ECONOMIC BULLETIN

July - August, 2007

Contents

Editor's Corner

Dear Readers,

Pakistan celebrated 60 years of independence on August 14, 2007. The journey the nation has traversed during the last six decades has been both of achievement and difficulties. Each decade has had its challenges, success and disappointments. Various economic policies and planning processes have been pursued, giving a direction/determining the course of the economy. These policy changes have had far reaching economic consequences. Some have benefitted the economy and supported in the growth of the sub-sectors, while others have had unfavourable consequences for the different segments of the economy/population.

The initial years were a period of adjustment for the new nation, with the government shouldering the task of settling the people and building an economic base. Considerable economic growth and development took place in the decade of the 60s, with significant increases in industrial and agricultural production and in the different sectors of the economy. This was despite many constraints and hurdles. It was a period when the public sector played a significant role of a facilitator and director, encouraging the private sector to come forward.

The 1970s witnessed loss of East Pakistan, large scale nationalisation of industry and financial sector, increasing size of public sector investment, oil price increases, devaluation of the Pak Rupee, reduction of subsidies and setting up of basic industries. The later laid a base for the capital goods industry.

The process of liberalisation begun in the late 1970s, continued in the 1980s. There was a reversal of policies and the government of the day espoused a pro-private sector role. Successive Structural Adjustment Programmes were followed with focus on reducing the fiscal deficit and bringing down the tariff rates. Fiscal deficit as a percentage of GDP averaged 7.1 percent in the 1980s and 6.9 percent in the 1990s and was a major cause of macroeconomic instability in the period. Tariff rates were as high as 125 percent. Also forming part of this adjustment programme has been privatisation of public sector enterprises, rising prices of utilities, electricity, gas and petroleum products and a continuous devaluation of the Pak Rupee.

In 1998, the government conducted nuclear tests which resulted in the imposition of economic sanctions adversely affecting the economy. Investor confidence suffered and the stock market declined. The freeze on withdrawals from foreign currency accounts made matters worse and caused major problems. The IMF suspended the ESAF and EFF programme with Pakistan, economic activity slowed, there was a decline in private capital inflows as both workers' remittances and the flow of foreign investment suffered a setback and foreign exchange reserves dropped to $415 million on November 12, 1998.

During the decade of the 1990s, Pakistan was faced with a huge debt crisis and both domestic and external debt reached unsustainable levels, because of high real cost of borrowing and stagnant government revenue. Rising public debt had serious implications for debt servicing. In 1998-99, almost 64 percent of total revenues were consumed by debt servicing, leaving only 36 percent for development programmes, the social sector, civil administration etc. This was harmful for the economy and is one of the reasons for the poor economic growth and social statistics during the 1990s.

Reform initiatives were undertaken in 1997 to restore business confidence and mend the damage done to the economy. These included tax reforms, rationalisation of tariff structure, programme for debt retirement, banking & financial sector reforms, programme for the development of capital markets and a programme for the alleviation of poverty.

However, because of persistent lapses in implementation of structural reforms and stabilisation measures, macroeconomic performance in the 1990s showed a marked decline, with a fall in GDP growth, stagnant/ declining tax-GDP ratio, causing persistently large fiscal deficits, sluggish exports causing unsustainable current account deficit, double digit inflation, poor state of social sector, deterioration in physical infrastructure and institutional weaknesses.

The Government that assumed office in 1999 commenced a major change in the orientation of economic policy and introduced comprehensive wide ranging structural reform measures that were needed to enhance economic incentives and improve resource allocation as well as remove the impediments to private sector growth. These included tax reforms, introducing the Fiscal Responsibility Law to bring down the public debt, trade & tariff reform, deregulation and privatisation, financial sector reform, capital market reform, improving governance, ensuring fiscal transparency, bringing the issue of poverty alleviation at the centre stage of economic policy making, devolution, and responding to gender concerns.

These reforms gave a resilience to the economy to withstand the adverse impact of the aftermaths of September 11 and the devastating earthquake. The domestic economy did however, witness difficulties with regard to exports/imports, foreign investment flows, privatisation programme, tax revenues among others. However, in a short period, the reforms have brought positive changes in the economy, and there is now broad based economic recovery, macroeconomic stability, debt sustainability, higher foreign investment inflows, higher remittances, buildup in foreign exchange reserves, among others.

The banking sector has grown significantly and has been able to consolidate its gains. Improvement is seen in all key financial and soundness indicators, increase in profitability, better risk management practices and on-going consolidation of banks. Banks have broad-base their loan portfolio, so to diversify credit risk and have in the last few years increased the financial services, so generating greater avenues of earnings.

Pakistan has made an exit from the IMF Programme, an important milestone. It returned to the international capital market in February '04 for the first time in more than five years. Pakistan issued $500 million five year Eurobond, which attracted diversified international investors and was four times oversubscribed. It became the fourth sovereign to issue an Islamic Bond (Sukuk) in the international capital markets, following Malaysia, Qatar and Bahrain. It has made successful GDR offerings of OGDC and MCB Bank which are listed on the London Stock Exchange and are receiving strong investors' interest.

Macroeconomic fundamentals have improved, with the economy growing at a reasonable rate, a significant improvement in the debt profile, in the banking sector performance, in market capitalisation, which as a percentage of GDP has grown to 27.2 percent against 11 percent three years back. Revenue collection of CBR has grown, so have workers' remittances, foreign investment inflows and the foreign exchange reserves. However, weaker areas like income disparities, regional inequalities, infrastructure and energy shortages, law & order continue to afflict the progress the economy has made.

Ayesha Mahmood

Abstract of the Bulletin

Mutual Funds Development – Pakistan Perspective

- World assets in mutual funds have grown at a compound annual growth rate of nearly 14 percent since 2002. In Pakistan, mutual funds industry has been growing at a CAGR of 40 percent.
- The recent growth in Pakistan's open end mutual funds industry has been in the income funds category.
- There are currently three broad rating scales for mutual funds or asset management companies.
- Tax rebate available to individuals for investing in mutual funds.
- CDC playing a major role in the mutual funds sector.
- History of mutual funds goes back to early 1960s, when NIT and ICP were established.
- Private sector mutual funds were launched in the early 1990s.
- Future of mutual funds looks promising.

Introduction to Mutual Funds Industry in Pakistan

- In the South Asia region, Pakistan was the pioneer in the field of mutual funds.
- Mutual Funds suffered during the period 1996-2000.
- The economic turnaround that began in 2002, benefitted the markets, which witnessed an unprecedented growth.
- In the recent past, a number of new products have been launched, such as balanced funds, equity funds, money market funds and Islamic fund.
- The mutual funds industry holds opportunities for both corporate and individual investors.

Future Prospects of Local Mutual Funds Industry

- There were a number of reasons because of which the mutual funds industry could not make much progress prior to 2002.
- During the last five years, the industry has grown in size and in numbers. It has received a lot of support from the SECP.
- Private sector holds about 50 percent of the total industry size.
- The last few years have been a witness to the launch of a number of new products.
- There is huge potential for the growth of the local funds industry.

Monetary Policy Statement : July - Dec 2007

- The Monetary Policy Statement for July-Dec 2007 was announced by the State Bank of Pakistan.
- The tightening of monetary policy in July 2006 had a number of visible effects.
- Government borrowings from the State Bank has been stressful.
- The SBP has recommended to the government to retire borrowings from SBP by Rs62.3 billion, adopt quarterly ceilings on budget borrowings from SBP and adopt a more balanced domestic debt strategy.
- Monetary Policy has implications for the banking sector.

Trade Policy 2007-08 Highlights

- Exports targeted to reach $45 billion by 2013.
- Scheme introduced to facilitate exports and encourage investment.
- Equity fund to be set up through public – private partnership.
- Measures announced for export facilitation and market support.
- A number of sectoral initiatives undertaken.
- Import measures announced.

Market Analysis

- The KSE-100 Index remained relatively unchanged during July, while it declined by almost 1700 points or 12 percent during August.
- The net outflow during July was $69.6 million, which increased to $119.3 million during August.
- The political developments have impacted the market.

Mutual Funds Development- Pakistan Perspective

Dr. Amjad Waheed
CEO NAFA

Mutual Funds - a growing industry

Sixty one thousand and five hundred; these are the number of funds that exist globally as of 2006 managing $21 trillion. The world assets in mutual funds have been growing at a CAGR of 13.96 percent since 2002, whereas the Asia and Pacific has been growing at a CAGR of 18.22 percent. In the same period, the Pakistan's mutual fund industry has been growing at a CAGR of above 40 percent with total funds under management of approx $4.3 billion (Rs.263 bn) as of May 2007. Open end funds in Pakistan are getting very popular with 46 funds managing approx $3.9 billion (Rs.240 bn).

Assets Under Management

($ Bn)

	2002	2003	2004	2005	2006
World	11324	14048	16165	17771	21765
					13.96%
Asia	1064	1361	1678	1939	2457
					18.22%
Pakistan	0.41	0.82	1.84	2.03	2.61
					44.69%

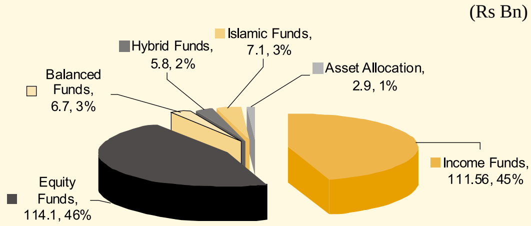
Percentage figures are CAGR

Total assets under management in Pakistan are only 2 percent of GDP or 5.8 percent of bank deposits or 6-7 percent of stock market capitalization. Indian mutual fund industry is 6 percent of GDP, 13.4 percent of bank deposits, and around 10-12 percent of stock market capitalization, whereas in the United States, mutual funds are about 70 percent of GDP, over 150 percent of bank deposits and about 20-25 percent of stock market capitalization.

