Annual Report 2001-2002



State Bank of Pakistan

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ANNUAL REPORT

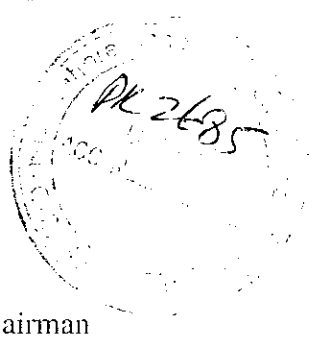
2001 - 2002



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STATE BANK OF PAKISTAN



CENTRAL BOARD OF DIRECTORS

Dr. Ishrat Husain	Governor & Chairman
Ch. Mueen Afzal	Member
Dr. Salman Shah	Member
Mr. M. Hussain Dawood	Member
Mr. R.A. Akhund	Member
Mr. Azam Faruque	Member
Mr. Fazal-ur-Rehman Dittu	Member
Mr. Qaiser Zulfaqar Khan	Member
Mr. Zia Khaleeli	Member
Mr. Muhammad Idrees Agha Director, Corporate & Media Affairs Department	Secretary

STATE BANK OF PAKISTAN

GOVERNOR
Dr.Ishrat Husain

DEPUTY GOVERNORS
Rashid Akhtar Chughtai
Tawfiq A. Husain

CHIEF ECONOMIC ADVISER
M. Ashraf Janjua

EXECUTIVE DIRECTORS
Tasadduq Hussain Awan
Farhat Saeed
Mansur-ur-Rehman Khan

ECONOMIC ADVISER
Dr.Abdul Naseer

SENIOR ADVISER
Khalid Siraj

ADVISER
Dr.Shakil Faruqi

Adviser, Exchange & Debt Management
Zafar M. Shaikh

PROJECT MANAGER (I.T)
Zafar Iqbal Siddiqi

Accounts Department MUHAMMAD SALEEM REHMANI	Director
Property Management Division MUKHTAR AHMAD	Head
Agricultural Credit Department SYED ISHTIAQ ALI	Director
Audit Department NOMAN AHMED QURESHI	Director
Banking Inspection Department KAZI ABDUL MUKTADIR	Director

Co-ordination & Special Studies. MUHAMMAD JAVED	Director
Banking Policy Department MUHAMMAD KAMRAN SHAHZAD	Director
Banking Supervision Department JAMEEL AHMED	Director
Corporate & Media Affairs Department MUHAMMAD IDREES AGHA	Director
SYED WASIMUDDIN	Chief Spokesman
Economic Policy Department DR.AFTAB NADEEM	Director
Exchange & Debt Management Department MUHAMMAD SHAKIR	Director
Exchange Policy Department M.RAFIQUDDIN MEHKARI	Director
Human Resources Department RIAZ AHMED	Director
Information Systems Department SULTANA MAHMOOD	Director
KASHIF A. HASHMI	Co- Director
Legal Department MRS. NAEEM HUSSAIN NIGAR	Director
Research Department RIAZ RIAZUDDIN	Director
MOHAMMED MANSOOR ALI	Head
Statistics Department MUNIR AHMED	Director
Training Department MRS. FEROZA NABEEL	Director

STATE BANK OFFICERS SERVING AT
SBP BANKING SERVICES CORPORATION (BANK)

MANAGING DIRECTOR
Muhammad Akram Shad

HEADS OF DEPARTMENTS

Administration Department AKBAR HUSSAIN	Director
Accounts Department SYED NASRAT KAMAL	Director
Exchage Policy Department M.MAHMOOD AHMED	Director
Engineering Department MUHAMMAD BILAL CHOUDHRY	Director
Foreign Exchange Adjudication Department SAEED HASAN ANSARI	Director
Internal Bank Security Department LT.COL(Rtd.) SALEEM A.ZAFAR	Director
Internal Audit Department BARBRUCE ISHAQ	Director
Medical Services Department DR.MUHAMMAD GHIAS	Director

STATE BANK OFFICERS SERVING IN THE FIELD OFFICES OF SBP BANKING SERVICES CORPORATION (BANK)

Karachi	Liaqat Durrani	Chief Manager
Lahore	Muhammad Sohrab Abbasi	Chief Manager
Islamabad	Muhammad Sadiq	Chief Manager
Rawalpindi	Ghulam Shabbir Awan	Chief Manager
Peshawar	Shafiqullah Siddiqui	Chief Manager
Quetta	Saeed Ahmad khan	Chief Manager
North Nazimabad, Karachi	Ahmed Hussain	Chief Manager
Hyderabad	Syed Saroor Ahmed	Chief Manager
Sukkur	Muhammad Aslam Yaseen Khan	Chief Manager
Bahawalpur	Muhammad Basher Ansari	Chief Manager
Multan	Inayatullah Sahee	Chief Manager
Faisalabad	Muhammad Iqbal	Chief Manager
Sialkot	Muhammad Munir Akhtar	Chief Manager
D.I.Khan	Sher Alam Khan	Chief Manager
Muzaffarabad	Muhammad Shafi	Chief Manager
Gujranwala	Muhammad Abdullah Fazil	Chief Manager

LETTER OF TRANSMITTAL

State Bank of Pakistan
Karachi
28th October, 2002

Dear Mr. Minister,

In accordance with Section 40(2) of the State Bank of Pakistan Act, 1956 the Balance Sheet of the Bank as on June 30, 2002 and the Profit and Loss Account for the year 2001-2002 duly signed by Deputy Governor, Director of Accounts and certified by the Bank's Auditors were transmitted to the Government on September 28, 2002.

In continuation thereof I submit herewith the Annual Report of the Central Board of Directors on the working of the Bank for the year ended June 30, 2002.

With best personal regards.

Yours sincerely,

Sd/-
(ISHRAT HUSAIN)
Governor

Mr. Shaukat Aziz,
Minister for Finance & Economic Affairs,
Government of Pakistan,
ISLAMABAD.

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Mansoor Ali

1 An Overview, Prospects and Executive Summary

1.1 Overview

Contrary to earlier fears, Pakistan's economy performed reasonably well in FY02.[1] In particular, the tremendous improvement in Pakistan's external sector post-September 2001, either directly or indirectly, contributed to positive developments for many macroeconomic indicators during the year. The trade deficit turned out to be much lower than in FY01 as exports recovered in the second half of FY02 to reach the preceding year's level, while imports dropped; the current account was in surplus and underpinned the unprecedented 6.7 percent appreciation of the Rupee. An upsurge in workers' remittances, increased official transfers and savings in interest payments allowed the SBP to increase foreign exchange reserves to an all-time high; the Rupee liquidity injected through the foreign exchange purchases enabled the SBP to ease its monetary policy stance; inflation was down to 3.5 percent as the appreciating Rupee lowered the cost of imported inputs; external debt restructuring and lower interest rates on domestic debt led to a reduction in debt servicing, thereby aiding the Government 's effort to contain the fiscal deficit. Still, there were several negative repercussions of the September 11 events on the domestic economy; there was a lower collection of tax revenues as the tax base was eroded due to a reduced level of imports in Rupee terms; the export target of US$ 10 billion could not be achieved, foreign investors remained hesitant in making new commitments; and the law-and-order situation became difficult as action was taken against terrorist groups.

While acknowledging the salutary impact of the external account improvement, however, it is worth stressing that the *trend* improvement was visible well *before* the seminal September 11 events. Interest rates were already on the way down; foreign currency reserves were edging up; the exchange rate was relatively stable; the inflation downtrend was well defined, and the government's continuing fiscal discipline and commitment to reforms had already set the stage for the IMF PRGF, and the subsequent re-profiling of external debt. Nonetheless, the pre-existing positive trends did gain invaluable momentum in FY02, post-September 11. However, despite these major positives, the economy was not unscathed in FY02.

Real GDP grew by a reasonable 3.6 percent, but the increase was concentrated in fewer sub-sectors. A third successive year of water shortages took its toll, as major crops recorded another decline. The overall 1.4 percent agricultural growth thus owed almost *entirely* to yet another impressive performance by the livestock sub-sector. The manufacturing sector presented, under the circumstances, a more creditable performance. Even though the 4.4 percent FY02 growth was considerably weaker than the 7.6 percent increase recorded in FY01, it must be remembered that the economic environment was shrouded in uncertainties through much of FY02, first due to the conflict in Afghanistan and then due to border tensions with India. While some sectors targeting the local economy (electronics, car manufacturers, sugar, etc.) performed reasonably well through most of the year, it was the increased access to key Western markets and a substantial decline in interest rates that catalyzed the textile sector recovery late in H2-FY02. As a result, it was the services sector that dominated the FY02 growth profile with a 5.1 percent growth. Yet, it is important to note that, here too, the structure of growth was highly skewed, with a single component, *public administration & defense,* accounting for a major portion of the total increase in sectoral value added during the year. In other words, while the growth *rate* recorded some improvement in FY02, the *quality* of growth remained lackluster and shallow as the spread and spillovers to the rest of the economy remained highly limited. Thus the buoyancy and briskness in economic activity was not observed.

[1] Under a worst-case post-September 11 scenario, it was feared that exports would decline significantly, foreign investment flows would dry up, capital flight would intensify, output losses would be severe and GDP growth would either be stagnant or negative depending on the intensity, duration and scope of the US campaign in Afghanistan.

