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NBP Performance at a Glance

Editor's Corner

Dear Readers,

On September 17, 2011 like minded people came together in the financial district of New York, protesting against a number of issues. While their complaints varied, they were united by a general sense of injustice. The demonstrations which have since spread throughout the United States and in cities across the world is aimed to draw attention to social and economic inequality, corporate greed, lack of job opportunities, influence major banks and multinational corporations wield in politics and the role of Wall Street in creating an economic collapse that has caused the greatest recession in generations. The movement drew inspiration by popular uprisings in Egypt and Tunisia.

Income inequality has risen in most countries of the world. The richest one percent of people globally receive nearly 14 percent of global income, while the poorest 20 percent received just over one percent. In many of the OECD countries, the gap between rich and poor has widened over the past two decades. It was higher in most OECD countries in the mid 2000 than in the mid 1980s. Inequality of incomes gives rise to potential and economic challenges and are a source of concern for the government. An OECD publication entitled '*Growing Income Inequality in OECD Countries: what drives it and how can policy tackle it*', says that across OECD countries the average income of the richest 10 percent of the population is about nine times that of the poorest 10 percent. This ratio is lower in countries such as Denmark, Finland, Norway and Sweden. Traditionally these countries have had low inequality, but it has grown in recent times. US has seen high levels of inequality and has also seen the gap between rich and poor widen further.

The Gini coefficient, a standard measure of income inequality that ranges from zero (when everybody has identical incomes) to 1 (when all income goes to only one person) stood at 0.28 in the mid 1980s on average in OECD countries, and had increased to 0.31 by the late 2000. On this measure, income inequality increased in 17 out of the 22 OECD countries for which data are available.

The Institute of Policy Studies Executive Excess Report 2011, which researched 100 US corporations, found that corporate outlays for CEO compensation are rising. In 25 of these corporate giants, the bill for chief executive compensation actually ran higher than the company's entire federal corporate income tax bill. The report has shown that in 2009, major corporate CEOs took home 263 times the pay of America's average workers. In 2010, this gap leaped to 325 to 1.

The Congressional Budget Office in a study '*Trends in the Distribution of Household Income between 1979 and 2007*' published in October 2011 shows that over the past three decades, the distribution of income in the United States has become increasingly dispersed — in particular, the share of income accruing to higher income households has increased, whereas the share accruing to other households has declined.

An OECD report, *Growing Unequal* published in October 2008, compares poverty and income distribution in 30 countries. The report seeks a number of questions — has income inequality increased over time? were OECD countries affected uniformly? to what extent is wider income inequality the consequence of greater differences in earnings or are there other explanations? etc. The findings of the report show that the income of the richest 10 percent of people is, on average across OECD countries, nearly nine times that of the poorest 10 percent. However, there are variations between member countries in the size of income differentials. In Mexico, the richest have incomes of more than 25 times those of the poorest, in Turkey,

the ratio is 17 to one. The income gap between rich and poor is also well above the OECD average (8.9 times) in Portugal, Poland and the US. In countries such as Denmark, Sweden and Finland, the gap is much smaller. The incomes of the richest 10 percent average around five times those of the poorest 10 percent.

The report explains the changes that have taken place in the labour market are responsible of the changes in incomes. This is because earnings make up more than 70 percent of household incomes (before taxes). The disparity between the low and high paid has increased rapidly since the early 1990s. The high paid have done particularly well, not only relative to low earners but also to middle earners. The taxes that the government levies and the benefits its pays out also plays an important role in determining income. In the Nordic countries, such as Denmark, Sweden and Finland, benefits and taxes are highly redistributive; taking money from the rich and giving it to the poor. Tax-and-benefit systems are also redistributive in Korea and the United States, but to a much lesser degree.

In Pakistan there is growing inequalities of income. The extent and depth of inequality has increased over time. The Pakistan Economic Survey 2010-11 states, 'that due to good growth performance during the period 2000-06, the number of poor has declined but economic growth has failed to put any distributional impact in Pakistan.' The Gini coefficient and the ratio of the highest to the lowest consumption quintiles, used to measure the incidence of income inequality has worsened over time. *The Social Policy and Development Centre* in their *Annual Review* state, household in the lowest quintile command an income share that is less then their population share, while households in the highest quintile command income share that is more than their population share.

Inequality of income breeds poverty. With unequal distribution of income, those belonging to the low income strata of population have to cut back on food expenditure, have little or none for their children's education and healthcare, and clothing takes the first cut as the household budget shrinks, have little to spend on utilities and with time as basic needs are not met they descent into poverty. This is a cause of grave concern for the government, which has to see the distributional aspect of growth. Denying people the fulfilment of their basic needs can lead to widespread discontent in society.

Ayesha Mahmood

Status of Education in Pakistan

GoP recognizes education as one of the fundamental rights of a citizen

The Constitution of Pakistan (1973), places the responsibility for basic education on the state. It states in article 37(a), the state shall promote, with special care, the educational and economic interests of backward classes or areas; while article 37(b) states, the state shall remove illiteracy and provide free and compulsory secondary education within minimum possible period and article 37(c) states, the state shall make technical and professional education generally available and higher education equally accessible to all on the basis of merit.

Successive governments in Pakistan have focused on education reforms, formulated policies and plans, so to fulfil the commitment made to the achievement of universal literacy and provision of free and compulsory elementary primary education as prescribed in the constitution.

At the time of independence in 1947, Pakistan inherited an under-developed educational infrastructure. There were slightly over 8000 primary schools, around 3000 secondary schools and 2 universities for a total population of about 32 million. The system suffered from inadequacies and imbalances, which included among others, low quality of educational institutions, large male-female literacy disparities, rural-urban literacy divide (in early 1960s, in urban areas the literacy percentage was 35.8%, while in rural areas it was 16.6%), higher education received priority over primary education, manpower requirements could not be adequately met etc. In the Third Plan period, highest priority in terms of allocations was accorded to technical education, second in priority was secondary education and primary education was accorded third priority.

The Economic Survey 1976-77, states, 'universal primary education was sacrificed for the development of universities, and colleges which produced graduates in liberal arts, rather than scientists, engineers, doctors or management experts. Female education

was given low priority. Facilities for higher education were concentrated in a few large cities.'

Pakistan has had a series of education policies, since the country's independence. While good recommendations have been made in the various education policies, the sector has not received substantial share in any of the budgetary allocations. As far back as 1974-75, expenditure on education was 1.6 percent of GNP compared to many other developing countries where it varied from 2.3 – 2.8 percent of GNP. UNESCO had then recommended that developing countries should spend at least 4 percent of their GNP on education. The Fiscal Responsibility and Debt Limitation Act, 2005 had envisaged doubling the education budget as percentage of GDP. However, despite some increase in public expenditure, no substantial change has occurred.

Policies/ plans announced

The various education policies/programmes/plans that have been announced over time, have all sought to improve upon the sector's performance. All have reiterated the importance of education, the main issues facing the sector, proposed new plans to meet new targets, but the targets have remained elusive.

The education policy announced in 1972, nationalised private educational institutions, with the aim to provide attractive opportunities to the less economically privileged, particularly in urban areas. However, in the absence of adequate state financing, the standard of education in the newly nationalised educational institutions soon deteriorated. The right to education was included in the 1973 constitution, where the state took upon itself the responsibility to remove illiteracy and provide free and compulsory education.

A new Education Policy was framed in 1978 which envisaged purposeful education. It provided for the development of skills and research infrastructure, improvement in the

Education policy 1992

quality of education, and educational opportunities for all. The Government in 1988 committed to raising literacy rate and expanding the infrastructure of vocational, scientific and higher technical and university education. It signed the Education for All Framework. A new Education Policy was announced in 1992 which set the target of universal primary education by the year 2002. It further pledged to provide free and compulsory primary education, to eliminate dropouts, to fulfil basic learning needs and to raise the adult literacy rate from 35 percent to 70 percent. The policy aimed to create competitiveness in society for meeting the challenges of the 21st century and to induct private sector in the education development.

Primary education became an integral part of the Social Action Programme initiated in 1992. The overall participation rate of the primary age group was targeted to increase from 66 percent to 77 percent (for boys from 83 to 89 percent and from 49 to 63 percent for girls). The Eighth Five Year Plan envisaged that almost all boys and girls of 5-9 age group will have been enrolled in primary/mosque schools in the plan period. It further envisaged removing gender and rural imbalances and equipping the youth with demand oriented skills.

National education policy 1998-2010

To make education relevant to the needs of the 21st century, the National Education Policy 1998-2010 was announced. It aimed to universalize primary education, achieve 55 percent literacy rate by 2003 and 70 percent by 2010, raise government expenditure on education to 4 percent of GNP, encourage private investment in education, make it purposeful and job oriented and upgrade the quality of higher education were some of its features. By 2003 the literacy rate, i.e. those who are able to read with understanding and can write a short statement was 51.6 percent. However, it was felt that new challenges could be faced through identifying issues, developing strategies and operational programmes in the education sector. Ten Year Perspective Development Plan 2001-11 and Three Year Development Programme 2001-04 were prepared to address the issues of low literacy and participation rates at various levels of

education. Education reforms undertaken from the mid 1990s encouraged public private partnership.

