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Editor's Corner

Dear Readers,

Economic growth prospects have moderated somewhat in Pakistan, as the economy faces the ongoing power and gas shortages, persistent inflationary pressures, widening fiscal and current account deficits, a rise in external debt, concentration of exports in few sectors, issues of competitiveness in export of textiles and clothing, lack of export diversification for products and markets, emerging capacity constraints, physical infrastructure bottlenecks, and challenges like low savings, narrow industrial base, limited tax base, and lack of human capital development among others.

The new government that has assumed office is faced with daunting challenges. How well it handles these and other related matters would speak of its commitment to the issues at hand, and its fulfilling of responsibility to the citizen's welfare.

A critical issue requiring immediate government focus is the energy crisis that has hit the country. Power supply has lagged behind demand, which has experienced a rapid growth. While demand is around 17000–18000 MW, supply is approximately 15000 MW, leading to a deficit of around 2500 MW. As energy consumption continues to grow, electricity needs are projected to reach 162,590 MW by 2030. The situation is expected to get worse if concrete measures are not undertaken by the government.

While the indications of the crisis were evident for a number of years, and steps were taken to ameliorate the conditions but they were not enough to meet the needs of the growing economy. Enough attention has not been given in the past to the enhancement of the country's electricity generation capacity.

The government would have to find long term solution to the energy crisis, by formulating and implementing policies which are rationale and focused. Vast hydropower potential exists, and if projects are set up exploiting this source of energy, it could guarantee a sustainable energy future for the country. Similarly, Pakistan has large resources of coal but electricity generation from this source is minimal. Coal can be exploited and could well serve as a short term solution to the ongoing energy crisis.

Development of renewable energy sources needs more focus, so to increase the country's power supply, especially in rural areas. Investments in wind, solar and biomass projects would prove most beneficial for the economy. Energy conservation needs to be encouraged and if all sectors of the economy and individuals can reduce energy wastages, it could bring about a change to the prevailing situation.

A major task before the new government is to curb the rise in prices in the domestic economy. Inflationary pressures have persisted despite the State Bank of Pakistan's efforts to contain the growth in aggregate demand. These were stoked in the past by escalation in international prices, especially of oil, and in part by domestic supply constraints, especially of certain basic food items. It has also received stimulus from the expansionary fiscal policy.

Inflation rate based on CPI rose by 11.25 percent in February 2008 over the corresponding month a year earlier, where the dominant contribution of food prices is evident from available figures which show that food and beverages subgroup rose by 16.05 percent. This has remained in double digits since September 2007. The rise in food inflation is now increasingly being supplemented by an acceleration in non-food prices — partly driven by high energy prices.

A rise in food prices especially wheat, edible oil and rice hurts the low income groups. Though the government provides essential food items at subsidised prices at the utility stores, but large numbers cannot avail these facilities because of limited outreach of these utility stores. The government would have to ensure adequate availability of essential food items for a much larger segment of the under privileged class. This would be through ensuring adequate supply of essential food items, through incentives to the farmer to enhance farm productivity, checking hoarding, maintaining sufficient stocks, intervening in the market to stabilize the prices, and taking strict action against illegal exports of essential food items.

The other distressing issues are the rising current account and fiscal deficits. The widening current account deficit is essentially driven by the trade deficit, which has risen sharply since FY05. During the first eight months of FY08, the deficit widened to $12.4 billion, against $8.9 billion in the comparable period of FY07. Exports have been sluggish, as the major export item, Textiles recorded a decline in earnings, as Textile import in both the US and the EU slowed significantly. The aftermath of Benazair Bhutto's assassination had affected industrial and business performance and export orders suffered.

On the other hand, imports grew strongly, by nearly 22 percent in the first eight months of FY08 to $24.1 billion over the corresponding figure of $19.8 billion in FY07. A higher import bill for petroleum crude and products ($6.3 billion against $4.7 billion a year earlier), and the rise in international commodity prices led to higher payments of wheat and cotton, whose imports were necessitated because of domestic shortages. Rising trade deficit as well as delays in the receipt of coalition support funds, overshadowed the sustained increase in remittances and led to a deterioration of the current account balance.

As international oil prices remain high, wheat crisis persist and an increase in import of power generating machinery anticipated, a substantial decrease in imports remain a challenge. Boosting export growth will be challenging given the power crisis, increased competition in textile exports, declining growth in the demand for textiles, lack of diversification of products and markets.

Some difficult decisions will have to be taken by the government to contain the fiscal deficit within manageable limit. In the first half of FY08, the deficit as a percentage of GDP had risen to 3.6 percent, mainly because of stagnating revenue growth and rising expenditures. If the Government decides to reduce the fiscal deficit through a cut in the Public Sector Development Programme many projects would suffer and the development programme would receive a setback. Under current expenditure, interest payments have grown and these need to be looked into. Also the weakness present in the growth of revenue receipts need to be focused upon and ways found to tap the untapped revenue generating segments of society.

Besides these concerns, there are also some long term issues, like poverty and income disparities, which affect the common man directly. To bring about any meaningful change in the life of the marginalised segment of society, policies are needed which reduce the economic disparities amongst all classes in society.

Pakistan's Energy Sector

Rising demand for energy

Pakistan has been experiencing a disproportionate growth in energy demand and supply. High economic growth demands high energy inputs. Industrialisation, growth of agriculture and services sector, rapid urbanisation, rising per capita income and extension of electric supply to unelectrified areas and village electrification, has resulted in a phenomenal rise in demand. Inefficient use and wastages have further widened the supply demand gap, exerting strong pressures on the country's energy resources.

The supply demand gap which had widened from 14 percent in the early 1980s to 47 percent by 2000, has since shrunk, due to improved supply, especially the supply of natural gas.

The article attempts to review the current energy situation in the country, the existing challenges the energy sector is faced with, and the Government's future plans with regard to development of alternative energy resources.

Energy supplies

The primary commercial energy supplies stand at 60.4 million tonnes of oil equipment. This will increase to 360 million tonnes of oil equivalent within the next 25 years, more than half of which will have to be imported. Natural gas is the country's largest energy source, making up 48.5 percent of Pakistan's energy mix in 2006-07. This is followed by oil at 30 percent, hydroelectricity 12.6 percent, coal 7.3 percent, nuclear electricity 0.9 percent, LPG 0.5 percent and imported electricity 0.1 percent. In other words, Pakistan's energy mix is dominated by oil and gas. Together they contribute 78.5 percent of the total primary energy supplies of the country.

Over the years, a change has occurred in the energy supply mix. The table below hows the trend over the last six years. The share of natural gas has increased, while the share of oil has declined. Energy demand is projected to rise from current levels to 114 million ToE in FY25. While the share of oil will decline in energy supplies, of gas, coal and nuclear will increase.

Energy Supplies by Source

(%)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Oil	40.8	38.3	29.9	29.4	28.4	30.0
Gas	42.7	43.8	49.7	50.3	50.4	48.5
LPG	0.4	0.4	0.4	0.4	0.4	0.5
Coal	4.9	5.4	6.5	7.6	7.0	7.3
Hydro-electricity	10.0	11.3	12.6	11.0	12.7	12.6
Nuclear electricity	1.2	0.9	0.8	1.2	1.0	0.9
Imported electricity	-	0.0	0.0	0.0	0.1	0.1

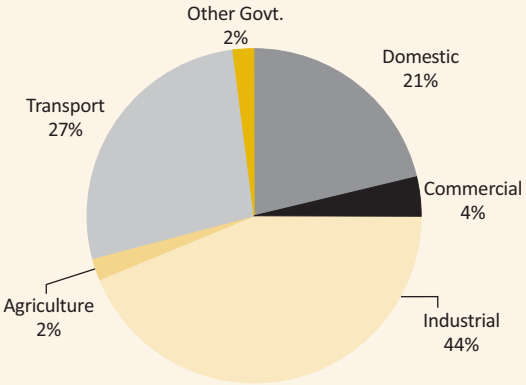
Source: Pakistan Energy Yearbook 2007, Hydrocarbon Development Institute of Pakistan

Energy consumption

Final energy consumption stood at 36 million ToE in 2006-07. (This however, excludes oil, consumption for power generation, and gas, coal consumption for power generation and feedstock). Of total consumption, gas makes up for 40.8 percent, oil 29.4 percent, coal 11.5 percent, electricity 16.4 percent and LPG 1.8 percent. The share of natural gas in fuel consumption has increased, primarily due to its enhanced availability and increase in prices of oil.

Sector-wise energy consumption in FY07, reveals that industrial sector dominates the market with nearly 44 percent of the demand, followed by transport sector at 27 percent and residential at 21 percent.

Sector-wise Energy Consumption FY07



Source: Pakistan Energy Yearbook 2007

A disaggregation of these sectors, shows that gas makes up for more than half of the energy consumption by the industrial sector and coal 26.3 percent. In the transport sector, HSD constitutes 68.4 percent, while in the domestic sector, 57.1 percent of energy consumed is gas and 36 percent electricity.

While transport sector is the largest user of petroleum products, power sector is the largest consumer of natural gas, followed by industry, fertilizer, residential sectors, commercial and transport sectors accounting for the balance. As the Independent Power Producers (IPPs) are largely fuel oil based, the dependence on petroleum products has vastly increased.

Demand to outstrip supply

The State Bank of Pakistan in its second quarterly report for 2005-06, on the State of Pakistan's Economy, states, "going forward, if the current growth trend in the energy supply and demand continues then it is estimated that energy consumption in Pakistan would be about 150 MTOE and the net supply from indigenous sources would be 103 MTOE by the year 2020. Thus the country would be facing a shortage of 31 percent of energy in the foreseeable future which will seriously affect the balance of payment position of the country and would make it difficult for the economy to continue moving on the present growth trajectory."

Overview of Energy Sources

Oil

Production

Pakistan has recoverable oil reserves of 353 million barrels. Large part of the oil produced comes from the reserves located in the southern half of the country and the Potwar plateau of Punjab. In 2006-07, of total oil production of 24.614 thousand barrels, Sindh produced 56 percent, Punjab 32 percent, NWFP 11.7 percent, and Balochistan 0.3 percent. As Pakistan has not had any major success in discovering and bringing on-line new oil fields, production has ranged between 63–67 thousand barrels during the last decade. As oil demand continues to grow and supplies fall short, imports, mainly from the Middle East constitute the balance.

GoP encourages investment

In Pakistan, the Ministry of Petroleum and Natural Resources regulates the country's oil sector. To encourage investment in the oil and gas sector, (onshore), local companies are encouraged to establish joint ventures with foreign companies, import of equipment allowed on concessionary rates, no mandatory state participation after discovery, guaranteed foreign exchange permitted, besides other royalty and corporate income tax benefits.