Table 1.1: Selected Macroeconomic Indicators

	FY98	FY99	FY00	FY01	FY02 Targets	FY02 Actual/ Provisional	FY03 Targets
				Growth rates			
Real GDP (fc)[1]	3.5	4.2	3.9	2.5	4.0	3.6	4.5
Agriculture	4.5	1.9	6.1	-2.6	2.0	1.4	2.4
Major crops	8.3	0.0	15.4	-9.8	-0.2	-0.5	0.3
Manufacturing	6.9	4.1	1.5	7.6	5.0	4.4	-
Large-scale	7.6	3.6	0.0	8.6	6.5	4.0	6.0
Services sector	1.6	5.0	4.2	4.8	4.4	5.1	5.0
Consumer price index (FY01=100)	7.8	5.7	3.6	4.4	5.0	3.5	4.0
Sensitive price indicator (FY01=100)	7.4	6.4	1.8	4.8	-	3.4	-
Domestic credit	15.0	3.5	9.0	3.7	6.7	2.4	5.5
Monetary assets (M2)	14.5	6.2	9.4	9.0	9.5	14.8	10.0
Exports (f.o.b.)	3.7	-9.8	10.1	7.4	7.0	-0.7	13.4
Imports (f.o.b.)	-15.0	-6.8	9.3	4.1	0.3	-3.6	7.4
Liquid foreign exchange reserves with SBP[2] (million US Dollar)	930.0	1,729.7	1,352.3	2,075.8	-	4,804.9	-
				As percent of GDP			
Total investment	17.7	15.6	16.0	15.9	15.2	13.9	14.5
National savings	14.7	11.7	14.1	13.9	15.2	15.4	12.3
Tax revenue	13.2	13.3	12.9	13.0	13.9	12.9	-
Total revenue	16.0	15.9	17.1	16.0	17.3	17.1	17.1
Budgetary expenditure	23.7	22.0	23.6	21.3	22.3	23.7	21.1
Budgetary deficit	7.7	6.1	6.6	5.3	4.9	6.6	4.0
Current account deficit (Including official transfers)	-2.7	-3.8	-0.3	0.6	-	4.5	-
Domestic debt	43.9	46.8	49.6	50.1	-	46.0	-
External debt	55.4	54.9	53.5	60.3	-	54.4	-
Explicit liabilities[3]	0.5	2.4	2.4	2.8	-	1.6	-
Total debt (Including external liabilities)	99.8	104.2	105.4	113.2	-	102.0	-

[1] During FY02, sectoral shares in GDP were as follows: agriculture (24.1 percent), industry (25.0 percent) and services (50.9 percent).

[2] Foreign exchange reserves for FY99 and FY00 include FE-13 deposits with SBP, whereas for FY01 and FY02, these includes CRR/SLR on FE-25 deposits.

[3] Explicit liabilities include Special US Dollar bonds, FEBCs, FCBCs and DBCs.

Focusing on the external account improvement, there were clearly some one-off inflows into the current account in FY02 that are unlikely to recur in future. The US$ 600 million grant from the US, the payments for logistics support provided to the US troops, and other bilateral grants, fall under this category and should be excluded in determining the trend of current account inflows.

Remittances more than doubled in FY02 to reach US$ 2.39 billion; the rise post-September 2001 has been attributed, at least in part, (1) to a reversal of capital flight, as Pakistani balances held abroad came under greater scrutiny internationally by host countries,[2] and then increasingly (2) to the waning attraction of foreign exchange holdings due to an appreciating Rupee. However, the sheer scale and persistence of the improvement suggests that a welcome and more permanent change is emerging, driven by a shift in preferences of remitters away from the informal sector due to increased

[2] It is worth noting that despite the higher remittances, the inflows into the kerb market also *accelerated*. At times, kerb market rate actually dipped *below* the interbank market rate, opening an arbitrage opportunity that closed only when local banks imposed higher cash handling charges.

international scrutiny of informal fund flows, and the collapse of the kerb market premium. These higher inflows offered the SBP a rare opportunity to substantially boost its foreign exchange reserves without an adverse impact on the exchange rate. Indeed, the purchases allowed the Rupee to stabilize around the Rs 60/US$ mark, offering some respite to exporters that had been hit by a disruption in orders due to perceptions of increased regional risk as well as by the already substantial year-to-date gains of the Rupee. Such support was deemed essential since unfettered market forces could have strengthened the Rupee abruptly, leading to a disastrous loss of export market share, even if the improvement in the current account proved temporary. In short, while FY01 SBP foreign exchange net purchases were to *support* the Rupee,[3] the FY02 buying was essentially to *prevent* it from strengthening too sharply.

A look at the external cash flows (see **Table 1.2**) depicts more insights on the external account improvement:

(1) While headline figures depict a narrowing of the trade deficit to US$ 1.2 billion in FY02 the *realized* outcome was even better, with a deficit of US$ 360 million only.

(2) The role of exceptional financing is declining. In FY02 a notional inflow of US$ 1.7 billion on account of the Paris Club re-scheduling, was largely offset by maturities of earlier re-scheduled payments (of frozen FE-45 foreign exchange deposits, etc.). This is a positive development for Pakistan, reflecting that rescheduled loans and higher foreign currency inflows, allowed the termination of more expensive commercial liabilities (see **Table 1.3**).

Table 1.2: External Cash Flow Position

million US Dollar

	FY00	FY01	FY02
Reserves at the beginning of the year	**1,740**	**1,358**	**2,084**
Inflows	**16,845**	**19,918**	**22,107**
of which			
Exports	8,190	8,933	9,133
Services	1,501	1,466	2,027
Remittances	983	1,087	2,389
Kerb purchases	1,634	2,157	1,376
Foreign investment	546	146	478
Official grants	940	844	1,473
Loan disbursements	1,588	2,813	3,021
Exceptional financing	3,965	692	135
Outflows	**17,227**	**19,192**	**19,386**
of which			
Imports	9,598	10,202	9,493
Services	2,766	3,142	2,620
(interest payments)	*1,596*	*1,548*	*1,464*
Amortization	1,828	1,777	1,299
Repayment of liabilities	652	2,001	3,637
Reserves at the end of the year	**1,358**	**2,084**	**4,805**

The striking improvement in the current account, and the massive Rupee liquidity injections resulting from the SBP foreign exchange purchases, also had important implications for the conduct of monetary policy. It may be recalled that a major factor behind the monetary tightening in FY01 was the need to support the Rupee. Thus, as the exchange rate stabilized, the SBP immediately signaled an easing by twice lowering the discount rate in successive months.[4] The subsequent two, post-September, reductions however were aimed *more* at mitigating the impact of the prevailing uncertainties in the business environment.[5]

The increase in Rupee liquidity fueled the exceptional 14.8 percent growth in M2. This allowed a substantial expansion of banks' deposit base, but (1) net private sector credit demand did not grow correspondingly, (2) the funding requirement of the government from scheduled banks fell due to higher availability of non-bank finance in FY02, and (3) banks' demonstrated an apparent preference for less risky assets. This allowed the government to substitute its accumulated borrowings from the

[3] In FY01, the SBP foreign exchange purchases (kerb and interbank) were being injected into the interbank market to lower volatility and meet lumpy payments. The SBP was a net seller in the interbank market, in FY01.

[4] In July 2001 and August 2001.

[5] Exporters were the most immediate beneficiaries. The export re-finance (EFS) rate was benchmarked to 6-month T-bill yields, which closely tracked changes in the discount rate.

SBP with higher net borrowings from scheduled banks without putting upward pressure on interest rates. Consequently, reserve money growth was contained to just 9.6 percent, as injections through SBP foreign exchange purchases were *sterilized* by a net retirement of SBP's government security holdings, thus avoiding an excessive rise in inflationary pressures.

Pakistan's debt profile also saw significant changes in FY02 reflecting the country's adherence to the Debt Reduction and Management Strategy (DRMS), as well as a one-off Rs 193 billion stock adjustment of the domestic debt. While the absolute decline in external debt and liabilities (EDL) was a marginal US$ 607 million, the re-profiling of Paris Club debt and the substitution of expensive commercial loans by cheaper IFI credits led to a significant drop in the net present value of outstanding EDL.[6] Similarly, the domestic debt profile too saw a shift to longer tenors amidst a fall in interest rates. This said, it must be stressed that the changes, though welcome, only depict an improvement in the *dynamics* of Pakistan's debt profile; the country has still a long arduous road to travel before the debt ratios go down to international norms.

Table 1.3: Commercial, Short-term and Foreign Exchange Liabilities Paid in FY02

millions US Dollar

Commercial and short-term external debt	**2,272**
Commercial loans/credits	1,283
IDB	403
Private loans/credits	586
Foreign exchange liabilities	**2,044**
FE-45	569
FE-31 deposits (incremental)	204
Special US dollar bonds	470
National debt retirement program	62
Foreign currency bonds (NHA)	22
NBP/BOC deposits	249
Swaps	441
FEBCs/FCBCs/DBCs (payable in Rupees)	27
Total	**4,316**

1.2 Medium-term Prospects

A significant upturn in economic performance began in the final months of the FY02, and was manifested by higher exports, accelerated workers' remittances, improved water availability, and increased capacity utilization in some key industries. This upsurge has altered the prospects for FY03. In particular, the recovery by textiles on the back of increased access to key markets January 2002 onwards, seems likely to continue into FY03, aided by sharply lower cost of funds (the favorable perceptions on the sector are reflected in the continuing high imports of textile machinery). Similarly, the considerable improvement in water availability in the last few months gives rise to hopes of a substantial recovery in agriculture, with positive knock-on effects on the services sector as well.