Some of the main features of the National Education Policy 2009 are: - seeks to achieve the millennium development goals by 2015; promote equity in gender, geographical, urban-rural areas; introduce early childhood education (3-5 years); encourage inclusive and child friendly education; the government to allocate 7 percent of GDP to education by 2015 etc. Addition under 18th Amendment. New article 25-A added in Part-II, chapter I, which states, “the State shall provide free and compulsory education to all children of the age of 5 to 16 years in such manner as maybe determined by Law.”

International comparisons not encouraging

Despite national education policies announced from time to time, and several national level schemes relating to education, Pakistan’s commitment to universal primary education by 2015 appears somewhat difficult. Participation rate is low and dropout rates continue to be high. Gender and rural-urban disparities persist. International comparisons are not encouraging. Public spending on education as a percentage of GDP at 2.7 is amongst the lowest in the region. Nepal spends 4.6 percent, India 3.3 percent, Thailand 4.1 percent. Net enrollment rate (% of relevant age group) was 66 percent for primary level and 33 percent for secondary level. As against this Bangladesh has a primary enrolment rate of 86 percent, India 91 percent and Sri Lanka 95 percent. In Sri Lanka 88 percent of males reached last grade of primary education in 2008 and 89 percent of females. The ratio for Pakistan was 61 percent and 60 percent respectively.

Government Expenditure on Education (Percent of GDP)

	2000	2004	2006	2009
Bangladesh	2.0	2.0	2.0	-
India	3.7	2.8	2.9	-
Nepal	2.3	2.7	3.0	3.6
Sri Lanka	2.4	2.0	2.7	2.1
Pakistan	-	2.1	2.2	2.7

Source: Asian Development Bank Key Indicators 2010

Primary Education Completion Rate (%)

	Both Sexes		Female		Male	
	1991	2009	1991	2009	1991	2009
Bangladesh	41	61	52	63	-	58
India	64	95	41	94	76	95
Nepal	51	75.5 (06)	101	71.8 (06)	70	79.1 (06)
Sri Lanka	101	97	-	98	101	97
Pakistan	-	61	-	54	-	68

Adult Literacy Rate (15 years and over) (%)

	Both Sexes		Female		Male	
	2001	2008	2001	2008	2001	2008
Bangladesh	47.5	55.5	40.8	49.8	53.9	60.0
India	61.0	62.8 (06)	47.8	50.8 (06)	73.4	75.2 (06)
Nepal	48.6	57.9	34.9	45.4	62.7	71.1
Sri Lanka	90.7	90.6	89.1	89.1	92.3	92.2
Pakistan	42.7 (98)	53.7	29.0 (98)	40.0	55.3 (98)	66.8

Source: Asian Development Bank Key Indicators for Asia and the Pacific 2010
World Development Indicators 2011

Education has great significance for the individual and for the country. While education investments can take longer to show results they are nonetheless fundamental. It is considered the key to improvement in the quality of social life, contributes to the improvement of general health conditions, and helps reduce social/cultural disparities among people. The first *Human Development Report 1990*, had stated, 'People are the real wealth of a nation.' Education promotes people's creativity, empowers them to avoid health risks, live longer, have better jobs and earn higher wages. It has been found that every year of additional schooling increases individual's wages by 10 percent globally. It is a vital factor in poverty reducing growth strategy for people who are educated have more opportunities of finding jobs that those who have received little or no education.

In short, education enhances the process of economic growth and development. The World Economic Forum's Global Competitiveness Report 2010-11, lists higher education and training, alongwith factors like technology readiness, and innovation as essential for competitiveness. As economic activity has become increasingly knowledge based, the

level of educational attainment determines the growth prospects of the economy and the distribution of income. Better educational attainment results in a relative increase in the supply of skilled labour force, which, in turn, enhances average labour productivity and increases the rate of economic growth.

Today people around the world have much higher levels of education than before. *The Human Development Report 2010* says, an average person age 15 or older in 1960 had fewer than 4 years of schooling, by 2010 this number had doubled globally and more than tripled in developing countries. Since the first Human Development Report in 1990, literacy rates have risen from 73 percent to 84 percent, and since 1960 the proportion of people who attended school has risen from 57 percent to 85 percent. During the past decades, there has been an expansion of primary education. Globally, net enrolment rate at primary level was 88 percent in 2009, and 59 percent for secondary level (World Development Indicators 2011). Yet gaps remain. Nearly 3 in 10 children of primary school age in low HDI countries are not enrolled in schools.

Not only are more children going to school – but more of those who go are finishing, primary completion rates have risen from 84 percent (1991) to 94 percent (2010). Increased enrolment is reflected in expected years of schooling; which has risen from 9 years in 1980 to 11 years today and from 5 years to 8 years for low HDI countries.

In Pakistan, over the decades, the education sector has improved at a moderate pace. High population growth rates have caused an unprecedented increase in absolute number of illiterate adults. These have risen substantially from 43 million in 1981, posing a major challenge for the government. About two decades ago, Pakistan had only 34 percent literacy rate (age 10 and above), which has risen to 57 percent by 2009-10. However, literacy remains higher in urban areas (74%) than in rural areas (48%), and is more prevalent for men (69%), compared to women (45%). Progress is uneven across the provinces. The education budget is spent on recurrent heads

Education reduces poverty

Today education level is higher

Modest improvement

mainly comprising of salaries, in contrast to the meager amount spent on teacher training programmes, curriculum development etc.

Education sector faces a number of issues

The education system in Pakistan suffers from a number of issues; persistent under-investment by the government; substantial gender discrimination; regional disparities; teacher absenteeism; poor knowledge of teachers and poorly trained teachers resulting in poor quality of teaching; high drop out rates particularly at the primary level; low completion rates; unsatisfactory performance of schools; disparity between the elite private and government run public schools, with the later providing low quality education and where students coming out from such public schools are often uncompetitive in the job market. There is lack of vocational training, and classrooms are ill-equipped and in dilapidated conditions.

National Education Policy 2009

The National Education Policy 2009, states, “the educational system in Pakistan is accused of strengthening the existing inequitable social structure as very few people from the public sector educational institutions could move up the ladder of social mobility.” The Policy acknowledges that though some progress has been made on a number of education indicators in recent years, ‘education in Pakistan suffers from two key deficiencies: at all levels of education, access to educational opportunities remains low and the quality of education is weak, not only in relation to Pakistan’s goals themselves but also in international comparisons with the reference countries.

There are more than 180,000 public education institutions, which have an enrolment of over 25 million students and a huge private sector that serves 12 million or more students. This presents formidable challenges.

Challenges

- Expanding access and achieving gender parity.
- Reducing high drop out rates.
- Expanding and modernizing vocational and tertiary education.
- Improving education quality and governance.
- Looking into the multiple systems of education that prove to be a stumbling block in imparting quality education.

MDG-2

The Government of Pakistan is a signatory to the Millennium Declaration, which envisages achieving the eight millennium development goals by 2015. Millennium Development Goal-2 states, ‘ensure that by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.’ This goal focuses on three core indicators; (a) net primary enrolment ratio, (b) completion rate from grade 1 to 5 and (c) literacy rate. The MDG-2 aims to attain 100 percent primary enrolment of children age 5 to 9 years, with 100 percent completion rate to grade 5, and an adult literacy rate (10 years and above) of 88 percent by 2015.

Pakistan Millennium Development Goals Report 2010, prepared by the Planning Commission discusses the progress towards each of the eight goals. The table below gives the progress with regards to Goal-2.

MDG Indicators for Goal-2

	1990-91	2001-02	2004-05	2005-06	2006-07	2007-08	2008-09	MTDF Targets 2009-10	MDG Targets 2015
Net Primary Enrolment Ratio (%)	46	42	52	53	56	55	57	77	100
Completion/Survival Rate (grade 1 to 5)	50	57.3	67.1	72.1	54.7	52.3	54.6	80	100
Male		53.3	61.8	71.6	56.2	53.2	54.8		
Female		64.3	75.8	72.8	52.9	51.1	54.6		
Literacy Rate (%)	35	45	53	54	55	56	57	77	88
Male	48	55	65	65	66	69	69	85	89
Female	21	35	40	42	43	44	45	66	87

Source: Pakistan Millennium Development Goals Report 2010, Planning Commission, GoP

Net enrolment at primary level remained below 60 percent until 2008-09, although there has been marginal improvement in it over time. The completion rate of students enrolled in primary schools also presents a dismal scenario that implies that almost half of the students enrolled in primary schools do not complete their education. The interim target for 2009-10 was set at 80 percent and could not be achieved. Pakistan's literacy rate remains considerably short of the MDG target of 88 percent by 2015, although it improved to 57 percent by 2009.