Incentives

Similarly in offshore, incentives applicable include, four years holiday for royalty, thereafter it gradually increases to 12.5 percent in the seventh year, corporate income tax capped at 40 percent of profits and gains with royalty payment allowed as tax credit, accelerated depreciation for investment on successful exploration, no direct state participation besides some other benefits.

Oil companies

The local oil companies carry on the development activities on their own as well as in joint ventures with other oil companies. The foreign oil companies operating in Pakistan include BP (UK), ENI (Italy), OMV (Austria), OPI (Canada), Petronas (Malaysia), BHP (Australia). As the government encourages private firms to develop domestic production capacity, foreign firms are showing an interest in developing Pakistan's offshore oil industry.

The Government is following the policy of deregulation, privatisation and liberalisation in oil and gas sector. This sector is now working in a fully deregulated environment, where the GoP has provided a level playing field for both the private and public sectors.

FDI

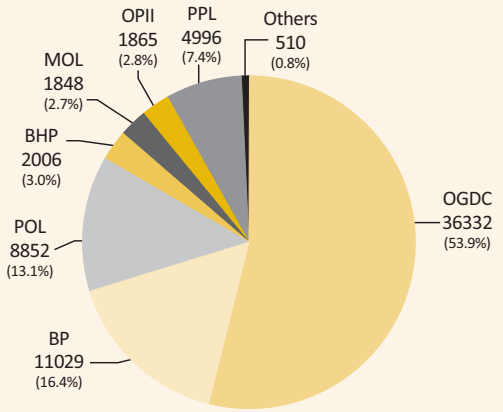
Foreign direct investment inflow reached a high of $545.1 million in 2006-07 from only $80 million in 2000-01. This constitutes around 11 percent of the FDI inflows in the country during the year.

Oil and Gas Development Corporation (OGDC), Pakistan Petroleum Limited (PPL) and Pakistan State Oil (PSO) are the three largest national oil companies operating locally, under joint ventures and partnership with other oil companies.

OGDC divested

The Government of Pakistan has divested some of its share holding in OGDC to the general public, and its shareholding now stands at 85.02 percent of the total paid up capital of the Company. With respect to PPL, the GoP has divested a portion of its equity in the Company equivalent to 15 percent of the paid up share capital.

Crude Oil Production by Company
(US Barrels per day)
2006-2007



Source: Pakistan Energy Yearbook 2007

OGDC is the largest producer, followed by BP, POL and PPL.

Refining capacity

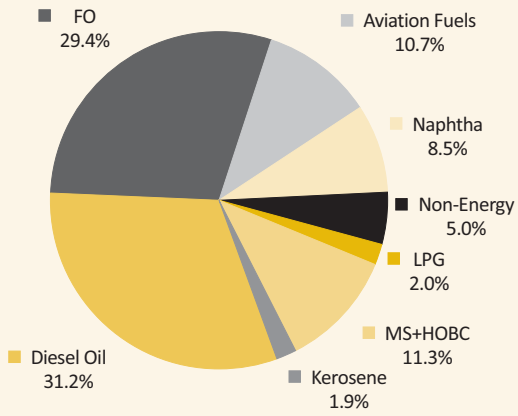
Crude oil is imported in both crude and refined state from Abu Dhabi, Saudi Arabia and Qatar among other countries. As consumption for oil exceeds its supply, its imports have correspondingly increased and are expected to rise further. Demand for refined petroleum products also exceed domestic oil refining capacity, as nearly half of Pakistan's oil imports are refined products. Pak Arab Refinery has the largest refining capacity, 4.50 million tonnes of crude yearly, followed by National Refinery, with refining capacity of 2.71 million tonnes per year and Pakistan Refinery at 2.10 million tonnes per year. Together the seven refineries have a total refining capacity of 12.87 million tonnes per annum, and processed 11.24 million tonnes of crude in the year 2006-07.

Pak Arab Refinery (PARCO) in association with International Petroleum Investment Company of Abu Dhabi is setting up a 250,000 barrels per day deep conversion refinery near Hub, Balochistan. The refinery would produce petroleum products of international quality. Early 2008, it signed an agreement with a consortium of China National Chemical Engineering Group Corporation and Hyundai Engineering Company of South Korea for engineering, procurement and construction of $132 million Diesel Hydrodesulphurization plant at its 100,000 barrels per day Refinery at Mahmood Kot, Muzaffargarh.

Energy products

In 2006-07, of 11.243 million tonnes of crude oil processed by refineries, about 28 percent was from local production, while imports made up the balance. The energy products produced at the oil refineries were basically high speed diesel oil (HSD), (primarily used by the transport sector), furnace oil (FO), motor spirit (transport sector), aviation fuels (transport) kerosene oil (basically used by industries and domestically) and light diesel oil (used by industries and agriculture sector). Some non energy products were also produced like asphalt, lube oil etc.

Production by Oil Refineries 2006-07
Total: 10.86 Million Tonnes

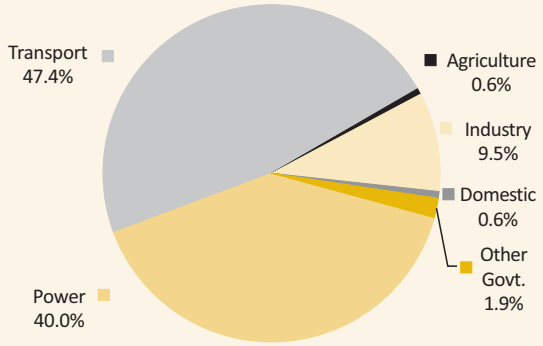


Source: Pakistan Energy Yearbook 2007

Import of crude and products

Pakistan imports petroleum crude and products like HSD, and high sulphur furnace oil and small quantities of low sulphur furnace oil. On the other hand, its exports surplus naptha, motor spirit, JP-1. In FY07, it was self sufficient in kerosene oil and exported small amounts of furnace oil.

Petroleum Products: Consumption by Sector
2006-07
Total: 16.85 Million Tonnes



Source: Pakistan Energy Yearbook 2007

Oil marketing companies

The Government has deregulated oil marketing business and new players are entering the market. Eleven companies have the licence for oil marketing. Some of the largest oil marketing companies are, Pakistan State Oil, Shell Pakistan, Caltex, Total Parco, Attock Petroleum among others. The policy is to encourage entry of more companies to expand the oil infrastructure and promote healthy competition.

Oil marketing

The Oil & Gas Regulatory Authority (OGRA) has been given the mandate by the Federal Government to fix prices of petroleum products in accordance with the prescribed formula. The Federal Government has also issued policy guidelines to the Authority in respect of formulae for computing the said prices. The consumer prices are being notified by OGRA on fortnightly basis.

Natural Gas

Sui - the first discovery

Pakistan has 28.18 trillion cubic feet of proven gas reserves. It is currently producing around 0.96 trillion cubic feet of natural gas. Since the first gas discovery in 1952 at Sui, Balochistan, a number of medium and small size gas fields, like Uch, Balochistan; Sawan, Mari, Qadirpur, Zamzama, Sindh have been discovered among others.

Pakistan has huge gas potential, with some potential areas in Western Balochistan and the offshore having been explored little or not at all. The government greatly encourages investment in this sector, for which purpose it has enacted numerous policies and offers incentives, including privatisation of state run businesses and tax incentives that encourage exploration and production.

GoP encourages investment

Development of new natural gas fields with the help of foreign investors is moving ahead in Pakistan. OMV (Austria), BP, ENI are some of the foreign companies operating locally. PPL, OGDC and OMV produce around 23 percent, 19.6 percent and 14.6 percent respectively of the country's natural gas. The two local companies are the country's largest natural gas producers, while OMV is the largest foreign company engaged in natural gas production.

Foreign companies operating

A significant development in the energy market has been the increase in natural gas in the primary energy supply mix from 42 percent in 2000-01 to 48.5 percent in 2006-07. If this trend continues, it would necessitate an increase in natural gas supply, either through intensified exploration efforts or through imports from neighbouring countries. Pakistan is making efforts to increase its gas production to support increasing consumption.

Change in consumption pattern

There has been some change in the consumption pattern of gas by the different sectors of the economy. While transport was consuming only 0.9 percent of gas in 2001-02 by 2006-07, the figure stood at 4.6 percent, and for general industry gas consumption rose from 17.1 percent to 25.0 percent.

Natural Gas Consumption by Sector (%)

	2001-02	2006-07
Power	38.8	35.5
Domestic	17.7	15.2
General Industry	17.1	25.0
Fertilizer (Feedstock)	16.9	12.6
Transport (CNG)	0.9	4.6
Fertilizer (Fuel)	4.9	3.3
Commercial	2.7	2.6
Cement	0.9	1.2

Source: Pakistan Energy Yearbook 2007, Hydrocarbon Development Institute of Pakistan

Network has grown

Pakistan has plans to substitute imported foreign oil with indigenous gas. It has a fairly developed transmission system/distribution network in the country, extending to major cities and towns. The network has grown from about 65 thousand kms in 2002 to 91.6 thousand kms in 2007, with the number of gas consumers rising from 3.7 million to 4.9 milion in the same period.

Plans to import gas

Various plans are underway to import gas from neighbouring gas producing countries through cross border gas pipelines. A memorandum agreement has been signed with Gazprom, Russian state owned oil and gas giant. The plan to build a pipeline from Iran's massive natural gas reserves to Indian markets across Pakistani territory, would earn Pakistan about $70 million annually in transit fees from the pipeline. There are also plans to build a pipeline from Dolphin Project in Qatar to Pakistan via sub sea pipeline from Oman. Another option under consideration is a line from Turkmenistan to Pakistan via Afghanistan.

Gas utilities

The natural gas utilities, Sui Northern Gas Pipelines Ltd (SNGPL) is supplying gas to towns and villages of Punjab and NWFP, while Sui Southern Gas Company Ltd (SSGCL) to towns and villages of Sindh and Balochistan. SNGPL has nearly 3 million consumers (98% domestic, 1.6% commercial and 0.14% industrial consumers), while SSGCL has around 2 million. Development work continues and both companies are investing large sums in the transmission and distribution projects. These companies buy gas in bulk from several international and local E&P companies for distribution across its franchise areas.

Both the utilities have undertaken projects to expand their distribution network, thereby increasing their respective customer base. Transmission projects of SSGCL include a pipeline from Zargoon to Quetta, Quetta Pipeline Capacity Expansion Project III, among others. Similarly transmission projects of SNGPL include, augmenting the existing Hattar-Abbottabad/Mansehra transmission segment, laying of a pipeline from Rawat to Murree among other projects.