Mutual Funds	*Pakistan*	*India*	*US*
As percentage of			
GDP	2	6	70
Bank Deposits	6	13.40	150
Market Capitalization	6-7	10-12	20-25

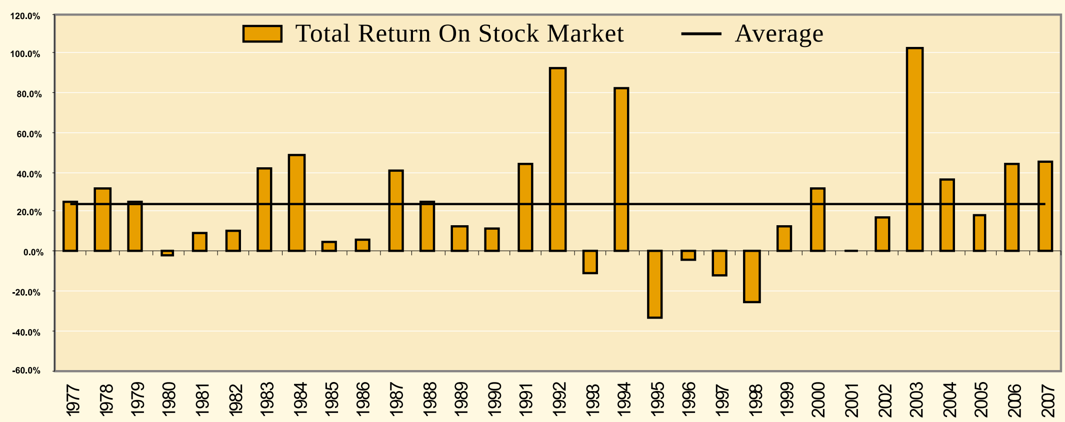
Open End Funds in Pakistan

(Rs Bn)



As of June 30, 2007

The recent growth in Pakistan's open end mutual funds industry has been in the income funds category which presently accounts for 45 percent of the overall open end funds market. There are currently 19 open end fixed income funds out of which 12 funds are managed by the wholly/partially owned subsidiaries of commercial banks. The equity funds are also getting popular but the main reason of growth in these assets is the growing capital markets in Pakistan. Historically, Pakistani stock markets have been one of the best growing emerging markets and the average return of Karachi Stock Exchange

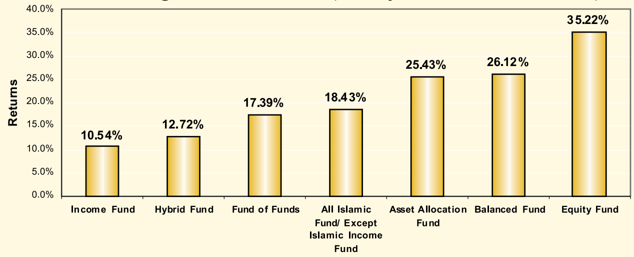


Index for the last 31 years has been around 21 percent per annum. The high returns of the market itself have been one of the major reasons contributing to the growth of equity funds in Pakistan.

Category wise returns of Funds (FY 2006-07)

The mutual funds industry has posted phenomenal results in a short span of time. The income funds have given an average return of around 10.54 percent last year, whereas the equity funds have given an average return of 35.22 percent.

Average Return of Funds (01 July 2006 till 30 June 2007)



The Ratings

There are currently three broad rating scales for mutual funds or asset management companies.

I. Management Quality Rating Scales
- § AM1: Highest Management Quality
- § AM2: High Management Quality
- § AM3: Good Management Quality
- § AM4: Adequate Management Quality +/- sign further indicates the relative degree of strength within each category

II. Fund Performance Rating Scale
- § MFR 5-Star: Very Good
- § MFR 4-Star: Good
- § MFR 3-Star: Average
- § MFR 2-Star: Below Average
- § MFR 1-Star: Weak

III. Fund Stability Rating Scale
- § AAA (f): Highest Degree
- § AA+ (f), AA(f), AA-(f): High Degree
- § A+ (f), A(f), A-(f): Moderate Degree
- § BBB+ (f), BBB, BBB-(f): Adequate Degree
- § BB+ (f), BB, BB-(f): Low Degree
- § B(f): Very Low Degree

Taxation of Mutual Funds

Mutual Funds around the globe including Pakistan are tax-exempt provided they distribute 90 percent of their income to investors. Investors in Pakistan are taxable to 10 percent with-holding tax on the cash dividend they receive on their investments in mutual funds.

A tax-rebate is also available to individuals for investing in mutual funds. These tax benefits have been given to promote savings through mutual funds in Pakistan. If the investor remains invested in a mutual fund for a minimum of one year, he/she can claim a rebate upto a maximum of Rs.200,000 of investment in a fund.

Custodial Services

In a short span of time after introducing its trusteeship business, CDC has emerged as the largest trustee / custodial service provider in Pakistan. The company is playing a major role in the Mutual Fund sector by enlisting majority of open end and closed end mutual funds under its umbrella of services. Central Depository Company of Pakistan Limited (CDC) was incorporated in 1993 to manage and operate the Central Depository System (CDS). CDS is an electronic book entry system to record and transfer securities.

The Past

The history of the mutual funds industry in Pakistan goes back to early 1960s when specialized institutions like National Investment Trust (NIT) and Investment Corporation of Pakistan (ICP) were established for their promotion. Investment Corporation of Pakistan (ICP) set up closed-end mutual funds in 1962 and floated a total of 25 closed-end funds, all of which were privatised in 2002. National Investment Trust Limited (NITL), commonly known as NIT, was launched by Government of Pakistan in 1962 to manage open-end trust. Today NIT is the single largest Equity Fund in the country having approx $1.6 billion (Rs.100 billion) under management. NITL itself is not being privatized but the Fund (NIUT) under NITL's management will be split, and management rights of three of the sub-funds will be sold by the Privatization Commission to pre qualified bidders through a competitive bidding process.

ICP and NIT

Both NIT and ICP were established in the public sector. However, their scope remained limited till the private sector was allowed to launch mutual funds in mid nineties. A major jump in the industry was witnessed when Financial Institutions launched their AMCs in the last five years.

Mutual Funds suffered during 1996-2000 Fortunes reverse from 2002

In the early nineties, after the country's capital market witnessed an upsurge, the private sector mutual funds were first time launched in Pakistan. In the long and deep recession of 1996-2000, the mutual fund industry badly suffered due mainly to lack of investment philosophy and prudent decision making and as a result Net Asset Values (NAVs) dropped, growth got frozen and the concept got badly hit. However, by the turn of the century particularly from the FY-02 onwards, Pakistan market witnessed an unprecedented growth spurned due to many factors, but mainly due to segregated divesture of ICP to private sector, remarkable improvements in country's economic and financial indicators, global trends and favorable regulatory environment

Highly regulated sector

In 2003 Non-banking Finance Companies (NBFC) rules replaced the Investment Advisers & Asset Management Companies rules and in the same year the mutual fund industry started taking off in Pakistan. Asset management companies and their mutual funds are regulated by the SECP (Securities & Exchange Commission of Pakistan) and governed under the NBFC (Non-Banking Finance Companies) rules 2003. The existing rules and regulations demonstrate that the industry is one of the highly regulated and closely monitored sectors of the financial sector with comprehensive checks and compliance procedures.

The population of Pakistan is around 158 million but the total number of investors in the capital markets including mutual funds are not more than half a million. The per capita income in Pakistan has increased from $586 in 2003 to $925 in 2007. Foreign direct investment in Pakistan including the portfolio investment has increased to $6 billion in 2007 from $798 million in 2003. Savings as a percentage of GDP had been hovering around an average of 18 percent for the past five years. Financial restructuring, increasing regulatory framework for the financial institutes and better corporate governance in the country are the major reasons for growing economy and mutual funds in Pakistan. The average PER of Pakistani stock market has been around 8.4 times from 2000 till 2005 whereas the existing PER is 12.1 times on 2008 earnings.

Future of Mutual Funds looks promi-sing

These statistics alone shows the growth potential of the mutual funds in near future. The mutual funds industry in Pakistan looks promising because of multiple reasons; some of these reasons are elaborated below.

§ Expected privatization of country's largest public sector mutual fund i.e. National Investment Trust (NIT) in near future.

§ Launching of Voluntary Pension Funds and REITS (Real Estate Income Trusts) in near future.

§ Interest of foreign fund managers for investment in local mutual funds.

§ Availability of regulator's (SECP's) support to the industry in terms of prudent management of its risk, provision of operational autonomy, reduction of fragmentation, protection of investors' interest, dissemination of comprehensive disclosure requirements at the time of public offering and enforcement and prescription of subsequent reporting on the affairs of funds.

§ Continuous strong growth in the country's stock markets is likely to help mutual funds industry further grow and it is expected to see the industry growing by upto 200 percent in the next four to five years.

§ State Bank of Pakistan, Pakistan's central bank, allowed mutual funds to invest as much as 30 percent of their funds, or a maximum of $15 million, overseas and this will help the local fund managers to explore some of the foreign markets for investments.

An average 5 percent GDP growth over the last decade and an expected 12 percent average growth in corporate earnings over the next 2 years and the inclusion of Pakistan in the N11 (next 11 fastest growing economies), are factors that have contributed aggressively in ascertaining the fact that mutual funds in Pakistan are bound to grow.

Introduction to Mutual Fund Industry in Pakistan

Abdul Majid
Asst Chief Manager, NIT

Signifi-cance of mutual funds

The mutual fund industry plays a vital role in the operations of the financial and equity markets and consequently contribute significantly to the economy of a country. In the US and other mature and developed economies, Mutual Funds are one of the main engines for savings mobilization and are therefore regarded as part and parcel of their national life.

