January-February 2003

ECONOMIC BULLETIN

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Editor's Corner

Dear readers,

The State Bank of Pakistan eased its monetary policy stance in 2001-02 to promote investment and growth. This was initiated with the central bank lowering the discount rate from a high of 14% in June 2001 to 9% by early last year and further to 7.5% by the year end, in effect a reduction of 6.5 percentage points. During this period the weighted averaged lending rates of commercial banks have declined from 14% to 10.3%, that is by only 3.7 percentage points. The increase or decrease in lending rates does not take place in proportionate manner with State Bank's discount rate.

During the same period the weighted average deposit rates have fallen from 6.2% to 3.6%. In effect, therefore, the spread (the difference between the average lending and deposit rates) has been reduced from 7.8% to 6.7%. The spread can be brought down further if the banks are able to successfully reduce their non-performing loans. Currently deposit rates cuts have outpaced cuts in lending rates, but if NPLs are brought down, lending rates can be lowered further.

This has also been followed by a revision of the export finance rate which should lower the cost of export credit and help provide an incentive to increase exports.

Concomitant to the reduction in discount rate has been a cut in six moth T-bills rate. In this fiscal year alone, this rate has been lowered from 6.3% to 2.1%. There is surplus liquidity in the market as the country continues to receive large inflows of foreign exchange. Lower rate could partly be viewed as a signal to banks to increase their lending to the private sector, which last year had seen a slump. Banks will however, have to exercise due prudence while lending, so as to avoid any further build up in NPLs.

A fall in interest rates has implications on the behaviour of market participants. Banks' profitability could be affected as interest incomes fall. Banks have invested large sums in government securities and with continuous reduction in T-bill yields, earnings would be affected unless banks adopt an aggressive lending strategy by finding new borrowers and diversifying their portfolios. Unless there is a significant diversification, the year 2003 could prove difficult for the banks.

Lowering of interest rates is expected to give a boost to business confidence, as businesses will now be able to finance their loans at lower rates. Until a year ago, the lending rate of the banks was prohibitive, and the money borrowed at such high costs made almost all investments in industry and business financially unviable. At times, businesses find it increasingly harder to finance their loans so they cut back on production and therefore unemployment increases. Lower rate of lending would help in the development of IT and SME industries and also help improve Pakistan's competitive position vis-à-vis multinationals who enjoy very low rates at home. One also expects that corporate business sector which have large bank borrowings, will see a rise in their profits, which will give a big boost to the stock market.

Declining interest rate and the subsequent increase in liquidity should help broaden the stock market base, which should remain bullish in the year 2003, if no unforeseen incidents occur which adversely impacts the market. With shrinking profits in debt instruments, financial institutions are diversifying in the capital market, mainly Karachi Stock Exchange.

Commercial banks as mentioned above could stave off a possible reduction in their earnings by enhancing consumer financing, where a potentially growing market exits. Banks in Pakistan have adopted consumer financing as part of their lending portfolios. Earlier when interest rates were high, consumer financing was not so popular. With interest rates having fallen, individuals in the middle and lower income class can now afford to purchase items on monthly installment basis. Given the large housing market, commercial banks can venture in this area; some have already done. If people start borrowing from banks to invest in housing it would free their investment, which could be used for other purposes.

The State Bank of Pakistan has eased rules to facilitate consumer financing by banks allowed primarily against hypothecation of goods. It seeks to broaden the base of consumer financing, while ensuring at the same time strict adherence to prudent credit risk evaluation practices. Banks are being encouraged to take exposure in this area with prudent banking practices.

National Bank of Pakistan, while pursuing the strategy to transform from a corporate bank to a more diversified bank has stepped into the area of consumer finance. The Bank last year initiated financing purchase of LG electronic products and NBP advance salary facility. It is currently working on various other products, such as gold loans, agri-finance facilities, travel related schemes, auto loans, housing finance and other schemes at competitive rates. National Bank has the added advantage of a large client base, approximately 35% of the total customer accounts in Pakistan. It can capture a major chunk of the large consumer financing market which would prove to be a huge source of income.

Presently a very small percentage of National Banks assets are consumer finance based. In the next five years it is envisaged that at least 25% of the NBP assets will be in the retail finance, whether in the form of mortgages, auto loans or personal loans. In the next 10 years this figure would rise to about 50-70%.

By stimulating demand for household goods, investment is expected to pick up which would in turn contribute to the growth of the economy.

Ayesha Mahmud

Abstract of the Bulletin

Pakistan's Poverty Reduction Strategy and International Support

§ Incidence of poverty in Pakistan has increased considerably during the decade of the 1990s, as is evidenced from various social and human development indicators.

§ A number of initiatives aimed at helping the poor, like improving governance, creating employment and income generation opportunities, improving access to basic services are being implemented.

§ Multinational donors like the World Bank and Asian Development Bank have lent support to pro-poor economic growth strategy. They have endorsed the government's poverty reduction strategy.

Housing Sector in Pakistan

§ Growing population in urban areas of Pakistan has resulted in problems like shortage of housing, access to safe drinking water and sanitation and electricity.

§ Housing backlog continues to grow, which shows that programmes for solving the housing problem have not been successful.

§ Commercial banks and housing finance companies can to a large extent meet the growing demand for finances, if certain difficulties that they are facing are resolved.

Agriculture

§ Prospects for the agriculture sector in 2002-03 have improved because of recent rains throughout the country.

§ Wheat crop is expected to exceed 20 million tonnes, while rice crop would be around 4 million tonnes.

§ Cotton is anticipated at around 10 million bales due to lower area sown.

§ Improved sugarcane output at 52 million tonnes, is a result of larger area planted and improved yields.

Industry

§ The manufacturing sector has shown encouraging results in the first half of 2002-03. A 6.5% growth target is anticipated for the full year.

§ During July-December 2002, textiles, food & beverages, engineering, paper & board, automobiles, electronics showed a positive growth over the comparable period last year, while growth declined for fertilizers, pharmaceuticals, leather products, metals and chemicals.

Banking and Finance

§ Scheduled banks' deposits, advances and investment in central government securities rose in the week ended February 22, over last year's corresponding figure.

§ State Bank maintains an easy monetary policy in 2002-03. Monetary expansion is envisaged at 16.0%.

Market Analysis

§ The market witnessed volatile trading in January '03 and the index peaked at 2956 on January 16, '03 before falling steeply. The index eventually closed February at 2399. The steep upside that started in December '02 was highly leveraged and weakholders were driving the market. Average daily badla rates were also shooting upwards in early January in view of the increased weakholding and demand for funds by leveraged buyers.

§ Looking ahead, the US-Iraq conflict is keeping investors from entering the market, but other economic fundamentals argue for a resumption of market growth.

Pakistan's Poverty Reduction Strategy and International Support

The decline in poverty in Pakistan during the 1970s and 1980s was reversed in the 1990s. The incidence of poverty increased from 26.6% in FY93 to 32.3% in FY99 and the number of poor increased by over 12 million people during this period, says the Asian Development Bank Report, *"Poverty in Pakistan"*. The Government however, quotes a lower figure of 28.2%. The World Bank Report, *"Pakistan Poverty Assessment"*, says that on balance, the incidence and severity of overall poverty remained almost unchanged between the beginning and the end of the decade (1990-91 and 1998-99). Disaggregating by region, while urban poverty fell between this period, rural poverty held at about 36%, widening the rural-urban gap. This is of particular concern because 70% of the country's population resides in rural areas.

Poverty is multidimensional, characterized by inadequate income, the non-fulfillment of basic needs and the lack of access to social infrastructure. Levels of human development indicators in Pakistan remain low compared to other countries with comparable per capita income. Low levels of education and health are accompanied by material deprivation. Only if people have job opportunities, some assets and household members are skilled, educated and healthy, a minimum standard of living can be attained and poverty be eliminated.

