ECONOMIC BULLETIN
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Contents

Editor's Corner

Dear Readers,

Pakistan economy is facing serious strains and challenges, as reflected by high inflation, with a pronounced increase in food and energy prices, widening of the trade and current account deficit, rising fiscal imbalances, and growing income inequalities. These have compounded the social problems especially for the vulnerable groups who have been hurt the most by rise in food prices.

Food price inflation has generated growing concerns world wide. The rise in the price of staples like wheat, rice, cereals, has led to protests, rallies and riots in many countries. Price of basic food items has risen, in response to many factors like higher energy prices and the resultant rise in prices of fertilizers, and transportation costs for farm products, increased demand for bio-fuels, drought in Australia and other countries, declining yields and low stocks and weak dollar. With an increase in oil prices, the demand for bio-fuels has risen. There is now competing use of food grain to produce ethanol as substitute for oil.

The hardest hit are the developing countries where the poor segments of population have seen an erosion of purchasing power. According to World Bank statistics, almost half of the world's poor live in South Asia alone. Child malnutrition is high and almost half of the children in Afghanistan, Bangladesh, India and Nepal are malnourished. Some 1.9 billion people in the region do not have access to basic sanitation.

As many of these countries are in a crisis, because of high food prices, the inhabitants' social conditions is expected to be affected. In Asia, the poor people spend on average 60 percent of their income on food and an increase in food prices places millions of desperately poor households at greater risk of hunger and malnutrition, and they are left with no choice but to see an increased expenditure on food, or try and lower the quality of their diet, and squeeze their expenditure on health and education. As a consequence, the prospect of overcoming poverty becomes far more remote.

According to the World Bank, food price inflation could push at least 100 million more people into poverty, wiping out all the gains the poorest have made during almost a decade of economic growth. It would not only reverse the gains made in poverty reduction, but if the rise in food prices continue to persist, the Millennium Development Goal of halving poverty by 2015 could be jeopardized.

Like many other countries that have been impacted by higher food prices, Pakistan too has seen a surge in food prices, rising to a high of 28.5 percent in May 2008. This has unfairly affected the low income groups who spend a major share of their consumption expenditure on food necessities, the prices of which have increased drastically in FY08. This is attributable to both international and domestic factors. Rising oil prices and a weak dollar has left Pakistan facing a huge import bill. As producers pass on the increased costs to consumers, this leads to an increase in cost of imports which drives up inflation. Also as prices of fertilizer which is highly dependent on petroleum and natural gas goes up, it adds to production costs. Transport becomes expensive with a rise in oil prices and adds to the costs of goods.

At home, agriculture performance has been poor, resulting in an overall fall in the production of major crops. Production/yield of wheat and cotton have declined. As income levels have grown because of sustained economic growth in the past, it has led to a rise in domestic demand. The incoming remittances have provided an impetus to demand.

The government has in the recent past taken some measures to contain inflation. The State Bank of Pakistan has tightened the monetary policy, and asked the government to contain its high levels of borrowings from the SBP as it complicates monetary management and poses a risk in the containment of inflationary pressures. Administrative steps have been taken by the government to enhance supplies of essential commodities like wheat, edible oil, pulses, sugar etc through the Utility Stores.

Poverty has emerged as the major issue facing the country. A rise in food prices, and poor performance of the agricultural sector, has exacerbated the situation. The Asian Development Bank, using household expenditure survey data has analyzed the impact of food price inflation on poverty and inequality in Pakistan. If there is a 10 percent, 20 percent and 30 percent increase in food prices, the number of absolutely poor will rise by 7.05 million, 14.67 million and 21.96 million respectively.

Most of the poor are in rural areas and agriculture is their main livelihood. Research carried out by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), shows that persistent poverty and widening inequality in the region are the result of decades of neglect of agriculture. The report has said that the potential of the agricultural sector to reduce poverty has been weakened by unfavourable macroeconomic policies that has led to the erosion of public services such as agricultural extensive services, the failure of agricultural credit policies and the massive scaling down of public investment in irrigation and rural infrastructure.

Any impetus to the agricultural sector results not only in its growth, but also the growth of rural industries, raising the incomes of small farmers and increasing the employment opportunities for the rural poor, in general.

The Federal Budget 2008-09 has announced measures to raise agricultural productivity, improve its overall performance so that it contributes its due share to the national economy. Agriculture is considered a key to reducing poverty. Alongwith agriculutre, livestock and dairy farming, and fisheries will also receive focus. During last fiscal year, the supply shortages of domestic food crops that occurred because of a decline in major crops output and a slower growth of the overall agricultural sector has had an adverse impact on the vulnerable segments of society. This was compounded by hoarding of essential food items and smuggling of wheat flour to neighbouring countries where prices are higher. The government has taken steps to check this and bring stability in prices.

Ayesha Mahmood

Abstract of the Bulletin

Federal Budget 2008-09

- The Federal Budget 2008-09 has been presented at a time when the economy is under pressure because of deteriorating macroeconomic indicators.
- Many of the indicators like growth in GDP, agriculture, manufacturing, inflation, fiscal deficit, national savings as percentage of GDP, overall investment as percent of GDP missed their respective targets during 2007-08.
- Inflation was at record high, as food inflation surged, affecting the poor and the fixed income group.
- Energy shortages persisted.
- Trade deficit worsened to $20 billion and the fiscal deficit rose to over 7 percent of GDP, against the target of 4 percent.
- Subsidy bill was substantially higher than the budgeted figure. As the international price of crude rose, an excess of Rs160 billion over and above the Rs15 billion budgeted amount was paid to oil refineries/oil marketing companies. The government was also heavily subsidising the cost at which fertilizer is made available to the farmers and on import of wheat.
- The Federal Budget 2008-09 has a total outlay of Rs2 trillion.
- Internal resources are budgeted at Rs1535.5 billion, Rs300 billion would flow from external resources, Rs25.1 billion would come from the privatisation proceeds and Rs149 billion from bank borrowings.
- The Budget has proposed significant additional resource mobilisation efforts.
- High priority has been attached to the revival of the agricultural sector, livestock and dairy farming and fisheries.
- The Budget has a relief package for the poor.

Rising Food Prices

- Rising prices of key food staples continued to provide impetus to food inflation in recent months.
- The price of wheat flour has risen due to domestic shortages because of lower wheat crop, speculative hoarding and smuggling, alongwith its exports.
- Food import bill has risen because of import of wheat and palm oil/soyabean oil.

Market Analysis

- The market experienced a bear attack from last week of April to end of May because of speculation regarding the imposition of CVT on shares.
- Early June, the market staged a slight recovery.
- The budget was perceived differently by the various economic sectors of the economy.

Sectoral Implications of Federal Budget

- This section has discussed the impact of budgetary measures announced in Federal Budget 2008-09 on the banking and insurance sector, cement sector, oil sector, auto assemblers and fertilizer sector.

Interim Monetary Policy Measures

- The State Bank of Pakistan announced interim monetary policy measures to further tighten the monetary policy.
- The discount rate was raised by 150 basis points to 12 percent, the Cash Reserve Requirement for all deposits upto one year maturity was raised to 9 percent and the SLR to 19 percent.

Provincial Budgets 2008–09

- Punjab has presented a Rs390 billion budget for 2008-09. It lays emphasis on poverty alleviation, construction of low cost housing, social sectors, infrastructural development and development of agriculture and rural areas.

Federal Budget 2008-09

Macroeconomic Background

The Federal Budget 2008-09 has been presented at a time when the economy is under pressure because of deteriorating macro-economic indicators and peoples expectations for some kind of relief from the new government is high.

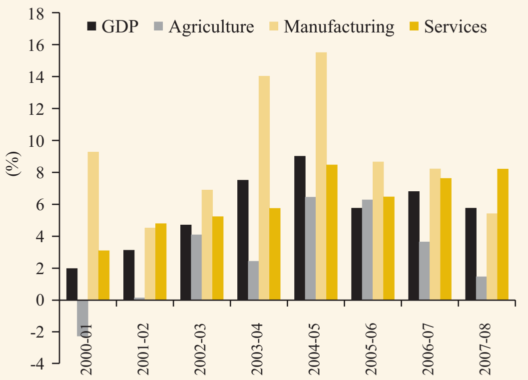
Macro economic challen-ges

The re-emergence of inflationary pressures, rising concerns with widespread poverty, widening fiscal and current account deficits, depressed savings rate, depleting foreign exchange reserves, increase in external debt liabilities have affected the pace of economic growth.

In FY08, the economy (real GDP) grew by 5.8 percent, short of the target of 7.2 percent and preceding year's growth of 6.8 percent. This was mainly on account of a slowdown in commodity producing sectors. Agriculture grew by a mere 1.5 percent (target 4.8 %), while manufacturing sector registered a growth of 5.4 percent (target 10.9 percent). Major crops — wheat and cotton suffered and rice output did not show any major increase. Political uncertainty, deteriorating law and order, power outages, and rising cost of doing business were some of the factors affecting large scale manufacturing performance.

The services sector has proved to be the main force driving economic growth in the year.

GDP and Sectoral Growth Rates



Source: Pakistan Economic Survey 2007-08

Rising food prices

Inflationary pressures have gained momentum in recent months. Consumer Price Index (CPI) rose by 19.3 percent in May '08 (year-on-year), compared with a rise of 7.4 percent in May '07. Food (40.34% group weight in total) inflation surged to 28.5 percent against 11.3 percent a year earlier, while non-food inflation was 12.5 percent compared to 4.7 percent in May '07.

Trend in CPI

(%)

Year-on-Year		General	Food	Non Food
2007	May	7.4	11.3	4.7
	June	7.0	9.7	5.1
	July	6.4	8.5	4.9
	August	6.5	8.6	4.9
	September	8.4	13.0	5.0
	October	9.3	14.7	5.4
	November	8.7	12.5	5.9
	December	8.8	12.2	6.3
2008	January	11.9	18.2	7.3
	February	9.3	16.0	7.8
	March	14.1	20.6	9.4
	April	17.2	25.5	11.2
	May	19.3	28.5	12.5
Period Average				
	FY07 (Jul-May)	7.8	10.3	6.1
	FY08 (Jul-May)	11.1	16.3	7.3

Source: State Bank of Pakistan

Inflation is at record high levels, despite the fact that sharp increase in international oil prices have not been fully passed on to the consumers and wheat is being subsidised.

Factors respon-sible for higher prices

The surge in CPI food inflation started in April '06 and reached a peak of 19 percent in May '08, principally on account of rising international prices of fuel and commodities, coupled with domestic supply shortages of basic food items, as agricultural production has been unable to keep pace with the rising demand. Smuggling to neighbouring countries, where wheat prices are higher, and speculative hoarding at home are some of the other factors responsible for higher prices.

Rising oil and food prices have had an indirect effect via the sharp jump in the subsidy bill that has raised the fiscal deficit. Last fiscal year, the deficit has been financed largely by borrowings from the State Bank, which has been inflationary and has put pressure on the monetary management. The *SBP Third Quarterly Report on the State of the Economy* states, 'The exceptional borrowings reflect more than budgeted expansion in the fiscal deficit against a slower growth in revenue mobilization and a shortfall in external financing receipts.'

Borrow-ings from SBP

Enhanced reliance on financing from SBP was partly a result of a shortfall in external financing receipts and reduced interest of scheduled banks in government papers. This was because of tight liquidity conditions in the interbank market and strong credit demand from the private sector, which offers greater returns.

Highly inflationary borrowings from the central bank, and the pass through of high international prices to the domestic economy (particularly of energy and food) through rising import, plus domestic shortages have led to strong inflationary expectations. The impact on domestic inflation has recently become more pronounced as the government began to gradually pass-on the rise in cost of major fuel – petrol and diesel, which had earlier been frozen, to the domestic consumers.

This necessitated a tightening of the monetary policy. While the State Bank had tightened the monetary policy in January '08, it announced *Interim Monetary Policy Measures* in May '08 to suppress the aggregate demand pressures and cool off inflation expectations.

Current account deficit worsens

A steady deterioration in the current account gap is a major source of concern. The slide in the current account deficit, was mainly a consequence of sharply rising trade deficit alongwith an increase in net outflows from services account. This decline was contributed by high import growth and decline in export of services. While the growth in remittances helped offset the deficit in the services account, it was the rising trade deficit as the fundamental source of expansion in current account deficit. The deficit has widened from $5.0 billion in FY06 to $7.0 billion in FY07 and FY08 is likely to end with a deficit of $12 billion or 7.5 percent of GDP.

Rising trade deficit

Rising trade deficit is the major source of curent account deficit. It widened to $20.7 billion during FY08 against $13.6 billion in FY07. The increase in deficit reflects a surge of 31 percent in imports, while exports grew by 13 percent. One of the main reasons for the rise in imports is increasing international prices of crude oil, wheat and palm oil/soyabean oil. Import of fertilizer and raw cotton has also increased. Disaggregated data is available for July-May.

Export/Import of Selected Commodities

($ Mn)

Exports	July-May 2007-08	July-May 2006-07
Rice	1525.4	1045.8
Raw cotton	65.0	48.0
Cotton yarn	1179.3	1303.2
Cotton cloth	1747.8	1875.4
Knitwear	1664.0	1633.4
Bedwear	1724.1	1818.1
Towels	557.1	562.7
Readymade Garments	1351.4	1390.9
Leather and its manufactures	1007.5	820.3
Surgical goods	228.5	171.8
Chemicals & pharmaceutical	564.3	354.6

Imports	July-May 2007-08	July-May 2006-07
Wheat	860.0	41.6
Soyabean oil	96.7	36.7
Palm oil	1385.4	827.4
Petroleum crude and products	10094.2	6631.9
Raw cotton	1249.0	561.8
Fertilizer	845.3	354.8
Power generating machinery	994.2	678.9

Source: Federal Bureau of Statistics

Exports slowed

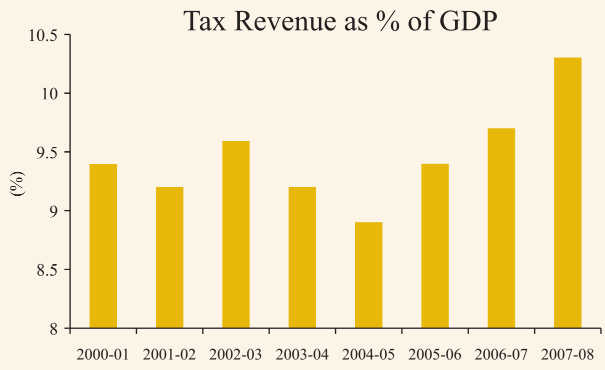
Growth in exports slowed to 11.4 percent, mainly because of a decline in the export of cotton and textiles (-2.5%), which constitutes nearly 56 percent of total exports. Except for raw cotton, knitwear, synthetic textile, most of the other items in this group like cotton yarn, cotton cloth, bedwear, towels, readymade garments, showed fall. Leather tanned and manufactures, leather garments, surgical goods and medical instruments, chemicals and pharmaceuticals, jewellery showed a growth in exports.

Tight fiscal position

The government's fiscal position remained under stress in the outgoing FY07. Tax collections fell short of the target primarily because direct tax collection declined.

Expenditures continued to grow, with a substantial rise of interest payments. The rise in the later, reflected in an accumulation of public debt.

Tax-GDP ratio has remained stagnant at around 9–10 percent of GDP, as the growth in the economy has not translated into an increase of the ratio and due to higher costs of subsidies. The tax base continues to be restricted as potential tax paying sectors continue to be outside the tax ambit.



Source: Pakistan Economic Survey 2007-08

Govern-mnet borrow-ings from SBP

In FY08, the problem was compounded by the increased reliance by the government on financing the widening deficit through borrowings from the State Bank. Such borrowings had reached Rs551.0 billion as of May 10, 2008, pushing the outstanding stock of market related treasury bills to Rs940.6 billion.

Against a revised tax collection target of Rs990 billion for the year 2007-08, the Federal Board of Revenue (FBR) had provisionally collected Rs851.3 billion (net) during July-May 2007-08. The Debt Office, Ministry of Finance, GoP in its latest Update on Pakistan's Economy (June 16, '08) states, 'although almost 86 percent of the target for the year has been achieved it seems unlikely that FBR will be able to achieve its annual target for FY08. *It was later (July 4) reported in newspapers that FBR had collected Rs1002 billion.*

During this period, direct tax collection grew by 13.4 percent to Rs309.3 billion, while its share in total collection declined slightly to 36.3 percent in FY08 (July-May) from 37.8 percent a year earlier. Meanwhile, indirect taxes grew by 20.6 percent. Within indirect taxes, sales tax which accounts for 61.3 percent has shown a growth of 21.7 percent to Rs332.6 billion. Here sales tax collected from domestic economic activity is more than its collection at import stage.

Pak Rupee deprecia-tes

Rising fiscal and current account deficit, alongwith Pak Rupee exchange rate depreciation have caused the public debt to grow. The year 2007-08 is likely to end with public debt at around 56 percent of GDP, a reversal in the declining trend witnessed since 2001. Rising debt has adverse consequences for debt servicing obligations, for it restricts government's spending on poverty and social sectors.

Energy shortages

A major challenge facing the government is the widening energy demand supply gap. While demand has risen sharply, the supply on the other hand has fallen far too short, as existing energy sources have not been sufficiently explored and exploited.

With rising prices of oil, there has been a change in the energy consumption mix in Pakistan since 1996-97; while the share of oil has dropped, the share of gas has risen, which is a relatively cheaper fuel and is considered a good alternate to oil. Power sector is the largest user of gas, followed by the industrial sector, household, fertilizer, transport and cement.

To meet the energy shortages, the government is initiating programmes to develop alternative energy sources, develop small hydro projects, promote efficient use of energy, use the coal reserves, encourage the use of CNG, improve operational and managerial efficiency to reduce power losses, improve distribution supply network, augment the electricity transmission network and develop biofuels.

During FY08, Pakistan's stock market has shown considerable resilience, despite less than satisfactory performance of major

Box

Economy 2007-08
Highlights

Growth Trends

- GDP grew at 5.8 percent, short of the target of 7.2 percent.
- Agriculture sector grew a modest 1.5 percent against the target of 4.8 percent, due to poor performance of major crops. Production of wheat and cotton declined, while rice showed a small increase.
- Manufacturing sector grew by 5.4 percent against the target of 10.9 percent; large scale manufacturing registered a growth of 4.8 percent against the target of 12.5 percent and last year's achievement of 8.6 percent.
- Services sector grew by 8.2 percent.
- Per capita income rose from $925 in FY07 to $1085 in 2007-08.
- Total investment as a proportion of GDP moderated to 21.6 percent.
- National savings as percentage of GDP stood at 13.9 percent in 2007-08, while domestic savings was 11.7 percent.
- Foreign investment inflows stood at $3.6 billion during the first ten months of the current fiscal year.
- Consumer Price Index rose by 19.3 percent in May 08 year on-year, with food inflation rising by 28.5 percent and non food inflation by 12.5 percent.

Fiscal and Monetary Development

- Budget deficit is estimated at 7.0 percent of GDP, against the target of 4.0 percent.
- Tax-GDP ratio remains stagnant at 11.0 percent, owing mainly to structural deficiencies in the tax collection system.
- There has been rationalisation of government expenditures. Some shifting of expenditure from current to development has taken place.
- The structure of taxation in Pakistan has changed following a number of tax and tariff reforms.
- There has been a gradual reduction on the dependence on foreign trade taxes and a concurrent increase in GST and direct tax collections.
- FY08 witnessed surging oil, food and commodity prices which had an adverse impact on Pakistan's budgetary position.
- To finance the rising fiscal deficit, the borrowing requirements of the government rose, especially the borrowings from the State Bank reached an alarming level.
- Total public debt to GDP ratio has declined from 83.8 percent in FY01 to 53.5 percent in FY08.
- Interest payments as a percentage of total revenue have been reduced from 41 percent to 21.6 percent in the last eight years.
- The State Bank of Pakistan continued with a tight monetary stance.
- The State Bank abolished the Annual Credit Plan.
- Credit to the private sector grew by nearly 15 percent (July May) FY08 as against 12.2 percent in the same period of last year.
- Consumer financing has slowed and was Rs16.6 billion during July-March FY08, against Rs35.2 billion in the preceding year.
- A tight monetary policy resulted in a rise in interest rates.

Capital Markets

- The stock market performed well during the year, as the KSE 100 index rose to 12370 points by April '07 and the aggregate market capitalisation increased to $59.4 billion.
- Foreign investor's interest in the stock market was sustained. Foreign portfolio investment increased to $1.82 billion.
- Several key takeovers took place in the corporate sector.

Balance of Payments

- During FY07 (July-April) exports are provisionally estimated at $13.9 billion and imports at nearly $25 billion, resulting in a trade deficit of $11.1 billion.
- Current account deficit has widened to $6.2 billion in July-March 2006-07.
- Workers' remittances totaled $4.45 billion in the first ten months of FY07.
- Total liquid foreign exchange reserves stood at $13.7 billion at the end of April 2007.
- Exchange rate remained more or less stable during the year.

External Debt

- External debt and liabilities at the end of March '07 were $38.86 billion.
- As a proportion of GDP, the external debt and liabilities declined from 51.7% in FY00 to 27.1% by end March '07.
- During July-March 2006-07 total disbursements stood at $1.8 billion.

Social Sector

- Literacy rate has risen to 54%.
- Public sector expenditure on education stood at 2.42% of GDP.
- Health expenditure as a percentage of GDP has remained stagnant at 0.57 percent.

macroeconomic indicators. Aggregate market capitalisation stood at $56 billion on May 30, 2008. The listed capital at Karachi Stock Exchange increased Rs690.1 billion by March 31, 2008.

Foreign portfolio investment declines

Foreign portfolio investment showed a net inflow of $62.2 million during July-May FY08 compared with $1760.5 million in the corresponding period of FY07. The substantial decline in the level of investment was because of large outflows from developing countries of Asia and the European Union.

Merger and acquisition activity in the corporate sector continued in the outgoing fiscal year, providing some support to the valuation in the stock market.

Given the macroeconomic imbalances in the domestic economy and the financial crisis having had an impact on the international capital markets, access to financing has been restricted. Pakistan has not issued any new instruments in FY08, though it plans to continue to tap the global capital markets, when conditions are favourable.

Federal Budget objectives

The Federal Budget 2008-09 has been presented at a difficult time. Policy makers have to make grim choices between improving macroeconomic indicators and at the same time taking care that their decisions to manage the economy has minimum impact on the vulnerable group in the society.

The Budget has been formulated with the objective to: -

- restore economic stability,
- increase the income of the vulnerable group through targeted programmes,
- focus on agriculture and the manufacturing sector,
- restore investor confidence,
- increase social sector allocations,
- remove the irritants towards development of infrastructure,
- build low cost housing for the low income groups.

Outlay size raised

The Federal Budget 2008-09 has a total outlay of Rs2010 billion; where 74.3 percent is earmarked for current expenditure, 27.3 percent for development expenditure, an operational shortfall of 3.8 percent is estimated, while 2.2 percent is set aside for other development expenditure.

Revised estimates for 2007–08 show that current expenditure at Rs1516.2 billion exceeded the budgeted figure of Rs1056.3 billion by 43.5 percent, while development expenditure showed a shortfall of nearly 12 percent. Historically, there have been cuts in development expenditure in response to fiscal constraints in Pakistan. In the outgoing fiscal year also, development expenditure was reduced by Rs61.2 billion.