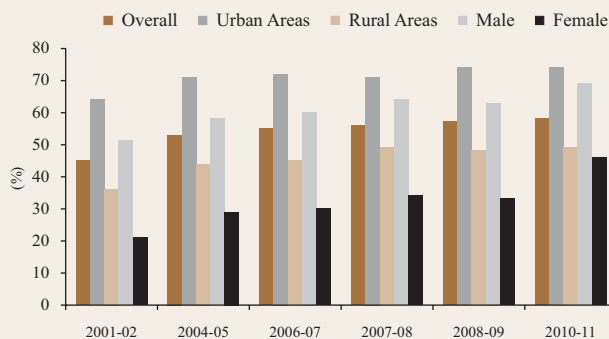
Targets fall short

especially in katchi abadis, a number of schools have been set up and this could partly explain the rise in literacy rates. Next we look at the various education indicators of the country, the literacy rate, trends in enrolment rates, dropout rates across Pakistan.

Benefits of being literate

Being literate adds value to a person's life. It helps him in the pursuit of self development as well as in achievement of goals in life. A child who has been denied educational opportunities is handicapped for life, unable to cope with situations that arise requiring reading and writing and later as a young adult, it would be very difficult to enter the job market.

Literacy Rate



On all three indicators related to this goal, achievements lag behind the respective targets. Achieving 100 percent target of universal net primary enrolment by 2015 seems difficult. Completion rate to rise to 100 percent seems ambitious, and literacy rate to achieve the target of 88 percent looks unachievable.

The literacy rate of the population of 10 years and above has shown some improvement, as seen in the above graph. Literacy rate is higher in urban areas, compared to rural, as is the norm in developing countries. In many cities,

A lack of literacy is strongly correlated with poverty. The literacy of women and girls is of significance to the issue of gender inequality. Literacy contributes positively to women's empowerment and social emancipation. Mothers who are educated are more likely to send their children to school, look after their health, help a child in school work. It also helps reduce fertility and educated women are more aware of the benefits of family planning. Children belonging to households which are illiterate, tend to remain out of school or be pushed into child labour.

Disparities in literacy

Literacy rate for population 10 years and above is 58 percent (2010-11). Literacy remains much higher in urban areas than in rural areas and much higher in men than in women. There are wide inter-provincial and intra-provincial disparities. While Punjab has a literacy rate of 60 percent, Balochistan has 41 percent. In the urban areas of Punjab and Sindh literacy rates are similar 76 and 75 percent respectively, while in Balochistan and Khyber-Pakhtunkhwa

Disparities in Literacy Rate - 2010-11

(%)

	Urban			Rural			Total		
	Male	Female	Total	Male	Female	Total	Male	Female	Total
Pakistan	81	67	74	63	35	49	69	46	58
Punjab	80	71	76	64	42	53	70	51	60
Sindh	82	68	75	60	22	42	71	46	59
Khyber-Pakhtunkhwa	77	50	63	67	29	48	68	33	50
Balochistan	79	40	61	54	13	35	60	19	41

Source: Pakistan Social & Living Standards Measurement Survey 2010-11

it is 61 and 63 percent respectively. In the rural areas of Balochistan female literacy at 13 percent is relatively less than 42 percent for Punjab and 29 percent for Khyber-Pakhtunkhwa. In rural areas of Sindh female literacy is lower than Khyber-Pakhtunkhwa. In the urban areas of Khyber-Pakhtunkhwa, female literacy is 50 percent, higher in Chitral (55%), Kohat (53%), Mansehra (76%), Abbottabad (80%), D.I. Khan (59%), Haripur (72%) and Bannu (60%). For these districts the corresponding male literacy is much higher. In the Balochistan province, urban areas of districts Sibbi, Gwadar, Quetta, Nushki, Mastung, Ziarat, Khuzdar, have female literacy rates, which are higher than for the province as a whole. In Dera Bugti, female literacy is only 6 percent, and there is zero literacy for districts such as Harnai, Washuk and Awaran.

In Sindh, female literacy is as high as 76 percent for Karachi, Hyderabad 70 percent, Nowshero Feroze 65 percent, Sukkur 54 percent, and Mirpurkhas 66 percent. In rural areas it is as low as 7 percent for Jacobabad, 10 percent in Kashmore, 12 percent in Ghotki and 15 percent in Nawabshah. Rural areas of Dadu have 49 percent female literacy, and Karachi 37 percent. In Punjab, female literacy is much higher compared to other provinces in both urban and rural areas. In Islamabad urban literacy is 83 percent, Chakwal 80 percent, Rawalpindi 78 percent, Gujrat and Sialkot 76 percent each. The provincial lowest is 48 percent for Lodhran. In rural areas of Punjab, female literacy is 42 percent, is higher at 65 percent for Chakwal and lowest of 16 percent for Chiniot.

The gross enrolment rate or the participation rate (the number of children attending primary school divided by the number of children who ought to be attending) has shown some improvement over the years.

At the primary level, gross enrolment rates have been higher in urban than rural areas. Also, these rates display sharp gender disparities. While enrolment rates have increased over the years, but the gender disparities persist.

Sindh has high female literacy

Trends in gross enrolment rates

Gross Enrolment Rates at Primary Level (%)

	Urban	Rural	Total
1990			
Male	71.4	59.4	62.6
Female	63.2	23.2	33.9
Both	67.4	41.9	48.8
1998-99			
Male	92.0	89.0	90.0
Female	82.0	52.0	61.0
Both	87.0	71.0	76.0

Source: Facts & Figures Pakistan 2002

Gross enrolment for females is higher at the primary level, than in the middle or matric level. For both sexes it is higher at the primary level, but declines for matric level.

Gross Enrolment Rates - 2010-11 (%)

	Primary Level			Middle Level			Matric Level		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
Male	109	96	100	70	55	59	80	57	65
Female	103	75	83	73	37	48	77	35	49
Both	106	86	92	71	47	54	79	47	57

Source: Pakistan Social and Living Standards Measurement Survey 2010-11

Gross Primary Enrolment Rates (%)

	1999-2000			2010-11		
	Male	Female	Total	Male	Female	Total
Pakistan	88	60	74	100	83	92
Punjab	90	69	80	103	93	98
Sindh	78	48	64	94	72	84
Khyber-Pakhtunkhwa	105	48	78	101	76	89
Balochistan	67	47	58	92	52	74

Source: SPDC Annual Review 2002-03 & PSLM 2010-11

In the year 2000, Gross Primary Enrolment Rate (GPER) ranged from 58 percent in Balochistan to 80 percent in Punjab. Over the decade of 2000, there has been an improvement in the performance of the provinces. GPER in Sindh rose from 64 to 84 percent and in Punjab from 80 percent to 98 percent. Khyber-Pakhtunkhwa has shown good performance as its GPER has risen to 89 percent.

Sizeable gender disparities continue to exist. Although the enrolment rate for girls has

improved from 60 percent to 83 percent, there appears to be no narrowing of the gender gap. Khyber-Pakhtunkhwa posted sizeable increase from 48 percent to 76 percent and Punjab from 69 percent to 93 percent.

**Trends
in NPER**

Net Primary Enrolment Rate (NPER) reflects enrolment of children of a specific age group (5 to 9 years). Trends in national and provincial NPER is given in the table below. NPER were low in the 1990s, and in fact declined by the close of the decade. However, it has picked up and by 2010-11 it rose to 56 percent on national level.

Province-wise, a substantial decline was recorded for Punjab, where NPER dropped from 52 percent in 1991 to 44 percent in 1999. It has since risen to 61 percent. Gender-wise rates are no different. For males, NPER on the national level declined from 49 percent in 1991 to 46 percent by 2002, but have risen to 60 percent by 2010-11. For females the ratio had remained stagnant varying between 37-38 percent during the period. For 2010 it was 53 percent.

A serious problem in education in Pakistan is the high percentage of students who drop out before completing a certain level i.e. primary or secondary. A comparative picture of percentage of grade 1 students reaching grade 5 shows that in Pakistan 61 percent males and 60 percent of the females reach grade 5, as against a much higher proportion for Sri Lanka, where 88 percent of males and 89 percent of females reached grade 5. A similar trend is seen for students reaching last grade of primary education. In India the percentage of females reaching the last grade (70%) is higher against their male counterparts (67%).

Cohort Survival Rate

	% of grade 1 students					
	Reaching grade 5				Reaching last grade of primary education	
	Male 1991	Female 2008	Male 1991	Female 2008	Male 2008	Female 2008
Bangladesh	-	67	-	66	67	66
India	-	67	-	70	67	70
Nepal	44	60	32	64	60	64
Pakistan	-	61	-	60	61	60
Sri Lanka	97	88	98	89	88	89

Source: World Development Indicators 2011

Net Enrolment at Primary Level (age 5-9 years)

	1991	1995	1997	1999	2002	2010-11
T o t a l						
Pakistan	43	44	42	42	42	56
Punjab	52	45	42	44	45	61
Sindh	38	45	45	41	40	53
Khyber-Pakhtunkhwa	36	35	37	39	41	51
Balochistan	29	45	36	36	32	47
M a l e						
Pakistan	49	49	46	47	46	60
Punjab	56	50	45	47	47	62
Sindh	43	50	51	47	46	57
Khyber-Pakhtunkhwa	46	42	42	47	48	57
Balochistan	39	51	43	44	39	56
F e m a l e						
Pakistan	37	38	37	37	38	53
Punjab	48	39	39	40	43	59
Sindh	33	39	39	35	34	48
Khyber-Pakhtunkhwa	26	28	32	30	33	45
Balochistan	20	39	27	28	24	35

Source: SPDC Annual Review 2002-03 & Pakistan Social and Living Standards Measurement Survey 2010-11

Physical infrastructure of schools in Pakistan leaves much to be desired. Facilities include building, boundary wall, drinking water, electricity and washroom. Overall, Pakistan, data for 2009-10 show that 9.8 percent of schools are without a building, 32.7 percent without a boundary wall, 33.6 percent without drinking water and 59 percent without electricity. Among provinces, Sindh is the worst off, where large number of school are without these basic facilities.

