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Editor's Corner

Dear Readers,

Pakistan's economy has made a remarkable turnaround in the last few years. Reforms carried out during the period through liberalisation, privatisation and restructuring in almost all sectors of the economy are having a significant positive impact on the economic performance. There are however, areas of concern for the government, one of which is sustaining a reasonable level of economic growth, so that the people at large benefit. Only when high growth rates are sustained over a longer period, as in China which had a growth of 10 percent a year since 1980 can a change be brought in the lives of the marginalised segments of society which in turn would help in alleviating poverty.

Improvement in the investment climate is about improving governance, transparency in operations and business regulations which facilitate rather than control, providing incentives for increasing production and improving productivity, liberalizing trade without prejudicing the rights of local producers, creating jobs for people, supporting a sustainable source of tax revenues to fund social sectors, build a good infrastructure, where people, in the capacity of a farmer, a small entrepreneur, a local manufacturing concern or a multinational have access to finance, to courts of law, where speedy justice is given so that investment takes place in the economy. It is also about reducing some of the costs of doing business in Pakistan. The results of a comparative international business survey by the World Bank places Pakistan 60th amongst the 155 countries surveyed on 'ease of doing business'.

Improving the investment climate, is the key to sustainable progress in attacking poverty and promising huge benefits for the society at large. By reducing the interface between the investor and the red tape of government through a true one-window operation, transparent systems and procedures, equity and equal treatment, facilitation rather than control, competition rather than monopolies and cartels should result in attracting investment. This in turn, provided the technology adopted is suitable for the creation of large scale employment, should result in reducing the level and intensity of poverty and reduce the extremities in the income gap between the rich and the poor. This should in turn provide opportunities to the poor to escape from penury and improve their living standards.

Investment climate improvements deliver broad benefits to the society. When the policies are more focused and have been specifically designed to be pro-poor, they increase substantively the probability of alleviating poverty in a significant manner. The key is to remove unjustified costs, risks and barriers to competition faced by firms of all types. An investment climate that encourages growth with the objective of reducing poverty; creates sustainable jobs, opportunities for micro-entrepreneurs, reduces cost of goods consumed by poor people, improves the living conditions of poor people directly and narrows the income disparities.

In Pakistan the investment climate over the last few decades has influenced economic activity and has thereby impacted on the levels and intensity of poverty significantly. The 70s was a period when government policies focused on the public sector, when work began on projects such as Port Qasim, Indus Highway, Steel and Chemical plants, heavy electrical and mechanical complexes etc. This was accompanied by a pick up in the housing sector. Public investment/GDP ratio rose to nearly 12 percent during 1973-77. In the later decade, infrastructure and industrial projects initiated during the preceding period came on stream and generated large income flows for the national economy. GDP growth averaged 6.5 percent during 1978-88 and per capita income rose to 3.7 percent.

The 1990s was a period spent in crisis management, largely on account of debt from the preceding period, the contraction of foreign aid flows, drought in later years, imposition of sanctions in the wake of the nuclear test, altered the investment landscape, and GDP growth rate fell.

The changes in the level of poverty from a declining trend of the 70s and 80s to a rising one in the 90s, was influenced by government policies. The large public sector expenditures had resulted in a debt overhang in the 90s and the government was constrained in undertaking expenditures which would address income and human poverty directly, with access to basic assets, to education, good health, water and sanitation.

A Poverty Reduction Strategy was prepared in 2001 to reduce poverty by creating a promotive environment, which would foster growth, improve governance and especially target the poor and vulnerable.

Fiscal space had to be created through debt restructuring, reducing the losses of public sector enterprises and increasing tax revenues which would be directed to poverty reducing and growth enhancing expenditures. Fiscal and monetary policy reforms were undertaken to increase revenue mobilization, stimulate private sector activity; reduce losses of public sector enterprises and prepare them for privatisation, as it would release additional funds for poverty reducing expenditures.

Mention may be made here of a major policy initiative taken by the government of creating a business environment that is supportive of small & medium enterprises as a step towards poverty reduction strategy. SMEs growth is a major means to enhance job opportunities, as of the 3.2 million business enterprises all over the country, SMEs constitute 97 percent of them, with an estimated share in industrial employment of 78 percent. For the SMEs to grow and serve as a conduit for desirable employment generation, it is necessary that they are provided with an adequate infrastructure and business friendly policy, conducive regulatory environment for achieving and sustaining high levels of business development and growth, getting access to capital. The Government has set up a Small and Medium Enterprise Development Authority, the SME Bank, has a policy for SME and SBP’s Prudential Regulations for SMEs. These would help improve the conditions for the SME sector in Pakistan.

With the Federal Budget only a few weeks away, the Government could shape the investment climate in ways which spur growth and reduce poverty. This could take place by addressing important constraints facing enterprises in a way that gives them the confidence to invest and sustain a process of ongoing improvements.

Ayesha Mahmud

Investment Climate in Pakistan

A good investment climate requires certain conditions

An important determinant of economic growth is the level of investment in the economy. The more investment there is per worker, whether it is the manufacturing, agriculture or services sector, the faster is the expansion in the economy, both because there is more machinery and equipment and also because production methods improve. If investment, particularly of the private sector could be sustained for a longer period, growth of the economy would pick up.

To sustain investment especially by the private sector requires a good investment climate — one that provides opportunities and incentives for firms, reduces legal and regulatory costs, lowers the cost of financial institutions in providing financial services and facilities, improves human resource development, strengthens basic infrastructure, attracts foreign direct investment, expands trade, promotes transfer of technology, upgrades the capabilities of small and medium size firms, develops policy and institution building, improves law and order or in other words creates an environment conducive to investors both local and foreign, to come and invest in large numbers in the different sectors of the economy. A good investment climate drives long term growth and productivity improvements, while protecting other social interests.

Low investment

Pakistan's investment performance leaves much to be desired. In the 1990s, the investment levels fell short of some of the other countries in the region. The Ministry of Industries, Government of Pakistan, in a report has identified the growing investment gaps compared with other regional economies. (Investment gap has been defined as the difference between Pakistan's rate of growth of investment and the growth rate achieved by its competitors).

During the last decade, the country was not able to sustain the investment growth achieved in the 1980s. Then Pakistan investment had grown 3.4 percent faster per annum than Bangladesh's investment growth and was more or less in line with India's investment growth. In 1992-2001 investment grew at an annual rate that was 6.3 percent less than that of South Asia, 6.8 percent less than India and 9.1 percent less then Bangladesh.

Declining private investment

The slowdown in the aggregate investment is attributable to declining private investment. With a change in government policies which curbed public sector role in the economic activities, it was upto the private sector to take advantage of the greater space available to it. The absence of a corresponding increase in private investment is disappointing. Pakistan has been unable to exploit its investment potential over the last decade. The investment GDP ratio hovers at around 16 percent for the last number of years. This compares unfavourably with other countries in the region.

A vibrant private sector creates jobs, improves productivity, promotes growth and expands opportunities for poor people. That is why governments around the world implement wide ranging reforms. Although macro policies are important, there is a growing consensus that the quality of government regulation of business and the institutions that enforce this regulation are a major determinant of prosperity.

	Investment GDP Ratio (%)	GDP Growth (%)
China	44.4	9.1
Malaysia	21.8	5.2
Thailand	25.2	6.7
Bangladesh	23.4	5.3
India	23.3	8.1
Pakistan	16.7	5.1
Sri Lanka	24.1	5.9

Countries with an increasing GDP ratio are able to raise their growth, as the above Table shows.

There are a number of determinants of the investment climate. The investor's perception about risk in various areas –– legal and regulatory, tax policy, financial sector, labour market, political security, infrastructural bottlenecks, among others influences his judgment about whether to invest or not.

Measures initiated in Pakistan to promote invest- ment

In Pakistan, the Government has initiated measures to address investor concerns; sectors have been opened for private investment, support is being extended to existing and new investments, privatisation programme is being given high priority, tax and tariff structures are being restructured, streamlined. There are large business opportunities, with strong potential for investment in textiles, oil and gas, food processing, IT, SMEs, engineering and a large number of services that have been deregulated.

A Board of Investment (BoI) has been established, as the central investment promotion and facilitation agency. Its objective is to promote domestic and foreign investment, by providing services which assists investors set up or expand their business in Pakistan. Any problem that may arise for the investor with regard to interpretation of law or regulation, the BoI takes up the matter with the concerned agency. In other words, it acts as the focal point of contact between potential investors and all the agencies of the government.

§ The Government has a liberal Investment Policy where the main features are: -

  - § all economic sectors open to FDI
  - § equal treatment to local and foreign investors
  - § 100% foreign equity allowed
  - § no government sanction required
  - § attractive tax/tariff incentives package
  - § remittance of royalty, technical fee, capital, profits and dividends

§ Foreign Investment is fully protected.

§ Bilateral agreements have been signed. Investment Protection Agreement with 46 countries and Avoidance of Double taxation with 52 countries.

§ There is a policy package for manufacturing and non-manufacturing sectors, which spells out sectors for which government permission is required, the policy with regard to remittance, minimum investment amount, fees to be paid etc.

§ Tariff and fiscal incentives are available to support investments in the country.

§ Facilitation measures with regard to Exchange Control are spelt out for manufacturing and the non-manufacturing sectors.

§ Expatriate Facilitation Services are provided.

§ Investment treaties have been signed with about 46 countries for the promotion and protection of investment.

§ Economic policies and the existing legal cover for foreign and local investment will be extended to new areas and sectors in oil & gas, agriculture, SMEs, infrastructure, chemicals, IT & Telecom, energy, mining, tourism, engineering.

§ SME development being emphasized. SMEDA has been set up for this purpose.

§ Infrastructure – Roads, ports, air transport, shipping and railways have been developed.

§ Specific sectoral policies have been formulated.

Factors constrain- ing invest- ment

One of the major reasons, investment was constrained in the 1990s was the faltering economic indicators. This has hindered businesses in their efforts to compete internationally, create employment and grow. The lack of a supportive macroeconomic framework, a prerequisite for attracting investment, resulted in stagnant investment/GDP figures. During the 1990s inflation was in double digits, the fiscal deficit was well above 5 percent of GDP and total public debt was at 88 percent of GDP. Pakistan's external position was weak, with gross official reserves at less than $1 billion (at the time, less than 5 weeks of imports). Grants declined to virtually zero during the later half of the decade. Combined with slow economic growth, this performance translated into an unsustainable debt burden.