Higher subsidy expenditure

The revised estimates show that current expenditure was higher by Rs460 billion, because interest payments and subsidies were substantially higher than budgeted. Subsidies rose to nearly 4 percent of GDP in FY08, against initial estimate of 1.1 percent. Servicing of domestic and foreign debt increased from Rs375 billion to Rs502 billion or by 34 percent. Due to higher international fuel prices and food prices, revised expenditure on subsidies have increased from Rs114 billion to Rs407.5 billion, two and a half times higher. Major increases were recorded under the following heads: -

Subsidies

(Rs Bn)

	2007-08 Budgeted	2007-08 Revised
WAPDA	52.9	113.7
Trading Corporation of Pakistan	8.7	46.5
Import of wheat	0	40.0
Oil Refineries/Oil Marketing Cos.	15.0	175.0
R&D Support to Textile	0	19.0
Development Subsidies on Fertilizer	13.5	29.5

Source: Budget in Brief 2008-09

Subsidy on oil and wheat

While the international price of crude has jumped during the last one year, the government did not pass on this increase to the consumers. Its subsidy bill on this account

Fiscal Measures

(Highlights)

Some of the measures adopted in the Federal Budget 2008-09

Income Tax	Customs Duty	Sales Tax / Federal Excise Duty
▪ The basic limit of exemption from income tax in respect of salaried person is proposed to be increased from Rs150,000 to Rs180,000. In the case of a woman salaried taxpayer the basic exemption limit is proposed to be increased from Rs200,000 to Rs240,000. ▪ Marginal tax relief for the salaried persons to be introduced. ▪ Minimum tax payable on the declared turnover @0.5 percent is being proposed to be withdrawn. ▪ The value of accommodation provided to salaried persons in small cities is proposed to be taken at 30 percent instead of 45 percent of the minimum time scale of the employees for the purpose of taxation. ▪ Exemption available to capital gain on shares of listed companies upto the tax year ending 30th June, 2008 is proposed to be extended to 30-th June 2010 without any change in the withholding tax and CVT regime. ▪ To encourage amalgamation of banking companies, modarabas and insurance companies the facility of carry forward of “accumulated loss” is proposed to be allowed for a period of six years in the case of amalgamated or amalgamating companies. ▪ In the case of bank no CVT is proposed to be charged on General Power of Attorney unless it is used into force the mortgage of property offered as collateral against a loan. ▪ At present withholding tax rate of 5 percent and 1 percent is applicable in respect of commercial and manufacturer importers respectively. It is proposed to apply a uniform rate of 2 percent for both the categories of importers. ▪ Withholding tax collected on electricity bills is being rationalized to collect the same @10 percent on bill amount exceeding Rs20,000 per month which would be adjustable. ▪ The pensioners, senior citizens and widows who are exempt from withholding tax in respect of profit from pensioners benefit scheme and behbood fund would not be charged to tax at a rate not exceeding 10 percent of such profit. ▪ Withholding tax on monthly telephone bills exceeding Rs1000 is proposed to be collected @10 percent. ▪ Withholding tax on cash withdrawal from banks presently collected @0.2 percent is proposed to be collected @0.3 percent on cash withdrawal. ▪ A new taxation system is being introduced for builders and developers, whereby the builder would be required to pay tax @Rs50 per sq. ft. of the covered area of a unit. The developer of open plots would be subjected to tax @Rs100 per sq. yard of the plot.	▪ The local industry producing among others, water dispensers, hooks & eyes, central heating gas boilers, mini ovens, gas heaters, gas stoves/cooking ranges with ovens, air handling equipment, central heating equipments, UPS have been provided inputs at 0 percent, 5 percent and 10 percent rates of duty. ▪ Fully dedicated CNG buses exempted from duty. ▪ Pharmaceutical industry given specified active ingredients, chemicals and packing materials at 5 percent duty. ▪ Eighteen medicines used for cancer/heart treatment etc. exempted from customs duty. ▪ Bitumen, JP4&JP8 exempted from duty. Duty rate on base oil for lubricating oils reduced from 20 percent to 10 percent. ▪ Rice seeds, energy saving lamps, dredgers, specified solar energy equipments exempted from customs duty. ▪ Power plants imported to WAPDA on temporary basis exempted from customs duty. ▪ Reduction of duty on calcium carbide from 15 percent to 5 percent, PTA from 15 percent to 7.5 percent, PSF 6.5 percent to 4.5 percent, Caustic soda from Rs5000/MT to Rs4000/MT, Printing screens from 15 percent to 10 percent, nickel not alloyed from 5 percent to 0 percent, Textile buckram from 25 percent to 10 percent. ▪ Manufacturers have been allowed to import samples duty free as per specified conditions in chapter 99 of PCT. ▪ Seized/confiscated vehicles as on 31st May, 2008 may be released against payment of leviable duty/taxes and 30 percent redemption fine. ▪ Duty rates on non-essential and luxury items have been increased. ▪ Customs duty @Rs500 per set levied on import of mobile phone. ▪ Customs duty on betel leaves increased from Rs150/kg to Rs200/kg. ▪ Duty rate increased on sulphonic acid from 10 percent to 15 percent. ▪ Duty rate increased on CKD/SKD of sewing machines from 5 percent to 20 percent. ▪ A uniform rate of 30 percent specified for import of special purpose motor vehicles. ▪ Increase in duty rates on import of cars/jeeps above 1800 cc from 90 percent to 100 percent. Fixed duty/tax rates on old and used cars/jeeps increased by 10 percent.	▪ Exemption of sales tax on import and local supply of fertilizers and pesticides. ▪ Exemption of energy saver lamps. ▪ Exemption of crop insurance from the levy of 5 percent federal excise duty (FED). ▪ Zero rating molasses for the manufacturing of acetic acid. ▪ Zero rating of caustic soda flakes/solid, cotton linter and sequins. ▪ Compensation for AJK Government enabling them to pay refunds to the registered persons of AJK buying taxable goods from Pakistan. ▪ Sales tax refund to foreign nationals visiting Pakistan on trade fairs on reciprocal basis. ▪ Exemption of sales tax on medical equipment, apparatus, reagents, disposables, spares and donations supplied to operating hospitals of 50 beds or more. ▪ General amnesty from payment of past liability to persons opting to get themselves registered under the Sales Tax Act, 1990. ▪ Permission to M/s SNGPL to deduct input tax in respect of natural gas supplies made in AJK. ▪ Enhancement of rate of sales tax from 15 percent to 16 percent. ▪ Enhancement of rate of FED from 15 percent to 16 percent on goods and services which are subject to FED in VAT mode. ▪ Proposal to increase rate of excise duty on telecommunication services to 21 percent. ▪ Rationalization of rate of FED on cement. ▪ Levy of 5 percent FED on the import and local supply of motorcars. ▪ Enhancement of rate of FED from 5 percent to 10 percent on banking, insurance and franchise services. ▪ Levy of FED on all telecommunication services. ▪ Enhancement of sales tax 15 percent to 16 percent on Provincial services.

alone was Rs160 billion above the budget figure of Rs15 billion. Similarly, the government has been heavily subsidizing the cost at which fertilizer is made available to farmers, and paid Rs40 billion last year, as subsidy on import of wheat.

GoP to reduce subsidies

For FY09, the government is proposing to reduce subsidies and a total reduction of Rs112 billion against last year's Rs407 billion is budgeted for. This reduction will be brought about by reducing subsidies to oil marketing companies from Rs175 billion to Rs140 billion, a decline of 20 percent, to WAPDA from Rs114 billion to Rs75 billion, to KESC from Rs20 billion to Rs14 billion and on import of wheat it would be halved from Rs40 billion to Rs20 billion. Farmers would however, continue to receive fertilizer at subsidised rates. The government decision to reduce subsidies was taken to relieve the pressure on the budget.

The rising subsidy bill has compelled the government to pass on partial increase to the consumers from July 1, 2008. Earlier it had maintained the policy of absorbing the impact of increasing international oil prices. Despite the increase in domestic prices, the government continues to subsidise the price of kerosene oil and light diesel oil and motor spirit.

(Rs)

	July 1, 2008	January 1, 2008
Motor Spirit	75.69	53.70
HOBC	88.85	64.88
Kerosene Oil	49.73	35.23
Light Diesel Oil	49.05	32.57

Increase in fuel prices in the domestic market would consequently raise transport costs, prices of food items, construction material etc. As the subsidy on wheat imports is being reduced by Rs20 billion, it would have an impact on retail prices of wheat flour. Similarly the proposed reduction in WAPDA and KESC subsidies by 34 percent 30 percent respectively would result in tariff increases.

Trend in expendi-tures

The revised estimates for 2007-08 show a reduction of 12.0 percent in the development outlay, declining to Rs458.3 billion against the budgeted Rs520.0 billion, because of resource constraints. Over the last few years however, development expenditure has improved as a proportion of GDP.

Expenditure as % of GDP

	Current	Development
2000-01	16.9	2.3
2001-02	15.7	2.8
2002-03	16.0	2.6
2003-04	13.8	2.9
2004-05	14.5	3.5
2005-06	14.8	4.3
2006-07	15.8	4.5
2007-08	14.5	4.4

Source: Pakistan Economic Survey 2007-08

For FY09, the government has raised the size of development expenditure by 20 percent to Rs550 billion. Higher allocations have been earmarked for water and power (Rs62.3 bn), special programmes (Rs62.4 bn), agriculture and livestock (Rs20.5 bn), health (Rs19 bn), higher education commission (Rs18 bn) and National Highway Authority (Rs36.5 bn).

Revenue Receipts

Revised figures for 2007-08 show that revenue receipts (net) exceeded the budgeted figure of Rs902.2 billion by 4.4 percent. This is attributable to higher (16.5%) non-tax revenue, for tax revenue fell short of the target of Rs1030.5 billion by 2.4 perent. This decline is ascribed to the performance of direct tax collection which has fallen short of the target. Apart from political unrest and law and order, the major setback has been due to significant reduction in voluntary compliance.

Payments with returns have dropped from Rs47.9 billion during July-March FY07 to Rs8.5 billion during FY08. Three major revenue yielding sectors, banks, oil & gas and telecom adjusted their profits lower during the year. As a result, they paid less advance tax as compared to preceding fiscal year. Last year, the Budget had reduced the maximum rate of income tax for individuals, and the basic threshold was raised for salaried individuals. A new slab of lower rate of 20 percent was also introduced for SMEs. This affected the collection of taxes.

Share of direct taxes rising

Though the share of direct taxes in federal tax receipts have increased to close to 39 percent, and have become one of the leading sources of revenue, its share to GDP at 4.1 percent, is low compared to other countries like Singapore, Malaysia, Indonesia where it ranges between 6-7 percent.

In the Budget 2008-09, the government proposes to significantly raise tax revenues from Rs1006 billion to Rs1251 billion, an increase of about 25 percent. Direct taxes would contribute Rs108 billion, while Rs138 billion would be generated through indirect taxes on commodities and transactions.

Customs duty collection seen falling

Revised estimates for FY08 show that indirect tax collection fell slightly short of the target of Rs622.3 billion by 0.8 percent, primarily because of lower customs duty. The role of customs duty has gradually diminished both as a major source of revenue and protecting the domestic industry. World over customs duties are being lowered in line with WTO arrangements.

In Pakistan, for the last many years not only have the tariff rates been gradually reduced, but the number of tariff slabs has also been reduced considerably in an effort to liberalize trade in the country. Maximum tariff rate has been brought down from 35 percent to the current level of 25 percent.

In the last budget, customs duty was withdrawn from machinery used in horticulture, furniture, marble & granite, surgical & medical instruments. Similarly, customs duty on certain raw material was reduced.

Customs duty collection have fallen short by nearly 4 percent against the year's budgeted figure of Rs154 billion. For FY09, customs duty are projected at Rs170 billion.

The *FBR Quarterly Review January-March 2008*, shows that customs duty collection lacks diversification as during the first nine months of FY08, fifteen commodities group contributed for the bulk of receipts.

Collection from the auto sector has fallen, because of a change in government policy, which restricts import of old and used vehicles to only 3 years age. This has discouraged demand for the import of second hand motor cars and jeeps. Import of motor cars under

Revenue Receipts

(Rs Bn)

	2007-08		2008-09
	Budget	Revised	Budget
Tax Revenue*	**1030.5**	**1005.6**	**1251.5**
Direct Taxes	408.2	388.2	496.0
Income Tax	388.0	367.3	477.0
Workers Welfare Tax	2.8	2.4	3.5
Workers Participation Fund	7.7	9.6	9.0
Capital Value Tax	6.5	5.7	6.5
Foreign Travel Tax (Arrears)	3.2	3.2	0
Indirect Taxes	**622.3**	**617.3**	**755.5**
Customs	154.0	148.0	170.0
Sales Tax	375.0	375.0	472.0
Federal Excise	91.0	92.0	112.0
Other Taxes	1.3	1.3	1.4
Airport Tax	0	0	0.06
Airport Tax (Arrears)	1.1	1.1	0
Non-Tax Revenue	**337.6**	**393.3**	**427.8**
Income from Property & Enterprises	**144.5**	**143.2**	**128.1**
Profit of Pak Telecom	9.6	7.5	5.8
Profit of Pakistan Post	0.3	0.8	0.6
Interest (Provinces)	18.2	19.8	17.0
Interest (PSEs & others)	37.5	36.3	22.6
Dividends	78.7	78.7	82.0
Receipts from Civil Admn & Other Functions	**86.3**	**138.8**	**183.1**
General Admn	1.8	1.5	1.6
SBP Profits	60.0	88.0	110.0
Defence	23.2	48.0	70.0
Law & Order	0.3	0.4	0.4
Community Services	0.6	0.7	0.7
Social Services	0.3	0.3	0.3
Miscellaneous Receipts	**106.8**	**111.4**	**116.6**
Economic Services	2.1	1.7	2.2
Petroleum Development Levy	25.0	8.2	14.0
Gas Development Surcharge	22.2	21.0	17.4
Discount Retained on Local Crude Prices	4.0	22.0	23.5
Royalty on Oil	8.5	13.0	12.7
Royalty on Gas	21.4	21.0	21.3
Passport & Copyright Fee	7.3	7.4	8.2
Others	16.2	16.9	17.4

* Out of which FBR collection has been projected at Rs1025 billion for BE 2007-08, at Rs1000 billion for RE 2007-08 and at Rs1250 billion for BE 2008-09.

Source: Federal Budget in Brief 2008-09

CKD/SKD fell by 24.5 percent during July-May '08 to $304.5 million, against $403.2 million in the comparable period a year earlier. Alongwith this change in government policy, restrictions on car financing and increase in cost of borrowings has caused substantial revenue loss on this account.

Sales tax base widened

Sales tax is one of the leading sources of federal tax receipts, constituting 37 percent of total tax revenue and 61 percent of indirect taxes. Its scope has enlarged over the years and the size of the tax base has, therefore been accordingly extended. Levied on manufacturers and retailers, with an annual turnover of more than Rs5 million as well as on the importers, wholesalers, distributors, dealers and specified services @15 percent. Some items are exempt from this tax. These include, basic food stuff, agricultural produce, medicines, books, software etc.

Revised estimates for 2007-08 show that revenue collection from this source was the largest, surpassing collection from taxes on income. During the year, the target of Rs375 billion was realized. For FY09, sales tax collection is budgeted at Rs472 billion.

Sales tax is levied at two stages in Pakistan - at the import stage and domestic production. Domestic sales collection in the last fiscal year was generated by ten major items, namely, POL products, services (essentially telephone and telefax), natural gas, sugar, cigarettes, iron and steel products, services, automobile sector, electrical energy and beverages.

Leading contributors to sales tax

POL products and services (including telephone/fax etc) have been the leading contributors to the sales tax, while a sluggish growth has been recorded in GST receipts from natural gas and sugar. The *FBR Quarterly Report January-March 2008*, attributes the increase in the former to zero-rating of crude oil for sales tax at import stage (since November '07). The tax is now charged at sales stage. The low GST receipts from natural gas is mainly due to, 'a relatively low growth in GST payment by the leading supplier holding 40 percent share in sales tax collection, among other factors.

Sales Tax Collection (Domestic)

(Rs Bn)

	July-March 2007-08	July-March 2006-07
POL Products	34.0	23.1
Services (incl. Telephone/Fax)	32.9	26.4
Natural Gas	11.2	10.7
Sugar	8.6	8.4
Cigarettes	5.4	4.6
Iron & Steel Products	5.4	1.5
Services (other than Telecom)	4.3	3.5
Motor cars/motor cycles/auto parts	3.7	2.8
Electrical Energy	2.8	11.5
Beverages	2.6	2.2
Sub Total	**110.9**	**94.7**
Others	26.8	27.9
Total	**137.7**	**122.6**
Refunds	20.8	29.7
Net GST Collection	**116.9**	**93.1**

Source: FBR Quarterly Review, January-March 2008

Collection from iron and steel has improved because of a change in policy, whereby sales tax is now being charged on the basis of electricity consumption and collected through the electricity bills of WAPDA and KESC. Services other than telecom have contributed an enhanced amount due to improved performance of airlines, media and courier services.

Sales tax collected at the import stage constitutes slightly more than half of total sales tax collection. Of the fifteen major commodity groups, nearly 38 percent of collection originates from POL products. Its share however, declined slightly in FY08, because of zero-rating of crude oil, which is one of the two major POL contributors (the other is HSD). The other commodities showing increases are edible oil, plastic resins, electrical machinery among few others.

Major Contributors to Federal Excise Duty

(Rs Bn)

	2007-08		2008-09
	Budget	Revised	Budget
Beverages	5.6	3.7	4.1
Beverage concentrate	2.2	2.7	3.1
Cement	17.8	16.0	19.7
Cigarettes & tobacco	28.7	28.5	36.6
Natural gas	6.4	6.6	6.8
POL products	5.1	2.8	3.2
Imported goods	5.0	14.8	16.5
1% Special Excise duty	0.0	10.4	10.8

Source: Explanatory Memorandum on Federal Receipts 2008-09

Excise duty

Revised estimates of federal excise duty for FY08 show that Rs92 billion was collected during the year, surpassing the target of Rs91 billion. For 2008-09, a target of Rs112 billion has been set, nearly 22 percent higher over last year's revised estimates. During the year, major revenue contributors under this head were, cigarettes, cement, imported goods, natural gas, beverages and POL products. The levy of 1 percent special excise duty both at domestic and import stages netted in Rs10.4 billion or 11 percent of total excise collection. The tax net of excise duty has been extended to cover services, like banking, telephones, electricity and professional services.

Tax to GDP Ratio

(%)

	Direct Taxes	Excise	Customs	Sales	Total Indirect	Total Taxes
2000-01	3.0	1.2	1.5	3.6	6.4	9.3
2001-02	3.2	1.0	1.1	3.7	5.9	9.1
2002-03	3.1	0.9	1.4	4.0	6.3	9.4
2003-04	2.9	0.8	1.6	3.9	6.3	9.2
2004-05	2.8	0.8	1.8	3.7	6.3	9.1
2005-06	2.9	0.7	1.8	3.9	6.4	9.4
2006-07	3.8	0.8	1.5	3.5	5.9	9.7
2007-08	3.7	0.9	1.4	3.6	5.9	9.6

Source: Tax data from SBP website and GDP data from Economic Survey 2007-08

In the Federal Budget 2008-09, the government proposes to raise tax revenue from Rs1000 billion to Rs1250 billion, or by 25 percent. Additional resource mobilization measures proposed would help achieve the enhanced target of various tax revenue heads; direct taxes, customs, sales and excise duty.

Additional resource mobilisation

The Budget has proposed significant additional resource mobilization efforts. Revenue generated through various taxation proposals is estimated to be about Rs77 billion. Proposal to increase the rate of sales tax from 15 percent to 16 percent would raise about Rs26 billion. Substantial amount would also accrue from enhancement in import duty rates on non-essential and luxury items, and from an increase in excise duty on telecommunication services, and on banking, insurance and franchise services. Direct tax measures, like rationalisation of withholding tax on imports, WHT through electricity bills, enhancement of cash withdrawals from banks among others would net in around Rs30 billion.

Non tax receipts

Non-tax receipts of the federal government were Rs56 billion higher in FY08, over the earlier set target of Rs337.6 billion. The increase is attributable to higher receipts from civil administration, mainly from SBP Profits (Rs88 billion against the target of Rs60 billion) and from defence (revised figures are Rs48 billion against the target of Rs23 billion) and from discount retained on local crude price.

During the year, the surplus profit of the State Bank, after making provisions for reserve funds and payment of dividend had increased which was transferred to the federal government. For FY09, SBP Profits are estimated at Rs110 billion, 25 percent higher over revised estimates for FY08.

Petroleum development levy generated Rs8.2 billion, substantially below the year's target of Rs25 billion, while gas development surcharge at Rs21.1 billion was marginally smaller against the target of Rs22.2 billion. The later is transferred to the provinces according to the production of gas in a province. Both Royalty on Oil and on Natural gas are transferred to the provinces after deducting 2 percent collection charges.

External resources

External resources which were projected at Rs258.5 billion for FY08, were revised upwards during the year and are placed higher at Rs275.4 billion. While project aid, both to the federal and provincial governments were smaller against the target, a substantial increase was witnessed in loans for earthquake relief measures and in the category of 'Other Aid', which comprises of loans and grants from non-traditional sources. Under this head, aid flow from Islamic Development Bank was higher at Rs33.8 billion (target Rs6.2 billion) and from China, Rs30.7 billion (target 0 rupees).

Given the turbulence in the international capital markets and macroeconomic imbalances and political uncertainty at home, Pakistan has not issued any new instrument in FY08. It had budgeted for Rs31 billion through Eurobonds. The government plans to tap the global capital markets, when conditions are more favourable through regular issuance of bonds.

External Resources

(Rs Bn)

	2007-08 Budget	2007-08 Revised	2008-09 Budget
Project Aid	70.1	58.0	76.8
Commodity Aid	101.0	94.6	151.0
Earthquake	50.2	58.3	9.8
Other Aid	37.3	64.6	62.5
Total	258.6	275.4	300.2

Source: Explanatory Memorandum on Federal Receipts 2008-09

Fiscal deficit widens

There was a large deterioration in the fiscal deficit in 2007-08. Deficit had started increasing after 2003-04 as public expenditure slowly built up, alongwith rising current expenditure. During the year, the surging oil, food and commodity prices had an adverse impact on Pakistan's budgetary position. This alongwith higher power subsidy to WAPDA (due largely to rise in costs of fuel) raised the subsidy bill to over Rs400 billion against the budgeted amount of Rs114 billion.

Interest payments also surpassed their targeted level of Rs375 billion by a wide margin (Rs127 billion). This has been attributable by the Economic Survey 2007-08 to slippages on account of the National Saving Schemes, particularly with respect to Defence Saving Certificates.

Development spending had to be curtailed to counter the gap between budget and estimated figures for current expenditure. This was done to bring down the fiscal deficit, which had risen to 7.5 percent of GDP. The Government had to borrow heavily from the Central Bank to finance the large fiscal deficit. A part of the deficit was proposed to be financed through privatisation proceeds and Rs75.0 billion were budgeted for this purpose in FY08. However, revised estimates show that only Rs1.65 billion were realized. The government proposes to bring down the deficit this year.

Priority for agriculture

A positive aspect of the Budget is the high priority attached to revival of the growth process in the agricultural sector, by taking measures which makes costs cheaper and improves access to inputs. Alongwith agriculture, the development of livestock and dairy farming and fisheries has also received focus in the Budget. These areas are of significance, for any setback to the sector is detrimental to income growth of farmers and those associated with the sector and constrains efforts to reduce poverty. The measures adopted include: -

- Provision of Rs75 billion in the PSDP to improve the availability and efficient use of water resources.
- To facilitate export of agri produce, cold storage chains to be set up in the country.
- To encourage the use of fertilizer by the farmers, the government will double the subsidy on DAP fertilizer from Rs470 per bag to Rs1000 per bag. Subsidy on fertilizer to continue. Total allocation for subsidy on fertilizer raised from Rs29.5 billion to Rs35 billion in FY09.
- Exemption from sales tax and other duties on local supply of fertilizer and pesticides.
- Availability of agricultural credit to receive a boost.
- Other fiscal measures provided to raise productivity and the income levels of those associated with the sector.

Higher allocations have been made in the PSDP for the development of livestock and dairy farming and for projects like shrimp farming, fisheries. Foreign investors are being encouraged to invest in developing cultivable land by bringing in capital and technology. Any improvement in the agricultural sector would act as an engine for alleviating rural poverty.

Relief package for the poor

The Budget has a relief package for the poor, who have been effected by rising food and fuel prices. The Budget seeks to enhance expenditures related to poverty reduction; initiate special programmes to enhance incomes of low income groups, and a programme of low cost housing will be started during the year, which would make available housing for the low income group.

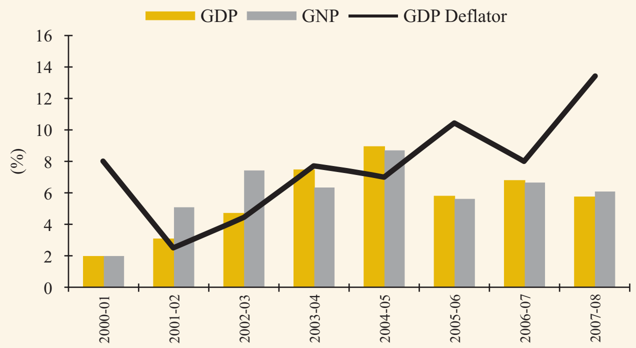
Cash grant of Rs1000 per month per household would be given through Benazir Income Support Programme. Under this programme, the government would initially provide Rs34 billion, which would be raised to Rs50 billion, primarily to the poorest of the poor. In addition the government would continue with some of the existing programmes, like Bait-ul-Maal, People's Works Programme, Rozgar Scheme, food items at subsidised rates through Utility Stores among others. The beneficiaries of this programme will in due course be provided with other facilities like employment, skill development, medical insurance and food subsidy.

Prospects for 2008-09

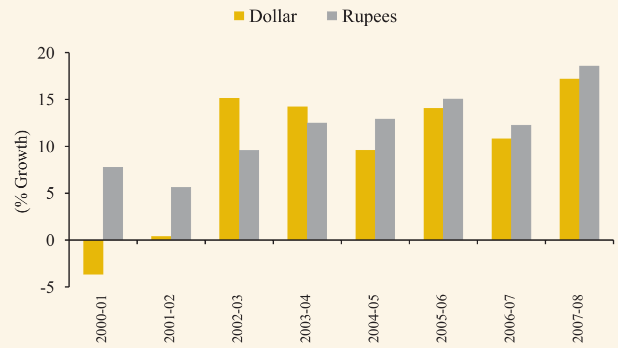
The government has set a real GDP target of 5.5 percent, with the agricultural sector projected to grow by 3.5 percent, manufacturing by 6.1 percent, and the services sector by 6.1 percent. Inflation is expected to be around 12 percent. Trade deficit is expected to narrow to $14 billion, as exports grow by 16 percent to $23 billion and import growth is contained at 6.5 percent, rising to $37 billion. Workers' remittances are expected to touch $7.7 billion. Current account deficit would be around 6 percent of GDP against 7 percent in FY08. Fiscal deficit which had deteriorated in FY08, is estimated to be 4.7 percent of GDP as government cuts down subsidies and other non-development expenditure and makes greater efforts at enhanced resource mobilisation.