Poverty could be either income poverty or poverty of opportunity. The basic measure of income poverty quantifies the extent of shortfall in relation to the defined minimum standard of living. The Economic Survey 2001-2002, states that the government has adopted the official poverty line in 1998-99 as Rs.650 per capita per month, later revised by the Planning Commission to Rs. 670. The poverty line assesses the limit beyond which people are considered to be poor. It only indicates the average consumption expenditure necessary to satisfy some basic requirements.

There is a widening gap between urban and rural areas and between genders. In addition, social indicators are disproportionately lower for females, highlighting the existence of gender disparities. Some social indicators point to these disparities. Female literacy is 38% compared to 63% for men. There are only 10 professional colleges for women, out of a total of 324 in the country. 37% of adult women in Pakistan suffer from anemia. Female child mortality rate is 37 per 1000, compared to 22 for male child.

In the 1990s, poverty trends were different in rural and urban areas: while poverty has fallen in urban areas, the rural areas were facing a sharp rise in poverty incidence, leading to a widening rural-urban poverty gap.

Comparing provinces, there is a large difference between rural areas than between urban areas. The Social Policy and Development Centre (SPDC) in its *"Social Development in Pakistan Annual Review 2000"*, has constructed poverty lines separately for each province. The poverty line ranged from Rs.465 to Rs.664 per capita per month in the urban areas and from Rs.390 to Rs.564 in the rural areas in 1996-97.

Various studies have shown that improvement in human development indicators in Pakistan has been slow and that levels remain below those of other developing countries of comparable per capita income and have improved slowly than those of other developing countries with similar growth rates. Employment situation has worsened, with real wages of employees in the public sector having fallen because of inadequate adjustment to the cost of living in the nominal wages. Earnings of workers in the informal sector have remained low. Besides having low incomes, the poor are generally unemployed or underemployed and are wage earners. In periods of low economic activity such people suffer.

Relationship Between Incidence of Poverty,
Per Capita Income, Income Inequality and Poverty Line

	Per Capita Monthly Income (Rs.)	Extent of Income Inequality (Gini coefficient)	Poverty Lines (Rs. per capita per month)	Incidence of Poverty (% of poor)
Urban				
Punjab	1245	0.39	639	33
Sindh	1352	0.39	610	20
NWFP	1101	0.39	465	18
Balochistan	1100	0.34	664	35
Pakistan	1270	0.38	618	27
Rural				
Punjab	1052	0.45	485	29
Sindh	745	0.33	564	53
NWFP	686	0.30	390	24
Balochistan	681	0.28	551	54
Pakistan	921	0.41	484	32
Total				
Punjab	1105	0.44	527	30
Sindh	1036	0.36	586	37
NWFP	746	0.33	401	23
Balochistan	762	0.31	573	49
Pakistan	1025	0.40	523	31

Source: Social Development in Pakistan,
Annual Review 2000
Social Policy Development Centre

The daunting task of poverty reduction in Pakistan has been recognized as an important objective of economic development. Because of its pervasive nature, a number of initiatives have been taken by the government, non-governmental organizations and the private sector to reduce the incidence of poverty, ensure pro-poor growth through macroeconomic reforms, improve access to social services, governance reforms and targeted interventions. Multilateral donor agencies like the World Bank and Asian Development Bank would provide support to government initiatives through focusing on improving the institutional framework for rural development, increasing agricultural productivity, promoting non-farm employment opportunities, removing institutional obstacles to service delivery among other measures. Thus, it is the combined effort of all sections of society plus the international donors, which can bring about a change in the policies for economic and human development and in the affairs of the poor.

This paper would start with the government's own Interim Poverty Reduction Strategy (I-PRSP). Both the World Bank and the Asian Development Bank in their recent reports on poverty in Pakistan have pointed to the need for substantial improvement and additional effort in many areas. While their recommendations are broadly consistent with the strategy outlined in I-PRSP, they also suggest a need for strengthening of this strategy. The Reports have identified some possible areas of intervention, which are mentioned later in the paper.

Interim Poverty Reduction Strategy – Key elements

Key elements of the I-PRSP are to promote growth through macroeconomic stabilization and by improving the investment climate for private sector led growth. Focus on specific reforms in the rural sector, and facilitate productivity and growth of small and medium enterprises. The process of devolution to enhance efficiency and quality of public services, particularly in education and health.

The following factors will guide the process of poverty reduction:

§Reducing income poverty and inequality.
§Increasing levels of quality education and improving health outcomes.
§Eliminating social exclusion and gender discrimination.
§Increasing the participation of marginalized groups in decision making process.
§Improving governance.

Sustained, pro-poor economic growth, with revival of private sector activity and investment will be the main elements of poverty reduction strategy.

Macro-economic reforms

Broad based governance reforms are necessary to assure transparent and sustainable management of public resources and accountability in fiscal management. The government has formulated a macroeconomic framework and fixed growth targets for the different sectors of the economy for the next four years. Through prudent fiscal and monetary policy, inflation will be contained to below 6% in 2003-04, real GDP to increase to 5.5%, agriculture and manufacturing sector to grow in the neighbourhood of 4.0% and 6.0% respectively. Tax revenues are projected to reach 13.2% of GDP by 2003-04, while development expenditures will continue to increase from 2.8% of GDP to 3.7% by 2003-04.

For initiation of poverty reduction initiatives, government revenues will have to pick up. The need to simplify the tax regime, broaden the tax base, improve tax administration and eliminate corruption and tax evasion cannot be over emphasised. Tax reform initiatives are underway. Similarly expenditure management is being improved. The government has adopted a debt reduction and management strategy, which includes institutional and policy actions that will be essential for bringing debt to manageable levels and eliminating the need for assistance from IMF after the expiry of the PRGF in 2003-04.

On the trade front, an export development strategy to improve employment opportunities, thereby reinforcing the poverty alleviation strategies has been formulated.

The reforms in public finance, trade policy, financial sector and capital markets are essential to overcome the growing incidence of poverty. A speedy improvement in sectors like agriculture, industry, transport, oil & gas, IT sectors are also needed in addressing poverty in Pakistan.

In its Interim Poverty Reduction Strategy Paper, the government has proposed definitive steps in agriculture, industrial sector, power, oil & gas sector, telecommunication and IT. These are briefly summarised below.

Agriculture sector

Agricultural development is vital for reviving the economy and reducing poverty, as it provides employment to 45% of the country's labour force and contributes 70% to the export earnings. It is the government's objective to achieve an accelerated and sustainable growth through efficient import substitution, export orientation and enhanced productivity. Focus should be on increasing production through a comprehensive agriculture pricing policy, and better agriculture and marketing facilities and embarking on water management programs to enhance water availability.

Industrial sector

Development of the industrial sector helps reduce poverty in two ways. A growing industrial sector raises the overall growth of the economy leading to higher incomes and employment. Developing the small & medium enterprises reduces poverty directly because of higher and quicker labour absorption. While framing industrial policies in future, consideration would be given to active participation of major stakeholders. Small and Medium Enterprise Development Authority (SMEDA) is actively pursuing strategies in the area of poverty alleviation and growth.

Quality of products, export orientation and internationally competitive prices will be the guiding principles in industrial promotion. Export led industrialisation is the prime objective of industrial policy.

Commun-ication system

The transport sector is a catalyst for generating economic activity and with reoriented policies can facilitate development. Increasing the coverage of physical infrastructure especially to rural and backward areas will assist development.

Power sector

Key power sector issues are being addressed. It includes institutional reforms in WAPDA and KESC, which would help reduce system losses.

Oil & gas sector

Government's initiatives in the energy sector have been focused towards deregulation, liberalization, privatisation, increased utilisation of indigenous resources, attracting foreign investment and entering into new alliances with international oil & gas companies. New fields and offshore discoveries in oil & gas sector are being pursued by multinationals.