Since FY00 the government has embarked upon an ambitious programme to improve its macroeconomic fundamentals. Extensive reforms of public enterprises and improvement in their financial position has reduced the burden on the budget.

Last few years have witnessed improvement in external environment, with large increase in remittances and substantial inflow of financial assistance.

Box

Challenges to Investment in Pakistan

Views of Engr. M. A. Jabbar, former VP, FPCCI

This review provides a current picture of the investment climate facing Pakistan. The potential challenges and opportunities are also outlined which are ingredients for an integrated assessment of the quality of investment climate.

Economic challenges and opportunities if exploited by quality investment climate can serve as an instrument for increasing domestic manufacturing, for both local and overseas sales. This merits special consideration particularly in view of the changed global economic scenario.

Let us give a brief overview of the potential of Pakistan economy, which may help us in ascertaining the available opportunities and evaluating the challenges.

Economic Potential and Opportunities

In the era of globalisation, every nation is trying to present its economy as a land of opportunity. For Pakistan certain facts are worth mentioning: -

§ It has the sixth largest population.

§ It is blessed with sufficient natural and mineral resources.

§ It has a sizable young labour force.

§ It has the added advantage of having ideal topography which connects Asia with Europe though the potential markets of Russia and Central Asia. It has borders with India and China, on one side and Iran, connecting Persia on the other.

§ It has well-spread land routes and a reasonably reliable network of telecommunication.

§ It is one of the emerging economies in Asia with a moderate GDP size of over $100 billion coupled with encouraging growth rate.

§ The country has undertaken the most liberalized investment policy which offers countless benefits for foreigners and is searching to satisfy local investors through affordable policy supports.

§ The country is blessed with the picturesque landscape that can transform it into one of the attractive tourist destinations.

Remittances are expected to exceed all time high of $4.5 billion and foreign exchange reserves may increase to $14 billion. Exports are also expected to surpass the target of $17 billion. During the first eight months of FY06, a trade deficit of $ 7.2 billion was recorded, which may reach $9-10 billion by the end of this year. The alarming trade deficit, current account position, inflation, high interest rates, more activities in stock trading and real estate against low industrial activities have put forth challenges. It is a matter of careful planning to evade adverse effects on the investment climate. Telecommunication, Light Engineering including Auto mobiles and Home Appliances, Aviation and Transportation, Exploration of oil and gas, Information technology, Hotels and Tourism, Food Processing, corporate farming etc are still the venues for investment by local and the foreigners if the investment climate keeps on improving.

Future Challenges and our Duties

With the dawn of 2005, we have entered the era of Quota Free Trade Regime, demanding the remodeling of economic policies to be WTO compliant. Competition for market share has greatly intensified. The new emerging realities under WTO have placed developing countries in a difficult situation.

As one of the founder members of the WTO and signatory to more than 90 percent of the agreements, Pakistan has the obligation to comply with the standards required by WTO regulations. The WTO agreements have shifted the responsibility of compliances from the Government to the Private sector of the country. Serious efforts are required to adopt these measures in the larger interest of the country.

To face the challenges, we need to stay competitive in the international markets. Reduction in the cost of production, employment of latest technologies and up-gradation of skills of the employees are the basic requirements to meet the challenges. Competency requires improvement in the quality and price of our products both in domestic and international markets, increasing industrial productivity, focusing on value addition, building on industrial infrastructure among others.

There may be an agreement that there is urgent need to evolve policies to utilize modern technologies and upgrade research institutions to maximize production and to grow in maximum-possible quantities all sorts of agricultural products including fruits and vegetables, spices, pulses, oil seeds, nuts and kernels. There is a need to concentrate on dairy and poultry farming, horticulture and fisheries.

Another challenge faced by Pakistan is to enhance competitiveness through raising industrial productivity. A serious constraint in achieving global competitiveness has been the low productivity levels of the industrial sector. During the period 1992-2004, overall labour productivity in Pakistan grew at a modest rate of 1.58% which is quite low as compared to India's 5.25%, Korea's 4.86%, Malaysia's 4.36% China's 4.15%, Sri Lanka's 2.54% and Bangladesh's 1.52%. To obtain a good level of competitiveness and productivity we need to go for technological up-gradation of industrial sector, cluster development of SMEs, linkage between academia and Industry, formation of innovative business incubators, promotion of knowledge-based enterprise, innovation driven economic growth, adoption of best international business practices and above all, the compliances with international standards and procedures to increase the global share of our products.

The *higher cost of production* is one of the critical impeding factors in the growth of exports. The only remedy to this syndrome is bringing the cost of production down to the level of our competing countries like China, India, Indonesia, Thailand and Bangladesh. These countries have taken necessary measures to meet the challenges of free market economy by giving incentives, subsidies and price cuts on inputs to their exporters. But unfortunately in Pakistan, the situation is quite contrary. We are apprehensive that if the concrete measures for the reduction of Cost of Doing Business in the country are not taken, our existence in the international market will be in jeopardy.

Positive image of the Country and economic development go hand in hand. Unfortunately, some quarters of the Western Media are engaged in negative image building of Pakistan by magnifying even a small incident, deranging law and order situation in the country. This is also one of the severe problems, impeding growth in our trade and economic relations with potential markets of the World.

Poverty, Unemployment and Inflation coupled with the low level of human development indices are daunting challenges. To face these challenges, all the stakeholders will have to play a proactive and productive role. It is not only the government or the private sector which would address these issues, all will have to join hands to overcome these difficulties with greater sense of responsibility, integrity, fidelity and with a spirit as a nation.

If we can improve the investment climate by addressing the weaknesses, we can make it attractive for domestic and foreign investors.

Econom-ic funda-mentals improve

Domestic debt servicing obligations were reduced due to substantially lower domestic interest rates. Government's debt management policy has reduced the debt to GDP ratio considerably. Inflation has been brought down from the double digit figures, due to the tight monetary policy pursued by the State Bank of Pakistan. Consequently once inflation was contained, the State Bank of Pakistan relaxed its monetary policy and reduced interest rates, thus acting as a stimulus to investment. Overall GDP growth has shown an improvement in the last few years. The improvement in economic fundamentals has resulted in some increase in investment, both domestic and foreign in the economy.

Latest available figures for FY06, show that investment to GDP ratio has risen to 20 percent of GDP.

Besides improving the economic fundamentals of the economy, the government has taken on the enormous challenge of fundamentally transforming the state's role from owner-operator to facilitator-regulator across most economic activities.

Privatisation of state-owned finance, utilities and of industrial enterprises is being accompanied by the opening of previously controlled markets in telecommunications, media and ICT. The Government is revising legal and regulatory framework, building capacity in the public sector to carryout its responsibilities.

Inspite of the steps taken by the government to strengthen the economic fundamentals, the various policies and incentives offered to investors, there are still important constraints in infrastructure and other areas which are impediments to growth and competitiveness of firms in Pakistan.

At a workshop on Improving Pakistan's Investment Climate; World Development Report 2005 and Doing Business in 2005 Dissemination, a paper presented by Eric Manes has summarized the cost of doing business in Pakistan. We give below the summarized paper:-

Pakistan – Country Profile
Doing Business 2005
(Summarized by Eric Manes)

Doing business indicators for Pakistan show better than average and improving indicators for entry regulations, disclosure requirements and bankruptcy procedures. However, Pakistan also recorded relatively rigid labor markets – particularly on the hiring side, average creditor and borrower rights, low coverage of credit registries and long and costly contract enforcement.

Generally, indicators are improving, but only slightly. Countrywide indicators may be deceptive however, since Karachi shows better indicators than the rest of the country in terms of time to register a business the cost/time to enforce a contract and the cost to create collateral. On the other hand, it is more expensive to start a business and takes more time to register property in Karachi than in the rest of the country.

Entry Regulations

§ Pakistan *compares favorably* to most South Asian countries in terms of time and costs required to start up a business. In addition, entry has become easier and less costly in recent years.

§ The time requirement of 24 days to start a business is significantly less the 47 day average for South Asia, and less than the average for Malaysia (30 days) and China (41 days).

§ Cost requirements (36% of GNI) are closer to the regional average (45% of GNI) and higher than China and Malaysia which require 14% and 25% of GNI, respectively.

§ Between 2002 and 2004, days to start of business have come down from 54 days, followed by a reduction in the cost (from 56% to 36% between 2004 and 2005), in line with the average reduction for the South Asia region (down from 76% to 45%).

§ The days required to start a business differs only slightly across 5 cities within Pakistan – ranging from 24 - 29 days, but the cost to start a business in the rest of Pakistan are significantly lower (from 17% to 30%) than the 36% of GNI to start a business in Karachi.

Hiring and Firing Workers

- Pakistan's labor market is one of the *most rigid* in South Asia, recording a composite index (49) slightly higher than all South Asian countries and somewhat higher than the South Asia average (42).
- Within this composite index, Pakistan's rigidity stems predominately from the difficulty in hiring (78) which far exceeds other South Asian countries.
- On the firing side, though Pakistan's labor market seems highly flexible in terms of regulation (30) as compared with that of India, Sri Lanka and Nepal, but the costs of firing (90 weeks) are comparable.
- Since last year, Pakistan's labor market has improved in terms of flexibility as the composite index has come down from 58 to 49, but the component covering hiring flexibility has worsened.

Registering Property

- The cost and time for registering property in Pakistan is *the lowest* amongst South Asian countries, taking 49 days (as compared with an average of 56 days for the region) and costing 4.2% of the property value (compared to the 6.1% average for South Asia).
- There is little variation across cities in Pakistan in terms of the cost to register property with only Peshawar showing lower than average costs at (3.5% of property value), but the time to register ranges from 17 days in Lahore to 49 days in Karachi.

Getting Credit: Legal Rights and Credit Information

- Access to credit based in Pakistan is *about the same for all countries in South Asia*. The powers of borrowers and creditors in collateral and bankruptcy laws are measured in a legal rights index. Pakistan's index is 4 out of possible 10, compared with Malaysia's achievement of an index of 8.
- Pakistan's credit information indicators show low coverage, covering 2 borrowers per 1000 adults for public registries and 3 borrowers per 1000 adults for private registries. The low coverage characterizes all South Asian countries apart from Sri Lanka with 19 per 1000.
- The information coverage in Pakistan's credit registry is better than other countries in South Asia with a 4 out of 6 rating, as compared with 3 out of 6 for most other South Asian countries.
- Across cities in Pakistan, creating collateral costs around 22.3% of the value of the secured property for 4 of the 5 cities. In Karachi, the cost is about half that recorded in the rest of the country at 11.5%.