With prospects of a broad economic recovery looking bright, it becomes even more important that the FY02 improvements in the macroeconomic fundamentals not be frittered away. The key policy challenge for the government in FY03 therefore is to stay the course by remaining fully committed in implementing the on-going reform process, irrespective of gains such as the higher availability of external assistance, debt re-profiling, etc.

In particular, it is important to note the *possibility* (however modest) that the external account improvements could taper off in future; if this development emerges, it could have significant negative repercussions, not least the re-emergence of devaluation expectations and a jump in domestic interest rates. These concerns are particularly colored by the realization that domestic policy only set the enabling environment that allowed the economy to take better advantage of the positive exogenous shocks. It must be remembered that the catalyst (and, at least in part, continuing driver)

[6] This performance is even more impressive given that FY01 had also seen a large decline in EDL.

for the rise in transfer payments into Pakistan was the policies of other countries, especially the international crackdown on informal flows that drove up remittances.

In fact, it is this concern that has led the SBP to opt for a gradual adjustment of its monetary and exchange rate policies despite a substantial improvement in the current account. It must also be noted that an abrupt shift in the exchange rate is not to be desired in any case, as an inadequate adjustment period for exporters could lead to the loss of hard-to-recapture export markets, and a consequent fall in economic activity and higher unemployment. Thus, the gradual adjustment policy is likely to continue. Also, despite a hardening consensus that the increase in foreign exchange inflows is probably sustainable, the SBP intends to guard against the possible re-emergence of the kerb market, by largely subsuming it into the mainstream financial system through the newly introduced exchange companies.

The outlook for inflation does not show any signs of concern despite the growth of monetary aggregates (M2) by 14.8 percent during FY02, well above the nominal growth rate. Most of the growth in M2 originated from the continuing rise in NFA and was substantially sterilized. Consequently, the reserve money growth was contained to 9.6 percent. The large FY02 increase was not too inappropriate in light of the need to support the economy during a period of considerable uncertainty. But, going forward, it will be prudent to limit reserve money growth consistent with the nominal growth rate of the economy, since excessive growth could fuel inflationary pressures. Within this constraint, however, the loose monetary posture could be extended further.

On the fiscal side, the government should see higher net tax receipts due to the impact of the recently introduced Self Assessment Scheme, lower tax refunds, an absence of a further cut in the maximum customs duty rate, and a return to normal imports in FY03. Non-tax revenues too, should see greater stability going forward, as the re-structuring of government-controlled entities (especially WAPDA) should allow them to service their debt.

Over the last few years, revenue shortfalls (by the CBR, in particular) have traditionally resulted in a curtailment of development expenditures. In FY03, however, the government has vowed to substantially increase developmental expenditures, and to insulate this spending from below-target revenues by, (1) incremental revenue measures and (2) reductions in non-development spending. It must be noted that higher development expenditures not only increase immediate aggregate demand, but also have substantial "crowding-in" effects on private investment. For far too long, the low development spending has effectively led to a deterioration of infrastructure, reducing the economy's growth capacity (lowering future government revenues). Thus, in essence, meeting the fiscal deficit targets through low development spending was equivalent to shifting the fiscal deficit to future generations. It is therefore essential that the government's promise be kept.

It is worth noting that the positive developments in the country's economy do not appear to be fully reflected in Pakistan's current sovereign rating, possibly due to the impact of political uncertainties (general elections are scheduled for October 2002). The continuation of current economic polices (as promised by the President) would thus be expected to result in an upward re-rating, attracting greater investments.

In short, if the global economy does not see a major dip, Pakistan appears well placed to meet its economic targets in FY03. In fact, the FY02 developments provide a rare opportunity for Pakistan to accelerate the improvement in the country's economic fundamentals.

1.3 Executive Summary

Economic Growth, Savings & Investment

Water shortages constrained the growth of the agriculture sector for the second year running. As a result, despite improved management and increased use of tube wells to alleviate the shortages, the major crops saw a marginal decline. However, the impact of the dismal performance of the crops was greatly moderated by the positive momentum of another encouraging performance by the livestock sub-sector. This enabled agriculture to record a positive growth of 1.4 percent for FY02.

The weak performance of the manufacturing sector, especially large-scale manufacturing (LSM) was the major factor behind slower growth in industrial value added. LSM grew by only 4 percent in FY02, much lower than the 8.6 percent growth recorded in FY01; however, this was still commendable given that the business environment through most of FY02 remained uncertain. The performance of the remaining three sub-sectors i.e. mining & quarrying, construction, and electricity & gas distribution, remained subdued.

During FY02, the services sector grew by 5.1 percent, higher than the 4.8 percent seen in FY01. The emergence of the services sector has imparted resilience to the economy, particularly at times when the commodity-producing sector is struggling.

In overall terms, while the 3.6 percent FY02 growth of the economy was reasonably good, it was narrowly based on a few sub-sectors.

With regard to investment, provisional estimates for the FY02 suggest that the pace of investment has not picked up, and the declining trend witnessed over the last decade persists. This is reflected in the 5.9 percent decline in (nominal) gross fixed investment in FY02 against an increase of 7.9 percent last year. As a ratio to GNP, it declined to 12.2 percent from 14.5 percent last year. Although, overall investment fell short of the target, the growth in foreign direct investment is encouraging – it increased to US $ 484.7 million compared to US $ 322.4 million in FY01.

While the share of both the public and the private sector declined, the deceleration in the investment by the public sector was more pronounced. This is reflective of government's budgetary constraints and the increasing emphasis on the role of the private sector. As a result, the share of the private investment in total investment reached 61.5 percent in FY02.

Prices

Annual average rates of inflation in terms of all three price indices as well as the GDP deflator went down during FY02 from their levels last year.[7] The rate of inflation in terms of the Consumer Price Index (CPI) came down to 3.5 percent in FY02 from 4.4 percent in the previous year despite the uncertainties following the September 11 events, continued border tensions and persistent drought-like situation in the country. Better availability of essential commodities due to a reasonable production of both food and non-food items, and availability of stocks from previous years had a moderating influence on inflation. The appreciation of the Rupee by 6.7 percent also helped, by reducing the cost of imports.

As the SBP was able to substantially limit the growth of reserve money, it is hoped that inflationary pressures will be contained.

[7] Annual average rate is defined as percent change of average 12-monthly indices for FY02, over the corresponding average for FY01.

Public Finance and Fiscal Policy

In FY02, overall budget deficit swelled to 6.6 percent of GDP, significantly higher than both the budget target as well as that in the previous year. This was largely driven by increased defense spending (Rs 17.4 billion), and three one-off expenditures – a grant to CBR to clear accumulated income tax refunds (Rs 22 billion), a substantial investment in KESC to prepare it for privatization (Rs 30 billion) and a settlement of WAPDA arrears (Rs 5 billion). These FY02-specific expenditures not only pushed up the overall budget deficit, but also masked the benefits of lower interest payments realized on account of (1) rescheduling and re-profiling of external debt, and (2) low interest rates on domestic debt instruments. Adjusted for the FY02-specific spending, the "baseline" budget deficit was lower than the FY02 target.

Although total revenues posted a reasonable growth on the back of a large rise in non-tax revenues, overall tax collections were well below the FY02 target. The poor tax collections were largely attributed to a decline in imports, an appreciation of the Rupee against US Dollar, unusually high tax refunds, and a decreasing trend in domestic inflation during FY02.

Money & Credit

The easing of monetary policy in FY02 had its roots in the macroeconomic discipline achieved in FY01 and was initiated well before the post September developments took over. The monetary easing not only brought down the benchmark 6-month T-bill rates to an all-time low but also led to a 1.9 percent drop in the weighted average lending rates.

The increased external inflows, improved liquidity in the market due to SBP interbank purchases, and lower net credit requirement by the private sector brought about a change in the behavior of both, banks and the government. While banks were anxious to lock-in their funds in government paper, anticipating further interest rate cuts, the government used this opportunity to retire its more inflationary debt from SBP and borrowed afresh from scheduled banks. This had two implications: (1) it helped the SBP achieve limits on its NDA targets; and (2) it effectively sterilized the effect of SBP market purchases of foreign exchange. Also, while the actual government borrowings for budgetary support stood at Rs 12.5 billion for FY02, when adjusted for the waiver given by IMF for the KESC re-capitalization and tax refunds to the banks, the borrowings are well within targets.

Higher retirements, write-offs & deletions, and availability of fund from other sources, kept the net credit to private sector figure deceptively low (gross disbursements figures in FY02, remained higher than FY01, almost throughout the year). In overall terms lower interest rates, higher refunds and better availability of internal financing, and improved access to export markets greatly mitigated the adverse impacts of the uncertain business environment during FY02.

The overall impact of monetary easing and build-up of foreign exchange reserves resulted in an exceptional growth of 14.8 percent in monetary assets, which is the highest in the last five years.

Money Market

During FY02, the money market saw a relative improvement in liquidity as reflected in a decline in the volume and frequency of banks' use of the SBP discount window. This was, in part, a result of the SBP's pro-active liquidity management.

On the other hand, as interest rates declined due to the SBP monetary easing, and deposits began rising very strongly (with a relatively lower increase in private sector demand), banks increasingly preferred to invest in government securities to lock-in assets at higher rates.

The change in the monetary stance is reflected well in the downward shifting yield curves. However, the shape of the yield curves has become steeper, depicting a relatively lower decline in returns at the longer end of the curve.