In neighbouring India and in the emerging and developing economies, the mutual fund sector has also performed significantly over the years.

Slow growth of mutual funds in Pakistan

Mutual Funds in Pakistan have progressed over the years but at a very slow pace. Only in recent years, the Mutual Funds in the country have come out of the crawling age and started to grow to a reasonable level but there is still a long way for it to go.

In the South Asia Region, Pakistan was the pioneer in the field of Mutual Funds. As early as 1962, it launched National Investment Trust (NIT) an open ended mutual fund. ICP launched a series of close ended mutual fund during 1966, both being in the public sector.

Mutual Funds suffered during 1996-2000

In the early nineties, after the country's capital market witnessed an upsurge, the private sector mutual funds were for the first time launched in Pakistan. In the long and deep recession of 1996 – 2000, the mutual fund sector badly suffered due mainly to lack of investment philosophy and prudent decision making and as a result NAV dropped, growth got frozen and the whole concept got badly hit.

Economic turn-around

With the economic turnaround in the country from FY2002 onwards, Pakistan's markets have witnessed an unprecedented growth. This has been due to a number of factors but mainly due to segregated divesture of ICP to private sector. There has been an improvement in the country's economic fundamentals and financial indicators, global trends, favourable regulatory environment and strong corporate results by the market leaders.

Positive develop-ment

These positive changes have been promoted by new government policies and regulations to ensure that Pakistan is measuring upto global trends. Because of far reaching comprehensive structural reforms and improved economic indicators, the mutual funds industry has grown a dramatic 432 percent in the last five years, whereas growth on a yearly basis has been at an average of 65.4 percent The aggregate size of the local funds industry that was Rs.25 billion in 2002 has grown to Rs.291 billion in 2007, spread over 73 funds that are managed by 30 asset management companies.

Mutual Fund Industry

Total No. of Mutual Funds	73
Open-end Mutual Funds	49
Close-end Mutual Funds	24
Total Assets Under Management	Rs.291 bn (NIT share 101 bn) i.e. 35% of total AUM
Assets Under Management (open-end)	Rs.247 bn
Equity Funds	Rs.129 bn (NIT share 101 bn) i.e. 78% of equity funds
Income Funds	Rs.110 bn
Balance Funds	Rs.8 bn
Assets Under Management (close-end)	Rs.44 bn

Launch of new products

In the recent past, we have witnessed the launch of a number of new products, such as balanced funds, equity fund, money market fund and Islamic Funds. Many new and more innovative products are in the pipeline. The new products include, stock exchange funds, capital guarantee funds, real state funds, off shore funds, and pension funds, would be launched soon after their clearance from SECP. Recent years have been a witness to the revival of mutual fund industry in Pakistan, and has also seen the activity shifting from the public sector to the private sector, coupled with increased attractions of open end funds as compared to close end funds.

The future outlook of the mutual funds industry is very favourable and encouraging. The industry holds several promissing opportunities for both corporate and individual investors.

Investors show interest

These days the mutual fund industry is generating keen interest among a growing number of investors. Moreover, it has been providing versatile and attractive investment avenues to the general public while paying comparatively better returns based on dividend yields and capital gains. In the recent years, SECP has also taken a number of steps to promote the development of mutual funds.

The SECP advocates major structural changes addressing the biases inherent to the existing finance models, namely CFS and un- official Badla Finance System which propagate undue systemic risks and preclude the formation of a level playing field for all market participants. In order for an efficient market to develop, liquidity must be certain, available and transparent and the oblique transactions in the unauthorized CFS market must not be allowed.

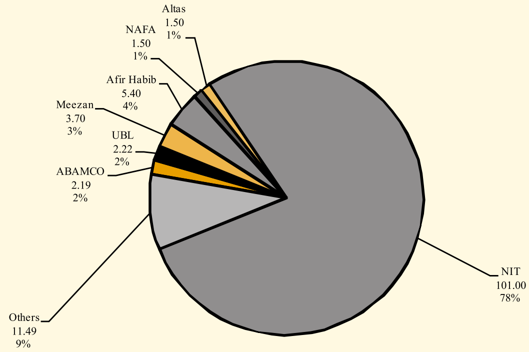
Major changes needed

SECP has studied the current CFS system and the un-official Badla system in vogue in Pakistan and have come to the conclusion that major changes need to be made in each of the products to enable the markets players to use same without any undue systemic risks. A system needs to be found to provide a level playing field for all market participants including small brokers and retail investors.

The biggest risk currently facing the market is that approximately 90 percent liquidity in the market place, estimated at Rs.90.0 bn, is deployed through the grey market. This un-official funding spawns weak holders who are liable to cause extreme volatility in market place. The stock exchanges are not directly involved and no margins are held against this trade. Broker capital adequacy limits are hence not impacted.

To (eliminate the associated risks and inequalities and) facilitate transparent and efficient financing for the market, SECP proposes the authorization of direct CFS finance by banks and NBFIs, thereby deflecting market liquidity from the grey market to official market and onto institutional participants.

Net Assets as percent of Total Equity Funds
(open-ended)



NIT with a portfolio of 500 companies

NIT is not only the oldest and largest mutual fund in the country, it is also the largest single investor at the Karachi Stock Exchange. NIT has a portfolio of over 500 companies in almost every sector of the economy. With a huge and diversified portfolio, NIT holds some of the best performing companies in Pakistan's corporate sector. This provides it with maximum diversification needed so to minimize the risk to NIT investors.

NIT is well positioned to reap the benefits of the bullish scenario on overall economic region. The ongoing strategy of the fund to gradually switch from no/low yield stock to those where the yield is attractive and continue to produce good results besides improving the quality of funds portfolio.

Change in certain polices, measures taken by the management and focus on developing quality portfolio has played a vital role in attaining greater productivity, securing interest of the investors and getting land mark achievements that can be better appreciated by looking at fund revenue composition, size of net assets and dividend per unit.

Prospects of Local Mutual Funds Industry

Mohammad Yasin
Senior Manager
Mutual Funds Association of Pakistan

These days, mutual funds industry is progressing by leaps and bounds. Though, the industry has its origin as back as 1962 when first open end mutual fund, National Investment Trust – NIT, was launched, however, the industry, unfortunately, could not make progress as per expectations until 2002. The reasons for this dismal performance of the industry are as under:

Reasons for bleak perfor-mance

- Separation of Pakistan's eastern wing
- Frequent changes in economic policies
- High rates of alternative investments such as National Saving Schemes (NSSs)
- Capital outflow
- Limited investment options
- Profusion of risk free investment options in government securities
- Lack of awareness among the general public about mutual funds and
- Lack of aggressive marketing and distribution network.

Growth of mutual funds

It was only after the government decision made sometime around mid of the last decade allowing private sector to establish open end mutual funds and SECP's due and consistent support to the industry especially during the past five years, one has witnessed phenomenal growth in the size of the industry. As on March 31, 2007, the total number of mutual funds are sixty one (61), forty one (41) in open end category and twenty (20) in closed end category having total net assets of Rs. 210.353 billion. As against this, the total number of mutual funds as on June 30, 2006 were thirty seven (37) having total net assets of Rs. 25.10 billion only.

The private sector at present is playing an increasingly prominent role in the sector and currently holds about 50 per cent of the total industry size. However, with the impending privatization of NIT, holding 50 per cent of the total industry size, the mutual fund industry will become the exclusive domain of the private sector. This moving of mutual fund industry into the private sector is a very healthy sign for the future of the industry. It would boost its growth through induction of new people and introduction of innovative products aiming to cater to the requirements of all types of investors – risk averse, return oriented as well as shariah compliant investors. The beginning in respect of innovative products has already been witnessed in the market during the last couple of years. However, the industry is still in dire need of more of different products in the market to address the different trends/preferences of the investors.

Increasing private sector share

Moreover, the State Bank of Pakistan now allows mutual funds to invest 30 per cent of their assets abroad or US $ 15 million (whichever is lower). This initiative will allow fund managers to diversify their portfolios which will mitigate risk and enhance investor confidence in mutual funds. The governing regulator, SECP has setup a stringent regulatory framework for the industry and with the forthcoming amendments in the Non Banking Finance Companies (Establishment & Regulation) Rules 2003, the regulator is likely to become more vigilant in light of the ever increasing number of mutual funds and asset management companies coming into the market.

Regul-atory frame-work SECP

The mutual fund industry already meets stringent standards in terms of how funds conduct their business. For example, it is mandatory for all assets management companies and their funds to acquire a rating, while weekly reporting of assets and liabilities of funds is also required. Moreover, the trustee structure, governed by NBFC Rules 2003, ensures that the custody of all assets in the funds is held with the trustee on behalf of the investors. The trustee structure provides yet another independent safeguard for the investors.

Despite the substantial progress made during the past five years, Pakistan is still far behind in funds industry as compared to the level of growth and development achieved in this area in the regional and global funds industry as the investment ratio in mutual funds as percentage of bank deposits at present stands at a mere 5-6 percent as compared to India's 20 percent and developed economies at 90 percent plus level.

This reflects the potential room for growth available in the local funds industry. There is no denying the fact that Pakistani Market is a virgin land for cultivation of Mutual Funds. It is therefore, suggested that the mutual funds industry in Pakistan needs to make concerted and sincere efforts on sustainable basis for its bright and shining future. However, it can be assured that the future of mutual funds industry in Pakistan is quite promising and encouraging in view of the following:

Promising future

§ Expected addition of substantial depth to the industry with the privatization of country's largest public sector mutual fund i.e. National Investment Trust in near future.

§ Launching of Voluntary Pension Funds and REITS (Real Estate Income Trusts).

§ Attractive business prospects/avenues for asset management companies in view of the requirement of private and public sector entities for professional management of their proprietary, pension and provident Fund portfolios.