Protecting Investors: Corporate Governance

- Laws and regulations enhancing disclosure place Pakistan's corporate governance *slightly higher* than the average for South Asia at 4 out of 7, equivalent to India, Sri Lanka and slightly higher than the 3 achieved by Bangladesh and Nepal, China is also rated at 4 and Malaysia at 5.

Enforcing Contracts

- The time to enforce a contract in Pakistan is estimated at 395 days - *above the South Asian average* of 375 days, but lower than the time required in India (425) and Sri Lanka (440). This is slightly worse than the 365 days recorded for Karachi last year.
- However, the 395 days for Karachi and Peshawar is on the low end for the 5 cities in Pakistan. In Faisalabad it takes 735 days and in Lahore 957 days are required.
- The cost to enforce a contract (35% of GNI) *is higher than all other South Asia countries* apart from India (43%) and is higher than Malaysia (20%) and China (25%).
- Even so, even though 35% seems better than the 49% recorded for last year, Karachi is the least cost area in the country for contract enforcement. In Lahore and Peshawar contract enforcement costs 60 and 67 percent of GNI, respectively.

Closing A Business: Bankruptcy

- The time to go through insolvency is *relatively low* for Pakistan at 2.8 years – the same as last year and only slightly higher than the 2.3 years for Sri Lanka, Malaysia and China. This is compared to Bangladesh, Nepal and India which take 4, 5 and 10 years, respectively to close a business.
- The 38% recovery rate for Pakistan is the *best in the region* and surpasses the 35 percent recovery recorded for Malaysia and China.
- The cost to go through insolvency - at 4 percent of the estate – was *the lowest for the region* last year, which averaged at 9% and much lower than China and Malaysia at 18%.

Doing Business

Indicator	Pakistan	India	Bangladesh	Region	China	Malaysia	Region	OECD
Starting a Business (2005)								
Procedures (number)	11	11	8	7.9	13	9	8.2	6.5
Time (days)	24	71	35	35.3	48	30	52.6	19.5
Cost (% of income per capita)	24.4	61.7	81.4	40.5	13.6	20.9	42.9	6.8
Min. capital (% of income per capita)	0.0	0.0	0.0	0.8	946.7	0.00	109.2	41.0
Dealing with Licenses (2005)								
Procedures (number)	12	20	13	15.7	30	25	18.0	14.1
Time (days)	218	270	185	195.3	363	226	157.7	146.9
Cost (% of income per capita)	1170.7	678.5	290.9	385.9	126.0	82.7	137.4	75.1
Hiring & Firing Workers (2005)								
Difficulty of Hiring index	67	56	11	41.9	11	0	26.0	30.1
Rigidity of Hours Index	40	40	40	35.0	40	20	29.6	49.6
Difficulty of Firing Index	30	90	20	42.5	40	10	23.0	27.4
Rigidity of Employment Index	46	62	24	39.9	30	10	26.2	35.8
Hiring cost (% of salary)	12.0	12.3	0.0	5.1	30.0	13.3	8.8	20.7
Firing cost (weeks of wages)	90.0	79.0	47.0	75.0	90.0	65.2	44.2	35.1
Registering Property (2005)								
Procedures (number)	5	6	11	6.9	3	4	4.6	4.7
Time (days)	49	67	363	124.0	32	143	62.2	32.2
Cost (% of property value)	3.2	7.9	11.0	6.3	3.1	2.3	5.0	4.8
Getting Credit (2005)								
Legal Rights Index	4	5	7	3.8	2	8	5.3	6.3
Credit Information Index	4	2	2	1.8	3	6	1.8	5.0
Public registry coverage (% adults)	0.3	0.0	0.4	0.1	0.4	33.7	1.7	7.5
Private bureau coverage (% adults)	0.9	1.7	0.0	0.6	0.0	..	9.6	59.0
Protecting Investors (2005)								
Disclosure Index	6	7	6	4.1	10	10	5.6	6.1
Director Liability Index	6	4	7	4.6	1	9	4.2	5.1
Shareholder Suits Index	7	7	7	6.4	2	7	6.2	6.6
Investor Protection Index	6.3	6.0	6.7	5.0	4.3	8.7	5.3	5.9
Paying Taxes (2005)								
Payments (number)	32	59	17	25.8	34	28	28.2	16.3
Time (hours)	560	264	640	331.7	584	..	249.9	197.2
Total tax payable (% gross profit)	57.4	43.2	50.4	35.3	46.9	11.6	31.2	45.4
Trading Across Borders (2005)								
Documents for export (number)	8	10	7	8.1	6	6	7.1	5.3
Signatures for export (number)	10	22	15	12.1	7	3	7.2	3.2
Time for export (days)	33	36	35	33.7	20	20	25.8	12.6
Documents for import (number)	12	15	16	12.8	11	12	10.3	6.9
Signatures for import (number)	15	27	38	24.0	8	5	9.0	3.3
Time for import (days)	39	43	57	46.5	24	22	28.6	14.0
Enforcing Contracts (2005)								
Procedures (number)	46	40	29	29.7	25	31	30.0	19.5
Time (days)	395	425	365	385.5	241	300	406.8	225.7
Cost (% of debt)	35.2	43.1	21.3	36.7	25.5	20.2	61.7	10.6
Closing a Business (2005)								
Time (years)	2.8	10.0	4.0	4.2	2.4	2.2	3.4	1.5
Cost (% of estate)	4	9	8	7.3	22	14	28.8	7.4
Recovery rate (cents on the dollar)	44.3	12.8	24.3	19.7	31.5	38.8	24.0	73.8

Source: The World Bank

The table on the preceding page gives data on some 10 topics related to doing business in Pakistan. This has been compared to other countries in the region.

The Table starts with the Entry Regulations. Economies differ significantly in the way in which they regulate the entry of new business. In some economies the process is straightforward and affordable, in others the procedures are burdensome. Across countries, cumbersome entry procedures hold back private investment, push more people into the informal economy, increase consumer prices and fuel corruption.

Doing business examines, government regulation in the areas of employment laws, industrial relations laws, social security laws, occupational health and safety laws; how efficient the courts are in contract enforcement, this involves looking at the number of procedures mandated by law or court regulation, the time taken in dispute resolution, the official cost of going through court procedures; access to credit by potential investor is one of the greatest barriers to operation and growth. Another indicator examined is Closing a Business, where the focus is on identifying weaknesses in the existing law, as well as the main procedural and administrative bottlenecks in the bankruptcy process.

The World Bank had carried out a survey of 130 countries. It had ranked each economy on the ease of doing business, on ten topics that comprised the overall ranking. Pakistan is ranked 60th on the ease of doing business. Given below is a table which ranks Pakistan on the Ease of Doing Business with respect to certain indicators and compares it to other countries in the region.

It is placed 127th in paying taxes and 134th in enforcing contracts. Indicators of paying taxes show that Pakistan compared to the region is making more payments, spending larger number of hours and paying more towards taxes as a percentage of its gross profit.

Similarly in enforcing contracts, there is a longer time period and steps involved to enforce contracts, compared to other countries in the region.

Ease of Doing Business

Ease of …	*Economy Rank*				
	Pakistan	India	China	Bangladesh	Malaysia
Doing Business	60	116	91	65	21
Starting a Business	38	90	126	52	57
Dealing with Licenses	80	124	136	53	101
Hiring and Firing	91	116	87	22	34
Registering Property	43	101	24	151	53
Getting Credit	72	84	113	44	6
Protecting Investors	20	29	100	17	5
Paying Taxes	127	103	119	92	19
Trading Across Borders	103	130	48	125	36
Enforcing Contracts	134	138	47	75	61
Closing a Business	36	118	59	77	43

Source: The World Bank

A World Bank document, '*Pakistan Growth and Export Competitiveness*', has identified macroeconomic instability, infrastructure bottlenecks (power, water and transport/trade logistics), inadequate supply of quality education/skilled manpower, weak economic governance (including burdensome regulation), pockets of high protection and food quality and safety standards as major constraints to growth and international competitiveness. These deficiencies in Pakistan's investment environment make raising productivity and competitiveness a significant challenge. Indeed there is ample evidence of competitiveness gap that Pakistan must close to become a competitive player in global trade.

The World Economic Forum's '*Global Competitiveness Report 2005*', using three indices (macroeconomic conditions, public institutions, and technology) highlight Pakistan's areas of strengths and weaknesses. On the positive side, the Macroeconomic Environment scored better than other areas, reflecting progress made in stabilizing the economy in recent years. On page 12 we give excerpts from the document.

Box

The American Business Council of Pakistan
2005 Survey Results

The American Business Council conducts an Annual Survey of its members (around 60 operating in all sectors of the economy) to assess their opinion about the economy and business conditions including investment outlook.

We give below the results of the Perception Survey 2005: -

- Members of the American Business Council contribute over Rs35 billion to the national exchequer. They have a cumulative revenue of about $2 billion and investments of over $1 billion.
- ABC members continue to be optimistic about overall business climate and domestic economy.
- They plan further investment in the year 2006.
- Most members have reported growth in revenue and profits versus last year.
- Majority of members highly rate the responsiveness of State Bank of Pakistan, Securities & Exchange Commission of Pakistan, Central Board of Revenue, Income Tax and Customs.
- Members' rating of responsiveness has declined for Ministry of Industries, Ministry of Health, Ministry of Labor & Manpower and Export Promotion Bureau.
- While many members consider law and order situation to have improved, but perception abroad is still not positive.
- We give below select highlights of the Survey.