Telecom-munica-tions & IT Strategy

Maximum stress is laid on the development and expansion of the telecommunications infrastructure in the country. This would boost the growth of internet and applications of Information Technology. Initiatives have been taken by the government to develop human resources through establishment of IT universities, making internet popular and increasing allocations for IT development.

Gover-nance reforms

Poverty results not only because of economic ills prevalent in society, but also because of misgovernance over the past years. If one has to alleviate the poor conditions of a major section of society and take the facilities of education and health down to grass roots the entire system of local governance has to be changed.

The existing system of local governance excludes the people directly affected and does not empower them. That is why the government now has introduced the devolution plan. This aims to replace the existing highly centralized and control oriented government with a delayered system. It is hoped that this will make a difference in the delivery of public services, by involving people more actively in community issues.

Civil service reforms

The poverty reduction implementation process requires a civil service with enhanced professionalism. The Government's devolution plan is bringing the government nearer to beneficiaries and ensuring that the public servants are accountable. Improvement in the quality of public service delivery to improve the living standards of poor largely depends on implementation of good policies, the quality of public administrators and public institutions. A restructuring process of civil service is underway.

Corrup-tion & accoun-tability

The Poverty Reduction Programme recognizes that elimination of corruption is necessary in the conduct of economic policy, in the discharging of government functions and provision of services. As part of the government's accountability drive a comprehensive anti-corruption strategy has been devised. The government will undertake disciplinary measures against corruption and inefficiency in the workplace.

Legal system

A transparent legal system is necessary to promote sustainable and higher economic growth, protect the interests of the poor by securing property rights, reducing harassment faced by the poor in their daily life and protecting the disadvantaged and the under privileged.

Fiscal & Financial Trans-parency

One of the pre-conditions of achieving broad based, sustainable and pro-poor economic growth is improving economic governance. An easy access to information would help eliminate corruption and improve economic governance, while enabling greater participation of all the stakeholders.

The government has taken two major initiatives, Khushal Pakistan (a poverty intervention) and Khushali Bank (a microcredit bank), as nationwide efforts to address poverty.

World Bank Support

Promoting education & health

The World Bank supports the I-PRSP's core objective to empower people by creating greater opportunities for increasing real incomes by improving access to education and health services, especially for girls, and to safety net programmes. The Bank's support to education and health, pro-poor rural development and community infrastructure reflects the importance attached.

In the sector of education, the Bank's support would help in achieving universal primary education, with particular focus on improving the quality of education provided, and giving priority to the poor and disadvantaged, particularly girls and children in rural areas. In particular, increasing children enrolment will be crucial to the fight against child labour.

Similarly in the health sector, the Bank will support the government's priority of strengthening the public health programmes — immunization, communicable diseases such as malaria, TB, HIV/AIDs; and maternal child and health and family planning.

Pro-poor rural infrastruc-ture

The Bank supports the development of rural community based infrastructure projects (particularly for water supply and sanitation services) and the spread of microcredit, so to reduce and mitigate risks for Pakistan's poor. The Bank's investment in such projects would promote rural growth and attack rural poverty.

Pro gender equity policies

In the area of gender equity the Bank would assist the government implement the component of Education Sector Reform strategy focused on boosting incentives — through vouchers system, food for school and other targeted subsidies to increase girls enrolment.

The Bank has in its *"Pakistan – Poverty Assessment"* report highlighted the critical priorities for poverty reduction that the ongoing reform programme will need to incorporate. It has given recommendations based on the experience of existing programmes and initiatives in Pakistan. While the existing programmes have brought positive achievements, there is need for substantial improvement and additional efforts in many areas.

Broadly speaking, additional efforts are needed in improving access to markets for credit, removing institutional obstacles to service delivery, improving access to assets, including land, in the rural sector, improving coordination among policies and improving monitoring of programmes.

For better and more effective results from the existing programmes, the Bank has touched upon some of the reforms needed. For instance, existing zakat, social pension, and public works programmes should consider expanding coverage and improving their responsiveness and flexibility, in part through better targeting. This also requires institutional reform, greater transparency and in some cases, stronger government commitments. With regard to the Khushal Pakistan program there are some critical aspects of its design and implementation that need to be considered if it is to attain its social protection objectives. The public works program can achieve targeting efficiency through geographic targeting of areas with vulnerable population.

With respect to microfinance, the Report says that it is unable to extend coverage to the vast majority of the poor. The rate of penetration is low in rural Sindh and Balochistan. "Most microfinance programmes are also unable to attain sustainability by charging sufficiently high interest rates and finding investment opportunities that yield returns higher than the cost of borrowed funds. The microfinance system thus needs to establish a sustainable framework in order to reach a much larger number in future, rather than remain dependent on donor or government funds".

The urban housing programmes undertaken by the government also have weak areas. Either the end product was not tailored to the needs of the poor, or priced so high as to be unaffordable. This, coupled with rapid urbanisation, has resulted in 40% to 60% of the urban population living in katchi abadis.

The Report points out that two important issues regarding service delivery are not solved by devolution. There are severe distributional inequities in the provision of health and education, most of which extend across districts and across the rural-urban divide. This requires attention at higher levels of government, who would also be required to transfer significant resources to local governments to increase girls' education.

Institutional credit is severely restricted in rural Pakistan. Improved access should have a beneficial impact, as it would enable the poor farmers to undertake productive investment and the households to smooth their consumption and mitigate risk. Access to institutional credit in rural areas, particularly for the poor, is severely constrained by market failures due to information problems that arise from the isolation of the poor from financial markets.

Asian Development Bank Lends Support

The Asian Development Bank (ADB) in its report *"Poverty in Pakistan"* endorses the Government's poverty reduction strategy and its own strategy will complement the Government's efforts. The Bank will be addressing the critical bottlenecks and focus would be on sectors or activities that have maximum poverty reduction impact.

In the ADB's poverty reduction strategy for Pakistan, the major focus would be on improving governance. The Bank would provide support through a two pronged approach: ADB assistance under the Country Strategy and Programme in the various sectors, promoting public-private partnership in provision of social services, enforcing women and child rights will be developed and implemented in a manner consistent with the overall governance reforms in the country.

Improving governance

Direct assistance would also be provided to assist governance reform agenda. It would help to establish the legal and policy basis for governance reforms, build the capacity of governance institutions, and promote efficient and equitable use of available resources. It would also encourage and help build support and consensus among key stakeholders such as the government, private sector particularly in the context of devolution.

The Bank would extend support to the government's devolution plan to ensure that social development includes all sections of society particularly those that have been left out and the disadvantaged.

The Bank would assist government endeavours at restructuring of state owned enterprises, so to create an enabling environment for private sector participation and investment.

The ongoing support of the Bank to the judicial and police reform programme would provide an impetus to the private sector particularly to foreign direct investment and the growth of small and medium enterprises SMEs.

Pro Poor Growth

Sustained economic growth is critical for poverty reduction, for there are strong linkages between pro-poor growth and human development.

ADB will focus its interventions in the following areas:

Structural reforms

The Bank complements the macroeconomic policy reforms of the government, by supporting restructuring and privatisation of loss making public utilities in the power sector, reform of the trade regime and export finance and improvement of public debt management capacity.

ADB will support the development of indigenous energy sources such as natural gas through deregulation, privatisation and creation of an environment to attract private foreign investment. It would assist provincial governments to improve public resource management and local governments to raise their resources and to deliver basic public services to the poor.

Rural development

As the bulk of the country's poor live in rural areas, any policy that is directed towards poverty reduction must address their issues. The Bank will support higher growth and greater stability of income and employment in rural areas by focusing on (i) getting the policy and institutional framework right (ii) increasing agricultural productivity, strengthening research and extension services, expanding the role of the private sector in storage and agriculture support services (iii) increasing non-farm employment opportunities by developing agribusiness for exports and rural SMEs, (iv) promoting rural-urban linkages, particularly by improving rural roads, (v) expanding rural economic infrastructure especially for irrigation, drainage and water resource conservation and management, (vi) promoting financial intermediation, mobilizing savings and enhancing access to credit in the rural areas and (vii) investing in infrastructure in areas where incidence of poverty is high and where the lack of infrastructure is a critical barrier to development.