Education Resources

	Primary Pupil - Teacher Ratio			Secondary Pupil - Teacher Ratio		
	1990	2000	2008	1990	2000	2008
Bangladesh	63.0	47.0 (05)	43.7	27.4	38.4	25.2 (07)
India	46.0	40.0	40.2 (04)	28.7	33.6	32.7 (04)
Nepal	39.2	42.6	37.8	31.1	30.2	40.9
Sri Lanka	29.1	26.3 (01)	23.8 (07)	19.1	19.6 (02)	19.5 (04)
Pakistan	43.0	33.0	40.7	19.5	19.8 (96)	41.9 (04)

Source: Asian Development Bank Key Indicators for Asia and the Pacific 2010
World Development Indicators 2011

Availability of schools and good quality teachers plays a vital role in the education system. Besides availability, access to schools also determines the number of children who would be going to school. This is especially true for girls. In rural areas, access has always been an issue, particularly for girls, whose parents do not allow them to attend schools,

unless it is close to their residential area. There is considerable variation among the provinces: rural areas of Khyber-Pakhtunkhwa and Punjab have better accessibility rates than in Sindh and Balochistan.

The table shows pupil-teacher ratio for both primary level and secondary level. Primary school pupil-teacher ratio declined between 1990 and 2000, indicating a slight improvement. By 2008, the ratio had risen to 40.7. Sri Lanka and Nepal have shown steady improvement in the primary school pupil-teacher ratio. In India, while the ratio declined between 1990 and 2000, it remained more or less stagnant in the next four years.

Secondary school pupil-teacher ratio deteriorated for Pakistan, which also suffers from the highest ratio among regional neighbours. In Sri Lanka the ratio is as low as 19.5.

The education performance of Pakistan is far from satisfactory. It does not compare favourably with other countries of the region, there is low level of public spending, lack of access to educational facilities, gender disparities, regional disparities, curriculum differences, differences in medium of institution, so creating a class of students markedly different from those who have studied in public schools.

Box

National Education Policy 2009

Government of Pakistan over the years has introduced various education policies for increasing access, improving quality and promoting equity of educational opportunities in the country. The latest educational policy of this series appeared in 2009. Some of the salient features of this policy are given below: -

Aims and Objectives:

- 1 Revitalizing the existing education system with a view to cater to social, political and spiritual needs of individuals and society.
- 2 Promoting national unity by respecting all faiths and religions and recognizing cultural and ethnic diversity.
- 3 Provision of equal educational opportunities to all citizens of Pakistan, for girls and boys alike, under-privileged/marginalized groups and special children and adults.
- 4 Developing a self reliant individual, capable of analytical and original thinking.
- 5 Raising individuals committed to democratic and moral values, aware of fundamental human rights, open to new ideas, having a sense of personal responsibility and participation in productive activities in society for the common good.
- 6 Reviving confidence in public sector education system by raising the quality of education provided in government owned institutions.
- 7 Improving service delivery through political commitment and strengthening education governance and management.
- 8 Enable Pakistan to fulfill its commitments to achieve Dakar Framework of Action, Education For All goals and Millennium Development Goals relating to education.
- 9 Eradicating illiteracy within the shortest possible time through universalizing elementary education coupled with institutionalized adult literacy programmes.

- 10 Enabling an individual to earn his/her livelihood honestly through skills that contribute to the national economy and enables him/her to make informed choices in life.
- 11 Encouraging research in higher education institutions contributing to accelerated economic growth of the country.
- 12 To organize a national process for educational development that will reduce disparities across provinces.

Policy Actions:

- 1 Provinces and Area Governments shall affirm the goal of achieving universal and free primary education by 2015 and up to class 10 by 2025.
- 2 Provincial and Area Governments shall develop plans for achieving intermediate enrolment targets.
- 3 Measures shall be adopted to ensure inclusion of special persons in mainstream education and Technical and Vocational Education (TVE) programmes.
- 4 National Standards for educational inputs, processes and outputs shall be determined. A National Authority for Standards of Education shall be established. The standards shall not debar a provincial and area government/organization from having its own standards higher than the prescribed minimum.
- 5 Provincial and district governments shall establish monitoring and inspection systems to ensure quality education.
- 6 Steps shall be taken to make educational provision relevant for labour market.
- 7 Universities and research institutes shall place greater emphasis on mobilizing research for promoting innovation in the economy.
- 8 Educational inputs need to be designed with a comprehension of challenges and opportunities related to globalization.

Source : Annual Report 2009-10, State Bank of Pakistan

Half Yearly Performance of Selected Commercial Banks

(Rs. Bn)

	National Bank of Pakistan	Habib Bank Limited	MCB Bank	United Bank Limited	Allied Bank	Bank Al-Falah	Standard Chartered Bank
Assets							
<i>June 2011</i>	1045.2	991.0	630.2	747.2	487.8	439.5	345.9
<i>June 2010</i>	1007.9	839.4	534.7	645.2	432.7	387.6	299.3
<i>Change June Over June</i>	3.7	18.1	17.9	15.8	12.7	13.4	15.6
Equity							
<i>June 2011</i>	102.2	84.5	75.0	62.3	34.6	21.5	47.5
<i>June 2010</i>	94.4	73.0	67.0	55.0	28.1	19.9	46.0
<i>Change June Over June</i>	8.3	15.8	11.9	13.3	23.1	8.0	3.3
Deposits							
<i>June 2011</i>	830.9	820.9	496.2	593.5	406.3	369.3	236.2
<i>June 2010</i>	816.5	674.8	419.2	499.9	352.6	315.1	205.7
<i>Change June Over June</i>	1.8	21.7	18.4	18.7	15.2	17.2	14.8
Advances							
<i>June 2011</i>	503.4	431.6	260.0	333.6	241.7	198.9	151.7
<i>June 2010</i>	460.3	424.8	245.1	343.3	234.0	198.8	125.8
<i>Change June Over June</i>	9.4	1.6	6.1	-2.8	3.3	0.1	20.6
Investment							
<i>June 2011</i>	271.1	327.2	260.2	269.7	143.4	148.7	79.4
<i>June 2010</i>	243.6	224.4	181.8	169.1	110.3	104.6	72.7
<i>Change June Over June</i>	11.3	45.8	43.1	59.5	30.0	42.2	9.2
Interest Income							
<i>June 2011</i>	46.9	45.2	32.8	34.1	24.6	21.4	15.2
<i>June 2010</i>	43.7	39.0	26.4	28.5	21.8	18.5	13.7
<i>Change June Over June</i>	7.3	15.9	24.2	19.6	12.8	15.7	10.9
Interest Expense							
<i>June 2011</i>	24.2	19.0	10.6	14.7	12.2	12.5	5.5
<i>June 2010</i>	23.0	17.0	8.7	11.9	11.3	12.2	5.2
<i>Change June Over June</i>	5.2	11.8	21.8	23.5	8.0	2.5	5.8
Net Income							
<i>June 2011</i>	22.7	26.2	22.2	19.3	12.4	8.8	9.7
<i>June 2010</i>	20.7	22.0	17.7	16.6	10.6	6.3	8.5
<i>Change June Over June</i>	9.7	19.1	25.4	16.3	17.0	39.7	14.1
Non Interest Income							
<i>June 2011</i>	9.8	6.5	4.2	5.9	3.0	2.7	3.1
<i>June 2010</i>	8.3	5.5	3.0	4.7	2.6	2.2	3.0
<i>Change June Over June</i>	18.1	18.2	40.0	25.5	15.4	22.7	3.3
Admin Expenses							
<i>June 2011</i>	14.4	13.2	7.2	9.7	6.4	6.8	7.1
<i>June 2010</i>	12.8	11.8	5.9	8.5	5.5	5.9	6.3
<i>Change June Over June</i>	12.5	11.9	22.0	14.1	16.4	15.3	12.7
Profit/Loss B.T							
<i>June 2011</i>	11.7	14.5	16.2	10.2	7.6	3.1	2.7
<i>June 2010</i>	11.6	12.1	12.2	8.6	5.5	1.6	2.1
<i>Change June Over June</i>	0.9	19.8	32.8	18.6	38.2	93.8	28.6
Profit/Loss A.T							
<i>June 2011</i>	8.1	9.3	10.6	6.7	5.0	1.9	1.7
<i>June 2010</i>	7.8	7.4	7.9	5.2	3.6	1.1	1.4
<i>Change June Over June</i>	3.8	25.7	34.2	28.8	38.9	72.7	21.4