	2000		*2005*	
	Positive	*Negative*	*Positive*	*Negative*
Overall Business Climate	96	4	100	0
Domestic Economy	40	60	98	2
External Political Situation	21	79	96	4
Internal Political Situation	38	62	85	15
Law & Order Situation	66	34	63	37
Consistency of Policies	48	52	93	7
Implementation of Policies	60	40	89	11
State Bank of Pakistan	97	3	100	0
Securities & Exchange Commission	96	4	98	2
Central Board of Revenue	86	14	98	2
Income Tax	88	12	96	4
Customs	89	11	95	5
Export Promotion Bureau	100	0	87	13
Ministry of Industries	100	0	97	3
Ministry of Health	79	21	72	28
Ministry of Labor & Manpower	100	0	77	23

Global Growth Competitiveness Index

	2005 (117 Countries)					2004 (104 Countries)			
	Global Competi-tiveness	Growth Competi-tiveness Index	GCI Components			Growth Competi-tiveness Index	GCI Components		
			Tech-nology	Public Institu-tions	Macro Conditions		Tech-nology	Public Institu-tions	Macro Conditions
Pakistan	**94**	**83**	**80**	**103**	**69**	**91**	**87**	**102**	**67**
Bangladesh	98	110	101	117	83	102	100	104	74
Sri Lanka	80	98	88	100	94	73	81	72	73
Singapore	5	6	10	4	1	7	11	10	1
Malaysia	25	24	25	29	19	31	27	38	20
Thailand	33	36	43	41	26	34	43	45	23
China	48	49	64	56	33	46	62	55	24
Philippines	73	77	54	104	71	76	61	99	69
Turkey	71	66	53	61	87	66	52	62	84
Indonesia	69	74	66	89	64	69	73	68	63
India	45	50	55	52	50	55	63	53	52
Mexico	59	55	57	71	43	48	48	59	49
Peru	77	68	75	59	70	67	71	58	68
Brazil	57	65	50	70	79	57	42	50	80

Source: 'Pakistan Growth and Export Competitiveness' a World Bank Document

Rankings improve

Based on the substantial reforms in the banking sector and significant trade liberalization, *financial sector efficiency* and *market openness* ranked above half the countries surveyed in 2004. At the firm level, Pakistan's ranking in *corporate strategy and company operations* showed improvement recently, rising from 81st in 2003 to 67th and remained stable at 68th in 2005. And in 2005, Pakistan ranked 94th in 'global competitiveness' out of 117 countries. The highest ranked component of the three sub-indices included in the global competitiveness index was *business sophistication* which ranked 57th out of 117 countries. However, in other areas, Pakistan ranked much lower-eg in higher education and training and in health and education Pakistan ranked 104th and 115th, respectively.

Notwithstanding notable policy achievements and company-level strengths, the indices confirm the findings reported earlier and the consensus among policy-makers, academics and the business community that Pakistan's low competitiveness ranking derive from weaknesses in three second-generation areas. First, as an obstacle to productivity growth, *economic governance* poses a particular challenge, encompassing such factors as public institutions, regulation, crime, political uncertainty, corruption and the rule of law. Second, *inefficiency of factor markets* represents a major constraint to efficient resource allocation and ease of entry, particularly in the case of land and labour. A third area covering *physical infrastructure*, ranked 76th in the Global Competitiveness Index, is a particular weakness in South Asia generally and has been an important priority for Pakistan for a long time.

The above mentioned World Bank document, has in one of its chapters "*Improving Business Environment for Stronger Growth and Competitiveness*", identified the impediments to productivity growth and competitiveness of firms in Pakistan and suggested actions to address these priority issue. We give below excerpts from the chapter.

Strengthening Economic Governance

Regulatory Environment. The regulatory environment includes many antiquated laws enforced by autonomous and government institutions at federal, provincial and local levels. Increasingly, the openness of the economy, the rapid pace of globalization and the sophistication of firms operating in Pakistan are exposing inadequacies in the regulatory framework. An indication of the regulatory impact on formal firms' cost of doing business is that Pakistani managers, on average, spend 10 percent of their time dealing with Government regulation; higher than other comparator countries apart from China and India.

Post-entry Regulation. A significant source of government-business interface stems from compliance processes involved with tax, customs, and labour regulation. Tax administration has in the past been considered a major constraint. The Government is undertaking comprehensive programs with explicit objectives to lower the compliance burden from government regulation while improving the effectiveness of the government service.

Business entry and exist. The driving force behind firm-level productivity is an environment of open competition where firms must strive for low costs, efficiency, and innovation to survive. Many factors affect the ease of entry by domestic firms, including the regulatory burden involved in organizing a new business and the contestability of markets. Starting a business in Pakistan has become easier in recent years due to concerted effort to reduce the number of steps and cost required associated with registration. The days to start a business fell from 53 to 24 by 2003 and efforts have continued to streamlining procedures and introducing on-line systems for tracking and reporting. The lack of minimum capital requirements is also one of Pakistan's key strengths.

The achievement have made registering a business easier in Pakistan than in other South and East Asian countries, but the actual start-up of operation, including land acquisition, site development, construction licensing, utility hook up carries a high degree of administrative burden, much of which are governed by provincial and local authorities.

Court efficiency. Without the credible threat of an efficient and effective adjudication and dispute resolution mechanism, risk taking by businesses is suppressed and innovation forgone.

Security, law & order and political stability. Issues outside the normal parameters of economic management have been shown to significantly affect investment climates around the world, but are perhaps more important for Pakistan than for other economies. Perceptions of security risks as well as local crime, though hard to quantify, have clearly had an adverse impact on investment and growth. Perception of instability in national and regional political arena has also been a clear deterrent on investment climate in Pakistan as well. Together this body of uncertainty has contributed to a short term view and suppressed investment by the business community.

Regional Differences. There exists significant differences in Pakistan's investment climate across provinces. Economic management, political and security issues play a significant role in provincial differences in the investment climate. Provincial governments and increasingly local authorities are responsible for much of the business interface with regard to labour and other type of business inspections, tax administration, license approval, and judicial enforcement. Differences amongst provinces in these areas bring policy based location advantages which can be harmful to efficient resource allocation. At the same time perceptions of security, crime and political instability and its impact on an open, business friendly environment should be a national concern even if its origins are at sub-national levels.

The Way Forward. Tax, customs, financial, labour and utility regulation have been the first areas tackled by the Government and significant progress is being made. Risk based approaches emphasizing self-assessment are being introduced in tax and customs and are being planned for labour inspections and prudential regulation in the financial sector.

Box

Pakistan Knitwear Manufacturers

Face Severe Competition

Pakistan's knitwear industry is facing problems competing with countries like Bangladesh, India, China and others in the international market. In the European Union alone, its exports have fallen both in terms of value and volume.

In the post quota period, growth of textiles and clothing sector (7.2%) have lagged behind China (50.5%), India (36.6%), Sri Lanka (26.7%) and Bangladesh (16.5%).

A paper prepared by the Pakistan Hosiery Manufacturers Association and presented to Ministry of Commerce has shown the advantages enjoyed by manufacturers in Bangladesh because of relatively lower cost of production, price of land and other incentives and subsidies the exporters receive, which has enabled them to capture export markets. We give below excerpts from the paper.

Production Costs in Bangladesh and Pakistan

S. #	Raw Material Used in Textiles	Bangladesh		Pakistan (Rs)	Percentage Change
		Taka	Pak Rs		
1.	Gas	5.23	4.65	7.98	71.61
	Captive	3.73	3.32	7.98	140.36
2.	Electricity	3.98		4.71 for B2 Industrial	31.56
				4.71 + 2.25 = 6.96 for Garment Manuf.	94.41
3.	Water	0% Nil		73/- Per 1000 Gallons for Line Water	100
				130/- Per 1000 Gallons for Tanker	100
4.	Dyes	0% Nil		5% to 20% Duties	
5.	Chemicals	0% Nil		5% to 25% Duties	100
6.	Caustic Soda	0% Nil		5% to 20% Duties	100
7.	Consumable Spare Parts	0% Nil		5% to 20% Duties	100
8.	Human Recources (Labour)	960	864	3000/-	247.22

For New Investment

Cost of land in Bangladesh is zero in EPZ and cost towards owning land is $2 per square meter per year with lease agreement of 30 years, renewable at expiry; which means that for one acre of land one has to pay US$ 8,000 per year which is Rs.480,000/- in Pak Rupees, whereas in Pakistan cost of land in EPZ, Karachi is almost Rs.10 million of resale. As far as other industrial areas are concerned, in SITE cost of land is approx. Rs.50 million per acre; in Korangi, Rs.60 million per acre and Landhi, Rs.40 million. For a sizeable plant a minimum of 5 acres are required.

Other Incentives

§ Plant and machinery attract 5% duty in Pakistan, whereas in Bangladesh there is no duty.

§ Cash incentives of 7% to 15% are given to the exporters in Bangladesh whereas in Pakistan there are hardly any incentives.

The above shows the costs of production are relatively lower in Bangladesh, which has enabled it to record a respectable growth.

Improving Factor market Conditions

Well functioning markets for labour, land and capital enable optimal resource allocation and maximum factor productivity growth. Pakistani authorities have taken bold steps to improve the banking sector, but deficient labour and land markets continue to be viewed as major constraints to private economic activity.

Addressing skills gap and low labour productivity. Human development, basic education and workers' skills indicators show Pakistan, along with Bangladesh, consistently at the lower end of the rankings. Worse, Pakistan's normalized scores on Human Development Index, literacy and enrollment rates (Secondary and Tertiary) fell between 1995 and 2004, indicating that gains made in basic education were less than those achieved in other developing countries of the world.

With poor level of basic schooling, it becomes difficult to train the new entrants to the labour force to meet the needs of manufacturing industries. The resulting lower labour productivity relative to the comparator countries with stronger educational base adversely affects Pakistan's competitiveness and will inhibit Pakistan's growth prospects.

The way forward. In education, Pakistan needs to:

§ Focus a considerable portion of the limited education resources to upgrade quality of and access to primary and intermediate general education to better prepare students for the subsequent levels of education, to reduce drop-outs, and to meet the 'trainability' requirement of various industries.

§ Take steps to make intermediate and secondary education more purposeful and linked to the economy and changing needs in the labour market, and careers.

§ Upgrade and expand the overall vocational and technical education capacity to train individuals who are completing matriculation and those who have dropped out earlier and the unemployed.

Infrastructure Development

Pakistan's infrastructure indicators show a low proportion of the population with access to electricity, paved roads, and municipal services as well as fixed and mobile telecommunications. In addition to the low penetration density, the performance of the services has been relatively poor, particularly in the area of electricity. The conditions of the roads, railways, and ports hinder Pakistan's competitiveness by preventing adequate supply chain logistical linkages amongst firms and their customers. The findings of the productivity and competitiveness analysis highlighted electricity utility and transport logistics/trade facilitation as the key areas to focus.