Liquefied Natural Gas (LNG)

LNG consumption to grow

The gap between gas demand and supply is expected to widen to 1000 MMCFD by 2010-11, as consumption levels grow over the next few years. This necessitates development of new natural gas fields, importing gas in the form of liquefied natural gas (LNG) from resource rich neighbouring countries.

A highly capital intensive industry, the government plans to facilitate investors to set up LNG import projects. It is setting up an offshore LNG import terminal at Port Qasim. Because it is cleaner and less carbon intensive than either oil or coke, its demand has risen,

Liquefied Petroleum Gas (LPG)

Currently LPG is contributing 0.5 percent to the total energy supply mix (this includes imports and production from field plants). LPG is supplied to domestic users both by the local refineries and is also imported. In places where natural gas distribution network is not available, LPG is being used. Currently about 1779 tons per day LPG is being supplied from the refineries and field plants to the different sectors of the economy.

Prices deregulated

OGRA Regulates LPG Activities in the Country. The Government has deregulated the LPG prices in August 2000, allowing the prices to be determined by market dynamics. The LPG policy 2006 has obligated OGRA to fix the maximum base stock price of LPG in accordance with the Saudi Aramco for contract price for each month. As of June 30, 2007, there were 10 producing companies, 60 LPG marketing companies operating in the country, while 61 licences for the construction of storage and filling facilities have been issued. An investment of approximately Rs11 billion has so far been made in this sector.

Compressed Natural Gas (CNG)

CNG as an alternate fuel

As the oil import bills rises with a commensurate increase in the import of diesel oil, mainly used as transport fuel, the government is encouraging the use of CNG, as an alternate fuel for road transport vehicles.

The initiatives for its development includes; liberal licenses are being provided for establishing CNG stations, tax exemptions on CNG equipment, tax exemptions for CNG business, natural gas tariff for CNG linked to petrol etc.

As a result of government initiatives, the number of CNG stations has risen, more are under construction, large investments have been made in the sector, creating job opportunities for thousands. Pakistan is the leading Asian CNG user and the 3rd in the world. CNG equipment is now being manufactured locally and few companies have started production of dedicated CNG buses. There is a CNG Conversion Strategy, where existing diesel buses would be converted to CNG and gradually the entire diesel bus fleet would be replaced by CNG and/or petrol CNG dual fuel. Governments' policy incentives have greatly assisted in CNG development in the country, and if this continues the foreign exchange savings would help in containing the import bill.

Initiatives for CNG development

During FY07, OGRA issued 2218 licenses for construction of new CNG stations. Pakistan now ranks third in the world with 1450 functional CNG stations and more than 1.2 million vehicles have been converted to CNG. Around Rs45 billion has been invested in this sector so far and another 28 billion is in the pipeline expected to be made in the next two years.

Coal

Coal plays a small role in Pakistan's energy mix. Currently it has a 7.3 percent share in the country's energy mix, which is projected to rise to 19 percent by 2030. Energy Security Action Plan has set a target of generating 20000 MW power from coal by 2030.

Small share in energy mix

Total production of coal stood at 4.87 million tonnes in 2005-06. Besides domestic production, coal is also imported by Pakistan Steel for use as coke. Coal is mainly produced in Lakhra, Sindh; Duli, Pir Ismail, Ziarat, Mach, Sharigh in Balochistan. Coal has been discovered in Thar desert in the Sindh province, with enormous potential for development.

Both local and foreign investors have shown an interest in developing these mines, with China taking keen interest. The Government's policy is to develop the reserves so they can supply to large electric power plants to be built in tandem with the coal mines.

Over 52 percent of the coal produced is used by cement and other industry as they have reduced their dependence on furnace oil. Brick kiln industry consumes 41.5 percent of the coal produced. The rest is consumed by Pakistan Steel and WAPDA for power generation. The conversion of cement industry from furnace oil to coal has generated a demand for 2.5–3.0 million tons of coal per annum.

Cement industry's usage of coal

Electricity

Pakistan's current installed power generation capacity is 19420 MW. Of the total, thermal (WAPDA), KESC & IPPs) accounts for 64.2 percent of installed capacity, hydel makes up for 33.4 percent and nuclear 2.4 percent.

In 2006-07, there was a gross generation of 98 thousand Gwh of electricity, where 65 percent accrued from thermal (35% was generated by IPPs, 22% by WAPDA and 8% by KESC), 32.5 percent from hydel and nuclear contributed 2.3 percent. For fuel, thermal electricity generation largely depends on gas (56%) and oil 43.8%) and uses coal for generating only 0.2 percent of the electricity. Besides domestic generation, WAPDA also imports electricity from Iran.

Thermal generation

Current supply is estimated at 15055 MW against demand of slightly more than 17600 MW, leading to a shortfall of 2500 MW. While capacity expansion plans are underway to increase supplies, but as demand is projected to increase further, the supply-demand deficit would continue to widen. As capacity expansion projects come online, there would be some increase in supply.

Electricity Consumption by Sector
2006-07
72,712 Gwh

	(%)
Domestic	45.8
Industrial	29.0
Agriculture	11.2
Commercial	7.4
Bulk Supplies	5.9
Street lights, traction and others	0.7

Source: Pakistan Energy Yearbook 2007

WAPDA

Public sector power utility, Water and Power Development Authority (WAPDA) supplies power to the whole of Pakistan, except the city of Karachi, which is supplied by KESC. Not only is WAPDA carrying out the business of generation, transmission and distribution of power, but is also responsible for irrigation, drainage and flood control. Additional generation of electricity comes from the IPPs.

KESC privatised

KESC was privatised in 2005 with the transfer of 73 percent shares of GoP alongwith management control to the new owners. Siemens Pakistan Engineering Ltd were appointed as the Operations and Management contractors for the operations and management of the company.

It was in early 1990s that the Government adopted a policy to facilitate private sector participation in the energy sector. It also adopted a plan for power sector privatisation where WAPDA the main electric utility would be privatised.

Hubco

The $1.6 billion, 1292 MW Hub Power Project (Hubco) was the first private power project in Pakistan. More power projects in the private sector were later set up, under the 1994 Private Power Policy, (Policy Framework & Package of Incentives for Private Sector Power Generation Projects) which aimed primarily to attract private capital to the power sector and to standardise the conditions of investment for independent power producers.

The country was experiencing severe power shortages during the 1980s and early 1990s. To minimise load shedding, the Government felt the need for a policy that would rejuvenate the energy sector. The Policy brought favourable results as a number of Independent Power Producers (IPPs) were commissioned. In 2007, the 16 IPPs have an installed capacity of 5822 MW of electricity generation. KAPCO and HUBCO are the two large power plants, with 1466 MW and 1292 MW of installed capacity respectively.

IPPs setup

PPIB setup

To improve investment incentives in the domestic power sector, the Private Power and Infrastructure Board was established in 1994, which was dedicated to serving as one window facility to investors in Pakistan's private power sector. It provides advice and guidance for the implementation of power plant projects.

NEPRA setup

The National Electric Power Regulatory Authority (NEPRA) was created under the NEPRA Act in 1997, with the aim to ensure fair competition and consumer protection. It is primarily responsible for the issue of licences for power production, transmission and distribution, specification of electricity tariffs, both with regard to remuneration of producers and in terms of consumer side pricing.

Restruc-turing of WAPDA

Under the restructuring programme of Pakistan's power sector, WAPDA has been transformed into four power generation companies (GENCOs), nine distribution companies (DISCOs) and a national transmission and power distribution company (NTDC). Prior to the restructuring of WAPDA into nine distribution companies, Lahore, Gujranwala, Faisalabad, Islamabad, Multan, Peshawar, Hyderabad, Quetta and the Tribal Electric Supply Company, there were Area Electricity Boards, to administer the supply and distribution, construction, expansion and operation of the distribution system. These entities are incorporated under the management of Pakistan Electric Power Company (Pepco).

Pepco formed

Given the growing power crisis, the Pakistan Electric Power Company has been constituted to look after the supply and distribution operations of the companies formed as part of the power plan. It is an independent body

reporting directly to the Ministry of Water and Power.

Pepco has plans to generate about 1400 MW of electricity to meet the 2000-3000 MW shortage the country is currently facing. Adding increased production by the Independent Power Producers would raise supplies by another 400-450 MW by the end of 2008. The remaining gap is expected to be met through energy conservation/load management, plugging of line losses and reducing theft.

One third of electricity generated through hydel sources

Slightly over one-third of the electricity generated in the country is through hydel sources. These hydroelectric plants, with the largest being Tarbela with 3478 MW of installed capacity, and others being Mangla (1000 MW) Warsak (243 MW), Chashma (184 MW) are basically WAPDA hydel plants. There are plans to develop additional hydroelectric generating capacity.

There are a number of hydropower projects under study, like the Dasu Project, Burji, Patan, Thakot, Yulbo, which once completed will add to 20770 MW to the installed capacity.

Projects under study

Priority water sector projects, which have been approved for construction (Phase I) include among others, Sabakzai dam project, Mirani dam, Mangla dam raising project, Thal flood water canal, Gomal zam dam project, Naigaj dam. There are projects approved for construction under Phase II. These include among others, Basha Diamer Dam project (will generate 3660 kw of electricity) Sehwan Barrage Complex project, Hingol Dam project, Akhori Dam, Gaj Nai Dam. These projects are expected to be completed in the next 3–6 years and will either raise power generation, or bring larger area under construction or raise water storage capacity.

Then there are water sector projects under Phase III, like Kalabagh, Yugo, Skardu Dam project, Rohtas, Kalam, Dhok Pathan, with different status. For some the pre-feasibility study has been completed, for others the feasibility study, and some are at the detailed engineering and design stage.

Challenges in the Energy Sector

Deficit is expected to rise

The energy sector in Pakistan is beset with a host of issues. Rising demand and lagging supplies have exerted strong pressures on the available energy resources, turning Pakistan into an energy deficient country. The deficit as percent of energy requirement is projected to rise from current levels of about 27-30 percent to 46 percent in FY15 and further to 64 percent in FY25.

Coal resource under-utilised

The energy supply mix in the economy has altered over the years. Natural gas has become the most popular source of energy, while the share of oil in total consumption has declined. However, the share of indigenous coal in energy production is no more than 7 percent, compared to India, China and Indonesia, where coal accounts for a major part of power production. At the time of inception, 60 percent of Pakistan's power was produced from coal, but today it is one of the most dependent country in the region on imported energy. The coal sector offers a lot of potential, it is waiting for appropriate policies, which would exploit this available natural resource.

