Debt Profile (PKR Billion)		
	Jun-18	Mar-19
Gross Public Debt	**24,952.9**	**28,607.5**
Govt. Domestic Debt	16,416.3	18,170.6
Govt. External Debt	7,795.8	9,625.7
Debt from IMF	740.8	811.2
Total Govt. Debt*	**23,024.0**	**26,368.1**
*Gross public debt minus govt. deposits with banks		

The resulting higher fiscal deficit was mainly financed through borrowing from the SBP, and non-bank and external sources. In particular, financing from nonbank sources was almost four times higher than last year, with the NSS being the primary source of increase. At the same time, external sources financed around 27% of the fiscal deficit, as the country received significant bilateral and commercial loans.

In addition to the higher fiscal deficit which increased financing needs, revaluation losses owing to the PKR's depreciation against the US dollar also contributed significantly to the rise in public debt. During Jul-Mar FY19, public debt rose by Rs 3.6 trillion and reached Rs 28.6 trillion by end-March 2019.

Pakistan External Debt Profile & Servicing of External Debt (Billion USD)						
	Public Debt		Principal Payment		Interest Payment	
	Jun-18	Mar-19	FY-18	FY-19	FY-18	FY-19
Government Debt	64.1	68.4	2.045	2.512	0.998	1.361
IMF	6.1	5.8	0.044	0.251	0.095	0.108
External Liabilities	5.1	10.1	_	_	0.016	0.112
Total	**75.4**	**84.2**	**2.089**	**2.762**	**1.109**	**1.582**

External Sector

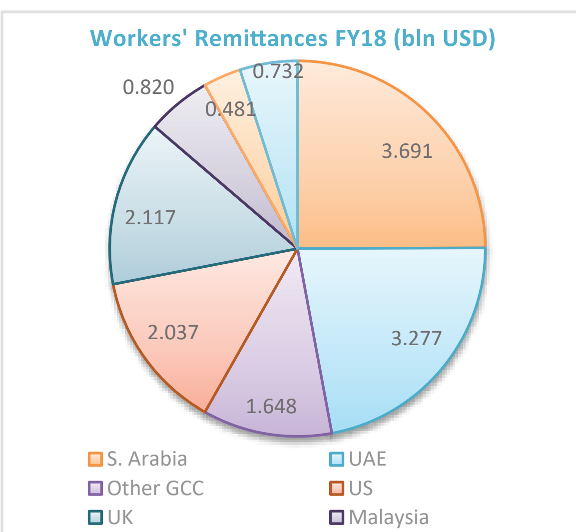
The external account continued to improve as the year progressed, with the current account deficit in Q3-FY19 falling to a 2 year low to US$ 2.0 bln. Contractions in import payments for both goods and services were the primary factors and were supported by a decent growth in worker remittances. These factors cumulatively offset the higher primary income deficit and a decline in export receipts. As a result, the current account deficit for Jul-Mar FY19 declined 23.9% to US$ 10.3 bln.

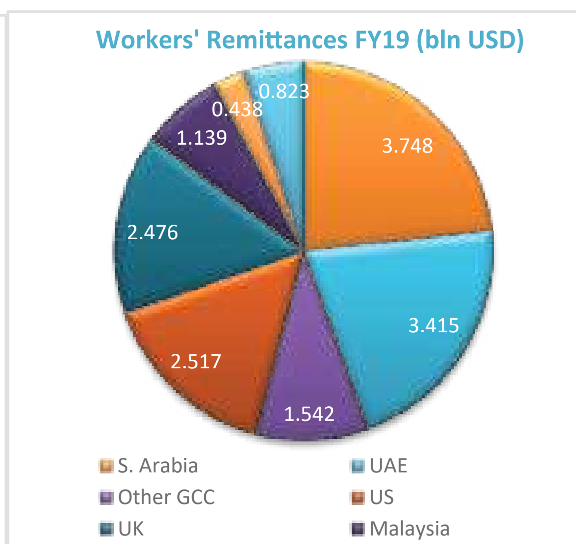
Pakistan's Balance of Payment (Billion USD)		
	FY-18	FY-19
Current Account Balance	**-13.589**	**-10.345**
Trade Account	-23.095	-21.813
Exports	18.254	18.020
Imports	41.349	39.833
Services Balance	-4.320	-2.776
Primary Income Balance	-3.683	-3.872
Secondary Income Balance	17.509	18.116
Remittances	14.803	16.095
Financial Account Balance	**-9.395**	**-11.720**
FDI Inflows	2.622	1.274
Portfolio Investment	2.332	-0.398
FX Liabilities	**4.673**	**11.234**
SBP Reserves	**11.602**	**10.492**

As the year went on, the merchandize import payments further dropped with tapering demand for imported power generation and electrical machinery, following the conclusion of early harvest CPEC projects. Furthermore, purchases of aircraft and related parts from abroad that inflated last year's imports, normalized this year. Meanwhile, the overall slowdown in economic activity in the wake of macro adjustment policies and regulatory measures curbed the import demand for raw materials for construction and auto industries. Also, quantum-led drops in import payments for both POL products and crude oil in the 3rd quarter pulled down energy imports for the first time since Q1-FY17. The lower energy purchases, along with declining non-energy imports, led overall import payments to decline 16.4% in Q3-FY19.

Both domestic and international factors were responsible for the subdued export performance. For exports of major textile products like knitwear and readymade garments, the slowdown in export growth was primarily due to a decline in their dollar-denominated unit prices, as their quantum exports rose significantly. Besides, higher domestic demand for value addition and lower cotton yarn demand from China suppressed yarn exports to China. The phasing out of export subsidies on sugar and wheat from Q2 onwards made their exports unviable. Moreover, lower production of cotton and fertilizer not only crippled their export prospects,but instead necessitated hefty imports.

Meanwhile, workers' remittances have risen significantly in the year, with most of the increase coming from the US and the UK. The Pakistan Remittance Initiative (PRI) has intensified its efforts by launching advertisement campaigns in local and destination specific foreign media to encourage overseas Pakistanis to remit through legal channels. Besides this, strong real GDP growth, coupled with risingwages in advanced economies, have boosted inflows from the US and the UK.





However, despite the higher remittances and the resultant reduction in the current account gap, the size of the deficit is still quite large. And this gap could not be filled by foreign investment. As a result, the country had to resort to bilateral and commercial sources for external financing; most of these inflows were realized in the 3rd quarter. Yet, given the elevated CAD and the precarious FX reserves position, these inflows proved insufficient to completely calm down FX market sentiments. As a result, the PKR depreciated 13.7% against the US dollar during Jul-Mar FY19.

Pak Rupee Vis-à-vis Major Currencies (% Change)

	FY-18				FY-19		
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**
US Dollar	-0.50	-4.50	-4.40	-4.90	-2.20	-10.50	-1.40
Euro	-3.80	-6.00	-7.10	0.60	-1.80	-9.20	0.50
Japanese Yen	0.00	-4.50	-9.90	-0.90	0.20	-13.20	-0.80
British Pound	-3.40	-5.40	-8.20	1.50	-1.40	-8.30	-3.50

Economic Outlook

With stabilization policies in place and the economy moving along the reforms agenda, the country's macroeconomic indicators are expected to slowly revert to a stable trajectory. In this process, however, *the real GDP growth is likely to remain contained.*

In particular, adjustment on the fiscal side has yet to get underway. Related to this, the revenue measures announced in FY20 Federal Budget are likely to keep disposable incomes and domestic demand under check. Amid such conditions, *the industrial growth is not expected to rebound notably next year*. Having said that, some support to the GDP growth can possibly come from strong prospects in the agriculture sector, where there is a potential for higher output if the impact of constraints affecting area under cultivation and yields is managed effectively. Early investments in agriculture and SEZs under the CPEC and higher outlay of next year's PSDP can also have a positive impact on GDP growth in FY20.

As *for the current account, the government is projecting the deficit to reduce further in FY20*, on the back of an expected better export performance, containment of import payments and continued momentum in workers' remittances. However, downside risks persist in the wake of a slowdown in global economy, attributed to escalated trade war between US-China and uncertainty in Europe. Under these circumstances, increasing exports to the traditional markets may prove challenging. *On the financing side, the initiation of the IMF Extended Fund Facility program would help assuage the overall external sector concerns.*

Finally, despite monetary tightening, *the government is projecting CPI inflation to be higher in FY20.* This outlook is largely explained by supply-side factors, such as the upward adjustments in domestic energy prices and recent episodes of PKR depreciation along with their second-round impact, which are likely to increase the cost of production and doing business. Additional impact is likely to come from various taxation measures taken in the FY20 Federal Budget and the risk arising from any volatility in the international oil prices.

UPDATE ON KEY SECTORS

AUTOMOTIVE ASSEMBLERS/MANUFACTURERS

- The downslide in automobile sector became more noticeable during Q3-FY19 compared to the previous two quarters. Resultantly, the sector contracted by 7.6% during Jul-Mar FY19 compared to an impressive growth of 18.9% during the same period last year.

- Policy measures like regulatory restrictions prohibiting non-filers from purchase of vehicles (the restriction remained intact from July-18 to Mar-19) and increase in interest rates dented the demand in the automobile segment to some extent (Bank lending for auto financing declined from Rs. 13.9 Bln in Q3-FY18 to Rs. 5.9 Bln in Q3-FY19).

- Furthermore, significant depreciation of PKR increased the cost of production, resulting in escalated prices and dampening the demand further. The severity of dip in economic activities, especially agriculture incomes, was more evident in tractors and motorcycles (mainly rural demand) and commercial vehicles that showed double-digit contraction in growth.

- The car segment managed to grow by 5% during Jul-Mar FY19, benefiting largely from earlier bookings which partially diluted the impact of regulatory restrictions (especially on non-filers). The delivery times were 6-9 months for certain popular variants until June 2018, before the enforcement of regulatory measure requiring buyers to be active tax filers. The impact of earlier bookings lasted till December 2018. Subsequently, the production of cars contracted by 12% in Q3-FY19, compared to a growth of 4.6% in H1-FY19.

- Besides, the stringent imported used-car policy also helped in diverting consumers towards domestically produced cars, evident from reduced influx of imported used cars during FY19.

	Absolute Values				Growth %	
	FY-16	FY-17	FY18	FY19	FY18	FY19
Cars	111,830	127,893	148,899	156,038	16	5
SUVs	621	812	9,841	5,745	1,112	(42)
LCVs	29,529	18,637	22,605	19,098	21	(16)
Trucks	3,940	5,489	6,907	5,027	26	(27)
Buses	746	893	555	649	(38)	17
Tractors	21,942	37,938	52,551	37,457	39	(29)
Motorbikes	982,174	1,211,454	1,425,453	1,342,185	18	(6)

NBP Exposure & NPLs(Rs. in Million)

Year	2015	2016	2017	2018
Advances	2,658	3,596	3,534	7,054
NPLs	985	954	938	945
NPL %	35.90%	27.41%	26.56%	13.40%
Auto Advances as % of Total Advances	0.38%	0.45%	0.41%	0.66%
Auto NPLs as % of Total NPLs	0.76%	0.79%	0.77%	0.70%

CEMENT

Major Cement Players' Installed Capacity (As on March-19)

	Operational Capacity (mln tons)	
	Clinker	Cement
Lucky Cement	8.572	9.001
Bestway Cement	7.433	7.805
D.G. Khan Cement	6.780	7.119
Cherat Cement	4.320	4.536
Fauji Cement	3.270	3.433
Maple Leaf Cement	3.210	3.370
Attock Cement	2.852	2.995
Dewan Cement	2.760	2.898
Kohat Cement	2.550	2.677
Askari Cement	2.550	2.677

- Cement production recorded contraction of 5.4% during Jul-Mar FY19, compared to double-digit growth of 12.4% in the same period last year; this was the first decline in last eight years during Jul-Mar period. The decline may have been greater had it not been for cement exports, which partially offset the weakness in domestic demand.
- The cement sector has been going through a major expansionary phase in recent years, mirroring the increase in economic activity in the country.
- Public sector development spending, complemented by CPEC outlays on infrastructure, provided a boost to the cement industry. However, this type of support may not be as forthcoming during the ongoing phase of macroeconomic stabilization.

Jul-Jun	Prod. Capacity	% Inc/(Dec)	Local Dispatches	% Inc/(Dec)	Exports	% Inc/(Dec)	Capacity Utilization	Surplus Capacity
	mn ton	%	mn ton	%	mn ton	%	%	mn ton
2010-11	42.37	(6.55)	22.00	(6.64)	9.43	(11.47)	74.1	10.94
2011-12	44.64	5.35	23.95	8.84	8.57	(9.12)	72.83	12.13
2012-13	44.64	-	25.06	4.64	8.37	(2.26)	74.89	11.21
2013-14	44.64	-	26.14	4.33	8.14	(2.84)	76.79	10.36
2014-15	45.62	2.19	28.20	7.88	7.20	(11.57)	77.60	10.22
2015-16	45.62	-	33.00	17.01	5.87	(18.38)	85.21	6.74
2016-17	46.39	1.69	35.65	8.03	4.66	(20.59)	86.90	6.08
2017-18	53.44	15.2	41.15	15.42	4.75	1.77	85.87	7.55
2018-19 Jul-Mar	57.13	5.34	29.45	(5.96)	5.13	48.98	80.71	8.27

NBP's Exposure & NPLs (Rs. in Million)

Year	2015	2016	2017	2018
Advances	8,436	8,699	12,298	26,257
NPLs	2,744	2,624	2,525	1,979
NPL %	32.53%	30.17%	20.53%	7.53%
Cement Advances as % of Total Advances	1.21%	1.11%	1.43%	2.47%
Cement NPLs as % of Total NPLs	2.13%	2.17%	2.09%	1.48%

TOBACCO

- The year 2018 was a turnaround year for the two major tobacco multinationals operating in the formal fold. That's the year when the introduction of a three-tier tobacco FED regime, introduced in mid-2017 to fight illicit cigarette trade, showed its true colors. 2018 saw cigarette production attain its peak, resulting in recouped tobacco profits, even as effective excise duty rate went down, and per capita cigarette consumption rose.

Tobacco Duo's Turnaround in 2018 (Jan-Sept)				
	Pakistan Tobacco		Philip Morris	
	Rs. Bn	YoY Chg	Rs. Bn	YoY Chg
Gross Turnover	97.1	21%	25.2	25%
Net Turnover	39.3	30%	11.2	33%
Operating Profit	14.0	38%	1.2	205%
Net Profit	9.3	38%	0.9	1011%

- While the tobacco duopoly registered double-digit gains in gross turnover, the respective net profits were proportionally more. At work is the lower effective FED per pack, thanks to the third tier, where bulk of cigarette sales is made.

Changes Made in FED Structure for Cigarettes 2013-18 (Rs. per pack)								
Change made in		**Jun-13**	**Jun-14**	**Jun-15**	**Jun-16**	**May-17**	**Apr-18**	**Sep-18**
Tier-I	Retail Price	> 45.72	> 54.12	>67	>80	Over 90	Over 90	Over 90
	FED	46.5	52.64	60	68.72	74.8	79.4	90
Tier-II	Retail Price	<45.72	<54.12	<67	<80	90<p>58.5	90<p>58.5	90<p>58.5
	FED	17.6	21.7	26.4	30.68	33.4	35.52	36.8
Tier-III	Retail Price	-	-	-	-	<58.5	<58.5	<58.5
	FED	-	-	-	-	16	17	25

- The introduction of the third excise tier arrested the exponential growth of non-tax paid cigarette segment ("Illicit trade"), providing a more level playing field by narrowing the price gap between tax paid and non-tax paid cigarettes.

- While the overall cigarette consumption has remained relatively static, there was a gradual shift in volumes from the illicit cigarette segment towards tax paid products.

- The third excise tax tier provided a wider and more sustainable base for the growth of government revenues which would have otherwise seen a significant decline.

- The tobacco sector contributes hefty amount to the government exchequer in the form of Federal Excise Duty, Sales tax, Income tax and other levies. However, the Finance Supplementary bill dated September 18, 2018 imposed ~46% increase in the excise rates for the third excise tier.

- Tobacco sector is focusing on local as well foreign market both for cigarettes and tobacco, especially re-dried tobacco because foreign market had good demand for Pakistani tobacco.

- But the export of Pakistani Tobacco is faced with numerous problems in the Export market mainly increasing costs, cultivation of non-recommended varieties of Tobacco by Pakistani Farmers and increased ratio of Non-Tobacco Related Material (NTRM) in the Tobacco.

FOOD, BEVERAGES & CONSUMER PRODUCTS

- The food processing industry during Jul-Mar FY19 was pulled down by sub-par performance of the sugar sector, which accounts for more than one-fourth of the total food industry.
- Prospects of the sugar industry were uncertain from the start of the year since the raw material was scarce; sugarcane cultivation posted 17.9% decrease over last year. Lack of implementation of indicative sugarcane prices and water scarcity in certain parts of the country mainly resulted in lower sugarcane cultivation this year.
- For several years now, the government's intervention in the sugarcane market has been broadly ineffective. It could neither provide price security to growers at times of bumper crops, nor ensure smooth supply of sugarcane to the millers. The government has kept the price of commodity at the same level in the past few years, while the production has remained erratic and prices have not reflected the scarcity (or oversupply) of the product in the market.
- This inefficient sugarcane pricing mechanism has repercussions for the external sector as well. High price of domestic sugar relative to global benchmarks means that the country can export surplus sugar only with export subsidy. With ample capacity to produce exportable surplus, the government needs to reconsider its pricing mechanism such that it reflects the true cost of resource usage, incentivizes market agents to make decisions in the wake of prevailing market dynamics and enhances the possibility of exporting sugar without any subsidy.
- Meanwhile, the cigarette sector's growth was recorded at 7.2% during Jul-Mar FY19. The government's prudent policy of three tier duty structure and crackdown on illicit production continues to propel the sector towards formal market mechanism.
- Pakistan ranks 5th in beverage consumption in the world and the country's beverage sector is bearing second highest indirect taxes of 27.5% on retail price of carbonated soft drink, limiting the capacity of the industry to reinvest into the market to capture the growth opportunity. Comparatively, India has 21.5% taxes on beverage, while China slaps 17%. In Bangladesh, however, the rate is 40%.
- There are three key players operating in the country's beverage sector. Pepsi Cola International holds the biggest chunk in market share with 51%. The company paid tax of Rs9.9 billion with a 55% share in tax contribution from the industry. Coca-Cola Beverage Pakistan Limited holds 38.8% market share and tax share of 43%. It paid Rs7.8 billion in taxes. Gourmet paid Rs0.3 billion in taxes with 10.8% market share and 2% tax share.
- The current level or any further increase in FED would encourage more tax evasion, which is already destabilizing the level-playing field.