(Rs. Bn)

	Askari Bank	Bank Al-Habib Limited	Habib Metropolitan Bank Limited	Faysal Bank	Meezan Bank Limited	Soneri Bank Limited	NIB Bank	Summit Bank	Bank of Khyber
Assets									
<i>June 2011</i>	329.4	338.8	264.3	287.6	173.4	128.5	163.4	107.8	60.2
<i>June 2010</i>	280.0	281.8	235.9	178.2	136.5	102.7	179	41.4	45.9
<i>Change June Over June</i>	17.6	20.2	12.0	61.4	27.0	25.1	-8.7	160.4	31.2
Equity									
<i>June 2011</i>	15.6	15.3	22.4	17.4	12.1	9.8	12.3	5.6	6.1
<i>June 2010</i>	14.6	12.8	19.6	13.1	9.8	9.6	15.5	3.9	5.3
<i>Change June Over June</i>	6.8	19.5	14.3	32.8	23.5	2.1	-20.6	43.6	15.1
Deposits									
<i>June 2011</i>	274.7	279.6	182.3	203.1	148.2	92.8	91.0	89.4	45.4
<i>June 2010</i>	221.8	266.1	151.3	136.4	114.5	81.0	99.3	32.7	30.8
<i>Change June Over June</i>	23.9	5.1	20.5	48.9	29.4	14.6	-8.4	173.4	47.4
Advances									
<i>June 2011</i>	147.6	118.5	114.4	142.6	47.8	54.5	67.7	59.0	21.8
<i>June 2010</i>	144.9	114.7	102.3	92.9	45.6	49.4	86.4	20.8	18.8
<i>Change June Over June</i>	1.9	3.3	11.8	53.5	4.8	10.3	-21.6	183.7	16.0
Investment									
<i>June 2011</i>	125.6	180.7	116.4	101.8	88.5	55.8	59.9	26.4	29.3
<i>June 2010</i>	78.3	130.4	104.5	59.2	25.4	34.6	50.1	13.3	18.7
<i>Change June Over June</i>	60.4	38.6	11.4	72.0	248.4	61.3	19.6	98.5	56.7
Interest Income									
<i>June 2011</i>	16.0	16.8	12.9	13.8	8.5	6.1	6.7	4.4	3.0
<i>June 2010</i>	13.3	13.1	11.6	8.7	6.0	4.9	9.0	3.6	1.8
<i>Change June Over June</i>	20.3	28.2	11.2	58.6	41.7	24.5	-25.6	22.2	66.7
Interest Expenses									
<i>June 2011</i>	11.0	10.2	9.2	9.3	4.2	4.3	5.8	4.0	1.9
<i>June 2010</i>	8.5	8.1	8.1	6.0	3.0	3.5	6.9	2.9	1.3
<i>Change June Over June</i>	29.4	25.9	13.6	55.0	40.0	22.9	-15.9	37.9	46.2
Net Income									
<i>June 2011</i>	5.0	6.6	3.6	4.4	4.3	1.8	0.9	0.4	1.1
<i>June 2010</i>	4.8	5.0	3.4	2.7	3.0	1.4	2.0	0.7	0.5
<i>Change June Over June</i>	4.2	32.0	5.9	63.0	43.3	28.6	-55.0	-42.9	120.0
Non Interest Income									
<i>June 2011</i>	1.4	1.3	2.6	2.6	1.1	1.0	0.8	0.2	0.2
<i>June 2010</i>	1.4	1.0	2.1	2.0	0.9	0.6	1.0	0.2	0.4
<i>Change June Over June</i>	0	30.0	23.8	30.0	22.2	66.7	-20.0	0	-50.0
Adman Expenses									
<i>June 2011</i>	4.1	3.7	2.5	5.6	2.9	1.6	2.3	1.8	0.6
<i>June 2010</i>	3.9	2.9	2.0	2.5	2.2	1.2	3.2	1.4	0.4
<i>Change June Over June</i>	5.1	27.6	25.0	124.0	31.8	33.3	-28.1	28.6	50.0
Profit/Loss B.T									
<i>June 2011</i>	1.1	2.4	2.0	1.3	2.0	0.7	-3.8	-2.0	0.7
<i>June 2010</i>	1.1	2.7	2.1	1.5	1.2	0.3	-2.3	-1.5	0.4
<i>Change June Over June</i>	0	-11.1	-4.8	-13.3	66.7	133.3	65.2	33.3	75.0
Profit/Loss A.T									
<i>June 2011</i>	0.7	2.1	1.4	0.8	1.4	0.5	-1.4	-1.5	0.5
<i>June 2010</i>	0.7	1.6	1.5	1.7	0.7	-0.2	-1.9	-1.1	0.3
<i>Change June Over June</i>	0.0	31.3	-6.7	-52.9	100.0	-350.0	-26.3	36.4	66.7

(Rs. Bn)

	Citibank	Barclays	HSBC Bank	Deutsche Bank AG	Oman International Bank	Tokyo
Assets						
<i>June 2011</i>	94.5	53.4	63.5	19.8	4.1	9.7
<i>June 2010</i>	86.2	44.5	54.8	16.8	3.9	
<i>Change June Over June</i>	9.6	20.0	15.9	17.9	5.1	
Equity						
<i>June 2011</i>	10.2	6.6	6.7	5.9	3.0	4.8
<i>June 2010</i>	8.9	6.8	5.8	5.0	2.9	
<i>Change June Over June</i>	14.6	-2.9	15.5	18.0	3.4	
Deposits						
<i>June 2011</i>	64.2	40.4	49.6	10.2	0.6	2.9
<i>June 2010</i>	57.5	33.0	42.6	7.6	0.7	
<i>Change June Over June</i>	11.7	22.4	16.4	34.2	-14.3	
Advances						
<i>June 2011</i>	20.6	19.7	22.1	3.4	0.4	2.4
<i>June 2010</i>	22.3	16.5	21.4	2.3	0.4	
<i>Change June Over June</i>	-7.6	19.4	3.3	47.8	0.0	
Investment						
<i>June 2011</i>	43.1	23.5	19.0	2.4	-	-
<i>June 2010</i>	33.1	19.4	6.2	0.9	-	-
<i>Change June Over June</i>	30.2	21.1	206.5	166.7	-	
Interest Income						
<i>June 2011</i>	5.1	2.7	2.9	0.8	0.03	0.3
<i>June 2010</i>	4.4	2.2	2.3	0.6	0.04	0.3
<i>Change June Over June</i>	15.9	22.7	26.1	33.3	-25.0	0.0
Interest Expenses						
<i>June 2011</i>	2.4	1.7	1.5	0.3	0.04	0.2
<i>June 2010</i>	2.0	1.3	1.3	0.1	0.04	0.2
<i>Change June Over June</i>	20.0	30.8	15.4	200.0	0.0	0.0
Net Income						
<i>June 2011</i>	2.7	1.0	1.4	0.5	0.008	0.04
<i>June 2010</i>	2.4	0.8	1.0	0.5	0.007	0.05
<i>Change June Over June</i>	12.5	25	40	0	14.3	-20.0
Non Interest Income						
<i>June 2011</i>	0.8	0.3	0.6	0.4	0.007	0.06
<i>June 2010</i>	1.1	0.2	0.5	0.6	0.005	0.02
<i>Change June Over June</i>	-27.3	50.0	20.0	-33.3	40.0	200.0
Adman Expenses						
<i>June 2011</i>	2.0	1.0	1.3	0.4	0.002	0.07
<i>June 2010</i>	1.8	1.2	0.9	0.4	0.003	0.06
<i>Change June Over June</i>	11.1	-16.7	44.4	0.0	-33.3	16.7
Profit/Loss B.T						
<i>June 2011</i>	1.4	0.1	0.7	0.5	0.001	0.04
<i>June 2010</i>	0.4	0.8	0.4	0.6	0.003	0.02
<i>Change June Over June</i>	250.0	-87.5	75.0	-16.7	-66.7	100.0
Profit/Loss A.T						
<i>June 2011</i>	1.1	0.09	0.4	0.3	0.001	0.03
<i>June 2010</i>	0.2	-0.5	0.3	0.4	0.003	0.01
<i>Change June Over June</i>	450.0	-118.0	33.3	-25.0	-66.7	200.0

State Bank of Pakistan Lowers Discount Rate

In its Monetary Policy decision on October 8, the State Bank of Pakistan (SBP) decided to reduce its policy rate by 150 basis points to 12 percent for the next two months, a move that is likely to reduce borrowings costs throughout the economy. The rate has been cut because of declining inflation and the likelihood of meeting the FY12 inflation target and the need to support private sector credit and investment growth.