Trends in Domestic Economy

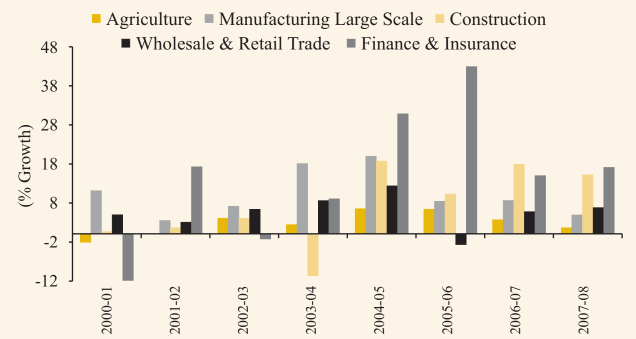
Real Economic Growth



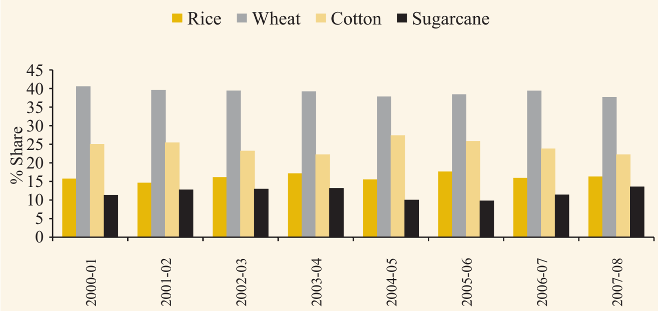
Per Capita Income



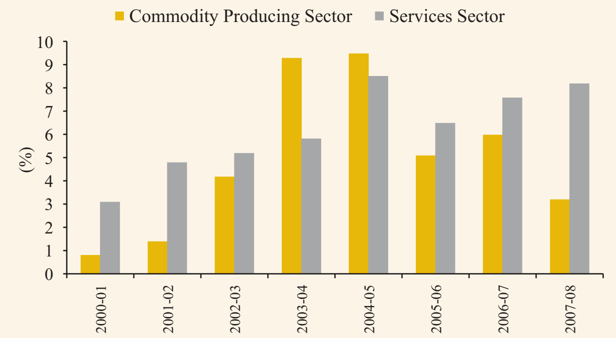
Major Contributors to GDP Growth



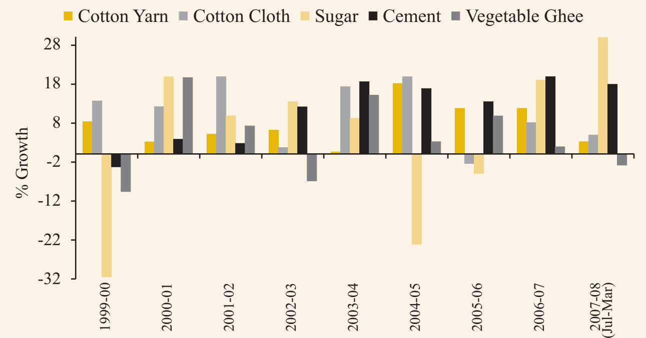
Composition of Value Addition



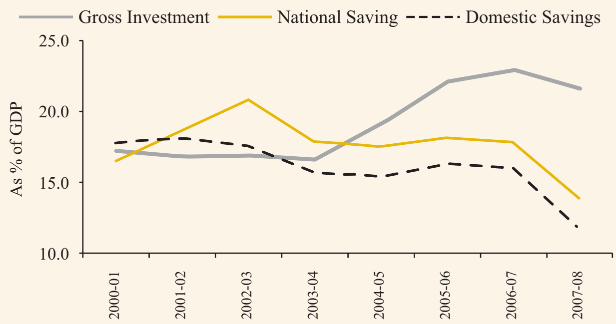
Sectoral Growth



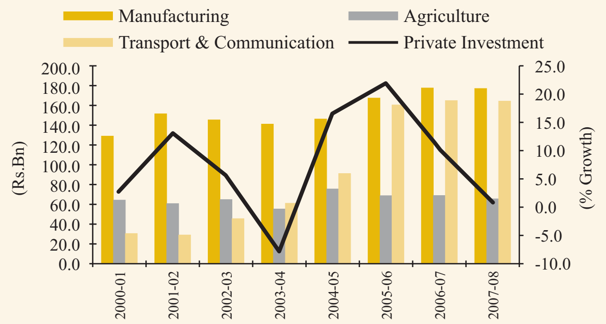
Industrial Production

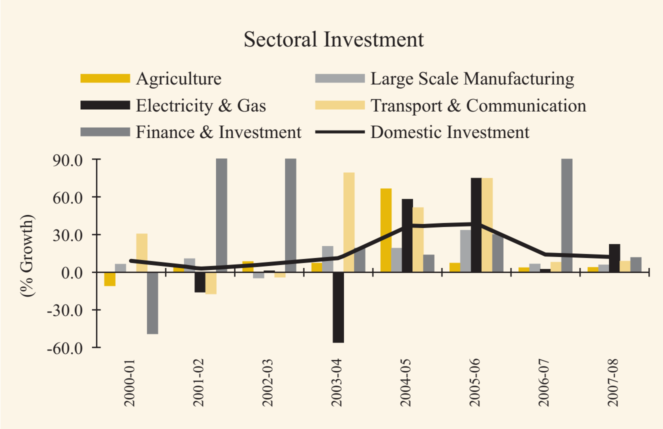


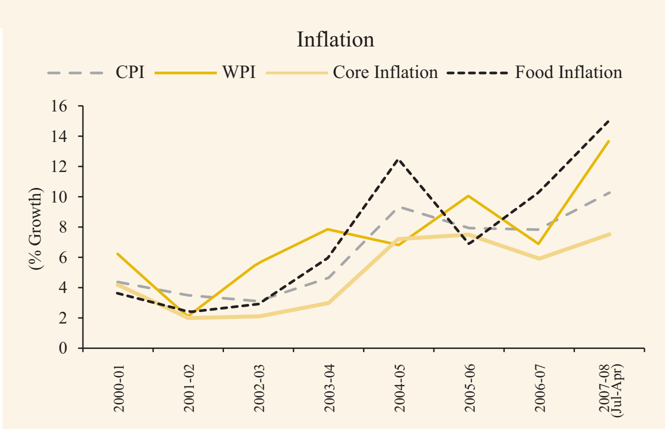
Savings & Investment

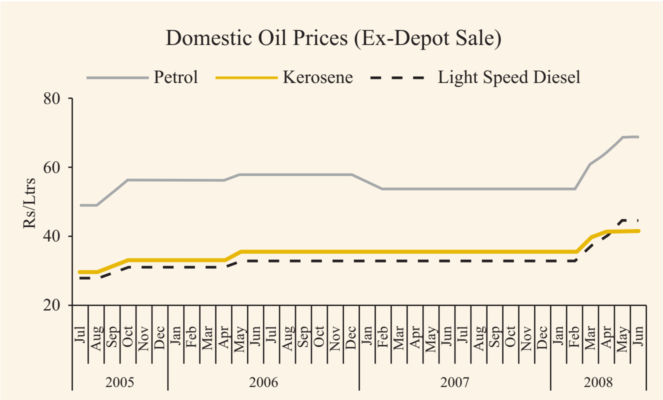


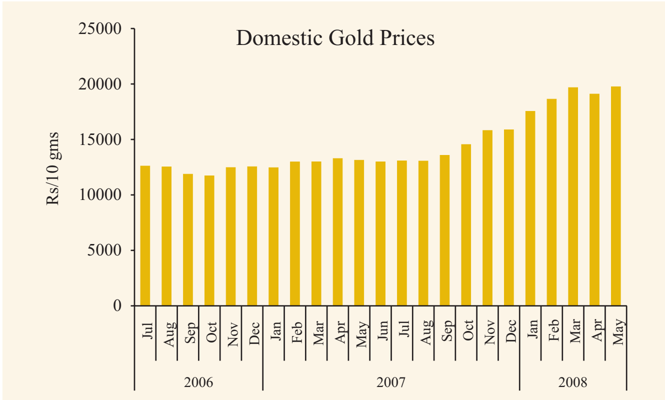
Private Investment

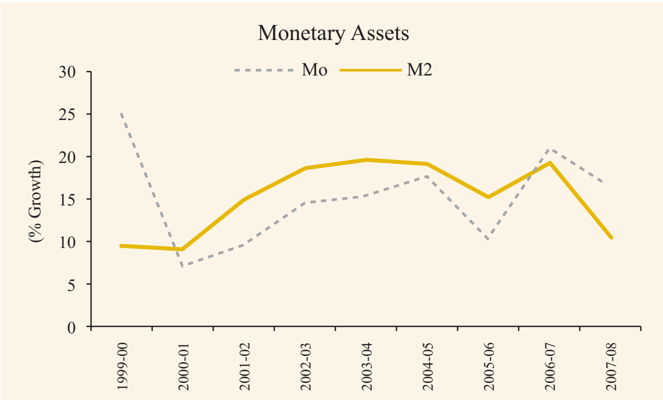


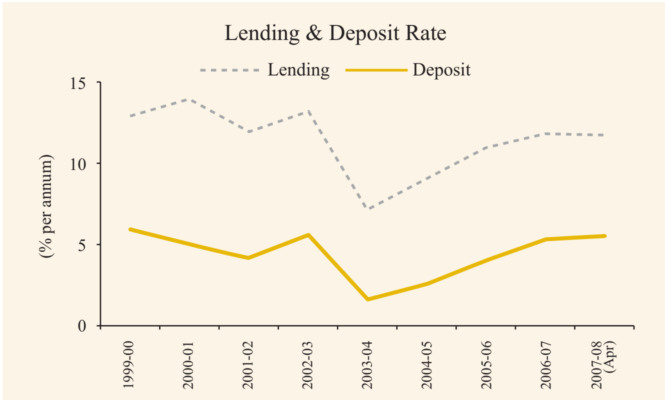

Sectoral Investment
Agriculture
Large Scale Manufacturing
Electricity & Gas
Transport & Communication
Finance & Investment
Domestic Investment
(% Growth)
90.0
60.0
30.0
0.0
-30.0
-60.0
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08

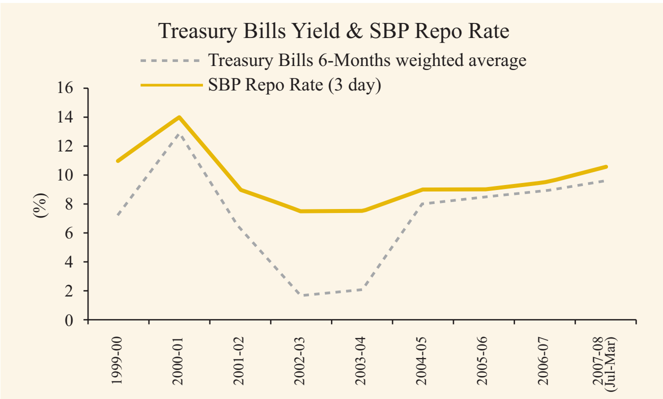

Inflation
CPI
WPI
Core Inflation
Food Inflation
(% Growth)
16
14
12
10
8
6
4
2
0
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08 (Jul-Apr)

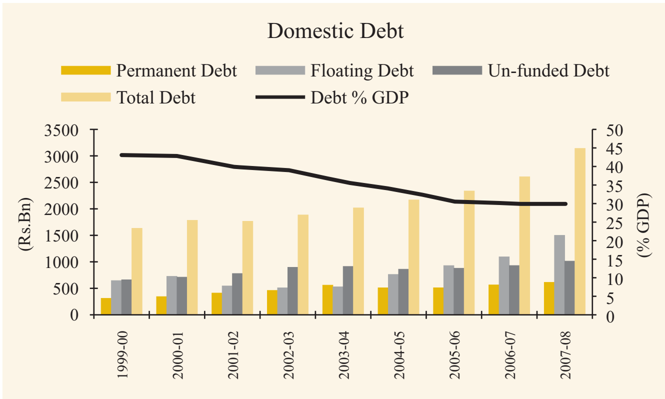

Domestic Oil Prices (Ex-Depot Sale)
Petrol
Kerosene
Light Speed Diesel
Rs/Ltrs
80
60
40
20
Jul Aug Sep Oct Nov Dec
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
Jan Feb Mar Apr May Jun
2005
2006
2007
2008


Domestic Gold Prices
Rs/10 gms
25000
20000
15000
10000
5000
0
Jul Aug Sep Oct Nov Dec
Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec
Jan Feb Mar Apr May
2006
2007
2008

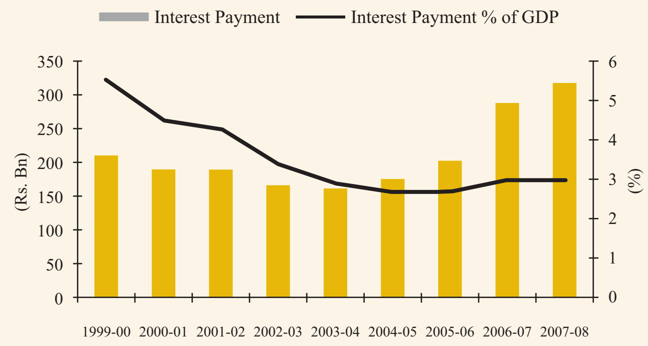

Monetary Assets
Mo
M2
(% Growth)
30
25
20
15
10
5
0
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08


Lending & Deposit Rate
Lending
Deposit
(% per annum)
15
10
5
0
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08 (Apr)

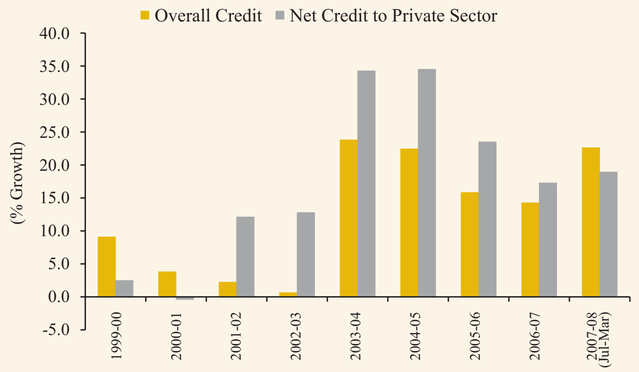

Treasury Bills Yield & SBP Repo Rate
Treasury Bills 6-Months weighted average
SBP Repo Rate (3 day)
(%)
16
14
12
10
8
6
4
2
0
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08 (Jul-Mar)


Domestic Debt
Permanent Debt
Floating Debt
Un-funded Debt
Total Debt
Debt % GDP
(Rs.Bn)
3500
3000
2500
2000
1500
1000
500
0
(% GDP)
50
45
40
35
30
25
20
15
10
5
0
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08

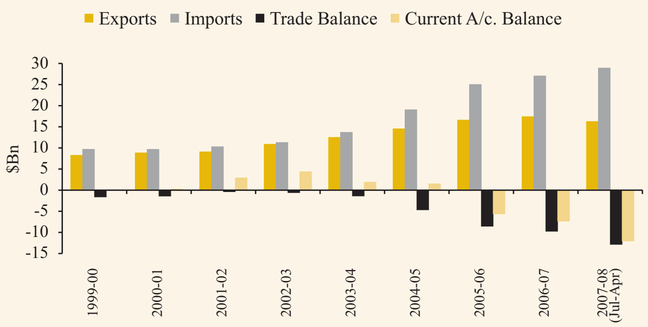
Interest Payment on Domestic Debt



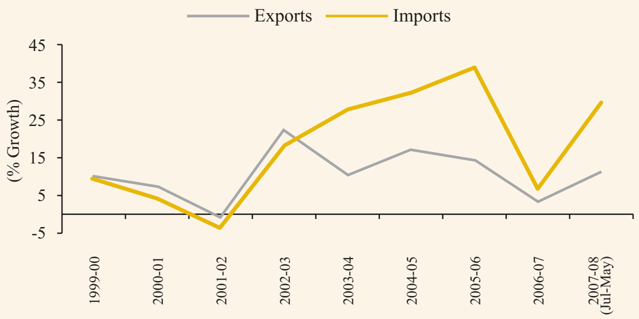
Domestic Credit



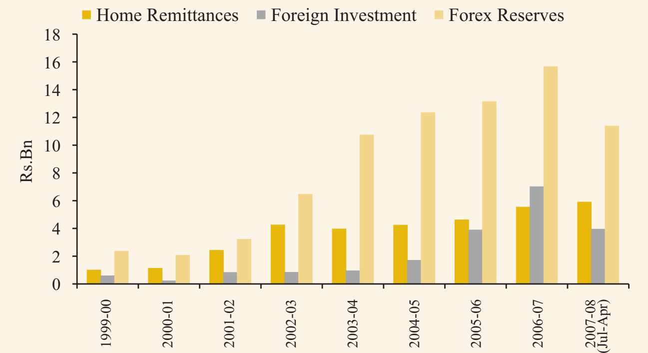
Trade & Payments



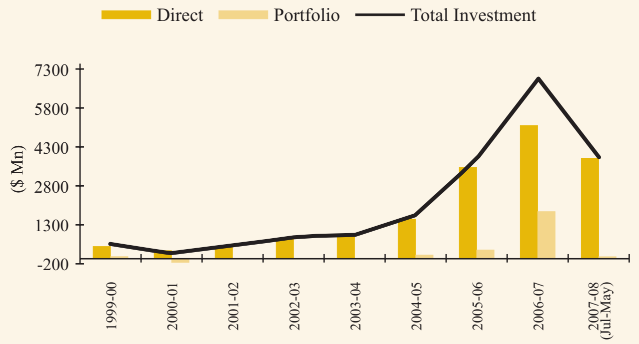
Export/Import Trend



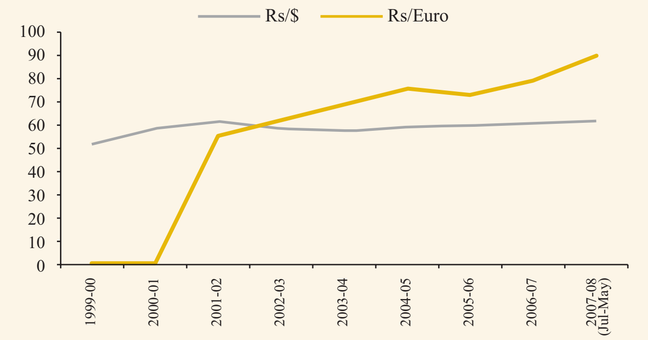
Home Remittances/Foreign Investment/Forex Reserves



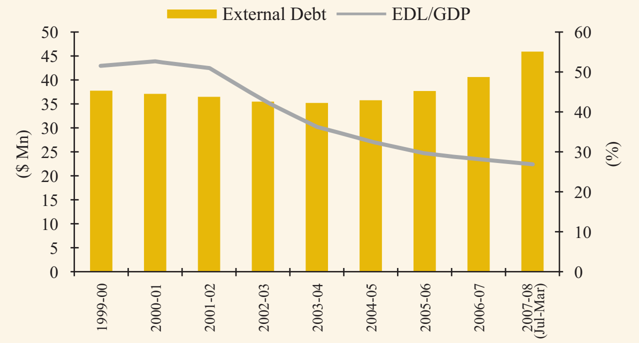
Foreign Private Investment



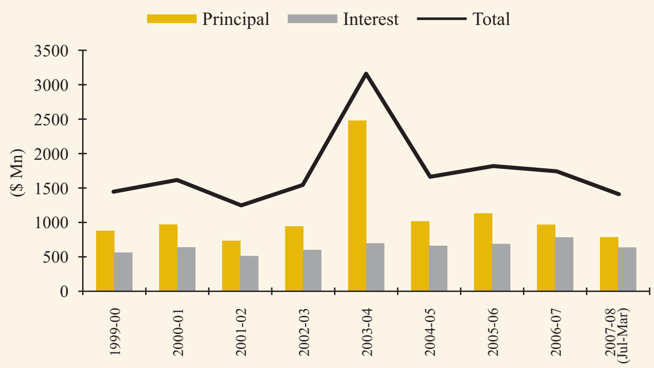
Exchange Rate



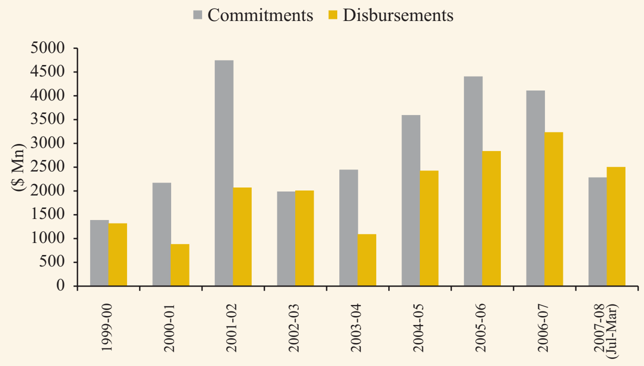
External Debt & Liabilities



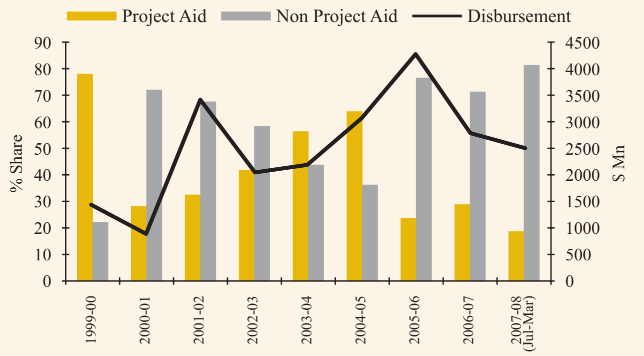
External Debt Servicing



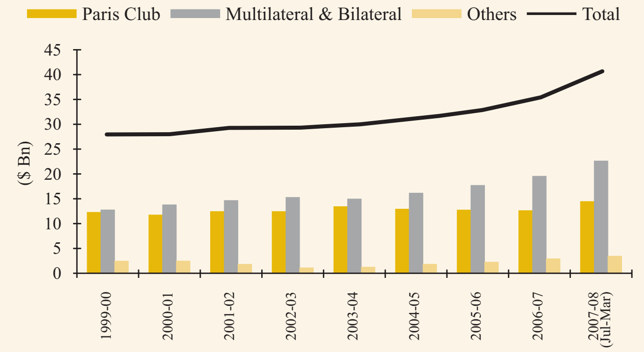
Loan Commitments & Disbursements



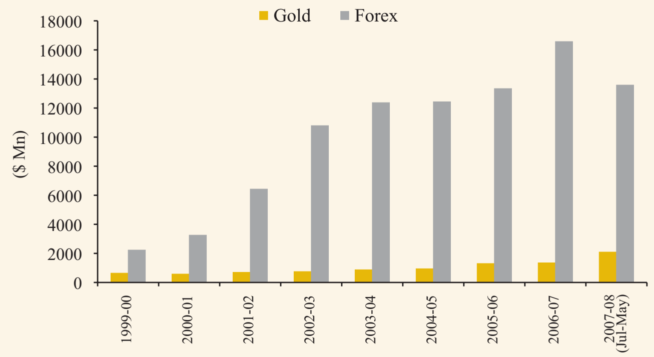
Project/Non Project Aid Disbursements



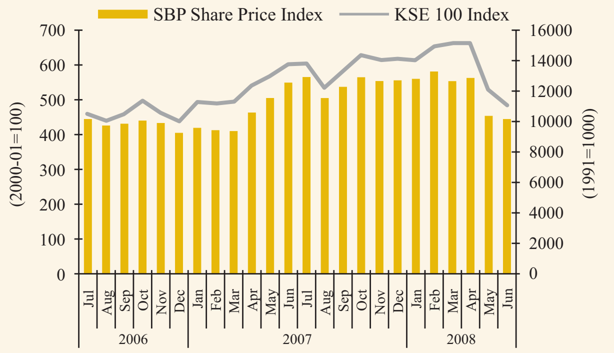
Public & Publically Guaranteed Debt



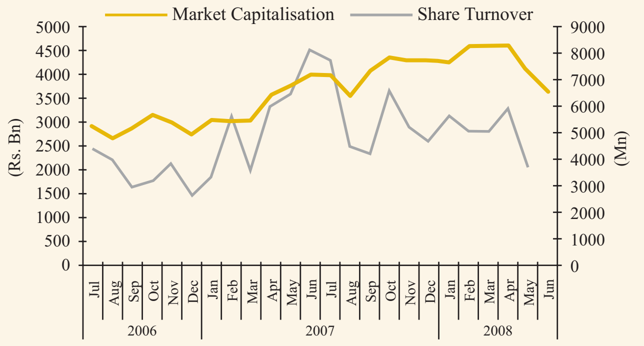
Gold & Forex Reserves



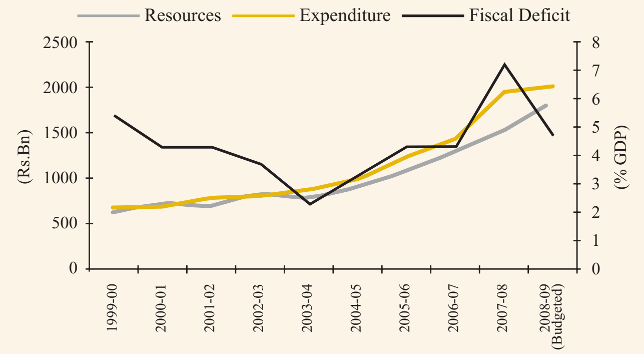
Karachi Stock Exchange

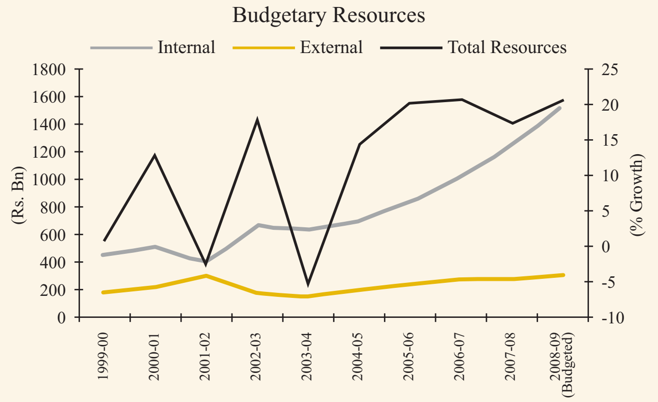


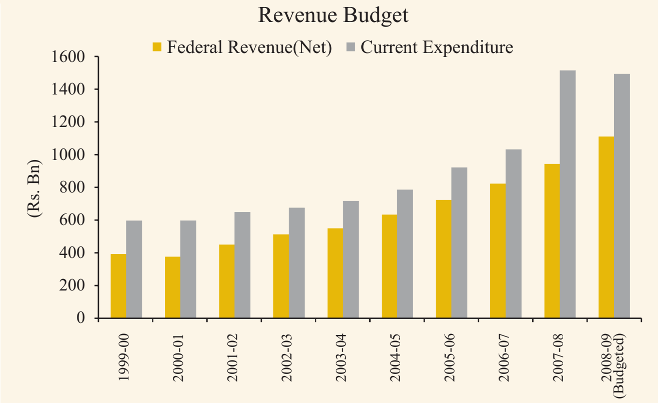
Share Turnover & Market Capitalisation

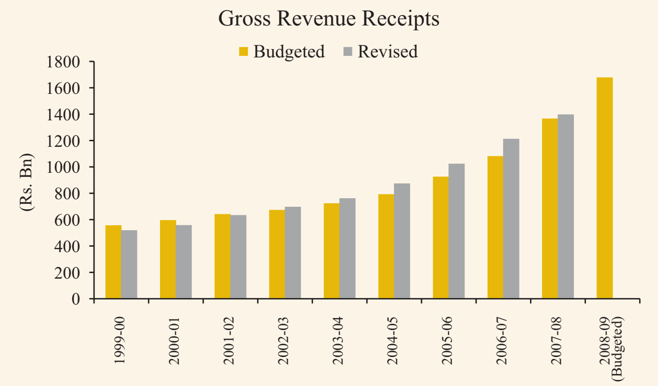


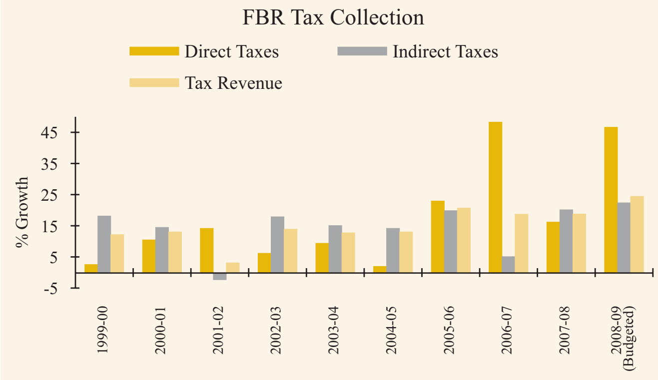
Overall Budget

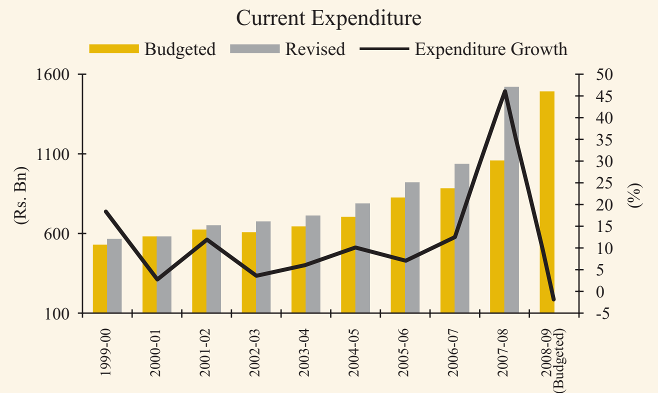


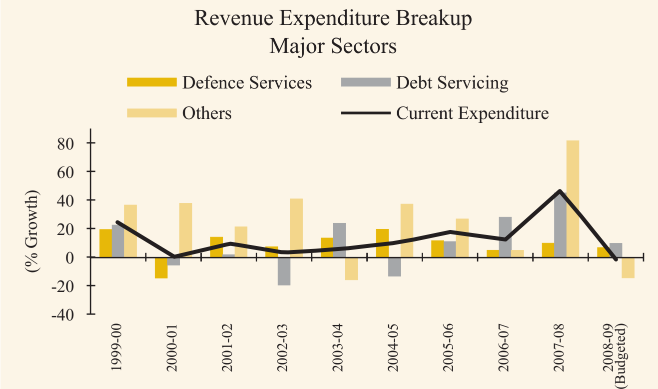

Budgetary Resources
Internal
External
Total Resources
(Rs. Bn)
(% Growth)
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09 (Budgeted)