NBP's Exposure & NPLs* (Rs. in Million)

Year	2015	2016	2017	2018
Advances	2,959	2,396	5,402	8,115
NPLs	3,090	3,503	2,667	2,700
NPL %	104.4%	146.16%	49.36%	33.27%
Food & Tobacco Adv as % of Total Adv	0.42%	0.30%	0.63%	0.76%
Food & Tobacco NPLs as % of Total NPLs	2.40%	2.90%	2.20%	2.02%

*As per annual financial statements, the food & tobacco sectors are combined, therefore their exposures & NPLs are provided together.

FERTILIZER

- The performance of fertilizer industry depends on availability of concessionary gas to fertilizer plants. In current fiscal year, some small urea plants managed to resume operations that helped the industry to post a growth of 4.5% during Jul-Mar FY19 whereas in preceding year production had shrunk by 8.3%.

- Government had earlier provided relief to the small urea producers by providing mix of domestic and imported RLNG at subsidized rates.The government extended the subsidy up till October 2019 to ensure availability of urea at affordable rates.

- Despite this relief offered by the government, the fertilizer industry was unable to recover to the production level of FY17. The industry managed to recover only 2.4% during Jul-Mar FY19 in terms of urea production, compared to 8.3% decline in same period last year. Some recovery in production owed largely to the resumption of activities at the smaller fertilizer units.

- Meanwhile, the production of larger firms, that contribute almost 90% of total urea output, declined by 1.3%; last year, these firms had witnessed growth of 2.1%.

- Prices of fertilizers rose sharply during Jul-Mar FY19 period on YoY basis; specifically, prices of urea increased by 27.0% and DAP 16.6%. This reflects the increase in cost of production plus price adjustment after exchange rate depreciation. Increase in prices of fertilizers provided reprieve for the manufacturers by keeping their margins intact. While imported DAP price is mainly reflective of international benchmarks, urea is still highly discounted compared to the international market.

Major Players' Capacities (mlnTonnes)					
Group	**Company**	**UREA & CAN**	**DAP, NP & NPK**	**Total**	**Utilized Capacity**
Fauji	Fauji Fertilizer Company	2.048	-	2.048	123%
	Fauji Fertilizer Bin Qasim	0.551	0.650	1.201	
	Sub-Total	**2.599**	**0.650**	**3.249**	
ENGRO	Engro Fertilizer Ltd.	2.275	0.100	2.375	81%
	Sub-Total	**2.275**	**0.100**	**2.750**	
Fatima	Fatima Fert. Co.	0.920	0.360	1.280	101%
	Fatima Fert. Ltd.	0.401	0.228	0.629	18%
	Pak Arab Fert.	0.542	0.304	0.846	49%
	Sub-Total	**1.863**	**0.892**	**2.756**	
	Agritech Ltd.	0.433	0.810	0.514	62%
	Sub-Total	**0.433**	**0.810**	**0.514**	
	TOTAL	**7.170**	**1.723**	**8.894**	

NBP's Exposure & NPLs (Rs. in Million)

Year	2015	2016	2017	2018
Advances	15,909	14,383	19,149	19,677
NPLs	18,319	3,107	3,150	2,899
NPL %	115.14%	21.60%	16.45%	14.73%
Fertilizer Advances as % of Total Advances	2.29%	1.83%	2.23%	1.85%
Fertilizer NPLs as % of Total NPLs	15.06%	2.57%	2.60%	2.17%

CHEMICAL

- Pakistan's chemical sector is less than 2% of the LSM with total annual revenue of less than $3 billion. As we analyze the financial results of the following chemical companies namely; ICI Pakistan Limited, Lotte Chemicals Pakistan Limited (LOTCHEM), Engro Polymer & Chemicals Ltd. (EPCL), Colgate-Palmolive (Pakistan) Limited (COLG) and Archroma Pakistan Limited (ARPL) having above 80% share in chemical sector, a fair representation of the sector's performance comes into view.

Total Profit & Loss Statement of Chemical Sector

PKRMln	Dec-18	Dec-17	% Change
Revenue	55,908	41,126	35.94%
Cost of Sales	46,567	33,896	37.38%
Gross Profit	9,340	7,230	29.20%
Total Outflows	5,477	4,823	13.55%
Total Inflows	1,038	440	135.65%
Pre-Tax Profit	4,902	2,847	72.19%
Taxation	1,299	797	62.85%
After Tax Profit	3,603	2,049	75.83%

- The cumulative earnings of these companies remained impressive as the sector's profit surged by around 76% during the last quarter which ended with December 2018 as compared to same period last year. The Chemical sector's outstanding financial performance is attributable to improved pricing and decent offtakes.

Company-Wise Growth (PKR Mln)

	PAT	YOY Growth
COLG	903	6%
ICI	279	-65%
ARPL	332	19%
LOTCHEM	1,023	14073%
EPCL	1,064	905%

- Based on companies' earnings share as % of total sector's earnings, EPCL stood on top with 30% of the sector's earnings followed by LOTCHEM (28%), COLG (25%), ARPL (9%) and ICI (8%).

- The key challenge to chemical sector was the devaluation of rupee against the US dollar, which negatively impacted the cost of all imported raw and packing materials and, thus, led to a marked increase in product manufacturing costs. The local costs also continued to increase throughout the year on account of rising inflation. The overall increased costs of running the business led to a significant erosion of margins and profitability were only partially compensated by a price increase allowed by the Drug Regulatory Authority of Pakistan (DRAP) in January 2019.

PHARMACEUTICALS

- The pharmaceutical industry witnessed its worst period in well over a decade as its production contracted by 8.4% during Jul-Mar FY19 against 4.2% growth in same period last year.
- One of the major explanations was the price adjustment mechanism in the country. During the course of the year, the pharmaceutical firms and regulatory authority, DRAP, were at odds about the price - setting mechanism. This situation led to an increased dependence on imported pharmaceutical products. Resultantly, imports of medicinal products rose by 9.7% and 7.3% in quantum and value terms respectively.
- Another possible reason of this decline in pharmaceutical production was the shifting of some production units from Sindh to Punjab, which created temporary disruption.

		Revenue (PKR Mln)			
Name of Pharma Company	**% Share in Revenue**	**2018**	**2017**	**2016**	**Trend**
GlaxoSmithKline Pakistan Limited	26%	34.01	32.77	27.56	
Abbott Laboratories (Pakistan) Limited	23%	29.72	26.09	23.39	
GlaxoSmithKline Consumer Healthcare	11%	14.88	8.3	5.38	
Sanofi-Aventis Pakistan Limited	10%	12.96	12.45	11.89	
The Searle Company Limited	10%	12.91	10.75	9.52	
Highnoon Laboratories Limited	6%	7.5	5.97	5.07	
AGP Limited	4%	5.38	4.72	4.21	
Ferozsons Laboratories Limited	3%	4.46	4.31	10.19	
Macter International Limited	3%	4.05	3.63	3.06	
Otsuka Pakistan Limited	1%	1.87	1.83	1.55	
IBL HealthCare Limited	1%	1.36	1.19	1.16	
Wyeth Pakistan Limited	1%	1.19	1.13	1.25	

NBP's Exposure & NPLs*(Rs. in Million)

Year	2015	2016	2017	2018
Advances	2,953	3,175	6,755	6,412
NPLs	2,574	2,308	1,956	3,063
NPL %	87.13%	72.71%	28.95%	47.77%
Chemical & Pharma Advances as % of Total Advances	0.42%	0.40%	0.78%	0.60%
Chemical & Pharma NPLs as % of Total NPLs	2.00%	1.91%	1.61%	0.28%

*As per annual financial statements, the chemical & pharmaceutical sectors are combined, therefore their exposures & NPLs are provided together.

TEXTILE

- During FY19, cotton production declined by 17.5%, compared to last year. This prevented the textile sector from taking full advantage of the recent bouts of exchange rate depreciation, as exports barely grew from last year's level. Despite all concessions and incentive packages, the performance of the textile sector remained anemic.

- Higher production costs, especially the high cost of electricity, imported machinery and labor cost, amid depressed prices in the international market, have eaten into the margins of the industry.

- As profitability has waned over time, so has the investors' interest. Leading domestic textile firms continued to shift their attention to the domestic markets, where the margins have tended to be higher compared to exports. As a result, the exportable surplus has waned. Therefore, the economy kept on missing out on a significant chunk of foreign exchange earnings that the textile sector could potentially have generated.

- Today's leading fashion retailers, conglomerates and brands are aligning themselves with the United Nation's Sustainable Development Goals (SDGs) and as a result, they have pledged to buy those cotton products which are based on 100% sustainable cotton by 2025. Organic cotton is cultivated without fertilizers, pesticides and genetically modified organism (GMO) seeds. It is also grown with 90% less water and 60% less energy. Recycled cotton uses 80% less water as compared to the conventional crop with a much smaller environmental footprint and can be successfully blended with other fibers.

- Pakistan produces 11 million bales of cotton per annum, of which 25% is better cotton. Organic cotton production in the country is zero but now some leading textile mills have started producing recycled cotton. However, for the time being, it is not known how much-recycled cotton is churned out and what is the quality standard.

- It is quite clear that in order to bridge the demand-supply gap Pakistan imports sustainable cotton. At present, it annually imports one million bales of sustainable cotton worth approximately $1.72 billion. However, imports are likely to go up substantially.

- As the world switches from conventional to sustainable cotton, the demand has surged for the latter. Countries producing sustainable cotton first cater to and safeguard their own interests before offering the commodity to non-sustainable cotton-producing countries.

- The industry will also face fierce competition with African countries like Ethiopia and Ghana, which are emerging as major textile exporting nations. The changing market dynamics will hurt the textile industry and cause a decrease in orders from international brands.

NBP's Exposure & NPLs (Rs. in Million)

Year	2015	2016	2017	2018
Advances	62,305	81,728	93,142	110,488
NPLs	31,907	30,323	31,907	38,864
NPL %	51.21%	37.10%	34.25%	35.17%
Textile Adv as % of Total Advances	8.96%	10.43%	10.86%	10.42%
Textile NPLs as % of Total NPLs	24.87%	25.15%	26.41%	29.14%

FINANCIAL INSTITUTIONS

- Finance and insurance also witnessed a slowdown compared to last year. Lower growth in gross value addition by scheduled banks, which have the greatest share in the segment, set the tone for the moderation in the face of subdued growth of deposits while their investments declined. Meanwhile, performance of the equity market remained dismal. Since the portfolio of insurance companies and mutual funds is largely dominated by investments in equity market, that also adversely effected the segment's performance.

- After receiving inflows of $500 million from the Asian Development Bank (ADB), Pakistan's total liquid foreign reserves held by the country stood at $15,577.5 million as on August 09, 2019. The foreign reserves held by the State Bank of Pakistan stood at $8,264.4 million while the net foreign reserves held by commercial banks stood at $7,313.1 million.

- In the first 11 months of 2018-19, SMEs made net fresh borrowing of Rs111 billion and the bulk of it (Rs94bn) was working capital, according to the State Bank of Pakistan (SBP). Their net borrowing was Rs25bn in 2017-18 with the share of working capital at a little less than Rs18bn. The big jump in working capital is attributable to a weaker rupee and higher inflation that increased the SMEs' cost of operations.

- The economic growth rate slowed down last year to 3.3% from 5.5% a year earlier. It is expected to grow at an even slower pace — 2.4% — during this year. This means SMEs will have to struggle more to enhance their sales. The SBP has projected that inflation will rise at an average pace of 11-12% this year against less than 7.5% a year ago. The tightening of interest rates continues to check inflation. Besides, the SBP is faithfully implementing a market-determined flexible exchange rate regime under the strict supervision of the International Monetary Fund (IMF). So, the rupee may depreciate further as external-sector imbalances have not gone away. All this indicates that SMEs' working capital needs will outweigh their fund requirements for fixed investment.

- Chinese SMEs equipped with better management skills and advanced technologies are due to set up businesses in Pakistan. Local SMEs will face tougher competition in the near future. In such circumstances, capacity enhancement and technological advancement are key to survival. But banks are not lending enough to SMEs for fixed investment.

- The infection ratio, or NPLs as a percentage of total bank advances, is the highest for SMEs — 16.4% in March 2019, even higher than 16.1% for the notorious agriculture sector. So, the banking industry in general should remain cautious in lending to SMEs particularly for long-term fixed investment. The banking industry is expected to keep offering SMEs short-term working capital. In the first 11 months of 2018-19, they lent less than Rs12bn to SMEs for fixed investment against Rs15bn in the entire 2017-18.

- During the first 11 months of 2018-19, banks' net fresh lending to SMEs under trade finance also remained stagnant. During the current fiscal year, interest rates are going to remain even higher as the SBP is struggling to contain inflation and the economy is going to decelerate further. So, troubles for the SME sector are far from over.

➢ Under the present circumstances, most of the SMEs would lose ground to those of China as and when the latter enter Pakistan. And even those that would survive might remain constrained on many counts. Capacity enhancement of SMEs and innovation in business models are, therefore, necessary.

SME Financing Profile of Banks & DFIs (Rs. in Billion)				
Category	**Mar-19**	**Mar-18**	**Mar-17**	**Mar-16**
Outstanding SME Financing	470.08	408.53	367.25	283.58
Private Sector Financing	6,190.80	5,225.32	4,461.05	3,828.62
SME Fin as % of Pvt Sector Financing	7.69%	7.82%	8.23%	7.41%
SME NPL Ratio	16.57%	18.27%	22.11%	29.00%
No. of SME Borrowers	181,749	170,638	176,004	163,604

Share of Banks in SME Financing (Rs. in Billion)								
Banking Cluster	**Mar-2019**	**% Share**	**Mar-2018**	**% Share**	**Mar-2017**	**% Share**	**Mar-2016**	**% Share**
Public Sector Commercial Banks	99.20	21.10%	88.91	21.76%	88.05	23.97%	81.76	28.83%
Specialized Banks	9.28	1.97%	9.26	2.26%	9.60	2.61%	9.10	3.20%
Domestic Private Banks	315.12	67.03%	281.32	68.86%	247.20	67.31%	181.17	63.88%
Foreign Banks	0.15	0.03%	0.16	0.03%	0.16	0.04%	0.16	0.05%
Islamic Banks	43.89	9.33%	27.61	6.75%	21.29	5.79%	10.96	3.86%
DFIs	2.44	0.51%	1.27	0.31%	0.95	0.25%	0.43	0.15%
Total	**470.08**		**408.53**		**367.25**		**283.58**	

NBP's Exposure & NPLs (Rs. in Million)

Year	**2015**	**2016**	**2017**	**2018**
Advances	4,873	3,870	18,401	27,574
NPLs	703	480	308	452
NPL %	14.43%	12.41%	1.67%	1.64%
Financial Advances as % of Total Advances	0.70%	0.49%	2.14%	2.60%
Financial NPLs as % of Total NPLs	0.54%	0.39%	0.25%	0.33%

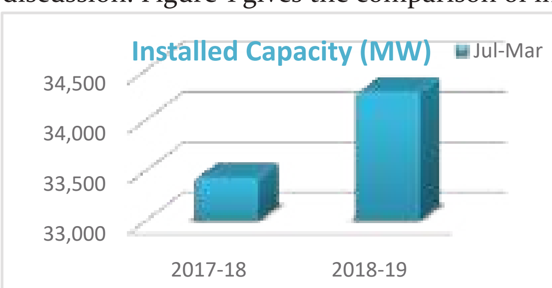
ENERGY-POWER GENERATION & DISTRIBUTION

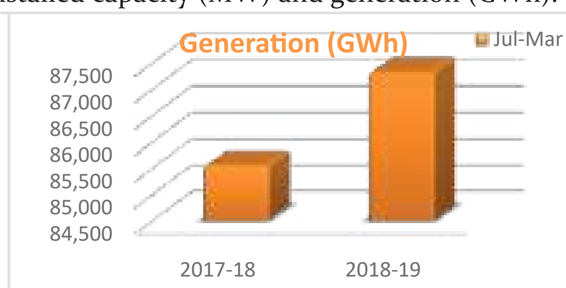
- Oil-based power generation plants which remained the face of the power sector of Pakistan for over three decades, have been planned to be phased out over the next few years and it is expected that the share of furnace oil-based energy will decline to single digit % age in the overall energy mix in the coming years.

- On the other hand, Pakistan has large indigenous coal reserves estimated at over 186 B.Tons which are sufficient to meet the energy requirements of the country on long-term basis. Apart from indigenous coal resources, there has been significant increase in import of coal as well due to commissioning of new power plants based on imported coal at Sahiwal and Port Qasim.

- Hydropower plants are considered one of the most capital-intensive projects and for a country like Pakistan, it is not possible to undertake such big projects without the financial support of international development agencies — a fact which brings in its own share of peculiarities and challenges.

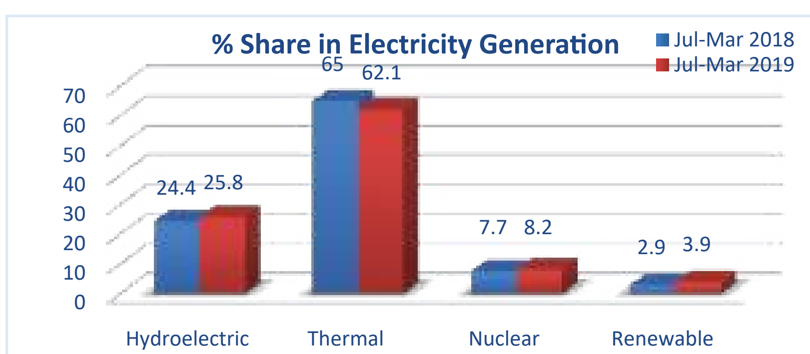
- During July - March FY2019, installed capacity of electricity reached 34,282 MW, which was 33,433 MW in corresponding period last year, thus, posting a growth of 2.5%. Although electricity generation varies due to availability of inputs and other constraints, the generation increased from 82,011 GWh to 84,680 GWh, posting a growth of 2.1% during the period under discussion. Figure-1 gives the comparison of installed capacity (MW) and generation (GWh).





- The share of hydro in electricity generation has decreased over the last few decades. Availability of water is also one of the main reasons for reduced generation from hydel power plants.

- Currently, thermal has the largest share in electricity generation. Gas and RLNG are other cheaper sources. RLNG tremendous growth in energy mix has helped supply the demand to various power plants (Bhikki, Haveli Bahadur Shah, Balloki, Halmore, Orient, Rousch, KAPCO, Saif and Sapphire) while, the remaining was supplied to fertilizer plants, industrial and transport sector.