Poor infrast-ructure, power theft, electricity stolen

Besides the under-utilisation of hydro and coal resources, there is a mismatch of long term energy planning with economic growth forecasts, transmission losses due to poor quality of infrastructure and a significant amount of power theft, illegal power supply (this reduces billing and non-payment of arrears), electricity stolen (used but not paid for), periodic droughts affecting the availability of hydro power, rural electrification, environmental challenges, the need for large investments in energy resource development to meet the needs of an expanding economy and improving the efficiency of public sector institutions.

Misma-nagement

An example of the mismanagement plaguing the power sector, was the recent power breakdown in Karachi. The NTDC, a subsidiary of Pepco, disconnected supplies to the privatised KESC over outstanding dues. The organisation owes approximately Rs13.7 billion to NTDC, while KESC's receivables

on various counts from the government are around Rs11.3 billion. The KESC had received a notice that it has to repay Rs3 billion out of this outstanding dues, otherwise power supplies would be cut off.

Power supplies cut off

This incident when Pepco cut off power supplies to KESC, caused power outages throughout Karachi, disrupting manufacturing and business activities, water shortages, traffic disruption and misery to the 16 million inhabitants of this city. KESC's own generation meet little more than half of the peak hour requirement of around 1900 MW for Karachi. The rest is supplied by the Independent Power Producers and WAPDA.

Frequent power breakdowns in Karachi, the financial and commercial centre of the country, has led a large number of firms in the manufacturing sector to set up their own individual power generating units. In a paper *'Inefficiencies in Public Electricity Provision and Impacts on Firms in Karachi's Manufacturing Sector'*, the author Nausheen H. Anwar, has through her study shown that failure of the public sector utility because of transmission and distribution losses and non-technological reasons are major factors of inefficiency in electricity supply by the KESC.

Options to deal with inefficiencies

The author has further identified four options to deal with the inefficiencies created by the KESC – *(i)* firm to have its own generating system, not relying on any external source, *(ii)* use private generation only when the public supply falls short or becomes erratic in cases of emergency, *(iii)* firm to have private generating capacity but taps into the public source, when it is deemed to be reliable and *(iv)* firm to rely solely on the public source for the provision of power no matter how unreliable.

Factors retarding power generation

Power shortage is not a recent phenomenon, but dates back to more than a decade. Enhanced demand for electricity has not been matched by a corresponding increase in the installed power generation capacity. This has suffered due to a lack of consensus on the dam issue, silt build up in the two major hydel reservoirs Mangla and Tarbela, slow growth of the IPPs among other factors. Reservoir sedimentation has led to storage losses. For instance Tarbela had an original storage capacity of 11.62 MAF in 1974 which has dropped to 8.24 MAF in 2006 (storage loss of 29%) and would show a further loss of 5.40 MAF by 2025. Similar is the case with Mangla and Chashma dams.

Hydel power generation constrained

Hydel power generation has been constrained, as the water shortage capacity of the reservoirs has declined. With water availability a key issue, enhanced electricity generation through hydropower projects is questionable. However, small hydel power projects are in the pipeline, construction work on Mangla dam is near completion and the Ghazi Barotha Power Plant has been commissioned in phases. There are capacity expansion plans by Hubco and Kapco and alongwith other core thermal power plants, the installed generation capacity is projected to increase.

We give below excerpts from a recently published (March 2008) report by AKD Securities, titled, *'A Power Sector Update Report'*.

Pakistan's current installed power generation capacity is 19420 MW of which 64 percent is thermal, 33 percent hydro electric and 2 percent nuclear. However, due to water shortage and low efficiency of older plants, current supply is estimated to be 15055 MW against demand of 17689 MW, leading to a deficit of approximately 2500 MW, and at peak demand of approximately 3000 MW. Capacity expansion expected to come online by CY10 would increase total supply to 17055 MW. However, an ominous 3529 MW deficit by 2010 would still be present as projected demand is in excess of 20000 MW.

Independent Power Producers have grown at a snail's pace during the last six years adding an insignificant 27 MW in their repository in the backdrop of the looming power deficit in the country, which is expected to reach 3000 MW at peak demand this summer. Electricity

demand is growing at a rate of 8–9 percent per annum and is expected to exceed supply by 5500 MW by 2010.

The average per capita consumption in Pakistan is approximately 455 KWh compared to Asia at 646 KWh, and regional countries such as China and Thailand which have per capita electricity consumption in excess of 1000 KWh. If we are to assume 2 percent growth rate in population, Pakistan's development plan for power generation is expected to take per capita consumption to 880 KWh by CY10.

Amongst the listed IPPs, the Hub Power Company and the Kot Addu Power Company are at advanced stages in planning the expansion of their power generation capacities.

The Private Power and Infrastructure Board of Pakistan estimates Pakistan's hydel based power generation potential to be approximately 41722 MW with substantial hydel potential still untapped.

Hydel power generation has been sharply impaired in the last few decades as the water shortage capacity of the reservoirs in Pakistan has declined by a worrying 24 percent from the original capacity of 15.2 MAF. Adding fuel to fire, it has estimated by the Planning Commission that because of silt build-up, the country's water storage capacity will go down further by 12 percent in the next decade.

Figures provided by Pepco reveal that presently only 37 percent or 2400 MW electricity is being generated from hydropower projects against a capacity of 6479 MW because of water shortage in the dams.

With the GoP occupied with the demand/ supply gap, it is likely that attractive tariff incentives will be offered to stimulate investments in the power sector. Moreover, the GoP through the National Electric Power Regulatory Authority has recently allowed power distribution companies to increase their tariff from Rs0.38/KWh to Rs0.70/KWh.

Expansion Plans

IPPs

Major IPPs are in the process of expanding their generation capacities. Hubco has been pre-qualified for bidding of three power projects - UCH2, Faisalabad Power and Lahore Power. Kapco is in talks with NEPRA for tariff determination of its 450 MWs expansion.

Seven companies have signed the Implementation Agreement, adding 1210 MW in the total power generation capacity of the country.

A key concern remains the financial health of public utilities. Delay in payment by the public utilities could lead to cash flow problems for the IPPs. This fear is somewhat muted with the recent 10 percent hike in electricity tariff for WAPDA Discos. Though the tariff hike does not affect the IPPs as their payments are governed by their respective PPAs, it does improve the financial position of public utilities.

Hubco

Hubco is the first ever thermal power plant in Pakistan with a name plate capacity of 1292 MW. To meet the growing demand of power, Hubco is planning to install different projects including a diesel fired, coal fired and hydel based power plants in the country.

Hubco is expanding its operations and setting up a new diesel fired power plant at Narowal (Punjab) with a capacity of 225 MW. This power plant has a life of 25 years and it is under the government's fast track project scheme for power generation and scheduled to come online by the end of March FY10.

Hubco has two more expansion plans which are still on the cards. One is a hydel power plant which has a capacity of 84 MW and the other one is a coal fired plant with a similar capacity of the existing plant possibly near the current plant site.

To diversify the company's business in the energy sector, Hubco has submitted an expression of interest for acquisition of SSGC in a form of consortium with Mitsui and Gas Malaysia.

(Expansion Plans of IPPs & Hubco has been contributed by Taurus Securities)

The consumption of petroleum products has increased by 11.4 percent, mainly due to higher consumption of FO and HSD.

Developing Alternate Forms of Energy

Measures date back to 1980s

Pakistan has experimented with measures for promoting renewable energy sources since the 1980s. The importance of this was realized years back, but now there is greater focus, as oil imports are becoming costlier, hydel resources are largely untapped, coal reserves have not been exploited fully; with the result that the rapidly rising demand for natural gas and electricity is exerting pressures on available energy sources and imports are straining the balance of payments. Pakistan is working to expand the use of renewable energy to meet the energy deficiency gap.

Earlier steps

Earlier measures in this area was the establishment of the Pakistan Council of Appropriate Technology (PCA), established in 1975 with its focus primarily on the areas of mini-hydropower, biogas plants, solar cookers and small wind energy conversion systems; and setting up of the National Institute of Silicon Technology in 1981 which was involved in the research, development and commercialisation of solar energy. These two institutions were merged into the Pakistan Council for Renewable Energy Technology in 2001, to better coordinate research activities and avoid overlaps.

Focus on renewable source of energy

In Pakistan, the renewable sources of energy include, wind energy, solar energy, energy from micro hydel units and bio-energy. To promote the use of renewable energy, the Government set up the Alternative Energy Development Board in 2003, with the responsibility of developing various plans to harness wind, solar and solar thermal sources of energy. It is the government's endeavour to increase the share of renewable energy upto 10 percent of the total energy mix in the country.

In the book, '*Energy Issues in Pakistan', published by the Pakistan Institute of Development Economics (2007)* the paper, '*Renewable Sources of Energy in Pakistan*', by M. M. Qureshi looks at the possibilities of developing energy from non-conventional and renewable forms of energy. Cost of oil has been going up regularly, the supply of natural gas is not infinite, the cost of discovering more gas fields requires massive investment. So given these factors, it has become imperative to tap the renewable forms of energy.

Wind-mills to be set up

The paper identifies a number of sources of renewable energy that will add to the overall energy mix in the country. These sources include hydropower, biogas, solar energy and wind energy. Solar energy of various types is under consideration. Windmills can be installed in coastal areas or suitable windy regions to produce mechanical energy. The AEDB has recently acquired land in Sindh, where potential investors would install wind energy mills to produce 1200 MW of electricity.

The City Government Karachi is also working towards alleviating the hardship faced by the 18 million citizens of this mega city, because of persistent load shedding of electricity. They are exploring new avenues of alternate energy production. It is looking into the development of solar energy system for parks, street lights, lamp posts etc. A Chinese firm is going to build a power plant to cater to the needs of the pumping station at Gharo. The UAE government has donated a 320 MW Power Generation Plan for setting up in Karachi, which should help reduce electricity shortfall.

A subsidiary of Pepco, Faisalabad Electric Power Company has entered into a power purchase agreement for 7 MW power with Shakarganj Sugar Mills. The plant would be using molasses, a waste product from sugarcane to produce biogas for electricity generation. Pepco is promoting alternate energy generation sources by offering attractive tariffs. Other proposals to develop alternate sources of energy are being looked into.

The new democratic government has to deal with a number of economic challenges. The power sector should take centre stage, as all economic activity centres on uninterrupted power supplies.