Employment generation

Employment generation is a critical area that needs to be addressed for poverty reduction. Small & medium enterprises are highly labour intensive as they provide employment to large numbers, especially non-agriculture workforce. The Bank has plans to support SMEs by development of supporting institutions, infrastructure, better access to credit and business support services.

Alleviating infrastructure constraints

Economic growth is hampered by inadequate infrastructure. The Bank will selectively focus on the energy and transport sectors, and to ensure that sector governance issues are fully addressed it will move away from project loans to sector development project loans with both investment and policy components aimed at addressing issues such as corporate governance, institutional capacity, cost recovery, and public private partnerships.

Social development

Historically Pakistan has invested little in human development. Accelerating human development encompasses both, an increase in expenditure on social sectors as well as improving the effectiveness of spending through better governance.

ADB strategy will assist the government in the process of devolution. It will concentrate on improving provincial resource management capacity for better allocative efficiency of human development investments, financing incremental services (new teachers, textbooks, medicines etc), improving quality of primary education, promoting public-private/civil society partnerships and improving municipal services.

To bring about a meaningful social change in the lives of the vast majority, ADB's development strategy will target projects for women, discourage gender discrimination, promote policies and bring reforms for representation of women in all aspects of economic and social development.

Other Issues to be addressed

Environmental management

Concern for environmental issues will also receive ADB's focus. These will be incorporated into all project interventions. The Bank will also support necessary capacity building measures to support the decentralisation of administration to the district level and subsequent decentralisation of environmental management to the district level.

Both donor institutions will work closely with the government to bring about structural changes in the economy, and thus pave the way for sustainable, long-term development. The assistance provided would help in the implementation of Pakistan's poverty reduction strategy.

Housing Sector in Pakistan

Growing population in urban areas of Pakistan (urban population grew by 3.5% during 1981-98, against the total population growth of 2.6%) has resulted in urbanized related problems. There is a lack of secure and adequate urban housing, access to electricity, safe drinking water and sanitation.

As urban areas of Pakistan are growing rapidly, a large number of people are concentrated in smaller regions, where housing facilities have fallen short and achieving a livable urban environment is a major challenge. The type of housing services available have a bearing on education and health levels of households. If households live in congested conditions, it would affect the inhabitants health. Health is a critical element in achieving broader development objectives. Improved health leads to rapid economic growth by raising labour productivity and by encouraging greater investment in the education of children.

Provision of adequate housing facilities is an integral part of any meaningful programme of social and economic development, as it is a basic human need. In Pakistan, housing facilities have lagged behind demand. Low rate of housing growth alongwith a higher population increase has resulted in large housing shortages, which have grown over time. While this is particularly acute in rural areas, it is in the cities where population and densities are growing most rapidly and where the greatest pressure is felt. Lack of adequate urban housing combined with the lack of basic facilities like access to electricity, safe drinking water and sanitation is an important determinant of urban poverty. While the various Five Year Plans had allocated funds for housing, these have been deficient to the needs.

The housing demand that exists in urban areas emanates largely from low-income groups. This strata of society cannot afford to obtain developed plots and construct a house through the formal market. Growing numbers have occupied state lands and katchi abadis (squatter settlements) have emerged. The cost of these plots is low so is the construction cost, as squatters do not have to follow building rules. They however, lack infrastructure and other services. An estimated 35% of the population lives in slums.

According to the 1998 Housing Census, there are over 19.3 million housing units in the country, of which 67.7% are in rural areas and 32.3% in urban areas. The current housing backlog stands at 5.5 million. Given the rate of population growth, annual incremental demand is estimated at between 300000 – 500000 units.

Many of those who have access to housing suffer from congestion and lack of basic facilities. Nearly 50% of the population is living in one room tenements, with an average family size of 6.6 persons per room. This has not shown much improvement during the last two decades, reflecting the poor housing conditions prevalent and the general standard of living.

Trends in Housing Deficit

Years	Housing units (Mn)
1965	0.6
1970	1.5
1978	1.2
1993	6.25
2001	5.11

Source: Social Development in Pakistan, Annual Review 2001
Social Policy & Development Centre

The large housing backlog that one sees today only goes to show that there has been no systematic programme of solving the housing problems. Housing provision has largely been left to the market which has not served the housing needs of the poor. Low-income groups because of a number of reasons have been denied access to a house and have had to live in settlements in pathetic conditions. The low income strata of society cannot afford to go for the various housing schemes, as prices many a times is beyond their reach. Katchi abadis is the informal sector’s response to the housing needs of the low income group. Not in a position to offer any sort of collateral to the financing institution, the individuals sink into the quagmire of poverty from which there is no escape.

Public sector housing schemes have in the past not laid enough attention to issues like affordability, targeting, the cumbersome procedures involved and the time lag between allotment and handing over possession of house/land. As prices of building material have risen, these have pushed the cost of house construction beyond the affordability level of many households. Also the affordability of available housing finance is very low due to high mark up rates and short maturity. Proper targeting of various level of income groups whose demand for housing facilities is large has not really been done. The informal sector has provided shelter to the low-income group because it procedures are simple, and focuses on issues like affordability.

Currently the market in Pakistan comprises of three major groups, the upper income households who are able to generate their own savings or sometimes seek credit from the formal market, the middle income group which is the prime market for formal housing finance and the low income sector who have limited access to formal credit for housing.

Development of housing units is directly linked to the availability of funds, which is the main formidable constraint in housing. Domestic savings are low and people do not have the resources to fund the purchase/construction of a house and have to rely on institutional funding.

While credit giving institutions are there, but these have not been able to meet the growing demand for finances. Housing finance institutions exist, which extend credit. House Building Finance Corporation however, dominates the housing finance companies. Given the magnitude of housing market of around Rs80 billion per annum it is good that some of the Banks have ventured into this area, and others are also joining them. Some of the commercial banks who have launched schemes for housing finance include among others, Muslim Commercial Bank, Citibank, ABN Amro. Women Bank has made some progress in extending housing micro credit to low income borrowers, while National Bank of Pakistan is in the process of launching a housing scheme.

Commercial banks have an excess supply of loanable funds at their disposal due to lower borrowings from the government, rise in deposit mobilization, increase in the inflow of remittances, de-dollarisation of the economy etc. Banks are diversifying their loan portfolios and branching out into retail banking. Many banks have developed innovative products for their growing clientele. Here the risks are relatively less with higher recovery rates than for project and corporate funding.

Given the large market for housing finance, the availability of funds with the banks, the removal of restrictions on commercial banks and an improvement in the economic environment have made it conducive to attract investment in housing.

However, because of certain difficulties, the scale of lending by banks in still small. Housing finance companies (HFCs) have not given desired results because of some limitations, like limited resource raising capability of HFCs, limited scale of operations, structural/institutional weaknesses among other factors. Dr. Ishrat Hussain, Governor, State Bank of Pakistan, in his address at the conference on Housing Finance has identified a set of constraints which need to be resolved for housing finance sector to take off. We reproduce here excerpts from his speech: -

The first constraint is the complex legal framework, lack of clarity of the title deed and problems in registration, enforcement of contracts, difficulties in eviction of tenants at the expiry of leasing period, frozen rent control laws, prolonged litigation in the courts of law, bias in favour of possession of the property to the chagrin of owners and related problems. We have to simplify, streamline and strengthen the legal framework, establish a clear system of title deeds of property and procedures whereby dispute about these deeds are resolved amicably, and take other actions to provide fair treatment to the creditors and borrowers, the owners and tenants.