Power utility. The principal infrastructure issue facing the business community, particularly the larger established firm, is access to reliable power. Electricity concerns were considered a severe major constraint by almost half of surveyed firms in 2002, without distinction to size and location.

The way forward. Government efforts to provide better infrastructure has been intensive in recent years and characterized by successes in telecommunication and oil/gas and slow progress in power sector reform. Therefore, the near term agenda in the power sector include:

§ In the short-term, a priority action is to introduce and implement an appropriate pricing structure for distribution companies to support the sector restructuring, enable better targeting of subsides, and enhance operational performance by reducing theft and losses.

We have seen some of the major impediments towards creating a good investment climate. If the government can make faster progress in tackling these problems impressive results can be achieved. The creation of an investment friendly business environment, accompanied by sustained macroeconomic stability would accelerate economic growth, a key pillar to Pakistan's poverty reduction strategy and help in raising the investment levels.

Commercial Banks Performance 2005

Local Banks

Banks	Quoted Share Price (Rs) *	Aggregate Market Capitalization (Rs.Bn.) *	Nos. of Shares issued/paid up (Mn.)*	Paid up Capital (Rs.Mn.)*	Authorised Capital (Rs.Bn)**	Earning Per Share (EPS) (Rs.)**	Book value Per Share (Rs.)**	Price Earning (P/E) Ratio	Date of Establishment/ Commencement of Business	Rating Longterm/ Shortterm	Employees (Nos.)**	Branches (Nos.)**
Public Sector Banks												
National Bank of Pakistan	284.57	166.90	590.9	5909	7.5	21.51	61.19	13.23	9-11-1949 / 21-11-1949	AAA/A-1+	13824	1242
First Women Bank	*NQ*	*NQ*	28.4	284	0.3	4.71	24.73	*NQ*	21-11-1989 / 2-12-1989	AA/A-1+	513	38
Bank of Punjab	91.64	21.38	235.0	2350	10.0	10.01	28.84	9.15	30-7-1989 / 19-9-1994	AA-/A-1+	3430	266
Bank of Khyber	25.62	4.22	164.2	1642	2.5	2.34	17.19	10.95	1-11-91 / 22-12-1991	BBB/A-2	370	29
Privatised Banks												
Habib Bank Ltd.	*NQ*	*NQ*	690.0	6900	13.8	13.86	47.65	*NQ*	25-8-1941 / 14-8-1947	AA/A-1+	16314	1470
United Bank Ltd.	129.60	67.66	647.5	6475	10.3	11.48	36.20	11.29	24-7-1959 / 9-11-1959	AA/A-1+	9354	1043
MCB Bank	227.52	95.99	511.8	5118	6.5	21.36	41.93	10.65	9-7-1947 / 17-8-1948	AA/A-1+	9377	947
Allied Bank Ltd.	84.32	37.04	440.5	4405	5.0	6.89	25.87	12.24	3-12-1942 / 1-7-1974	A+/A-1+	6909	741
Local Private Banks												
Askari Comm. Bank	100.56	15.10	200.4	2004	4.0	13.42	48.90	7.49	9-10-1991 / 1-4-1992	AA+/A-1+	2754	99
Soneri Bank Ltd.	46.88	7.78	165.4	1654	3.0	5.57	22.00	8.42	28-9-1991 / 16-4-1992	AA-/A-1+	1132	60
Bank Al Habib	64.36	14.13	262.9	2629	3.0	6.68	21.66	9.63	15-10-1991 / 21-12-1991	AA/A-1+	1809	100
Bank Al Falah	59.83	17.70	400.0	4000	4.0	5.67	22.46	10.55	21-6-1992 / 1-11-1992	AA/A-1+	5218	147
Union Bank Ltd	62.61	16.53	338.8	3388	6.0	6.21	18.00	10.08	9-10-1991 / 9-1-1992	AA-1A-1+	1614	67
Faysal Bank Ltd	82.12	30.21	368.5	3685	6.0	8.33	22.02	9.86	3-10-1994 / 1-1-1995	AA/A-1+	1068	56
Metropolitian Bank Ltd	80.58	12.48	208.0	2080	2.0	9.39	32.27	8.58	3-8-1992 / 21-10-1992	AA+/A-1+	1143	51
Prime Comm. Ltd	22.17	5.13	232.1	2322	3.0	2.13	14.81	10.41	30-9-1991 / 6-2-1992	A+/A-1	1375	62
PICIC Comm. Ltd	33.81	12.91	273.5	2735	3.0	5.50	15.30	6.15	27-12-1993 / 3-4-1994	A+/A-1	1164	115
KASB Bank	14.40	29.62	229.3	2293	4.0	-1.52	8.67	-9.47	13-10-1994 / 9-1-1995	BBB+/A-2	569	35
Mybank Ltd	20.61	3.16	205.7	2057	2.5	1.33	12.11	15.50	7-10-1991 / 15-1-1992	BBB/A-2	978	50
Saudi Pak Comm. Ltd	16.25	4.25	384.7	3848	4.0	0.23	8.33	70.65	4-4-1994 / 7-5-1995	A/A-2	869	50
Meezan Bank	29.63	6.11	203.7	2037	3.0	2.28	14.58	13.00	27-1-1997 / 8-8-1997	A+/A-1	786	28
Crescent Comm. Ltd	13.87	3.06	221.6	2216	3.0	-3.36	7.27	-4.13	12-11-2002 / 9-7-2003	BBB+/A-2	495	18
Atlas Bank	*NQ*	*NQ*	153.7	1537	2.0	0.02	9.86	*NQ*	17-7-2003 / 25-3-2004	BBB-/A-3	152	11
NIB Bank	25.74	8.62	336.2	3362	4.5	0.45	12.65	57.20	9-7-2003 / 2-10-2003	A+/A-1	593	27

** As at end-March 2006 ** As at end-December 2005. NQ: Not Quoted.*

Note: First Women Bank, Habib Bank Ltd and Atlas Bank Ltd not listed on Stock Exchange.

Major and Provincial Banks - Key Indicators

(Rs. Bn)

	Major Banks					Provincial Banks		First Women Bank
	National Bank of Pakistan	Habib Bank	United Bank	MCB Bank	Allied Bank	Bank of Punjab	Bank of Khyber	
Assets	577.7	528.9	347.1	299.0	192	111.2	25.0	10.5
Equity	36.2	32.9	18.7	17.9	11.0	6.8	2.1	0.7
Liabilities	503.4	488.4	325	275.5	179	97.5	22.5	9.8
Deposits	463.4	432.5	289	229.3	162	88.5	17.5	8.7
Gross Advances	299.4	350.4	219	188.1	119	64.5	12.1	2.5
Advances (net)	268.8	316.9	205	180.3	111	63.6	10.6	2.5
Sub.Loan+Equity+Surplus on Revaluation	74.3	40.5	25.7	24.9	13.0	13.7	2.5	0.7
Investments	157.0	107.4	63	69.5	45.0	18.0	7.6	5.4
Interest Income	33.6	32.3	20.2	17.8	10.0	6.1	1.4	0.65
Interest Expense	10.3	7.3	6.0	2.8	2.0	2.7	0.9	0.22
Net Interest Income	23.3	25.0	14.2	15.0	8.0	3.4	0.5	0.43
Non Interest Income	9.4	7.9	5.0	5.4	2.0	1.3	0.3	0.05
Gross Income	43.0	40.2	25.2	23.2	11.7	7.4	1.7	0.7
Admn Expense	11.2	14.1	17.7	6.5	4.0	1.3	0.4	0.3
Pre-Tax Profit (PBT)	19.1	13.8	9.5	13.0	4.8	3.16	0.3	0.2
After Tax Profit (PAT)	12.7	9.6	5.9	8.9	3.0	2.35	0.29	0.1
Bonus Share (%)	20	0	25	20	0	52	22	0
Cash Dividend(%)	25	10	15	42.5	25	0	0	0
Non Performing Loans	33.7	41.4	17	8.4	13	1.4	2.9	0.18
Employees (Nos.)	13824	16314	9354	9377	6909	3430	370	786
Branches (Nos.)	1242	1425	1058	952	741	266	29	38

Major and Provincial Banks - Selected Ratios

	Major Banks					Provincial Banks		First Women Bank
	National Bank of Pakistan	Habib Bank	United Bank	MCB Bank	Allied Bank	Bank of Punjab	Bank of Khyber	
Investment/Assets	27.2	20.3	18.2	23.2	23.4	16.2	30.4	51.4
Advances/Assets	46.5	59.9	59.1	60.3	57.8	57.2	42.4	23.8
NPLs/Gross Advances	11.3	11.8	7.8	4.5	10.9	2.2	24.0	7.2
NPLs/Equity	93.1	125.8	90.9	46.9	118.2	20.6	138.1	25.7
Deposits/Assets	80.2	81.8	83.3	76.7	84.4	79.6	70.0	82.9
Liabilities/Assets	87.1	92.3	93.7	92.1	93.2	87.7	90.0	93.3
Equity/Assets	6.3	6.2	5.4	6.0	5.9	6.1	8.4	6.7
Sub.Loans+Equity+Surplus on Revaluation/Assets	12.9	7.7	7.4	8.3	6.8	12.3	10.0	6.7
Deposits/Equity(Times)	12.8	13.1	15.5	12.8	14.7	13.0	8.3	12.4
Advances/Deposits	58.0	73.3	70.9	78.6	68.5	71.9	60.6	28.7
Net Interest Income/G. Income	54.2	62.2	56.3	64.7	68.4	45.9	29.4	61.4
Non Interest Income/G. Income	21.9	19.7	19.8	23.3	17.1	17.6	17.6	7.1
Income Earned/Assets	5.8	6.1	5.8	6.0	5.2	5.5	5.6	6.2
Admn Expense/Net Income	34.3	42.9	92.2	31.9	40.0	27.7	50.0	62.5
Admn Expense/Assets	1.9	2.7	5.1	2.2	2.1	1.2	1.6	2.9
PBT/Assets	3.3	2.6	2.7	4.3	2.5	2.8	1.2	1.9
PAT/Assets	2.2	1.8	1.7	3.0	1.6	2.1	1.2	1.0
PAT/Equity	35.1	29.2	31.6	49.7	27.3	34.6	13.8	14.3
Price Earning Ratio	9.27	0.00	9.56	7.86	12.55	10.23	10.98	0.00
Book Value Per Share(Rs)	61.25	47.68	36.10	41.92	25.91	28.94	17.07	25.00
Quoted Price (Rs)	199.45	NQ	109.75	167.80	86.50	102.45	25.70	NQ
Earning Per Share (Rs)	21.51	13.86	11.48	21.36	6.89	10.01	2.34	4.71