ENERGY-PTROLEUM DISTRIBUTION & MARKETING

- Pakistan consumed a total of approximately 25.1mln metric tons (MT) of petroleum products (POL) in FY18 (FY17: 25.9mln MT), approximately 3% lower than the same period last year. This decline is mainly seen owing to decrease in the sales of Furnace oil by approximately 23% to approximately 7.3mln MT (FY17: approximately 9.6mln MT), as the Government of Pakistan plans to gradually reduce reliance on oil-based power plants to other power sources i.e. LNG & coal.

Industry- Product Wise Consumption (Mln MT)				
	FY15	**FY16**	**FY17**	**FY18**
MOGAS	4.75	5.80	6.74	7.50
HSD	7.42	7.75	8.49	9.04
JP1	0.63	0.69	0.74	0.75
JP8	0.06	0.08	0.09	0.17
SKO	0.17	0.14	0.12	0.11
LDO	0.04	0.02	0.02	0.02
Sub-total	**13.07**	**14.49**	**16.21**	**17.61**
FO	9.26	9.00	9.61	7.39
Lubes	0.12	0.09	0.14	0.15
Sub-total	**9.38**	**9.09**	**9.75**	**7.54**
Total Consumption	**22.46**	**23.59**	**25.96**	**25.15**
YoY Change	**6.6%**	**5.0%**	**10.1%**	**(3.1) %**

- There are total of approximately 15 Oil marketing companies registered in Pakistan. Five major players represent 87% market share. PSO captures the largest market share, though declining over the years. HASCOL emerges as the key player with constant increase in its share.

OMCs Market Share

Entity	FY15	FY16	FY17	FY18
PSO	57%	55%	54%	50%
Total Parco	-	-	10%	11%
HASCOL	5%	6%	9%	10%
Attock Petroleum	10%	9%	8%	10%
Shell	10%	10%	9%	6%
BE Energy	-	-	3%	2%
GO	-	-	2%	3%
Others	18%	21%	5%	7%

- Challenges at the macro-economic level continue to be a significant exposure for the OMCs especially continued volatility of the Pak Rupee & sharp decline in global oil prices. Also continued delays in receivables from the Government pose serious threat to the sector.

Net Receivables position of some major players is depicted as follows:

Net Receivables (PKR bln)	End Jun-18	End Jun-17
PSO	245.777	212.619
Shell Pakistan	3.380	2.497
Attock Petroleum	16.475	10.801
HASCOL Petroleum	11.310	11.674

ENERGY- REFINERY

➢ Pakistan's oil refineries play a major role in our energy needs. They save Pakistan billions in foreign exchange annually. Following is a comprehensive picture of refinery sector in Pakistan:

Local Refineries- Market Share						
	FY-16	Market Share	FY-17	Market Share	FY-18	Market Share
PRL	1.56	15.40%	1.48	13.40%	1.52	12.70%
NRL	1.74	17.30%	1.86	16.80%	1.87	15.60%
ARL	1.20	11.90%	1.84	16.60%	1.98	16.50%
BYCO	1.44	14.30%	1.59	14.40%	2.50	20.80%
PARCO	4.15	41.10%	4.29	38.80%	4.14	34.50%
Total	**10.09**	**100.00%**	**11.06**	**100.00%**	**12.01**	**100.00%**

Local Refineries-POL Volume Sales (mln MT)			
	FY16	FY17	FY18
PARCO	4.15	4.29	4.14
NRL	1.74	1.86	1.87
ARL	1.20	1.84	1.98
PRL	1.56	1.48	1.52
BYCO	1.10	1.59	2.50
TOTAL	**9.75**	**11.06**	**12.01**

Key Challenges

- Reliance on alternative energy sources (especially LNG) may create off take challenge for domestic refineries particular in case of FO.
- Refinery Sector suffered exchange losses due to the present weakening of Pak Rupee against USD. The sector cannot hedge its currency risk against procurement of crude oil as per the regulations of the State Bank of Pakistan. Therefore, any significant change in Rupee-Dollar parity may have a significant impact on sector's results.
- During the year, a decline in Furnace Oil demand led to build-up of Furnace Oil inventory which in turn put pressure on the Refinery operations.
- The sector is continuously burdened by the negative effects of pricing mechanism of High-Speed Diesel (HSD) under which a difference between actual import price and notional ex-refinery price of HSD is paid by the sector.
- Growth is a given factor in the domestic market; yet the relevant proportion of domestic Vs import may face transition.

NBP's Exposure & NPLs* (Rs. in Million)

Year	2015	2016	2017	2018
Advances	125,229	193,337	195,999	276,911
NPLs	1,897	4,280	3,916	3,773
NPL %	1.51%	2.21%	1.99%	1.36%
Energy Adv as % of Total Adv	18.02%	24.67%	22.87%	26.13%
Energy NPLs as % of Total NPLs	1.47%	3.55%	3.24%	2.82%

*As per annual financial statements, the Power Gen & Distribution sectors are combined, therefore their exposures & NPLs are provided together.

GLASS & CERAMICS

- Demand for glassware has shown a rising trend recently due to the increase in population and income among the buying segment of the population.

- The production capacity of glass products in Pakistan ranges between 100 ton to 200 ton per day.

- Gap in demand and supply is met through the import of high-quality glassware items that are currently not manufactured in the country.

- Over the last few years the glass industry has been challenged with plant overcapacity, increasing foreign trade and imports, capital intensiveness, rising costs for environmental compliance, and cyclical and moderate growth prospects. The industry response has been mergers, acquisitions, restructuring, and expansion into new markets.

- The industry has responded to these challenges with a range of innovative products that increased energy efficiency in buildings and automobiles. In short today's Glass Industry is efficient, productive and competitive.

- Ceramics industry in Pakistan is facing serious challenge due to the availability of tiles from mostly South East Asian countries including China at lower or highly competitive prices.

- Immense potential for growth available to the Ceramics industry, which is highly dependent on the growth of construction sector.

- With persistent growth in construction sector on the back of infrastructure development program under CPEC & increase in construction of commercial and housing schemes; future demand of glass & ceramics tiles would increase as a result of favorable economic outlook of the country.

NBP's Exposure & NPLs* (Rs. in Million)

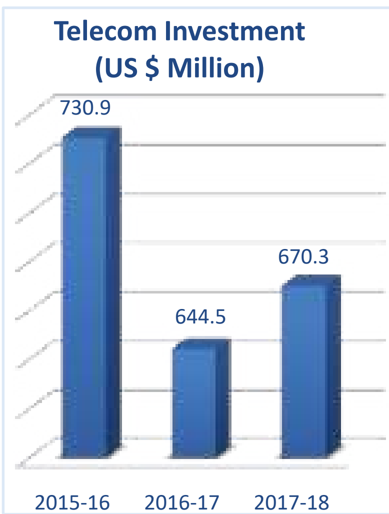
Year	2017	2018
Advances	1,820	2,328
NPLs	565	422
NPL %	31.07%	18.15%
Glass & Ceramics Advances as % of Total Advances	0.21%	0.21%
Glass & Ceramics NPLs as % of Total NPLs	0.46%	0.31%

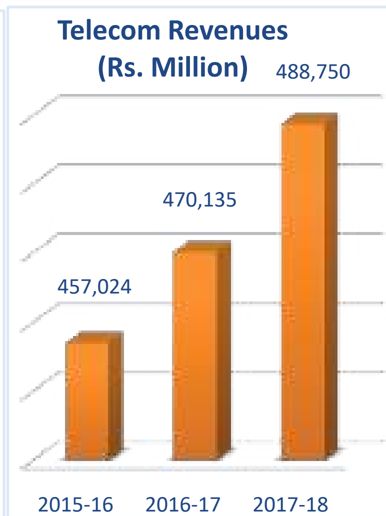
TELECOMMUNICATION

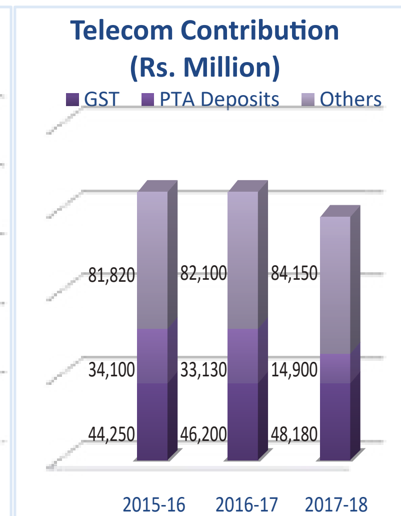
- Pakistan's economic growth continued to stay on accelerated path after plunging in last few years. The thrust for this growth came from improved performance of services and agriculture sector whereas industrial sector displayed some recovery.

- Telecommunications being a crucial contributor in services sector, remained as a stimulus for rest of the economy. Pakistan telecom sector is progressing steadily to support country's digital development.

Following is a comprehensive picture of telecom sector performance in Pakistan during 2017-18:





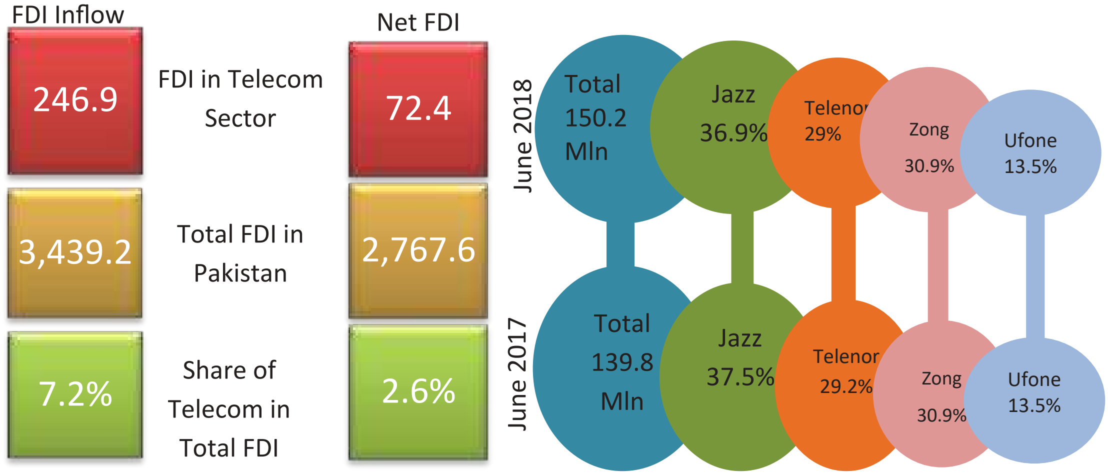


- Telecom Industry revenue is experiencing a slowdown in growth rate since the last 3 years (FY18: ~4%, FY17: ~7% and FY16: ~9%). Herein, portion from data usage in total revenue is growing at a faster rate.

- OTT apps on the use of broadband services pose a challenge to telecom revenues coming from voice and value-added services.

- Cellular investments refer to the ongoing capital expenditures incurred by the cellular service companies to grow their business. Out of the total telecom investments including broadband services, cellular investments dominate the sector (~85% in FY18). Hefty CAPEX was incurred during FY14 by Zong and Warid for establishment of their 4G network technology in the country.

FDI During FY 2017-18 (US $ Million)Cellular Mobile Subscribers & Market Share 2017 & 2018



- Telecom sector has emerged among the major foreign investment attracting sectors in the country. During the last 5 years, the sector has attracted over US$ 2.6 billion in FDI whereas a total of about US$ 4.5 billion have been invested by telecom players in Pakistan.
- In terms of overall investment in the telecom sector, the momentum that was started in FY 2012-13 for the up gradation of telecom networks for 3G and 4G services has continued. Telecom operators have invested a significant amount of US$ 200.1 million during this period.
- The commercial launch of 3G and 4G LTE services has opened new opportunities for revenue generation for the mobile operators.

NBP's Exposure & NPLs* (Rs. in Million)

Year	2015	2016	2017	2018
Advances	5,121	5,261	11,112	13,209
NPLs*	-	-	449	1,074
NPL %	-	-	4.04%	8.13%
Telecom Advances as % of Total Advances	0.73%	0.67%	1.29%	1.24%
Telecom NPLs as % of Total NPLs	-	-	0.37%	0.80%

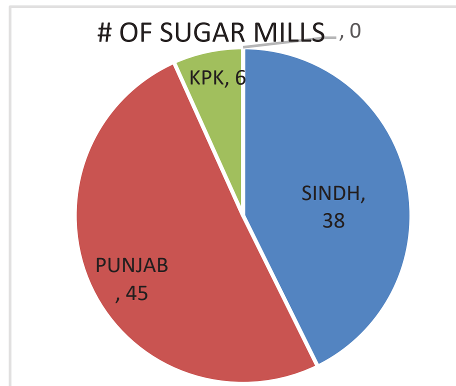
*Telecom NPLs for 2015 & 2016 are not available

SUGAR INDUSTRY ANALYSIS

INDUSTRY OVERVIEW:

The sugar industry plays a vital role in creating economic activity for farmers as well as manufacturers, uplifting different segments of the economy. Sugar industry is the second largest agro based industry after textiles in Pakistan. The country is the 7th largest producer of sugar and 8th largest consumer of sugar.

A total of 89 sugar mills are presently operating in the country and are owned by the private sector. Out of 89 sugar mills, 45 are located in Punjab, 38 mills in Sindh and 6 mills are located in KP. About 40% (36 sugar mills) in Pakistan are listed on Pakistan Stock Exchange (PSX).



In Pakistan, sugarcane is grown on around 1.34 million hectares and provides raw material to 89 sugar mills. Area under cultivation has witnessed a sizeable increase over the last 2 years. After increasing by 7.6% in FY17, area under cultivation during FY18 crushing season was higher by 10.2%. In addition to sugar, sugarcane is also used in the production of pharmaceutical ethanol, fuel ethanol; bagasse, the by-product of the process, is used in paper and chip board manufacturing.

YEAR	AREA (m. Hectares)	PRODUCTION (m. Ton)	YIELD (Ton/Hectare)
2013-14	1.171	67.427	57.55
2014-15	1.113	62.794	56.41
2015-16	1.130	65.450	57.88
2016-17	1.216	75.450	62.00
2017-18	1.340	83.289	62.11

OPEARTIONAL EFFECTIVENESS OF THE INDUSTRY:

Recovery rate of sucrose is primarily dependent upon favorable weather, availability of water, type of sugarcane seed and soil conditions. Variation in sucrose recovery rate from sugarcane across the country has a direct impact on cost of manufacturing and profit margins amongst different producers. As a result, mills operating in high recovery area have a competitive advantage over others. Recovery rate has also ranged between 9-10.5% over past couple of years compared to other major sugar producing countries where average recovery rate is 10.2%.

In spite of higher production in Punjab, the recovery ratio tends to be lower than that of Sindh as it has recorded an average recovery ratio of 9.79% whereas Sindh has recorded the highest recovery ratio of 10.55% during MY18. Mills located in Sindh have a closer proximity to coastal areas as humidity is considered beneficial for sugar crop cultivation resulting in better recovery rates vis-à-vis other regions.

Recovery Ratio

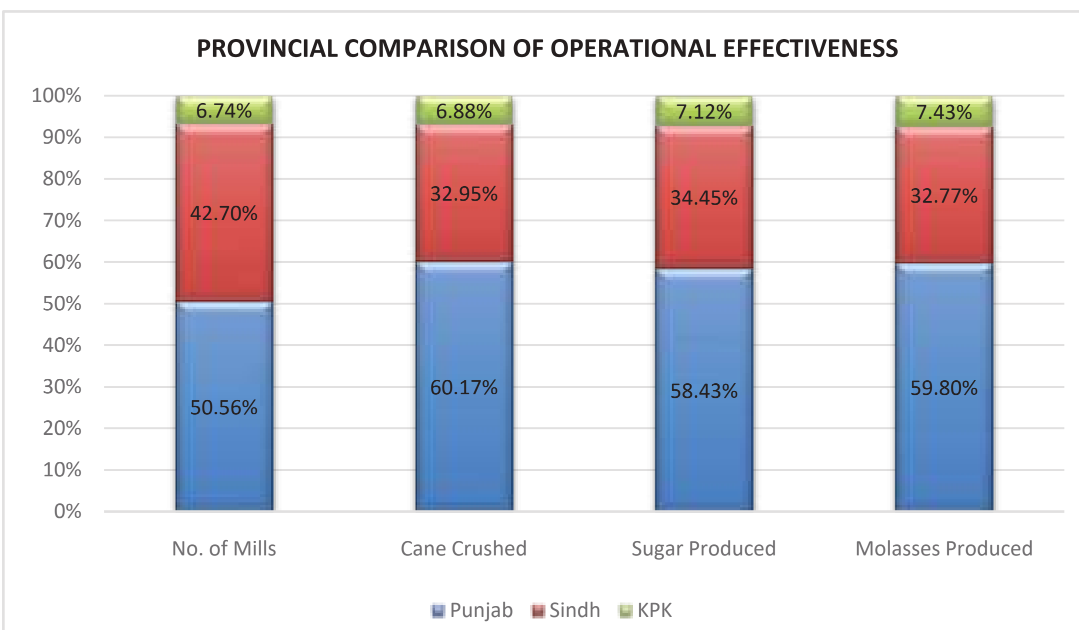
Year	Pakistan	Sindh	Punjab	KPK
2014	9.90%	10.21%	9.85%	8.75%
2015	10.12%	10.53%	9.97%	9.41%
2016	10.16%	10.65%	9.94%	9.44%
2017	9.87%	10.16%	9.77%	9.43%
2018	10.02%	10.55%	9.79%	9.52%

The units in Sindh are more operationally effective compared to that in Punjab & KPK measured by recovery rates. This is directly a function of the quality of crop grown in the province rather than the operational effectiveness of the plant. Nonetheless, this does give an edge to the plants in Sindh by increasing their yields.

Quantity in mlnTonnes

PROVINCIAL SHARE IN PRODUCTION OF SUGAR & MOLASSES

	No. of Mills	Sugarcane Crushed	% Share	Sugar Production	% Share	Recovery Rate%	Molasses Production	% Share	Recovery Rate %
Punjab	45	39.500	60.17	3.869	58.43	9.79	1.777	59.80	4.50
Sindh	38	21.625	32.95	2.281	34.45	10.55	0.973	32.77	4.50
KPK	6	4.513	6.88	0.470	7.12	9.52	0.220	7.43	4.50
Pakistan	89	65.639	100	6.621	100	10.02	2.971	100	4.50



SUGAR EXPORT SCENARIO:

The export rebate was based on a cascading mechanism wherein floor of USD 376 PMT or lower was fixed at 10.75/Kg and in the event of achieving higher export price the rebate was to be reduced correspondingly and at a level of USD 499, there was no entitlement for rebate. In addition, it was also decided that if there was any abnormal increase in the domestic price of sugar from the level of Sept 7, 2017 (Rs. 54.87/Kg) the committee constituted for this purpose was to recommend to the ECC for stoppage of further export.