§ Interest of foreign institutions for investment in local mutual funds.

§ Availability of regulator's (SECP's) support to the industry in terms of prudent management of its risk, provision of operational autonomy, reduction of fragmentation, protection of investors' interest, dissemination of comprehensive disclosure requirements at the time of public offering and enforcement and prescription of subsequent reporting on the affairs of funds.

Flexibility available to Aseet Management /IAs to establish their trusts or companies as well as to float equity, debt or hybrid funds and continuous strong growth in the country's stock markets is likely to help mutual funds industry further grow and it is expected to see the industry growing by upto 200 percent in the next four to five years.

Monetary Policy Statement

July-December 2007 — Key Features

The Monetary Policy Statement for the first half of FY08, discusses the recent economic developments, the monetary developments during the first half of the fiscal year, the international policy environment and risks and challenges being faced.

Inflation to be contained

Given the risks and challenges, policy measures have been adopted to tackle the issues, as the State Bank of Pakistan (SBP) is determined to achieve CPI inflation target of 6.5 percent in FY08. Inflation has been a cause of concern for policy makers. While core inflation (non food, non energy) showed a downtrend in FY07 to 5.5 percent from 7.1 percent a year earlier, it was the rising food inflation (10.3 percent against 6.9 percent in FY06) that offset much of the gains from tight monetary policy on overall CPI inflation. The SBP would actively use its policy instruments to bring CPI inflation down to its target level.

Consequences of tightening of monetary policy

A tightening of monetary policy had taken place in July 2006, by enhancing the discount rate to 9.5 percent and by changes in the Cash Reserve Requirement and Statutory Liquidity Requirement ratios. This has had visible effects:

§ aggregate demand pressures in the economy were reduced;

§ import demand was curbed which had grown to unsustainable levels in the last two years,

§ effective liquidity management allowed adequate growth in private sector credit and

§ the monetary policy was successful in sustaining a downtrend in inflationary pressures in the economy, while facilitating the economy to record strong growth, in line with the annual target.

Rising M2

Certain developments in the economy have resulted in substantial growth in M2, which raises the possibility of a resurgence in inflation. During FY07, broad money supply (M2) grew by 19.3 percent, exceeding the annual target by 5.8 percent. This was mainly a result of an expansion in net foreign assets (NFA) due to higher foreign exchange inflows. This comprised of two components — foreign investment flows and external financing support for budgetary expenditures.

Impact of government borrowings

The impact of government borrowings from the central bank was stressful. Though the government diversified its domestic debt, partly through issuance of Pakistan Investment Bonds and through National Saving Schemes, privatization inflows and receipts from a sovereign debt offering, and managed to return a sum of Rs56 billion in FY07, the SBP holdings of government papers were still around Rs452 billion.

Another anomaly resulted from the high level of SBP refinancing extended, for both working capital and long term investment to exporters.

Development of FY07

Given the developments that took place in FY07, and the rising challenges expected, from capital inflows, sizeable demand pressures emanating from fiscal and external imbalances and the distortions from SBP refinance schemes, certain qualitative changes have been brought about in the formulation/conduct of the monetary policy. There is growing recognition for adopting a sustainable approach to deal with the two principal sources of reserve money i.e. government borrowings from the central bank and the refinancing operations.

SBP has recommended to the Government that for FY08 it would be prudent to (i) retire borrowings from SBP by Rs62.3 billion, (ii) adopt quarterly ceilings on budget borrowings from SBP, and (iii) adopt a more balanced domestic debt strategy whereby the budget deficit is financed from long-term financing sources (that are relatively less inflationary). For this purpose, SBP has advised the Government to use Pakistan Investment Bonds, and issue *Shariah* Compliant Papers.

Another significant strategic change in monetary policy is the SBP decision to gradually reduce commercial banks' reliance on refinancing facilities and encourage them to mobilize the desired level of resources to fully accommodate private sector and export credit requirement. Empirical evidence suggests that refinancing schemes have adverse economic outcomes, pose problems for effective liquidity management, and are detrimental to the transmission of monetary policy signals.

Pressures on reserve money to be reduced

With explicit ceilings on government borrowing from SBP and coordinated quarterly borrowings, coupled with tightening of refinancing window, should help reduce pressures on reserve money growth. Lower government demand for financing from the banking system would be a prerequisite for provision of more space, within the overall growth in broad money, to finance private sector requirements.

If these fiscal and monetary measures can be sustained, it would help reduce the pressure on reserve money growth. Lower government borrowings from the banking system, would create space to finance private sector requirements. SBP has been encouraging the banking sector through a number of development financing initiatives to cater to the credit needs of the private sector.

SBP has adopted the following policy measures.

§ Discount rate raised from 9.5% to 10.0%.

§ Cash Reserve Requirement for all deposits of one year and above maturity has been zero rated, whereas for other demand and time deposits 7% CRR has been set.

§ SBP to allow 70% refinance to exporters, while the balance 30% shall be funded by the banks out of their own resources. Exporters will continue to get the financing from banks for 100% of their entitlement to borrow under the existing scheme.

§ SBP to introduce a new Long Term Financing Facility LTFF to promote export led industrial growth in the country. Under this facility, the exporters can avail financing for fresh procurement of new imported and locally manufactured plant and machinery. The facility will be available to the export oriented projects with at least 50 percent of their sales constituting exports or if their annual exports are equivalent to US$ 5 million, whichever is lower. SBP will provide refinance upto 70 percent of the sanctioned facility and the participating financial institutions will finance 30 percent of LTFF from their own resources.

§ Simplification and Liberalisation of External Commercial Borrowing. SBP is issuing instructions to further liberalize and rationalize the ECB. Industry and exporter will be able to secure their foreign currency requirements based on different product structures and maturities; if within stipulated pricing range these transactions can be approved by the commercial banks/DFIs without seeking SBP's approval.

§ Augmenting Financing Penetration. To encourage the public to open Basic Banking Accounts (BBAs), banks are being advised not to recover any charges from customers for operating BBA or for conversion of regular full service bank accounts.

Procedural Streamlining of Lending rates. SBP is issuing detailed instructions to the banks/DFIs that restrict them from making unilateral changes in the rates of fixed rate loans, recommending adhering to the specified margins in case of variable rate loans, and to clearly spell out the pricing and re-pricing frequency explicitly in the loan document.

Monetary Policy — Implications for the Banking Sector

The decision by the State Bank to increase its discount rate was subsequently followed by an increase in the cut-off yield across various treasury securities. Although the inter-bank lending rates (KIBOR) are primarily determined by the supply and demand for funds in the inter-bank market, they are to some extent also dependent upon the risk-free interest rates in the economy. After the latest policy rate change, six month-KIBOR rates have risen by 30 bps. However, keeping in view the excess liquidity within the system and relatively less demand for funds, we believe that the increase in KIBOR rates may not be as aggressive unlike the previous occasions.

KIBOR rates

Two factors have played a key role in determining the profitability of the banking sector; interest rates (spreads in particular) and effective utilization of balance sheet which has manifested in the form of higher advance to deposit ratios. The increase in KIBOR is a positive for the banking sector (provided KIBOR rates do not ease as the case has been in the recent past when rates have actually declined by 50 bps during 2007) as it allows the outstanding variable rate loans to be re-priced at a higher rate. On the contrary, there has been a marked deceleration in banking sector advances during the six months of 2007 due to several factors including the prevailing high interest rate regime. We would once again re-iterate our view that a persistently tight monetary scenario does not bode well for the banking sector (though it may be the need of the hour) given the huge untapped banking potential within the country.

As expected, the SBP did not intervene with the rate setting mechanism of banking deposits. Instead, the banks appear to be have been penalized in the form of being directed to provide concessional finance to exporters from their own pockets. Specifically, the central bank has modified the re-financing arrangement under which banks will provide 30 percent of the funds from their own resources (deposits) at a rate no more than 7.5 percent while the remaining 70 percent will continue to be provided as per the current mechanism. The implications are that banks will now have to use their own deposits which presently are being loaned at weighted average rate of 11.33 percent (as per the SBP website) with alternate venues compatible with the risk profile of the textile sector (e.g.) offering even greater returns. This in our view is a drag on banking sector profitability as even risk-free instruments such as T-Bills offer a greater return. Accordingly, the central bank's decision does not appear to be making economic sense for the banking industry despite the fact that there is ample liquidity available due to robust inflows from deposits and corresponding slowdown in the demand for credit. The question which naturally strikes the mind is *'why would the banks be willing to lend at such low rates to an industry with deteriorating fundamentals?'*

Deposit rates un-touched

Consistent with its past initiatives, the SBP has exempted time deposits (for a period of more than a year) from CRR in order to encourage the banks to raise longer tenor deposits which would achieve the twin objectives of better maturity profile matching with banking sector assets and increase the average cost of funds. The trade-off is minimal in the form that the schedule banks will have another Rs25-30 billion liquidity freed up on which the sector can potentially earn a return.

Exempt-ion of time deposit from CRR

The SBP has also taken a few fundamental steps to improve the financial penetration within the economy and is also in talks with the Pakistan Banks Association for the introduction of more measures. Besides allowing a few relaxations to basic banking account holders, the central bank has asked the banks to open 20 percent of their new branch network in rural areas. The move does not bode well for banks pursuing an aggressive branch expansion plan in the sense that intermediation costs are much higher for branches operating in rural areas.

Efforts to improve financial penetrat-ion are also underway

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

Trade Policy 2007-08 – Highlights

§ Long term export plan prepared; targets set and investment requirements identified.

§ Exports targeted to reach $45 billion by 2013 with an export to GDP ratio of 16 percent.

§ For FY2007-08 an export target of $19.2 billion set.

§ To achieve the export target, a number of measures to Enhance Competitiveness, Productivity and Export Capacity announced.