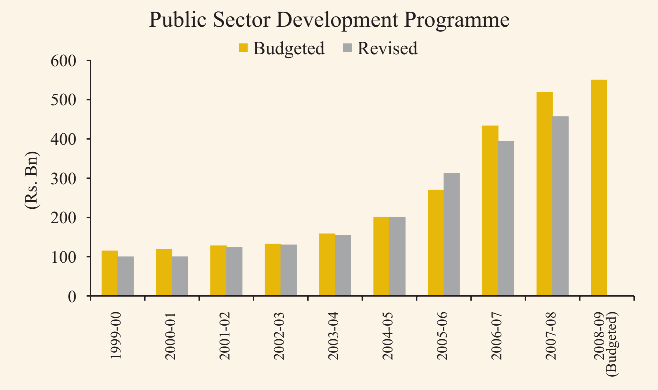

Revenue Budget
Federal Revenue(Net)
Current Expenditure
(Rs. Bn)

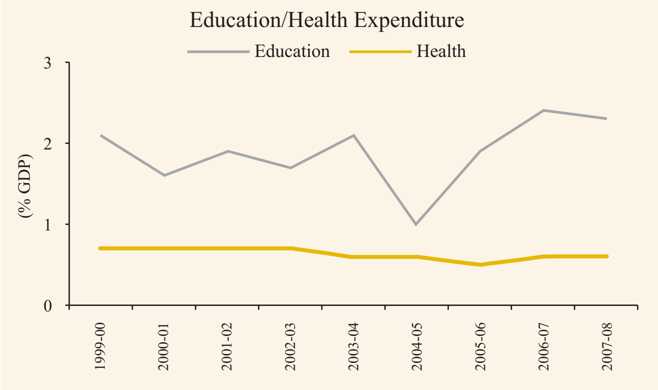

Gross Revenue Receipts
Budgeted
Revised
(Rs. Bn)


FBR Tax Collection
Direct Taxes
Indirect Taxes
Tax Revenue
% Growth


Current Expenditure
Budgeted
Revised
Expenditure Growth
(Rs. Bn)
(%)


Revenue Expenditure Breakup
Major Sectors
Defence Services
Debt Servicing
Others
Current Expenditure
(% Growth)


Public Sector Development Programme
Budgeted
Revised
(Rs. Bn)

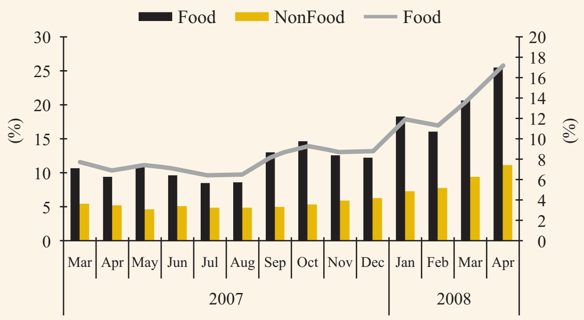

Education/Health Expenditure
Education
Health
(% GDP)

Rising Food Prices

Domestic inflationary pressures have gained momentum in the last few months. The Consumer Price Index (CPI) has risen by 17.2 percent in April '08, the highest inflation in a month since April 1995. The increase is attributable to a pronounced increase (25.5%) in food inflation, as compared to 9.4 percent in the corresponding month a year earlier. This has shown a double digit increase since September 2007. The State Bank of Pakistan's third quarterly report 2007-08 on the State of Pakistan's Economy, states, "rising prices of key food staples (wheat, rice, edible oil and milk) continued to provide impetus to food inflation in recent months. It is also important to note that the pass through of rising international prices of palm oil has accelerated.

The inflation outlook appears to be unfavorable given a sharp surge in wheat flour prices amid acute supply shortages in recent months, as well as, likely realization of upward revision in key fuel prices on food inflation. Moreover, impact of depreciation of rupee is likely to fuel inflationary expectations in the times ahead.

Trends in CPI Inflation



The double digit rise in food inflation has been due to a sharp increase in the prices of some major food items like wheat flour, rice, vegetables, cooking oil, vegetable ghee, milk fresh. A rise in wheat flour prices in the last few months has pushed food inflation to new highs.

Monthly Price Trends – Basic Food Items

	Wheat Rs/kg	Wheat Flour Rs/kg	Rice Rs/kg	Vegetable Ghee Rs/kg	Cooking Oil Rs/Ltr	Cooking Oil Rs/Ltr	Sugar Rs/kg	Milk Rs/Ltr
2007								
January	12.40	13.90	21.40	71.80	89.00	89.00	31.60	26.60
February	12.40	13.90	21.40	71.80	89.20	89.20	31.60	26.60
March	12.50	14.00	25.50	72.80	92.32	92.32	30.60	27.00
April	12.20	14.00	26.10	77.90	96.32	96.32	30.30	27.40
May	11.70	13.80	27.60	82.30	98.32	98.32	29.90	28.30
June	11.90	14.00	30.40	87.00	103.52	103.52	28.40	28.70
July	12.40	14.70	31.10	88.70	103.76	103.76	29.20	29.00
August	12.70	14.90	31.50	87.40	107.12	107.12	30.00	29.20
September	14.00	16.20	32.50	88.70	110.12	110.12	29.80	29.20
October	14.60	16.20	32.70	91.10	110.12	110.12	29.50	29.30
November	15.40	17.00	33.10	99.00	111.36	111.36	28.90	29.40
December	17.10	18.50	33.70	100.60	115.48	115.48	27.00	29.60
2008								
January	17.10	18.50	33.70	100.60	115.48	115.48	27.00	29.60
February	17.30	16.50	36.60	117.70	129.00	129.00	25.70	29.90
March	17.00	17.20	38.50	129.30	147.20	147.20	25.40	31.20

Source: State Bank of Pakistan

Wheat, the staple diet has seen a surge in its price in recent months, with consumers purchasing wheat flour at a rate above Rs14 per kg fixed by the Government.

The domestic wheat crop 2007-08, is expected to be slightly short of the target of 24 million tones due to a 2 percent decline in area sown. This is partly attributable to late announcement of the procurement price of wheat, which the growers had been demanding before the commencement of sowing, alongwith rising prices of fertilizers, delayed crushing of sugarcane and extended cotton picking. It was only in March that the Government raised the procurement price of wheat to Rs625 per 40 kgs from the prevailing Rs510 per 40 kgs.

Speculative hoarding and smuggling of wheat to neighbouring countries, alongwith its exports affected its availability in the domestic market and resulted in a hike in wheat flour prices. The Government would be importing between 1.5–2.0 million tons of wheat to meet domestic needs.

The Government has in the recent past taken a number of measures to ensure wheat flour to consumers at cheaper rates. These steps include among others:-

- Ban on the export of wheat.
- Imposition of 35 per cent regulatory duty on the export of wheat products to Afghanistan.

Box

Food Prices and Inflation in Developing Asia: Is Poverty Reduction Coming to an End?

Asian Development Bank, April 2008

We give below excerpts from the above mentioned Report.

For decades, food prices has been declining in real terms, allowing millions of people around the globe to escape from the trap of poverty. This long-term trend took place despite rapid income and population growth, as agricultural productivity rose steadily. However, productivity gains began to stagnate in the face of continuing growth in demand, bringing about a reversal of this long-term trend. Rising food prices contributed to an acceleration of inflation across the Asia and Pacific region during 2007, and in 2008 the further rise in food prices has reached alarming proportions.

Three sets of factors must be taken into account in order to explain what is happening to food prices in developing Asia. First is the distinction between structural and cyclical factors; second is the distinction between supply and demand; and third is the relationship between international and domestic markets.

Structural factors are fundamental in explaining what has happened to international rice and food grain prices in recent years. Falling global stocks of rice and other cereals are indicative of the fact that production growth has fallen below consumption growth for several years. Rice and wheat stocks have ebbed and now are about 200 million metric tons, compared with 350 million metric tons in 2000, a decline of about 43 percent (USDA 2008).

Another structural factor is the rising scarcity of oil driven by the stagnation of supplies from the Organization of the Petroleum Exporting Countries (OPEC) and decline in production in non-OPEC economies.

Cyclical factors as well have been unkind in influencing price trends. Adverse weather including the drought-related harvest failure of wheat in Australia in 2007 and the flooding in South Asia have harmed production as did outbreaks of brown planthopper infestation in Vietnam.

The most important demand factors in the rise in food prices in recent years are long-term in nature and can also be thought of as supporting the view that structural rather than cyclical factors are predominant. Among these demand-side factors are growing world population and strong income growth in emerging economies around the globe. Another important structural demand factor is the competing use of food grain to produce ethanol as a substitute for oil. Biofuel demand is rising and is leading to diversion of grain, soybeans, sugar, and vegetable oil from use as food or feed.

On the supply side, urbanization and competing demand for land for commercial as opposed to agricultural purposes is an important factor, as is the increasing scarcity of fresh water for agriculture. Neglect of investment in agricultural technology, infrastructure, and extension programs is also to blame for the tepid growth in the supply of rice (IRRI 2008).

Pricing policies may have played a role by discouraging farmers from increasing marketed supplies. Also, poor and marginal farmers may not have the means to respond and may also be hurt if they are net buyers rather than net sellers of food.

Government short-term responses have made matters worse by attempting to paper over relative price changes and shield consumers through beggar-thy-neighbor policies of restricting exports and using administrative measures in an attempt to control prices. Price subsidies are also widely applied throughout the region for staple foods such as rice and for suppression of food prices.

Food prices have been rising since 2007, but in the first three months of 2008, the rate of increase has accelerated. The World Bank's food price index climbed 57.5 percent in the first quarter of 2008 relative to the corresponding figure a year ago. Some grain prices have increased by much more — wheat prices are up by over 100 percent — during the same period. At the same time, energy prices have also been on an upswing, with the World Bank's oil price index growing by 66.5 percent in the first quarter of 2008. These global developments are likely to cascade to developing Asian economies' growth and inflation prospects.

The previous subsection explored the potential macroeconomic impacts of a global food price rise for Asian economies. To protect the poor from the impact of global food price rise, governments in many developing countries run food-based safety net programs by importing or procuring food gains from farmers at specified prices to sell at subsidized prices to consumers. These subsidies contribute to the budgetary costs of the governments. Rising global food and oil prices are directly adding to these food subsidies in food-importing countries.

The effects of rising food prices will differ across households. There will be some households that may benefit from higher prices; there may be households that are adversely affected. Rising food prices may lead to income gains for net producers who are in rural areas. Rising food prices may be expected to adversely affect even the rural poor. Certainly the urban poor, who are food consumers and unlikely to be food producers, can be expected to suffer the most from rising food prices.

Concerns over high prices are mounting because inflation eats into real incomes and expenditures and can undermine the gains from poverty reduction and human development that developing countries have achieved over the last decade or so.

Subsidies on a continuing basis are not sustainable. Instead, enhancing access to financial services for the poor and under-nourished can help to reduce hunger. An analysis of 50 countries between 1980 and 2003 shows that a 1 percent increase in private credit to GDP would reduce the prevalence of undernourishment by 0.22-2.45 percent.

- Sale of atta at Utility Stores at subsidised rates (USC price Rs260 per 20 kgs).
- Anti-smuggling measures beefed up.
- Import of 1.7 million tons of wheat.
- Increase in monthly releases to flour mills.

The overall wheat stock position as on April 6, 2008 was 0.320 million tons, substantially below the 0.844 million tons of stocks in the comparable period last year. The decline is attributable to nil balances with PASSCO, against 395 thousand tons last year.

The food import bill has risen by nearly 49 percent to $3.52 billion during the first ten months (July-April) 2007-08 over $2.37 billon a year earlier, primarily because of higher payments made on account of import of wheat and palm oil/soyabean oil, due to domestic shortages.

During this period, 1.68 million metric tons of wheat was imported for $818.6 million, or at a unit price of $485.2 per metric ton, against imports of 0.136 million metric tons imported for $41.6 million at a unit value of $305.7 per metric ton in the corresponding period of FY07. Similarly import of palm oil is now costing $1.22 billion, as the unit price per metric ton has risen from $512.1 to $853 in the same period. Prices of both commodities have risen in the international market and this has had an adverse impact on the domestic import bill.

Rising food prices is not specific to Pakistan, but has been witnessed in many developing countries, where prices of basic food commodities have risen. Food price increases have been caused in part by drought in Australia and central Europe, as well as increased demand for food in Asian countries, and the increased use of grains especially corns to produce biofuels. World financers have also contributed to the food price problem. Commodities have attracted investors looking for a safe haven. The lack of confidence in the US dollar has led investment funds to look for higher returns in commodities.

There are other factors also like, bad weather, historically high price for oil and transportation that are shaping price variations across countries. In some, like, Azerbaijan, South Africa and neighbouring countries, soaring petroleum prices have contributed to the increase in prices of most agricultural crops, while in Kenya, Uganda, and Chad civil unrest has affected production and transportation of food stuffs. As energy prices are likely to remain high, they would continue to be a source of trouble for food prices.

The World Bank has recently cautioned developing countries that the gains made in overcoming poverty and malnutrition are threatened by high food prices. The Bank estimates that about a 100 million people in poorer developing countries would be pushed further into poverty, as global wheat prices rise 181 percent over the past 36 months to February, with overall food prices up 83 percent. Higher prices are expected to last through at least the end of 2009.

In many countries, progress in reducing poverty has been difficult, and a price rise for staple foods would badly affect the household budget, especially for the rural poor. In such a scenario, households start reducing their non-staple foods (meat, oil etc.) and devote a greater proportion of resources to food by cutting back on consumption.

Box Continued from page 41

The impacts of higher food prices will be moderated as supply responds to prices over the medium term of say, 6 months to 2 years. To facilitate this response, much neglected agricultural sector reforms need to be put in place to promote the use of modern technology, new seed varieties, and better financial systems.

In the long run, the notion of food security should move beyond a relatively static focus on food availability and access to one of higher productivity. As the majority of the poor in developing Asia live in rural areas and depend on agriculture, higher agricultural growth will provide food security by increasing supply, reducing prices, and raising incomes of poorer farm households.

Market Analysis

Market Review

During the month of March, the KSE-100 Index went into a sideways pattern, trading within a consistent band of 14,700 to 15,300. The uncertainty over the government formation and the naming of the Prime Minister candidate by the PPP led to some nervousness among investors.

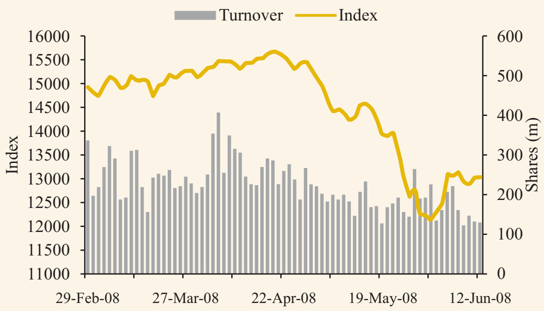
This was evident among foreign investors as depicted by the SCRA figures, as there was consistent net outflow on a daily basis. The net outflow based on SCRA figures during March (up to March 28) was $17.41 million. The KSE-100 Index during March gained only 192 points to close at 15,125 on average daily turnover of 238.5 million shares.

At the end of 1QCY08, the KSE-100 Index was one of the best performing indices in the region as well as the world. Also, the formation of a new government in the end of March led to new hope that the economy would get back on track with renewed vigor and policy by the government.

There were positive sentiments that the market would continue its ascent from the last quarter, but this did not come to fruition due to the economic and political issues that arose at the beginning of April that adversely impacted investor sentiments and thus, resulted in the market being flat and lackluster for the first 3 weeks of the quarter.

There was a 169 point decline in the KSE-100 Index from April 8 to 10. Regarding the economic issues, the grim picture painted by the then Finance Minister Ishaq Dar, especially the fiscal deficit being more than double from the original target of 4% of GDP also raised some concerns about future tax measures in an attempt to plug this gap. This led to increasing speculation about imposition of capital gains tax on shares.

KSE-100 Index (March-June 2008)



Fortunately, after a short-lived decline, the Index staged a small rebound on the back of slight buying interest in oil stocks because of the record high levels of international crude oil prices. In addition, there was buying activity in cement stocks due to expectations of higher export sales in the immediate term and improved quarterly financial performance. From April 10 to 18, the KSE-100 Index gained 371 points to 15,676.

Major bear attack

However, the market experienced a major bear attack for the next 6 weeks from April 18 to May 30 because of speculation regarding the imposition of capital gains tax on shares and further tightening in the monetary policy by the SBP. The KSE-100 Index plunged by around 3,500 points or 23% to 12,130. This was the first time since September 18, 2007 that the Index closed below the 13,000-level. The main reasons for the bearish trend in this period as follows:

- Uncertainty regarding the stability of the coalition government as the PML-N, the second largest party in the coalition, decided to resign from the federal cabinet due to the stalemate with the PPP over the restoration of the judges as the deadline of May 12 passed without any resolution to this issue.

- In the middle of May, both the S&P and Moody's rating agencies downgraded Pakistan's credit rating due to political uncertainty and widening twin deficits (fiscal and current account). S&P lowered

Pakistan's foreign currency rating from B+ to B while Moody's downgraded the GoP's bond rating from B2 to B1.

- Increasing speculation regarding the imposition of capital gains tax on shares led to jitters among investors that resulted in a KSE delegation going to Islamabad to meet the Finance Minister to plead their case against an imposition of such a tax.

- On May 22, the SBP Governor announced an interim monetary policy statement that further tightened monetary policy in the wake of added inflationary pressure in the economy due to higher food and energy prices as well as massive Pak Rupee devaluation of 15 percent (July 2007 to May 21, 2008) against the U.S. dollar despite the greenback weakening against other world currencies.

  The SBP raised the discount rate by 150bps to 12 percent, increased the CRR requirement on deposits of less than 1-year maturity by 100bps to 9 percent and raised the SLR requirement on all deposits by 100bps to 19 percent. In addition, the central bank set a minimum profit rate of 5 percent on savings/PLS products, which would raise the cost of funds for most large banks. These measures led to a significant negative reaction in the bourses with banking stocks leading the nosedive as they touched their lower circuit breakers continuously during the last week of the month. The selling pressure in banks led to weakholder selling in other scrips. The KSE-100 Index shed 1,500 points during the last 6 trading days.

Pre and post budget activity

At the beginning of June, the market staged a slight recovery ahead of the budget due to the announcement by the Finance Minister Syed Naveed Qamar that the capital gains tax (CGT) exemption would be extended for a further 2 years till June 30, 2010 and that the rate of CVT would remain unchanged for 1year. This led to a 610 point jump in the KSE-100 Index on June 4. However, the activity from this day to June 12 was flat and lackluster as the daily turnover was light, as it appears that investors wanted to exercise caution. The immediate reaction on June 12 to the FY09 federal budget was volatile with profit taking in banking and cement sectors, as they were the most negatively impacted by the proposed fiscal measures. However, there was renewed buying interest in oil and fertilizer sectors, as the budget was perceived as positive to these sectors. The KSE-100 Index gained 895 points from June 1 to June 12 to end at 13,025.

Looking Ahead

There remains uncertainty on the political front as the judicial issue is still unresolved and may cause further strain on the coalition government at the center. This could lead to mild turbulence in the market.

The macroeconomic scenario is also slightly gloomy with the ever-widening twin deficits and high inflationary pressure as the two major threats recognized by the SBP and other major international institutions. However, the recent FY09 budget might be able to curtail the fiscal deficit and to some extent the current account deficit through some of the proposed tax measures. We believe the targeted GDP growth for FY09 of 5.5% is modest and may be reached if the agricultural target is achieved.

Next month, the quarterly/annual earnings season will begin and may impact the market in the immediate term. We expect good corporate results for cement on the back of higher prices and volumes especially from exports, oil sectors because of rising international crude prices and fertilizer. For the banking and auto sectors, we expect earnings to be a mixed bag.

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

Sectoral Implications of the Federal Budget

Banking & Insurance Sectors

Budgetary Impact - Banking Sector

Measures

- To encourage the amalgamation of banking companies, modarabas and insurance companies, they have been allowed to carry forward the losses for six years from the date of amalgamation.
- In case of general power of attorney by bank, no CVT is proposed to be charged on banks, however CVT will be enforced when mortgage of property would be offered as collateral against loan.
- For the purpose of deduction of non performing loans, the income tax sections 29 and 29A will be used instead of 7th schedule of prudential regulation provided by SBP and the same proviso has also been proposed to be abolished.
- Enhanceent of rate of excise duty from 5% to 10% on banking,insurance and franchise service.

Implications - Negative

The step taken by the GoP to increase its NSS rates by 200 bps is likely to hamper the deposit base of banks as individuals or corporates would be more inclined towards national saving products than the ones which the banks offer. In addition, the introduction of commercial papers by the GoP for the smaller tenures like 3,6,9 and 12 months could also squeeze the deposit size available with the banks leading them to increase their cost of funds in order to compete for deposits. The resultant spread after the competition is expected to be tamed, however, it would be worth to mention here that private credit off take has not slowed down and surging inflation has kept the real rate of interest in check. The bank vs NSS competition is also expected to be tough on the grounds that NSS rates will be revised quarterly by the GoP as against the previous practice of semi annual reviews.

The higher allocation of PKR 550 billion on account of PSDP is expected to bode well for the banking sector as this would mean more laborers being employed at minimum wage translating into eventual increased in per capita income. Despite the GoP's newly found attraction towards saving, there is still the likelihood of money growth increasing from measures like minimum wage rise and employment generation.

The Seventh schedule under the Prudential regulation allowed only those advances to be deducted which could be classified as "doubtful" or "loss". The expenses classified as "substandard" were not allowed to be deducted from income. After the deletion of this proviso and in pursuance of the Income tax ordinance, all expenses could be allowed as deductible expenses.

The repealing of Khushhali Bank Ordinance, 2000 to ensure that all Micro finance banks including Khushhali Bank are operated under common regulatory frame work.

The GoP has also displayed its intention to increase the number of borrowers from Micro Finance banks,currently to 3m as there is a potential of 25-35m borrowers.