EXPORT OF SUGAR

YEAR	QUANTITY (MT)	VALUE (mln Rs.)	AVG. PRICE (Rs. /MT)
2013-14	647,333	29.638	45,785
2014-15	708,356	32.685	46,143
2015-16	293,541	13.817	47,072
2016-17	307,348	16.867	54,880
2017-18	1,469,802	56.379	38,358

EXPORT OF MOLASSES

YEAR	QUANTITY (MT)	VALUE (mln Rs.)	AVG. PRICE (Rs. /MT)
2013-14	197,342	2.510	12,721
2014-15	83,229	1.010	12,139
2015-16	73,067	0.874	11,967
2016-17	101,410	1.217	12,001
2017-18	168,962	2.114	12,515

EXPORT OF ETHANOL

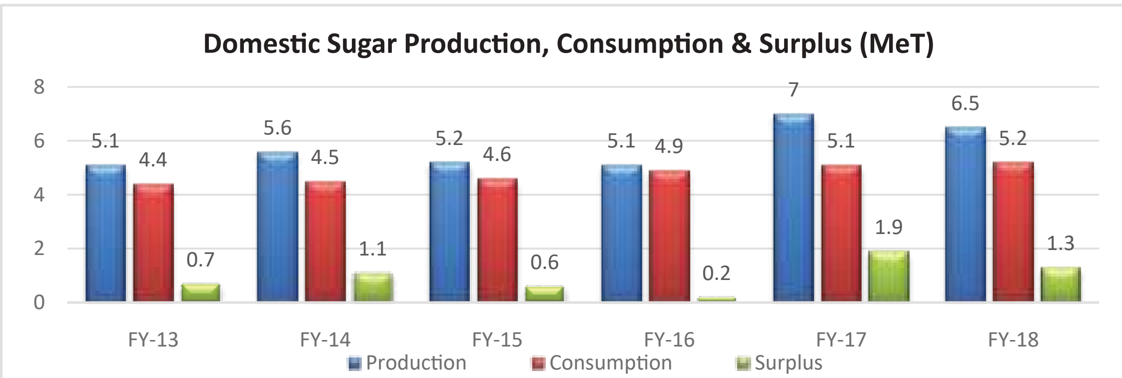
YEAR	QUANTITY (mlnLiters)	VALUE (mln Rs.)	AVG. PRICE (Rs. /Liter)
2013-14	492.476	32.168	65.21
2014-15	421.881	25.749	61.00
2015-16	396.940	22.929	58.00
2016-17	358.483	29.330	82.00
2017-18	699.791	42.512	62.00

BUSINESS RISK PROFILE:

Local demand supply dynamics projected to depict some improvement in FY19; slight upward pressure expected in local price. Current scenario is as follows:

MN. TONS	FY-16	FY-17	FY-18
Opening Inventory	0.849	0.777	2.326
Sugar Production	5.1	7.048	6.5
Sugar Available	5.94	7.82	8.82
Domestic Consumption	4.9	5.1	5.4
Exports	0.272	0.399	1.5
Ending Inventory	0.777	2.326	1.926

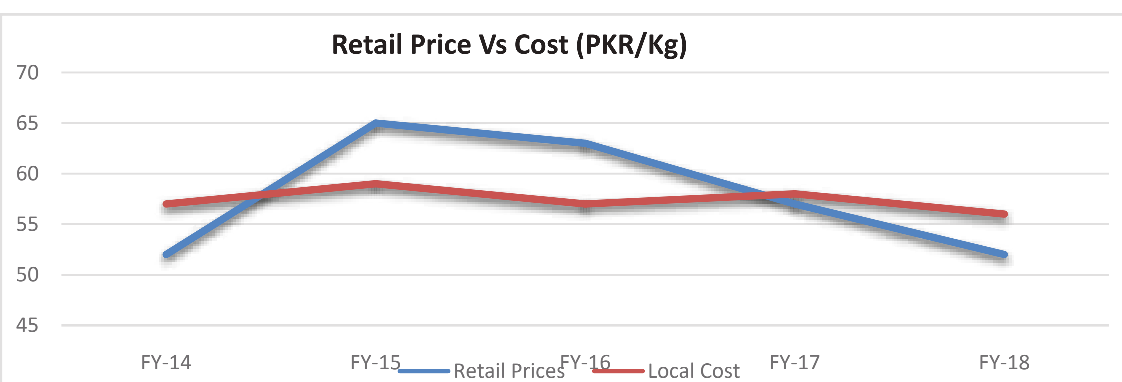
PRODUCTION: Over the last two years excess supply of sugar has prevailed on the back of sugar production outpacing the overall consumption. Significant increase in production and lower allowable export quota set by the Government resulted in a sizeable increase in ending inventory at end-FY17. While production continued to outpace supply, higher export quota of 1.5m tons (with subsidy benefit by Federal Government and an additional subsidy by Sindh Government for sugar mills in Sindh) has facilitated in reducing inventory levels which continued to remain at elevated levels at end-FY18.



Decline in production for FY19 (expected to be significantly lower at around 6M tons but still higher than domestic consumption for FY19) along with export quota of 1.1M tons allowed is expected to improve local demand supply dynamics (resulting in lower ending inventory) and result in some upward pressure on prices.

PROFITABILITY: Profitability of sugar mills will remain dependent on quantum of increase in domestic prices of sugar along with quantity of sugar exported. Subsidy allowed by Punjab Government is significantly lower vis-à-vis overall subsidy of prior year while no subsidy has been announced by the Federal and Sindh Government.

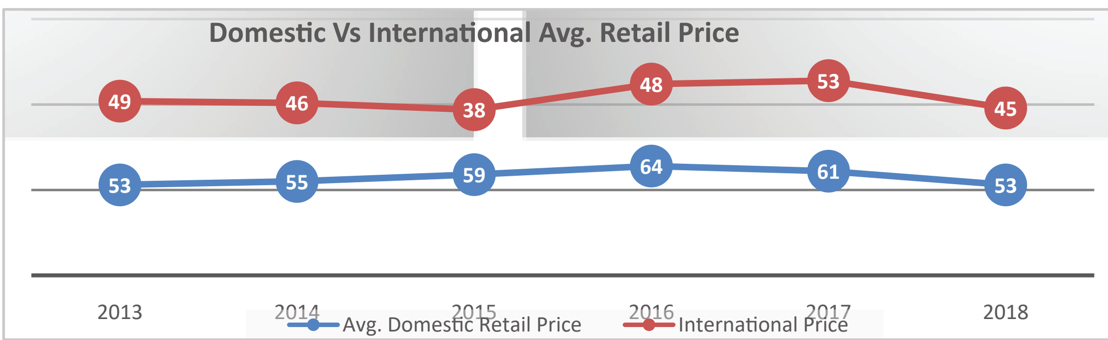
PRICING: Existing pricing dynamics are a drag on the profitability of the sector. Based on current international prices and existing exchange rate, international prices are still at a discount to local prices. Local retail prices which are driven by market forces have remained depressed on account of surplus supply of sugar.



Higher fixed sugarcane prices (including the impact of quality premium which is estimated to range between Rs. 5 to Rs. 12 per mound for mills in Sindh) set by the government to facilitate growers and farmers coupled with depressed retail prices has compressed margins for the industry. Based on current sugar cane prices announced by the government and assuming average recovery ratio for the industry, cost of production of sugar is slightly higher vis-à-vis local prices.

MARGINS: Margins and profitability are expected to remain depressed. On the export front, current international prices translate into a 10% discount vis-à-vis local prices. Break even international prices accounting for freight and sales tax advantage at existing exchange rate are $370 vis-à-vis existing prices of $339.

Per Kg Prices	FY-14	FY-15	FY-16	FY-17	FY-18
Average Local Prices Rs.	54.80	58.91	63.77	61.43	53.57
Average International Prices USD	0.459	0.377	0.461	0.474	0.358



OVERALL BUSINESS RISK PROFILE: Given the high ending inventory levels and weak pricing dynamics, overall business risk profile of the sector is considered to be on the higher side. Players that have diversified into other related sectors including Ethanol, MDFB (medium density fiber board) and Power are considered to have better business risk profiles vis-à-vis players operating solely in the sugar segment.

INDUSTRY YIELDS:

Sugar industry in Pakistan is now well-developed, operating at around 70% of its capacity. The annual cane production fluctuates between 45M and 65M tonnes depending on irrigation water supplies and rains, whereas the present industrial capacity can mill at least 70M tonnes. This current low yield of 48 t/ha clearly exposes cane production as the weak link in the overall value chain. Combination of cane price, rising input costs and lack of actionable research products from the local and national research institutes explain why there has not been significant growth in productivity, and also the challenges facing the industry.

FACTORS CONTRIBUTING TO LOW YIELDS

Inadequate water supply

Inadequate water supply is the key factor in the loss of yield per hectare. With the limitation in water supply there is a compelling need to explore the exploitation of drip and or sprinkle irrigation systems. While such practice would need heavy investment, it would also address issue of scarcity of water and competing requirement for the expanding population. Introduction of cultivars resistant or tolerant to water stress is a research challenge requiring special attention. Lining of thousands of miles of watercourses, already in hand is a positive step towards reducing loses.

High cost of inputs

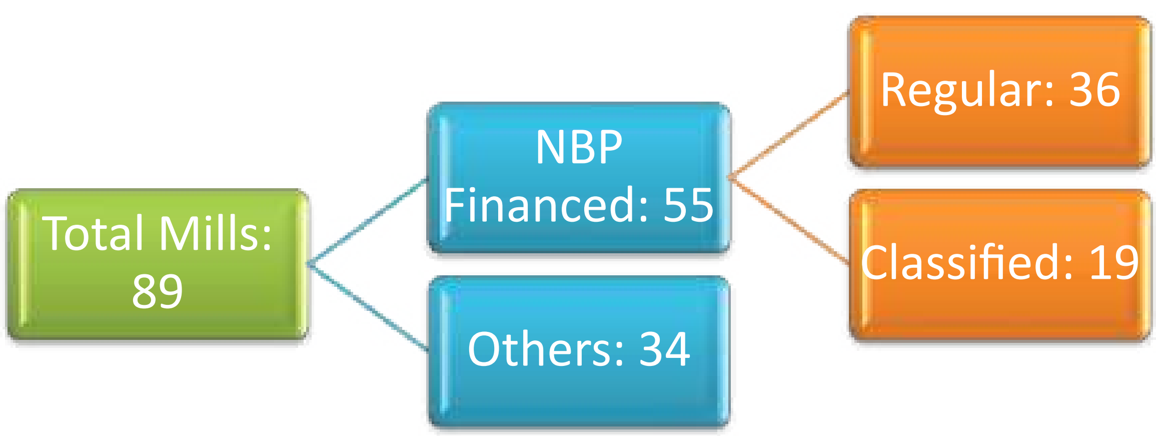
Cost of inputs is getting higher every day. These includes fertilizers, pesticides and seed. Growers income, however, fluctuates depending on the harvest. On the other hand, continuous depressed sugar prices in the domestic market does not allow the millers to offer a just price for sugarcane to support increased production and productivity.

Cane payment system

At present in Pakistan, sugarcane is the only crop that gets paid by weight and not by quality. The loss is generally borne by the mills. A significant improvement in the supply of quality cane is expected as soon as a payment mechanism is determined which takes into account cane quality, in particular, sugar content.

ANALYSIS OF MILLS FINANCED BY NBP

Total number of sugar mills in Pakistan	**89**
Sugar mills financed by NBP	**55 {62%}**
Number of NBP regular sugar accounts	**36**
Number of NBP classified sugar accounts	**19{34.5%}**



CANE CRUSHED & SUGAR PRODUCED (Quantity in tonnes)

SINDH

S. No.	Sugar Mill	Parked at	Cane Crushed	Sugar Produced	Rec %	Mol Produced	Rec %
REGULAR							
1	Al-Abbas	Karachi	665,540	74,388	11.18	29,949	4.5
2	Bandi	Karachi	484,794	52,422	10.81	21,816	4.5
3	Digri	Karachi	342,696	35,345	10.31	15,421	4.5
4	Khairpur	Karachi	828,101	85,625	9.8	37,265	4.5
5	Mirpurkhas	Karachi	774,171	88,183	11.39	34,838	4.5
6	Alliance	Lahore/ Islamic	1,180,334	115,930	9.82	53,115	4.5
7	Deharki	Lahore	1,890,612	205,788	10.88	85,078	4.5
8	Gulf	Lahore	959,602	102,824	10.4	43,182	4.5
CLASSIFIED							
9	Ansari	Karachi	400,039	44,004	9.69	18,002	4.5
10	Sakrand	Karachi	367,222	39,660	10.8	16,525	4.5
11	Bawany	Karachi	238,915	25,800	10.8	10,751	4.5
12	Khoski	Karachi	231,644	25,947	11.2	10,424	4.5
13	Naudero	Karachi	285,041	31,081	10.9	12,827	4.5
14	New Dadu	Karachi	320,754	34,198	10.66	14,434	4.5
15	TandoAllahyar	Karachi/ Islamic	521,943	58,202	11.15	23,487	4.5
16	Dewan	ARG	507,595	53,360	10.51	22,842	4.5
17	Kiran	ARG	479,962	43,246	9.01	21,598	4.5
18	Tharparkar	ARG	324,903	31,693	9.75	14,621	4.5
19	Najma	ARG	Not Operated				
20	Pangario	ARG	Not Operated				
	TOTAL		**10,803,868**	**1,147,696**	**10.50**	**486,175**	**4.5**

Total Sugar Mills in Sindh	**38**
# of Mills Financed by NBP	**20 (52.6%)**
Total Cane Crushed in Sindh	**21,625,828**
% of Cane Crushed by Mills Financed by NBP	**49.96%**
Total Sugar Produced in Sindh	**2,281,453**
% of Sugar Produced by Mills Financed by NBP	**50.31%**
Total Molasses Produced in Sindh	**973,162**
% of Molasses Produced by Mills Financed by NBP	**49.96%**

PUNJAB

S.No	Sugar Mill	Parked at	Cane Crushed	Sugar Produced	Rec %	Mol Produced	Rec %
REGULAR							
1	Al-Moiz	Lahore	1,064,259	107,106	10.06	47,892	4.50
2	SW	Lahore	329,003	30,852	9.38	14,805	4.50
3	JK	Lahore	640,650	61,345	9.58	28,829	4.50
4	Etihad	Lahore	1,594,614	170,855	10.71	71,758	4.50
5	Ittefaq	Lahore	227,743	24,137	10.60	10,248	4.50
6	Kashmir	Lahore	427,661	38,903	9.10	19,245	4.47
7	Ramzan	Lahore	944,003	90,615	9.60	42,480	4.50
8	Shakarganj	Lahore	653,544	58,775	8.99	29,409	4.50
9	Tandianwala	Lahore	1,437,477	129,743	8.96	64,686	4.50
10	R.Y.K	Lahore/ Islamic	1,513,644	162,398	10.73	68,114	4.50
11	JDW	Lahore/ Islamic	6,181,746	665,386	10.73	278,179	4.50
12	Chanar	Faisalabad	425,071	40,318	9.49	19,128	4.50
13	Huda	Faisalabad	464,196	42,970	9.26	20,889	4.50
14	Jauharabad	Faisalabad	441,646	42,817	9.69	19,874	4.50
15	Noon	Faisalabad	1,008,945	98,655	9.78	45,403	4.50
16	Popular	Faisalabad	574,486	55,740	9.70	25,852	4.50
17	Husein	Faisalabad	600,773	55,331	9.21	27,035	4.50
18	Ashraf	Multan	1,062,746	89,765	8.45	47,824	4.50
19	Fatima	Multan/ Islamic	1,460,568	146,355	10.02	65,726	4.50
20	Pattoki	Multan/ Islamic	585,311	51,045	8.72	26,339	4.50
CLASSIFIED							
21	Abdullah	ARG	698,418	47,540	7.35	31,428	4.50
22	Haseeb Waqas	ARG	76,820	5,808	7.56	3,457	4.50
23	Brothers	ARG			Sealed		
		TOTAL	**22,413,324**	**2,216,459**	**9.03**	**1,008,600**	**4.50**

Total Sugar Mills in Punjab	**45**
# of Mills Financed by NBP	**23 (51.1%)**
Total Cane Crushed in Punjab	**39,500,168**
% of Cane Crushed by Mills Financed by NBP	**56.74%**
Total Sugar Produced in Punjab	**3,869,003**
% of Sugar Produced by Mills Financed by NBP	**57.29%**
Total Molasses Produced in Punjab	**1,777,508**
% of Molasses Produced by Mills Financed by NBP	**56.74%**

KPK

S.No.	Sugar Mill	Parked at	Cane Crushed	Sugar Produced	Rec %	Mol Produced	Rec %
1	Al-Moiz	Lahore	1,047,033	103,801	9.91	47,116	4.5
2	Chashma	Islamic	2,040,734	193,323	9.43	91,833	4.5
3	Tandianwala	Lahore	1,036,816	90,955	8.77	46,657	4.5
	TOTAL		**4,124,583**	**388,079**	**9.37**	**185,606**	**4.5**
	TOTAL KPK		**4,513,966**	**429,655**	**9.52**	**203,128**	**4.5**
	%		**91.37%**	**90.32%**		**91.37%**	

Total Sugar Mills in KPK	**6**
# of Mills Financed by NBP	**3 (50%)**
Total Cane Crushed in KPK	**4,513,966**
% of Cane Crushed by Mills Financed by NBP	**91.37%**
Total Sugar Produced in KPK	**429,655**
% of Sugar Produced by Mills Financed by NBP	**90.32%**
Total Molasses Produced in KPK	**203,128**
% of Molasses Produced by Mills Financed by NBP	**91.37%**

NBP SUGAR PORTFOLIO AS ON 31.12.2018 (Rs. in Million):

Corporate Business Center- Karachi [Regular Sugar Portfolio]

S. No.	Borrower	Risk Rating	Total Limit*	TotalOutstanding**
1	Al Abbas Sugar Mills Ltd	3	500.00 *[400+100]*	200.02 *[200.02+0]*
2	Khairpur Sugar Mill	6	1,100.00 *[1,100+50]*	811.08 *[800+11.08]*
3	Bandhi Sugar Mills Ltd	6	674.87	674.87
4	Mirpurkhas Sugar Mills	6	950.00	938.73
5	Digri Sugar Mills Ltd	7	1,425.49	631.49
	TOTAL		**4,650.36** ***{4,550.36+150}***	**3,256.19** ***{3,245.11+11.08}***