Capital Markets

During FY02, capital market exhibited better performance compared to the previous year. Although the country underwent various economic and non-economic shocks, both the equity and fixed income securities markets remained buoyant.

The benchmark KSE-100 index gained 29.5 percent, in sharp contrast to a 10.1 percent fall during the previous year. The market gained resilience from the overall betterment in economic fundamentals, a consequent improvement in corporate profitability prospects, and the financial market liquidity prevalent in the economy. Similarly the fixed income market kept the momentum generated during the previous year on the back of reforms in National Saving Schemes and the easy monetary policy of the SBP. As a result, 17 new TFC issues were launched during the FY02 as compared to 10 during the preceding year.

Banking

The main developments in the banking sector in FY02 were the remarkable growth in deposits and the substantial increase in lending of foreign currency. Both developments largely owe to the improvements in Pakistan's external account in the aftermath of 9/11. The double-digit growth of 14.0 percent in deposits would have been even higher, had FCAs not declined by 13.7 percent.[8] The phenomenal surge in the former was on the back of Rupee injections by SBP against foreign exchange purchases and higher remittance through banking channels. The fall in the latter reflects the decreasing attractiveness of foreign exchange holdings as the Rupee appreciated.

Besides the apparently subdued growth in credit, an important development in FY02 was the US$ 338.1 million (Rs 20.1 billion) surge in foreign currency loans. Although the banks were allowed to give credit in foreign currency (for trade related activities) since the introduction of FE-25 deposits in June 1998, it was only in FY02 that banks extended large volumes of foreign currency loans. Borrowing in dollars has become increasingly attractive in view of the lower rates (which range between 2 to 5 percent) and future expectations of a stable Rupee.

Unlike FY01, lending rates declined, especially in H2 FY02. This was in line with the easing of monetary policy. A lower fall in the weighted average deposit rates resulted in a narrowing of the banking spread by 111 basis point. It is important to note that foreign currency loans are not included while computing the weighted average lending rates. Incorporating these, it is evident that weighted average lending rates, and the banking spread, would have fallen further by *at least* 25 basis points.

Performance indicators (based on annual audited balance sheets) in CY01 showed a mixed picture when compared with CY00. Efforts made to improve banks' assets quality started showing progress. The pace of NPLs from fresh lending has slowed down and together with increased emphasis on recoveries, has put a break on the growth of bad loans. In addition, to account for the historically bad portfolio (most of it in lost category) of public sector banks, the need for appropriate provisioning has been emphasized.

[8] In Dollar denomination, decline in FCAs was 5.8 percent; the difference could be explained by appreciation of Pak Rupee during FY02.

Balance of Payments & Exchange Rate

Although, the current account has been steadily improving over the last three years amid higher kerb purchases, FY02 surplus of US$ 2.7 billion is the first that is *broad-based* – all the sub-categories contributed to the out-turn.

The trade deficit narrowed mainly due to falling imports on the back of lower fuel and food imports. Also, while exports did decline in FY02, a portion of the fall is attributable to lower unit prices for Pakistani exports. The improvement in the services account reflects the receipts against logistics support for international forces in Afghanistan as well as the savings following the re-profiling of external debt. However, the most valuable improvement seems to be the sharp increase in workers remittances; FY02 receipts were more than twice the FY01 collections.

Despite lower SBP purchases from the kerb market and lesser inflows realized in resident FCAs, the current transfers registered a phenomenal growth during the current fiscal year. In this regard, the major contribution came from the workers' remittances, which registered an extraordinary growth of 129 percent (on a cash basis) during FY02. In fact, an international crackdown on *hundi* networks changed the dynamics of current transfers, as incentives to use the informal channels largely disappeared.

In terms of the capital account, the completion of the IMF Stand-By Arrangement not only paved the way for successful negotiations for a medium-term PRGF but also led to a higher non-food aid from the World Bank and ADB, as well as a generous re-profiling of Paris Club debt.

FY02 was also an unusual year for the foreign exchange market. The global crackdown on hundi networks led to: (1) the collapse of the kerb premium, (2) an end to market expectations for devaluation; and (3) a U-turn in the *direction* of exchange rate management of SBP. All of these developments provided grounds for liberalizing the foreign exchange market, particularly the removal of segmentation between the interbank and the kerb markets, which has been one of the key structural problems in Pakistan's external sector.

The pressures on the kerb market not only outweighed the traditional downward stickiness of the kerb rate, but also reversed the traditional market expectations for devaluation of the Rupee. In terms of exchange rate management, SBP *net* purchases from the interbank market showed a dramatic shift from *negative* US$ 1,126 million to *positive* US$ 2,483 million.

The higher purchases in FY02 were aimed at providing support to exporters who had already suffered on account of an appreciating Rupee, loss of export orders and imposition of a risk premium. In overall terms, the Rupee strengthened by 6.7 percent against the US Dollar in the interbank market during FY02.

Although at the start of the fiscal year reserves already stood at US$ 3 billion, post-September 11 developments accelerated reserve accumulation, taking Pakistan's foreign exchange reserves to US$ 6.4 billion by the end of FY02. This surge in reserves was mainly shaped by lumpy inflows from International Financial Institutions (IFIs) and SBP purchases. The build-up of reserves allowed SBP to settle expensive and short-term liabilities, which will improve the creditworthiness of the country.

Domestic and External Debt

There is a distinct improvement in Pakistan's total debt profile during FY02. Specifically, the total debt burden declined from Rs 3,866 billion to Rs 3,761 billion and debt to GDP ratio improved to 102 percent. This note worthy achievement mainly shows Pakistan's adherence to the Debt Management and Reduction Strategy (DMRS) formulated in March 2001.

On the external front, the successful completion of IMF Stand-By Arrangement (SBA) restored Pakistan's credibility with International Financial Institutions (IFIs) and reaffirmed the government's commitment to reforms. This in turn paved the way for successful negotiations for a medium-term IMF assistance program (PRGF) as well as increased aid from other IFIs. Moreover, Pakistan also obtained a *stock* re-profiling of bilateral debt from Paris Club creditors on very generous terms, which will result in an implied reduction in the net present value of EDL of between 28 to 44 percent, depending on the interest rate negotiations with individual creditors.

Pakistan also retired commercial debt by US$ 0.9 billion and at the same time contracted soft loans from IFIs, which improved the term structure of external debt. Furthermore, the stock of external liabilities declined significantly by US$ 1.9 billion during the course of the current fiscal year. This decline is mainly driven by the hard currency payments of FCAs (FE-45 and FE-31) and retirement of Special US Dollar bonds, NBP deposits placed with SBP and swaps.

As far as domestic debt is concerned, it also reflects similar improvement. A one-time adjustment in floating debt substantially reduced the stock of short-term debt (reducing the stream of future interest payments). Additionally, the increased long-term borrowings through PIBs and NSS instruments also facilitated the lengthening of the maturity profile. The appreciation of the Rupee also eliminated the upward pressure on interest rates considerably, which led to a sharp reduction in the cost of domestic debt.

2 Economic Growth, Savings and Investment

2.1 Overview

The overall performance of the economy during FY02 was quite encouraging under the circumstances; real gross domestic product (GDP) grew by 3.6 percent compared to 2.5 percent in FY01, and was not very far from the 4.0 percent growth target for the year, despite the impact of economic shocks emerging from September 11 events. It is noteworthy that all key sectors contributed to the growth, although the services sector was dominant.

Agriculture was again hit by acute water shortages for the third successive year and, as a result, the crop sub-sector recorded a 0.1 percent decline even on the low base of FY01. The weak performance of the major crops, in particular, is a matter of grave concern; it is worth noting that the growth figure could have been even worse, if not supported by the unexpectedly good sugarcane crop that mitigated much of the impact of declines in other key crops.

In fact, the negative growth of the crops sub-sector partially cannibalized the contribution of the livestock sub-sector, which recorded a 3.4 percent rise in FY02 (a deceleration from the 4.9 percent seen in FY01). As a result, the agriculture sector recorded a growth of 1.4 percent against the 2.6 percent negative growth in FY01. Thus, even this weak recovery of the agriculture in FY02 owes almost entirely to the livestock sub-sector.

The manufacturing sector fared better in FY02, recording a substantial 4.4 percent growth. While certainly lower than the 7.6 percent growth recorded in FY01, the resilience demonstrated by the sector in overcoming the impact of various prevalent economic and political uncertainties, is encouraging.

However, it was the services sector that overshadowed the overall GDP growth profile in FY02, rising 5.1 percent during the year vs. a target growth of 4.4 percent, and an increase of 4.8 percent in FY01. Interestingly, approximately half of the incremental value addition in FY02 is recorded by a single component, i.e. *defense and public services* (see **Table 2.1**).