CPI inflation in September 2011 at 10.5 percent was lower against a high of 15.5 percent in December 2010. Government borrowings from the SBP have been contained. By end March 2011, the government even replaced some SBP debt by borrowing from commercial banks. As borrowings from commercial banks rose, banks' investments mainly in government securities jumped to 30.4 percent of banks' assets, compared with 19.3 percent in December 2008. Meanwhile, share of advances has declined from 60.8 percent to 52.0 percent during the past two years. *The Quarterly Performance Review* of the banking system for December 2010 states, "on the supply side, banks have shown a preference for maintaining liquidity rather than increasing exposure to the private sector."

Earlier in July 2011 the discount rate was cut by 50 bps after keeping it on the higher side since 2008 to fight double digit inflation. It was felt that inflation would remain in line with the announced target and "no adjustment in the interest rate would have entailed further tightening of monetary policy in real terms, which is not warranted given the decline in private investment," stated the Monetary Policy statement, July 2011.

With the discount rate being a benchmark rate for all interest rates in the economy, KIBOR has fallen, the cut off yield on Pakistan Investment Bonds (PIBs) have been reduced, and the trade and industry leaders have urged

the State Bank to cut export refinance rate which was last fixed at 10 percent on December 10, 2010. The KIBOR offer rate has been cut, following the lowering of the discount rate.

KIBOR Offer Rate

	October 17, 2011	October 7, 2011
6 month	11.96	12.91
1 year	12.27	13.19
2 year	12.36	13.29
3 year	12.40	13.35

Source: SBP Website

Yield on PIBs has witnessed a sizeable fall in the auction on October 12, 2011.

October 12, 2011

	October 12, 2011	
10 year PIBs	12.24	drop of 101 bps
3 year PIBs	12.15	drop of 107 bps
5 year PIBs	12.19	drop of 107 bps

Banks would now start to show inclination towards lending to the private sector, which hitherto has been sluggish. The advances deposit ratio of commercial banks operating in Pakistan has fallen from 73.6 percent in 2008 to 60 percent by December 2010, but was at 62 percent by June, 2011. Growing borrowing needs of the government with consequent supply of risk free securities at attractive rates provided additional excuse for banks' lack of risk appetite.

Change in the discount rate would have an impact on rates banks charge their clients, as a lower rate charged by the central bank, allows banks to reduce their rates. Lower borrowing costs translate to expanded economic activity. It will take a month or more for the new set of data on monetary aggregates, which would show if banks have started to lend more to the private sector after the rate cut.

For the banks, there will be a decline in the income they earn by investing in Government

Borrowings from commercial banks

Interest rates reduced

ADR falls

treasury bills, after a cut in the policy rate, and the subsequent adjustments that followed with cuts in other interest rates.

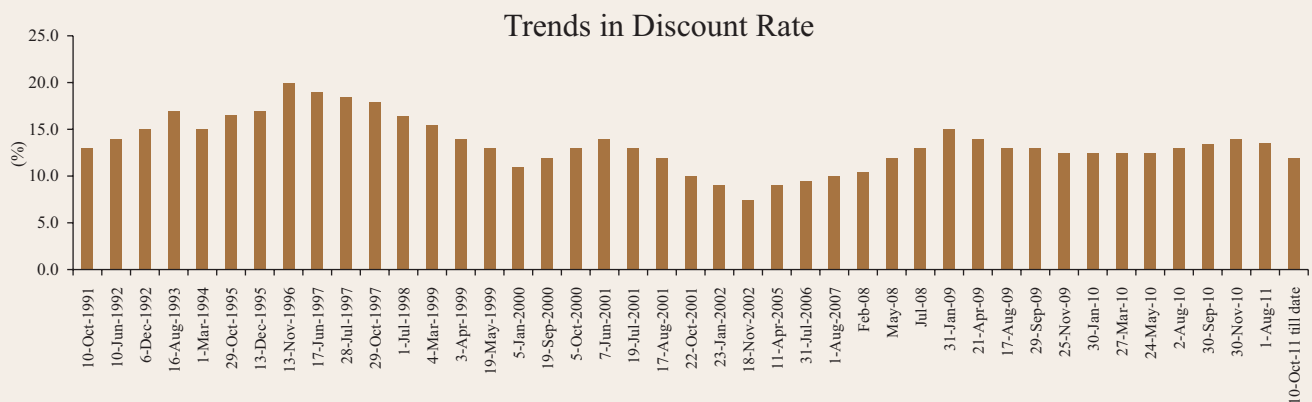
There is a positive outcome also for the banking sector. The high mark up rates alongwith challenging economic conditions have led to a build up of non-performing loans which had risen to 14.7 percent of total loans by end December 2010. Banks had become risk averse and were shy of venturing into risky lending opportunities. Banks were investing in government papers and lending to the private sector had slowed down. Any cut in lending costs will have a positive impact on credit flows.

The policy rate cut will however, provide some fiscal space to the government, by reducing the cost of debt servicing. Servicing of domestic debt was in FY11 estimated at Rs653.6 billion, consuming 28.5 percent of

current expenditure and for FY12 it has been budgeted at Rs714.6 billion.

In the Monetary Policy Statement announced on November 30, 2011, the State Bank of Pakistan after giving due consideration to the prevailing conditions in the economy, the emerging risks to macroeconomic stability and the need to revive growth, decided to keep the policy rate unchanged at 12 percent.

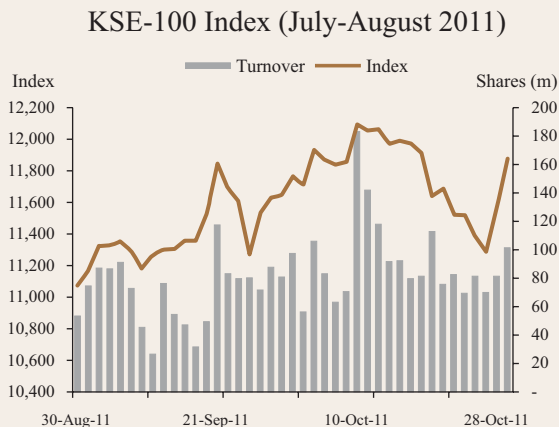
Though year-on-year CPI inflation has come down and may meet the target of 12 percent for FY12, it is uncertain if it will come down to single digit level in FY13. This will largely depend on government borrowings from the banking system. During the period July 1-November 18, 2011, the government borrowed Rs255 billion from scheduled banks and Rs62 billion from State Bank of Pakistan. Private sector demand for credit has remained sluggish but may pick in the coming months with a decrease in policy rate.



Market Analysis

Market Review – September to October 2011

The market during the period was mixed. Overall, the KSE-100 Index during September to October, 2011 gained 798 points or 7.2 percent to close at 11,868 on average daily turnover of 81.78m shares.



The market continued its recovery which began near the end of August into the first three weeks of September. Foreign portfolio inflow and improving security situation in Karachi on the back of Supreme Court's suo moto action and Rangers-led crackdown was the impetus for the recovery in the market during this period. In addition, the low inflation figure of 11.56 percent reported for August 2011 led to bullish sentiments among investors that a deeper rate cut by the SBP was possible in its upcoming policy statement in October. However, during this period, the market turnover was erratic. The KSE-100 Index improved by 781 points from the beginning of the month to September 21 to close at 11,851.

From September 22 to 26, the equity bourses experienced a correction because of profit taking by both local and foreign investors, negative spillover impact from global equity selling pressure and some tension between the US and Pakistan. The KSE-100 Index shed 586 points or 4.95 percent to 11,265 during these 4 sessions.

There was a modest bounce back in the dying days of the month due to reports of back channel diplomacy in play trying to diffuse the tension between the U.S. and Pakistan and news of a rate cut for new NSS investments. In addition, the rebound in the Index was being led by buying activity in fertilizer and oil stocks on the back of higher earnings expectations for the upcoming quarterly result season. In the last 4 sessions of the month, the KSE-100 gained 496 points or 4.28 percent to end the quarter at 11,761 on September 30.

The market was mixed during the first week of October ahead of the Monetary Policy Statement scheduled for Saturday October 8. Average daily volume was lower by 9.29 percent during the week (75.50m shares) compared to the final week of September when it averaged 83.23m shares. The Index was up by 91.87 points (0.78 percent WoW) to close at 11,853 on October 7. The market began the week on October 3 on a slightly negative note as the KSE-100 Index dropped 53 points to close at 11,708. The main factors behind the fall were the decline in global equity markets and concerns over the power riots in Punjab.

Fortunately, the Index staged a significant bounce back the following day on the back of buying interest in fertilizer stocks because of the PKR 174 per bag (exclusive of GST) hike in urea price by ENGRO, again due to gas curtailment by SNGPL and on the back of lower inflation data for September 2011 leading to high expectations of a deep rate cut by the SBP on October 8. The KSE-100 Index jumped by 225 points to end October 4 at 11,933. The market experienced some profit taking on October 5 and 6 especially in fertilizer stocks while on the other hand, some banking stocks saw buying activity due to the power sector debt conversion to government securities.

The KSE-100 Index shed 94 points over 2 days to close on October 6 at 11,839. In

Market shows recovery

Market mixed

addition, the flat activity during this period could be attributed to investors taking a cautious approach ahead of the monetary policy statement.