*Total Limit [Funded+Non-funded]
**as on 31.12.2018

Corporate Business Center- Karachi [Classified Sugar Portfolio]

S. No	Borrower	Risk Rating	Classification Status	Total Outstanding*	Total Provision Held
1	Ansari Sugar Mills Ltd	12	LOSS	3,172.57 *[2,725.78+446.792]*	1,994.86
2	Sakrand Sugar Mills	12	LOSS	50.54 *[49+1.54]*	49.000
3	Bawany Sugar Mills Ltd	12	LOSS	1,209.27 *[1,154.55+54.71]*	793.39
4	Khoski Sugar Mills Ltd	12	LOSS	1,463.97 *[1,397.38+66.587]*	952.83
5	Naudero Sugar Mills Ltd	12	LOSS	1,724.57 *[1,646.27+78.294]*	1,109.07
6	New Dadu Sugar Mills Ltd	12	LOSS	1,559.90 *[1,490.08+69.819]*	1,133.77
7	TandoAllayar Sugar Mills	12	LOSS	658.48 *[611.20+47.276]*	378.83
	TOTAL			**9,839.29** ***{9,074.27+765.024}***	**6,411.73**

*Principal + Markup Outstanding as on 31.12.2018

CBC Total Portfolio	CBC Sugar Portfolio	Sugar share in total portfolio	CBC Regular (Sugar)	CBC Classified (Sugar)	Sugar Classified as % of total sugar portfolio
299,248	13,095	4.37%	3,256	9,839	75.13%

Corporate Business Center- Lahore [Regular Sugar Portfolio]

S. No.	Borrower	Risk Rating	Total Limit	TotalOutstanding
1	Al-Arabia	4	972.00	766.48
2	RYK Mills Ltd	4	1,000.00	1,000.00
3	JDW Sugar Mills	4	3,562.50	1,773.62
4	Alliance Sugar mills Ltd	6	861.00	860.99
5	Deharki Sugar	6	1,000.00	528.47
6	SW Sugar Mills	6	1,000.00	906.00
7	Ramzan Sugar	6	1,613.00	1,162.13
8	Kashmir Sugar Mills Limited	6	400.00	372.87
9	Etihad Sugar Mills Limited	6	750.00	749.96
10	Gulf Sugar Mills Ltd	6	1,725.00	1,669.43
11	Shakar Ganj Mills Ltd	6	1,645.00	1,071.52
12	Tandalianwala Sugar Mills Ltd	7	3,686.00	3,218.55
13	Al -Moiz Industries	7	1,000.00	-
14	Ittefaq Sugar Mills	7	400.00	400.00
15	JK SUGAR Mills	7	1,200.00	1,200.00
	TOTAL		**20,814.50**	**15,680.02**

CBC Total Portfolio	CBC Sugar Portfolio	Sugar share in total portfolio	CBC Regular (Sugar)	CBC Classified (Sugar)	Sugar Classified as % of total sugar portfolio
124,217	15,680	12.62%	15,680	-	0.00%

Corporate Business Center- Faisalabad [Regular Sugar Portfolio]

S. No	Borrower	Risk Rating	Total Limit	TotalOutstanding
1	Noon Sugar Mills Ltd	3	450.00	449.63
2	Husein Sugar Mills Ltd	4	800.00	780.10
3	Popular Sugar Mills	5	850.00 *[800+50]*	521.75
4	Chanar Sugar Mills Ltd	5	4,550.00 *[1,550+3,000]*	1,616.78
5	Jauharabad Sugar Mills Ltd	5	500.00	400.00
6	Huda Sugar Mills (Pvt) Ltd	7	475.00	415.62
	TOTAL		**7,625.00** *{4,575+3,050}*	**4,183.88**

CBC Total Portfolio	CBC Sugar Portfolio	Sugar share in total portfolio	CBC Regular (Sugar)	CBC Classified (Sugar)	Sugar Classified as % of total sugar portfolio
46,690	4,184	8.96%	4,184	-	0.00%

NBP

Corporate Business Center- Multan [Regular Sugar Portfolio]

S. No.	Borrower	Risk Rating	Total Limit	TotalOutstanding
1	Fatima Sugar Mills	5	300.00	300.00
2	Ashraf Sugar Mills	6	4,050.00 *[1,000+3,050]*	995.00
	TOTAL		**4,350.00 *{1,300+3,050}***	**1,295.00**

Corporate Business Center- Multan [Classified Sugar Portfolio]

S. No.	Borrower	Risk Rating	Classification Status	Total Outstanding	Total Provision Held
1	Pattoki Sugar Mills Ltd	7	Sub-Standard	380.60 *[371.66+8.943]*	135.83
	TOTAL			**380.60 *{371.66+8.974}***	**135.83**

CBC Total Portfolio	CBC Sugar Portfolio	Sugar share in total portfolio	CBC Regular (Sugar)	CBC Classified (Sugar)	Sugar Classified as % of total sugar portfolio
27,513	1,676	6.09%	1,295	381	22.71%

Islamic Banking [Regular Sugar Portfolio]

S. No.	Borrower	Risk Rating	Total Limit	Total Outstanding
1	RYK Mills Ltd	4	500.00	500.00
2	Chashma Sugar Mills Limited	4	200.00	160.00
3	JDW Sugar Mills	4	1,300.00	969.80
4	Matiari Sugar Mills Limited	4	170.00	133.34
5	Fatima Sugar Mills Ltd	5	620.00	620.00
6	Alliance Sugar mills Ltd	6	500.00	-
7	Pattoki Sugar Mills Ltd	7	200.00	171.66
	TOTAL-ISLAMIC:		**3,490.00**	**2,554.80**

Islamic Banking [Classified Sugar Portfolio]

S. No.	Borrower	Risk Rating	Classification Status	Total Outstanding	Total Provision Held
1	Tandoallahyar Sugar	12	LOSS	1.371	1.371
	TOTAL			**1.371**	**1.371**

Total Portfolio	Sugar Portfolio	Sugar share in total portfolio	Regular (Sugar)	Classified (Sugar)	Sugar Classified as % of total sugar portfolio
26,171.00	2,554.80	9.76%	2,554.80	1.37	0.05%

Sugar Classified Accounts Parked at ARG

S. No.	Borrower	Risk Rating	Classification Status	TotalOutstanding
1	Kiran Sugar Mills Ltd	12	LOSS (Tag to ARG)	617.23 *[565.84+51.394]*
2	Abdullah Sugar Mills Ltd	12	LOSS (Tag to ARG)	1,027.22 *[755.28+271.941]*
3	Bachani Sugar	12	LOSS	27.56 *[0+27.556]*
4	Pangario Sugar	12	LOSS	42.00 *[9.45+32.559]*
5	Tharparkar Sugar	12	LOSS	336.24 *[23.7+312.540]*
6	Thatta Sugar Mills	12	LOSS	81.53 *[64.621+16.913]*
7	Najma Sugar Mills	12	LOSS	585.33 *[356.497+228.835]*
8	Brothers Sugar Mills	12	LOSS	250.00 *[0+250]*
9	Haseeb Waqas Sugar Mills	12	LOSS	391.37 *[380+11.37]*
10	Deewan Sugar Mills	12	LOSS	683.78 *[683.191+0.586]*
	TOTAL			**4,042.26** ***{2,838.57+1,203.69}***

Sugar Total Portfolio	41,281.0
Sugar Classified Portfolio	**14,262.2**
% of Classified Portfolio	**34.54%**
NBP Gross Advances (Dec-18) *	**1,059,480.15**
Sugar Advances to Gross Advances	**3.90%**
Sugar NPLs (Dec-18) **	**12,284.497**
Provision Held**	**9,636.133**
Total NPLs (Dec-18) *	**133,359.80**
Share of Sugar NPLs in Total NPLs	**9.21%**

* Outstanding as per annual accounts 2018

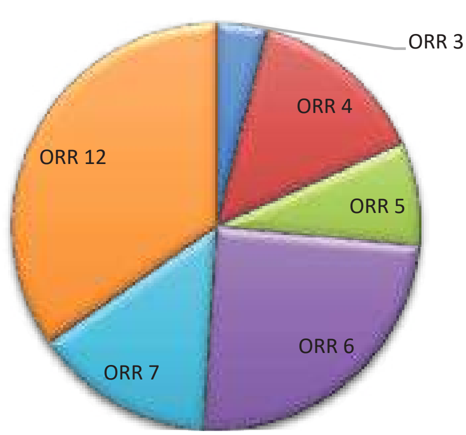
** as per Annual Accounts 2018, Sugar NPLs are 12,534.711 and provision held there against is 2,154.881

NBP SUGAR PORTFOLIO- SUMMARY SHEET *(Based on Outstanding as on 31.12.2018)*

	Total Portfolio	Sugar Portfolio	Sugar share in total portfolio	Regular (Sugar)	Classified (Sugar)	Sugar Classified as % of total sugar portfolio
KARACHI	299,248	13,095	4.37%	3,256	9,839	75.13%
LAHORE	124,217	15,680	12.62%	15,680	-	0.00%
MULTAN	27,513	1,676	6.09%	1,295	381	22.71%
FAISALABAD	46,690	4,184	8.96%	4,184	-	0.00%
ISLAMABAD	34,603	-	-	-	-	0.00%
TOTAL CORPORATE	**532,271**	**34,684**	**6.52%**	**24,464**	**10,220**	**29.47%**
ISLAMIC	**26,171.00**	**2,554.80**	**9.76%**	**2,554.80**	**1.37**	**0.05%**
ARG	-	**4,042.26**	-	-	**4,042.26**	-
TOTAL		**41,281.03**		**2,554.80**	**14,263.52**	**34.55%**

OBLIGOR RISK RATING SUMMARY

ORR	No. of Borrowers	Borrower's Name
3	2	Al-Abbas, Noon
4	7	Al-Arabia, RYK, JDW, Husein, Chashma, Matiari
5	4	Popular, Chanar, Jauharabad, Fatima
6	12	Khairpur, Bandhi, Mirpur Khas, Alliance, Deharki, SW, Ramzan, Kashmir, Etihad, Gulf, Shakarganj, Ashraf
7	7	Digri, Tandianwala, Al-Moiz, Ittefaq, JK, Huda, Pattoki
12	17	Ansari, Sakrand, Bawany, Khoski, Naudero, New Dadu, TandoAllahYar, Kiran, Abdullah, Bachani, Pangario, Tharparkar, Thatta, Najma, Brothers, Haseeb Waqas, Deewan



FINANCIAL PROFILE OF THE SUGAR MILLS FINANCED BY NBP:

Rs. in Million

	Sales	EBIT	Net Profit	Total Assets	Total Liabilities	Total Equity	Trade Debt
Digri	2,543	28	3	3,060	1,571	1,487	311
Khairpur	2,933	-110	-99	3,440	3,460	199	1,618
Al Abbas	7,494	1,370	1,293	5,606	2,012	3,593	243
Bandhi	5,139	432	176	6,939	5,315	1,278	10
Mirpurkhas	4,170	111	73	6,505	4,254	2,250	37
Ittefaq	2,227	-292	-316	5,455	3,659	1,796	__
Kashmir	3,946	-353	-192	7,468	4,606	2,862	78
Deharki	7,481	54	115	8,396	6,038	2,358	353
JDW	50,100	2,274	1,612	42,245	33,816	10,068	3,234
Alliance	10,477	1,396	572	7,020	3,983	2,670	248
RYK	6,854	1,199	1,100	17,534	13,001	4,533	638
SW	4,223	553	134	5,304	3,449	1,855	95
Ramzan	7,475	218	164	10,908	9,257	1,651	1,347
Al-Arabia	__	-24	-27	8,105	7,496	609	__
Etihad	2,869	112	39	11,087	9,100	1,987	1,109
Gulf	6,755	-4	-4	9,661	7,657	1,628	56
Tandalianwala	2,134	461	470	25,848	19,668	6,180	20
Al -Moiz	11,799	-558	-558	23,907	20,449	3,458	992
JK	__	-92	-92	9,221	8,194	1,027	__
Shakar Ganj	7,404	158	-14	14,307	5,624	8,682	39
Ashraf	6,813	87	125	11,502	8,462	3,040	170
Fatima	7,040	__	153	7,957	4,786	3,170	187
Pattoki	2,187	31	45	9,868	6,150	3,718	64
Chanar	3,181	54	40	4,172	2,232	1,940	173
Husein	3,856	228	201	3,624	1,222	49	7
Jauharabad	2,195	35	5	4,689	194	2,744	327
Noon	6,273	270	210	3,980	3,238	742	39
Popular	3,238	90	85	4,600	2,377	2,223	77
Huda	2,814	70	70	5,673	5,334	339	__
Chashma	11,411	2,274	1,612	10,625	6,560	4,065	185
Matiari	2,241	-59	-55	4,976	2,693	1,282	159

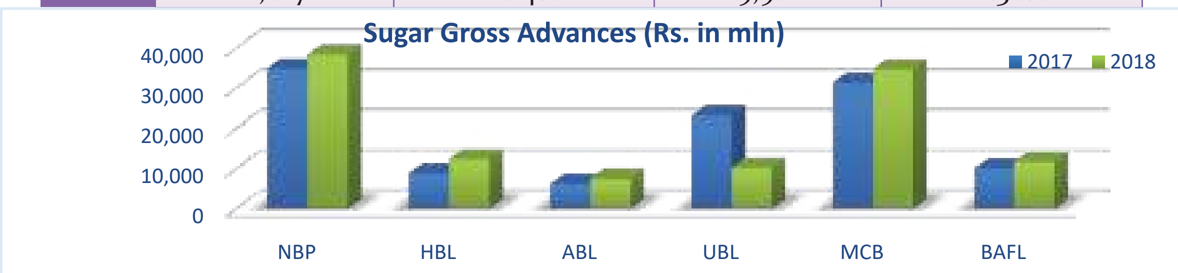
KEY RATIOS:

Borrower	Interest Coverage	Debt to Equity	Current Ratio	Quick Ratio	Cash Ratio	Net Profit Margin	Total Asset Turnover	ROA %	ROE %
Digri	0.3	1.06	1.3	0.48	0.01	0.12%	0.83	0.10	0.20
Khairpur	-0.7	17.39	0.8	0.68	0.02	-0.03	0.80	-2.70	-49.75
Al Abbas	21.4	0.56	1.8	0.19	0.06	17.25%	1.34	23.06	35.99
Bandhi	1.37	4.16	0.6	0.01	0.01	3.42%	0.74	2.54	13.77
Mirpurkhas	0.5	1.89	1.0	0.28	0.01	1.75%	0.64	1.12	3.24
Ittefaq	-1.3	2.04	1.2	0.00	0.00	-14.19%	0.41	-5.79	-17.59
Kashmir	-1.2	1.61	1.2	0.02	0.00	-4.87%	0.53	-2.57	-6.71
Deharki	0.2	2.56	1.5	0.07	0.01	2.0%	1.75	2.70	4.88
JDW	1.4	3.36	0.8	0.15	0.01	3.22%	1.19	3.82	16.01
Alliance	2.5	1.49	0.9	0.11	0.01	5.46%	1.49	8.15	21.42
RYK	1.5	2.87	0.7	0.08	0.01	16.05%	0.39	6.27	24.27
SW	1.5	1.86	1.4	0.16	0.05	3.17%	0.80	2.53	7.22
Ramzan	0.4	5.61	1.0	0.23	0.01	2.19%	0.69	1.50	9.93
Al-Arabia	N/A	12.31	1.0	0.02	0.02	N/A	0.00	-0.33	-4.43
Etihad	0.9	4.58	0.9	0.24	0.08	1.36%	0.26	0.35	1.96
Gulf	-0.1	4.70	0.59	0.03	0.01	-0.06%	0.70	-0.04	-0.25
Tandalianwala	0.5	3.18	0.8	0.05	0.04	22.02%	0.08	1.82	7.61
Al -Moiz	-0.72	5.91	1.00	0.08	0.004	-5.0%	0.49	-2.33	-16.14
JK	-2.6	7.98	1.0	0.96	0.96	N/A	0.00	-1.0	-8.96
Shakar Ganj	0.79	0.65	0.4	0.02	0.01	-0.19%	0.52	-0.10	-0.16
Ashraf	0.2	2.78	1.0	0.04	0.01	1.83%	0.59	1.09	4.11
Fatima	1.0	1.51	1.0	0.04	0.00	0.02	0.88	1.92	4.82
Pattoki	0.1	1.65	0.8	0.02	0.01	2.06%	0.22	0.46	1.21
Chanar	0.5	1.15	1.0	0.13	0.02	1.26%	0.76	0.96	2.06
Husein	2.6	24.94	0.6	0.07	0.06	5.21%	1.06	5.55	410.20
Jauharabad	0.3	0.07	1.0	0.26	0.03	0.23%	0.47	0.11	0.18
Noon	1.1	4.36	0.9	0.03	0.02	3.35%	1.58	5.28	28.30
Popular	0.8	1.07	0.8	0.09	0.04	2.63%	0.70	1.85	3.82
Huda	0.7	15.73	2.2	0.07	0.03	2.49%	1.19	2.95	20.65
Chashma	0.2	1.61	0.7	0.07	0.02	0.81%	1.07	0.87	2.26
Matiari	-0.5	2.10	1.0	0.12	0.02	-2.45%	0.45	-1.11	-4.29

TOP 6 BANK'S SUGAR COMPARATIVE POSITION

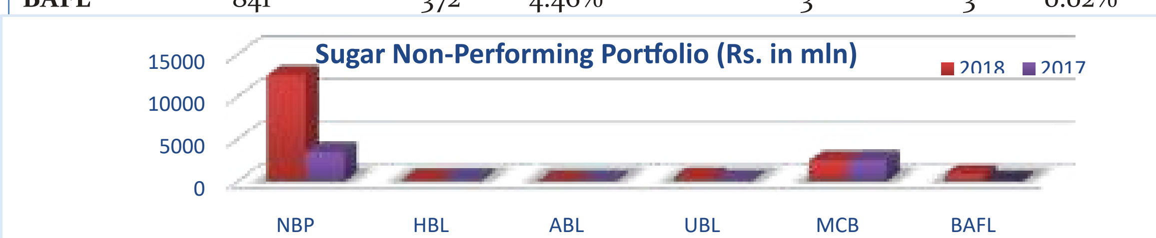
Sugar Gross Advances & Sugar Advances as % of Total Advances*(Rs. in millions)*