§ The long term financing scheme for export oriented projects enlarged to cover export oriented, core and developmental sectors, purchase of locally manufactured machinery and compact spinning.

§ A scheme introduced to facilitate exports and encourage investment.

- Scheme to have the same incentives as are available to units in the EPZs.
- Existing units exporting at least 80% of their production shall be eligible for registration (with FBR) under the scheme.
- New units so registered, will be required to export 100% of their production.

§ Equity Fund to be set up through public private partnership. The Fund would be used for acquisition of overseas brands and/or the brand holding companies and for participating in investment in the setting up of sanitary and phyto-sanitary facilities and testing laboratories. The later step would encourage SPS compliance.

In both the cases, the fund will divest within 5 years from the date of investment by offloading to Pakistani sponsors.

§ The government has decided to allow First Year Allowance on investment in plant, machinery and equipment so to encourage new investment particularly in hi-tech and core and developmental products.

Different allowance rates have been announced for various categories of exports.

§ Restructuring for better Export Credit Risk Management.

§ A Social, Environmental & Security Compliance Board to be set up in Trade Development Authority of Pakistan (TDAP) to educate, coordinate and monitor implementation of laws relating to social, security and health standards with relevant government agencies in Pakistan.

§ It has been decided to establish an Export Skills Development Council in TDAP to better align current training programmes to skills required in export sectors. Existing institutes would be converted into Technological & Skill Development Resource Centres.

§ Agri-Marketing Integrated Centres to be set up, which will provide facilities such as grading, packaging, fumigation, testing, certification etc. It will establish linkages with farmers to obtain their produce for storage and sales on their behalf. It will also establish linkages with international and local buyers.

Export Facilitation & Market Support

§ International consultants would be hired for selected companies on cost sharing basis. The consultants would:

- Study the firm's characteristics, including production technology, skills, accounting procedures, marketing and business practices relative to international levels.
- identify the deficiencies and assist the firms in removing them.

The scheme will initially include textiles and apparel, surgical instruments, leather products and sports goods.

§ The government would provide 100% subsidy for compliance certifications. These have been specified.

§ For business development, the government would provide assistance to companies to set up business offices in their principal export markets. Subsidy would be provided on rentals and in salaries for specific number of employees and for a specific period.

§ Support to be provided by the government for marketing of Branded Products.

§ It has been decided to increase cost sharing of rentals at retail sales outlets abroad.

- To enhance market share, Overseas Business Support Units would be set up.
- To promote exports in the current business environment, presence on the web is essential. Small and medium enterprises (SMEs) face difficulties in this regard because of lack of latest IT knowledge and tools and high costs. It has been decided to establish, on-line presence (web portal of exporters) and undertake internet marketing for web portal.
- Federal Board of Revenue would facilitate SMEs exporters to enhance exports.

Sectoral Initiatives

- To diversify exports and move away from textiles and apparel, international consultants will be hired to identify areas where Pakistan may have or could create a competitive advantage internationally. Plans for such sectors would be prepared for future policy making.
- Revisions have been announced in the value addition requirement on export of gold jewellery manufactured from imported gold.
- Import of silver and platinum has been allowed for the manufacture and export of jewellery made therefrom.
- Exports of carpets have declined and to contain this fall, it has been decided to allow the import of semi finished carpets on temporary basis for processing for exports.
- To promote engineering goods exports, it has been decided that inland freight subsidy will be allowed for the transportation of goods destined for exports. Engineering goods consist mostly of bulky items and their transportation cost is quite high.
- To promote women entrepreneurs, they have been provided with various facilities. Women Entrepreneur Cities would be set up in Karachi and Lahore, which will be provided with infrastructure, business centres, technical workshops, child care centres, training centres etc.
- To develop the export potential of the pharmaceutical industry, facilities have been provided.
- A number of initiatives will be undertaken to develop fruits, vegetables and floriculture exports.

Procedural/Others

- Changes have been made in export procedures in case of export of defective goods where replacement has been received.
- Manufacturers of footwear have been allowed to import duty free footwear samples. This facility was earlier allowed only to exporters of footwear.
- The scope of the Domestic Commerce Wing has been enhanced.

Import Measures

- Construction companies to be facilitated through various measures.
- To facilitate and modernize trucking and associated industries and to achieve better fuel efficiency and cleaner emission, import of heavy duty prime movers allowed under specific conditions.
- For the facilitation of exhibitors, measures announced.
- Facilitation measures also announced for disabled persons, for mountaineering expeditions and for overseas Pakistanis.
- Regulatory measures have been taken for import of drugs and chemicals. To prevent misuse of imported narcotic drugs and psychotropic substances, pharmaceutical units will be allowed to import these substances on the authorization of Ministry of Health.
- To prevent import of stolen vehicles under Baggage, Gift and Transfer of Residence schemes, it has been decided that in addition to confiscation of the said vehicles, the importers will also be liable to such penalty as maybe imposed by any other law for the time being in force.
- A number of procedural proposals have been put forward in the new Trade Policy. For instance, H.S. code in the Trade Policy will be harmonized with the HS 2007 version adopted in the budgetary measures FY08. Eight digit PCT codes will be adopted to facilitate the automated clearances, the list of items importable from India will be rearranged in descending order based on the new HS Nos.

Performance of Microfinance Banks Operating in Pakistan

	Khushhali Bank						Network Microfinance Bank			Pak Oman Microfinance Bank Ltd	Rozgar Microfinance Bank Ltd				Tameer Microfinance Bank Ltd		The First Microfinance Bank Ltd				
	2001	2002	2003	2004	2005	2006	2004	2005	2006	2006	2003	2004	2005	2006	2005	2006	2002	2003	2004	2005	2006
Advances (net of provisions)	110.4	475.5	671.9	1329.4	1847.6	2082.5	6.1	37.0	48.0	84.0	-	-	19.2	36.9	-	518.2	17.6	64.1	207.2	353.7	674.2
Investment (net of provisions)	1500.0	1201.3	998.4	1132.5	1373.2	1369.4	-	-	-	-	-	-	-	2.8	-	29.4	759.5	907.0	100.9	193.3	75.3
Total Assets	1867.6	2206.0	3235.3	4508.2	6163.5	6847.5	104.1	108.3	114.3	493.2	11.5	59.9	114.6	110.0	618.4	1268.6	872.4	1188.7	1164.8	1460.6	1680.2
Markup/Return/Interest earned	184.9	147.8	166.7	217.7	476.6	684.9	1.0	10.5	17.1	35.8	-	-	6.5	13.6	14.9	89.0	46.5	67.7	66.9	117.0	205.8
Markup/Return/Interest Expense	2.5	7.1	18.4	22.8	76.1	158.5	-	0.4	1.7	-	-	-	0.005	0.6	-	9.4	1.0	5.5	7.9	15.4	39.3
Net Markup/Interest Income	181.4	140.7	148.2	194.8	400.5	526.3	1.0	10.1	15.4	35.8	-	-	6.5	13.0	14.9	79.6	45.5	62.2	59.0	101.6	166.5
Provisions & Bad Debts Written off	5.2	14.8	22.3	62.1	90.4	136.0	-	1.8	2.7	1.3	-	-	0.4	3.9	-	7.9	0.4	1.3	4.0	4.9	6.7
Net Markup/Interest Income after provision	176.2	125.9	125.9	132.7	310.1	390.3	1.0	8.2	12.7	34.5	-	-	6.1	9.2	14.9	71.6	45.1	60.9	55.0	96.7	159.7
Total Non-markup/Interest Income	2.3	28.7	128.1	155.1	222.4	268.6	-	0.10	5.2	0.006	-	-	0.003	2.0	-	22.8	3.1	6.0	35.9	17.8	14.8
Administrative Expenses	94.9	166.4	228.3	327.0	506.2	626.2	11.3	16.1	24.9	43.7	-	-	8.7	18.9	34.5	181.1	38.5	62.2	80.7	105.6	144.6
Total Non Markup Interest Expense	98.9	166.7	228.4	327.0	506.2	626.2	11.3	16.1	25.0	51.7	-	-	8.7	19.0	34.5	181.1	38.5	62.2	80.8	105.7	144.6
Profit (Loss) After Tax	60.8	(5.2)	22.3	30.3	12.4	23.3	(10.3)	(7.8)	(7.3)	(11.2)	-	-	(2.5)	(7.9)	(19.6)	(50.2)	5.8	2.2	5.9	4.9	19.4

Source :- Banking Statistics of Pakistan 2006. State Bank of Pakistan

Financial results of microfinance banks operating in Pakistan have been published for the year 2006. The Table shows that of the six banks, four have recorded losses, Network Microfinance Bank for the third consecutive year. Losses of Tameer Microfinance Bank surged to Rs50.2 billion in 2006 from Rs19.6 billion a year earlier, while losses of Rozgar Microfinance bank rose from Rs2.5 billion to Rs7.9 billion in the same period. There was a small decline in the losses of Network Microfinance Bank, while Pak Oman Microfinance Bank showed losses in its first year of operations.

These banks have incurred huge administrative expenses, raising substantially the non-mark/non-interest expense of the each bank and wiping out the non-interest income. For instance, this expense has risen fourfold within a year in case of Tameer Microfinance Bank.

When you see the performance of Grameen Bank in Bangladesh during the past ten years (1997-2006), net profit of the bank has shown a continuous increase. While salaries and other related expenses have risen, but there has been no sudden surges which have wiped out the income earned. Meanwhile, the number of employees of the Bank have risen to 21000 and branch network to 2320.

Market Analysis

Market Review – July – August 2007

The KSE-100 Index remained relatively unchanged declining by only 33 points or 0.2 percent during July 2007 to close at 13,739 while the KSE-30 Index shed 375 points or 2.2 percent to 16,618.27. The average daily turnover during July was 348.9 million shares compared to 349.7 million shares during June 2007. The market performance during the month in review was mixed as the Index reached its all-time closing high within the first fortnight but soon after transformed into correction and profit taking for a short while before staging a moderate recovery during the last third of the month. The net outflow during July 2007 (1mFY08) was $69.6 million.