Energy Balances 2001-02 to 2006-07

(Million TOE)

Source	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Oil Products (Energy)						
Opening Stock	0.66	0.77	0.57	0.74	0.77	0.78
Prod. from ARL, DRL[1/]	1.70	1.71	1.62	1.86	1.88	1.84
Prod. from Other* Refineries[1/]	7.34	7.39	8.15	8.68	8.67	8.54
Petroleum Products Imports	9.13	8.53	5.38	5.85	6.17	8.42
Gross Supply	18.83	18.41	15.73	17.15	17.50	19.58
Refineries Own Use	-0.13	-0.12	-0.12	-0.12	-0.12	-0.10
Export/Bunkers	-0.80	-1.01	-1.07	-1.28	-1.62	-1.70
Power Plants	-6.14	-5.86	-2.67	-3.37	-4.11	-6.57
Closing Stock	-0.77	-0.56	-0.74	-0.77	-0.78	-0.96
Net Supply	10.98	10.84	11.12	11.60	10.88	10.25
T & D Losses & Stat. Diff.	0.10	0.02	0.02	0.11	-	0.32
Net Consumption	11.10	10.86	11.14	11.71	10.88	10.57
GAS						
Opening Stock in Pipeline	0.06	0.06	0.07	0.08	0.08	0.09
Processed by SSGC[2/]	5.90	5.88	7.57	8.08	8.51	8.51
Direct Supplies[3/]	11.92	12.44	14.96	16.93	17.84	18.10
Associated Gas[4/]	0.46	0.42	0.38	0.47	0.62	0.45
Closing Stock in Pipeline	-0.06	-0.07	-0.08	-0.08	-0.08	-0.09
Gross Supply	18.28	18.73	22.91	25.47	26.97	27.06
Used for Compression, etc.	-0.30	-0.24	-0.26	-0.28	-0.27	-0.32
Feedstock for Fertilizer	-2.67	-2.74	-2.84	-2.94	-3.03	-2.98
Power Plants	-6.01	-6.44	-9.46	-10.31	-9.97	-8.64
Net Supply	9.29	9.31	10.34	11.94	13.68	15.11
T & D Losses & Stat. Diff.	-0.73	-0.20	-0.27	-0.30	-0.36	-0.41
Net Consumption	8.56	9.11	10.06	11.64	13.32	14.70
LPG						
Opening Stock	0.002	0.001	0.001	0.001	0.001	0.001
Indigenous Production	0.37	0.38	0.41	0.44	0.60	0.63
Imports	0.009	0.01	0.03	0.04	0.02	0.07
Closing Stock	-0.001	-0.001	-0.001	-0.001	-0.001	-0.001
Gross Supply	0.38	0.40	0.45	0.48	0.63	0.70
Refineries Own Use	-0.03	-0.03	-0.03	-0.03	-0.03	-0.03
Net Supply	0.35	0.37	0.41	0.46	0.60	0.67
T & D Losses & Stat. Diff.	-0.01	-0.01	-0.03	-0.005	0.03	-0.01
Net Consumption	0.34	0.35	0.38	0.45	0.63	0.66
COAL						
Indigenous Production	1.49	1.48	1.46	2.05	2.18	1.63
Imports	0.71	1.04	1.84	2.17	1.87	2.80
Gross Supply	2.20	2.52	3.30	4.23	4.05	4.43
Power Plants	-0.11	-0.09	-0.08	-0.08	-0.06	-0.07
Feedstock for Coke	-0.60	-0.74	-0.51	-0.84	-0.37	-0.20
Net Supply	1.48	1.69	2.70	3.31	3.61	4.15
Net Consumption	1.48	1.69	2.70	3.31	3.61	4.15
ELECTRICITY[5/]						
Hydel Generation	1.54	1.82	2.19	2.09	2.51	2.60
Thermal Generation	4.17	4.20	4.24	4.66	4.91	5.21
Nuclear Generation	0.18	0.14	0.14	0.23	0.20	0.18
Gross Generation	5.90	6.16	6.58	6.97	7.63	8.00
Auxiliary Consumption	-0.23	-0.24	-0.25	-0.27	-0.28	-0.30
Net Generation	5.65	5.92	6.33	6.70	7.34	7.70
Net purchase from PASMIC	0.001	0.001	-	-0.005	-0.01	-0.01
Net Supply	5.66	5.92	6.33	6.70	7.33	7.69
Imports	-	-	0.01	0.02	0.03	0.04
Total Net Supply	-	5.92	6.35	6.72	7.36	7.73
T & D Losses & Staff. Diff.	-1.54	-1.63	-1.67	-1.73	-1.85	-1.81
Net Consumption	4.12	4.29	4.68	4.99	5.51	5.92
TOTAL ENERGY						
Net Supply	27.77	28.13	30.91	34.01	36.09	37.88
T & D Losses & Stat. Diff.	-2.16	-1.81	-1.92	-1.92	-2.21	-1.90
Net Consumption	25.60	26.31	28.98	32.10	33.94	36.01

1/ Excluding LPG production. ARL, DRL & Enar refine only local crudes, Bosicor & PARCO refine only imported crudes while PRL & NRL refine both.
2/ Since 2001-02, gas processed/withdrawn by SSGCL and supplied to sourthern distribution systems from Sui, Badin etc, areas.
3/ Direct supplies to thermal & fertilizer plants and non-associated gas from fields other than (2).
4/ Production from oilfields in north. Production of associated gas from Badin area is processed by SSGC and is included in (2).
5/ @ 3412 Btu/kWh. * Bosicor, NRL, PARCO, PRL

Monetary Policy Statement
January - June 2008

The State Bank of Pakistan (SBP) has announced its Monetary Policy Statement, January-June 2008. Steps have been taken to contain inflation, facilitate export growth and assist those private and public sector enterprises who suffered losses following the events of December 27, 2007.

Inflationary pressures expected

Inflationary pressures are likely to build up further because of difficulties in curbing food inflation and the likely impact expected when the government passes on the increase in international oil prices to the domestic consumers. There is also the impact of reserve money growth on core inflation. The two principal sources of reserve money growth, i.e., the government's reliance on central bank borrowings and the refinancing operations which dilute the central bank's monetary stance.

Discount rate & CRR raised

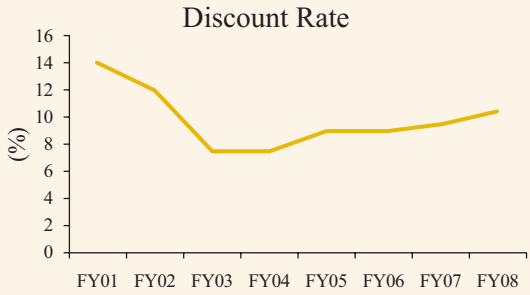
With headline inflation projected to be in the range of 8.0 percent in FY08, the central bank has further tightened its monetary policy, by raising its discount rate by 0.5 percent to 10.5 percent and the Cash Reserve Requirement by 100 basis points to 8 percent. This will be applicable to deposits of one year only.

Tighte-ning of monetary policy

The process of tightening of monetary policy was begun in FY05 from a broadly accommodative one prevailing earlier. The moderate interest rates had helped raise industrial production together with broad based credit demand and higher government borrowings. This had resulted in an acceleration in monetary expansion.

So while industrial activity picked up it also fed a gradual rise in core inflation. The government's mid December 2004 decision to lift the freeze on domestic POL prices raised inflationary expectations, forcing a more aggressive tightening of monetary policy.

It was in April 2005 that the SBP raised its discount rate by 150 basis points to 9.0 percent, and further to 9.5 percent in July '06 with the same objective of controlling inflation. Demand pressures were still high, as reflected by high growth in credit to the private sector, rising imports resulting in the widening of the current account deficit and an inflationary fiscal policy envisaged in the Federal Budget 2006-07.



SBP recomm-endations

In FY07, inflation target of 6.5 percent was surpassed by 1.3 percentage points, primarily because of demand pressures as reflected by widening fiscal and current account imbalances and double digit food inflation. In August 2007, the SBP tightened its monetary policy by raising the discount rate by 50 basis points to 10 percent. It also recommended to the government to retire borrowings from SBP and adopt a more balanced domestic strategy, whereby budget deficit is financed from long term financing sources which are relatively less inflationary, like PIBs.

The risk of resurgence in inflationary pressures persist in FY08, due to the expected lagged impact of substantially high growth of 19.3 percent in money supply M2, exceeding the FY07 target by 5.8 percentage points, states the Monetary Policy Statement. The following factors are attributed for this slippage; higher than expected foreign exchange inflows, continued government borrowings from SBP during the course of the year, and liquidity generating and distortionary refinance schemes. In addition there are difficulties in curbing food inflation and the expected increase in domestic oil prices when the

government decides to pass on the impact of rising international oil prices to the consumers will have an impact on core inflation.

To achieve the government's target of 7.2 percent GDP growth and 6.5 percent inflation rate, entails an M2 growth target of 13.7 percent. This requires a relatively sharp deceleration in M2 relative to FY07 and a 1.3 percentage point reduction in average inflation during FY08.

Other measures

Achieving these targets, given the risks and challenges, was not possible without further tightening of monetary policy and introduction of other related measures, like recommending to the government to retire its borrowings from the central bank and for the adoption of mutually agreed quarterly ceilings and diversification of its borrowing sources.

CRR raised

Alongwith an increase in discount rate, the CRR has been raised by 100 basis points for deposits upto one year maturity, while leaving term deposits of over a year zero rated. As banks will now have to keep more money as reserve with SBP, it would siphon off excess liquidity from the market. This measure will provide banks an incentive to mobilize long term deposits.

LTFF introduced

Effective January 1, 2008, State Bank of Pakistan has introduced a new Long Term Financing Facility to facilitate export growth. Under the new scheme, banks/DFIs will provide long term financing of upto 10 years to their borrowers for import of machinery as well as purchase of locally manufactured machinery for setting up of export oriented projects. The SBP shall provide 70 percent refinance to the banks/DFIs on their disbursements under the new scheme. The borrower has the option to borrow for three different tenors i.e. for upto 3 years, 5 years and 10 years, at financing rates of 8 percent, 9 percent and 10 percent respectively.

SBP developing a relief package

The State Bank of Pakistan is in the process of developing a relief package for the revival of those public and private sector enterprises which suffered losses after the events of December 27, 2007.

The package includes: *(i)* moratorium on payment of principal and mark up in respect of the loans availed by the affected entities under Export Finance Scheme and relaxation in the shipment period under Part-I and performance requirements under Part-II; *(ii)* permission to banks/DFIs to provide financing for reconstruction/rebuilding of the factory premises by the affected borrowers under the recently announced Long Term Financing Facility; and *(iii)* relaxation in respect of realization of export proceeds by the affected entities on case to case basis.

The above reliefs under the package shall be subject to the findings of the commission set up by the Federal Government pursuant to the events of December 27, 2007.