The second constraint is the taxation of property transactions, stamp duties and like. These are estimated to be about 10% of the value of the transaction and are real deterrent for developing a well functioning system. This high cost is further compounded by corruption, delays and obstacles that push the buyers and sellers into resorting to misuse of power of attorney and benami transactions. The Provincial and local governments will earn higher revenue yield if they make the taxation, assessment, registration, recording and retrieval system customer friendly. The shift to benami and informal housing markets will be averted if the tax rates and duties are lowered.

The third constraint is that the provision of requisite sites and services is not only inadequate but the attitude of utility companies is a hindrance in new housing development. There are cost overruns because the basic services such as telephone lines, water, electricity, sewerage, gas are not provided on time. It is in the business interest of these companies that they should expand their customer base and income by reaching out to these new housing schemes. On the contrary, collusion, nepotism and under-hand dealings by some unscrupulous elements have marred the orderly growth of these housing schemes. There is an urgent need for these utility companies to re-examine their strategy and thus maximize their revenue streams.

The fourth constraint is that institutional investors such as insurance companies, provident funds, pension funds etc. have not actively explored real estate development and housing markets as an investment vehicle. There is a natural fit between their appetite for long-term assets and the middle class income groups' aspirations to acquire housing and pay their installments over a long period of time. The institutional investors should invest in real estate related equities, long term lending or mortgage-backed securities. There is a natural alliance whereby the retail distribution of mortgage loans is handled by the commercial banks through their network while the wholesale business is the domain of the institutional investors.

Agriculture

Outlook brightens

Prospects for the agricultural sector, which had suffered badly over the past two years due to severe shortage of irrigation water, have improved this season due to heavy winter rains throughout the country. While shortage of water still continues, the extent of shortage is relatively less compared to last season. According to a latest report, water availability for the Kharif crops though 14.8% higher during the current fiscal year compared to last year, is still 6.4% less than normal supplies.

Water availability improves

The Indus River System Authority (Irsa) had earlier anticipated that the country would face 39% water shortage during the Rabi season, (October 2002 – March 2003). Current rain spell, however, has brightened the outlook for agriculture sector. The current Rabi crop received more water, about 17% higher as compared to last year's releases with growers expecting a further improvement in water supply position. Countrywide rains have had a very positive impact on crops, specially wheat in barani areas. The rains will also help meet the requirements of orchards in Punjab.

Better harvest expected

The agriculture sector is anticipated to grow by 2.7% in the year, after having suffered a decline of 2.6% last year. Among the major crops, wheat production this season is likely to exceed 20 million tonnes. Rice and sugarcane crops have already exceeded their production targets by a big margin. Cotton crop, however is anticipating a shortfall of nearly 5% against the target. The share of these four crops in the value added of major agricultural crops was above 90% last year.

Wheat

Larger area under wheat

Sowing of the 2002-03 crop which started in barani areas from October and in irrigated areas from November last year has now completed. Growers have reportedly brought 8.175 million hectares under wheat cultivation this season. The area sown has surpassed the target of 8.080 million hectares by 1.2% but it is 1.4% less compared to the previous year. The decline is due to smaller area sown in Punjab, NWFP and Balochistan, where irrigation water shortages have affected the crop.

Province-wise, Punjab cultivated 6.193 million hectares, 0.3% less over last year. NWFP registered a drop of 11.6% as acreage is currently being estimated at 0.796 million hectares. In Balochistan, where the wheat crop has been sown at over 0.305 million hectares, the decline is estimated at 4.7%. Growers in Sindh sowed the crop over 0.858 million hectares, 2.1% more than the previous season, achieving 90% of the sowing target.

Production to exceed target

Heavy winter rains in February, which followed a very dry first half of the growing season have brightened the prospects for the 2002-03 crop, particularly boosting production in barani areas. Wheat production in barani areas account for 20% of total. The target for this season crop had been fixed at 19.75 million tonnes, keeping in view the expected water supply shortfall of 39%. However, due to improved water supply the Ministry of Food & Agriculture now expects this season's crop to exceed 20 million tonnes.

Falling stocks

Meanwhile, the government's ambitious wheat export plan has slowed since November due to falling stocks and uncertainty over the size of the 2002-03 harvest. Total wheat stocks are estimated at 4.7 million tonnes. Currently the domestic wheat requirement is estimated at 19.5 million tonnes. Meanwhile, Pakistan has found significant markets in the Middle East, Africa and South-east Asia. It exported about 0.600 million tonnes of wheat last year, while this year it hopes to export one million tonnes.

Rice

Production rises

The government has set a production target of 4 million tonnes for the 2002-03 crop against the previous season's harvest of 3.88 million tonnes. Based on reports from Punjab and Sindh, the area planted has exceeded the targeted area of 2.1 million hectares, by slightly over 5%. In Punjab, 4% more area has been brought under basmati and a non-aromatic long rice variety 386. Farmers switched some area from cotton to rice because of low return on cotton.

Growers in Sindh opted to plant less rice due to the lack of early season irrigation supplies and better return available on sugarcane and cotton crops. The area planted under irri rice declined by 10%. Of the total area cultivated under the 2002-03 crop, 65% is under basmati, 29% under irri and the remaining 6% under other varieties. Yields improved in Punjab and Sindh due to improved irrigation water availability. Growers are now anticipating a crop of over 4 million tonnes.

Sufficient exportable surplus

Domestic rice consumption is estimated at around 2.3 million tonnes . As anticipated increase in production is likely to result in sufficient exportable surplus, the rice export forecast has been revised upward to 1.1 million tonnes.

Improved export outlook for basmati

Parts of Europe, Saudi Arabia, United Arab Emirates and West Africa are traditional markets for basmati and Irri-6 rice varieties. With only marginally higher production estimates for Middle East, and lower output estimated for Africa and parts of Asia, their import needs are expected to grow.

Amid fears of a war in Iraq, Pakistan's rice trade has slowed in recent weeks. However, most traders expect rice exports to pick up as Indonesia's rice import rises. Exporters have already booked 25,000 tonnes of irri-6 rice to Indonesia, while export orders for another 30,000 tonnes have been confirmed.

High domestic prices

While export prices of rice have fallen in the international market, high prices domestically, accompanied by higher freight charges as oil prices have risen, has adversely affected rice exporters, who are already facing tough competition from Indian exporters. Pakistani rice export prices are $12 a tonne higher than those offered by Indian exporters.

Cotton

Less area under cotton

Growers were assigned a sowing target of 2.9 million hectares for this season. Provisional figures available show area sown at over 2.7 million hectares, is 7% short of the target and 12.9% lower over the previous crop acreage. Cotton output this season is anticipated to be smaller over the previous harvest, but in line with the production target of 10 million bales. Growers had reaped a crop of 10.6 million bales from the previous harvest.

Lower production estimates

Pakistan Cotton Ginners Association has provisionally estimated a crop of 9.8 million bales on ex-gin basis. This is 2% short of the target and 4.8% less than the previous harvest. A latest report released by the Association put phutti arrival at the ginneries from Punjab and Sindh till end February at 9.64 million bales, Sindh (2.21 million bales) and Punjab (7.43 million bales). In the remaining months, cotton arrivals at the ginneries is not expected to exceed 0.200 million bales. Last year 10.3 million bales were produced on ex-gin basis.

Spinners' demand up

So far this season, spinners have reportedly procured 8.28 million bales, against 7.68 million bales procured in the comparable period last year. The Trading Corporation of Pakistan (TCP) which had purchased 0.250 million bales of cotton last season, has remained out of the market so far. The recent government decission to induct TCP to buy contamination-free cotton from designated areas in Sindh and Punjab is likely to involve a few thousand bales only. Due to higher procurement by spinners, this season's cotton import is not expected to exceed 0.8 million bales against last year's 1.35 million bales. Despite higher procurement by spinners this season, about 1.22 million bales are still lying unsold with the ginners, as against 1.74 million bales in the previous season.