Performance mixed during July

The KSE-100 Index during the first two weeks gained 429 points or 3.1 percent to reach an all-time closing high of 14,202 because of the following factors:

Factors responsible for the gain in KSE-100 Index

§ With Singtel acquiring 30 percent stake in Warid Telecom, this stimulated buying activity in the sector.

§ Higher international crude oil prices and expectations of an upward revision in the wellhead gas prices by OGRA for 1HFY08 led to buying interest in E&P scrips especially OGDC.

§ Buying activity in second and third tier stocks also lent support to the Index during this period.

However, over the next four days, the market came under selling pressure as the KSE-00 Index shed 1,008 points or 7.1 percent to touch 13,193 on July 19. The deteriorating law and order situation in the aftermath of the siege of the Lal Masjid in Islamabad likely led to panic selling by both local and foreign investors.

During the last 10 days of July, the market experienced a minor recovery due to the restoration of the Chief Justice of Pakistan by the Supreme Court and buying interest in major sectors such as cement, banking and E&P because of the start of the quarterly earnings season. The buying activity in the banking sector has revolved around M&A developments regarding Saudi Pak Bank, NBP GDR developments, HBP IPO and expectations of quarterly results. The news of OGDC's target of drilling 50 new wells during the current fiscal year has spurred on buying activity in the sector.

In terms of PE to Growth (PEG), Pakistan is equally attractive with its immediate neighbor India (0.82), however, other regional markets such as Taiwan (0.69), Thailand (0.73) and South Korea (0.76) are still cheaper. Based on FY08F earnings, our estimate of sustainable market PEx comes to 11.0 suggesting that the local bourse is fairly valued and thus, leading to a neutral stance at current levels.

Regional Valuation

Regional Valuation Comparison

Country	2008F PEx	2008F EPS Growth (%)	2008F PE/Growth
China	20.94	24.32	0.86
Hong Kong	6.37	5.94	1.07
India	14.36	17.50	0.82
Indonesia	13.23	16.70	0.79
Malaysia	14.46	13.85	1.04
Philippines	15.57	16.11	0.97
Pakistan	**10.15**	**12.00**	**0.85**
Singapore	15.24	16.34	0.93
South Korea	12.41	16.43	0.76
Taiwan	13.51	19.09	0.69
Thailand	11.48	15.66	0.73

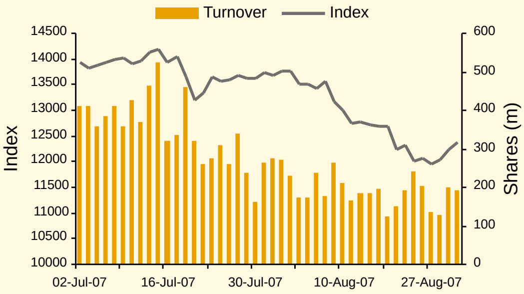
Source: Thomson One Analytics; Pakistan Data: TSL Estimates
Date : July 30, 2007

The KSE-100 Index declined by almost 1700 points or 12 percent during August 2007 (till Aug 28, 2007) to close at 12,041 while the KSE-30 Index shed 2130 points or 13 percent to 14,487. The average daily turnover during the month under review was much lower at 195.9m shares compared to 348.9 million shares during July 2007. The market began the month on a positive note but this was short lived as there was constant selling pressure from all fronts as political uncertainty was the main driver of the current bearish trend which began from mid-July 2007. Most of the activity continued to be concentrated in second and third tier stocks while large cap scrips were out of the limelight. The net outflow during

Political developments impact market

August 2007 was $119.3 million and the year to date outflow stands at $188.8 million.

KSE-100 Index (July - August 2007)



Political developments dramatically impacted market sentiments in August. This was evident throughout August as the current political environment remains quite fluid. The early part of the month was dominated by confusion about the imposition of emergency rule in the country as it was widely reported in both the print and electronic media on August 8-9. The KSE-100 Index on August 9 plunged by 385 points and set a record for the largest intraday drop of 616 points. Clarification from the government did not come until later that evening after the damage was done to the capital markets that emergency was not going to be imposed.

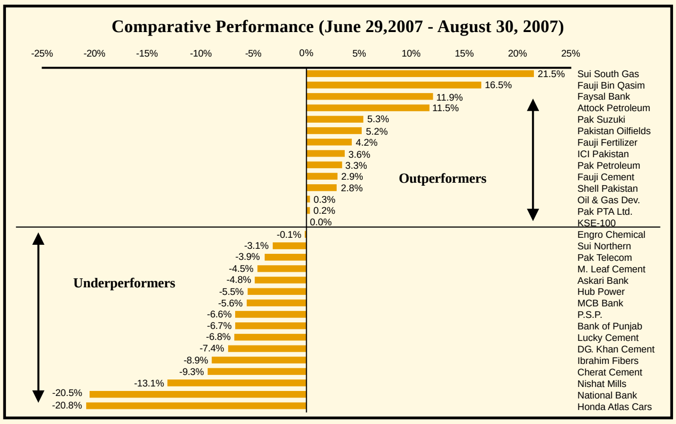
Anxiety among investors

The speculation of a possible "deal" between President General Musharraf and PPP(P) head Benazir Bhutto has also contributed to political uncertainty, as there has been constant affirmation and denial by both sides of a deal or understanding. There has been various news reports in both the local and international media that the United States is "quietly prodding" President Pervez Musharraf to share authority with former Prime Minister Benazir Bhutto as a way to keep him in power. On August 23, the Supreme Court of Pakistan ruled that former Prime Minister Nawaz Sharif and his brother Shahbaz Sharif had the right to return to Pakistan and instructed the government not to restrict/hamper their return to the country. This led to further anxiety among investors about the future political outlook.

Besides the political uncertainty, the other factor which has negatively impacted the local bourses has been the global liquidity crisis and pressure across global capital markets (particularly banking stocks) due to the U.S. sub prime mortgage fiasco. The crisis is also believed to have triggered selling pressure from foreign funds in domestic markets as evident by the outflow from SCRAs during the month.

Looking ahead

With Ramadan commencing in mid-September, investors could rightly anticipate a Ramadan rally which has occurred during the last few years but this year could be different as the Presidential election is scheduled to be held within the first two weeks of September. Market sentiments might turnaround if election takes place as scheduled and President Musharraf is re-elected. The sigh of relief from investors may also be short lived as it is not possible to know what the reaction of the opposition would be to this event which could lead to further cloudiness in the political outlook.



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

Commercial Banks Listed on KSE at a Glance

Banks	Paid-up Capital Rs.Mn (end-Jun'07)	Nos. of Shares (issued/paid-up) Mn	P/E Ratio (end-Jun'07)	Equity* Rs.Mn (end-Dec'06)	Profit (AT) Rs.Mn (end-Dec'06)	Earning Price Rs/share (end-Dec'06)	Quoted Price Rs/share (end-Jun'07)	Book Value Rs/share (end-Dec'06)
Allied Bank	4489	448.9	13.84	17688	4397	9.80	138.94	39.40
Askari Bank	3006	300.6	10.99	11053	2250	11.16	105.90	36.77
Atlas Bank	3126	312.6	-71.46	2998	9	0.03	17.15	9.59
Bank Al-Falah	6500	650.0	15.96	12242	1763	3.53	65.10	24.48
Bank Al-Habib	3681	368.1	14.58	6522	1761	6.70	66.50	24.81
Bank of Khyber	4004	400.4	20.62	3029	202	1.01	16.50	14.31
Bank Islami Pakistan	3200	320.0	-41.53	2003	-8.35	-0.04	14.95	10.01
Bank of Punjab	3846	384.6	14.35	16126	3804	13.11	116.50	55.57
Crescent Bank	8770	877.0	-6.45	1504	-609	2.20	22.45	5.43
Faysal Bank	4237	423.7	12.01	13796	2817	6.65	74.00	32.56
Habib Metro Bank	5018	501.8	8.75	10868	2096	9.98	44.20	35.49
JS Bank	3404	340.4	219.75	3004	-417	0	19.25	10.0
KASB Bank	2522	252.2	10.85	2162	137	0.6	23.00	9.28
MCB Bank	6283	628.3	15.39	40844	12142	22.23	365.00	74.76
Meezan Bank	3780	378.0	16.00	4764	604	1.60	32.00	12.6
Mybank Ltd	3086	308.6	14.1	5065	493	1.60	29.90	16.38
National Bank of Pakistan	8154	815.4	10.72	81954	17022	24.01	262.00	115.57
NIB Bank	3362	336.2	75.00	4332	126	0.37	21.00	12.89
Picic Commercial Bank	2735	273.5	15.28	4076	969	3.54	44.00	14.9
Prime Bank	2739	273.9	433.33	3716	360	1.31	52.00	13.57
Saudi Pak Commercial Bank	3847	384.7	-2095.83	3909	-319	-0.83	25.15	10.16
Soneri Bank	3429	342.9	18.33	5612	985	3.16	56.45	18.00
Standard Chartered Bank	38715	3871.5	35.78	40982	5709	1.47	52.95	10.56
United Bank	8094	809.4	11.55	29863	9468	14.62	219.95	46.12
All Listed Banks	**140027**	**14002.7**	**20.64**	**328112**	**65761**	**4.70**	**88.14**	**23.43**