Saving Schemes of Selected Banks

Banks	Savings / Deposit Schemes	Investment (Rs)		Tenure	Profit Rates (p.a) %		Profit Payment	Remarks
		Minimum	Maximum		Minimum	Maximum		
Major Banks*								
National Bank of Pakistan	1. PLS Rupee Savings	upto 20000	no limit	no limit	0.20	1.20	half yearly	Minimum balance Rs5000. Service charges on balance less than Rs5000
	2. Term Deposit Account	5000	-	3mths to over 5 yrs	1.50	4.00	half yearly	Minimum balance Rs5000. Service charges on balance less than Rs5000
	3. NBP Premium Aamdani Certificate	20000	5mn	5 yrs	7.5 (1st yr)	11 (5th yr)	monthly	Monthly Income Scheme
	4. NBP Premium Saver	20000	0.3mn	no limit		upto 7.25	half yearly	PLS Saving Account
	5. Plus Term Deposit Certificate	500	above 1000	1 yr to 10 yrs	4.50	10.00	half yearly	Profit rates vary for different slabs and tenure
	6. Premium Enhanced Savings Account	20000	-	no fixed tenure	4.00		quarterly	minimum balance Rs5,000. Profit based on average quarterly balance.
HBL Habib Bank	1. HBL Value Account	10000	0.1mn		7.0		quarterly	Profit based on MMB[1]. No Profit over two withdrawls per month
	2. HBL Super Value Account	0.1mn	0.5mn		7.25		quarterly	No profit on deposit less than Rs0.1mn or more than two withdrawls
	3. Remittances Munafa Plus	below 20000	no limit		0.10	5.0	monthly	Profit Calculated on daily product basis
	4. PLS Special Savings Bank Deposits	20000	no limit	no fixed tenure	1.50	8.0	monthly	Varying profit rates for different slabs
	5. PLS Daily Munafa Plus	50000	no limit		2.50	8.0	monthly	Profit vary for different slabs
	6. HBL Enhanced Savings Account	upto 20000	no limit		4.06	1.00	quarterly	Profit Calculated on MMB[1]
	7. HBL Business Value Account	1mn	2.5mn & above		4.25	5.0	monthly	Profit vary for different slabs
United Bank Ltd.	1. UBL Uniflex	upto 50000	upto 0.2mn	no limit	7.00	7.50	half yearly	Profit based on average balance during the month
	2. UBL UniSaver	upto 25mn	above 500mn	no limit	3.00	5.00	half yearly	Profit calculated on monthly average balance
	3. UBL Enhanced Savings Account	upto 20000	above 20000	no limit	4.00	0.75	half yearly	Profit based on average balance during the month
	4. UBL Transactional Account	below 10000	10000 & above	no limit	0.10	0.75	half yearly	Profit based on average balance during the month
	5. UBL Term Deposit Receipts			1 mth to 5 yrs	3.00	7.00	half yearly	Earns higher income on surplus cash. Varying profit rates
	6. UBL Certificate of Deposits	10000	no limit	3 mths to 10 yrs	8.00	14.00	maturity	for various tenures
MCB Bank	1. Smart Saving Account	10000	upto 0.3mn	no fixed tenure	3.0	7.0	half yearly	Profit calculated on minimum monthly balance
	2. Enhanced Saving Account	below 20000	20000 & above	no fixed tenure	4.0	1.0	half yearly	Profit rate 1% on balance above Rs 20,000
	3. Saving 365	below 0.3mn	no limit	no fixed tenure	0.10	1.0	half yearly	Saving A/C with current A/C facility
	4. Saving 365 Gold	below 0.5mn	500mn & above	no fixed tenure	0.10	8.25	monthly	Tiered profit rate structure
	5. Kushhali Bachat Account	upto 20000	no limit	no fixed tenure	0.10	1.00	half yearly	Low average balance requirement
	6. PLS Saving Account	upto 20000	no limit	no fixed tenure	0.10	1.00	half yearly	Low average balance required
	7. PLS Term Deposits	10000	no limit	1 mth to 5 yrs	1.00	7.50	half yearly	No profit above Rs0.3mn or minimum balance below Rs10,000
Allied Bank	1. Allied Munafa Account	0.5mn	50mn	no fixed tenure	5	8	monthly	Different slabs and varying profit rates
	2. Allied Mahana Aamdani Package	0.1mn		1 yr to 3 yrs	8.40	10.30	monthly	Pre mature encashment allowed
	3. Allied Bachat Scheme	50000		7.5 yrs	7.0	13.3	maturity	Pre mature encashment allowed. Condition apply
	4. Allied e Saver Account	10000	0.5mn	no fixed tenure	4	upto 7.5	quarterly	Profit Calculated on MMB[1]
Bank Al Falah	1. Royal Profit	50000	5mn		2.50	3.5	monthly	For individuals. Companies not eligible
	2. Al Falah Kifayat	10000	1mn		7.0		quarterly	
	3. AlFalah Mahana Aamdan	0.1mn	15mn	3 yrs	10		monthly	For individuals/joint customers. Renewable on maturity
	4. Royal Patriot	25000	5mn & above	1 mth to 2 yrs	3-3.50	5.50-5.7	half yearly	Varying profit rates for different slabs and tenures
	5. PLS Saving Account	below 25000	25000 & above	no fixed tenure	2.0		half yearly	Minimum A/C opening requirement Rs5000. Unlimited withdrawals
	6. PLS Term Deposits	25000		1 mth to 5 yrs	4.50	4.50	half yearly	For individuals
Other Large Banks**								
Bank of Punjab	1. Ziada Munafa Saving Account	upto 10000	upto 0.5mn	no fixed tenure	4.00	7.50	half yearly	Minimum initial balance Rs10,000. No profit above Rs5mn. Proft calculated on MMB[1] Condition apply.
	2. Senior Citizens Saving Account	above 10000	upto 0.5mn		5.00	8.00	monthly	No profit above Rs0.5mn. Profit calculated on MMB[1]
	3. Gharayloo Saving	upto 10000	upto 0.25mn			upto 7.25	monthly	No profit above Rs0.25mn. Profit Calculated on MMB[1]
	4. PLS Saving Profit Plus	1mn	no limit		1.00	3.25	half yearly	Lower profit rate on deposits below Rs1mn.
	5. Munafa Hi Munafa	0.1mn	no limit	1 mth to 5 yrs	6.00	10.50	monthly	Term Deposit A/C. Varying profit on different tenures
Standard Chartered Pakistan	1. Supersave	25000	above 250mn	no fixed tenure	0.25	2.26	half yearly	higher return on higher balance. Tiered rate structure.
	2. Saving Account	upto 25000	above 0.1mn	no fixed tenure	0.10	1.00	half yearly	Minimum average balance requirement Rs0.1mn
	3. Mahana Izafa					upto 6.17	monthly	Profit calculated on daily product basis
	4. Easy Saver	no limit	no limit	no fixed tenure	5.0		monthly	No monthly average balance required
	5. High Yield Account	0.5mn	no limit	1 yr to 3 yrs	5.98	5.83	monthly	For businesses with high transaction volumes
	6. Term Deposits Account	50000		7 days to 5 yrs	3.50	6.75	various options	Offers regular income & attractive returns
	7. Rupee Term Deposit	50000	no limit	3, 6 &12 mths	upto 4.07		maturity	Branded long term saving deposit. Fixed Deposit A/C
Askari Bank	1. Saving Account	below 10000	1mn & above	no fixed tenure	1.00	4.00	half yearly	
	2. Askari Special Deposit Account	50000	100mn & above	no fixed tenure	1.50	3.00	half yearly	
	3. Value Plus Saving Deposits	below 1000	25000 & above	no fixed tenure	1.50	3.00	half yearly	
	4. Value Plus Time Deposits	25000	no limit	3 mths to 1 yr	5.00	6.00	half yearly	Profit calculated on monthly average balance
	5. Askari Bachat Certificate			3 yrs & 5 yrs	7.00	8.00	monthy	Varying profit rates for different tenures
	6. Askari Faida Account	50000	5mn & above		1.25	3.50	monthly	
	7. Term Deposits			1mn to 5yrs & above	4.00	9.00	half yearly	