Foreign Banks - Key Indicators

(Rs. Bn)

	Standard Chartered Bank	Citibank	ABN Amro Bank	Habib Bank A.G. Zurich	American Express	Hongkong & Shanghai Banking Corporation	Al-Barka Islamic Bank	Oman International Bank	Deutsche Bank	Rupali Bank	Bank of Tokyo
Assets	109.9	76.5	59.6	44.9	8.2	13.3	14.6	1.8	5.6	0.6	4.2
Equity	8.8	5.7	4.1	2.8	1.4	2.2	2.4	1.0	2.2	0.1	1.8
Liabilities	101.5	70.8	55.5	42.1	6.8	11.1	12.3	0.8	3.4	0.4	2.5
Deposits	83.6	53.1	47.0	33.4	5.7	8.6	10.3	0.5	1.5	0.1	1.0
Gross Advances	50.8	40.3	33.4	28.0	0.8	5.8	7.4	0.54	1.9	0.2	2.1
Advances (Net)	50.2	39.2	32.9	27.7	0.7	5.7	7.2	0.52	1.9	0.001	2.1
Investments	25.4	19.8	13.0	6.1	1.9	0.6	0.1	0.0	0.2	0.3	0.0
Interest Income	7.0	5.6	4.4	2.7	0.3	0.7	0.7	0.042	0.2	0.03	0.2
Interest Expense	1.7	2.0	1.6	1.8	0.2	0.4	0.4	0.031	0.088	0.01	0.1
Net Interest Income	5.3	3.6	2.8	0.9	0.1	0.3	0.3	0.011	0.112	0.02	0.1
Non Interest Income	2.5	2.6	1.5	0.5	0.3	0.2	0.5	0.01	0.271	0.02	0.1
Gross Income (GI)	9.4	8.2	5.9	3.2	0.6	0.9	1.2	0.052	0.471	0.05	0.3
Admn Expense	2.3	3.0	1.7	0.6	0.5	0.3	0.2	0.030	0.381	0.02	0.1
Pre-Tax Profit	5.40	2.6	2.2	0.8	-0.03	0.23	0.4	-0.012	-0.126	-0.02	0.1
After Tax Profit	4.10	1.5	1.3	0.6	0.06	0.18	0.3	-0.012	-0.059	-0.01	0.1
Employees (Nos.)	1160	753	421	556	165	138	252	19	61	24	37
Branches (Nos.)	43	10	9	22	4	2	9	2	2	1	1

Foreign Banks - Selected Ratios

	Standard Chartered Bank	Citibank	ABN Amro Bank	Habib Bank A.G. Zurich	American Express	Hongkong & Shanghai Banking Corporation	Al-Barka Islamic Bank	Oman International Bank	Deutsche Bank	Rupali Bank	Bank of Tokyo
Investment/Assets	23.1	25.9	21.8	13.6	23.2	4.3	0.7	0.0	3.3	54.5	0
Advances/Assets	45.7	51.2	55.2	61.7	8.5	42.9	49.3	28.9	33.9	0.2	50.0
Deposits Assets	76.1	69.4	78.9	74.4	69.5	64.7	70.5	27.8	26.8	22.6	23.3
Liabilities/Assets	92.4	92.5	93.1	93.8	82.9	83.5	84.2	44.4	60.7	71.1	59.5
Equity/Assets	8.0	7.5	6.9	6.2	17.1	16.5	16.4	55.6	39.3	14.5	41.7
Deposits/Equity (Times)	9.5	9.3	11.5	11.9	4.1	3.9	4.3	0.5	0.7	1.6	0.6
Advances/Deposits	60.0	73.8	70.0	82.9	12.3	66.3	69.9	104.0	126.7	0.8	214.3
Net Interest Income/ G.Income	56.4	43.9	47.5	28.2	16.7	33.3	25.0	21.2	23.8	36.7	31.0
Non Interest Income/ G.Income	26.1	31.7	25.4	15.7	57.0	22.2	37.5	19.2	57.5	36.7	35.0
Admn Expense/Net Income	29.7	48.4	39.5	43.6	106.6	60.0	26.7	142.9	99.5	63.9	32.8
Income Earned/Assets	6.4	7.3	7.4	6.0	4.2	5.0	4.5	2.3	3.6	5.5	4.5
Admn Expense/Assets	2.1	3.9	2.9	1.4	5.7	2.3	1.4	1.7	6.8	4.1	1.5
PBT/Assets	4.91	3.40	3.69	1.78	-0.33	1.73	2.67	-0.67	-2.25	-3.88	3.17
PAT/Assets	3.73	1.96	2.18	1.34	0.68	1.35	2.37	-0.67	-1.05	-2.29	2.69
PAT/Equity	46.6	26.3	31.7	21.4	4.0	8.2	14.4	-1.2	-2.7	-15.9	6.5

Private Banks - Key Indicators

(Rs. Bn)

	Askari Bank	Bank Alfalah	Bank Al Habib	Faysal Bank	Union Bank	Metro politan Bank	Prime Comm. Bank	Mybank	Soneri Bank	Picic Comm. Bank	NIB Bank	Saudi Pak Comm. Bank	KASB Bank	Atlas* Bank	Cres-cent Bank	Meezan Bank
Assets	145.1	248.3	91.5	110.3	117.0	79.7	53.8	17.2	63.3	65.1	32.0	47.7	19.1	7.9	9.6	30.7
Equity	7.4	6.7	4.7	8.1	5.1	5.0	3.4	2.5	3.6	4.2	4.3	3.2	1.7	1.5	1.6	3.0
Liabilities	136.5	240.8	86.3	96.0	112.0	74.0	50.3	14.7	59.1	61.1	27.8	43.9	17.4	6.4	8.0	27.7
Deposits	118.8	222.3	75.8	74.7	91.2	56.7	38.9	12.9	47.6	53.5	22.6	37.1	14.8	2.2	6.0	22.8
Gross Advances	88.4	120.4	55.5	63.5	71.0	44.0	25.9	9.7	32.4	33.4	20.2	21.5	11.4	0.81	5.33	19.86
Advances (net)	86.0	118.9	55.3	62.3	68.9	43.5	25.5	9.3	32.0	33.1	19.6	19.5	10.7	0.8	3.72	19.74
Sub.Loan+Equity+Surplus on Revaluation	11.6	10.7	6.5	14.3	7.4	5.7	4.2	2.5	5.4	4.06	4.2	4.4	1.7	1.5	1.6	3.02
Investments	25.7	57.4	19.8	24.4	19.2	22.8	13.4	3.3	16.4	13.7	5.1	12.5	3.8	1.7	2.2	1.6
Interest Income	8.8	12.2	4.9	6.3	8.2	4.4	3.1	1.0	3.7	4.2	1.7	2.6	1.07	0.37	0.47	1.46
Interest Expense	4.3	7.2	2.1	3.3	3.7	2.2	1.4	0.3	2.0	2.1	1.1	1.8	0.66	0.24	0.40	0.69
Net Interest Income	4.5	5.0	2.8	3.0	4.5	2.2	1.7	0.7	1.7	2.1	0.6	0.8	0.41	0.13	0.07	0.77
Non Interest Income	1.6	2.2	1.0	2.1	2.6	0.9	0.5	0.2	0.6	1.0	0.2	0.6	0.21	0.01	0.12	0.62
Gross Income	10.4	14.4	5.9	8.4	10.8	5.3	3.6	1.2	4.3	5.2	1.9	3.2	1.28	0.38	0.59	2.08
Admn Expense	2.6	4.3	1.7	1.4	3.2	1.0	1.2	0.5	0.8	1.2	0.7	0.7	0.62	0.12	0.49	0.72
Pre-Tax Profit (PBT)	2.86	2.6	2.0	4.0	2.8	2.0	0.77	0.2	1.4	1.9	0.0	0.14	-0.51	0.008	-0.74	0.63
After Tax Profit (PAT)	2.02	1.7	1.5	3.1	1.7	1.5	0.49	0.3	0.9	1.5	0.1	0.06	-0.27	0.003	-0.74	0.42
Bonus Share (%)	33.0	33.0	40.0	30.0	35.0	33.0	18.0	0.0	30.0	20.0	0.0	0.0	0.0	0	0	0
Cash Dividened(%)	15.0	12.0	15.0	35.0	20.0	0.0	15.0	0.0	10.0	60.0	0.0	0.0	0.0	0	0	0
Non Performing Loans	2.37	1.1	0.4	2.5	4.0	0.1	0.8	1.3	0.4	0.59	0.70	4.49	1.07	0.013	2.07	0.18
Employees (Nos.)	2754	5218	1809	1068	1614	1143	1375	978	1132	1164	593	869	569	152	495	786
Branches (Nos.)	99	147	100	56	67	51	62	50	60	115	27	50	35	11	18	28