** Including surplus on revaluation of assets*

Banks	KSE Average Price Rs/share (end-Jun'07)	Turnover 000'shares (end-Jun'07)	Trading Value Rs.Mn (end-Jun'07)	Market Capitalisation Rs. Bn (end-Jun'07)	RoE (end-Dec'06)	Staff Strength Nos.	Branches Nos.	Current Rating	
								Short Term	Long Term
Allied Bank	137.79	434.2	59.83	62.37	30.17	8879	742	A-1+	AA
Askari Bank	105.91	18876	1999.16	31.84	22.6	5242	122	A1+	AA
Atlas Bank	16.99	166.5	2.83	5.36	0.39	247	20	A2	A-
Bank Al-Falah	64.79	42309	2741.20	42.31	20.37	8187	166	A1+	AA
Bank Al-Habib	66.92	210.1	14.06	24.48	32.32	2896	152	A1+	AA
Bank of Khyber	16.29	1048	17.07	6.61	8.23	620	29	A-2	BBB+
Bank Islami Pakistan	14.63	1351	19.77	4.78	-0.5	236	10	A2	A-
Bank of Punjab	117.47	29319	3444.10	44.80	43.63	3811	266	A1+	AA
Crescent Bank	22.06	421.5	9.30	19.69	-38.4	709	18	A-1	A
Faysal Bank	73.93	1632.5	120.69	31.36	32.67	2069	75	A-1+	AA
Habib Metro Bank	77.22	248	19.15	38.64	25.46	1963	82	A1+	AA+
JS Bank	19.47	2345	45.66	6.55	-13.88	18	4	A2	A-
KASB Bank	22.68	178.5	4.05	5.80	7.03	1064	35	A2	A-
MCB Bank	363.59	1728.7	628.54	229.32	45.0	14930	988	A1+	AA+
Meezan Bank	31.66	802.5	25.41	12.10	15.63	1389	62	A-1	A+
Mybank Ltd	29.23	110.5	3.23	9.23	12.95	969	50	A-1	A
National Bank of Pakistan	263.33	5493.5	1446.60	213.64	37.54	15356	1250	A-1+	AAA
NIB Bank	21.17	1955	41.39	7.06	2.92	1632	41	A1+	A+
Picic Commercial Bank	43.91	2466	108.28	12.03	23.8	1647	129	A-1	A+
Prime Bank	52.04	21	1.09	14.24	9.95	2247	69	A1+	A+
Saudi Pak Commercial Bank	24.86	3899	96.93	9.68	-10.47	1426	50	A-3	BBB+
Soneri Bank	56.86	381.5	21.69	19.35	21.9	1430	72	A1+	AA-
Standard Chartered Bank	52.85	257.00	13.58	205.0	23.15	8120	115	A1+	AAA
United Bank	217.2	2837.4	616.28	178.02	41.2	15369	1059	A-1+	AA+
All Listed Banks	97.05	118491.4	11499.90	1234.26	20.09	100456	5606	-	-

Source : Bank Annual Reports and KSE Website

Pakistan's Top Ten Banks

Assets
Rs.Bn

Banks	2002	2003	2004	2005	2006
National Bank of Pakistan	432.8 (1)	469.0 (1)	553.2 (1)	577.7 (1)	635.1 (1)
Habib Bank Limited	403.0 (2)	434.9 (2)	487.8 (2)	528.9 (2)	590.3 (2)
MCB Bank	235.1 (3)	272.3 (3)	259.2 (4)	298.8 (4)	342.1 (4)
United Bank Limited	191.8 (4)	216.9 (4)	272.6 (3)	347.0 (3)	423.3 (3)
Allied Bank	112.5 (5)	117.5 (5)	154.9 (5)	192.6 (6)	252.0 (6)
Standard Chartered	81.1 (6)	83.7 (8)	94.6 (8)	113.6 (9)	249.8 (7)
Askari Bank	70.3 (7)	85.4 (7)	107.2 (7)	145.0 (7)	166.0 (8)
Bank Al-Falah	65.2 (8)	98.9 (6)	154.8 (6)	248.3 (5)	275.7 (5)
Citibank	62.1 (9)	61.4 (10)	-	-	-
Union Bank	55.9 (10)	67.3 (9)	77.7 (10)	117.1 (8)	-
Bank Al-Habib	-	-	-	-	115.0 (10)
Faysal Bank	-	-	78.5 (9)	110.3 (10)	115.5 (9)

Deposits
Rs.Bn

Banks	2002	2003	2004	2005	2006
National Bank of Pakistan	362.9 (1)	395.5 (1)	465.6 (1)	463.4 (1)	501.9 (1)
Habib Bank Limited	328.2 (2)	360.6 (2)	404.6 (2)	432.5 (2)	459.1 (2)
MCB Bank	182.7 (3)	211.5 (3)	221.1 (4)	229.3 (3)	257.5 (4)
United Bank Limited	162.7 (4)	189.8 (4)	230.3 (3)	289.2 (4)	335.1 (3)
Allied Bank	103.9 (5)	114.3 (5)	126.4 6)	161.3 (6)	206.0 (6)
Standard Chartered	56.4 (6)	67.9 (7)	76.5 (8)	83.6 (9)	156.6 (7)
Askari Bank	51.7 (7)	61.7 (8)	83.3 (7)	118.8 (7)	131.8 (8)
Bank Al-Falah	51.6 (8)	76.7 (6)	129.7 (5)	222.3 (5)	239.5 (5)
Citibank	40.8 (9)	-	-	-	-
Union Bank	37.8 (10)	50.5 (9)	63.0 (9)	91.2 (8)	-
Bank Al-Habib	-	46.2 (10)	62.2 (10)	75.8 (10)	91.4 (9)
Faysal Bank	-	-	-	-	74.4 (10)

Equity
Rs.Mn

Banks	2002	2003	2004	2005	2006
National Bank of Pakistan	14279 (1)	18134 (1)	24900 (1)	37636 (1)	53045 (1)
Habib Bank Limited	12274 (2)	16769 (2)	23105 (2)	32721 (2)	45178 (2)
MCB Bank	5692 (6)	7444 (4)	9199 (5)	18311 (4)	35656 (4)
United Bank Limited	8717 (3)	11512 (3)	14370 (3)	18756 (3)	27204 (5)
Allied Bank	-	-	9448 (4)	12914 (5)	16230 (6)
Standard Chartered	6074 (5)	6369 (5)	7193 (6)	9512 (6)	41302 (3)
Askari Bank	3027 (8)	3901 (8)	5573 (9)	7595 (8)	9619 (8)
Bank Al-Falah	-	3753 (10)	4369 (10)	6738 (9)	10573 (7)
Citibank	6623 (4)	5868 (6)	6173(8)	5751(10)	-
Union Bank	2243 (9)	-	-	-	-
Bank Al-Habib	1822 (10)	2726 (9)	-	-	6186 (10)
Faysal Bank	4120 (7)	5080 (7)	6251 (7)	8112 (7)	9132 (9)

Profit (AT)
Rs.Mn

Banks	2002	2003	2004	2005	2006
National Bank of Pakistan	2253 (1)	4198 (1)	6195 (1)	12709 (1)	17022 (1)
Habib Bank Limited	2034 (2)	4018 (2)	5763 (2)	9647 (2)	12700 (2)
MCB Bank	1739 (3)	2230 (4)	2432 (5)	8922 (3)	12142 (3)
United Bank Limited	1463 (4)	2818 (3)	3702 (3)	5949 (4)	9468 (4)
Allied Bank	-	-	830 (10)	1745 (9)	-
Standard Chartered	1037 (6)	1688 (7)	2481 (4)	4124 (5)	5563 (5)
Askari Bank	557 (8)	799 (10)	1923 (7)	2022 (8)	2250 (8)
Bank Al-Falah	446 (9)	2123 (6)	1092 (9)	1702 (10)	1763 (9)
Citibank	1064 (5)	1323 (8)	1970 (6)	-	-
Union Bank	-	-	830 (10)	1745 (9)	-
Bank Al-Habib	290 (10)	1012 (9)	-	-	1761 (10)
Faysal Bank	657 (7)	2151 (5)	1753 (8)	3069 (7)	2817 (7)

Advances
Rs.Bn

Banks	2002	2003	2004	2005	2006
National Bank of Pakistan	140.5 (2)	161.3 (2)	220.8 (2)	268.8 (2)	316.1 (2)
Habib Bank Limited	167.5 (1)	183.7 (1)	259.1 (1)	316.9 (1)	349.4 (1)
MCB Bank	78.9 (3)	97.2 (4)	137.3 (4)	180.3 (4)	198.2 (4)
United Bank Limited	68.7 (4)	99.2 (3)	144.2 (3)	204.8 (3)	247.3 (3)
Allied Bank	45.4 (5)	40.7 (7)	59.5 (7)	111.2 (6)	144.0 (6)
Standard Chartered	42.2 (6)	39.9 (9)	51.5 (8)	-	133.0 (7)
Askari Bank	30.0 (7)	44.8 (6)	69.8 (6)	86.0 (7)	99.2 (8)
Bank Al-Falah	28.3 (9)	49.2 (5)	88.9 (5)	118.9 (5)	150.0 (5)
Citibank	25.7 (10)	-	-	-	-
Union Bank	28.9 (8)	40.4 (8)	50.8 (9)	69.0 (8)	-
Bank Al-Habib	-	35.2 (10)	-	55.3 (10)	70.8 (10)
Faysal Bank	-	-	50.5 (10)	62.3 (9)	74.5 (9)