Budgetary Impact - Insurance Sector

Measures & Implication-Positive

- Exemption of 5% excise duty on crop insurance.
- Unrealized gains of non life companies would be excluded from taxable income.
- Any reinsurance premium made to overseas reinsurance company is likely to generate a withholding tax of 5%. This step would bode well with Pakistan Re insurance and will also help in keeping the foreign currency in town.

Cement Sector

Measures

- Government has allocated PKR 550bn in the FY09 budget for the Public Sector

Development Program (PSDP). This figure is improved by 6% from the initial allocation of Rs520 billion and 39% from the revised target of Rs396 billion in FY07. Share of the federal government has been increased from Rs335 billion to Rs400 billion (+19.4%) and that of provinces remained unchanged at Rs150 billion.

- Excise Duty is increased by 20% from Rs750 per ton to Rs900 per ton.

Implications - Neutral

Keeping in view the ever widening fiscal deficit, Rs550 billion appears to be a challenging figure. It was hard for the government to meet the target of outgoing year and it had to slash the PSDP spending by Rs100 billion due to less fiscal space. The GoP is planning to pass on the effect of rising oil bill in the next fiscal year; this will substantially decrease the fiscal deficit and may provide some fiscal room to carry on PSDP expenditure. However, the government has realized Rs77 billion as the operational shortfall in the PSDP expenditure, so we expect the actual PSDP spending to be around Rs 470 billion.

Increase in the PSDP will have a positive impact on the cement sector as this will keep the local consumption robust. There exists a positive correlation of 0.99 between PSDP allocation and cement consumption. If the government spends the complete allocated PSDP of Rs550 billion then local cement consumption may be around 26 million tons, but it is highly unlikely due to fiscal constraints. If we estimate local cement consumption on the more realistic number of Rs470 billion then local consumption is expected to be 22.30 million tons which is in line with our previous estimate of 23 million tons for FY09.

20% increase in excise duty will contribute around Rs20.7 billion to the exchequer which is increased by Rs3.45 billion from Rs 17.25 billion. The sector will get hit further by the increase in the GST from 15% to 16%. This will erode the effects of the recent price hike in the local market. Cost of sales has seen an unprecedented rise in the last couple of years which has dented hard the manufacturers ability to sustain any effect of this rise in taxes, so we expect that the cement manufacturers will pass on these tax effects to the consumers and local price hike looks inevitable.

A new taxation system is imposed on the real state sector which requires builders to pay tax at Rs50 per sq. ft of the covered area of a unit and at Rs100 per sq. yard on the open plots. This tax measure may discourage construction activity and thus effect local cement consumption.

Oil Sector

Upstream Division (E&P)

Measures

- GoP extended exemption of withholding tax on supply of crude oil and gas by permanent establishments of non-resident Exploration and Production companies. Implication

- We expect this extension is likely to attract foreign investment and bode well for development of exploration activity in the country.

Midstream Division (Fuel Refinery)

Measures

- Contrary to the anticipation regarding complete/phased removal of custom duty on HSD, the Government relaxed fuel refining sector by ruling out any detriment on this product.

- However, akin to expectations, GoP rationalized pricing of aviation fuels through withdrawal of 5% duty to limit the distress to the economy and to formulate a balance in oil pricing.

Implication

- Given HSD contributes fairly around 32% of the refineries' top-line, the relaxation is a welcome sign for investors to take long position in refining stocks, the prices of which had factored the anticipated fractional (5% cut) to absolute removal (10%) of deemed duty on HSD.

Dowwnstream Division (OMCs)

Measures

- Subsidy on POL products is expected to decrease from Rs175 billion in FY08 to Rs140 billion in FY09.
- General sales tax has increased from 15% to 16%.
- Price of CNG and LPG are expected to rise due to the possible imposition of development levy on licensed holders.

The Government has slashed the subsidy on the account of price differential claims (PDC) by 20% from Rs175 in FY08 to Rs140 in FY09.This measure is likely to have a positive implication on the oil marketing companies as any increase in pump prices will lead to an increase in absolute margins of OMC's which will be passed on to the end consumers. The GoP has increased the GST from 15% to 16%, which will also be passed on to the end consumers but will not raise the OMC margins as GST is not a part of OMC margin calculation.

Auto Assembler Sector

Measures

- Increase in custom duty rates on import of cars/jeeps above 1800cc from 90% to 100%.
- A uniform rate (custom duty) of 30% will be charged on import of special purpose vehicles.
- 2.5% WHT on purchase of locally manufactured motor car or jeep is proposed to be collected by a motor vehicle registration authority at fixed rates depending on the engine capacity.
- 5% Federal Excise duty (FED) has been imposed on import as well as locally manufactured cars having engine capacity exceeding 850cc.
- Rates of advance tax, collected at the time of renewal of registration of private motorcars have risen by approximately 30% to 40%.
- Duty on localized parts has been increased to 60% from 50% if imported.
- Enhancement in sales tax from 15% to 16% across the board.

Budgetary Impact - Neutral

Taking into account the prevailing dismal situation of Auto assemblers owing to appreciation of Japanese Yen against Pakistan Rupee, rising steel prices, unsatisfactory political situation in the country, reluctance of banks to provide auto loans, hike in interest rates, skyrocketing oil prices, perks in discount rate, continuous rise in car prices by the assemblers in order to protect their gross margin; the current budgetary measures will not be fruitful for the auto assemblers as a whole. GoP has come with mix bag of proposals which are a net positive for local assemblers but they don't leave a significant impact for assemblers in terms of dollar value. Increase in custom duty from 90% to 100% on imported cars above 1800cc may bode well for the local assemblers but it will not have a significant impact as the affluent class who can afford will not substitute with a locally assembled car as 10% increase in duty is not significant for the wealthy class.

New amount of tax on purchase of motor cars and jeeps

Engine Capacity	Amount of final tax (Rs)
upto 850 cc	10,000
851 to 1000 cc	14,000
1001 to 1300 cc	22,500
1301 to 1600 cc	22,500
1601 to 1800 cc	35,000
1801 to 2000 cc	30,000
above 2000 cc	50,000

Source: Finance 2008-2009

Another measure, which may depress sales of auto assemblers, is 5% imposition of Federal Excise Duty (FED) on cars that have an engine capacity of above 850cc

Advance tax to be given at registration

Engine Capacity	Amount of tax on registration (Rs)
upto 1000 cc	500
1001 to 1199 cc	750
1200 to 1299 cc	1000
1300 to 1599 cc	2000
1600 to 1999 cc	3000
2000 cc and above	5000

Source: Finance 2008-2009

Fertilizer Sector

Measures

- Government has decided to double the subsidy on DAP fertilizer from existing 470/50kg bag to Rs1000/50kg bag.
- Total subsidy on fertilizers will amount to Rs35 billion in FY09 in contrast to Rs 25 billion in FY08.
- Agricultural tube wells would be getting 10 hrs of uninterrupted power supply.
- Government has proposed that there will most likely be a further upward revision in support prices of wheat from prevailing Rs625/40 kg bag but the government will announce further increment in prices in August or September to encourage growers to cultivate wheat over more areas.
- All fertilizers and pesticides would be exempted from GST amounting to 16% for FY08.
- 5% Federal Excise duty (FED) paid on crop insurance premium would be exempted.
- Government will be providing additional Rs30 billion of credit to the agricultural sector accumulating to Rs160 billion.
- A national commercial seeds production program is being prepared to enhance supply quality seeds to farmers.
- Foreign Direct investment will be encouraged in terms of equity and technology injection.

Budgetary Impact - Positive

Current budgetary measure of allocation of Rs35 billion subsidy on fertilizers, as compared to Rs25 billion last year, is expected to have a positive impact on the sector. Subsidy by GoP on DAP will amount to Rs20 billion, Rs3 billion on urea and the remaining Rs12 billion will be utilized for Phosphatic based fertilzers. These subsidies will be directly passed on to the farmer who can produce essential crops at lower cost which will help the government to achieve 4% target growth in agricultural sector in FY08. It will even help the farmer to improve the nutrient level of the soil for better crop yield.

Ideal usage of urea versus DAP may bode well for the country in terms of foreign currency flowing in if bumper crops of wheat, rice, and sugarcane are produced.

Governments decision to provide additional Rs30 billion loans to the agricultural sector will bode well for the sector in terms of enhanced liquidity available in the short term in case of any unprecedented change in input cost (fertilizers mainly) which can be recovered in the long term as farmers receive higher prices for their output once harvested. To sum up, the measures proposed by GoP are no doubt optimistic and the need of the hour but it may put pressure on the government in the future if they are not able to generate revenues from target sources as mentioned in the Budget FY09 .

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

Provincial Budgets 2008-09

Highlights

Punjab

- Punjab has presented a Rs390.0 billion budget for 2008-09.
- The province is projected to receive Rs285 billion in federal transfers.
- Provincial own tax revenue has been estimated at Rs40.36 billion, while non-tax revenue is estimated at Rs64.5 billion.
- The size of the Annual Development Programme is proposed at Rs160 million, 31 percent higher over the revised estimates of Rs122 billion in the previous year.
- The ADP gives priority to the social sectors. Education/health have been allocated nearly 30 percent.
- Poverty alleviation has been allocated Rs17 billion. The amount would be utilised for food, medical care and other essential needs.
- The provincial government has introduced Green Tractor Scheme, whereby farmers would be provided through computerised balloting Rs100,000 subsidy per tractor.
- Low cost houses would be constructed for which the government has allocated Rs1 billion.
- The development programme lays emphasis on social sectors, rural areas, infrastructural development, and pro-poor sectors.
- Nearly 60 percent of the funding has been allocated for ongoing projects, while 40 percent has gone to new projects.
- The provincial government would give on lease 12.5 acres to educated and landless farmers, including those farmers having four acres of land to grow vegetables and agricultural products, thereby boosting their production. In FY09, 6000 acres of land would be given on lease.
- Total ban has been imposed on buying new cars, furniture, air conditioners, and luxury items in government departments.
- The provincial government has asked the Federal government to abolish Capital Value Tax on sale and purchase of property.
- All immoveable property transactions through courts, or Cooperative Housing Societies, Development Authorities, would be brought under the ambit of Stamp Duty.
- The Finance Bills proposes to levy one time tax on luxury imported motor cars of engine capacity of 2000 cc and above.
- Sales tax rate raised from 15 to 16 percent.

Sindh

- A Rs267.7 billion budget proposed for FY09.
- Revenue receipts estimated at Rs253.7 billion.
- The budget shows an estimated deficit of Rs14 billion.
- The province would receive an estimated Rs177 billion as transfers from the Federal Government.
- Rs67 billion has been allocated for the Annual Development Programme. The size of the ADP rises to Rs89.3 billion, after adding Rs12.7 billion federal development grant, Rs9.09 billion foreign project assistance.
- The provincial budget lays emphasis on the development of agriculture sector, development of farm to market road, transport & communication, construction of small dams, education, mega transport projects for Karachi etc.
- The provincial government would undertake construction of 100,000 housing units for retired government employees.
- For employment generation, eight thousand new jobs would be created in the police and other departments.
- A health insurance scheme is being introduced for the poor.
- The Sindh government has withdrawn stamp duty of 0.1 percent on the par value of each electronically transferred share in the stock exchange.
- A 0.3 percent increase announced in infrastructure cess from existing 0.5 percent of cost and freight value of imported cargo. It is now proposed to enhance the rate of the cess by 0.3 percent on various slabs of imports.

NWFP

- The provincial government has presented a Rs170.9 billion budget.
- Revenue receipts are budgeted Rs100.089 billion, capital receipts at Rs400 million, development receipts at Rs13.179 billion and general capital receipts (food) at Rs57.237 billion.
- Expenditure is budgeted at Rs170.237 billion.
- Budget shows a surplus of Rs345.5 million.
- The province would receive Rs59.684 billion from the province's share in federal divisible pool, Rs4.4 billion from Straight Transfers, Rs14.43 billion as special grants, Rs7.33 billion as one sixth of sales tax for district governments and contonment boards, Rs7.4 billion from provincial own receipts, Rs6.0 billion as net hydel profts and Rs0.76 billion from GST on services.
- Rs67.3 billion has been earmarked for current expenditure.
- Of total current revenue expenditure, Rs2.78 billion has been allocated for education affairs and services, Rs28.03 billion as transfer to district governmnets, Rs2.7 billion for health and Rs19.5 billion for general public services.
- The Annual Development Programme provides funds for the completion of projects approved by the previous government, for schemes initiated under special programmes, for the development of social sectors, for roads, housing programmes, agriculture, for poverty alleviation, creation of employment opportunities etc.
- The provincial government plans establishing more industrial estates during the year.
- No new taxes have been imposed.
- Rs2 billion has been allocated as subsidy on wheat.
- Rs1 billion has been allocated for poverty alleviation.
- For social sector development, Rs21.7 billion was meant for education and Rs6.426 billion for health.

Balochistan

- The provincial government has announced a Rs72.2 billion budget, which shows a deficit of Rs8.8 billion.
- The annual development programme is budgeted at Rs15.74 billion, while Rs47.52 has been allocated for current expenditure.
- Total receipts are budgeted at Rs62.38 billion; Rs3.47 billion as the province's own receipts, Rs48.05 billion as federal transfers, Rs6.22 billion as capital receipts, and Rs4.6 billion as foreign project assistance.
- The federal government would provide Rs3 billion special grant from the Prime Minister's discretionary fund. With this grant, the budget deficit would be reduced to Rs5.8 billion.
- Subsidy on tube wells would continue.
- A ban has been imposed on purchase of new cars, machinery and other goods for official purpose.
- Petrol consumption would be kept at the minimum possible level.
- A 20 percent increase in the pension and salaries of government employees, besides an increase in medical and conveyance allowances.
- Employment generation will receive focus.
- Education sector to receive top most priority of the government.
- More polythechnic institutes, colleges and professional training institutes will be set up.
- Steps are being taken to develop the port city of Gwadar.
- Numerous roads and highway development projects will be undertaken.
- 300 villages will be electrified through solar energy in the province.
- Work on old and new water supply projects would be completed.
- Agriculture sector, livestock development, would receive focus.

Interim Monetary Policy Measures

Rising inflation

In the last few months, developments that have unfolded both on the international and domestic front, have placed great stress on most of the economies. One of the most serious tests facing governments is controlling rising inflation which is impacting economic stability. Rising inflationary expectations are a more immediate threat to developing Asia than the prospect of a moderate slowdown in growth, states the Asian Development Bank Outlook 2008.

Monetary policy tightened

Central Banks have continued to tighten monetary policy in many emerging market economies, where food and energy represent a higher share of consumption basket. Monetary policy has to balance the risks of higher inflation and slower economic activity. In Pakistan, the State Bank of Pakistan (SBP), has used the Discount Rate and changes in reserve requirements from amongst the monetary policy instruments at its disposal to tighten the monetary policy.

The SBP, felt the need to take interim policy measures for an immediate tightening of the monetary policy and not wait till July when the scheduled monetary policy for the next six months would be announced, because of certain domestic developments, which were exerting enormous pressures on the economy.

Domestic pressures

Widening current account and fiscal deficits historical high govenment borrowings, pressure on Pak Rupee, drawdown of reserves and an alarming rise in inflation, compelled the SBP to take necessary measures.

The current account deficit had swelled to \$11.6 (July-April) FY08, caused by the widening trade and services account deficits; foreign direct/portfolio investment had declined and there was pressure on the exchange rate with the Pak Rupee depreciating by nearly 15 percent upto May 21, 2008 compared to June 2007 levels.

Budget deficit is projected to be significantly higher over the original estimates for FY08.

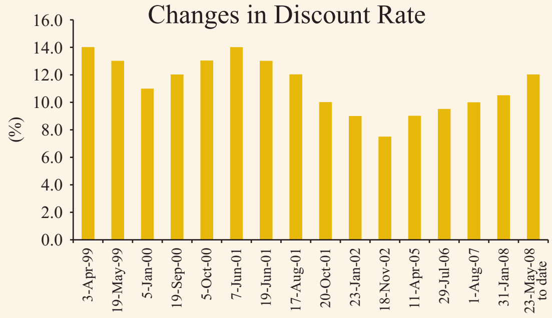
Large government borrowings

Excessive government reliance on central bank borrowings, being inflationary, have fuelled considerable inflationary pressures. Such borrowings have reached 9.4 percent of GDP. At the beginning of 2008, the SBP had recommended to the government retirement of borrowings from the central bank by Rs62.3 billion during FY08. The stock of outstanding Market Related Treasury Bills reached Rs945.9 billion during July 1 - May 19, 2008, more than double last year's level of Rs452.1 billion.

This has been accompanied by a higher private sector credit growth. These developments have cumulatively raised inflation to a high of 17.2 percent in April '08, with food inflation rising to 25.5 percent. With the oil price hovering at around \$130 a barrel in the international market, inflationary expectations are likely to persist, undermining macro-economic sustainability.

The State Bank of Pakistan has taken the following measures to lower inflation and bring sustainability in other major macro imbalances: -

- Increase in discount rate by 1.5 percent to 12 percent w.e.f. May 23, 2008. This was last raised by 0.5 percentage point to 10.5 percent on January 31, 2008. As mentioned, government borrowings from SBP had surged and to off-load this huge debt to the scheduled banks, this increase will act as a critical measure to induce scheduled banks to participate actively in T-bill auctions, which have been mostly unsuccessful in mobilizing receipts for the government in recent past, states the *Interim Monetary Policy* document.



This step would help in raising the lending rates. A corresponding increase in lending rate would defuse demand pressures and curb the rapid rise in inflation rate.

- Increase in Cash Reserve Requirement (CRR) for all deposits upto one year maturity by 1 percent to 9 percent, and the Statutory Liquidity Requirement (SLR) by 100 bps to 19 percent of the total time and demand liabilities.

  An increase in both CRR and SLR would translate into an increase in market interest rates. Liquidity constraints will arise that could impede credit expansion. A positive impact would be that banks would make greater efforts to raise more deposits by adopting appropriate measures to cope with the liquidity requirements.

- Banks have been asked to pay a minimum profit of 5 percent on PLS saving account. This step by the SBP would provide an incentive for the currency in circulation to move into bank deposits. The growth in deposits had been impacted by the low returns and this measures would help raise the deposits with the banks and allow them to serve the credit needs of the economy.

- 35 percent L/C Cash Margin requirement imposed on all imports except for oil and selected food imports.

- The Government has been advised to amend the Fiscal Responsibility and Debt Limitation Act 2005. As government borrowings from the Central Bank have risen it has eroded the fiscal discipline and diluted the impact of the Fiscal Responsibility Act. An estimated 80 percent of the Government's fiscal deficit has been financed from SBP borrowings. The Government has been advised to take appropriate steps for reducing its borrowings from SBP and also not relying any more on central bank financing. This should help achieve greater fiscal discipline.

These tightening measures alongwith the government's consolidated fiscal program would help achieve macroeconomic stability in the economy and improve the long term growth prospects of the economy.

Selected Banks Operating in Pakistan

Deposit Structure

	2001			2002			2003			2004			2005			2006			2007		
	Amount Rs Bn	% Share in Total Deposits	Annual Change (%)	Amount Rs Bn	% Share in Total Deposits	Annual Change (%)	Amount Rs Bn	% Share in Total Deposits	Annual Change (%)	Amount Rs Bn	% Share in Total Deposits	Annual Change (%)	Amount Rs Bn	% Share in Total Deposits	Annual Change (%)	Amount Rs Bn	% Share in Total Deposits	Annual Change (%)	Amount Rs Bn	% Share in Total Deposits	Annual Change (%)
Savings Deposits	**608**	**46.1**	**16.5**	**727**	**48.6**	**19.7**	**864**	**50.5**	**18.8**	**988**	**47.9**	**14.4**	**1011**	**41.8**	**2.3**	**1027**	**35.7**	**1.6**	**1248**	**35.9**	**21.5**
National Bank of Pakistan	105	30.1	9.4	118	32.4	11.7	140	35.4	18.8	159	34.1	13.5	166	35.7	4.4	170	33.9	2.7	189	31.9	11.2
Habib Bank Limited	154	54.5	10.8	183	55.6	18.3	213	59.0	16.4	240	59.2	12.8	220	50.7	-8.4	168	36.6	-23.5	194	36.5	15.5
United Bank Limited	69	49.0	13.1	83	50.7	20.0	104	54.6	25.5	118	51.3	13.8	123	42.5	3.8	122	36.4	-0.6	153	38.1	25.4
MCB Bank	90	57.9	20.0	109	58.3	21.8	127	60.1	16.5	134	60.8	4.8	137	59.8	2.7	137	53.3	-0.1	152	52.1	10.9
Allied Bank Limited	48	50.6	2.1	56	54.3	18.5	52	45.1	-8.7	63	50.0	22.3	66	40.9	5.2	67	32.5	1.1	71	26.9	6.0
Bank Alfalah	18	60.3	63.6	30	57.7	65.9	45	58.1	47.7	66	51.6	48.0	81	36.5	22.7	79	33.1	-2.5	108	39.6	36.7
Standard Chartered Bank	26	45.6	30.0	31	53.1	18.8	35	52.1	14.6	37	48.6	5.6	36	42.9	-3.7	55	35.0	52.8	69	39.0	25.5
Askari Bank	27	66.2	35.0	36	69.6	31.4	42	68.1	17.2	50	60.0	18.2	58	48.7	16.0	65	49.2	12.3	82	57.3	26.2
Bank of Punjab	10	53.8	11.1	12	50.2	22.0	19	55.3	58.2	32	58.0	64.2	32	36.5	1.3	52	37.7	62.0	65	33.9	25.0
Faysal Bank	8	25.2	14.3	9	36.5	13.6	15	48.7	65.2	20	35.8	32.2	24	31.6	17.4	19	25.7	-19.5	26	25.5	36.8
NIB Bank	-	-	-	0	-	-	1.1	22.4	-	3	28.8	197.3	6	26.4	75.2	6	19.4	4.7	37	31.6	516.7
Bank Al-Habib	11	44.4	57.1	13	37.9	18.2	15	32.9	15.4	16	25.8	6.7	17	22.1	4.4	17	18.7	1.8	21	18.3	23.5
Habib Metropolitan	8	42.9	60.0	11	36.8	40.0	15	37.4	39.0	14	28.7	-2.7	13	22.8	-8.5	22	21.6	69.2	28	23.1	27.3
Citibank	17	41.0	30.8	17	40.7	-0.6	17	42.0	0.6	17	36.4	1.8	13	24.7	-23.4	16	25.4	22.1	21	30.4	31.3
Abn Amro Bank	17	49.7	41.7	20	56.9	17.8	25	65.0	24.1	19	40.2	-21.9	21	43.1	7.3	32	34.0	54.6	32	35.6	0.0
Fixed Deposits	**303**	**22.9**	**7.1**	**318**	**21.2**	**5.0**	**298**	**17.4**	**-6.1**	**372**	**18.0**	**24.9**	**608**	**25.1**	**63.5**	**878**	**30.5**	**44.3**	**1012**	**29.1**	**15.3**
National Bank of Pakistan	61	17.4	22.0	69	19.1	13.6	75	19.0	8.4	78	16.8	4.0	81	17.5	3.6	100	19.9	23.6	128	21.6	28.0
Habib Bank Limited	73	25.7	-3.9	73	22.1	-0.3	72	20.0	-1.0	74	18.4	3.3	101	23.2	35.1	135	29.4	34.3	143	26.9	5.9
United Bank Limited	39	27.5	2.6	45	27.3	15.2	37	19.6	-16.4	43	18.7	15.3	80	27.7	86.0	115	34.3	43.8	127	31.6	10.4
MCB Bank	28	18.2	-3.4	28	14.7	-2.8	22	10.1	-21.8	14	6.4	-34.4	13	5.7	-7.8	33	12.8	153.8	32	11.0	-3.0
Allied Bank Limited	24	26.0	-11.1	21	19.7	-16.0	12	10.9	-39.5	10	7.9	-20.2	32	19.7	223.2	53	25.7	65.6	73	27.7	37.7
Bank Alfalah	8	25.5	14.3	11	21.2	44.2	11	14.5	0.0	22	17.1	97.3	80	36.0	265.3	89	37.2	11.3	86	31.5	-3.4
Standard Chartered Bank	15	26.3	15.4	10	17.7	-31.3	14	21.0	38.8	15	19.7	6.3	18	21.4	18.4	47	29.9	161.1	47	26.6	0.0
Askari Bank	8	19.3	33.3	8	14.9	-3.8	7	11.0	-11.7	13	16.0	95.6	38	32.0	185.7	40	30.3	5.3	30	21.0	-25.0
Bank of Punjab	5	24.7	25.0	7	28.8	52.2	9	24.6	22.9	9	16.5	4.7	36	41.0	300.0	54	39.1	50.0	72	37.5	33.3
Faysal Bank	7	22.0	133.3	8	31.7	12.7	2	5.8	-77.5	23	41.0	1177.8	33	44.2	43.5	36	48.6	9.1	57	55.9	58.3
NIB Bank	-	-	-	-	-	-	2.0	36.7	-	5	44.8	182.2	13	59.8	155.9	18	58.1	38.5	51	43.6	183.3
Bank Al-Habib	3	11.3	50.0	3	9.6	17.9	5	10.1	39.4	9	14.7	97.8	18	23.8	97.8	34	37.4	88.9	41	35.7	20.6
Habib Metropolitan	5	28.6	25.0	11	37.5	114.0	10	26.7	-2.8	16	32.8	55.8	20	35.1	23.5	49	48.0	145.0	55	45.5	12.2
Citibank	16	39.3	23.1	16	38.8	-1.2	15	38.5	-3.1	20	42.3	29.2	30	56.6	50.8	37	58.7	23.3	34	49.3	-8.1
Abn Amro Bank	11	32.4	0.0	9	25.7	-18.2	5	13.2	-44.4	20	41.7	300.0	16	33.3	-20.0	38	40.4	137.5	36	40.0	-5.3
Current Account Deposits	**292**	**22.1**	**22.7**	**329**	**22.0**	**12.7**	**439**	**25.6**	**33.3**	**577**	**28.0**	**31.5**	**676**	**27.9**	**17.2**	**854**	**29.7**	**26.3**	**1083**	**31.1**	**26.8**
National Bank of Pakistan	114	32.5	32.6	109	30.0	-4.4	132	33.4	21.0	159	34.1	20.5	158	34.1	-0.6	174	34.7	10.1	217	36.7	24.7
Habib Bank Limited	46	16.2	17.9	51	15.5	10.9	65	18.0	27.5	84	20.7	29.2	105	24.2	25.0	143	31.2	36.2	190	35.8	32.9
United Bank Limited	30	21.3	20.0	32	19.6	6.7	44	23.1	37.5	64	27.8	45.5	80	27.7	25.0	98	29.3	22.5	121	30.1	23.5
MCB Bank	34	21.9	17.2	46	24.4	34.7	59	27.8	28.8	70	31.9	18.6	74	32.3	5.7	84	32.7	13.5	99	33.9	17.9
Allied Bank Limited	20	21.3	-4.8	25	24.1	25.0	50	44.0	101.2	53	42.1	5.4	64	39.4	20.8	79	38.3	23.4	110	41.7	39.2
Bank Alfalah	4	14.2	33.3	9	17.2	109.3	19	24.8	111.1	34	26.6	78.9	46	20.7	35.3	62	25.9	34.8	71	26.0	14.5
Standard Chartered Bank	11	19.3	57.1	14	24.1	27.3	18	26.8	30.0	23	29.9	26.4	29	34.5	26.1	54	34.4	86.2	62	35.0	14.8
Askari Bank	5	12.1	25.0	6	11.6	20.0	11	17.7	83.3	18	21.6	63.6	20	16.8	11.1	25	18.9	25.0	30	21.0	20.0
Bank of Punjab	4	21.5	33.3	4	16.9	2.5	7	20.1	70.7	13	23.8	85.7	15	17.1	15.4	20	14.5	33.3	23	12.0	15.0
Faysal Bank	7	22.0	250.0	8	31.7	12.7	8	25.6	0.0	23	41.0	187.5	33	44.2	43.5	17	23.0	-48.5	19	18.6	11.8
NIB Bank	-	-	-	-	-	-	2	36.7	-	1	8.8	-44.4	2	9.2	100.0	4	12.9	100.0	22	18.8	450.0
Bank Al-Habib	3	11.3	-66.7	3	9.6	17.9	5	10.1	39.4	9	14.7	97.8	18	23.8	97.8	39	42.9	116.7	52	45.2	33.3
Habib Metropolitan	5	28.6	66.7	11	37.5	114.0	10	26.7	-2.8	16	32.8	55.8	20	35.1	23.5	24	23.5	20.0	35	28.9	45.8
Citibank	4	9.8	0.0	6	14.6	50.0	7	17.5	16.7	8	17.0	14.3	10	18.9	25.0	10	15.9	0.0	11	15.9	10.0
Abn Amro Bank	5	14.7	66.7	5	15.1	6.0	2	3.9	-71.7	2	3.3	6.7	2	4.2	25.0	21	22.3	950.0	21	23.3	0.0
Total Deposits*	**1320**	**91.1**	**12.8**	**1497**	**91.8**	**13.4**	**1712**	**93.5**	**14.4**	**2063**	**93.9**	**20.5**	**2420**	**94.9**	**17.3**	**2880**	**95.8**	**19.0**	**3480**	**96.1**	**20.8**
National Bank of Pakistan	350	23.8	10.8	363	21.5	3.6	395	20.1	8.8	466	19.5	18.0	463	16.4	-0.5	502	16.0	8.3	592	15.4	17.9
Habib Bank Limited	283	19.2	6.4	328	19.4	15.9	361	18.4	9.8	405	16.9	12.4	433	15.3	6.9	459	14.6	6.0	531	13.8	15.7
United Bank Limited	141	9.6	9.3	163	9.7	16.1	190	9.7	16.4	230	9.6	21.0	289	10.2	25.4	335	10.7	16.0	402	10.5	20.0
MCB Bank	155	10.5	14.0	188	11.1	21.0	212	10.8	12.9	230	9.2	3.6	229	8.1	4.3	257	8.2	12.2	292	7.6	13.6
Allied Bank Limited	94	6.4	-3.1	104	6.1	10.5	114	5.8	9.9	126	5.3	10.2	162	5.7	28.9	206	6.6	26.9	264	6.9	28.2
Bank Alfalah	30	2.1	42.9	52	3.1	73.2	77	3.9	46.7	128	5.3	66.8	222	7.8	73.6	239	7.6	7.7	273	7.1	14.2
Standard Chartered Bank	57	3.9	16.3	58	3.4	2.1	68	3.5	16.8	77	3.2	13.2	84	3.0	9.1	157	5.0	86.9	177	4.6	12.7
Askari Bank	41	2.8	36.7	52	3.1	24.9	62	3.2	19.9	83	3.5	34.2	119	4.2	42.9	132	4.2	11.0	143	3.7	8.3
Bank of Punjab	19	1.3	11.8	24	1.4	30.6	35	1.8	43.6	55	2.3	56.7	88	3.1	60.7	138	4.4	57.0	192	5.0	39.1
Faysal Bank	32	2.2	77.8	25	1.5	-21.7	31	1.6	23.8	56	2.3	79.8	75	2.6	33.0	74	2.4	-0.8	102	2.7	37.8
NIB Bank	-	-	-	-	-	-	5	0.2	-	11	0.5	131.6	22	0.8	91.5	31	1.0	42.7	117	3.0	277.4
Bank Al-Habib	25	1.7	38.9	34	2.0	38.3	46	2.3	32.9	62	2.6	36.2	76	2.7	21.9	91	2.9	20.2	115	3.0	26.4
Habib Metropolitan	18	1.2	38.5	29	1.7	62.9	39	2.0	36.8	49	2.1	26.7	57	2.0	15.4	102	3.2	78.9	121	3.2	18.6
Citibank	41	2.8	36.7	41	2.4	0.0	40	2.0	-2.4	47	2.0	17.5	53	1.9	12.8	63	2.0	18.9	69	1.8	9.5
Abn Amro Bank	34	2.3	13.3	35	2.1	2.9	38	1.9	8.6	48	2.0	26.3	48	1.7	0.0	94	3.0	95.8	90	2.3	-4.3
Total Deposits All Banks**	**1472**	**89.7**	**16.9**	**1691**	**88.5**	**14.9**	**1965**	**87.1**	**16.2**	**2392**	**86.3**	**21.7**	**2834**	**85.4**	**18.5**	**3139**	**91.7**	**10.8**	**3838**	**90.7**	**22.3**