Prices increase

Lower unsold stocks together with high international cotton prices have given strength to the local cotton market. In the past weeks, the cotton lint prices in the local market have registered an increase of 4%, rising from Rs.2500 to Rs.2600 per maund of 37.32 kg. The higher lint prices in the local market is putting pressure on yarn prices, which have reportedly risen by 15% in the past two months. In view of sharp increase in local demand as well as prices of yarn/textile products, some exporters are resisting shipments against their exports sale. Private sector exporters have reportedly lifted 0.200 million bales till mid-February.

Sugarcane

Increase in area and production

While sowing target for the 2002-03 crop was fixed at 0.991 million hectares, growers brought 1.093 million hectares under cultivation. This represents a 10% increase over the target and 9% rise over the previous harvest. Fair returns induced growers to bring larger area under the sugarcane crop. Growers have reportedly harvested a crop of 52.5 million tonnes during the current season, 9.5% larger than the previous harvest.

Crushing continues

Cane crushing operation is in advanced stage after delayed start of one month. Sugarmill owners had fixed a production target of 3.5 million tonnes for the current crushing season. Despite belated crushing, 2.38 million tonnes of sugar or 68% of the target has so far been produced. Punjab has produced 1.56 million tonnes, Sindh 0.709 million tonnes and NWFP 0.105 million tonnes. Sugarmills anticipate that 4 million tonnes of sugar will be produced during the current crushing season ending in April this year.

All time high stocks

The Pakistan Sugar Mills Association has recorded slow lifting of stocks this year. Mills have reported all time high stocks of 1.562 million tonnes as of March 1. Huge sugar import during 1999-2000 led to sizeable carry overs, which has now created crisis like situation for the entire sugar industry. The industry has failed to export sugar in the past few seasons because it has become uncompetitive internationally due to high cane prices and production costs.

Sufficient exportable surplus

According to latest estimates, there would be an exportable surplus of 1.5 million tonnes this season. The government has recently decided to export 0.300 million tonnes of sugar to reduce existing stocks. The TCP plans to purchase an additional 0.100 million tonnes after heaving purchased 18,000 tonnes of sugar from local sugar mills for export purposes. It is also making efforts to enter Indonesian and Afghan markets where sugar imports are necessary to meet domestic requirements.

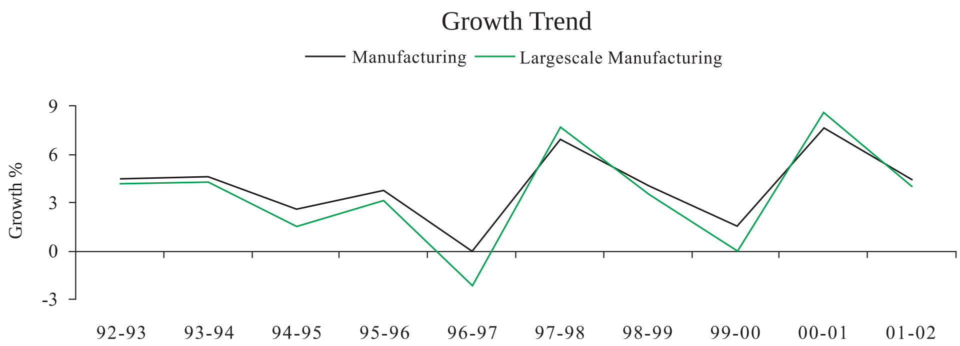
Industry

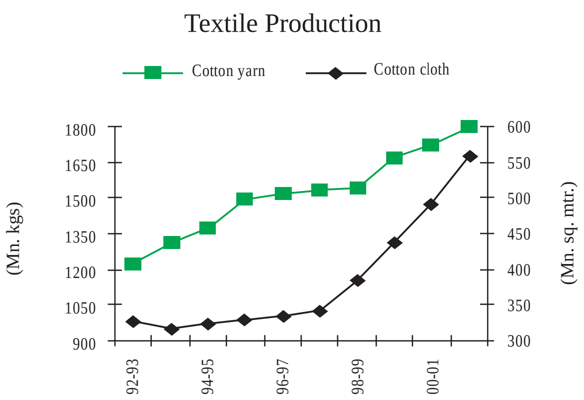
Industrial sector shows growth

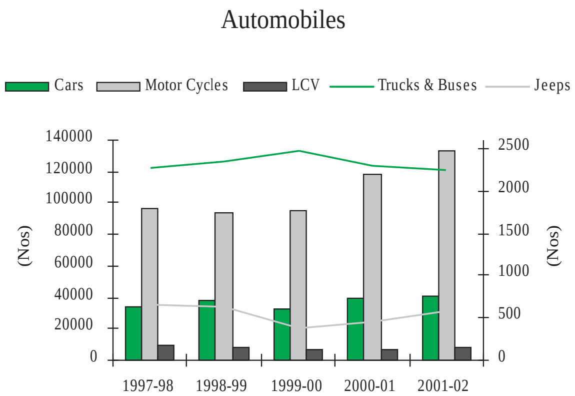
The manufacturing sector has shown encouraging results during the first half of curent fiscal year, and is expected to raise its contribution to 20% of GDP, from around 17%. This is a significant improvement, primarily becasue of good performance exhibited by sectors like textiles, food & beverages with a large weightage in total manufacturing. Automobiles showed a remarkable turnaround from a decline in the first half of FY02 to a near 40% increase in the first half of FY03. It is expected that the industrial sector would show further improvement as the government has embarked upon several initiatives – rationalizing the taxation system, restoring investors' confidence, facilitating the industrial sector by simplifying official rules and lengthy procedures and encouraging foreign and local investors by adopting prudent economic policies.

Growth target achievable

According to the mid-year review, recently released by the Ministry of Finance, the performance of large scale manufacturing sector (LSM) during the first half of the current financial year has been encouraging. LSM contributes 12.5% to overall GDP and accounts for over 70% of value added in overall manufacturing sector. The progress noted in the performance of LMS after a two-year slump, offers grounds for optimism in achieving 6.5% growth target set for FY03.







The accompanying table shows that the sub-sectors showing positive growth were textiles, food & beverages, electronics, automobiles, non-metallic minerals, paper & board, engineering items and tyres & tubes. On the positive side, the higher production of automobiles, the increasing activity in the construction and engineering industries, better performance by sugar, provided some suport to LSM. Of these sub-sectors which posted growth during the first half of FY03, cotton yarn, H.R. coils & plates, C.R. coils/plates/sheets, soda ash, electric transformers, TV sets, trucks, tractors, LCVs, car & jeeps among others showed acceleration over the previous year.

Among the sub-sectors showing negative growth were petroleum products, fertilizer, pharmaceuticals, metal industries, leather industries, and chemicals. Details are given in the accompanying Table.