Table 2.1: Sector-wise Growth Rates

at constant factor cost of 1980-81

	Growth rates		Sectoral shares	
	FY01[R]	FY02[P]	FY01[R]	FY02[P]
A) Commodity producing sector	**0.2**	**2.1**	**49.8**	**49.1**
Agriculture	-2.6	1.4	24.6	24.1
Crops	-7.1	-0.1	14.2	13.7
Major crops	-9.8	-0.5	10.1	9.7
Minor crops	0.1	1.0	4.1	4.0
Livestock	4.9	3.4	9.3	9.3
Fishing	-3.7	4.0	0.9	0.9
Forestry	9.9	1.1	0.3	0.3
Industry	3.1	2.8	25.2	25.0
Manufacturing	7.6	4.4	17.5	17.7
Large-scale	8.6	4.0	12.3	12.4
Small-scale	5.3	5.3	5.2	5.3
Mining and quarrying	4.3	3.8	0.5	0.5
Construction	-0.4	0.9	3.4	3.3
Elec. and gas distribution	-11.0	-2.7	3.8	3.6
B) Services sector	**4.8**	**5.1**	**50.2**	**50.9**
Wholesale & retail trade	5.2	2.2	15.3	15.1
Transport storage & comm.	5.0	0.1	10.5	10.1
Finance & insurance	2.7	3.8	2.3	2.3
Ownership of dwellings	5.3	5.3	6.1	6.2
Public admin. & defense	1.1	18.2	6.4	7.3
Other services	6.5	6.5	9.6	9.9
Gross domestic product	**2.5**	**3.6**	**100**	**100**

[R]: Revised; [P]: Provisional

Source: Federal Bureau of Statistics

Gross National Product (GNP) grew by 5.4 percent in FY02 compared to 2.5 percent last year. The increase in net factor income from abroad, mainly caused by the higher remittances, for the first time during the past eighteen years, brought GNP growth substantially ahead of growth in GDP.

National savings stood at 13.9 percent of GNP in FY02 compared to 15.3 percent of GNP last year; the lower ratio implies that there has been a decline in the marginal rate of savings during FY02.

Also, a 5.9 percent fall in gross fixed investment saw its ratio to GNP decline further to 12.2 percent in FY02 from 14.5 percent last year.

2.2 Agriculture

The performance of agriculture during FY02 was disappointing. The sector posted a weak recovery, growing only by 1.4 percent, even on the low base due to the 2.6 percent decline in FY01, owing almost entirely to a reasonable performance of the livestock sub-sector (see **Table 2.2**).

Table 2.2: Value Added Growth and Shares

at constant factor cost of 1980-81

	Growth rates		Shares in agriculture	
Sectors/Sub-sectors	FY01[R]	FY02[P]	FY01[R]	FY02[P]
Agriculture	-2.6	1.4	100.0	100.0
Crops	-7.1	-0.1	57.7	56.9
Major crops	-9.8	-0.5	40.9	40.1
Wheat	-14.3	-2.7	12.5	12.0
Cotton	-5.3	-1.1	12.4	12.1
Rice	-8.6	-6.7	6.8	6.3
Sugarcane	-7.0	10.3	5.6	6.1
Other crops	-14.3	4.0	3.7	3.8
Minor crops	0.1	1.0	16.8	16.7
Livestock	4.9	3.4	37.7	38.4
Fishing	-3.7	4.0	3.5	3.6
Forestry	9.9	1.1	1.1	1.1

[R]: Revised; [P]: Provisional

Source: Economic Survey 2001-02

The crops sub-sector, the key contributor to overall agricultural growth, saw a lower fall in FY02, but this is no cause for celebration; it simply reflects that a further decline in rice was offset by an improved sugarcane crop,[1] leaving the overall FY02 production of key crops stagnant around the poor FY01 levels. As in the previous year, water shortages proved to be the key culprit, with aggregate availability of surface water at canal heads declining further to 73.1 million acre feet against 81.1 million acre feet during FY01.

Fishing activities were higher during the year and made a good headway over the previous year's negative growth. Similarly, forestry also recorded positive growth. However, due to their small shares in value addition their overall contribution was insignificant.

Table 2.3: Present Agriculture Scenario

	FY00	FY01	FY02
Share in GDP (real)		Percent	
Agriculture	25.9	24.6	24.1
Crops	15.7	14.2	13.7
Livestock	9.1	9.3	9.3
Prices in wholesale markets		Percent change over last year	
General	1.8	6.2	2.4
Food items	0.5	3.0	0.1
Raw materials	-22.5	8.2	-2.5
Prices of important inputs			
Fertilizers (urea)	-5.5	11.0	7.2
Motor fuel	17.1	32.6	1.6
Electricity for tubewells (fixed charges)		- No change -	
Cash value per rural capita (real)			
Agriculture	4.1	-4.4	-0.4
Crops	5.6	-8.8	-1.8
Livestock	0.0	3.0	1.6

Source: Economic Survey 2001-02

Clearly, the agricultural sector has lost much of the momentum from the annual average growth of 4.3 percent during the 1990s. In real terms, the FY02 value addition of Rs 166.3 billion has fallen even below the Rs 168.5 billion contributed by agriculture in FY00, pulling down the sector's share to 24 percent in FY02 from almost 26 percent in FY00.

This decline in output, coupled with other negatives such as a declining trend in farm output prices, increasing input costs, and lack of protection from volatility in market prices eroded farm incomes, leaving the rural populace precariously placed. This is clearly visible in the falling rural per capita real cash

[1] The sharp improvement in the sugarcane crop amidst water shortages is simply because of the *timing* of the rains that proved beneficial for the FY02 crop. The overall quantum of the rains for FY02 was still lower than in the previous year.

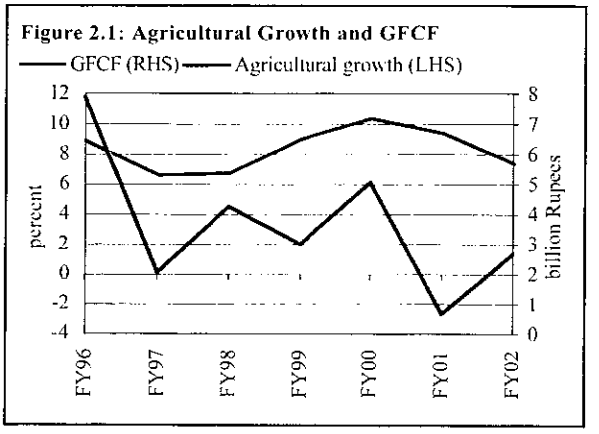
value[2] that, after showing an improvement in FY00, deteriorated by 4.4 percent and 0.4 percent in FY01 and FY02, respectively (see **Table 2.3**).

The timing of the decline in farm incomes is particularly unfortunate, since a coinciding surge in the prices of key farm inputs such as fertilizers and light diesel (fuel for tractors and tubewells) added to the cost of production. Faced with limited choices, farmers opted to cut down production expenses by curtailing the usage of fertilizer during FY02 (the urea off-take was 7.3 percent lower than in FY01).

Also, farmers seem to have deferred their expenses on development works such as purchase of tractors, installation of tubewells, development of land and watercourses, etc. In fact, they even showed less interest in undertaking developmental activities through bank borrowings. During FY02, farmers availed 13.9 percent less development credit compared to the previous year.

In years of better growth, capital formation in agriculture remains high, and vice versa. This is evident from the significant relationship that exists between the annual growth in agriculture and the real expenditures on capital formation by private sector in agriculture (see **Figure 2.1**). Except for FY99, when farmers were given incentives for purchasing tractors and installing tubewells, the relationship holds strongly. In FY02, farmers (particularly those depending only on crops) clearly could not make the necessary investment due to the shock of the large negative growth during FY01.

Figure 2.1: Agricultural Growth and GFCF



Contrary to private sector's trend, wide fluctuations have been observed in capital formation in agriculture by public sector; as a percent of total public sector investment, it ranged from a low of 0.7 in FY01 to a 3.7 percent figure for FY02[3]. This volatility reflects the changes in the annual development plans each year.

Table 2.4: Share of Agriculture in Public Sector Expenditure

billion Rupees

Five-Year Plans	Overall size	Allocation	Percent of overall size
First (1955-60)	4.9	0.46	9.5
Second (1960-65)	10.1	0.70	6.6
Third (1965-70)	13.2	0.82	6.2
Non-plan period	75.5	4.14	5.5
Fifth (1978-83)	153.2	6.06	4.0
Sixth (1983-88)	242.4	8.12	3.3
Seventh (1988-93)	350.0	12.31	3.5
Eighth (1993-98)	752.1	10.01	1.3
Ninth (proposed)	847.0	14.00	1.7

Source: FAO Report on Agriculture Strategies for the First Decade of New Millennium

In each effort to reduce the fiscal deficit, the immediate cut is placed on the size of the annual development plan, squeezing the already marginal allocation of funds for rural development and the agriculture sector. The existing situation is thus the continuation of a trend that started after the first five-year plan (see **Table 2.4**).

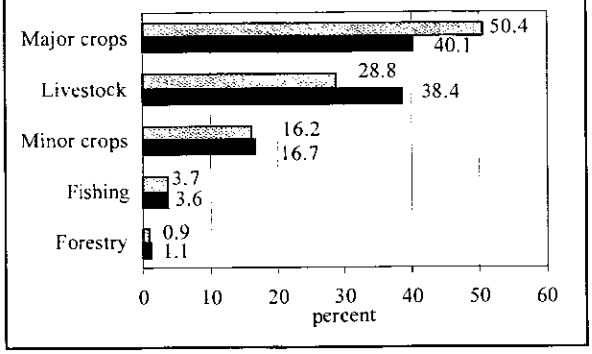
[2] This is the real agricultural GDP per rural capita. In addition to exhibiting the income volatility of the rural populace, this indicator is used for measuring income disparity between rural and urban incomes.

[3] Real capital formation in agriculture by public sector was at Rs 845 million during FY02 compared to Rs 196 million last year.