* Selected banks' deposits including other accounts

** Scheduled Banks Operating in Pakistan

Source: Annual Reports of Selected Banks

Return on Deposits

Banks	Mark-up Expense on Deposits (Rs.Bn)							Markup as % Total Deposits*						
	2001	2002	2003	2004	2005	2006	2007	2001	2002	2003	2004	2005	2006	2007
Major Banks	**56.0**	**46.5**	**21.3**	**18.5**	**40.6**	**76.1**	**107.4**	**4.9**	**3.6**	**1.5**	**1.1**	**2.0**	**3.3**	**3.9**
National Bank of Pakistan	18.0	14.2	6.6	6.4	10.1	13.1	15.9	5.4	4.0	1.7	1.5	2.2	2.7	2.9
Habib Bank Limited	11.1	9.5	4.8	3.9	6.0	10.6	16.8	4.0	3.1	1.4	1.0	1.4	2.4	3.4
United Bank Limited	5.7	5.1	1.7	1.4	5.0	9.3	13.3	4.2	3.4	1.0	0.7	1.9	3.0	3.6
MCB Bank	6.1	5.2	2.3	1.4	1.6	2.9	5.9	4.2	3.0	1.2	0.6	0.7	1.2	2.1
Allied Bank Limited	4.5	3.3	1.1	0.7	1.7	6.1	8.7	4.7	3.3	1.0	0.6	1.2	3.3	3.7
Bank Alfalah	1.9	2.5	1.7	1.8	6.4	13.5	15.2	7.4	6.1	2.6	1.8	3.7	5.9	5.9
Standard Chartered Bank	1.9	1.2	0.7	0.5	1.2	2.8	4.6	3.6	2.1	1.1	0.7	1.5	2.3	2.8
Askari Bank	2.5	2.7	1.2	0.8	3.4	5.8	7.3	7.0	5.8	2.1	1.1	3.4	4.6	5.3
Bank of Punjab	1.0	0.9	0.4	0.6	2.5	7.3	13.5	5.6	4.2	1.4	1.3	3.5	6.5	8.2
Faysal Bank	3.3	1.9	0.8	1.0	2.7	4.7	6.2	13.1	6.6	2.8	2.3	4.1	6.3	7.0
Other Private Banks	**8.7**	**10.4**	**7.8**	**7.3**	**14.6**	**20.3**	**33.6**	**7.2**	**6.1**	**3.1**	**2.1**	**3.2**	**4.2**	**5.9**
Bank Al-Habib	1.5	1.8	0.9	0.8	1.6	3.3	4.8	7.0	6.1	2.3	1.5	2.3	4.0	4.7
Prime Bank	0.6	0.8	0.5	0.5	1.0	-	-	6.5	6.4	2.7	1.9	2.9	-	-
Metropolitan Bank	1.3	1.7	1.2	1.2	1.9	-	-	8.5	7.4	3.6	2.7	3.6	-	-
Habib Metropolitan	-	-	-	-	-	3.6	7.4	-	-	-	-	-	3.53	6.64
Saudi Pak Bank	0.3	0.5	0.8	1.0	1.3	2.9	3.6	5.4	5.7	4.3	3.4	3.7	6.7	7.9
Meezan Bank	0.03	0.2	0.2	0.2	0.5	1.2	2.2	5.0	7.0	3.1	1.9	2.8	4.2	4.9
Union Bank	1.3	1.5	1.2	1.0	2.3	-	-	7.0	5.1	2.7	1.8	3.0	-	-
PICIC Commercial	0.5	1.1	1.3	1.0	1.9	-	-	6.7	7.2	4.9	2.6	3.9	-	-
NIB Bank	-	-	0.04	0.2	0.7	1.7	2.8	-	-	0.9	2.5	4.2	6.4	3.8
Soneri Bank	1.1	1.2	0.7	0.6	1.6	3.2	3.8	7.3	6.5	2.9	1.9	3.8	6.3	6.7
Bank of Khyber	1.1	0.9	0.6	0.3	0.6	1.0	1.5	8.6	6.5	4.1	1.9	3.5	5.4	7.5
mybank	0.3	0.2	0.1	0.1	0.3	0.8	2.1	5.1	2.8	1.0	1.0	2.5	5.0	8.6
First Women Bank	0.3	0.3	0.2	0.1	0.2	0.2	0.2	6.6	4.7	2.7	1.2	2.2	2.5	2.7
KASB Bank	0.4	0.2	0.1	0.2	0.4	1.2	2.1	8.6	6.9	2.5	2.4	3.1	6.8	7.8
Atlas Bank	-	-	-	-	0.04	0.6	1.0	-	-	-	-	1.8	10.7	8.3
Bank Islami Pakistan	-	-	-	-	-	0.018	0.3	-	-	-	-	-	1.0	5.1
Dubai Islamic Bank	-	-	-	-	-	0.030	0.047	-	-	-	-	-	0.7	0.5
Arif Habib Bank	-	-	-	-	-	0.016	0.227	-	-	-	-	-	0.6	3.8
JS Bank	-	-	-	-	-	0.001	0.7	-	-	-	-	-	0.01	6.7
Cres Bank	-	-	0.03	0.1	0.3	0.5	0.8	-	-	0.7	2.2	4.6	8.2	8.4
Foreign Banks	**9.9**	**6.6**	**3.1**	**2.0**	**4.7**	**8.2**	**11.0**	**8.0**	**5.0**	**2.4**	**1.4**	**3.0**	**4.6**	**5.5**
Habib Bank A G Zurich	1.4	1.3	1.0	0.7	1.3	-	-	9.4	7.0	4.6	2.7	4.2	-	-
Citibank	2.9	2.0	1.0	0.5	1.4	2.9	4.0	8.2	4.9	2.5	1.1	2.8	5.0	6.1
Abn Amro Bank	2.4	1.5	0.6	0.4	1.2	4.0	4.8	7.5	4.3	1.6	0.9	2.5	5.6	5.2
HSBC	0.4	0.3	0.1	0.1	0.2	0.4	0.9	7.4	5.0	1.5	1.0	2.2	3.3	4.5
American Express	0.5	0.3	0.1	0.1	0.1	-	-	8.3	5.0	1.8	1.4	1.9	-	-
Deutsche Bank	0.30	0.09	0.02	0.01	0.07	0.08	0.18	6.6	2.7	0.8	0.7	3.6	3.3	4.3
Albaraka Islamic Bank	0.3	0.3	0.2	0.2	0.4	0.7	1.0	6.8	5.2	2.4	2.2	4.2	6.2	6.5
Oman Bank International	0.1	0.1	0.1	0.016	0.015	0.029	0.041	9.0	6.9	5.5	2.5	2.8	5.1	7.6
Bank of Tokyo	0.6	0.3	0.05	0.03	0.09	0.041	0.072	8.2	5.3	1.5	0.9	5.0	2.7	4.8
Rupali Bank	0.02	0.01	0.001	0.001	0.002	-	-	5.3	4.1	0.5	0.5	1.3	-	-
Mashreq Bank	0.3	0.09	-	-	-	-	-	4.6	2.3	-	-	-	-	-
Credit Agricole	0.48	0.224	-	-	-	-	-	10.9	5.8	-	-	-	-	-
IFIC	0.09	0.08	-	-	-	-	-	6.7	5.5	-	-	-	-	-
Bank of Ceylon	0.13	0.04	-	-	-	-	-	13.0	4.0	-	-	-	-	-
Total Deposits	**74.9**	**63.4**	**33.2**	**28.8**	**61.9**	**103.8**	**150.9**	**5.4**	**4.0**	**1.8**	**1.3**	**2.4**	**3.5**	**4.3**

* Average Deposits

Source: Annual Reports of Various Banks

Gross Advances and Non Performing Loans

(Rs. Bn)

Banks	Gross Advances								Non Performing Loans (NPLs)							
	2000	2001	2002	2003	2004	2005	2006	2007	2000	2001	2002	2003	2004	2005	2006	2007
Major Banks	**582.68**	**620.80**	**596.121**	**742.05**	**1195.77**	**1520.34**	**1913.63**	**2145.95**	**158.96**	**171.48**	**155.55**	**143.78**	**132.53**	**120.33**	**113.46**	**129.82**
National Bank of Pakistan	158.62	196.34	166.08	189.0	249.85	299.32	348.72	375.14	30.32	44.26	43.71	39.77	36.10	33.74	36.26	38.32
Habib Bank Limited	204.75	199.00	200.07	213.74	292.40	350.43	371.36	403.48	54.05	56.22	53.01	47.73	44.51	41.36	30.03	27.69
United Bank Limited	99.34	105.55	88.39	111.55	160.03	219.27	260.91	316.74	38.08	32.18	21.03	18.92	20.10	16.96	16.26	22.01
MCB Bank	90.98	82.84	85.14	104.01	144.01	188.14	206.85	229.73	12.44	13.44	12.03	11.00	8.84	8.40	8.57	10.73
Allied Bank Limited	62.30	59.90	54.00	49.99	69.95	119.51	151.70	178.53	16.77	16.88	18.24	17.83	15.38	12.58	10.48	11.36
Bank Alfalah	16.36	20.22	29.44	50.37	90.29	120.42	152.24	175.68	1.55	1.58	1.54	2.85	2.94	1.06	2.31	4.71
Standard Chartered Pakistan	-	-	-	-	-	-	142.31	134.70	-	-	-	-	-	-	8.90	10.99
Askari Bank	18.56	24.24	31.34	46.35	71.62	88.40	102.73	108.19	1.09	1.16	1.25	1.28	1.10	2.37	3.66	6.91
Bank of Punjab	6.52	6.18	7.11	18.83	39.96	64.45	102.47	136.53	0.96	1.36	1.34	1.22	1.17	1.36	2.35	3.35
Faysal Bank	14.51	25.38	23.23	31.15	51.73	63.52	74.50	87.30	3.70	4.40	3.40	3.20	2.40	2.50	3.54	4.75
Other Domestic Banks	**77.84**	**84.43**	**119.40**	**203.33**	**288.47**	**370.58**	**339.1**	**483.16**	**9.57**	**11.82**	**12.28**	**15.22**	**17.03**	**19.49**	**14.22**	**29.90**
Bank Al-Habib	14.77	16.00	23.99	35.54	47.54	55.53	71.04	79.45	0.12	0.19	0.48	0.65	0.21	0.38	0.39	0.22
Prime Bank	6.79	6.85	9.63	14.27	21.67	25.95	-	-	1.09	0.82	0.98	0.94	0.78	0.79	-	-
Metropolitan Bank	11.56	13.21	19.72	32.64	40.60	43.98	-	-	0.13	0.13	0.11	0.12	0.09	0.09	-	-
Habib Metropolitan	-	-	-	-	-	-	84.10	91.00	-	-	-	-	-	-	0.44	0.80
Saudi Pak Bank	6.99	5.00	9.75	20.24	27.24	21.04	31.53	31.42	2.11	3.56	3.00	3.28	2.90	5.00	4.63	6.14
Meezan Bank	-	0.87	3.71	7.46	12.42	19.86	27.27	35.25	-	0.18	0.18	0.06	0.06	0.18	0.41	0.55
Union Bank	14.00	14.71	29.82	41.44	52.07	70.92	-	-	2.27	2.37	2.50	2.87	3.56	4.02	-	-
PICIC Commercial	5.10	6.56	11.06	14.60	26.10	33.44	-	-	0.89	0.48	0.47	0.42	0.48	0.59	-	-
NIB Bank	-	-	-	7.45	12.35	20.18	31.87	92.60	-	-	-	1.51	1.46	0.70	1.02	13.25
Soneri Bank	11.20	10.43	11.65	17.69	24.70	32.45	35.80	40.80	0.30	0.31	0.27	0.30	0.26	0.35	0.35	1.28
Bank of Khyber	6.24	7.50	7.41	6.45	10.31	12.16	11.11	12.17	1.62	2.36	2.78	2.85	2.81	2.87	3.19	2.30
mybank	2.83	3.05	3.40	6.09	7.51	9.70	13.90	21.80	0.93	0.90	0.86	0.86	0.96	1.31	1.01	1.18
First Women Bank	0.60	0.83	0.87	1.31	1.68	2.50	3.10	3.10	0.13	0.12	0.12	0.09	0.07	0.05	0.05	0.09
KASB Bank	-	2.30	0.67	3.86	8.49	11.40	14.80	26.00	-	0.41	0.53	0.51	0.59	1.07	1.02	1.07
Atlas Bank	-	-	-	-	0.07	0.81	8.20	9.70	-	-	-	-	0.01	0.01	0.49	0.78
Bank Islami Pakistan	-	-	-	-	-	-	0.96	3.99	-	-	-	-	-	-	0.00	0.08
Dubai Islamic Bank	-	-	-	-	-	-	3.27	11.45	-	-	-	-	-	-	0.00	0.03
Arif Habib Bank	-	-	-	-	-	-	1.56	8.16	-	-	-	-	-	-	0.14	0.13
JS Bank	-	-	-	-	-	-	1.80	6.60	-	-	-	-	-	-	0.11	0.14
Cres Bank	-	-	-	2.25	5.80	5.33	4.00	7.10	-	-	-	0.77	2.80	2.07	1.99	1.87
Emirates Global Islamic	-	-	-	-	-	-	0.03	2.62	-	-	-	-	-	-	0.00	0.00
Foreign Banks	**106.52**	**108.18**	**131.28**	**121.37**	**159.44**	**170.31**	**155.34**	**159.09**	**4.50**	**3.68**	**4.45**	**3.17**	**2.53**	**2.07**	**2.93**	**5.90**
Standard Chartered Bank	23.37	22.07	43.58	41.23	52.51	50.83	-	-	1.07	0.58	1.38	1.29	1.04	0.40	-	-
Habib Bank A G Zurich	10.87	10.89	13.94	17.64	25.67	27.73	-	-	0.27	0.44	0.41	0.33	0.35	0.26	-	-
Citibank	25.30	27.94	26.42	25.95	33.71	40.31	52.72	50.91	1.32	0.97	0.94	0.78	0.55	0.62	0.57	1.05
Abn Amro Bank	21.58	23.91	25.18	23.47	32.22	33.42	73.10	68.43	0.19	0.06	0.06	0.05	0.04	0.17	2.02	4.49
HSBC	4.35	4.62	4.55	5.12	4.84	5.83	11.28	19.35	0.43	0.34	0.33	0.13	0.08	0.07	0.07	0.08
American Express	6.01	5.12	4.84	2.53	2.18	0.80	-	-	0.183	0.175	0.17	0.16	0.11	0.11	-	-
Deutsche Bank	3.32	3.23	2.34	1.47	2.02	1.90	4.20	4.72	0.06	0.07	0.08	0.04	0.00	0.00	0.00	0.00
Albaraka Islamic Bank	3.80	4.09	5.03	6.10	7.13	7.40	9.88	12.78	0.11	0.14	0.20	0.23	0.20	0.28	0.25	0.23
Oman Bank International	0.97	1.15	0.89	0.34	0.50	0.54	0.39	0.28	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.06
Bank of Tokyo	1.28	0.92	0.09	0.07	0.82	2.12	3.78	2.62	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Rupali Bank	0.15	0.18	0.19	0.02	0.15	0.15	-	-	0.04	0.15	0.18	0.16	0.14	0.14	-	-
Mashreq Bank	2.60	2.69	1.63	-	-	-	-	-	0.65	0.60	0.54	-	-	-	-	-
Credit Agricole	4.61	4.36	4.23	-	-	-	-	-	0.12	0.09	0.08	-	-	-	-	-
IFIC	1.20	1.24	1.13	-	-	-	-	-	0.04	0.05	0.05	-	-	-	-	-
Bank of Ceylon	0.21	0.14	0.13	-	-	-	-	-	0.01	0.02	0.01	-	-	-	-	-
All Banks Total	**767.04**	**813.41**	**846.80**	**1066.75**	**1643.68**	**2061.22**	**2408.03**	**2788.20**	**164.03**	**179.62**	**163.38**	**155.83**	**147.04**	**137.74**	**124.73**	**153.82**

Source: Annual Reports of Various Banks

Advances By Sector

(Rs. Bn)