Banks	Savings / Deposit Schemes	Investment (Rs)		Tenure	Profit Rates (p.a) %		Profit Payment	Remarks
		Minimum	Maximum		Minimum	Maximum		
Bank Al Habib	1. PLS Savings Account	no limit				1.50	half yearly	No minimum or maximum limit on investments and tenure
	2. Monthly Profit Plan	no limit		no fixed tenure		1.00	monthly	
	3. Enhanced Savings Account	upto 20000	no limit	no fixed tenure	4.00	1.50	half yearly	Profit on deposits of above one year to be paid annually
	4. Al Habib Mahana Amdani	25,000		1 yrs to 5 yrs	2.0	3.25	monthly	Investment can be in multiples of Rs1000. Profit calculated on minimum monthly balance
	5. Al Habib Treasurer Account	0.25 mn	50mn & above	no fixed tenure	1.25	1.75	monthly	Corporate societies, trusts and individuals can invest. Profit calculated on daily product basis
	6. Senior Citizens Savings Account	-	upto 5mn	-	8.25		monthly	
	7. Har Mah Munafa Amdani	25,000		1 yr to 5 yrs	9.0	10.0	monthly	Penalty on pre mature withdrawal
	8. Super Saving Account	0.5 mn	10mn & above	no fixed tenure	4.0	6.0	quarterly	Varying profit rates for different slabs
	9. Al Habib Bachat Certificates	10000		3 yrs	9.0	10.0	half yearly	no profit to be paid if encashed before 6 months
	10.Fixed Term Deposits Account	-	20mn	1mth to 5 yrs	7.0	9.5	maturity	Long term investment. Profit above 20mn quoted by zonal office
Habib Metropolitan Bank	1. PLS Saving Account					4.50	half yearly	For individuals
	2. HMB Term Deposits	10000		1 mth to 5 yrs	4.00	8.00	half yearly	
	3. HMB Savings Account	under 0.10mn	no limit	no fixed tenure	1.50	4.25	half yearly	Profit calculated on daily product basis. Minimum Threshhold Rs0.1mn
	4. HMB Mahana Scheme	i) 50000		3 yrs		Rs425	monthly	Investment in multiples of Rs50,000
		ii) 0.1mn		5 yrs		Rs900	monthly	Invesmtnet in multiples of Rs0.10mn
	5. HMB Multiplier A/C (individuals)	1mn			4.0		monthly	Profit accrued on daily product basis. 7days notice rate apply below Rs1mn
	6. HMB multiplier A/C (Corp/Bus)	1mn			3.75	3.05	monthly	Accural profit on above Rs1mn
	7. HMB Izafa Certificate	10000		5 yrs		9.02	maturity	Encashable without any penalty. Issued in multiples of Rs10000
	8. HMB Saving plus	10000	1mn		4.50	6.0	quarterly	Varying rate for various slabs. Lower rates above 1mn.
Faysal Bank	1. Faysal Savings	upto 25000	0.1mn & above	no fixed tenure	0.10	1.50	half yearly	Initial deposit 10,000. Profit calculated on MAB[2] basis
	2. Rozana Munafa Plus							
	i) Individuals	0.1mn	10mn plus		0.10	2.85		Saving A/C for individuals/corporates. Tiered profit structure.
	ii)Corporate/Business	0.5mn	3mn plus	no fixed tenure	0.10	2.20	monthly	Profit calculated on daily product basis. Initial deposit required: individuals(Rs0.1mn)/Corporates(Rs0.5mn)
	iii)Institutions	upto 0.1mn	no limit		0.10	1.75		
	3. Faysal Premium	upto 5mn	125mn & above	no fixed tenure	0.10	5.50	monthly	Initial deposit Rs5mn Tiered profit structure. based on MAB[2]
	4. Faysal Moavin	upto 50000	2.5mn	no fixed tenure	0.10	7.50	monthly	No minimum balance required. Tiered profit structure. Calculated on MAB[1]. If deposit exceeds 2.5mn, profit rate 3%
	5. Faysal Growth Certificates	25000		6 mths to 5 yrs	7.50	11.10	annual	
				6 mths	3.97	6.68	monthly	Term Deposit Account. Varying rates on differents slabs
	6. Faysal Izafa Term, Notice & TDR	under 25000	no limit	1 yr to 5 yrs	5.50	9.50	monthly	and tenure. Various payment options.
				1 yr to 5 yrs	6.00	10.00	annual	
Domestic Small Banks* **								
Soneri Bank	1. PLS Savings Account	5000				4.0	half yearly	Profit calculated on minimum monthly balance basis
	2. Soneri Saving Account	upto 25000	above 10mn		1.0	6.0	monthly	Minimum opening balance of Rs500 require. Minimum balance of Rs5000 for profit eligibility
	3. Term Deposit Account	5000	no limit	1 mth to 5 yrs	4.50	7.00	half yearly	Profit calculated six monthly on daily product basis. Pre mature encashment allowed
	4. Soneri Savings Certificates	10000		3 yrs		10.0	half yearly	Investment in multiples of Rs10,000
	5. Golden Deposit Certificates	10000	50mn	5 yrs	10.25		monthly	Investment in multiples of Rs10,000
Meezan Bank	1. Rupee Saving Account	10000	100mn	no fixed tenure	1.90	2.90	monthly	Operates on Islamic Shariah rules.
	2. Monthly Mudaraba Certificate	0.1mn	50mn		4.4	5.60	monthly	Varying rates for different slabs.
	3. Karobari Munafa Account	1mn	200mn & above		4.00	7.00	monthly	For large corporates or GoP controlled entities. Profit rates vary for different slabs. Profit calculated on daily product basis
	4. Karobari Munafa Plus	100mn	500mn & above		6.30	8.70	monthly	
		50000		3mths to 60 mths	5.20	9.00	maturity	
	5. Certificate of Islamic Investment	0.2 mn		1-5 yrs	5.90	7.90	monthly	Profit paid on completion of 1 mth. Pre-mature withdrawal
		50000		1-5 yrs	6.10	8.20	quarterly	option.
	6. Meezan Amdani Certificate	0.1mn		5 1/2 yrs & 7 yrs	9.60	10.80	monthly	Longterm investment. Special attraction for windows and senior citizens with investment of Rs50000
	7. Meezan Bachat Account	25000	1mn		0.20	7.00	monthly	
	8. Meezan Providence Certificate	1mn		3 yrs & 7 yrs	8.20	9.00	maturity	Longterm investment certificates for corporates and business
				2 yrs		upto 7.0	half yearly	concerns
NIB Bank	1. NIB Azadi Account	below 0.1mn	5mn & above	no fixed tenure	0.10	6.0	half yearly	Profit calculated on minimum monthly balance
	2. NIB Khazana	0.1mn	upto 3mn	no fixed tenure	1.50	4.50	monthly	Profit calculated on daily basis
	3. NIB Khaas Deposit Certificate	0.5mn		1 yr to 5 yrs	7.00	10.50	monthly	
	4. NIB Promise Term Deposit	25000		8 yrs		12.50	yearly	Profit rates for deposits above Rs3mn quoted by Treasury
	5. NIB Amanat Deposit	0.1mn		1mth to 12 mths	6.0	7.25	maturity	
Saudi Pak Bank	1. PLS Saving Account	50000		no fixed tenure	4.0		half yearly	Minimum balance of Rs50000 required to earn profit
	2. Munafa Hi Munafa Certificate 1	50000		1 yr	9.50		monthly	Term Deposit Certificates of 1 yr, 3yr & 5 yr earn monthly
	3. Munafa Hi Munafa Certificate 3.5	25000		3 yr & 5 yr	9.75	10.00	monthly	Profit on annualized rates
	4. Saudi Pak Super Saver	25000			4.75		monthly	Profit calculated on daily product basis.

Banks	Savings / Deposit Schemes	Investment (Rs)		Tenure	Profit Rates(p.a) %		Profit Payment	Remarks
		Minimum	Maximum		Minimum	Maximum		
KASB Bank	1. Saving Accout	25000			2.00		half yearly	
	2. Maheena Asaan	50000	no limit	1yr & 3yrs	9.50	10.50	monthly	Term deposit saving plan for salaried individuals, house wives and senior citizens
	3. Mahana Khazana	above 0.1mn (I) upto 2.5mn(C)	upto 5mn (I) upto 10mn ©	no fixed tenure	1% (I) 3%(C)	6% (I) 6% ©	monthly	Scheme for individuals, house wives, senior citizens and corporates. Profit on deposits above Rs5mn(I)/10mn(C) announced by Treasury
	4. Smart Savings Classic Individuals	upto 0.1mn	no limit		0.50	3.50	monthly	
	5. Smart Savings Gold Individuals	upto 1mn	no limit		0.75	4.50	monthly	
	6. Smart Savings Corporates	upto 0.1mn	no limit		0.25	5.00	monthly	
	7. Smart Term Deposits (Ind)			1mth to 60 mths	4.50	12	monthly	Varying profit rates for different tenures and slabs
	8. Smart Term Deposits (Cor)	upto 25mn	no limit	1mth to 3yrs	3.50	12	monthly	
Bank of Khyber	1. PLS Savings Account	25000			2		half yearly	No minimum balance. Profit based on monthly product.
	2. Special Deposit Accounts	upto 1mn	above 25 mn	no fixed tenure	1.45	3.25	half yearly	Profit calculated on daily product basis.
	3. PLS Term Deposits			3mths to 60mths	2.50	5.0	maturity	PLS saving rate on pre mature encashment.
	4. Regular Aamdani	0.1mn (ind) 10mn (Cor)		6 mths to 5yrs 6 mths to 5yrs	7.25	11.30	half yearly	No pre mature termination prior to completion of one year. Condition apply.
	5. Zabardast Aamdani	0.1min		3yrs		10.60	monthly	Deposit in multiples of Rs1000 for 3 years tenure
my bank	1. PLS Savings Account	upto 5000	above 0.1mn		2.00	5.00	half yearly	Profit calculated on minimum monthly balance
	2. Special Deposit Account			1yr to 3yrs	10.35	10.75	quarterly	
	3. Fixed Term Deposit Scheme	50000 & above		1yr to 3yrs	10.00	10.50	monthly	Pre mature encashment penalty. Condition apply.
	4. Term Deposit Regular	50000 & above		1 mth to 3yrs	6.00	11	maturity	
	5. Business Premium Account	above 1mn	100mn	no fixed tenure	4.50	5.50	quarterly	Profit calculated on daily product basis
Atlas Bank	1. Bonus PLS Account	below 50000	over 0.5mn	no fixed tenure	0.10	7.25	half yearly	No minimum balance. Profit based on MAB[2]
	2. Rozana Profit Savings Account							
	i) Individuals	below 50000	5mn & above	no fixed tenure	0.10	8.00	monthly	For house wives, salaried individuals, retiree or simply an investor. No minimum balance. Profit based on daily product.
	ii) Corporates	below 50000	25mn & above	no fixed tenure	0.10	8.00	monthly	
				12mths & 5 yrs	6.00	9.50	monthly	
	3. Regular Profit Term Deposit Account	50000	10mn & above	1, 3 & 5 yrs	6.50	9.50	quarterly	Multiple options for profit payment. Varying profit rates for different slabs and tenures.
				1, 3 & 5 yrs	6.10	9.60	half yearly	
	4. Monthly Income (Individuals)	20000	10mn & above	1 yr to 5 yrs	9.0	10.0	monthly	
	5. Bumper Profit Account	50000	5mn	1 mth to 5 yrs	5.50	10.00	maturity	Profit rates vary with tenure and tiered amount
	6. Enhanced Savings Account	5000		no fixed tenure	4.00		quarterly	Service charges applicable below minimum average balance. 4 free debit transactions per month
Foreign Banks+								
Citibank	1. Savings Profit Plus	below 0.5mn	upto 50mn	no fixed tenure	0.005	0.75	half yearly	
	2. Citi Ultimate	below 0.1mn	100mn & above	no fixed tenure	0.005	8.00	half yearly	
	3. Premium Profit	50000	no limit	1mth to 3 mths	5.00	5.50	maturity	
	(a)Option 1				5.90	8.00	monthly	Profit rates on deposits above Rs50mn issued by Treasury.
	(b)Option 2	50000	no limit	6 mths to 5 yrs	5.95	8.15	quarterly	Pre mature encashment will be subject to profit payment
	(c)Option 3				6.00	8.45	maturity	as per applicable rates and encashment cost/charges
	4. Sarmaya Deposit Account							
	(a)Option 1				7.35	8.00	monthly	
	(b)Option 2	50000	no limit	1 yr to 5 yrs	7.38	8.15	quarterly	
	(c)Option 3			1mth to 5 yrs	5.00	8.45	maturity	
ABN Amro	1. PLS Savings Account							
	Option 1							
	(a) Classic	below 0.1mn			0.10	4.75		
	(b) Anchor	below 0.1mn	upto 10mn	no fixed tenure	0.25	6.50	monthly	Profit calculated on daily product basis. Tiered structure.
	(c) Access	below 0.5mn			0.07	0.30		
	Option 2							
	(a) Anchor	below 0.10mn	upto 10mn	no fixed tenure	0.50	7.25	half yearly	
	(b) Access	below 0.5mn			0.10	0.50		
	Option 3							Profit calculated on MMB[1]. Tiered rate structure.
	(a) Access	below 0.10mn	upto 10mn	no fixed tenure	0.08	0.35	quarterly	
	(b) Access				0.10	0.55	annualy	
							various	Profit calculated on daily product basis. Flexible tenure
	2. Value Term Account	below 0.10mn	upto 10mn	no fixed tenure	6.90	10.00	options	from 1 mnth to 5 yrs. Varying profit rates for different slabs