2.2.1 Major Crops[4]

Despite two years of negative growth major crops maintained their customary largest share in FY02, contributing more than 40 percent of the value addition (see **Figure 2.2**). However the decline in major crops not only overshadowed the progress of other sub-sectors of the agriculture, but also pushed down overall GDP growth.

Figure 2.2: Sectoral Shares in Agriculture



FY02 efforts to increase the production of major crops by ensuring the timely availability of fertilizers, pesticides and higher disbursement of credit fell prey to shortfall in canal-head water.[5] As a result both, the area under cultivation and yields declined for most major crops.

During the year under review, among the four most important crops (with a 90.7 percent share in major crops), declines were recorded in the production of rice, cotton and wheat. Production of sugarcane, on the other hand, increased by 10.2 percent, supported by an increase in the area under cultivation, and higher per hectare yield.

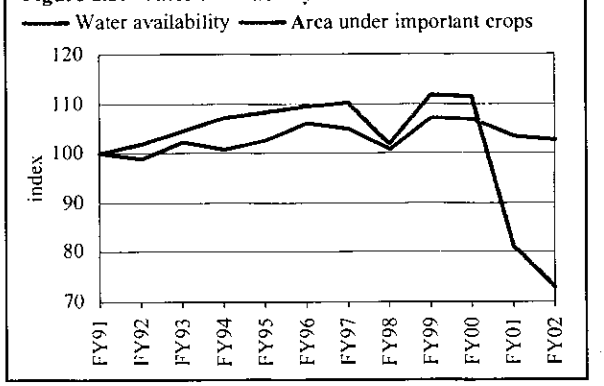
Table 2.5: Highlights of Important Major Crops - FY02

	Shares in major crops	Percent change over last year		
		Production	Area	Yield[1]
Kharif crops				
Rice	15.6	-19.2	-11.1	-9.2
Cotton	30.1	-1.1	6.4	-7.2
Sugarcane	15.1	10.2	4.1	5.9
Maize	3.4	1.3	-0.2	1.5
Rabi crops				
Wheat	29.9	-3.6	-1.5	-2.1
Gram	2.3	-9.6	2.7	-12.1

[1]: Per hectare
Source: Economic Survey, 2001-02

With a worsening of the water shortage in the later half of kharif and the entire season of rabi, the area under rice and wheat dropped, and this loss was compounded by yield declines (see **Table 2.5**). Another factor contributing towards a decline in the yield of rice was the substitution of high yield (but lower quality) rice with the low yield (higher quality) rice. For wheat, the decline in yield was mostly related to insufficient rains in the *barani* (rain fed) and hilly areas.

Figure 2.3: Water Availability & Cultivated Area



The decline in yield of cotton crop, despite a rise in area under cultivation, resulted in a smaller crop size. An attack of bollworm in some of the cotton growing districts of Punjab and late sowing in Sindh, due to water shortages, were among the main factors contributing to the fall in yields.

There has been a significant relationship between water availability and the area under cultivation of important crops except for the last two years when the area declined less proportionately than the

[4] Consist of 12 crops including: rice, cotton, wheat, sugarcane, maize, gram, barley, jowar, bajra, rapeseed and mustard, sesamum and tobacco.
[5] In fact, area irrigated by canals saw a 7.7 percent decline over the previous year.

shortage of irrigation water (see **Figure 2.3**). This happened on account of better water management by the authorities and greater resort to tubewell irrigation (see **Box 2.1** on *Role of Tubewells in Irrigation).*

Further, if taken by end-use classification, *area under food-grains* (wheat, rice, bajra, jowar, maize and barley) declined by 3.6 percent followed by a 5.5 percent decline in production. By contrast, the area under sugarcane and cotton increased by 4.1 percent and 6.5 percent respectively, mainly on account of timely rains in early kharif and substitution of area from rice to cotton at some places.

It is interesting to note that the share of major crops in agriculture has fallen from 50.4 percent in FY92 to 40.1 percent in FY02, but it still sets the overall trend in agri-sector growth (see **Figure 2.4**).

Figure 2.4: Major Crops and Agriculture

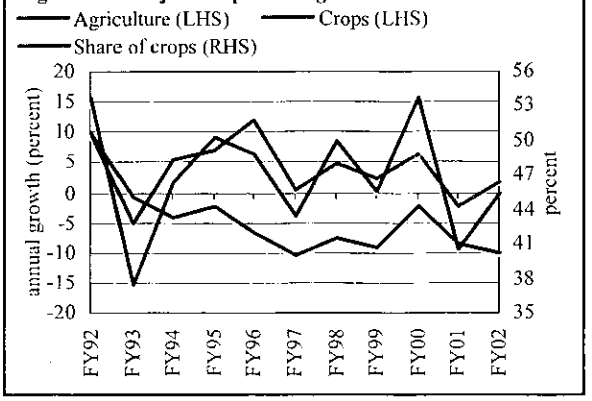
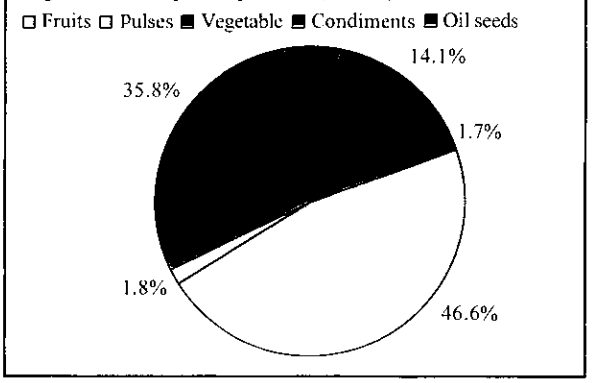


Figure 2.5: Crop Composition (Minor)



2.2.2 Minor Crops

The less thirsty minor crops, in contrast to the major crops, succeeded in posting a 1 percent growth in FY02, compared to a marginal increase of 0.1 percent in FY01. With a 17 percent share in value addition, minor crops, after major crops and livestock, occupy the third place, in terms of the contribution to agriculture. By composition, the classification contains items such as pulses, vegetables, fruits and oilseeds (see **Figure 2.5**).

With the highest share in minor crops, the fruits sub-sector is an important contributor to exports. During FY02, total fruit exports amounted to US$ 83.1 million compared to US$ 78.7 million in FY01 (see **Special Section 2.2** on *Fruits Production, Marketing and Export*).

Table 2.6: Highlights of Important Minor Crops - FY02

percent change over last year

	Area	Production	Yield[1]
Oil seeds	5.9	1.6	-4.1
Masoor	2.4	2.2	-0.2
Moong	9.0	10.5	1.4
Mash	20.6	7.4	-10.9
Potatoes	1.7	0.7	-0.9
Onion	-1.0	-11.3	-10.3
Chillies	-42.2	-46.6	-7.5

[1]: Per hectare

Source: Economic Survey, 2001-02

Among other key minor crops, the production of onion and chilies declined during FY02 (see **Table 2.6**). Marketing weaknesses and fall in prices were the main factors behind the respective declines. In particular, transport and marketing bottlenecks resulted in significant onion production losses during FY01 and FY02. This discouraged growers, particularly in Balochistan.[6] The setback to the production of chilies was on account of a sharp fall in prices during FY01 when the average retail price declined by 21.7 percent.

[6] After Punjab, Balochistan is the second highest producer of onion with around 30 percent share in the total production.

Box 2.1: Role of Tubewells in Irrigation

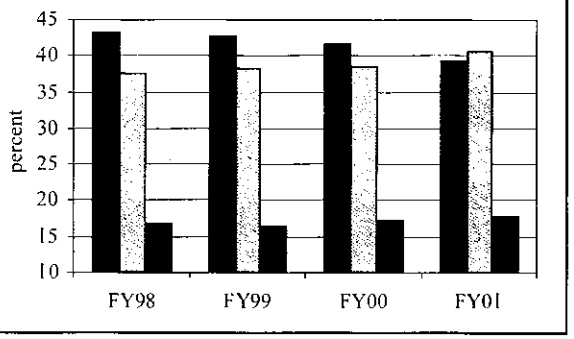
After signing the Indus Basin Treaty with India in 1960, Pakistan holds the right to use the water of three rivers, the Indus, Jhelum and Chenab. Their average annual flow was at 142 million acre feet (MAF) at the time the Treaty was signed.

However, the water flow has gradually declined. The canal head water supply, which was on average 105.6 million-acre feet (MAF) in 1990's, fell to 73.1 MAF in 2001-02, reducing water availability for Pakistani crops. Poor rains have compounded this problem in the last two years.

- In Rabi season FY02, water supply was 50.0 percent lower than the average availability (in FY01 the gap was 41.0 percent).
- The total flow in main rivers at 91.2 MAF in FY02 was significantly short of 131.7 MAF (the average annual flow during the past 24 years).
- Rainfall remained below normal levels with a decline of 8.8 percent during monsoon 2001 and a 43.2 percent fall during winter (January to March 2002).