Private Banks - Selected Ratios

	Askari Bank	Bank Alfalah	Bank Al Habib	Faysal Bank	Union Bank	Metro politan Bank	Prime Comm. Bank	Mybank	Soneri Bank	Picic Comm. Bank	NIB Bank	Saudi Pak Comm. Bank	KASB Bank	Atlas* Bank	Cres-cent Bank	Meezan Bank
Investment/Assets	17.7	23.1	21.6	22.1	16.4	28.6	24.9	19.2	25.9	21.0	15.9	26.2	19.9	21.5	22.5	5.2
Advances/Assets	59.3	47.9	60.4	56.5	58.9	54.6	47.4	54.1	50.6	50.8	61.3	40.9	56.0	10.1	38.8	64.3
NPLs/Gross Advances	2.7	0.9	0.7	3.9	5.6	0.2	3.1	13.4	1.2	1.8	3.5	20.9	9.4	1.6	38.8	0.9
NPLs/Equity	32.0	16.4	8.1	30.7	78.4	1.8	23.5	52.0	11.1	14.0	16.3	140.3	62.9	0.87	129.4	6.0
Deposits/Assets	81.9	89.5	82.8	67.7	77.9	71.1	72.3	75.0	75.2	32.2	70.6	77.8	77.5	27.8	62.5	74.3
Liabilities/Assets	94.1	97.0	94.3	87.0	95.7	92.8	93.5	85.5	93.4	93.9	86.9	92.0	91.1	81.0	83.3	90.2
Equity/Assets	5.1	2.7	5.1	7.3	4.4	6.3	6.3	14.5	5.7	6.4	13.4	6.7	8.9	19.0	16.7	9.8
Sub.Loans+Equity+Surplus on Revaluation/Assets	8.0	4.3	7.1	13.0	6.3	7.2	7.8	14.5	8.5	4.8	13.1	9.2	8.9	19.0	17.0	9.8
Deposits/Equity(Times)	16.1	33.2	16.1	9.2	17.9	11.3	11.4	5.2	13.2	12.7	5.3	11.6	8.7	1.5	3.8	3.6
Advances/Deposits	72.4	53.5	73.0	83.4	75.5	76.7	65.6	72.1	67.2	61.9	86.7	52.6	72.3	36.4	62.0	86.6
Net Interest Income/G. Income	43.3	34.7	47.5	35.7	41.7	41.5	47.2	58.3	39.5	30.4	31.6	25.0	32.0	34.2	11.9	37.0
Non Interest Income/G. Income	15.4	15.3	16.9	25.0	24.1	17.0	13.9	16.7	14.0	18.5	10.5	18.8	16.4	2.6	20.3	29.8
Income Earned/Assets	6.1	4.9	5.4	5.7	7.0	5.5	5.8	5.8	5.8	6.4	5.3	5.5	5.6	4.7	4.9	4.8
Admn Expense/Net Income	42.6	59.7	44.7	27.5	45.1	31.3	54.5	55.6	34.8	37.6	87.5	50.0	100.0	85.7	257.9	51.8
Admn Expense/Assets	1.8	1.7	1.9	1.3	2.7	1.2	2.2	2.9	1.3	1.8	2.2	1.5	3.2	1.5	5.1	2.4
PBT/Assets	1.97	1.0	2.2	3.6	2.4	2.5	1.43	1.2	2.2	2.9	0.1	0.29	-2.67	0.1	-7.7	2.05
PAT/Assets	1.39	0.7	1.6	2.8	1.5	1.9	0.91	1.7	1.4	2.3	0.3	0.13	-1.41	0.03	-7.7	1.4
PAT/Equity	27.3	25.4	31.9	38.3	33.3	30.0	14.4	12.0	25.0	35.7	2.3	1.9	-15.9	0.0	-46.0	14.0
Price Earning Ratio	9.4	12.8	10.6	8.9	11.1	11.4	12.0	16.9	10.7	6.6	77.4	71.7	-5.70	492.5	-2.1	10.1
Book Value Per Share(Rs)	48.90	22.46	21.66	22.02	18.09	32.3	14.81	12.11	22.0	15.30	12.65	8.33	8.67	9.8	7.2	14.6
Quoted Price (Rs)	126.80	73.75	70.5	74.1	68.85	107.05	25.60	22.45	59.40	36.10	34.85	16.50	14.30	NQ	15.4	23.2
Earning Per Share (Rs)	13.42	5.8	6.7	8.3	6.2	9.4	2.13	1.33	5.57	5.50	0.45	0.23	-1.52	0.02	-3.3	2.2

** Formerly Dawood Bank Ltd.*

Market Analysis

Bearish Start

From February 23 to March 13, 2006, the Index underwent a correction of 1,517 points or 13% from its closing high to bottom out at 10,093 on March 13. The average daily turnover declined to 357m shares. The significant retrenchment during this period was due to the following reasons:

1. Technical factors such as the market being overbought in index heavyweight scrips and over leverage situation of some members.
2. The low average daily turnover was reflective of the lack of retail participation in the market and so, the punters dominated activity during this period.
3. Outflow of foreign funds during March to the tune of over US$60m or Rs3.6b had a negative impact on local investor sentiments even though this comes to less than 1% of the total market cap of the KSE.
4. The aftermath of US President George W. Bush's visit to Pakistan also provided further impetus to bearish sentiments as it was perceived as negative for both President Musharraf and Pakistan since there was no economic or political rewards given.
5. The insurgency in Balochistan and the war of words between Pakistan and Afghanistan got more heated during March.

Recovery in the mid of March

From March 13 to March 31, the market staged a recovery as the Index gained 1,393 points or 13.8% to end the quarter at 11,485. The average daily turnover during this period improved by 8% from the correction period to 385m shares. The recovery during the latter half of March can be attributed to the following developments:

- Technical factors-after the correction, the market was in an oversold position overall and thus, a rebound was expected.
- Positive developments in the E&P sector as there was a discovery at Pindori-6 of 2,455bpd crude and 8.89mmcfd gas which was beneficial for the future earnings and valuation of POL. The other positive development was the Qadirpur wellhead gas price revision which OGRA decided to increase by 53% with the major beneficiary being OGDC.
- The sovereign bond issue by the Government of Pakistan was well received by foreign investors as US$800m was raised through 2 parts, 10-years and 30-years bond issues.
- Hike in retail cement prices as it was reported that prices have gone up by Rs50 per 50kg bag to around Rs325-340 per bag.
- Privatization development such as Etisalat making another US$500m payment towards the US1.4b they are expected to pay before the second week of April in order to receive the management charge from the government. The sell off of Pakistan Steel to the consortium of Arif Habib Securities, Tuwairqi Steel Mills (Saudi Arabia) and Magnitogorsk Iron & Steel Works Open JSC (Russia) at Rs16.80 per share or Rs21.7b (US$362m) for 75% equity stake.

April 2006 - Prove out to be very volatile

The KSE-100 Index declined by 143 points or 1.25% during April 2006 to close at 11,342. The average daily turnover during April 2006 was 335.5m shares compared to 366.1m shares during March 2006. April 2006 was a record setting month in terms of the Index as it closed above the 12,000 barrier for the first time on April 13 and reached a record-high closing of 12,273 on April 17. However, the last 2 weeks of the month were volatile for the market because of the following factors:

1. Continued foreign selling on the local bourses as indicated by the SCRA figures showing a net outflow of over US$30m during April to US$356m.
2. The tenuous domestic political and law order situation affected investor sentiments (particularly foreign investors) especially after the bomb blast at a religious event in Karachi on April 18, which saw the city virtually shutdown for the next 3 days after the incident. Also, the situation in both Balochistan and Waziristan further deteriorated.
3. Technical factors such as the overall equity market being in an overbought position and so, selling pressure was expected at some point in time. Recently announced quarterly earnings results of some major companies such as PTCL, MCB, PSO and Nishat Mills have been below market expectations and so, further contributing to negative investor sentiment.

From April 17 to the end of the month, the Index shed 931 points or -7.6% from its peak closing of 12,273, depicting the extent of the correction that took place in the last fortnight of April 2006. As illustrated by the graph below, one of the best performers has been Union Bank and auto stocks as their recent quarterly results have been in-line or slightly above expectations.

Quarterly earnings results

Overall, the recent round of quarterly earnings results has been a mixed bag but most of the major index stocks have been disappointing.

This development has taken its toll on market momentum.The table below shows the aggregate quarterly results of selected sectors and reasons for performance. Auto sector has shown the most robust growth on YoY basis because of volumetric growth and increase in other income due to large cash balances and higher interest rates. Among the major sectors, refineries have shown a decline in earnings of 42% YoY because of lower profit margins stemming from volatile international crude oil prices.

		PAT – Rsm			
SECTORS	**Period**	**2006**	**2005**	**% Chg**	**Remarks**
Banks	1Q	7,080	4,564	55.13%	Strong credit demand and higher lending rates.
Cement	9m	5,276	2,713	94.49%	Increased sales and hike in prices.
Refinery	9m	2,882	5,012	-42.49%	Soaring international crude oil price and other seasonal factors.
IPP	9m	8,287	9,679	-14.39%	Reduced Tariff after payment of debts.
O&GMC	9m	10,844	8,415	28.87%	Increased prices of gas and POL products.
E&P	9m	47,189	33,586	40.50%	Increase in international oil prices and local production.
Automobile Assembler	9m/1Q	2,512	1,219	106.09%	Robust growth in volumetric sales & other income and stabilized steel prices & exchange rates.
Technology & Communication	9m	15,998	21,537	-25.72%	Increased competition and reduced call rates.
Fertilizer	1Q	1,984	1,617	22.69%	Increased urea sales and prices.

Note: The above results include major companies which have announced their financial results till April 30th 2006.

Some recent happenings

In the KSE board of director meeting, which was held a week back, the following decisions were made in the meeting.

1. Universal Identification Number is expected to be implemented from August1st 2006.
2. 30, 60 and 90days futures of PTCL are going to commence from July 1st 2006. It was also decided that 30, 60 and 90days futures of other scrips are going to be introduced in the months to come.
3. The board has decided to ask the government to extent the tax exemption on capital gains for the next five year till 2012. Presently tax on capital gain of shares is exempted till June 2007. Withholding tax of 10% on dividend income should be withdrawn.

SECP has announced that CFS review has been postponed till July 31st 2006. Previously this was scheduled to be reviewed on May 31st 2006.

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

Interest Rate Outlook

Beginning of the End ...

April was the last month when government savored the fruit of low inflation numbers; solely on the heels of high base of April'05. From now on, the high base will be put in reverse gear as inflation started to ease off in 2005.

Inflation numbers in Apr'06 came out as 6.16% on a y-o-y basis; lower from 6.91% in Mar'06. Nonetheless, month-on-month inflation increased substantially by 1.02% compared with a mere 0.23% increase in the previous month. Though, food inflation declined y-o-y to 3.64% in April as opposed to 5.42% in March; an increase of 1.50% was witnessed on a month-on month basis. This was also reflected by the fact that milk and sugar having a combined weight of 8% in the CPI basket; contributed to 26.4% increase in CPI. Whereas, bumper crops of rice and maize; and wheat imports helped reduce the prices of these commodities.