Production of Selected Large-scale Manufacturing Items
July-December FY03

Items	Weights	Percentage Change		Items	Weights	Percentage Change	
		1H FY02	1H FY03			1H FY02	1H FY03
Textile	**19.069**	**3.86**	**5.53**	**Chemicals**	**2.335**	**15.38**	**-6.07**
Cotton yarn	8.85	4.52	6.92	Caustic soda	0.621	3.40	2.96
Cotton cloth	4.881	14.16	7.47	Soda ash	0.320	1.47	7.76
Cotton ginned	3.893	-1.18	-4.72	Other six items	1.394	30.32	-15.66
Other five items	1.445	-21.93	19.97	**Electronics**	**2.230**	**12.99**	**12.47**
Food, beverages &				Electric transformers	0.577	19.50	38.95
tobacco	**17.336**	**-2.03**	**4.61**				
Sugar	8.630	-12.31	13.59	T.V. sets	0.363	-21.20	127.72
Vegetable ghee	3.004	-5.09	-9.81	Airconditioners	0.120	-78.22	-12.96
Cigarettes	2.505	-5.53	-9.61	Refrigerators	0.015	25.65	15.43
Tea	1.785	8.36	1.86	Other five items	1.155	10.97	-1.18
Beverages	0.964	21.54	-10.80	**Automobile**	**2.348**	**-2.26**	**39.49**
Cooking oil	0.448	17.22	13.48	Trucks	0.698	-27.88	138.95
Petroleum products	**7.824**	**25.94**	**-3.61**	Tractors	0.593	-17.46	9.09
Fertilizer	**5.871**	**2.71**	**-0.96**	LCVs	0.369	21.08	47.85
Nitrogenous	5.441	7.15	1.50	Cars & jeeps	0.309	3.62	41.27
Phosphatic	0.430	-36.05	-36.96	Motorcycles	0.249	4.11	38.33
Pharmaceuticals	**5.284**	**1.92**	**-0.19**	Buses	0.13	-45.91	92.33
Tablets	2.705	7.26	-1.35	**Non-metallic minerals**	**1.915**	**-3.18**	**17.39**
Syrup	1.602	-5.91	2.20	Cement	1.846	-2.78	17.80
Injections	0.466	0.90	-3.27	Glass sheets	0.069	-15.19	3.32
Capsules	0.228	-1.91	-1.86	**Paper & board**	**1.359**	**-36.02**	**17.44**
Other two items	0.283	32.28	2.52	**Engineering items**	**0.712**	**5.44**	**9.99**
Metal industries	**3.194**	**-4.81**	**-1.09**	Bicycles	0.348	-1.22	13.67
Pig iron	1.477	-5.88	-2.23	Safety razor blades	0.109	23.76	3.42
Coke	1.319	-1.03	-3.52	Diesel engines	0.065	-37.14	-7.58
Billets	0.311	-6.72	0.58	Sewing machines	0.052	2.98	10.26
H.R/coils and plates	0.074	-2.52	13.94	Power looms	0.051	59.84	28.57
C.R/coils/plates/sheets	0.013	-16.98	11.21	Other five items	0.087	-23.17	-5.82
Leather products	**2.333**	**-0.08**	**-4.45**	**Tyres & tubes**	**0.452**	**21.85**	**10.59**

Source: Federal Bureau of Statistics

Banking and Finance

Deposits continue to grow

Scheduled banks deposits rose by 18.3 % to Rs.1,615.4 billion in the week ended February 22, 2003 over the comparable period last year. In the first two months of the current year they have continued to grow, with fluctuation in demand and time deposits.

Marginal increase in advances

Scheduled banks advances rose to Rs.910.2 billion in the week ended February 22, 2003 a marginal increase of 0.63% over last year's corresponding figure of Rs.904.5 billion.

Investment in securities jump

Scheduled banks investment in central government securities, Treasury bills and other approved securities rose substantially in the period under review. By February 22, it had risen to Rs.663.3 billion over last year's comparable figure of Rs.362.8 billion, a rise of 82.8%.

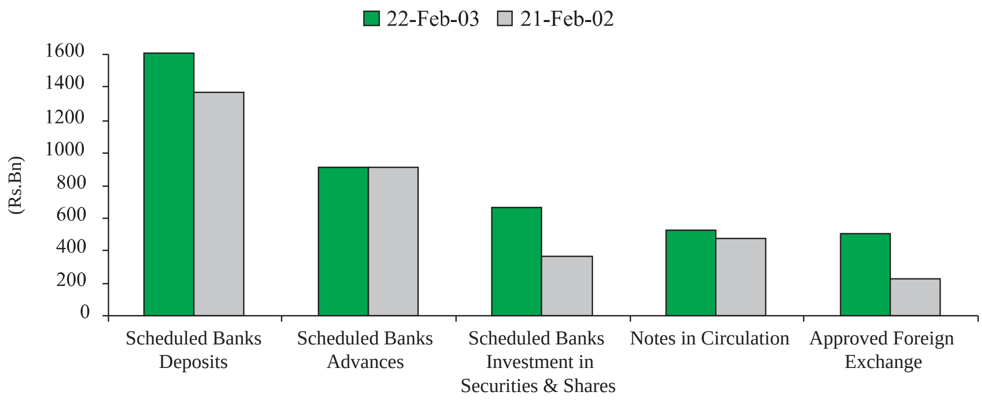
Notes in circulation rises

Notes in circulation rose by 12.8% in the week ended February 22, to Rs.534.5 billion, over last year's corresponding figure of Rs.473.6 billion.

Approved foreign exchange doubles

Pakistan's approved foreign exchange including balances held outside Pakistan have more than doubled in a year's time, rising to Rs.511.0 billion on February 22, 2003 over preceding year's corresponding figure of Rs.227.3 billion.

Key Monetary Indicators



Credit Plan 2002-03

The State Bank of Pakistan has maintained the easy monetary policy initiated in 2001-02 as is reflected in the Credit Plan for the year 2002-03. Monetary expansion is envisaged at 16.0% against last year's growth of 14.8%. This is to be achieved primarily through the increase in Net Foreign Assets (NFA), which in the year is expected to contribute Rs.271.0 billion to overall monetary expansion, given the massive foreign exchange inflows in the form of home remittances, increased flow of foreign direct investment, financial assistance from IFIs and speedy repatriation of export proceeds.

Last year's monetary expansion at 14.8% was much higher than the projected 9.5% because of a substantially higher growth of NFA.

Net Domestic Assets (NDA) are expected to expand by Rs.10.5 billion, due to anticipated higher retirement of Rs.44.2 billion by the government. The government sector is expected to show fiscal discipline and is expected to retire Rs.29.2. billion in respect of budgetary support and Rs.16.0 billion in respect of commodity operations.

Last year there was a change in the composition of NFA and NDA. NDA expansion was much below the expansion envisaged for the year. Credit offtake by the non-government sector was small. Borrowings by private sector and public sector enterprises was much below the Credit Plan target. Higher retirements, increase in tax refunds, lower input prices were important contributors to the decline in net credit figures.

Credit utilisation by the non-government sector is expected to increase by Rs.70.2 billion, as private sector is forecast to borrow Rs.50.0 billion. The National Credit Consultative Council has asked the banks to fully meet the credit needs of the private sector.

As the prospects of the economy have improved substantially with domestic interest rates having fallen, a recovery by exports; should help spur economic activity, increasing funding demand.

Causative Factors of Monetary Assets

(Rs.bn)

	Credit Plan	Credit Plan 2001-02		Actual Outcome	
	2002-03	Original	Revised	FY02	FY01
I. Government Sector	(-)44.2	(-)20.0	(-)54.0	12.7	(-)46.7
Net Borrowing for Budgetary Support	(-)29.2	(-)26.0	(-)19.0	12.5	(-)32.3
Commodity operations	(-)16.0	5.0		5.3	(-)12.5
Others	1.0	1.0	1.0	2.5	(-)1.9
II. Non-Government Sector	70.2	111.0	124.2	19.0	69.2
Credit to Autonomous bodies	0	12.0	18.0	(-)14.3	11.6
Net credit to private sector and PSEs	70.2	99.0	106.1	33.3	57.6
Commercial banks	70.2	91.0	98.1	42.7	67.0
Public Sector Corporations*	20.0				
Private Sector	50.0			44.1	54.7
of which:					
(Export finance)	0			(-)13.3	(-)65.2
Specialised banks	0	7.0	7.0	8.1	1.7
Others	0	1.0	1.0	(-)14.5	(-)7.7
III. Other Items (Net)	(-)15.5	0.0	0.0	(-)12.0	30.9
IV. Net Domestic Assets	10.5	91.0	70.2	19.7	53.4
	(0.70%)	(6.18%)	(4.68%)	(1.31%)	(3.69%)
V. Net Foreign Assets	271.0	55.0	75.4	206.2	72.7
VI. Monetary Expansion	281.5	146.0	145.6	225.8	126.0
(% change)	(16.0)	(9.74)	(9.54)	(14.80)	(9.00)