Market experiences profit taking

After the initial euphoria to the 150 bps rate cut by the SBP over the weekend, the market experienced profit taking for most of the second week of the month and net foreign outflow (US\$ -2.85m). Average daily volume was higher by 65.95 percent (125.29m shares) compared to the first week. The Index improved by 134.25 points (1.13 percent WoW) to 11,988 on October 14. The market had a tremendous start on October 10 as investors were exuberant over the policy rate cut of 150 bps by the State Bank of Pakistan.

Leading the way in buying activity was PTCL and dividend yield stocks from the power and fertilizer sectors. The KSE-100 Index surged by 238 points to close at 12,092 on October 10. From October 11 to 13, the KSE-100 Index shed 126 points to end Thursday, October 11 at 11,996, mainly because of profit taking activity by both local and foreign investors. Most of the selling activity took place in banking and oil stocks. It was felt by most investors that the deep cut in interest rates would hurt banks, especially the top tier such as NBP and MCB. However, fertilizer stocks witnessed buying interest due to announced price increase in urea by PKR 202 per 50kg bag by FFC and FATIMA, which led to a marginal rise in the Index on October 12. The market saw marginal gains on the last day of the week.

The bears tightened their grip on the market during the third week. Average daily volume was lower by 31.27 percent WoW to 86.11m. The KSE-100 Index was down by 462.84 points (-3.86 percent WoW) to 11,525 on October 21. The market experienced selling pressure and profit taking for the first three days of the week. Selective stocks from the fertilizer and oil sectors were in the forefront of the onslaught. The news of indefinite gas

Selling pressures

supply cut to fertilizer plants on the SNGPL network such as ENGRO's new plant and DAWH had a negative impact on their share prices. PPL's share price was also under pressure due to speculation that the secondary offering price to the general public would be set at a sizeable discount to its current share price. PTCL witnessed selling activity as the company announced that it would be continuing its Technical Services Agreement with Etisalat that would have a negative impact on earnings. The KSE-100 Index plunged by 347 points from October 17 to 19 to 11,640. The Index staged a minor rebound on October 20 on the back of buying activity in selective banking and oil stocks, but reverted back to selling pressure due to investor jitters over the tough talk by U.S. Secretary of State Hillary Clinton during her visit to Pakistan on October 20-21.

The market was mixed during the last 5 sessions of the month. The Index slumped during the first three sessions as the tough message delivered by U.S. Secretary of State Hillary Clinton during her visit to Pakistan led to uncertainty over U.S.-Pakistan relations among investors. The KSE-100 Index was up by 343 points to close on October 31 at 11,868. The KSE-100 Index plunged by almost 241 points from October 25 to 27 to close at 11,283.49. The daily turnover was sluggish as compared to the previous week.

The main drivers of the slump were the uncertainty regarding US-Pak relationship, pressure from future rollover and net foreign outflow. Selling pressure was experienced across the board despite positive news flows such as the SBP liberalizing the use of FSV benefits for the banks and solid quarterly results reported by major sectors. On the other hand, the IMF has given a pessimistic economic outlook for Pakistan for the current fiscal year which added to negative sentiments. The final 2 sessions ended on a high note, however, as local buying activity in index heavy-weight stocks was witnessed on October 28 and 31.

Regional
Valuation

The Pakistan market PE at 6.26x is trading at a 43.8 percent discount to the regional average of 11.13x. Based on dividend yield, Pakistan is the most attractive at 6.74 percent as compared to the regional average of 2.99 percent, followed by Taiwan (4.68 percent) and Thailand (4.03 percent).

Regional Valuation Comparison

Country	12m F	
	PEx	Dividend Yield (%)
China	10.73	2.01
Hong Kong	9.68	3.27
India	11.23	1.47
Indonesia	12.44	2.55
Malaysia	12.67	3.70
Pakistan	6.26	6.74
Philippines	12.06	2.83
Singapore	11.46	3.72
South Korea	8.56	1.65
Taiwan	12.56	4.68
Thailand	9.91	4.03

Source: Thomson One Analytics, Date: October 20, 2011

Looking
Ahead

With the last monetary policy statement before the end of the calendar year expected near the end of November, we expect the equity market activity to be influenced by speculation over another rate cut. The October 2011 inflation figures will be released in the first week of November, which will give a sign to investors regarding the likelihood of another cut by the SBP.

The political temperature has been rising during October on the back of street protests and political rallies by various political parties. It remains to be seen if such sustained activities will impact the capital markets. We feel that the political scenario continues to be fluid.

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

Book/Report Reviews

Gender Equality and Development
World Development Report 2012
The World Bank

The World Development Report 2012 discusses in detail the links between gender equality and development. While the lives of women have changed dramatically over the years and much progress has been achieved, but there are areas where the progress towards gender equality has been limited. There are still many who are poor, who are dying in childhood, in the reproductive ages and whose earnings are low. The main message of this year's Report, "is that these patterns of progress and persistence in gender equality matter, both for development outcomes and policy making. They matter because gender equality is a core development objective in its own right. Economic development is not enough to shrink all gender disparities — corrective policies that focus on persisting gender gaps are essential."

The Report after giving an overview of the subject in the first chapter, takes stock of gender equality; the persistence of gender equality which shows that progress has been slow and limited for women in very poor countries, for those who are poor, even amid greater wealth, and for those who face other forms of exclusion, because of their caste, disability, location or ethnicity; what has driven progress and the role of and potential for public action.

The analysis in the earlier part of the Report points to four priority areas for public action; reducing excess female mortality; closing earnings and productivity gaps between women and men; shrinking gender differences in voice in households and in society and limiting the reproduction of gender inequality over time. Gender gaps in these four areas persist despite economic development, thus providing a strong rationale for publication.

Policy interventions to correct specific market failures have been discussed and institutional constraints that underline gender gaps. Policies have to be designed keeping societal actors and policy environment of countries in view.

Multipolarity: The New Global Economy
Global Development Horizons 2011
The World Bank

This is the first edition of a new report by the World Bank, which focuses on three major international economic trends: the shift in the balance of global growth from developed to emerging economies, the rise of emerging-market firms as a force in global business, and the evolution of the international monetary system toward a multicurrency regime.

The first line of chapter states, "the global economy of 2025 is likely to look significantly different from that of 2011. Today's emerging economies will, in real terms, account for 45 percent of global output, compared with about 37 percent in 2011." While during the period 2004-08, the US, the euro area and China served as the world's main growth poles, by 2025, emerging economies, including Brazil, India, Indonesia and Korea — along with advanced economies such as Japan and the UK are likely to join these poles in accounting for much of the world's growth activity.

The shift in economic and financial power toward the developing world is having important implications for the global corporate environment. The second chapter of the Report deals with this issue. Emerging market firms increasingly are becoming more prominent in international arena, and are an important force behind global FDI flow. The growing importance of developing-country multinationals also could increase support for establishing an effective multilateral regulatory framework for foreign investment.

The third chapter of the Report discusses the implications of ongoing changes in the dynamics of global growth and wealth for the future course of international monetary and financial arrangements. The chapter focuses on how and why currencies other than the US dollar may become international reserves, invoicing, payment and intervention currencies in the decades ahead. Looking ahead, the most likely scenario for the international monetary system is a multicurrency system centered around the US dollar, the euro and the renminbi.

*Afghanistan and Pakistan
Conflict, Extremism and
Resistance to Modernity
Riaz Mohammad Khan
Oxford University Press, Karachi 2011*

The mentioned book studies the development that have taken place in Afghanistan since the withdrawal of Soviet troops in February 1989. In the later part of the book the rise of extremism and religious militancy in Pakistan and the region have been discussed. Challenges must be addressed for Pakistan to survive, develop and progress. The author has attempted to weave personal experience, perspectives and evaluation into the larger narrative of events and developments relating to Afghanistan and Pakistan.

The book has been divided into three parts. Part-I is in *The Afghanistan Context* — the post Soviet withdrawal phase, the advent of the Taliban, post 9/11 Afghanistan, and the external powers. The last chapter in Part-I of the book, examines the interests and concerns of the major external players in the region as they relate to the continuing conflict in Afghanistan.

Part-II *The Pakistan Context*, focuses on religious militancy and extremism in contemporary Pakistan. The chapter also presents a brief survey of the checkered politics of Pakistan that weakens the country's institutional capacity to provide effective governance. The rise of extremist militancy in Pakistan and the region pose extremely difficult challenges for the two countries.

The concluding chapter sheds light on the opportunities that may have been missed to influence events in a more salutary direction; the nature of the current challenges in Afghanistan and Pakistan; and the stakes involved for the two countries, the region, and the world.

Lastly, it also offers reflections on the way forward. The pace of the Pakistan's progress will depend on clear thinking in public discourse about the demands of modernity and on the collective vision of its political and intellectual leaders.

*Management — Concept & Cases
2012 Edition
Prof. Dr. Khawaja Amjad Saeed*

The book has been divided into three sections. The first section has 21 chapters dealing with various aspects of management, the second section has selected articles by the author which are on contemporary issues relating to Management, and the third section has 12 cases in Management for analysis. These have been contributed by various scholars.