Non-food inflation increased to 8.01% y-o-y in April; this firmness is the result of a rise in prices of liquid fuels; however supported by reduction in the speed of decline in the (House Rent Index) HRI inflation during April 2006. (HRI contributed 32.8% to CPI in April). Moreover, fuel & lighting sub-group inflation also increased significantly on the back of high y-o-y inflation in prices of kerosene oil, firewood and gas charges. Inflation in transport & communication continued to remain in double digits due to high oil prices, though stability in bus, train and air fares led to some deceleration during the recent months. Other sub-groups of the CPI nonfood group witnessed mixed trends during the month with reduction in inflation of apparel, textile & footwear and education indices and rise in inflation of others as compared with the previous month.

Core inflation remained on a downward footing at 6.43% in contrast to 6.67% in Mar'06. However, month to month rise of 0.61% indicates that the speed of decline in HRI has started to decelerate.

Pakistan Investment Bonds were issued at cut-off yields greater than the coupon rates; that is at a discount. Though, State Bank stuck to the auction target as a whole; rather than the target amount in each tenor. The auction was primarily a corporate auction and the issue (19-May-06) remains illiquid in the financial markets.

PIB Auction Details

Tenor	Target Amount (Rs. Mn)	Face Value (Rs. Mn)	Realized Amount (Rs. Mn)	Coupon Rates (%)	Cut-off Yields (%)	Wtd. Avg. Yields (%)
3 Years	5000	2846.2	2825.141	9.10	9.4515	9.3887
5 Years	3000	4075	4020.09	9.30	9.6674	9.6461
10 Years	2000	3240	3190.138	9.60	9.8746	9.8454
Total	10000	10161.2	10035.369			

Economic Indicators

In line with our Interest Rate Outlook for April 2006, government borrowings for budgetary support were contained within the full year target of Rs98bn (Since 01-Apr-06) (Budgetary borrowings were Rs161.151bn on 25-Mar and were reduced to Rs76.34bn on 01-Apr); helped by the realization of PTCL and sovereign bond proceeds.

As of the latest data released by SBP, government borrowings for budgetary support stood at Rs59.71bn; an increase of PKR 14.07bn over the previous week. On the other hand, net government borrowings depicted a week-on-week rise of Rs23.29bn on account of increased budgetary borrowings and a decrease in debt retirement of commodity operations, on the back of wheat procurement.

Private Sector Credit is depicting range-bound expansion and remains at PKR 345bn vicinity since 22-Apr-06. As on 06-May-06; Net Domestic Assets of the Banking System amounted to Rs299.24bn whereas Net Foreign Assets stood at Rs39.207bn (helping the reserve situation to the tune of USD 13.05bn); taking monetary expansion, during the year, to Rs 338.447bn (11.41%).

Up, up & Above:

The fissure between the imports and exports of the country during the Jul-Apr period stood at USD 9.427bn; with imports amounting to USD 22.95bn (Growth of 40.38%) and exports to USD 13.52bn (Growth of 17.8%). The unparalleled growth in imports which resulted in the soaring trade deficit could be attributed to a number of factors. The average (of UK Brent, WTI and UAE Fateh) crude oil price in April 2006 rose by 11.6% to USD 68/barrel from the previous level of USD 60.9/barrel in March 2006, showing a 34.3% y-o-y increase over the same month last year. World oil prices remain a threat on account of continued uncertainty on oil supplies, as Iran remains adamant to uranium enrichment and western world pushes for UN sanctions; coupled with a shut in of around a quarter of output from Nigeria. Imports of items under the head of machinery and metal group, road motor vehicles, oil seeds, wheat sugar and pulses also recorded sharp increases.

Factors that could help ease the pain of burgeoning trade gap are Foreign Direct Investment and workers remittances that could help curtail the current account deficit. But here again, the situation is not very encouraging, as current account deficit continues to creep up and stands at USD 4.38bn mark (Jul-Mar'06); whereas the increase in FDI to USD 2.22bn (Jul-Apr'06 FDI stands at USD 3.0202bn) took the Balance of Payments to a positive USD 392mn during the first nine months of the current fiscal. Workers remittances amounted to USD 3.63bn during Jul-Apr'06.

Future Outlook:

Going forward, inflationary pressures on the economy remain high; as it was the high base effect that was the harbinger for lower inflation numbers in the past couple of months. From now, on the effect of high base will wane off and to add a cherry on the cake, oil prices has been raised to PKR 57.7/litre (with effect from 01-May-06) from PKR 56.29/litre (Premium Motor Gasoline Prices). An increase in oil prices has always had a spiraling effect on inflation numbers as it affects all the commodities in the CPI basket.

The Central Bank has held the cut-off for 1-year T-Bill at 8.7907% since Aug, 3-months cut-off at 8.100% since Sept; whereas cut-off for 6-months was slightly lowered to 8.2889% in the last auction held on 11-May-06. Various statements from those at the helm of policy making are also in the offing; such as if inflationary pressures remain intact, a discount rate hike may not be ruled out; and the like.

Moreover, the government still looks forward to factors such as Foreign Direct Investment and workers remittances to reduce the pressure from the current account deficit. However, we stand firm on our viewpoint (mentioned in last several Interest Rate Outlooks) that it is now the administrative efforts from the government to curb hoarding, timely imports of commodities to bridge the demand-supply gap and reduced fiscal spending that are required to bring down inflation (un-supported by high base effect and depicting a true picture) and ease the pressure from the key interest rates.

(Contributed by Finance Group, National Bank of Pakistan)

Book Reviews

Information Technology
for Business Executives 2006
Prof. Dr. Khawaja Amjad Saeed
Prof. Dr. Khawaja Asjad Saeed

The rise of information technology in the business world has totally changed the way businesses were being conducted. Office automation has improved decision making, increased productivity; enhanced customer satisfaction through better quality control and improved delivery system; enhanced administrative effectiveness through forecasting, setting objectives and communication; increased personal productivity; large data can be handled efficiently; and has opened new vistas and opportunities for managers.

Realizing the need for educating the business executives, with the latest developments in Information Technology so that they could apply it to real life business situation, the authors have made a good effort in bringing out a book of immense value not only for the business executives, but for many other professionals in this field.

The book contains 16 chapters. Beginning with a general introduction of the computer history the various stages of development, its usage the world over, we then see what has been its impact on contemporary organizations, how it assists managerial functions, etc. it then moves on to computer networking, the emergence of the E-phenomenon on and its wide usage, electronic commerce and its usage in Pakistan etc. Microsoft word and Microsoft Excel have been explained in detail.

Social Development in Pakistan
Annual Review 2005-06
Social Policy and Development Centre

The Social Policy and Development Centre have published their Annual Review for the year 2005-06. Over the years, SPDC has studied the problems of social underdevelopment, poverty and inequality in the country. Various subjects have been discussed in the past Annual Reviews; focusing on poverty, the pervasive inequalities across class and regional lines, the relationship between economic and social development, and the central role of human development in the growth process analysis of the state of education in Pakistan.

This year's theme for the Annual review is trade liberalization — and examines its impact on growth and poverty in Pakistan. It begins by sequencing trade liberalization in Pakistan into three sub-periods and then examines where the process of trade liberalization described has left Pakistan in relation to other developing countries in Asia in terms of its trade restrictiveness.

In a subsequent chapter, the Review has quantified the effects of trade liberalisation and the resulting changes in trade outcomes on economic growth and poverty. The process of trade liberalization, has, if anything, reduced poverty and inequality although only modestly. However, the results do not indicate that trade liberalization is a panacea that can solve the problem of poverty by itself without direct interventions from the government.

The analysis presented in the Review has suggested that trade liberalization can have a positive and beneficial impact on growth and poverty reduction but it requires certain preconditions to be in place. In particular, it requires a set of complimentary prudent macroeconomic policies, good economic management and pro-poor policies that help mitigate the adjustment costs, which are usually associated with trade liberalization.

VISION

To be the pre-eminent financial institution in Pakistan and achieve market recognition both in the quality and delivery of service as well as the range of product offering.

MISSION

To be recognized in the market place by Institutionalizing a merit & performance culture, Creating a powerful & distinctive brand identity, Achieving top-tier financial performance, and Adopting & living out our core values.

NBP Performance at a Glance

(Rs. Bn)

Items	2001	2002	2003	2004	2005
Total Assets	415.1	432.8	468.9	549.7	577.7
Deposits	349.6	362.9	395.5	465.6	463.4
Advances	170.3	140.5	161.3	221.4	268.8
Investments	71.8	143.5	166.2	144.7	156.9
Pre-Tax Profit	3.02	6.04	9.01	12.02	19.0
After-Tax Profit	1.15	2.25	4.20	6.24	12.7
Earning Per Share (Rs.)	3.08	5.49	8.53	10.48	21.51
Assets (Pre-Tax Profit) (%)	0.8	1.4	2.0	2.4	3.4
Number of Branches	1245	1204	1199	1226	1242
Number of Employees	15163	12195	13272	13745	13824

NBP Products

NBP Saiban

- Finance available for home purchase, home construction and home improvement.
- Period of repayment ranges between 3-20 years.
- Loans available upto a maximum of Rs.15-35 million.
- Mark-up choices available: Variable - SBP discount rate. Fixed rate - 10 year PIB+3.5%.
- Minimum approval and disbursement timing.
- Limited to areas where there are no documentation, fee, resale and foreclosure related issues, so to protect the bank's interest.

NBP Advance Salary

- 15 months salary in advance (certain conditions apply).
- Minimum documentation.
- Repayable in 5 years.
- No processing charges; no collaterals, no guarantees, no insurance.
- Mark-up charged at 13 percent per annum on reducing balance method.

NBP Cash n Gold

- Facility of Rs.7000 against 10 gms of gold.
- Mark-up 12 percent per annum.
- No maximum limit of cash.
- Repayable after one year.
- Roll over facility.
- No penalty for early repayment.

NBP Kisan Dost

- Loans available for the farmers for production, development purposes, for purchase of tractors, for installation of tubewells, for purchase of agricultural implements, mirco loans, for godown construction, for construction of fish pond, for livestock farming, for milk processing, for cold storage, bio-gas plants etc.
- Mark-up 12 percent per annum.
- Loans available at the farmer's doorsteps.
- Agricultural experts to guide farmers.
- Loans available against agricultural passbooks, gold ornaments and paper security.