Banks	Public Sector								Private Sector							
	2000	2001	2002	2003	2004	2005	2006	2007	2000	2001	2002	2003	2004	2005	2006	2007
Major Banks	**144.17**	**190.24**	**149.34**	**107.97**	**176.00**	**159.98**	**202.33**	**236.89**	**438.5**	**430.6**	**446.8**	**634.1**	**1019.8**	**1360.4**	**1711.3**	**1909.1**
National Bank of Pakistan	65.48	94.98	70.34	47.4	50.94	53.02	63.22	67.50	74.85	75.34	70.03	113.61	170.51	246.39	285.50	307.60
Habib Bank Limited	33.29	35.78	33.02	24.67	32.80	31.93	36.78	50.70	140.54	131.45	134.50	158.99	225.51	284.95	334.50	352.78
United Bank Limited	20.66	23.72	19.30	14.78	26.11	24.34	27.33	36.56	53.50	64.66	56.50	100.82	133.93	194.93	233.58	280.18
MCB Bank	16.94	16.81	15.90	16.80	22.25	23.50	27.70	27.20	69.38	59.78	63.02	81.02	115.07	164.64	179.10	202.50
Allied Bank Limited	5.26	13.28	7.80	2.40	8.00	16.79	27.13	19.76	51.87	41.13	37.51	38.25	118.40	145.11	124.57	158.77
Bank Alfalah	0.84	2.46	1.68	1.08	35.02	6.92	9.46	12.72	14.40	16.67	26.64	48.14	94.69	113.50	142.78	162.96
Standard Chartered Pakistan	-	-	-	-	-	-	8.53	13.46	-	-	-	-	-	-	133.78	121.24
Askari Bank	1.10	1.70	0.00	0.48	0.54	1.27	0.20	0.84	17.44	22.50	31.33	45.87	71.18	87.12	102.50	107.35
Bank of Punjab	0.16	0.87	0.45	0.25	0.13	0.81	0.98	7.05	6.00	4.90	6.17	18.10	39.31	62.81	101.49	129.48
Faysal Bank	0.44	0.63	0.86	0.14	0.20	1.40	1.00	1.10	10.53	14.14	21.08	29.28	51.17	60.91	73.50	86.20
Other Domestic Banks	**0.78**	**3.63**	**4.94**	**4.20**	**4.79**	**5.80**	**3.6**	**6.00**	**77.06**	**80.80**	**114.46**	**199.13**	**283.68**	**364.78**	**355.45**	**477.16**
Bank Al-Habib	0.40	0.91	2.30	1.74	2.04	2.20	3.04	2.85	14.40	14.99	21.46	33.59	45.39	53.06	68.00	76.60
Prime Bank	0.08	0.08	0.00	2.10	0.00	1.74	-	-	6.18	6.16	0.00	19.57	21.26	37.14	-	-
Metropolitan Bank	0.04	0.90	0.60	0.00	0.00	0.00	-	-	11.33	12.09	18.88	32.64	40.90	43.98	-	-
Habib Metropolitan	-	-	-	-	-	-	0.10	0.10	-	-	-	-	-	-	84.00	90.90
Saudi Pak Bank	0.00	0.00	0.40	0.00	0.00	0.04	0.00	0.00	6.99	5.00	9.35	20.20	27.24	21.50	31.50	31.40
Meezan Bank	-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	0.90	3.53	7.40	12.34	19.70	27.00	35.25
Union Bank	-	0.61	1.59	0.36	0.37	0.26	-	-	13.40	13.26	28.23	41.08	51.95	68.71	-	-
PICIC Commercial	0.00	0.00	0.00	0.00	0.00	0.00	-	-	4.70	6.33	10.88	14.32	25.83	35.59	-	-
NIB Bank	-	-	-	0.03	0.04	0.01	0.01	0.01	-	-	-	6.76	12.12	19.61	31.86	92.59
Soneri Bank	0.10	0.94	0.00	0.00	0.00	0.00	0.00	0.00	11.10	9.49	11.38	17.35	24.38	32.05	35.80	40.80
Bank of Khyber	0.02	0.02	0.45	0.00	2.33	1.55	0.46	0.64	5.70	6.90	6.17	5.38	6.67	9.04	10.60	11.50
mybank	0.15	0.20	0.05	0.00	0.00	0.00	0.00	0.00	2.66	2.77	3.25	4.52	5.60	9.70	13.90	21.80
First Women Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.60	0.81	0.84	1.28	1.65	2.50	3.10	3.10
KASB Bank	-	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-	2.10	0.49	1.80	8.29	11.40	14.80	26.00
Atlas Bank	-	-	-	-	0.00	0.00	0.00	0.00	-	-	-	-	0.06	0.80	8.20	9.70
Bank Islami Pakistan	-	-	-	-	-	-	0.00	0.00	-	-	-	-	-	-	0.96	3.99
Duabi Islamic Bank	-	-	-	-	-	-	0.00	0.40	-	-	-	-	-	-	0.00	11.05
Arif Habib Bank	-	-	-	-	-	-	-	1.00	-	-	-	-	-	-	-	7.16
JS Bank	-	-	-	-	-	-	0.00	0.00	-	-	-	-	-	-	1.70	6.60
Cres Bank	-	-	-	0.00	0.01	0.00	0.00	1.00	-	-	-	2.05	5.79	5.33	4.00	6.10
Emirates Global Islamic	-	-	-	-	-	-	0.00	0.00	-	-	-	-	-	-	0.03	2.62
Foreign Banks	**9.29**	**10.07**	**6.91**	**7.03**	**10.34**	**8.12**	**3.12**	**1.25**	**97.23**	**98.12**	**124.37**	**114.34**	**149.11**	**162.18**	**119.20**	**159.00**
Standard Chartered Bank	1.90	2.80	2.77	4.60	7.26	6.12	-	-	20.60	18.70	39.46	35.35	44.24	44.71	-	-
Habib Bank A G Zurich	2.20	0.90	1.16	0.60	0.60	0.00	-	-	8.50	9.70	12.51	16.76	24.81	27.70	-	-
Citibank	1.50	2.70	0.87	0.89	1.72	1.20	2.66	0.20	22.80	24.40	24.79	24.40	31.29	39.08	50.06	50.71
Abn Amro Bank	2.30	2.61	1.52	0.00	0.21	0.00	0.06	-	19.20	21.25	23.62	23.43	31.88	32.92	40.3	68.43
HSBC	0.30	0.30	0.01	0.00	0.16	0.70	0.16	0.80	3.80	4.00	4.26	4.99	4.60	5.10	11.12	18.55
American Express	0.00	0.00	0.00	0.00	0.39	0.00	-	-	5.90	4.98	4.84	2.39	1.68	0.70	-	-
Deutsche Bank	0.14	0.16	0.00	0.94	0.00	0.10	0.00	0.25	3.18	3.10	2.34	0.50	2.02	1.80	5.13	4.47
Albaraka Islamic Bank	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.80	4.00	5.03	6.10	7.13	7.40	9.88	12.78
Oman Bank International	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.95	1.10	0.90	0.32	0.49	0.52	0.39	0.28
Bank of Tokyo	0.00	0.00	0.00	0.00	0.00	0.00	0.30	-	1.30	0.92	0.90	0.07	0.82	2.12	2.32	3.78
Rupali Bank	0.00	0.00	0.00	0.00	0.00	0.00	-	-	0.11	0.14	0.08	0.02	0.15	0.15	-	-
Mashreq Bank	0.53	0.50	0.53	-	-	-	-	-	1.60	1.70	1.10	-	-	-	-	-
Credit Agricole	0.30	0.00	0.06	-	-	-	-	-	4.20	2.90	4.10	-	-	-	-	-
IFIC	0.00	0.00	0.00	-	-	-	-	-	1.20	1.20	1.13	-	-	-	-	-
Bank of Ceylon	0.13	0.10	0.00	-	-	-	-	-	0.09	0.02	0.12	-	-	-	-	-
All Selected Banks	**154.25**	**203.94**	**161.19**	**119.20**	**191.13**	**173.90**	**209.06**	**244.14**	**612.8**	**609.5**	**685.6**	**947.5**	**1452.6**	**1887.3**	**2165.9**	**2545.2**

Source: Annual Reports of Various Banks

Return on Advances

Banks	Loans, Advances and Running Finance (Rs.Bn)								Mark-up Earned (Customers) %							
	2000	2001	2002	2003	2004	2005	2006	2007	2000	2001	2002	2003	2004	2005	2006	2007
Major Domestic Banks	**601.6**	**655.7**	**630.0**	**745.2**	**1024.5**	**1374.3**	**1754.3**	**1997.2**	**8.8**	**9.8**	**8.9**	**5.1**	**4.6**	**7.3**	**9.7**	**10.3**
National Bank of Pakistan	149.4	187.4	157.8	178.3	235.4	284.2	331.0	355.0	9.7	8.9	9.7	5.2	4.6	7.4	9.0	9.4
Habib Bank Limited	187.7	181.3	182.2	192.8	220.3	300.8	329.3	365.9	7.9	9.5	7.9	5.2	5.1	7.3	9.9	9.9
United Bank Limited	74.2	88.4	80.4	102.3	144.9	206.8	247.5	303.7	8.8	8.1	7.7	4.3	4.1	7.0	10.1	10.0
MCB Bank	84.5	77.5	80.5	96.9	135.3	178.4	194.6	215.6	8.3	11.6	9.1	4.7	3.6	6.8	9.9	10.3
Allied Bank Limited	58.0	54.4	50.1	46.4	66.2	113.6	143.4	170.7	8.3	9.8	8.8	5.5	4.0	5.3	8.5	8.5
Bank Alfalah	14.8	18.7	26.8	45.7	80.7	101.2	131.6	152.7	9.9	12.5	9.8	5.7	5.1	8.7	11.0	11.9
Standard Chartered Pakistan	-	-	-	-	-	-	132.5	129.9	-	-	-	-	-	-	8.6	14.3
Askari Bank	13.0	17.9	24.0	36.8	56.5	73.3	84.2	93.2	12.7	13.5	11.6	6.7	5.4	9.0	11.2	11.5
Bank of Punjab	6.0	5.7	6.5	16.7	36.8	58.8	88.5	125.7	13.2	13.4	12.2	4.6	4.6	8.0	10.8	10.5
Faysal Bank	14.0	24.5	21.8	29.4	48.4	57.3	71.8	84.8	10.7	13.6	10.2	5.9	4.7	8.1	9.5	10.5
Other Domestic Banks	**68.9**	**71.1**	**109.8**	**168.0**	**229.5**	**275.8**	**294.2**	**426.9**	**9.1**	**11.1**	**7.6**	**5.5**	**5.3**	**7.9**	**13.9**	**8.8**
Bank Al-Habib	12.7	13.8	21.7	32.2	43.1	50.6	63.7	72.4	9.1	13.0	7.4	4.4	3.7	6.7	8.5	9.1
Prime Bank	6.0	6.4	8.6	12.9	20.1	23.9	-	-	10.7	11.9	8.6	6.9	2.3	4.0	-	-
Metropolitan Bank	8.8	9.8	15.9	27.1	33.9	34.2	-	-	9.1	10.5	6.9	4.2	3.9	7.0	-	-
Habib Metropolitan	-	-	-	-	-	-	66.8	70.3	-	-	-	-	-	-	6.0	9.2
Saudi Pak Bank	6.7	4.9	9.1	18.9	25.3	20.3	29.8	30.6	7.7	8.1	4.26	4.40	5.54	9.89	7.59	10.66
Meezan Bank	-	0.9	3.7	7.5	12.4	19.9	27.3	35.2	-	8.4	7.5	4.7	4.1	7.2	8.4	9.4
Union Bank	11.6	12.8	26.1	40.3	49.7	67.7	-	-	6.5	9.8	6.8	6.4	9.2	9.9	-	-
PICIC Commercial	4.2	4.8	8.0	9.5	20.7	29.1	32.4	-	10.1	9.8	10.3	7.3	5.1	9.5	11.7	-
NIB Bank	-	-	-	1.77	5.8	11.5	25.2	83.5	-	-	-	8.9	12.5	12.1	10.6	6.1
Soneri Bank	9.6	8.0	9.6	15.6	21.3	28.4	32.3	37.2	9.5	13.7	10.9	5.6	5.0	8.1	10.8	10.8
Bank of Khyber	6.0	6.8	6.7	5.7	8.4	10.5	10.1	10.9	13.3	10.3	9.3	7.0	4.4	6.1	8.9	9.2
mybank	2.7	2.9	3.3	4.64	5.6	8.6	12.8	18.3	7.3	11.3	6.4	6.3	5.2	7.4	9.4	12.6
First Women Bank	0.6	0.8	0.9	1.3	1.7	2.5	3.1	3.1	9.85	9.38	10.0	7.3	5.5	4.0	7.7	8.9
KASB Bank	-	2.2	0.6	1.4	7.2	8.6	11.8	23.8	-	21.1	13.5	3.50	4.9	9.3	10.2	9.7
Atlas Bank	-	-	-	-	0.1	0.68	3.4	6.9	-	-	-	-	1.75	14.7	13.5	11.6
Bank Islami Pakistan	-	-	-	-	-	-	0.7	2.5	-	-	-	-	-	-	6.86	12.0
Dubai Islamic Bank	-	-	-	-	-	-	3.300	11.400	-	-	-	-	-	-	0.91	7.5
Arif Habib Bank	-	-	-	-	-	-	0.530	7.6	-	-	-	-	-	-	0.94	3.3
JS Bank	-	-	-	-	-	-	0.6	4.5	-	-	-	-	-	-	0.00	4.4
Cres Bank	-	-	-	2.01	3.6	3.7	2.8	6.1	-	-	-	2.9	3.8	8.7	9.3	5.9
Emirates Global Islamic	-	-	-	-	-	-	0.032	2.6	-	-	-	-	-	-	-	4.4
Foreign Banks	**93.4**	**101.2**	**121.8**	**114.9**	**152.4**	**161.1**	**146.8**	**151.6**	**10.4**	**12.2**	**9.2**	**7.6**	**5.7**	**9.6**	**11.2**	**12.7**
Standard Chartered Bank	13.9	19.8	40.9	39.2	50.7	49.7	-	-	10.1	10.9	7.0	7.4	5.4	9.6	-	-
Habib Bank A G Zurich	9.8	9.8	12.4	16.3	22.9	23.7	-	-	9.9	13.1	8.6	5.5	4.4	8.6	-	-
Citibank	24.3	26.0	23.8	24.2	32.6	39.2	51.1	49.7	13.2	15.4	14.4	10.5	7.8	10.7	13.1	15.2
Abn Amro Bank	20.3	22.1	23.4	21.9	31.7	32.3	69.6	66.7	11.3	13.1	10.3	7.3	5.3	9.7	11.3	12.8
HSBC	3.5	3.2	3.1	3.3	3.4	5.1	10.5	18.8	11.6	13.1	10.6	7.5	5.1	7.8	6.7	7.4
American Express	5.9	4.9	4.4	2.5	2.2	0.8	-	-	9.0	10.7	9.9	7.2	4.5	9.8	-	-
Deutsche Bank	3.0	2.6	2.00	1.43	1.73	1.66	3.56	3.67	11.3	14.6	12.5	6.4	3.5	8.8	8.1	9.4
Albaraka Islamic Bank	3.4	3.6	4.5	5.5	5.8	5.9	8.0	9.8	9.1	13.8	8.2	5.3	4.9	8.6	8.8	11.2
Oman Bank International	0.9	1.1	0.850	0.330	0.470	0.490	0.4	0.3	12.8	7.2	6.5	9.1	3.2	5.9	6.7	8.2
Bank of Tokyo	1.3	0.9	0.09	0.07	0.82	2.12	3.8	2.6	9.4	12.1	20.4	2.8	1.1	3.7	7.2	11.1
Rupali Bank	0.2	0.2	0.19	0.184	0.149	0.148	-	-	6.7	3.9	-	-	-	-	-	-
Mashreq Bank	2.4	2.5	1.94	-	-	-	-	-	10.6	11.7	10.3	-	-	-	-	-
Credit Agricole	3.0	3.5	3.220	-	-	-	-	-	14.4	15.0	9.9	-	-	-	-	-
IFIC	1.5	1.0	0.84	-	-	-	-	-	7.7	14.2	12.6	-	-	-	-	-
Bank of Ceylon	0.2	0.1	0.13	-	-	-	-	-	12.27	18.5	19.23	-	-	-	-	-
Total – Selected Banks	**763.9**	**828.0**	**861.6**	**1028.1**	**1406.4**	**1811.2**	**2048.5**	**2575.7**	**9.0**	**10.2**	**8.8**	**5.5**	**4.8**	**7.6**	**11.1**	**10.2**

Source: Annual Reports of Various Banks

Write-Offs & Financial Relief Allowed
Selected Banks — 2000–2007

(Rs. Mn)

Banks		2000	2001	2002	2003	2004	2005	2006	2007	Total*
Allied Bank Limited	Principal Written-off	26.814	28.249	5.774	7.754	455.873	2472.697	1706.61	268.83	4972.601
	Mark-up Written-off	0	16.524	12.013	26.045	176.598	13.204	77.88	0	322.264
	Other Financial Relief	0	7.897	34.735	32.100	562.882	2856.092	1420.27	306.61	5220.586
	Total	**26.814**	**52.670**	**52.522**	**65.899**	**1195.353**	**5341.993**	**3204.76**	**575.44**	**10515.451**
Habib Bank Limited	Principal Written-off	208.436	436.878	742.172	816.631	2127.425	2699.872	8505.50	3881.30	19418.214
	Mark-up Written-off & other Financial Relief	781.771	493.772	2634.948	1311.091	6560.408	4788.415	6906.53	3587.93	27064.865
	Total	**990.207**	**930.650**	**3377.120**	**2127.722**	**8687.833**	**7488.287**	**15412.03**	**7469.23**	**46483.079**
United Bank Limited	Principal Written-off	555.541	511.950	865.498	695.488	535.490	2739.934	3205.53	2719.42	11828.851
	Mark-up Written-off	0	105.634	120.425	154.422	63.614	452.460	377.480	604.120	1878.155
	Other Financial Relief	141.951	141.880	1416.111	837.119	792.090	3082.322	10150.490	4149.49	20711.453
	Total	**697.492**	**759.646**	**2402.034**	**1687.029**	**13191.194**	**6274.716**	**13733.500**	**7473.030**	**34418.459**
National Bank of Pakistan	Principal Written-off	128.356	96.544	1600.449	288.716	800.730	918.233	710.409	1564.19	6107.627
	Mark-up Written-off	0	67.898	229.985	104.332	208.414	112.37	209.75	600.78	1533.529
	Other Financial Relief	216.855	762.561	2205.992	2194.709	3641.029	3697.174	2000.00	2076.64	16794.96
	Total	**345.211**	**927.033**	**4036.426**	**2587.757**	**4650.173**	**4727.777**	**2920.159**	**4241.61**	**24436.116**
MCB Bank	Principal Written-off	659.622	507.308	737.213	322.699	601.208	167.31	287.28	788.12	4060.76
	Mark-up Written-off	0	7.787	247.475	43.893	50.173	6.267	6.00	101.4	462.995
	Other Financial Relief	28.122	526.046	558.966	729.489	370.07	861.523	506.29	504.63	4085.136
	Total	**687.742**	**1041.141**	**1543.654**	**1096.081**	**1021.451**	**1035.110**	**799.570**	**1384.15**	**8608.891**
Bank Al-Falah	Principal Written-off	22.582	13.031	25.154	49.405	166.613	250.939	14.172	128.800	670.696
	Mark-up Written-off	0	0.726	11.793	17.673	15.118	4.818	18.425	5.951	74.504
	Other Financial Relief	3.475	0	0	0	0	0	0	0	3.475
	Total	**26.057**	**13.757**	**36.947**	**67.078**	**181.731**	**255.757**	**32.597**	**134.751**	**748.675**
Standard Chartered Bank of Pakistan	Principal Written-off	215.086	55.401	31.181	56.417	166.642	400.918	835.991	3734.85	5496.486
	Mark-up Written-off	0	8.477	0.265	1.972	174.643	154.706	19.124	51.540	410.727
	Other Financial Relief	3.475	0	0	0	0	0	1.676	0.562	5.713
	Total	**218.561**	**63.878**	**31.446**	**58.389**	**341.285**	**555.624**	**856.791**	**3786.952**	**5912.926**
Bank of Punjab	Principal Written-off	0	4.042	2.956	10.815	15.448	17.378	19.764	377.638	448.041
	Mark-up Written-off	0	5.506	18.16	1.626	3.377	11.608	12.687	20.595	73.859
	Other Financial Relief	14.158	0.115	0	0	51.781	0	0.033	0.087	66.174
	Total	**14.158**	**9.663**	**21.416**	**12.441**	**70.606**	**28.986**	**32.484**	**398.32**	**588.074**
Faysal Bank Limited	Principal Written-off	149.057	281.933	133.427	17.814	127.683	0.013	0.067	17.446	727.44
	Mark-up Written-off	0	21.912	9.106	0	328.77	0	0	0	359.788
	Other Financial Relief	0	0	0	1.662	704.436	0	0	30.247	736.345
	Total	**149.057**	**303.845**	**142.533**	**19.476**	**1160.889**	**0.013**	**0.067**	**47.693**	**1823.573**
Askari Commercial Bank	Principal Written-off	1.287	5.242	0	51.360	60.488	0.031	1.597	34.325	154.33
	Mark-up Written-off	0.775	20.938	10.764	0	21.503	9.941	0.864	12.754	77.539
	Other Financial Relief	0	0	0	109.56	0	0	0	0	109.56
	Total	**2.062**	**26.18**	**10.764**	**160.920**	**81.991**	**9.972**	**2.461**	**47.079**	**341.429**
Selected Banks Combined	Principal Written-off	1966.781	1940.578	4143.824	2317.099	5057.600	9667.325	15286.92	13504.919	53885.046
	Mark-up Written-off	0.775	255.402	660.286	349.963	1042.21	765.374	722.210	1397.140	5193.36
	Other Financial Relief	1189.807	1932.271	6850.752	5215.730	12682.696	15285.526	20985.289	10656.196	74798.267
	Total	**3157.363**	**4128.251**	**11654.862**	**7882.792**	**18782.506**	**25718.225**	**36994.419**	**25558.255**	**133876.673**

** Accumulated Total 2000 to 2007*

Source: Annual Reports of the Various Banks

Housing Finance by Banks/DFIs

Growth Trends in Disbursements

Type of Banks	Total Disbursements for Housing Finance as on December 31, 2007		Growth during the quarter September 2007		Yearly Growth since September 2006		Growth during the quarter December 2007		6 month Growth since June 2007		Yearly Growth since December 2006	
			Percentage									
	No. of Loans	Amount (Rs. Mn)	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount
Public Sector Banks	7615	10322.6	(2.4)	0.4	19.0	71.4	16.6	22.9	13.8	23.4	32.4	95.3
Private Banks	18881	58364.6	1.6	3.2	23.3	40.4	5.0	4.3	6.6	7.7	12.9	21.8
Islamic Banks	426	3097.6	55.1	46.9	-	-	21.0	19.9	87.7	76.1	-	-
Foreign Banks	3692	9719.4	17.4	23.1	74.8	148.3	0.5	2.1	18.0	25.6	22.5	40.1
Banks (Total)	30614	81504	2.8	6.1	28.7	57.3	7.2	6.6	10.3	13.1	20.1	35.5
DFIs	1894	3405	0.2	0.9	1.2	4.3	7.6	7.7	7.8	8.7	8.5	12.1
Banks & DFIs	32508	84909	2.7	5.9	26.7	54.2	7.3	6.7	10.1	12.9	19.4	34.4
HBFC	448061	41514.7	0.4	2.1	1.9	7.9	0.4	2.1	0.8	4.3	1.5	8.0
Total	480569	126424	0.5	4.6	3.2	34.7	0.8	5.1	1.3	9.9	2.6	24.4

Growth Trends in Outstandings

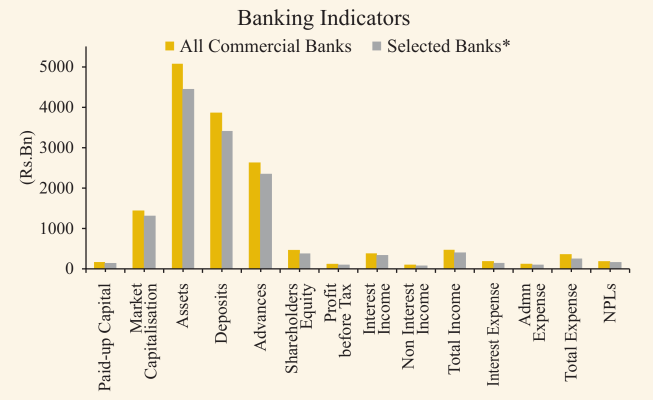
Type of Banks	Total Disbursements for Housing Finance as on December 31, 2007		Growth during the quarter September 2007		Yearly Growth since September 2006		Growth during the quarter December 2007		6 month Growth since June 2007		Yearly Growth since December 2006	
			Percentage									
	No. of Loans	Amount (Rs. Mn)	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount	No. of Loans	Amount
Public Sector Banks	6965	9003.3	(3.3)	(5.1)	19.0	64.0	14.4	24.9	10.6	18.5	26.9	77.8
Private Banks	15148	43962.8	0.2	3.1	16.7	35.5	3.7	1.9	3.9	5.1	5.8	14.8
Islamic Banks	439	2973.7	53.6	44.5	-	-	21.6	17.7	86.8	70.1	-	-
Foreign Banks	2055	5712.9	29.4	31.7	177.8	335.6	(1.2)	(0.6)	27.8	30.8	27.1	47.7
Banks (Total)	24607	61653	1.9	5.5	25.9	56.1	6.3	5.2	8.3	11.0	14.9	30.5
DFIs	1466	2020	(1.0)	(2.0)	(13.9)	(13.4)	2.9	3.9	1.9	1.7	2.0	(6.5)
Banks & DFIs	26073	63672	1.7	5.3	22.6	52.2	6.1	5.1	7.9	10.7	-	-
HBFC	99417	12331.8	(10.2)	2.7	(75.0)	(36.4)	268.3	4.1	230.8	6.9	194.0	11.6
Total	125490	76004	(4.9)	4.8	(59.8)	23.9	143.4	5.0	131.5	10.0	121.4	25.7

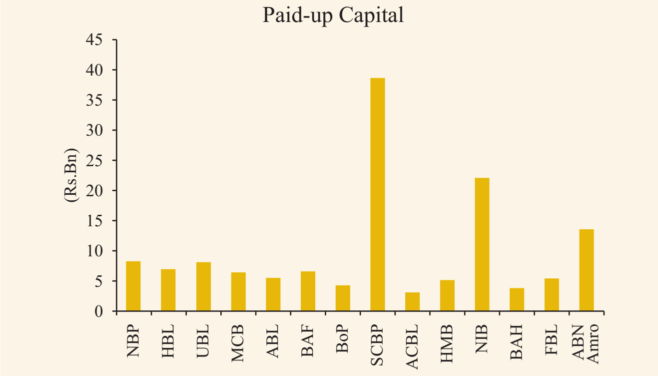
Source: Quarterly Housing Finance Review
State Bank of Pakistan

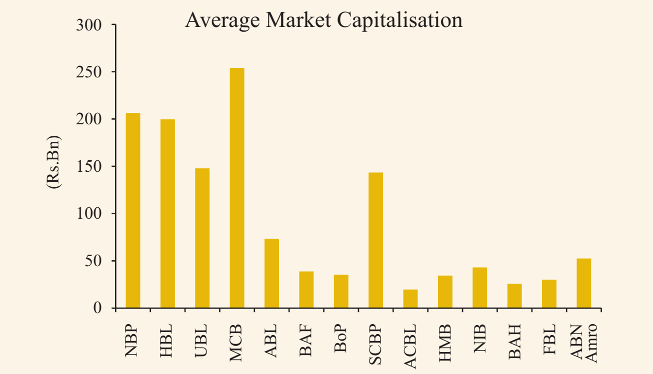
Banks Mergers/Acquisitions

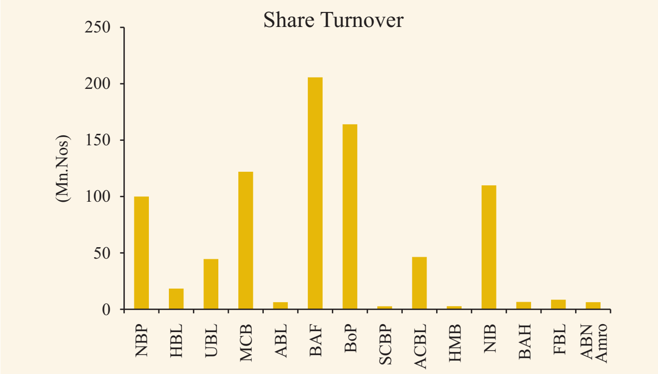
1. Standard Chartered Bank (Pakistan) Ltd was declared a scheduled bank w.e.f. December 30, 2006.
2. The name of Prime Commercial Bank Ltd has been changed to Abn Amro Bank Ltd w.e.f. September 1, 2007.
3. Habib Bank AG Zurich merged with and into Metropolitan Bank Ltd w.e.f. September 29, 2006. Name of Metropolitan Bank Ltd changed to Habib Metropolitan Bank Ltd w.e.f. October 26, 2006.
4. Meezan Bank began operations as a full fledged Islamic commercial bank in 2002.
5. Union Bank has been merged with and into Standard Chartered Bank (Pakistan) Ltd w.e.f. December 4, 2006.
6. PICIC Commercial Bank was descheduled w.e.f. the close of business on December 31, 2007. It was merged with NIB Bank Limited.
7. NDLC merged into NDLC-IFIC Bank and renamed NIB Bank w.e.f. October 2003.
8. Platinum Commercial Bank acquired by Khadim Ali Shah Bukhari & Company and renamed KASB Bank in October 2002.
9. Dawood Bank amalgamated into Atlas Investment Bank and renamed Atlas Bank in March 2006.
10. Bank Islami commenced operations from April 7, 2006.
11. Dubai Islamic Bank commenced operations from March 28, 2006.
12. The name of Arif Habib Rupali Bank Ltd was changed to Arif Habib Bank Ltd w.e.f. October 1, 2007.
13. The amalgamation of Jahangir Siddiqui Investment Bank and American Express Bank Ltd (Pakistan Branches) formed the JS Bank Ltd on December 2, 2006.
14. Emirates Global Islamic Bank Ltd was declared a scheduled Islamic Bank Ltd w.e.f. February 13, 2007.
15. Rupali Bank Ltd was amalgamated with and into Arif Habib Rupali Bank Ltd w.e.f. August 4, 2006.
16. Mashreq Bank merged with Crescent Investment Bank. Later renamed Crescent Commercial Bank (July 2003).
17. SBP directed the de-scheduling of Credit Agricole w.e.f. April 17, 2004.
18. The State Bank de-scheduled the Bank of Ceylon on March 24, 2004 on account of its merger with Dawood Bank.