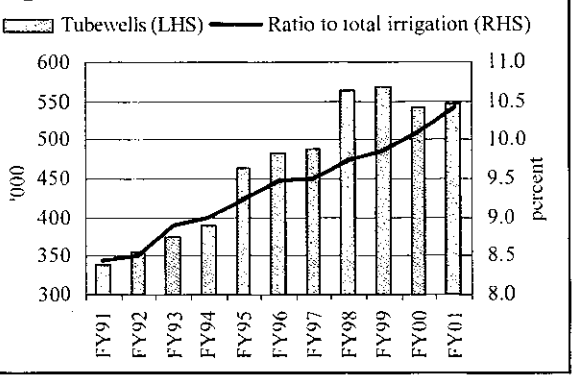
As a result, FY02 canal-head water availability was reduced by almost one-fourth compared to the average for the past ten years. The adverse affect of this grave water shortage was alleviated through (1) minimizing the water flow losses from canal-head to farm-gate, and (2) increasing water extraction through tubewells. Consequently, water channel losses were reduced to less than 5.0 percent in FY01 compared to 25.3 percent in FY99. Further, in FY01, for the first time in the past ten years, the area irrigated by canal-tubewells (installed in canal command areas) exceeded the area irrigated by canals (see **Figure 2.1.1**). The share of tubewells in total irrigation (other than canal-tubewells) is also rising; it increased from 15.3 percent in FY91 to 17.9 percent in FY01.

Figure 2.1.1: Modes of Irrigation



Installation of tubewells continued both in private and public sectors. During the past ten years, higher annual average growth at 6.2 percent has been observed in private tubewells compared to the 4.0 percent increase in public-sector tubewells. By the end of FY01, tubewells totaled 545.6 thousand, with private tubewells taking a 95.9 percent share. Consistent with number of tubewells, the ratio of tubewell irrigation to total irrigation is also rising (see **Figure 2.1.2**).

Figure 2.1.2: Tubewells vs. Irrigated Area



The high (and rising) ratio of tubewell irrigation suggests that tubewells may have helped significantly in avoiding a steep fall in the total area under cultivation, given that during the past two years this was the only alternate water source that significantly compensated for canal water shortages. In fact, the shortfall in canal-irrigated area at 11 thousand hectares in FY01 was more than offset by an increase of 24 thousand hectares by tubewells. In FY02 again, the area under tubewell irrigation increased by another 24 thousand hectare, but could not fully offset the decline of 58 thousand hectare in area under canal-irrigation.

Although, tubewell-irrigation proved helpful in easing water scarcity during past two years, its sustainability is again pegged to rainfalls and the flow of water in rivers and canals that recharge the underground water reservoirs. In fact, excessive drawing of water during periods of drought causes a rapid depletion in the underground reservoirs and limits the usage and sustainability of tubewell-irrigation.

The construction of small dams and water reservoirs by both, the private and public sectors, is essential to maintain underground water to the minimum levels necessary for the functioning of tubewells.

The increase in production of oilseeds by 1.6 percent during FY02 could not bring any improvement in the domestic share of total availability of edible oil. At present, the domestic production of oilseeds provides around 29 percent of the total domestic requirement.

2.2.3 Livestock

During FY02, livestock and poultry grew by 3.4 percent compared with 4.9 percent figure for FY01, with broad based growth in all sub-heads, their products and by-products. The highest growth was shown by the poultry sector both, in the number of birds and in the production of the poultry meat (see **Table 2.7**).

Table 2.7: Livestock Population and Products

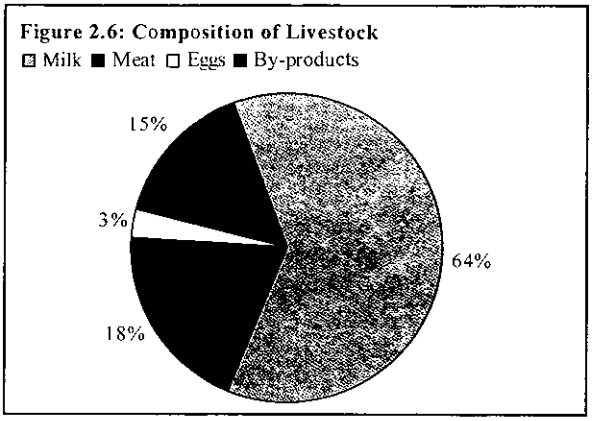
Selected Species	Million numbers FY01	Million numbers FY02	Percent change	Products	Thousand tonnes FY01	Thousand tonnes FY02	Percent change
Cattle	22.4	22.8	1.8	Milk	26,284	27,031	2.7
Buffalo	23.3	24.0	3.0	Beef	1,010	1,034	2.4
Sheep	24.2	24.4	0.8	Mutton	666	683	2.6
Goat	49.2	50.9	3.5	Poultry meat	339	355	4.7
Poultry[1]	315.6	330.0	4.6	Eggs[2]	7,505	7,679	2.3

[1]: Includes Layers, Broilers and Breeding stock

[2]: Million numbers

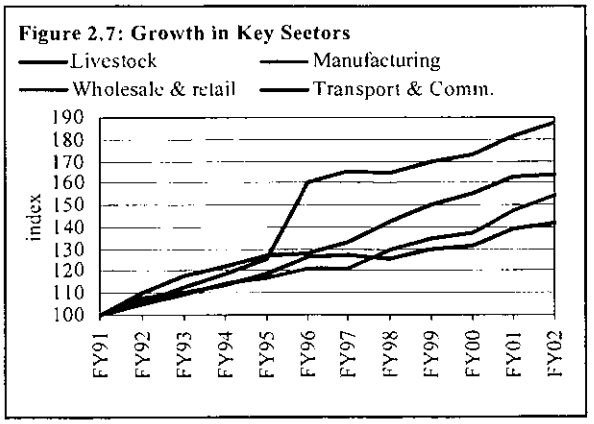
Source: Ministry of Food, Agriculture and Livestock

Milk, meat and eggs combined with by-products such as wool, skin, hides, bones, fat, etc., are all constituents of the livestock sector, with milk having the highest share (see **Figure 2.6**).



In addition, many other economic benefits like farmyard manure, draught power and to some extent, means of transport for carrying market surplus to urban centers, also accrue on account of this sector.

With the consistent growth spread over the past two decades, the livestock sub-sector seems set to capture the highest share in agriculture. This silent transformation is creeping forward through the concerted efforts of farmers coupled with the change in demand pattern for livestock products in Pakistan. At present, livestock is emerging as one of the fastest growing sector of the economy (see **Figure 2.7**).



By FY02, the share of livestock reached 38.4 percent in agriculture as against 28.8 percent in FY92. Similarly, value addition to real GDP also increased during the period by around 77 percent. The extraordinary growth in FY96 is on account of the revision made in the value addition

based on the livestock census held in that year. While the livestock value added income showed steady increase, the variability in the output of other sub-sectors led to a volatility in its relative share in agriculture income (see **Figure 2.8**).

A key reason for the robust growth in this sub-sector is the regular income livestock brings to farmers, providing critical financial support[7], during periods when farmers face cash flow problems e.g. the inter-crop period. Also, while big farmers adopt livestock farming to diversify their sources of income, small farmers or landless rural households are attracted by the support it provides to their meager income from crops. In some rural areas women have been observed undertaking livestock farming to generate an independent income stream. Also, among the farming community, livestock heads are important assets and are often used as collateral; they therefore prefer to keep as many cattle heads as they can.

Poultry is another fast growing activity. Commercial projects situated either in the outskirts of cities or towns account for most of poultry production. However, a meaningful share comes from rural poultry, which contributes around 10 percent of the production of day-old chicks. Interestingly, the number of layers produced by rural poultry substantially exceeds the production of commercially raised layers. During FY02, commercially produced layers were 18.4 million compared to 32.0 million raised through rural poultry.

Figure 2.8: Share of Livestock in Agriculture

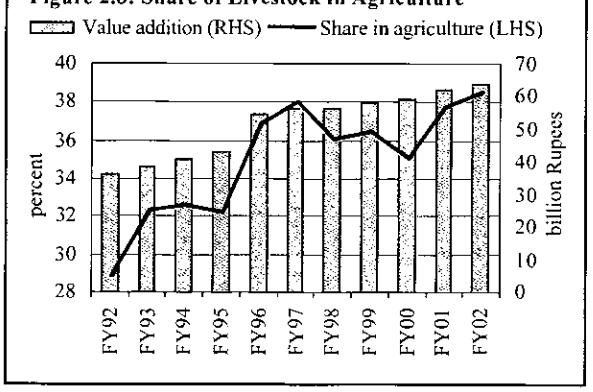


Figure 2.9: Milk vs. Important Crops (value added)

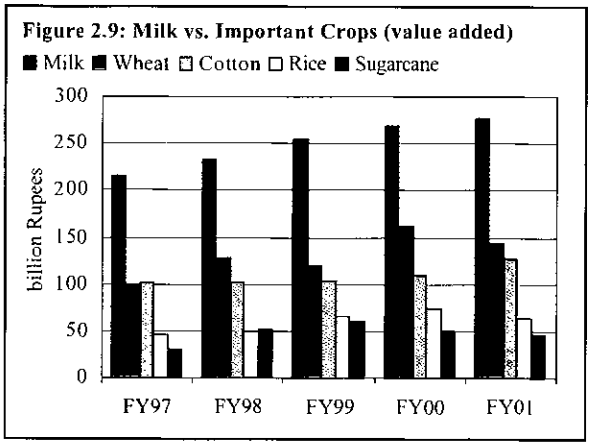


Table 2.8: Per Capita Annual Consumption

Item	Unit	Rural	Urban
Milk (fresh and boiled)	Liter	77.9	75.6
Milk (packed)	Liter	0.2	0.6
Milk (dry/condensed)	Gram	120	240
Biscuits	Gram	507.8	848.4
Mutton	Kilogram	1	2
Beef	Kilogram	3.1	4.8
Chicken	Kilogram	1.2	2.4
Eggs	Number	18	36

Source: Agricultural Statistics of Pakistan, 2000-01

Milk accounts for two-thirds of livestock products by value. Its share in value addition to GDP at current prices is higher than the contribution by any of the major crops. With the continuation of steady annual increase in production, its share is expected to grow further (see **Figure 2.9**).