The first chapter of the book presents the history of management as a discipline and highlights various areas where management can make a rich contribution towards the success of an enterprise. The several schools of management have been discussed in the next chapter, followed by a chapter which gives a comparative analysis of management styles as practiced in different parts of the world. A chapter examines the skills of a manager and how the external environment has an impact on the work of a manager and organization. Organizing as a part of management has been explained, alongwith the line and staff authority relationship.

Various theories of motivation; leadership; type, structure and principles of communication; similarly for controlling its mechanisms, techniques have been discussed. There is a chapter on Islamic approach to management. It discusses the importance of labour, work ethics, motivation, basic rights of labourers, concept of fair wage and relations between the employer and the employee. The concept of quality management has been reviewed in a chapter, where the various challenges managers face, have been discussed.

There are six selected articles by the author on current issues relating to management in Section 2 of the book. These are among other on human resource management and development, the different incentive plans globally practiced, the rise of re-engineering, promoting corporate code of conduct, developing talent for HRM. Section 3 of the book has 12 cases relating to decision making, entrepreneurship, industrial relations, managing change and strategic management.

Pakistan Economy – Key Economic Indicators

	Unit	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2000-11 ^P
Output and Prices								
GNP Size (MP)	Rs.bn	6634	7773	8831	10452	13070	15403	18847
GDP Size (FC)	Rs.bn	6123	7158	8235	9921	12110	14066	17107
Income Per Capita	\$	724	823	904	1015	990	1073	1254
Real Growth								
	(%)							
GNP		8.7	5.6	6.7	3.7	2.2	5.1	2.3
GDP		9.0	5.8	6.8	3.7	1.7	3.8	2.4
Agriculture		6.5	6.3	4.1	1.0	4.0	0.6	1.2
Manufacturing		15.5	8.7	8.3	4.8	-3.6	5.5	3.0
Services Sector		8.5	6.5	7.0	6.0	1.7	2.9	4.1
Prices								
	(%)							
Consumer Price Inflation		9.3	7.9	7.8	12.0	20.8	11.7	13.9
Wholesale Price Inflation		6.8	10.1	6.9	16.4	18.2	12.6	23.4
Food Inflation CPI		12.5	6.9	10.3	17.6	23.7	12.5	18.0
Non Food Inflation CPI		7.1	8.6	6.0	7.9	18.4	11.1	10.5
Core Inflation [†]		7.2	7.5	5.9	8.4	17.6	11.0	9.7
GDP Deflator		7.0	10.5	7.7	16.2	20.0	11.9	18.8*
Gold Tezabi (Karachi)	Rs./10 grams	8216	10317	12619	16695	22195	29587	39017*
Petrol Super	Rs/Ltr	40.74	55.12	56.00	57.83	67.68	67.56	73.16*
Kerosene Oil	Rs/Ltr	29.11	36.19	39.09	43.44	66.79	72.65	82.12*
Wheat Flour (Avg. Quality)	Rs/Kg	13.28	13.06	13.64	18.07	25.64	28.77	29.73*
Savings and Investment								
	% GDP							
National Savings		17.5	18.2	17.4	13.6	12.5	13.1	13.8
Domestic Savings		15.4	16.3	15.6	11.5	9.8	9.3	9.5
Fixed Investment		17.5	20.5	20.9	20.5	16.6	13.8	11.8
Public		4.3	4.8	5.6	5.4	4.3	3.6	3.3
Private		13.1	15.7	15.4	15.0	12.3	10.2	8.5
Public Finance								
Revenue Receipts (Fed Govt)	% GDP	13.8	14.2	14.9	14.6	14.5	14.0	14.3
Tax Revenue	% GDP	8.9	9.4	9.7	9.8	9.1	8.9	9.2
Total Expenditure	% GDP	17.2	18.5	19.1	22.2	19.9	20.3	18.0
Fiscal Deficit	% GDP	3.3	4.3	4.3	7.6	5.3	6.3	4.0
FBR Tax Collection (Fed Govt)	Rs.bn	588.4	713.4	847.2	1007.2	1161.1	1327.0	1667.0
Direct Taxes	% share	30.1	31.5	39.4	39.6	38.2	39.9	39.4
Indirect Taxes	% share	68.9	68.5	60.6	60.4	61.8	60.2	60.5
Internal Debt Outstanding	Rs.bn	2178	2337	2610	3275	3860	4654	5431
Funded Debt	% Internal Debt	59.8	62.3	64.0	68.8	67.1	68.7	64.2
Un-Funded Debt	% Internal Debt	40.1	37.7	36.0	31.2	32.9	31.3	35.8
Monetary Sector								
Growth of Monetary Assets M2	%	19.3	15.2	19.3	15.3	9.6	12.5	9.4
Currency in Circulation	Rs.bn	665.9	740.4	840.2	982.3	1152.2	1295.4	1510.0

P Provisional

[†] non-food non-energy

* July-March

	Unit	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 ^P
Credit to Private Sector	Rs.bn	1712	2114	2480	2890	2907	3020	3250
Credit to Public Sector	Rs.bn	752	834	927	1508	2034	2441	2641
Borrowings for Budgetary Support	Rs.bn	647	708	810	1365	1681	2011	2329
Resident Foreign Currency Deposits	Rs.bn	180	196	207	263	280	345	368
Demand Deposits / Money Ratio	%	32.1	31.9	65.0	65.5	62.4	62.2	60.5
Capital Market (KSE)								
Listed Capital	Rs.bn	439	496	631	706	782	910	920 [†]
Market Capitalisation	Rs.bn	2068	2801	4019	3778	2143	2732	3148 [†]
Listed Companies at KSE	Nos	659	658	658	652	651	652	638 [†]
Banking Sector								
Scheduled Banks Deposits ^a	Rs.bn	2428	2817	3373	3812	4138	4693*	4984*
Scheduled Banks Advances ^b	Rs.bn	1694	2071	2376	2816	3080	3174*	3306*
Non-Performing Loans All Banks	Rs.bn	177	173	214	314	432	460	548 [†]
Lending and Deposit Rates	weighted average							
Deposits	% pa	1.37	1.96	2.60	4.13	4.44	5.91*	5.97
Advances	% pa	8.81	10.61	11.55	12.49	14.25	13.52*	13.55
Open Market Operation								
SBP 3-Day Repo ¹	% pa	9.00	9.00	9.50	12.00	14.00	12.50	14.0 [†]
Treasury Bills Yield - 6 Months	% pa	7.96	8.49	8.90	11.47	14.01	12.59	13.67
KIBOR - 6 Months	% pa	8.46	9.36	9.75	13.95	12.65	12.25	13.73
Pakistan Investment Bonds - 5 yrs	weighted average	7.50	9.65	10.0	10.80	14.33	12.56	14.28 [†]
Interbank Call Rates (Overnight)	%	6.10	8.80	8.90	9.90	11.35	11.0	13.50
SBP Export Finance Rate	%	6.50	7.50	6.50	6.50	6.50	8.00	10.0
External Sector								
Exports	\$ bn	14.48	16.55	17.28	20.43	19.12	19.67	22.78 [†]
Imports	\$ bn	19.00	25.00	26.98	35.40	31.75	31.21	31.21
Balance of Trade	\$ bn	-4.52	-8.45	-9.71	-14.97	-12.63	-11.54	-8.43
Current Account Balance	\$ bn	-1.75	-5.65	-7.40	-14.30	-9.26	-3.95	748mn
Workers' Remittances	\$ mn	4168	4600	5494	6451	7811	8906	10096 [†]
Foreign Private Investment	\$ mn	1677	3872	6960	5454	3209	2739	11760 [†]
Direct	\$ mn	1525	3521	5140	5410	3720	2151	1392 [†]
Portfolio	\$ mn	153	351	1820	44.3	-510	588	368
Debts								
External Debt and Liabilities	\$ bn	35.8	37.6	40.5	46.2	52.3	55.9	59.5 [†]
Domestic Debt Outstanding	Rs.bn	2158	2337	2610	3275	3860	4658	5462 [†]
Internal Debt as % of GDP	%	33.5	30.7	30.1	32.0	30.3	31.4	30.2
National Saving Schemes**	Rs.bn	940	936	1004	1094	1361	1668	1755
Total Reserves	\$ mn	13338	14354	18890	13436	13971	17921	20000 [†]
Gold	\$ mn	917	1268	1344	1926	1935	2575	2979 [†]
Liquid Fx Reserves	\$ mn	12421	13086	17546	11510	12036	15346	17021 [†]
Exchange Rate (Average for year)	Rs/US\$	59.3576	59.8566	60.6342	62.5465	78.4983	83.8017	85.5994

[†] July-March ^a excludes deposits of schedule banks ^b excludes advances to schedule banks

* December 2010 ** Outstanding

¹ SBP 3 day repo rate was renamed as SBP reverse repo rate wef August 17, 2009

Source: Pakistan Economic Survey 2010-11