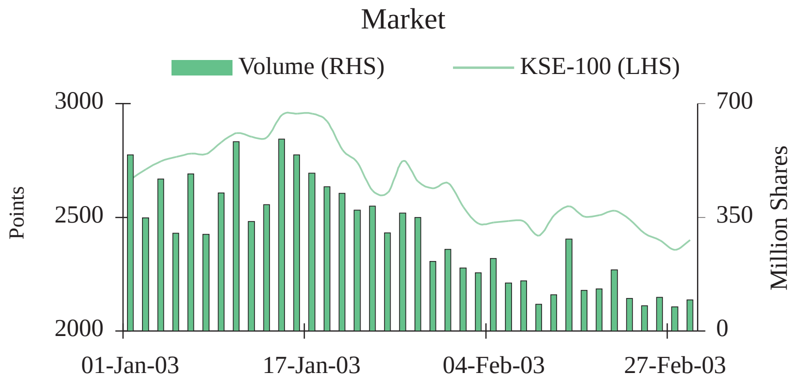
Source: State Bank of Pakistan

Note: Totals may not tally due to separate rounding off.
* Also includes credit to autonomous bodies.

Market Analysis

Market Outlook

The market witnessed volatile trading in Jan'03 and the index peaked at 2956 on January 16, 2003 before falling steeply. The steep upside that started in December'02 was highly leveraged and weakholders were driving the market. The disadvantage of a leveraged rally is that the market makes sharp downside moves (panic) on negative news as weakholders try to offload their inventories at falling prices thus exacerbating the fall.



Average daily badla rates were also shooting upwards in early January in view of the increased weakholding and demand for funds by leveraged buyers.

The pressure of high badla rates coupled with negative news from Hubco (a delay in dividend payment) and PSO (postponement of pre-bid meeting from Jan 30th to Feb 19th) resulted in a steep decline, which continued into the following month and with the index eventually closing February at 2399.

The large drop in the market pushed weakholders out of the market, thus there was only limited supply pressure witnessed in February '03. There was very low retailer interest and average daily trading volume shrank to 138m shares in February '03 compared to 395m in January '03. Eid holidays also restricted the trading interest and traders preferred to sit on the fence rather than actively taking positions in the market.

The badla market has now stabilized and the average daily badla rates stayed below the 10% p.a. level for most of February. The badla value has also declined to Rs6 billion from the high of Rs14 billion witnessed in January.

Looking ahead

The two negative developments on the corporate front that initiated the steep decline in Jan'03 were reversed in Feb'03:

§ Hubco announced in early February that it would discuss the interim dividend at its next Board Meeting in March. A dividend was subsequently declared at Rs3.3 per share, in line with market expectations.

§ The Privatization Commission (PC) announced April 26^{th} as the bidding date for PSO privatization. Although we are skeptical that bidding will actually take place on April 26^{th} as announced, we believe its is a significant step forward as the PC has a track record of delivering after the initial deadlines are missed. Hence, this should be taken as a step forward by investors.

For the short-term, the market is still worried about the potential US-Iraq conflict however. A war would be a negative factor though we believe much of the war fears may already be priced into the market at present levels. A quick resolution of the Iraq crisis should signal a resumption of upward momentum.

The US-Iraq issue aside, a market decline of only 146 points in February '03 while bearish sentiments prevailed is an indication of the strong support base for the market. The sudden fall in January was due to off loading by leveraged weak holders who could not hold on to their positions and once the weak holders were out of the market, the market became range bound and trading volumes shrank as there weren't any active buyers or sellers.

The lack of sellers is gradually changing the sentiment back to positive as fundamental factors such as low interest rates, excess liquidity, the appreciating rupee, corporate earnings growth and economic/trade support from the international community continue to advocate a rising market.

Hence, our view, supported by the fundamentals, is that the positive long-term trend that started in Oct'01 is still intact. From a technical viewpoint too, the index and first tier stocks are close to their 200-day moving averages, and the market is expected to find strong support at these levels. However, a break of these long-term support levels could signal a long-term bearish market thus we recommend investors keep an eye on these long-term technical support levels.

Recommendation

For short-term traders we recommend limiting exposure and playing both sides until resolution of the US-Iraq conflict, the market is expected to remain volatile until then. For long-term investors we recommend a gradual accumulation on dips.

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

Key Economic Indicators

Economy Size & Growth		1998-99	1999-00	2000-01	2001-02P
GNP - Market Prices	Rs bn	2912.8	3102.3	3365.4	3752.5
GDP - Market Prices	Rs bn	2938.4	3147.2	3416.3	3726.6
Per Capita Income	Market Prices Rs	21899	22811	24198	26413
	Market Prices US $	438	441	414	427
Growth					
GDP	%	4.18	3.91	2.45	3.61
Agriculture	%	1.95	6.09	-2.64	1.39
Manufacturing	%	3.73	1.53	7.58	4.39
Services	%	4.99	4.79	4.79	5.09
Rate of Inflation	%				
Consumer Price Index		5.7	3.6	4.4	3.5
GDP Deflator		5.5	2.8	5.6	4.6
Balance of Payments	$ mn				
Exports (f.o.b.)		7528	8190	8933	9133
Imports (f.o.b.)		9613	9602	10202	9493
Trade Balance		-2085	-1412	-1269	-360
Services Account (Net)		-2618	-2794	-3142	-2620
Private Transfers (Net)		2274	3063	3898	4255
Current Account Balance		-2429	-1143	-513	1275
Fiscal Balance	% of GDP				
Total Revenue (Net)		15.9	17.1	16.0	17.1
Total Expenditure		22.0	23.6	21.3	23.7
Overall Deficit		6.1	6.6	5.3	6.6
Domestic & Foreign Debt					
Domestic Debt	Rs bn	1375.9	1559.9	1712.5	1695.5
As % GDP		46.8	49.6	50.1	46.0
Total External Debt	$ bn	31.3	32.3	32.1	33.4
Total Debt Servicing	Rs bn	343.1	353.9	340.3	412.5
As % GDP		104.2	105.4	113.2	102.0
Investment & Savings	% of GNP				
Gross Investment		15.6	16.2	16.2	13.8
Fixed Investment		14.0	14.6	14.5	12.2
National Savings		11.8	14.3	15.3	13.8
Domestic Savings	% of GDP	12.9	15.8	16.9	13.8
Foreign Investment	$ mn	403.3	543.4	182.0	474.6
Portfolio		27.3	73.5	-140.4	-10.0
Direct		376.0	469.9	322.4	484.7
Monetary Aggregates	%				
M1		33.9	14.9	3.0	14.9
M2		6.2	9.4	8.9	14.8
Interest Rates (Weighted Average)	%				
Deposits*		7.96	6.62	6.58	4.60
Advances		14.8	13.52	13.61	13.19
Gold & Foreign Exchange Reserves	$ mn	2922	2766	3810	6997
Exchange Rate++	Rs./$				
Official Rate		51.6	52.16	64.4	60.05
Open Market Rate		54.4	54.82	66.7	60.20

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

Source: Annual Report 2001-02
State Bank of Pakistan

NBP Performance at a Glance

(Rs. Bn)

Items	1997	1998	1999	2000	2001
Income	34.2	34.5	35.3	33.7	35.8
Expenditure	33.2	32.4	34.8	32.7	32.8
Pre-Tax Profit/(Loss)	0.996	2.14	0.52	1.03	3.02
After-Tax Profit	0.06	0.53	0.03	0.46	1.15
Total Assets	310.6	325.1	350.4	371.6	415.1
Deposits	254.9	273.4	294.8	316.5	349.6
Advances	105.6	109.5	122.6	140.3	170.3
Investments	109.5	102.9	91.5	72.6	71.8
Number of Branches	1468	1434	1431	1228	1245
Number of Employees	18096	15785	15541	15351	15163