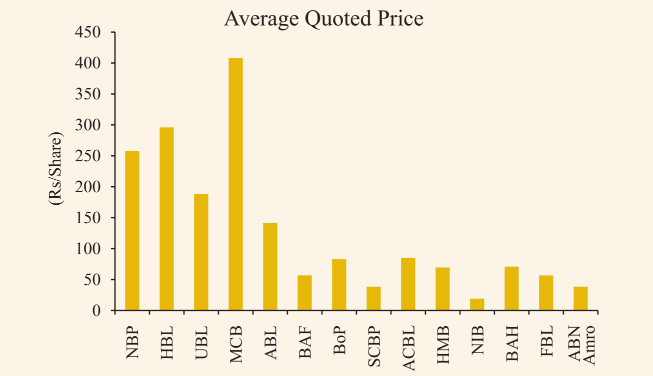
Selected Banks* Performance at a Glance – 2007

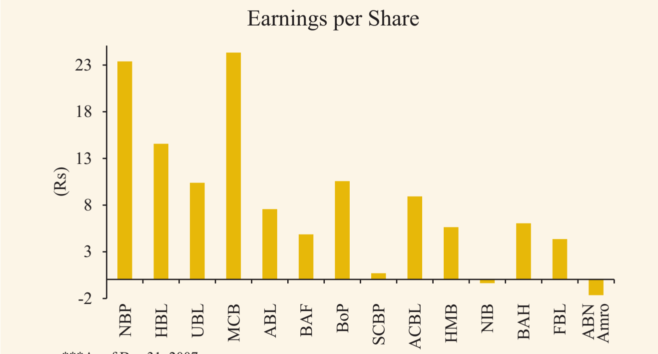




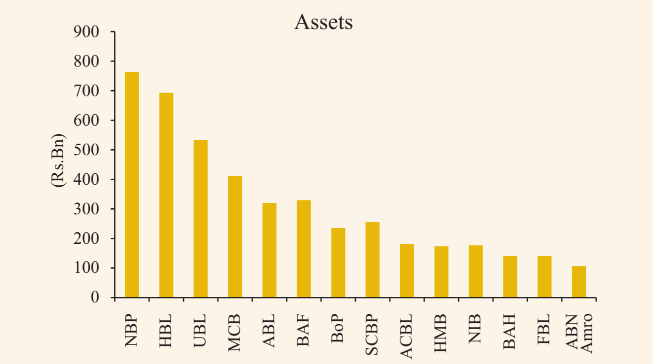


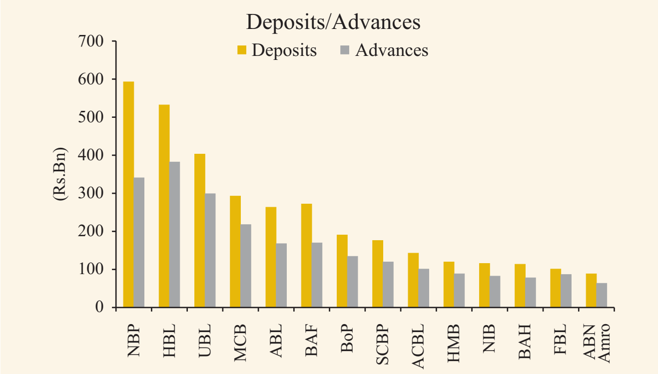




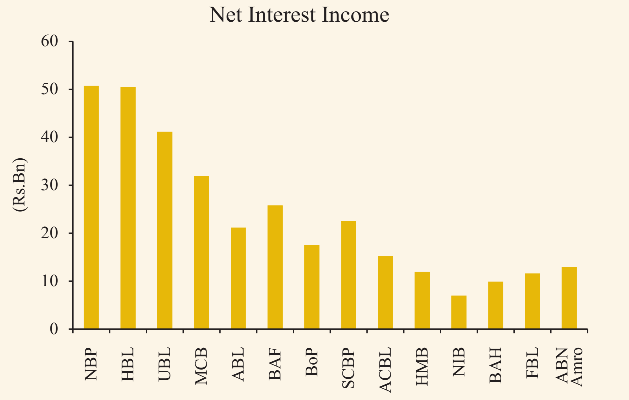


***As of Dec 31, 2007





Data for first five graphs are as of March 31, 2008.
* Listed on the Stock Exchange


Net Interest Income
(Rs.Bn)
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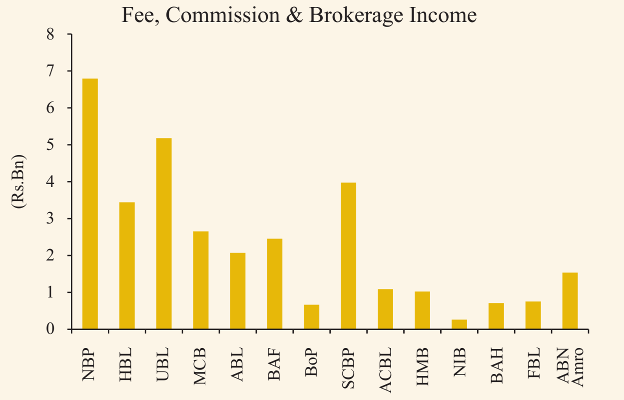
Fee, Commission & Brokerage Income
(Rs.Bn)
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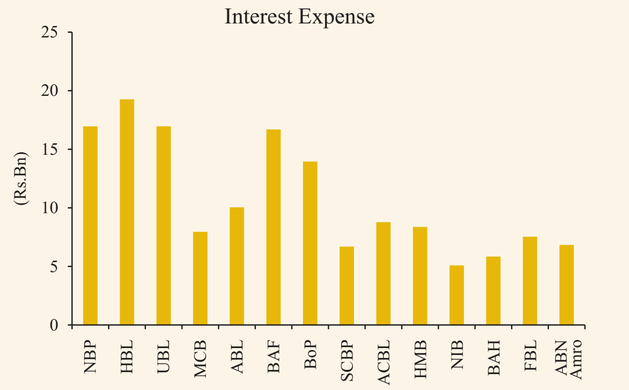
Interest Expense
(Rs.Bn)
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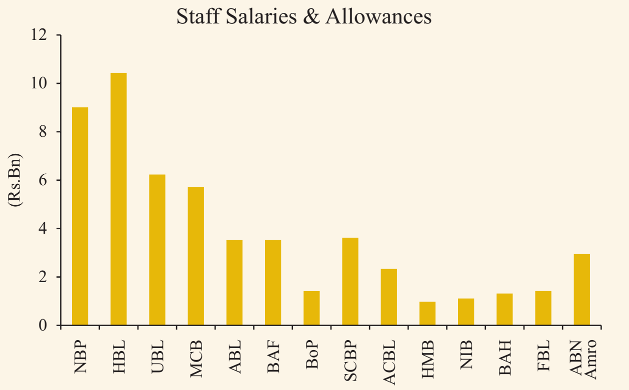
Staff Salaries & Allowances
(Rs.Bn)
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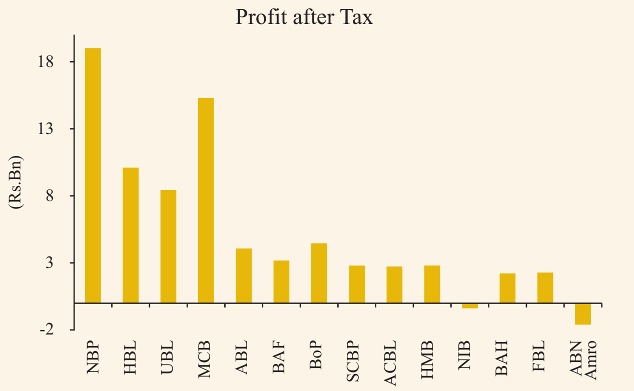
Profit after Tax
(Rs.Bn)
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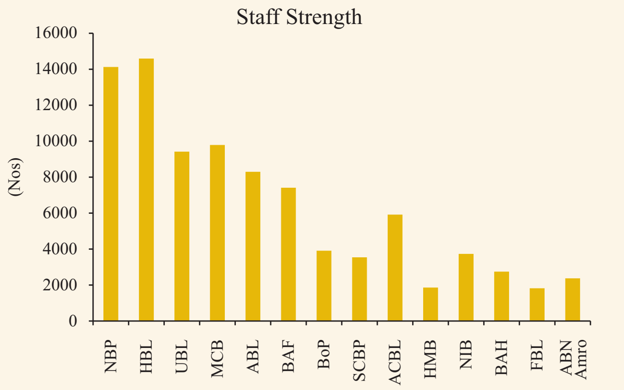
Staff Strength
(Nos)
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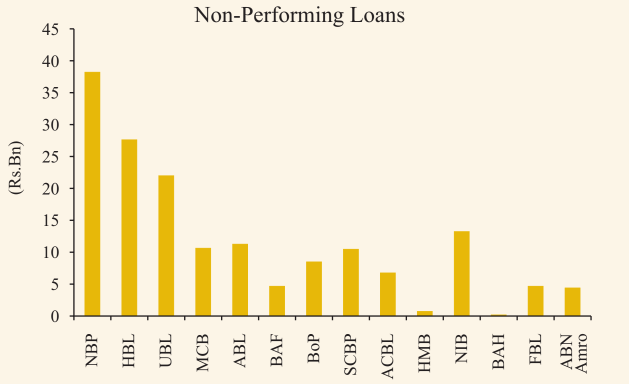
Non-Performing Loans
(Rs.Bn)
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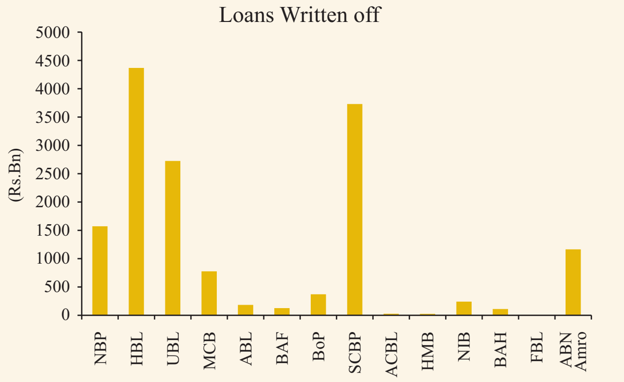
Loans Written off
(Rs.Bn)
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Report/Book Reviews

Strategic Management
Concept and Cases - 2008
Prof. Dr. Khawaja Amjad Saeed

The author has written the above mentioned book, suited to developing countries in general and Pakistan in particular. Though there are several textbooks on Strategic Management, but the case studies mentioned therein, are not appropriately suited for developing countries. It was in this perspective, that this textbook has been written, where the cases mentioned have been developed by the author, and other several scholars, teachers, practitioners and business executives in light of conditions prevailing in this region.

The book has been divided into two parts namely, Concepts & Cases. A systematic and logical analysis of various subjects has been made with profuse details and illustrations on: A March Towards Knowledge Based Economy, Understanding Strategy, Scanning Environment, Developing Strategies and Implementing Strategies.

The second part consists of Cases for Analysis. Sixteen cases contributed by South Asian Scholars have been included for analysis. Teaching notes for eight cases have also been included for the guidance of teachers and students. The book is spread over 322 pages. The book is useful for business executives and students.

Management
Concept and Cases - 2007
Prof. Dr. Khawaja Amjad Saeed

The book is a useful addition to the literature on Management, especially since it is oriented to Pakistan's needs. It consists of the following three sections:

- Concepts — spread over twenty one chapters.
- Six selected articles written on current issues by the author.
- Twelve cases in management contributed by renowned scholars of the South Asian region.

This is the second edition of the Book. Case studies have been prepared by several South Asian scholars under the umbrella of Association of Management Development Institutions of South Asia. The book would be of interest to business executives and students.

New Horizons in Bank Management
Prof. Dr. Ahsanul Hasan Khan

The financial landscape of the country has significantly altered in the last nearly two decades. Reform process set in motion in late 1980s, gathered momentum since 1997, when a set of reforms aimed at institutional strengthening, restructuring of banks and DFIs, and improvement in regulatory framework was introduced.

Banks are now operating in a highly competitive business environment, where demand for diversified banking services has grown, where innovative financial products and services are being introduced and where a greater need for personalized customer care is felt. Only those banking institutions can survive, who can meet the increasing challenges of competition between banks and have a talented human resource pool.

New Horizons in Bank Management is the author's endeavour to share his professional and practical experiences of more than 38 years in the banking industry with his counterparts in the field. The book presents the management concepts and techniques that will help existing and prospective managers succeed in this challenging period.

The opening chapter gives a reference to the theories of some management experts and statement of some leading Presidents/CEOs of international banks. Case studies, the policies and practices of some renowned personalities in bank management is given in chapter two. Chapters three and four give an overview of the latest developments in the commercial and central banking system, while chapter five emphasizes upon a new approach to marketing for enhancing profitability and keeping the customer happy through better marketing and improved services.

Chapter six deals with inter-personal relationships in banks and a chapter is devoted to Corporate Governance and the last chapter shows how we can manage better in the future, than how we are managing today.

State of the Economy:
Challenges and Opportunities
Annual Report 2008
Institute of Public Policy
Beaconhouse National University
Lahore

This is the first report on the state of Pakistan's economy by the Institute of Public Policy. The report reflects three sets of issues: sustainability and inclusiveness of growth; institutional development; decentralization; short-run macroeconomic adjustment to bring down inflation; and the ‘twin’ budget and current account deficits.

The report comprises of nine chapters. These focus on the major developments that have taken place both globally and domestically in the last year and a half and have had an impact on the economy. The rise in income inequality, governance problems, unprecedented upsurge in oil and food prices, and the macroeconomic imbalances that had reached unsustainable levels and were laying considerable stress on the domestic economy, all have been analyzed.

The main objective of the report is to outline a comprehensive and integrated economic and governance strategy that will facilitate the tackling of the challenges facing the economy and require urgent government attention.

The report highlights both the gains made in the last few years as well as the many unmet challenges and unexplored opportunities. To bring about an improvement in the economic and social conditions, the report stresses specially the need to move simultaneously on a number of fronts because of the interlocking and mutually reinforcing effect of many policy and institutional changes.

Pakistan has fallen behind other rapidly developing countries of Asia in not being able to place its economy on a trajectory of growth that would ensure a significant increase, year after year, in its economy, while making the rewards of growth available to all segments and all regions of the country.

The report has presented an agenda for change, suggesting how Pakistan could restructure its economy and take advantage of the changes that have taken place in the global economic system. The agenda covers ten points and the authors of the report believe that if these were to be adopted, the country could achieve a rate of growth of 7 to 8 percent a year over the medium term. This alongwith the policies identified in the report, a new structure of the economy would evolve and the country would be better integrated into the global economic system.

Also the incidence of poverty would decline at a more rapid rate and the disparities in income per capita in different parts of the country would be reduced.

Fiscal Policy Choices in Budget 2008-09
Social Policy and Development Centre
Karachi

Social Policy and Development Centre, (SPDC) a private sector research organisation recently prepared a pre-budget report. Given the economic challenges facing the government, the report gives SPDC’s perspective to some pertinent questions like, what are the fiscal policy options that can help control the slide in the economic fundamentals? and how can the poor and the vulnerable be protected from the burden of economic adjustment? The report attempts to present feasible options available to budget makers to improve the macro-economic situation.

Among the many challenges facing the economy is the increasing inequality among different segments of population. There is a general feeling that inequality has grown and the growth in the economy has not benefited the masses.

Section III of the Report discusses the Taxation Policies. It states that, ‘developments since 1999-2000 may have contributed to even greater regressivity of the tax system’ and further states, ‘infact one of the disappointments in the four previous years when there was continuously high economic growth was that the tax-to-GDP ratio did not rise corresponding. It has remained stagnant at 10 to 11 percent of the GDP. It suggests a strategy to make the incidence of taxes progressive and tax revenues more buoyant.

Section V of the report, Relief for the Poor, evaluates the different types of safety nets on a number of criteria that has been developed by SPDC. It has identified the potential routes the government can take to provide relief to the needy in the forthcoming budget.

Pakistan Economy – Key Economic Indicators

Key Indicators	Unit	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08(PE)
Output and Prices									
GNP Size	$ bn	65.5	74.5	87.1	99.6	111.1	129.1	146.6	173.9
GDP Size	$ bn	66.4	74.1	84.5	97.4	108.9	126.6	143.9	170.1
Income Per Capita	$	507	509	586	669	733	836	926	1085
Real Growth	(%)								
GNP		2.0	5.1	7.5	6.4	8.7	5.6	6.7	6.1
GDP		2.0	3.1	4.7	7.5	9.0	5.8	6.8	5.8
Agriculture		-2.2	0.1	4.1	2.4	6.5	6.3	3.7	1.5
Manufacturing		9.3	4.5	6.9	14.0	15.5	8.7	8.2	5.4
Services Sector		3.1	4.8	5.2	5.8	8.5	6.5	7.6	8.2
Prices									
Consumer Price Inflation	(%)	4.4	3.5	3.1	4.6	9.3	7.9	7.8	11.1
Wholesale Price Inflation	(%)	6.2	2.1	5.6	7.9	6.8	10.1	6.9	15.06
Food Inflation	(%)	3.6	2.4	2.9	6.0	12.5	6.9	10.3	16.3
Non Food Inflation	(%)	5.1	4.3	3.2	3.6	7.1	8.6	6.0	7.3
Core Inflation	(%)	4.2	2.0	2.1	3.0	7.2	7.5	5.9	9.6
Gold Tezabi	$/10 grams	84.6	97.6	110.5	126.6	137.6	171.4	208.2	271.4
Motor Gasoline Premium	Rs/Ltr	30.0	31.73	32.95	33.79	40.58	54.98	56.03	57.97
Kerosene oil	Rs/Ltr	17.81	21.02	18.63	21.76	25.92	32.55	35.23	37.50
Light Speed Diesel	Rs/Ltr	9.51	14.25	13.89	18.66	23.27	30.57	32.57	39.50
GDP Deflator	%	8.02	2.49	4.42	7.74	7.02	10.49	7.98	13.41
Savings and Investment									
National Savings	% GDP	16.5	18.6	20.8	17.9	17.5	18.2	17.8	13.9
Domestic Savings	% GDP	17.8	18.1	17.6	15.7	15.4	16.3	16.0	11.7
Gross Capital Formation	% GDP	15.8	15.5	15.3	15.0	17.5	20.5	21.3	20.0
Public	% Gross Capital	5.7	4.2	4.0	4.0	4.3	4.8	5.7	5.7
Private		10.2	11.3	11.3	10.9	13.1	15.7	15.6	14.2
Public Finance									
Revenue Receipts	% GDP	13.1	14.0	14.8	14.1	13.8	14.1	14.9	14.7
Tax Revenue	% GDP	10.5	10.7	11.4	10.8	10.1	10.5	10.2	10.1
Total Expenditure	% GDP	17.4	18.3	18.5	16.9	17.2	18.4	20.6	21.3
Fiscal Deficit	% GDP	4.3	4.3	3.7	2.3	3.3	4.3	4.3	7.2
Domestic Debt	Rs.bn	1731	1718	1854	1979	2133	2322	2601	3067
Funded	% Domestic Debt	58.9	53.9	51.0	54.6	60.0	62.0	63.9	67.9
Non Funded	% Domestic Debt	41.1	46.1	49.0	45.4	40.0	38.0	36.1	32.1
FBR Tax Collection	Rs.bn	392	404	461	521	590	713	847	851.3
Direct Taxes	% share	31.9	34.9	33.0	31.7	31.0	31.6	39.4	36.3
Indirect Taxes	% share	68.1	65.1	67.0	68.3	69.0	68.4	60.6	63.7
Monetary Sector									
Net Foreign Assets (NFA)	Rs.bn	72.7	206.2	17.7	363.5	421.4	372.9	383.7	-400.4
Net Domestic Assets (NDA)	Rs.bn	53.4	29.2	308.9	43.5	53.7	73.4	274.6	826.0

Key Indicators	Unit	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08(PE)
Credit to Private Sector	Rs.bn	48.7	37.2	145.8	325.2	437.8	401.8	365.7	384.3
Net Credit to Government	Rs.bn	-46.7	22.2	-69.2	57.3	91.1	86.9	92.8	499.6
Borrowings for Budgetary Support	Rs.bn	-32.3	14.3	-46.8	62.9	67.2	67.1	102.0	473.1
Broad Money (M2)	growth %	8.9	15.4	18.0	19.6	19.3	15.2	19.3	10.5
Reserve Money (Mo)	growth %	7.1	9.6	14.5	15.4	17.6	10.2	20.9	15.6
Capital Market									
SBP General Index	2000-01=100	91.5	106.7	204.1	312.7	360.0	427.0	547.5	554.9
KSE 100 Index	1991=1000	1336	1770	3402	5281	7524	9989	13772	12289
Market Capitalisation	$ bn	5.3	6.8	12.9	23.4	33.7	45.9	65.7	74.6
National Saving Scheme	$ bn	12.0	14.1	17.0	17.0	15.7	15.5	16.5	17.4
Banking Sector									
Scheduled Banks Deposits	$ bn	20.1	23.6	29.1	34.6	40.7	46.8	55.7	60.1
Scheduled Banks Advances	$ bn	13.6	14.7	16.8	21.5	28.4	34.4	39.2	47.6
Scheduled Banks Assets	$ bn	31.3	38.3	44.0	51.9	60.7	61.0	77.6	80.7
Lending and Deposit Rates	weighted average								
Deposits Outstanding	% p.a	4.96	4.17	1.90	1.61	2.55	4.01	5.30	5.75
Advances Outstanding	% p.a	13.4	12.0	7.6	7.2	9.0	10.9	11.8	11.74
Open Market Operation	weighted average								
SBP 3-Day Repo	% p.a	14.0	9.0	7.5	7.5	9.0	9.0	9.5	10.5
Treasury Bills Yield - 6 Months	% p.a	12.9	6.3	1.7	2.1	8.0	8.5	8.9	9.58
KIBOR - 6 Months	% p.a	-	6.2	2.2	2.7	8.5	9.4	9.8	13.94
Pakistan Investment Bonds - 5 yrs	% p.a	12.99	9.39	4.16	5.27	7.50	9.65	9.53	9.3
Overnight Call Money Rate	%	8.96	6.74	4.23	1.86	4.34	8.46	9.37	11.79
SBP Export Finance Rate	%	9.00	6.50	2.00	1.50	6.50	7.50	6.50	6.50
External Sector									
Exports	$ bn	8.93	9.14	10.89	12.40	14.40	16.55	17.28	18.13
Imports	$ bn	10.20	9.43	11.33	13.60	18.77	24.99	26.99	31.97
Trade Balance	$ bn	-1.27	-0.29	-0.44	-1.20	-4.37	-8.44	-9.71	-13.84
Current Account	$ bn	-1.95	0.09	3.16	1.31	-1.75	-5.67	-7.40	-13.38
	% GDP	-2.9	0.1	3.7	1.3	-1.6	-4.5	-5.1	-7.9
Worker Remittances	$ bn	1087	2389	4237	3872	4169	4600	5494	5904
Foreign Private Investment	$ mn	182	475	816	922	1677	3872	6960	3943
Direct		322	485	798	950	1524	3521	5140	3881
Portfolio		-140	-10	18	-28	153	351	1820	62
External Debt and Liabilities	$ bn	37.2	36.5	35.4	35.3	35.8	37.6	40.5	45.9
	% GDP	52.1	51.0	43.0	36.1	32.7	29.5	28.1	26.9
Debt Servicing	$ mn	1546	1190	1327	2978	1461	1572	1612	1414
Gold & Forex Reserves	$ bn	3810	7065	11472	13155	13338	14590	17924	14867
Gold		566	667	725	831	917	1288	1366	1288
Cash		3244	6398	10747	12324	12421	13302	16558	13579
Crude Oil Spot Prices (Brent)	$/barrel	26.1	25.5	28.2	33.0	55.4	73.3	71.9	141.0
Exchange Rate (Average)	Rs/US$	63.4	60.1	57.7	57.9	59.7	60.2	60.6	61.6

(PE) Provisional Estimates