Bank	Sugar Adv. 2018	As % of Total Adv.	Sugar Adv. 2017	As % of Total Adv.
NBP	38,254	3.61%	34,843	4.06%
HBL	12,335	1.07%	8,729	0.94%
ABL	7,365	1.62%	6,034	1.55%
UBL	10,106	1.30%	23,037	3.43%
MCB	34,643	6.33%	31,193	6.05%
BAFL	11,627	2.24%	9,961	2.38%



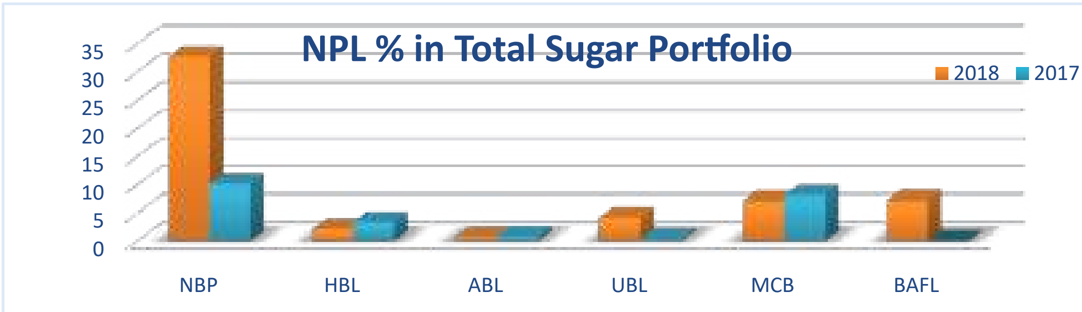
Sugar NPLs & Provision Held*(Rs. in millions)*

Bank	NPL-2018	Provision Held	As % of Total NPLs	NPLs-2017	Provision Held	As % of Total NPLs
NBP	12,534	12,154	9.39%	3,524	3,310	2.93%
HBL	252	232	0.31%	295	225	0.38%
ABL	51	51	0.31%	51	51	0.28%
UBL	426	426	0.62%	80	80	0.15%
MCB	2,483	1,843	5.07%	2,527	1,843	5.18%
BAFL	841	372	4.46%	3	3	0.02%



Sugar Advances Vs. Sugar NPLs*(Rs. in mln)*

Bank	Sugar Adv. 2018	NPL-2018	% NPL	Sugar Adv. 2017	NPLs-2017	% NPL
NBP	38,254	12,534	32.7%	34,843	3,524	10.11%
HBL	12,335	252	2.05%	8,729	295	3.38%
ABL	7,365	51	0.69%	6,034	51	0.84%
UBL	10,106	426	4.22%	23,037	80	0.35%
MCB	34,643	2,483	7.16%	31,193	2,527	8.10%
BAFL	11,627	841	7.23%	9,961	3	0.03%



PROFITABILITY:

- Profitability profile of players with operations solely in the sugar segment has remained under pressure.
- Going forward, profitability profile is expected to witness some improvement with slight uptick expected in sugar prices.

CAPITALIZATION:

- Borrowings by sugar companies are primarily short-term in nature.
- Leverage indicators are on a higher side due to high ending inventories.
- Increase in interest rates will have a negative impact on profitability of leveraged players.

LIQUIDITY:

- Cash flow coverage of outstanding debt for the sector remains on the lower side.
- Stock carried on balance sheet provide adequate coverage of outstanding short-term borrowings.
- Sensitizing for higher interest rates and lower sugar prices, cushion in debt servicing is limited.

FUTURE OUTLOOK:

- Estimated MY 2018/19 sugar production is down 24% mainly due to the 12% decrease in sugarcane cultivated area and the delayed start of crushing by the sugar mills. This delayed crushing will impact sugar production by limiting the crushing season and activating fresh sprouting in standing sugarcane crop that affects the sucrose content in the cane. A decrease in sugarcane cultivated area and delayed crushing is estimated to reduce sugar by 1 MMT.
- Sugar in Pakistan's domestic market continues to be priced well above the international market. Current wholesale prices are $403 per metric, an estimated 17% higher than the international market pegged at $345/metric ton. The sugar market is insulated from imports by a tariff of 40%. While mills enjoy a high price in the domestic market, millers are still squeezed between high provincial and federal minimum cane prices and their returns from selling sugar in the domestic market along with the costs of carrying stocks of unsold sugar. Still, sugar availability is in excess of domestic requirement as mills offer predictable prices for cane and, at least in recent years, export subsidies have facilitated exports.

TRADE:

- In an effort to move stocks off of the domestic market, to generate additional revenue for the millers, and to speed payments to growers, in December 2017 the Government of Pakistan increased its sugar export quota from 0.5 MM Tons to 2.0 MM Tons. A freight subsidy of up to $97M ton (Rs.10.7 per kg) applies to the entire quota amount till the close of marketing year, bringing potential total expenditures on sugar export subsidies to $194 million. Official data shows that during FY 2017/18 an export of 1.6M tons of sugar was affected. Later on, with the depreciation in the currency, sugar exports became more competitive and 2018/19 exports are estimated at 1.2M tons. Exports during 2019/20 are projected at 500,000 tons after meeting local requirements and maintaining minimum stocks.

DOMESTIC SUGAR PRODUCTION, MARKETING & STOCK SUMMARY

	2016-17	2017-18	2018-19 (Estimates)
Sugarcane Area (m.h)	1.216	1.340	1.115
Sugarcane Produced (m.Ton)	75.450	83.289	67.729
Yield (T/h)	62.00	62.11	60.71
Cane Utilized by Mills (m.Ton)	70.989,	65.639	
Utilization %	94.00	78.80	
Support Price Punjab/KP/Sindh	180/182/180	180/182/180	180/182/180
Average Recovery (%)	9.87	10.02	10.00
Sugar Production (Cane m/ton)	7.005	6.580	5.420
Sugar Production (Beetm.ton)	0.042	0.040	0.042
Total Sugar Production (m. ton)	7.048	6.621	
Beg. Stock (m.ton)	0.950	2.473	2.424
Total Available (m. ton)	7.998	9.094	
Export (m. ton)	0.425	1.469	
End Stock (m. ton)	2.473	2.424	
Consumption (m. ton)	5.100	5.200	
Avg. Consumption/Month (m. ton)	0.425	0.433	
Avg. Retail Price/KG	61.43	53.57	
Avg. Trade Price US $/T	477.43	357.50	
Molasses Produced (m. ton)	3.095	2.971	

WORLD SUGAR BALANCES *(in million-ton, raw value)*

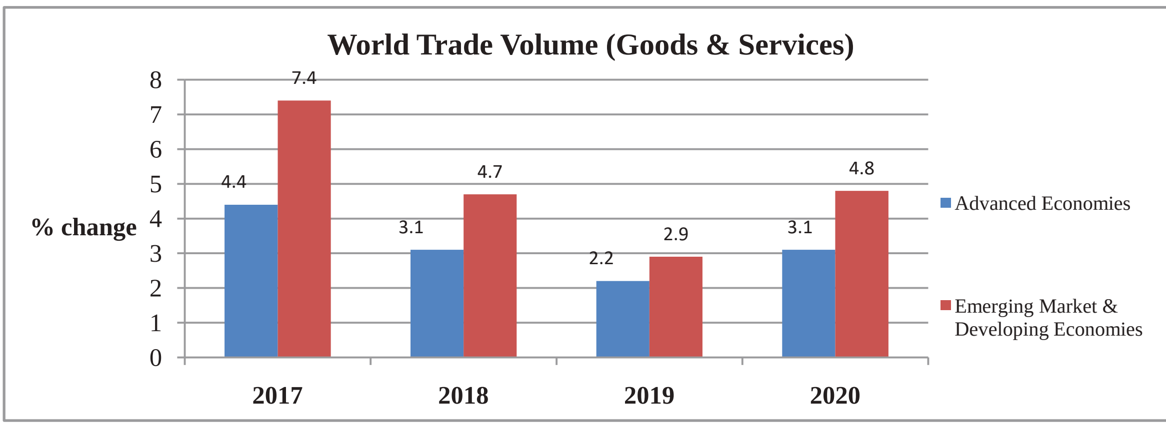
	2016-17	2017-18	2018-19
Production	169.594	182.703	180.488
Consumption	172.441	175.423	178.316
Surplus/Deficit	-2.847	7.280	2.172
Import Demand	65.324	56.694	59.356
Export Availability	65.317	59.686	60.410
End Stock	85.957	92.245	39.363
Stock/ Consumption Ratio %	49.85	52.58	52.36

WORLD ECONOMIC OUTLOOK IMF JULY 2019; Subdued Momentum

• Weak final demand

Against a difficult backdrop that included intensified US-China trade and technology tensions as well as prolonged uncertainty on Brexit, momentum in global activity remained soft in the first half of 2019. Growth was better than expected in the United States and Japan, and one-off factors that had hurt growth in the euro area in 2018 appeared to fade as anticipated. Among emerging market and developing economies, first quarter GDP in China was stronger than forecast, but indicators for the second quarter suggest a weakening of activity.

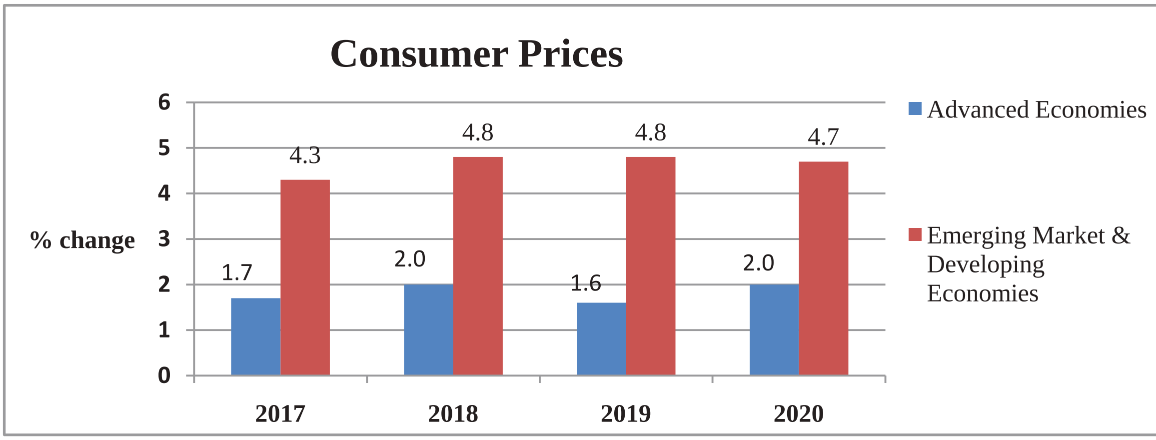
• Soft global trade



Spending patterns are also reflected in global trade, which tends to be intensive in investment goods and consumer durables. Trade volume growth declined to around ½% year-on-year in the 1st quarter of 2019. Weak trade prospects to an extent reflecting trade tensions in turn create headwinds for investment. The silver lining remains the performance of the service sector.

• Muted inflation

Consistent with subdued growth in final demand, core inflation across advanced economies has softened below target (for example, in the United States) or remained well below it (euro area, Japan). Core inflation has also dropped further below historical averages in many emerging market and developing economies, barring a few cases such as Argentina, Turkey, and Venezuela.



With global activity generally remaining subdued, supply influences continued to dominate commodity price movements, notably in the case of oil prices (affected by civil strife in Venezuela and Libya and US sanctions on Iran). Headline inflation has remained subdued across most advanced and emerging market economies.

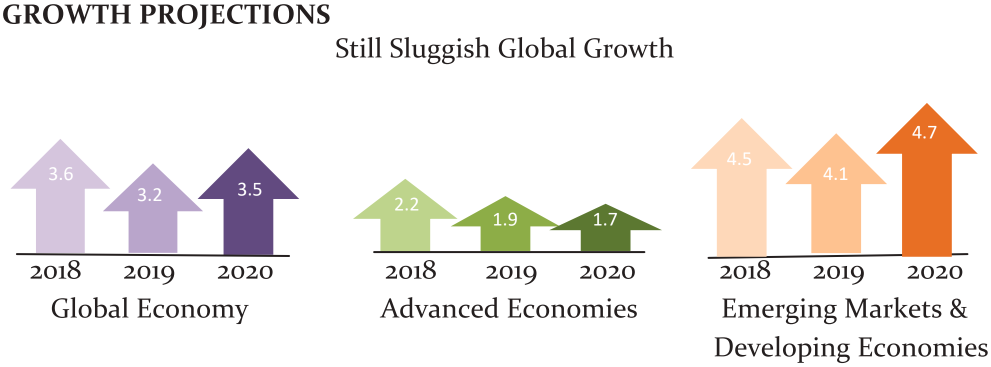
• Mixed policy cues and shifts in risk appetite

While the six-month extension to Brexit announced in early April provided some initial reprieve, escalating trade tensions in May, fears of disruptions to technology supply chains, and geopolitical tensions (for example, US sanctions on Iran) undermined market confidence.

Risk sentiment appears to have regained some ground in June, supported by central bank communications signaling the likelihood of further accommodation. Following the June G20 summit, where the United States and China agreed to resume trade talks and avoided further increases in tariffs, market sentiment has been lifted.

Global Growth

GROWTH PROJECTIONS

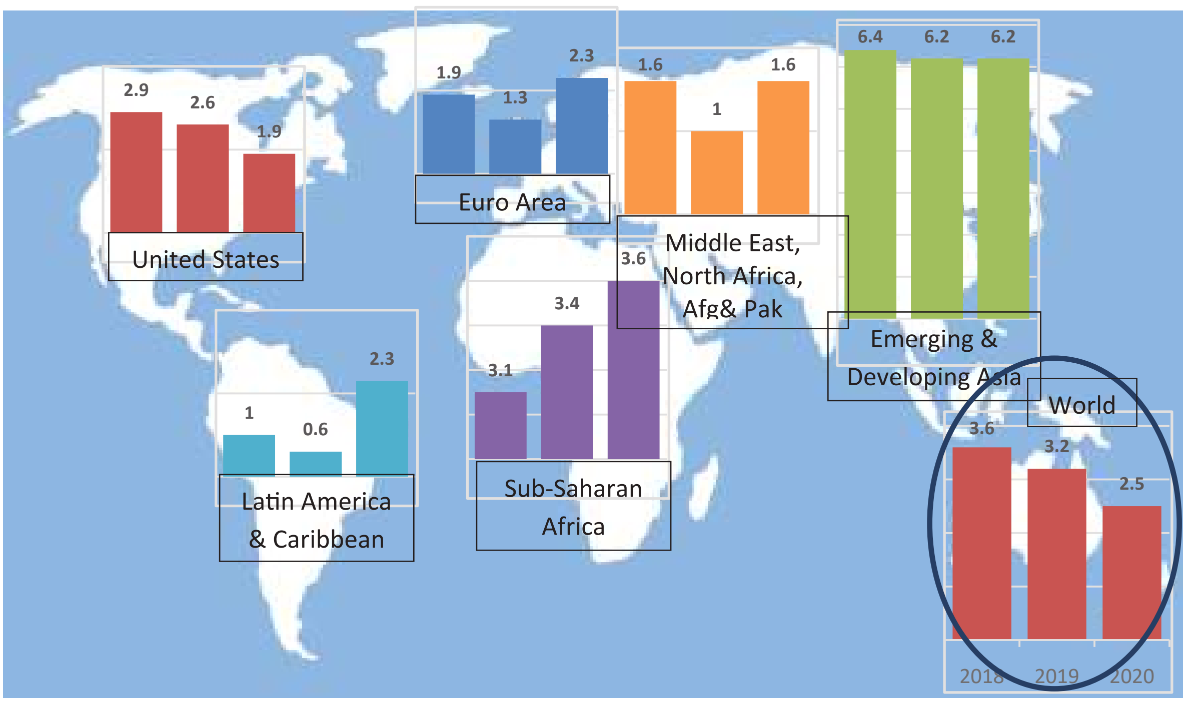


• Global growth is projected at 3.2% for 2019, improving to 3.5% in 2020. On the trade front, the forecast reflects the May 2019 increase of US tariffs on $200 billion of Chinese exports from 10% to

25%, and retaliation by China. The downgrades to the growth forecast for China and emerging Asia are broadly consistent with the simulated impact of intensifying trade tensions and associated confidence effects.

• For Advanced Economies, growth is projected at 1.9% in 2019 and 1.7% in 2020.

• The Emerging Markets and Developing Economy group is expected to grow at 4.1% in 2019, rising to 4.7% in 2020.



• In the **United States**, 2019 growth is expected to be 2.6%, moderating to 1.9% in 2020 as the fiscal stimulus unwinds.

• Growth in the **Euro Area** is projected at 1.3% in 2019 and 1.6% in 2020. The forecast for 2019 is revised down slightly for **Germany** (due to weaker-than-expected external demand, which also weighs on investment), but it is unchanged for **France** (where fiscal measures are expected to support growth and the negative effects of street protests are dissipating) and Italy (where the uncertain fiscal outlook is similar to April's, taking a toll on investment and domestic demand). Growth has been revised up for 2019 in **Spain**, reflecting strong investment and weak imports at the start of the year. Euro area growth is expected to pick up over the remainder of this year and into 2020, as external demand is projected to recover and temporary factors (including the dip in German car registrations and French street protests) continue to fade.

• Growth in the **Middle East, North Africa, Afghanistan, and Pakistan region** is expected to be 1.0% in 2019, rising to about 3.0% in 2020. The forecast for 2019 is lower largely due to the downward revision to the forecast for **Iran** (owing to the crippling effect of tighter US sanctions). Civil strife across other economies, including **Syria** and **Yemen**, add to the difficult outlook for the region. Partially offsetting these developments are improved prospects for **Saudi Arabia's** economy—the non-oil sector is expected to strengthen in 2019 with higher government spending and improved confidence, and in 2020 with an increase in oil sector growth.

• **Emerging and developing Asia** is expected to grow at 6.2% in 2019–20. The forecast is lower for both years, largely reflecting the impact of tariffs on trade and investment. In **China**, the negative effects of escalating tariffs and weakening external demand have added pressure to an economy already in the midst of a structural slowdown and needed regulatory strengthening to rein in high dependence on debt. With policy stimulus expected to support activity in the face of the adverse external shock, growth is forecast at 6.2% in 2019 and 6.0% in 2020. **India's** economy is set to grow at 7.0% in 2019, picking up to 7.2% in 2020. The downward revision for both years reflects a weaker-than-expected outlook for domestic demand.