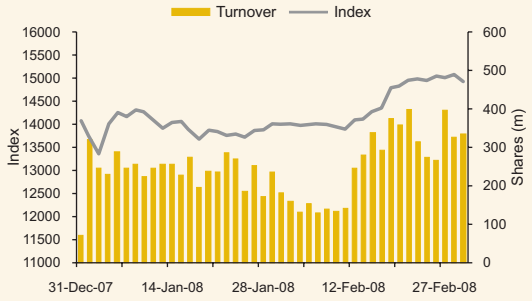
** deposit base above Rs200bn* *** deposits under Rs200bn but over Rs100 bn* ****deposit above Rs10bn but less than Rs100bn*
+ Deposits above Rs50bn *(I) Individuals* *(C) Corporates*
(CP) Customer Plus *(BP) Business Plus* *[1] Minimum Monthly Balance* *[2] Minimum Average Balance*

Market Analysis

Market Review

The KSE-100 Index shed 59 points or 0.42% during January 2008 to close at 14,017 while the KSE-30 Index dropped 21 points to 16,695. The average daily turnover during January was 238.50m shares compared to 244.35m shares during December 2007. The market was mainly volatile during the period under review due to the political uncertainty in the country in the aftermath of Ms.Bhutto's assassination and negative developments on the macroeconomic front leading to a decline in overall investor confidence as depicted in the outflows recorded in the daily SCRA figures. The net outflow of foreign funds according to SCRA figures during January 2008 (up to January 30) was $100.0 million and the year to date outflow stands at $60.3 million.

KSE-100 Index (January - February 2008)



In the immediate aftermath of the tragic demise of Ms.Bhutto on December 27, 2007, the KSE-100 Index shed over 13,000 points from December 31, 2007 to January 2, 2008 to touch 13,353. There was selling pressure from all quarters especially from foreign investors as the political scenario appeared shaky as there were incidents of looting and rioting reported across the country during the 3 day mourning period as there was a breakdown in law and order. Fortunately, the market staged a minor rebound that saw the Index climb back above the 14,000 plateau, which remained at this level till the middle of the month because of institutional buying in oil and banking stocks as well as punter buying interest in second and third tier scrips. The postponement of the election to February 18 and the positive response by the major political parties to participate helped to improve investor confidence.

Negative economic news

However, the Index moved into another slide on the back of negative economic news and political development. The release of the SBP 1QFY08 report in the beginning of the month led to a negative reaction by investors as the central bank downgraded some key macroeconomic targets such as real GDP growth from 7-7.4 percent to 6.6-7.0 percent and CPI inflation was expected to be higher than the original target of 6.5 percent and would likely fall in the range of 6.5-7.5 percent. The SBP still states that the major threats to the economy are inflation and widening external account deficit. In addition, the unstable domestic politics and global credit crunch is leading to deterioration in the investment climate.

Negative senti-ments

On the political front, the suicide bomb blast in Lahore on January 10 and news reports of a possible invasion by US/NATO forces into Pakistan to safeguard its nuclear assets in the event of the overthrow of the present regime led to further negative sentiments among investors. The local bourse has also been impacted by the negative trend in global markets near the middle to latter part of the month due to fears of a recession in the US economy. However, near the end, the market began a moderate recovery based mainly on technical factors.

The KSE-100 Index jumped by slightly over 900 points or 6.5 percent during February 2008 to close at 14,934 while the KSE-30 Index surged by 1,671 points or 10 percent to 18,367. The average daily turnover during February was 264.25 million shares compared to 238.50 million shares during January. The market was mainly dull and range bound for the first 11 days of the month but staged a rally for the rest of the month due to the post-

election euphoria. The net inflow of foreign funds according to SCRA figures during February 2008 was $154.8 million and the year to date inflow stands at $93.4 million.

Despite further tightening in the monetary policy by the SBP in its Monetary Policy Statement for 2HFY08 which was announced on January 31, the market reaction was quite muted as the Index traded in a narrow band the day after the announcement. For the first 11 days of the month, the Index was range bound as it shed 132 points to touch 13,884. During this period, the activity was mostly dominated by punting activity in second and third tier stocks while there was a lack of interest in major large cap scrips.

Market experiences rebound

However, the market experienced a moderate rebound in the final week before the elections because of institutional buying interest in selective major Index stocks. There was buying interest in oil stocks such as OGDC, POL and PSO due to rising international crude oil prices and expectations of good quarterly results, which was also the reason for buying activity witnessed in some banking scrips. In addition, the inflow of foreign funds in the post-election period served as an impetus for the continuation of the rally as the SCRAs posted a net inflow of around $183 million from February 19 to the end of the month. From February 11 to the end of the month, the Index jumped by 1,049 points on average daily turnover of 323m shares and also crossed the 15,000-mark a few times depicting the strong momentum of the time. February 26 was an historic day as the KSE-100 Index finally closed at 15,000 for the first time.

Regional Valuation

The Pakistan market remains one of the lowest PE multiples in the region (the lowest is South Korea at 10.70x) with a FY08F PEx of 10.80 up from 9.71x on January 30, 2008 while the regional average is 13.99x. Based on PEG, Thailand, Singapore, South Korea and India are more attractive than Pakistan based on this measure. Our estimate for sustainable market PEx is around 11x which suggests that the market is fairly valued and thus, leading to a NEUTRAL stance for the immediate term. For the long-term, we rate the market as a ACCUMULATE when compared to the historical average PEx of 12.16, a potential upside of 12.5 percent.

Regional Valuation Comparison

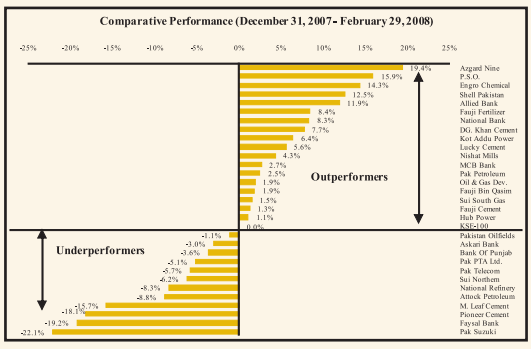
Country	2008F PEx	2008F EPS Growth (%)	2008F PE/Growth
China	22.65	31.25	0.72
Hong Kong	15.89	-1.64	-9.69
India	14.48	22.27	0.65
Indonesia	14.02	20.33	0.69
Malaysia	14.19	-0.95	-14.94
Philippines	12.91	13.75	0.94
Pakistan	**10.80**	**14.15**	**0.76**
Singapore	12.90	51.88	0.25
South Korea	10.70	17.23	0.62
Taiwan	10.99	12.82	0.86
Thailand	11.14	64.54	0.17

Source: Thomson One Analytics; Pakistan Data: TSL Estimates
Date: Februaty 28, 2008

Looking Ahead

With the elections out of the way, the next development to watch for is the transfer of power to the winning coalition which has yet to be finalized. The national and provincial assemblies are expected to convene in the second week of March. It will be interesting to see what the priority of the new government would be, ie stabilization of the current economic situation or constitutional/judicial issues.

Current technical indicators depict that the overall market is trading in the overbought zone, which could lead to possible correction in the immediate term. Given this, we would advise investors to book profits and wait for dips to accumulate value stocks in the oil, IPP and fertilizer sectors.



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Report/Book Reviews

Social Development in Pakistan
Annual Review 2006-07
Devolution and Human Development in Pakistan
Social Policy and Development Centre

The Report, the eighth of the annual series, published by SPDC, a private sector research organisation, has *Devolution and Human Development in Pakistan* as the theme for the year 2006-07.

The Report, aims to gauge the impact of devolution in Pakistan on various dimensions of human development. The basic question raised is whether decentralisation has contributed to human development through improvement in efficiency, promotion of equity, enhancement in peoples' participation and thereby, promoted peoples' involvement in matters affecting the quality of their lifes.

While assessing the impact of devolution on human development, the Report states, "the devolution process is, in fact, beginning to contribute to a faster improvement in enrolment at the primary level and literacy in the country. If this effort at enhancing human capabilities is sustained then it augers well for achieving more reduction in the incidence of poverty during the coming years. However, the lack of significant change to date in the trend of health indicators, gender equality and regional disparities limits the potential impact of local governments on poverty in the post-devolution scenario."

One of the chapters in the Report seeks to answer whether devolution has empowered people. It has come to the conclusion that the devolution process has not yet led to significant empowerment of the people. However, a number of significant processes have been put in motion including greater representation for the marginalized groups, especially women and enhanced development role at the local level to community based organisations.

In seeking to improve efficiency in public services, the devolution process is faced with a number of issues. Key issues relate to the mindset, lack of political will and reluctance of the provincial government to implement the Devolution Plan in letter and spirit. The last chapter of the Report shows a way forward

Initiating Devolution
for Service Delivery in Pakistan
Ignoring the Power Structure
Shahrukh Rafi Khan, Foqia Sadiq Khan
and Aasim Sajjad Akhtar
Oxford University Press

Devolution or democratic decentralisation has assumed increasing importance as a mechanism for achieving democratic participation and for improving service delivery to the grassroots level. This book is about initiating devolution, and demonstrates that such plans are likely to be ineffective or subverted unless they address key prerequisites. The most important prerequisite is addressing the power structure in the context in which devolution is to be introduced.

The book has been divided into eight chapters. The first chapter reviews conceptual issues. The two main themes discussed in this chapter recur throughout the book. Firstly, devolution is not simply about having local body elections with the hope that this will devolve power to the grass root level for the better delivery of services via participation and self management. To be effective, such an exercise would, at a minimum, entail assets redistribution, (particularly land reform), and civil service, electoral and judicial reform. Secondly it would be preferable to devolve accountability and financial and administrative authority to the lowest tier at which a particular service is delivered.

The National Reconstruction Bureau's model of devolution has been discussed in chapter 2, alongwith an alternative indicative model of devolution, which the authors feel have a better chance of achieving the Bureau's stated objective of empowering the grassroots level. Chapter 3 discusses the significance of land reforms for successful devolution. Chapter 4 is a brief methodological exercise in costing Pakistan's devolution plan. Chapters 5 and 6 are based on election research, while chapters 7 and 8 establish service delivery benchmarks. The book concludes with the statement, as long as power is not diffused and the people at the grassroots level are not trusted to work for their own well-being, devolution in Pakistan remains a missed opportunity.

Pakistan Economy – Key Economic Indicators

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

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

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

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

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

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