Net Income
Rs.Mn

Banks	2002	2003	2004	2005	2006
National Bank of Pakistan	17637 (2)	19965 (2)	22645 (2)	32763 (2)	42317 (1)
Habib Bank Limited	18564 (1)	21364 (1)	23589 (1)	32869 (1)	38971 (2)
MCB Bank	11901 (3)	11969 (4)	11259 (4)	20388 (3)	26244 (4)
United Bank Limited	9433 (4)	12283 (3)	11999 (3)	19126 (4)	27813 (3)
Allied Bank	5242 (5)	5966 (5)	6191 (5)	9807 (5)	12871 (6)
Standard Chartered	2964 (7)	4510 (7)	5145 (6)	7825 (6)	14118 (5)
Askari Bank	2689 (8)	3648 (10)	5004 (7)	6055 (10)	7659 (8)
Bank Al-Falah	2134 (9)	5397 (6)	4706 (8)	7311 (7)	9184 (7)
Citibank	4149 (6)	4299 (8)	4433 (10)	6192 (9)	7579 (9)
Union Bank	2046 (10)	-	4457 (9)	7061 (8)	-
Bank Al-Habib	-	-	-	-	-
Faysal Bank	-	3843 (9)	-	-	6292 (10)

RoA
%

Banks	2002	2003	2004	2005	2006
National Bank of Pakistan	0.53 (10)	0.93 (10)	1.21 (7)	2.25 (4)	2.81 (3)
Habib Bank Limited	0.55 (9)	0.96 (9)	1.25 (6)	1.90 (7)	2.27 (6)
MCB Bank	0.82 (6)	-	0.92 (9)	3.20 (3)	3.79 (1)
United Bank Limited	0.81 (7)	1.38 (7)	1.51 (5)	1.92 (6)	2.46 (5)
Allied Bank	-	-	-	1.78 (9)	1.98 (7)
Standard Chartered	1.70 (3)	2.05 (4)	2.81 (2)	3.96 (1)	3.09 (2)
Askari Bank	0.92 (4)	1.03 (8)	2.00 (4)	-	1.45 (10)
Bank Al-Falah	0.85 (5)	2.59 (2)	0.86 (10)	-	-
Citibank	1.71 (2)	2.14 (3)	3.09 (1)	2.11 (5)	1.96 (8)
Union Bank	-	-	1.14 (8)	1.79 (8)	-
Bank Al-Habib	0.74 (8)	1.88 (6)	-	1.73 (10)	1.70 (9)
Faysal Bank	2.10 (1)	5.10 (1)	2.78 (3)	3.25 (2)	2.49 (4)

RoE
%

Banks	2002	2003	2004	2005	2006
National Bank of Pakistan	-	25.90 (8)	28.79 (7)	40.65 (5)	37.54 (3)
Habib Bank Limited	18.68 (8)	27.67 (6)	28.91 (6)	34.59 (8)	32.61 (5)
MCB Bank	33.46 (2)	33.95 (4)	29.23 (5)	64.86 (1)	45.00 (1)
United Bank Limited	37.15 (1)	27.86 (5)	28.61 (8)	35.92 (7)	41.20 (2)
Allied Bank	22.08 (5)	-	-	-	30.17 (7)
Standard Chartered	24.59 (4)	27.13 (7)	36.59 (2)	51.31 (2)	22.51 (10)
Askari Bank	19.95 (7)	23.07 (9)	40.60 (1)	30.71 (9)	26.14 (9)
Bank Al-Falah	29.96 (3)	79.08 (1)	26.89 (10)	30.65 (10)	-
Citibank	17.27 (10)	21.18 (10)	32.72 (3)	-	27.83 (8)
Union Bank	-	-	28.41 (9)	41.49 (4)	-
Bank Al-Habib	17.29 (9)	44.50 (3)	-	36.51 (6)	32.22 (6)
Faysal Bank	19.78 (6)	46.76 (2)	30.94 (4)	42.73 (3)	32.67 (4)

Figures in bracket represent ranking amongst top ten Banks in Pakistan.

Book/Report Reviews

Sustainable Development
Bridging the Research/Policy Gaps
in Southern Contexts
Sustainable Development Policy Institute
Oxford University Press

This is a two volume book. The first volume addresses the broad theme of the environment and its interface with governance and globalisation; the second volume addresses the issue of sustainable development vis-a-vis the social sectors.

The book reflects the themes that were discussed at a conference entitled, *'Sustainable Development: Bridging the Research/Policy Gaps in Southern Contexts'*, organised by SDPI. The conference discussed issues such as, how can the research produced in third world contexts be translated into effective policy for sustainable development? Is sustainable development only a question of reorienting the research/policy connections? or is it about claiming and putting value into the fragmented and disparate work that speaks to and about the third world.

Both volumes look at the linkages between the environment and social sectors and the increasingly complex demands upon the policy arena to respond to these issues effectively.

The first volume has two sections – (i) Environment and (ii) Governance, WTO, Devolution and Sustainable Development. Issues under each have been discussed in the context of the natural environment and its impact upon human life. The first section looks at the environmental dimensions of human security, and livelihoods, at natural resource management and its interface with governance issues, at the design and enforcement of environmental quality standards in South Asia and renewable energy. The second section addresses trade and sustainable development, globalisation and the WTO in the context of people's livelihoods and governance issues.

The second volume examines the inter-linkages between gender issues and labour policy, state and migration, education, language and identity mass media, civil society and advocacy, population, health and poverty. It also has a section on the voice and role of fiction writers in the production of alternative realities.

Company Law in Pakistan 2007
Prof. Dr. Khawaja Amjad Saeed

The Companies Act 1913 was replaced by the Companies Ordinance 1984. In the light of the legal provisions contained in the said Ordinance, Dr. Khawaja Amjad Saeed wrote a book '*Company Law in Pakistan – 1997*'. This Edition of 2007 is an updated and expanded edition of the book incorporating changes in the Ordinance and related legislation.

The book covers a number of issues in its 18 chapters. These deal with promotion and incorporation of a company, preparation of prospectus, allotment, shareholders of a company, management of companies, meetings and resolutions, preparation of annual accounts, the auditor of a limited company, divisible profit and the auditor, exercise of borrowing power, foreign companies, winding up, registration offices & fees for companies, investigation and related matters, arbitration, arrangement and reconstruction, non-banking finance companies, the companies rules 1985. Each of these is a detailed chapter, dealing with the related issues extensively.

The introductory chapter gives the history of Company Law in Pakistan, the objectives of the Ordinance, and its constituents, the various schedules that are annexed to the ordinance the definition of terms used in the ordinance. It also discusses the mode of incorporation of a company, the jurisdiction of the courts, appeals against court orders, types of companies, the SECP, and the Eighth Schedule. Many of the readers, especially the students of Commerce & Business Administration, Banking & Finance, corporate lawyers, legislatures would benefit from this book.

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	8.3	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
Total Revenue (Net) (% GDP)	14.9	14.3	13.7	14.0	13.4
Tax Revenue	*11.4*	*11.0*	*10.1*	*10.6*	*11.7*
Total Expenditure (% GDP)	18.6	16.7	17.0	18.2	17.6
Overall Deficit (% GDP)	(-)3.7	(-)2.4	(-)3.3	(-)4.2	(-)4.2
Domestic Debt (Rs.bn)	1894	2012	2158	2314	2523
as % GDP	39.3	35.7	32.8	30	28.4
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
States and Markets					
SBP General Index of Share Prices[x] (% Growth)	91.9	57.8	12.2	17.7	18
KSE 100 Index[a] (% growth)	92.2	55.2	41.1	34.1	29.7
Aggregate Market Capitalisation (% growth)	119.9	88.0	45.2	35.8	35.3
Domestic Investment (% GDP)	16.9	16.6	19.1	21.7	23.0
National Savings (% GDP)	20.8	17.9	17.5	17.2	18.0
Domestic Savings (% GDP)	17.6	15.7	15.4	15.3	16.1
Reserve Money (M_O) % growth	14.5	15.4	17.6	10.2	20.3
Broad Money (M_2) % growth	18.0	19.6	19.3	15.2	16.1
Deposit Rates (Weighted average % pa)	1.61	0.95	1.37	1.96	2.53[b]
Lending Rates (Weighted average % pa)	9.40	7.28	8.81	10.61	11.12[b]
Global Links					
Exports (f.o.b.) $mn	10974	12459	14482	16553	15530
Imports (f.o.b.) $mn	11333	13738	18996	24994	24654
Trade Balance $mn	(-)359	(-)1279	(-)4514	(-)8441	(-)9124
Services Account ($mn)	(-)2	(-)1316	(-)3293	(-)4430	(-)4277
Income (net) ($mn)	(-)2211	(-)2207	(-)2386	(-)2667	(-)3372
Current Transfers (Net ($mn)	6642	6114	8659	10548	9394
Current Account Balance ($mn)	4070	1812	(-)1534	(-)4990	7379
External Debt & Liabilities ($bn)	35.47	35.26	35.83	37.26	38.86[c]
as % GDP	42.5	36.4	32.7	29.4	27.1
Public Debt to GDP (%)	75.1	67.1	62.2	56.9	53.4
Foreign Investment ($mn)	816.3	912.7	1676.6	3872.5	6282.4
Portfolio	*18.2*	*(-)27.7*	*152.6*	*351.5*	*1761.6*
Direct	*798.0*	*949.4*	*1524.0*	*3521*	*4520.8*
Foreign Exchange Reserves ($mn)	10719	12328	12623	13137	13834
Exchange Rate (Rs/$)	58.4995	57.5745	59.3576	59.8566	60.5770
People					
Population (mn)	146.7	149.6	152.5	155.4	158.2
Labour Force (mn)	43	44.1	45.9	46.8	50.5
Literacy Rate (%)	51.6	53	53	54	54
Telephones (mn)	4.0	4.5	5.1	5.1	5.2
Mobile Phones (mn)	2.4	5	12.8	34.5	55.5
Motor Vehicles on Road (mn)	5.3	5.7	6	7.1	8.1

* Market Prices ** Constant Factor Cost of 1999-2000 [x] 2000-01 base [a] Nov.1991=1000 [b] As of Dec [c] July-March

M_O = currency in circulation + other deposits with SBP + currency in tills of scheduled banks + bank's deposits with SBP.

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

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

Source: Economic Survey FY07 & SBP website