• In **Latin America**, activity slowed notably at the start of the year across several economies. The region is now expected to grow at 0.6% this year, recovering to 2.3% in 2020. The sizable downward revision for 2019 reflects downgrades to **Brazil** (where sentiment has weakened considerably as uncertainty persists about the approval of pension and other structural reforms) and **Mexico** (where investment remains weak and private consumption has slowed, reflecting policy uncertainty, weakening confidence, and rising borrowing costs, which could climb further following the recent sovereign rating downgrade). **Argentina**'s economy contracted in the 1st quarter of the year, although at a slower pace than in 2018. **Chile**'s growth projection is revised down slightly, following weaker-than-expected performance at the start of the year, but is expected to pick up in 2020 helped by more accommodative policies. The deep humanitarian crisis and economic implosion in **Venezuela** continue to have a devastating impact, with the economy expected to shrink about 35% in 2019.

• In **sub-Saharan Africa**, growth is expected at 3.4% in 2019 and 3.6% in 2020. Higher, albeit volatile, oil prices have supported the outlook for **Angola**, **Nigeria**, and other oil-exporting countries in the region. But growth in **South Africa** is expected at a more subdued pace in 2019 reflecting a larger-than-anticipated impact of strike activity and energy supply issues in mining and weak agricultural production.

• The **United Kingdom** is set to expand at 1.3% in 2019 and 1.4% in 2020. The upward revision reflects a stronger-than-anticipated first quarter outturn boosted by pre-Brexit inventory accumulation and stockpiling.

• **Japan**'s economy is set to grow by 0.9% in 2019. The strong 1st quarter GDP release reflects inventory accumulation and a large contribution from net exports due to the sharp fall in imports, thus masking subdued underlying momentum. Growth is projected to decline to 0.4% in 2020, with fiscal measures expected to somewhat mitigate the volatility in growth from the forthcoming October 2019 increase in the consumption tax rate.

• The subdued outlook for **emerging and developing Europe** in 2019 largely reflects prospects for **Turkey**, where—after a growth surprise in the 1st quarter from stronger-than-expected fiscal support—the contraction in activity associated with needed policy adjustments is projected to resume. Several other countries in central and eastern Europe are experiencing strong growth on the back of resilient domestic demand and rising wages. The region is expected to grow at 1% in 2019. Growth is expected to improve to 2.3% in 2020 (largely reflecting the projected growth slowdown for the remainder of 2019 in Turkey).

• Activity in the **Commonwealth of Independent States** is projected to grow at 1.9% in 2019, picking up to 2.4% in 2020. The 0.3% age point downward revision to 2019 growth reflects a downgrade to **Russia's** outlook following a weak 1st quarter.

Downside Risks Dominate

Downside risks have intensified which include escalating trade and technology tensions, the possibility of a protracted risk-off episode that exposes financial vulnerabilities accumulated over years of low interest rates, geopolitical tensions, and mounting disinflationary pressures that make adverse shocks more persistent.

Disruptions to trade and tech supply chains: Business confidence and financial market sentiment have been repeatedly buffeted since early 2018 by a still-unfolding sequence of US tariff actions, retaliation by trading partners, and prolonged uncertainty surrounding the United Kingdom's withdrawal from the European Union. The principal risk factor to the global economy is that adverse developments—including further US-China tariffs, US auto tariffs, or a no-deal Brexi sap confidence, weaken investment, dislocate global supply chains, and severely slow global growth below the baseline.

Abrupt shifts in risk sentiment: The increase in US-China trade tensions in May caused a rapid deterioration in global risk appetite. While sentiment improved in June, potential triggers for other such risk-off episodes abound, including further increases in trade tensions; protracted fiscal policy uncertainty and worsening debt dynamics in some high-debt countries; an intensification of the stress in large emerging markets currently in the midst of difficult macroeconomic adjustment processes (such as in Argentina and Turkey); or a sharper-than-expected slowdown in China, which is dealing with multiple growth pressures from trade tensions and needed domestic regulatory strengthening.

Disinflationary pressures: Concerns about disinflationary spirals eased during the period of the cyclical upswing of mid-2016 to mid-2018. Slower global growth and the drop in core inflation across advanced and emerging market economies have revived this risk. Lower inflation and entrenched lower inflation expectations increase debt service difficulties for borrowers, weigh on corporate investment spending, and constrain the monetary policy space central banks have to counter downturns, meaning that growth could be persistently lower for any given adverse shock.

Climate change, political risks, conflict: Climate change remains an overarching threat to health and livelihoods in many countries, as well as to global economic activity. Domestic policy mitigation strategies are failing to muster wide societal support in some countries. Meanwhile, international cooperation is diluted by the non-participation of key countries. Other risks have become even more salient in recent months, notably rising geopolitical tensions in the Persian Gulf. At the same time, civil strife in many countries raises the risks of horrific humanitarian costs, migration strains in neighboring countries, and, together with geopolitical tensions, higher volatility in commodity markets.

Policy Priorities

Considering that the projected pickup in global growth remains precarious and subject to downside risks, appropriately calibrated macroeconomic policies are central to stabilizing activity and strengthening the foundations of the recovery. As a corollary, policy mis-steps and associated uncertainty will have a severely debilitating effect on sentiment, growth, and job creation.

At the multilateral level, the pressing needs are, first, to reduce trade and technology tensions and, second, to expeditiously resolve uncertainty around changes to long-standing trade agreements (including those between the United Kingdom and the European Union as well as between Canada, Mexico, and the United States).

Other key areas that call for enhanced international cooperation include mitigating and adapting to climate change, addressing cross-border tax evasion and corruption, and avoiding a rollback of financial regulatory reforms. Policymakers should ensure multilateral institutions remain adequately resourced to counteract disruptive portfolio adjustments in a world economy heavily laden with debt.

At the national level, key priorities shared across countries include enhancing inclusion, strengthening resilience to turbulent turns in international financial markets, and addressing constraints that inhibit potential output growth (which for some means implementing product and labor market reforms to boost productivity and for others means raising labor force participation rates).

For advanced economies, where growth in final demand is generally subdued, inflation pressure is muted, and market-pricing-implied measures of inflation expectations have dipped in recent months, accommodative monetary policy remains appropriate. Monetary accommodation can, however, foster financial vulnerabilities, for which stronger macro prudential policies and a more proactive supervisory approach will be essential to curb financial market excesses. In some countries, bank balance sheets need further repair to mitigate the risk of sovereign-bank feedback loops.

Across emerging market and developing economies, the recent softening of inflation gives central banks the option of becoming accommodative, especially where output is below potential and inflation expectations are anchored. Debt has increased rapidly across many economies. Efforts to minimize balance sheet currency and maturity mismatches remain vital at a time when financial sentiment can rapidly switch to risk-off mode and will also ensure that these vulnerabilities do not hinder the essential buffering role of flexible exchange rates.

GEOPOLITICAL & GLOBAL ECONOMIC PERSPECTIVE

The Geopolitical Logic of the US -CHINA Trade War

The Chinese made gestures toward accommodation, but they could not grant U.S. demands for greater access to the Chinese market. China's economy had long been heavily dependent on exporting to foreign markets, since its own domestic market could not absorb the vast quantity of goods that Chinese industry was producing. But with the onset of the 2008 financial crisis, the domestic market took on a whole new significance. [...] In prior administrations, the outsourcing of manufacturing for U.S. businesses made it difficult to take action against the Chinese. [...] the Trump administration has used tariffs to try to force the Chinese to open their markets to U.S. competition. The problem is that the Chinese economy is in no position to accept such competition. The financial crisis severely affected China's export industry as the global recession reduced the appetite for Chinese goods. [...] China's main solution to this problem has been to increase domestic consumption – a task that has proved difficult because of the distribution of wealth in China, the inability of financial markets to massively increase consumer credit, and the positioning of Chinese industry to target foreign, rather than domestic, consumers. Selling iPads to Chinese peasants isn't easy. [...] The Chinese domestic market was the only landing pad China had, and U.S. demands for greater access to it were impossible to meet. [...] China derives 4% of its gross domestic product from exports to the U.S. The U.S. derives only 0.5% from exports to China. China can do much less harm to the United States than the U.S. can do to harm China. [...] But Trump has recently threatened to take more severe action: forcing U.S. firms in China to leave and return to the United States. There is some legal precedent for this, but should the U.S. follow through, it will be challenged in the courts for a long time. Such a move would be a major threat to U.S. businesses, possibly more so than to China itself. [...] Geopolitics consists of politics, economics and military matters. [...] In the case of China, politics and economics are both pushing the U.S. to take action, while there are no military considerations to hold the U.S. back. If the Chinese decide to counter militarily, it's better that they do so now when they remain weak, rather than later when they are stronger. The logic of geopolitics has brought us to this point. And the U.S. is unlikely to back down without concessions that China cannot make.

It's the Economy, Dummkopf! German Slowdown Spells Trouble

Politico;By Matthew Karnitschnig; Aug 22, 2019

German output has expanded in all but one of her (Angelia Markel, Chancellor) 14 years in office, stuttering only during the financial crisis of 2009. Though growth has been modest, averaging about 1.6% during her tenure, it's been fairly steady, ensuring Germans have the stability they crave. [...] the German economy had contracted in the second quarter of the year ..... sparked fears of a looming recession. If that happens, the effects would be felt far beyond Germany's borders, with the impact rippling across the Continent. [...] Most economists and policymakers blame Donald Trump's trade war with China and Europe, along with Brexit, for endangering the longest economic expansion in recent memory. Yet Germany's problems are also homemade and, many economists argue, the result of Merkel's decision to leave the economy on cruise control for years instead of pushing through reforms that could have helped it weather the tough times ahead. [...] Though the German job market remains robust overall — at 5%, the German unemployment rate is one of Europe's lowest — signs of softness have begun to appear. Major German companies have announced thousands of job cuts in recent weeks. […] By the time the global financial crisis hit in 2008, the German economy was in such solid health that it recovered quickly, helped by the expansive monetary policy of the European Central Bank, the injection of government stimulus, and a surge in demand for German machinery and vehicles in China. The U.S. recovery further buoyed German exports, as Trump never tires of pointing out. Indeed, since the financial crisis, Germany's dependence on exports has only grown, leaving it with by far the world's largest trade surplus. The value of its exports equals nearly half of the country's $4 trillion GDP. […] As long as foreign demand for German goods remained robust, Germany's export model was hard to beat. Problem is, those days now look to be over. And unlike in 2009, neither the Chinese nor Americans are likely to come to the rescue as they grapple with their own slowdowns. What's more, the foundation of the German economy isn't as solid as it was then. The German car industry, the lifeblood of the economy, has been hit by the double whammy of the Diesel gate scandal and the advent of electric vehicles, which German carmakers have been slow to embrace. German industry overall, which is still dominated by small and medium-sized companies, lags on another seminal shift: digitalization. Germany's ambitious shift to renewable sources of electricity production, known as the *Energiewende*, has proved to be another challenge for business, saddling companies with the most expensive electricity prices in Europe. […] If Trump decides to ratchet up the pressure on his trade war with Europe, the impact on Germany would be substantial because the U.S. is its largest market, accounting for nearly 9% of total exports. A no-deal Brexit would only compound those problems. Economists agree that even if the situation worsens, the German economy won't fall off a cliff. The concern is that without serious reform, it could enter a long period of stagnation, similar to what Japan has experienced since the 1990s, with low interest rates and weak growth.

The Anatomy of the Coming Recession

Project Syndicate; Nouriel Roubini; Aug 22, 2019

There are three negative supply shocks that could trigger a global recession by 2020. All of them reflect political factors affecting international relations, two involve China, and the United States is at the center of each. […] The first potential shock stems from the Sino-American trade and currency war, which escalated earlier this month when US President Donald Trump's administration threatened additional tariffs on Chinese exports, and formally labeled China a currency manipulator. The second concerns the slow-brewing cold war between the US and China over technology. […] The US has placed the Chinese telecom giant Huawei on an "entity list" reserved for foreign companies deemed to pose a national-security threat. And although Huawei has received temporary exemptions allowing it to continue using US components, the Trump administration this week announced that it was adding an additional 46 Huawei affiliates to the list. The third major risk concerns oil supplies. Although oil prices have fallen in recent weeks, and a recession triggered by a trade, currency, and tech war would depress energy demand and drive prices lower, America's confrontation with Iran could have the opposite effect. Should that conflict escalate into a military conflict, global oil prices could spike and bring on a recession, as happened during previous Middle East conflagrations in 1973, 1979, and 1990.All three of these potential shocks would have a stagflationary effect, increasing the price of imported consumer goods, intermediate inputs, technological components, and energy, while reducing output by disrupting global supply chains. […] As trade in goods, services, capital, labor, information, data, and technology becomes increasingly balkanized, global production costs will rise across all industries. […] In fact, with firms in the US, Europe, China, and other parts of Asia having reined in capital expenditures, the global tech, manufacturing, and industrial sector is already in a recession. The only reason why that hasn't yet translated into a global slump is that private consumption has remained strong. Should the price of imported goods rise further as a result of any of these negative supply shocks, real (inflation-adjusted) disposable household income growth would take a hit, as would consumer confidence, likely tipping the global economy into a recession. Given the potential for a negative aggregate demand shock in the short run, central banks are right to ease policy rates. But fiscal policymakers should also be preparing a similar short-term response. A sharp decline in growth and aggregate demand would call for countercyclical fiscal easing to prevent the recession from becoming too severe. [...] Finally, there is an important difference between the 2008 global financial crisis and the negative supply shocks that could hit the global economy today. Because the former was mostly a large negative aggregate demand shock that depressed growth and inflation, it was appropriately met with monetary and fiscal stimulus. But this time, the world would be confronting sustained negative supply shocks that would require a very different kind of policy response over the medium term. Trying to undo the damage through never-ending monetary and fiscal stimulus will not be a sensible option.

The French are Finally Doing Better Than the Germans
Bloomberg; By Ferdinando Giugliano; Aug 26, 2019

After a very tough 2018 for President Emmanuel Macron, France, the second-largest economy in the monetary union, is faring much better than most experts would have assumed. Its economic model – less reliant on exports than Germany – is proving more resilient to the dangers of a U.S.-inspired trade war. At the same time, the government's decision to embark on some fiscal stimulus at the end of last year to stave off the revolt from the "yellow vests" has proven to be lucky. [...] French gross domestic product expanded by 0.2% in the three months to June (2019) While that was slightly less than expected, it was in line with the euro zone as a whole and was better than Italy and Germany. [...] France is much less exposed to the vagaries of international trade than Germany. Exports of goods and services represent, respectively, 31.3% and 47% of the two countries' GDP, according to World Bank data. France has a very slight current account deficit – 0.6% of GDP – while Germany has a whopping 7.3% surplus, and Italy 2.5%. Having a more closed economy is useful only so long as internal demand can support growth. That has been increasingly the case in France. The labor market has improved, with unemployment falling to 8.6% in July, the lowest in more than 10 years. Wages are accelerating, putting more money into people's pockets. Real household income per capita rose at an average rate of nearly 1% in the two quarters around the turn of last year. In Germany it was 0.65% and just above zero in Italy. [...] This doesn't mean, of course, that all's well in France. While its 10-year bond yield stands at about -0.35%, its debt-to-GDP ratio is among the highest in the euro zone. Macron's vaunted domestic reforms have been half-hearted, as evidenced in the case of the labor market. A recession in Germany, which looks increasingly likely, is bound to dampen growth for its neighbor too. The president's laudable push for an overhaul of the institutions governing the euro zone has made remarkably little progress because of opposition from Berlin and other northern capitals. There's no doubt, though, that in less than a year France has gone from being in the European sickbay to be a rare symbol of health. For a president seen as prematurely doomed, it's quite a turnaround.

Russia and China's Cosplay Alliance; How long will this awkward friendship last?
Moscow Times; by Mark Galeotti, Aug 26, 2019

More broadly, Russia needs China more than China needs Russia, and as a result Moscow privately resents and fears Beijing, which privately disdains it in return.The trade figures alone illustrates this imbalance. China is Russia's top trading partner; Russia is only China's tenth largest.To the Chinese, the Russian propensity to break the rules of the international system so openly and disruptively are useful but uncultured. Moscow is their icebreaker, noisily grinding its way through the pack ice with a mighty crunching and a hooting of horns. The Chinese are glad to take fullest example of this — one might wonder if their incursions into the South China Sea would attract more attention and opprobrium were the Russians not flagrantly breaking international law in Ukraine — but that doesn't mean they have to respect the icebreaker crew. Beyond that, for what does China need Russia? Not so much as a market but a source of raw materials and energy, from timber to oil. No friendship is needed for market access. Beijing knows full well how desperate Russia is for sales and alternative sources of funding these days. All it needs is money for that. [...] Meanwhile, China's economic influence spreads in the Russian Far East and in the post-Soviet States which Moscow regard as its sphere of influence. Only that this is an asymmetric competition — Moscow wants the semblance of authority; about which Beijing doesn't really care so long as it gets the deals it wants — has allowed everyone to pretend this is not happening. [...] But it is happening, and everyone knows it. Locked in geopolitical competition with the West, Moscow needs whatever assets it can find, and so for the moment, that includes Beijing. This is a cosplay alliance, though, more about form than substance. [...] Moscow regards China as an indispensable counterweight to the West. Just as important, many kleptocrats, bedeviled by the threat of sanctions, use Chinese partners and intermediaries to move and launder their ill-gotten assets.The money doesn't stay in China, though. This is just a waystation on the way to the West, which is still where the Russian elite wants to move its money. That is a fitting metaphor for a Russia that, for all its current dealings with Beijing, agrees with France's Emmanuel Macron, in his belief that "Europe stretches from Lisbon to Vladivostok."

Trade War Shows Reality of 'America First' in Action
The Washington Post; By George F. Will; Aug 23, 2019

Uncertainties infused into the global economy by the trade war between the world's two largest national economies probably have helped to produce a global slowdown and fears, perhaps somewhat self-fulfilling, of an approaching recession. The fourth-largest economy, that of heavily export-dependent Germany, is already shrinking. There, as The Economist reports, "interest rates are negative all the way from overnight deposits to 30-year bonds. Investors who buy and hold bonds to maturity will make a guaranteed cash loss." [...] This does not suggest economic health but might produce something pleasing to the president whose macroeconomic theory makes up in brevity what it lacks in nuance: "Low interest rates are good." He is forever hectoring the Federal Reserve to lower rates, which it might again do if it sees a recession tiptoeing toward us. So, a recession would be an interestingly injurious carom — a win, of a perverse sort — from his trade war. From May 1937 to June 1938, there occurred the "recession within [the] Depression," America's third worst 20th-century contraction. About the causes of this, as about so many economic events, intelligent and informed people disagree. However, one theory is that capital went "on strike." Rattled and exasperated by the New Dealers' regulatory fidgets, investors flinched from economic activity. If so, this episode contains a warning for protectionists who seem oblivious. They fiddle with global supply chains, as though the world economy is a Tinker toy that they can pull apart and reassemble with impunity. Actually, it is analogous to an Alexander Calder mobile: jiggle something here; things wiggle way over there, and there, and there. So: Tariffs on Apple (headquarters: Cupertino, Calif.) iPhones that are made (actually, just assembled) in China might help Samsung (headquarters: near Seoul, South Korea) Galaxy phones sell in America. This is "America First" in practice.

Asia's Coming Era of Unpredictability

Foreign Policy; *By* Robert D. Kaplan; Sept 01, 2019

Asia in the past decade has undergone remarkable transformation. The changes have been incremental and spread over several countries, so few realize that we are entering a new era—one that will feature a more assertive yet more internally turbulent China, coupled with a fracturing American alliance system and a U.S. Navy that is less dominant than it has been in recent decades. The crisis in Hong Kong and the deterioration of relations between South Korea and Japan are mere prologue to the coming years. Asian security can no longer be taken for granted. [...] First of all, China is no longer China, at least in the way it was known. [...] As the Chinese economy slows down, it is morphing into a more mature system featuring a highly skilled workforce. New middle classes tend to be both nationalistic and hard to satisfy, as they hold government to a higher standard of performance. [...] Xi's new China is deploying its rapidly expanding navy throughout the Asian sea lanes, something that will transform the U.S. unipolar maritime security order of the past 75 years in Asia into a multipolar and therefore less stable one. [...] China's latest port development projects in Darwin in northern Australia and near Sihanoukville in Cambodia demonstrate how China is filling up the maritime space at the junction of the South China Sea and the Indian Ocean, where it already has a network of ports going back to the previous decade. But it is only in the last few years that China's new maritime empire has come sharply into focus. The Indo-Pacific is no longer a U.S. naval lake. [...] China's increasing naval activities in both the South and East China seas also serve a larger purpose: They allow China to further threaten Taiwan, which separates the two bodies of water. [...] Of course, no part of Asia is in play as much as the Korean Peninsula. The unintended consequence of Trump's somewhat confused commencement of talks with North Korea's Kim Jong Un is that the latter and South Korea have jump-started a dialogue of their own. That dialogue will have its own logic and trajectory over time, leading in the direction of a Pyongyang-Seoul peace treaty and the eventual removal of more than 23,000 U.S. troops from South Korea. Don't say it can't happen. Divided-country scenarios in the 20th century had a tendency to end in unity: North and South Vietnam, West and East Germany, North and South Yemen. If this ever happens on the Korean Peninsula, the principal loser will be Japan. [...] Japan has required a divided Korean Peninsula for its own security, because a united Greater Korea, precisely because of Tokyo's brutal colonization from 1910 to 1945, to say nothing of the legacy of World War II itself, would instinctively be anti-Japanese. [...] Indeed, by choosing a policy of zero-sum bilateralism with each Asian country rather than articulating a regional vision, Trump has opened up a Pandora's box of issues that can set U.S. allies against each other—with China the winner.

Trump's Deficit Economy
Project Syndicate; By Joseph E. Stiglitz; Aug 9, 2019

The lower interest rates do lead to a lower exchange rate. Indeed, this may be the principal channel through which Fed policy works today. But isn't that nothing more than "competitive devaluation," for which the Trump administration roundly criticizes China? And that, predictably, has been followed by other countries lowering their exchange rate, implying that any benefit to the US economy through the exchange-rate effect will be short-lived. More ironic is the fact that the recent decline in China's exchange rate came about because of the new round of American protectionism and because China stopped interfering with the exchange rate – that is, stopped supporting it. [...] But, at another level, the Fed action spoke volumes. The US economy was supposed to be "great." Its 3.7% unemployment rate and first-quarter growth of 3.1% should have been the envy of the advanced countries. But scratch a little bit beneath the surface, and there was plenty to worry about. Second-quarter growth plummeted to 2.1%. Real investment as a%age of GDP is well below levels in the late 1990s, despite a tax cut allegedly intended to spur business spending, but which was used mainly to finance share buybacks instead. [...] America should be in a boom, with three enormous fiscal-stimulus measures in the past three years. The 2017 tax cut, which mainly benefited billionaires and corporations, added some $1.5-2 trillion to the ten-year deficit. An almost $300 billion increase in expenditures over two years averted a government shutdown in 2018. And at the end of July, a new agreement to avoid another shutdown added another $320 billion of spending. If it takes trillion-dollar annual deficits to keep the US economy going in good times, what will it take when things are not so rosy? [...] Despite Trump's bad economic management and his attempt to talk the dollar down, and the Fed's lowering of interest rates, his policies have resulted in the US dollar remaining strong, thereby discouraging exports and encouraging imports. Economists have repeatedly tried to explain to him that trade agreements may affect *which* countries the US buys from and sells to, but not the magnitude of the overall deficit.

COMMODITIES OUTLOOK

SUGAR

SUGAR PRICES

Year	**Domestic**(Rs/kg)	**Domestic**($/kg)	**Global**($/kg)
2014-15	57.14	0.56	0.33
2015-16	62.62	0.60	0.32
2016-17	66.43	0.64	0.42
2017-18	54.88	0.52	0.32
2018-19	59.52	0.44	0.28
2019-20 (Provisional)	65.00	0.43	0.27

Source: *State Bank of Pakistan (SBP); World Bank (WB) Commodities Price Data*

SUGAR PRODUCTION

Year	**Domestic**(Million Tons)	**Global**(Million Tons)
2014-15	5.2	177.4
2015-16	5.3	164.9
2016-17	6.8	174.0
2017-18	7.4	194.6
2018-19	6.5	178.9
2019-20 (Provisional)	5.2	181.0

Source: *World Bank Commodity Markets Outlook*

Pakistan's Sugar sector accounts for more than one-fourth of the total food industry. During 2018-19, Pakistan's sugarcane crop production was lowered to 6.5 million tons.Lack of implementation of indicative sugarcane prices cultivation during the current year and water scarcity in certain parts of the country mainly resulted in lower sugarcane year. Pakistan's 2019-20 sugar production is forecast at 5.2M tons as delays in cane payments and reduced expectations surrounding support pricing are prompting some farmers to switch to other crops. Since last year, sugarcane area and production are on a decreasing trend. Global production for 2019-20 is forecast up to 181 million as higher production in Brazil and the EU more than offset a decline in India.

Pakistan's sugar exports dropped by a hefty 68.2% to US$ 115.1 million during Jul-Mar FY19 this year. In the wake of a 12.4% drop in average international sugar prices during Jul-Mar FY19, exporting sugar became unfeasible for Pakistani exporters. Sugar in Pakistan's domestic market continues to be priced well above the international market. High price of domestic sugar relative to global benchmarks means that the country can export surplus sugar only with export subsidy.

COTTON

COTTON PRICES

Year	**Domestic**(Rs.per 37.32 kg)	**Domestic**($/kg)	**Global**($/kg)
2014-15	5,371	1.42	1.58
2015-16	5,319	1.37	1.54
2016-17	6,566	1.68	1.82
2017-18	6,930	1.33	1.77
2018-19	8,600	1.71	1.90
2019-20 (Provisional)	8,400	1.50	1.90

Source: *State Bank of Pakistan (SBP); World Bank (WB) Commodities Price Data*

COTTON PRODUCTION

Year	**Domestic** (Million bales of 375 lbs each)	**Domestic** (Million bales of 480 lbs each)	**Global** (Million bales of 480 lbs each)
2014-15	14.0	10.6	120.280
2015-16	9.9	7.059	98.675
2016-17	10.7	7.638	105.785
2017-18	11.9	8.965	14.332
2018-19	9.861	8.5	118.9
2019-20 (Provisional)	10.650	9.2	126.6

Source: *Pakistan Economic Survey; World Bank Commodity Markets Outlook*

Cotton is considered as life line of economy of Pakistan. Cotton crop faces significant challenges with competing crops especially sugarcane. Adversely affected by the decrease in area under cultivation coupled with the use of poor-quality seed and pesticides; cotton production during 2018-19 remained moderate at 9.861 million bales, a decrease of 17.5% over the last year's production of 11.946 million bales, and 31.5% against the target of 14.4 million bales. The production was also affected by unfavorable weather conditions, particularly the prolonged hot and dry weather that prevailed in the country. In addition, stunting of crop, attack of whitefly, pink bollworm and other pests/insects also hampered crop output.

Cotton prices weakness forecasts reflects estimates that production will outpace consumption next season (2019-20), the first time since 2015-16. Cotton production (2019-20) is expected to increase in most major producing countries including the United States, China, India, Pakistan, and several West African countries.

WHEAT

WHEAT PRICES

Year	Domestic (Rs/kg)	Domestic ($/kg)	Global ($/kg)
2014-15	34.57	0.34	0.24
2015-16	33.95	0.33	0.17
2016-17	34.16	0.33	0.14
2017-18	32.82	0.31	0.18
2018-19	34.58	0.26	0.21
2019-20 (Provisional)	34.00	0.23	0.20

Source: *State Bank of Pakistan (SBP); World Bank (WB) Commodities Price Data*

WHEAT PRODUCTION

Year	**Domestic**(Million Tons)	**Global**(Million Tons)
2014-15	25.086	728.2
2015-16	25.633	738.4
2016-17	26.674	756.4
2017-18	25.076	763.2
2018-19	25.195	730.5
2019-20 (Provisional)	25.533	768.1

Source: *Pakistan Economic Survey; World Bank Commodity Markets Outlook; FAO United Nations; USDA*

Pakistan's wheat crop showed marginal increase of 0.5% to 25.195M tonnes over last year's production of 25.076M tonnes but fell short of the target by 4.9%. The area under cultivation declined by 0.6% due to shifting of area to oilseed & other competitive crops. However, production increased due to better crop yield and healthy grain formation.

Global wheat supplies tightened during 2018-19 season as compared to last season's (2017-18) record of 763 mmt. Wheat Production 2018-19 was 730.54M tons. The decline though less severe than originally estimated is due to weather related yield losses in key Eastern European and Central Asian producers. United States Department of Agriculture (USDA) estimates that the world wheat production 2019-20 will be 768.07M tons. This year's 768.07 estimated M tons could represent an increase of 37.53M tons or 5.14% in wheat production around the globe.

In case of wheat, while the overall exports from Pakistan more than doubled to US$ 121.9 million during Jul-Mar FY19, most of the exports were realized in the first quarter. From Pakistan's perspective, the global environment appears favourable, as international wheat prices have risen in response to lower production in major exporters (the EU, Russia and China), and record demand from the Philippines. International wheat prices were, on average, up 16.4% during Jul-Mar FY19 as compared to the same period last year.

RICE

RICE PRICES

Year	**Domestic**(Rs/kg)	**Domestic**($/kg)	**Global**($/kg)
2014-15	51.99	0.52	0.42
2015-16	47.16	0.48	0.38
2016-17	48.52	0.49	0.39
2017-18	49.00	0.49	0.39
2018-19	55.95	0.42	0.41
2019-20 (Provisional)	56.51	0.38	0.41

Source: *State Bank of Pakistan (SBP); World Bank (WB) Commodities Price Data*

RICE PRODUCTION

Year	**Domestic**(Million Tons)	**Global**(Million Tons)
2014-15	7.0	479.2
2015-16	6.8	476.3
2016-17	6.8	490.9
2017-18	7.4	495.5
2018-19	7.2	498.6
2019-20 (Provisional)	7.5	497.9

Source:*Pakistan Economic Survey; World Bank Commodity Markets Outlook; FAO United Nations; USDA*

Rice is an important food as well as cash crop in Pakistan. After wheat, it is the second main staple food crop. During 2018-19, rice crop area decreased by 3.1%. The production stood at 7.2M tonnes and remained short of 3.3% as compared to 7.4M tonnes against last year. The production declined due to decrease in area under cultivation, dry weather and shortage of water.

Global rice production is projected to decrease marginally in 2019-20 (as per latest United States Department of Agriculture estimates) due to weather related disruptions in Brazil and the Philippines. United States Department of Agriculture (USDA) estimates that the world rice production 2019-20 will be 497.86M tons. Rice Production last year was 498.62M tons. This year's 497.86 estimated million tons could represent a decrease of 0.76M tons or 0.15% in rice production around the globe.

Rice prices have been remarkably stable during many years. Some countries reduced trade barriers to partially offset the rise in world rice prices. However, important net rice exporters such as India, Pakistan, and Yemen implemented policy interventions that ultimately raised domestic rice prices more than the increase in world prices.

Overall rice exports from Pakistan stayed almost flat at US$ 1.5 billion during Jul-Mar FY19, with a 4.2% decline in non-basmati exports overshadowing a 10.0% increase in basmati exports during the period. In fact, non-basmati rice has been driving the overall trend in rice exports throughout the year, as steep declines in its quantum during the first and second quarters had more than offset healthy performance by basmati during the period. However, the trends reversed in Q3-FY19, with an uptick in quantum non-basmati exports countering the drag from a price-led decline in basmati rice exports.

CRUDE OIL

CRUDE OIL PRICES

Year	Global Prices ($/bbl)
2014-15	71.8
2015-16	42.1
2016-17	49.0
2017-18	54.4
2018-19	65.7
2019-20 (Provisional)	64.0

Source: *World Bank (WB) Commodities Price Data*

Crude Oil Prices have weakened to $65.1(Apr-Jun 2019) a barrel from a high of $73.0(Jul-Sep 2018), pressured by oversupply fears linked to cooling demand prospects courtesy of slowing global growth and near-record US output appeared to be offset by worries about shipment disruptions in the critical Strait of Hormuz waterway as Iran lashes out against US-driven export sanctions. The forecast assumes that production cuts by OPEC and its partners will be sustained and that demand will strengthen in tandem with a recovery from the current soft patch in the global economy. Risks to the oil price outlook which are broadly balanced relate primarily to policy outcomes.

PALM OIL

PALM OIL PRICES

Year	Global Prices ($/mt)
2014-15	708.6
2015-16	619.5
2016-17	733.8
2017-18	693.9
2018-19	580.5
2019-20 (Provisional)	597.9

Source: *World Bank (WB) Commodities Price Data*

Palm Oil Prices have weakened to 577.5 $/mt (Jan-Jun 2018) from a high of $583.5 (Jul-Dec 2018); pressured by expectations of a high production cycle. However, a recovery for crude palm oil (CPO) prices in the second half of 2019 is expected on the back of stronger demand of Malaysia's palm oil from China and India. China saw the strongest Crude Palm Oil demand from Malaysia since 2015, as they switch their demand from soybean oil to palm oil. Indonesia and Malaysia are the primary producers of palm oil, and both are experiencing favorable weather conditions. El Niño weather conditions, which strengthened since February 2019, are likely to continue. Given the mild nature of El Niño, combined with ample supplies, global agricultural markets are unlikely to be affected by weather conditions in a major way. United States Department of Agriculture (USDA) estimates that the world palm oil production 2019-20 will be 76.01M tons. Palm Oil production last year was 74.08M tons. This year's 76.01 estimated M tons could represent an increase of 1.93M tons or 2.61% in palm oil production around the globe.

GOLD

GOLD PRICES

Year	Global Prices($/toz)
2014-15	1223.0
2015-16	1167.9
2016-17	1258.1
2017-18	1276.6
2018-19	1264.0
2019-20 (Provisional)	1302.0

Source: *World Bank (WB) Commodities Price Data*

Gold Prices have been strengthened to 1,310 $/toz (Apr-Jun 2019) from 1,213 $/toz (Jul-Sep 2018). Gold prices have been supported by strong demand and a fall in long-term real interest rates. The depreciation of the U.S. dollar against the official currency of China (renminbi) led to a strengthening in Chinese jewelry demand. Emerging market central banks, particularly China, India, Russia, and Turkey, have increased gold holdings to diversify their asset base, and investors have increased net long positions in gold-backed exchange traded funds. These factors have more than offset soft industrial demand.

NBP Performance at a Glance

(Rs Bn)

Items	2012	2013	2014	2015	2016	2017	2018	2019 (Mar)
Total Assets	1309.5	1364.9	1543.0	1706.3	1975.7	2369.8	2798.6	2401.8
Deposits	1036.7	1101.1	1233.5	1431.0	1657.3	1727.1	2011.0	1778.7
Advances	654.7	615.4	626.7	578.1	667.4	739.7	926.0	912.0
Investments	343.5	397.9	561.7	829.2	897.1	1295.7	1284.0	919.0
Capital & Reserves	151.0	156.0	178.0	168.0	177.0	175.0	207.0	213.0
Pre-Tax Profit	21.4	7.1	22.0	33.2	37.1	35.6	29.7	8.0
Profit After-Tax	14.9	5.5	15.0	19.2	22.8	23.0	20.0	4.0
Earnings per share (Rs.)	7.02	2.59	7.06	9.03	10.69	10.82	9.4	1.97
Number of Branches*	1306	1365	1377	1424	1469	1525	1525	1530
Number of Employees	16921	16619	16190	15548	15793	15616	15738	15738

NBP Products

NBP Saibaan*

- Products offered under NBP Saibaan include Home Purchase, Home Construction, Land Purchase plus Construction & Balance Transfer Facility.
- Period of repayment ranges between 3-20 years.
- Loans available up to a maximum of Rs.35 million.
- The markup rate being offered is Variable. The variable markup rate is pegged with SBP Discount Rate with spread of 2%.

NBP Advance Salary*

- For permanent employees of government, semi-government and autonomous bodies receiving salaries through National Bank of Pakistan.
- 20 net take home salaries in advance or Rs.2,000,000/- whichever is lower (certain conditions apply).
- Minimum documentation.
- Repayable in instalments of up to 60 months.

NBP Cash n Gold*

- Facility of Rs.38,000 against 10 gms of gold.
- No minimum income requirement.
- One-year Rollover tenure.
- Mark-up 15.50% per annum.
- Repayable after one year
- No penalty for early repayment.

NBP Kisan Dost*

- Loan facility on revolving basis for three years (renewable on yearly basis without obtention of fresh documentation and approval).
- Competitive mark-up rate.
- Quick & easy processing.
- Provision of technical guidance to farmers at their doorstep.
- Wide range of financing schemes for farmers.
- Loans available against agricultural passbooks, residential/commercial property, gold ornaments and papersecurity.
- Financing facility also available for landless farmers.

NBP Premium Aamdani Certificate (Term Deposit Certificate) *

- Minimum deposit of Rs.20,000/- with maximum balance of Rs.10 Million for 5 years.
- 5-year certificate with profit up to 7.50% p.a. (present rate) in 5th year of investment.
- Profit paid on monthly basis.
- Running finance facility up to 90%.

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