Future Growth Prospects

In addition to increase in incomes, the impetus to demand for livestock comes from the growing urbanization, and resulting change in dietary habits. In cities, people use higher quantity of food such

[7] In an article published in FAO magazine 'Agriculture 21' the author says "In general, rural poultry provide scarce animal protein in the form of meat and eggs. But they are also a kind of 'credit card', instantly available for sale or barter in societies where cash is not abundant".

as, e.g. mutton, beef, chicken, milk preparations, eggs and bakery products, than their counterparts in villages (see **Table 2.8**). Another factor supporting livestock growth in Pakistan is the demand for sacrificial animals for Eid-ul-Azha.

With higher incomes in urban areas, the domestic and commercial use of livestock products and by-products, is on the rise. A comparison between outcomes of 'Household Integrated Economic Surveys' of 1990-91 and 1998-99 shows significant shift in the consumption pattern of meat and vegetables. Over the period, per capita consumption of mutton and chicken rose by 6.3 percent and 81.8 percent, respectively, while that of beef declined by 25.9 percent. Moreover, consumption of eggs registered an increase by 28.3 percent. On the other hand, per capita consumption of vegetables and pulses has declined by 22.9 percent and 26.3 percent. This, interestingly, shows strong evidence of changes in consumption pattern (more preference towards animal based foods) with changes in income and living standards. Despite a rise in domestic consumption, there is also a large potential for livestock exports to the Gulf and Middle Eastern region.

In low-income countries, about 11 percent of calories and 26 percent of protein are on average, derived from animal food, while these averages for developed countries are 27 and 56 percent, respectively. In Pakistan, the daily per capita availability of calories and proteins is slightly better than the South Asian region, but lower than that of low-income countries (see **Table 2.9**).

Table 2.9: Per Capita Availability of Calories and Protein

	1997		% Change over 1970	
Countries	**Calories**	**Protein[1]**	**Calories**	**Protein**
Pakistan	2476	61	12.4	10.6
India	2496	59	19.9	12.9
Bangladesh	2085	45	-5.1	-4.5
South Asia	2467	59	17.3	12.7
High income	3412	105	12.2	14.3
Medium income	2889	78	15.2	17.6
Low income	2596	65	25.9	30.7

[1]: In grams

Source: World Development Indicators, 2001

A comparison of per hectare yield of major crops and average production of milk per cow/buffalo in Pakistan with the world averages reveals that greater potential of growth lies in the production of milk, the largest element in the non-farm sector. It will be noted that during FY02 imports of milk and milk products amounted to Rs 435 million compared to Rs 633 million in FY01.

Recognizing the potential of livestock and poultry, government has announced a number of measures in the agricultural package, which are listed in the **Appendix** *on Policy Measures for Agriculture.*

2.2.4 Fishing

The fishing activities cover commercial and subsistence fishing in ocean, coastal, offshore waters as well as in inland waters. During FY02, with the contribution of 3.6 percent to the value addition in agriculture, the fishing sub-sector grew by 4.0 percent against 3.7 percent decline last year. .Total fish production both from inland and marine sources during the year was 654.5 thousand tons compared to 629.0 thousand tons last year. Similarly, exports of fish and fish preparations also increased from 82.0 thousand tons last year to 84.5 thousand tones during FY02.

2.2.5 Forestry

Value addition through the forestry sub-sector, with a tiny share of 1.1 percent in agriculture sector, registered 1.1 percent growth in FY02 compared with 9.9 percent last year. As the value addition in forestry comes from the sale of timber, its growth in the present scenario is not encouraging because it leads to an increase in deforestation (for detail see **Box 2.2** on *Forests Development in Pakistan*).

Box 2.2: Forests Development in Pakistan

Forests protect the fragile mountain ecosystem; fight against pollution, protect the watersheds and help greatly in abating floods and drought. In addition to being the main source of timber, fuel wood and resin, forests also fulfill the increasing grazing requirement for the cattle. The total area of forests being lost each year might not be very large but the impact on the remaining forests, their biodiversity, and their continued ability to perform their environmental functions and provision of economic goods could be much greater.

Forests constitute around 4.8 percent (4.2 million hectares) of the total land in Pakistan, which is very low as compared to the benchmark of 26 percent for developing countries. Pakistan has only 0.03 hectare of forest per capita, against a recommended level of 0.5 hectare for developing countries.

Pakistan's forests are mostly located in the northern parts of the country (40 percent in the NWFP, 15.7 percent in the Northern Areas, and 6.5 percent in the AJK), largely privately owned. Survey results indicate that 52 percent of timber and 90 percent of firewood comes from these private forests.

The Forest Act, 1927 and the Environment Protection Ordinance, 1983 provide legal support for protecting and conserving forests. Environmental protection and ecology are also included in the concurrent legislative list of Pakistan's 1973 constitution. In spite of all these measures, deforestation is taking place at a very high rate.

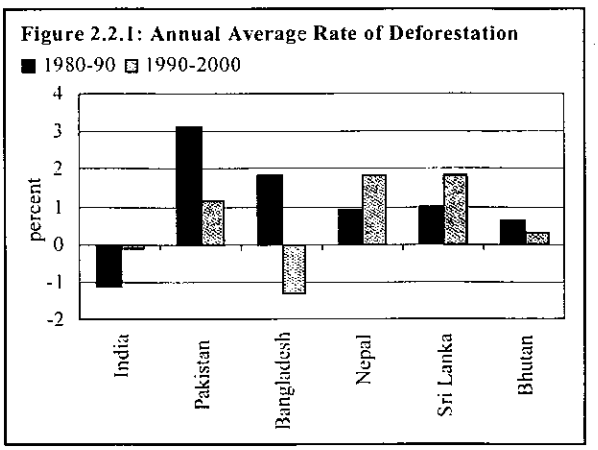
As a result, Pakistan is the third highest loser of forests among countries experiencing very high rates of deforestation[8] (see **Table 2.2.1**). It must be remembered that Pakistan already has a large deficit in forest coverage compared to other countries of the region (see **Figure 2.2.1**).

Table 2.2.1: Deforestation Rate

Country	Ranking	% Annual loss
Philippines	1	3.5
Sierra Leone	2	3.0
Pakistan	3	2.9
Thailand	4	2.6
Paraguay	5	2.6
Central America	6	2.1
Caribbean Island	7	1.7
Cambodia	8	1.6
Ecuador	9	1.6
Myanmar	10	1.6

Source: FAO Publication, 1997

Figure 2.2.1: Annual Average Rate of Deforestation



Although regeneration and afforestation, are the only tools to mend the loss done by the deforestation, there are some problems related to afforestation. Such forests have characteristics different from natural forests in their species, composition complexity, biological diversity, and in the benefits they bring to the society; thus they are less profitable as compared to natural forests. Utmost efforts should, therefore, be focused on conserving the natural forests. As the existing forests are widely scattered, it is very difficult to detect illegal cutting of trees. Local population could have proved helpful in arresting illegal deforestation, but the lack of awareness among the populace has not allowed the widespread promotion of Social Forestry in the country.

2.2.6 Credit to Agriculture Sector

Agriculture credit has traditionally been used for purchasing inputs, and to finance developmental activities such as purchase of tractors, installation of tubewells, development of land, etc. The ratio of agricultural credit to agricultural GDP (at current factor cost), which was at 4.9 percent during 1990s, has improved to 6.3 percent during FY02. With the recent improvements in credit delivery e.g. the policy of revolving credit, de-zoning of the commercial banks' territory, etc., it has become easier for the farmers to manage their loan portfolio more effectively.[9]

[8] FAO (1998) reported that Pakistan deforestation rate from 1990 to 1995 had been 55000 hectare annually

[9] With the provision of revolving credit, the farmer now can avail the loan and make the repayment throughout the year irrespective of the cropping season. Earlier, full settlement of the previous crop loan was required to get the loan for the next crop. Further, no fresh documentation is required at the time of each renewal of the credit line.

Simultaneously, with the removal of the cap on mark-up rates[10] and expansion in the scope of agricultural credit, it has become attractive for the commercial banks to lend to the agriculture sector, either directly or by using the branch network and expertise of Agricultural Development Bank of Pakistan.[11]

Disbursements

In line with expectations, and consistent with policy changes made by the SBP during past two years, a robust growth of 17.1 percent was witnessed in the disbursement of credit during FY02 with a record amount of Rs 52.4 billion (see **Table 2.10**). The encouraging feature was the rising share of commercial banks in the overall disbursement to agriculture. Since the implementation of the changes in credit policy introduced in FY01, the share of commercial banks has risen sharply (see **Figure 2.10**).

Table 2.10: Purpose-wise Disbursement of Credit

million Rupees	FY01	FY02	% Change
Production	34,310	43,426	26.6
Percent share in total	*76.6*	*82.8*	8.1
Development	10,480	9,021	-13.9
Percent share in total	*23.4*	*17.2*	-26.5
Total	**44,790**	**52,446**	**17.1**

Source: Agriculture Credit Department, SBP

Province-wise distribution of credit reflects that Punjab with the largest area under crops takes the highest amount of credit, followed by Sindh, NWFP and Balochistan (see **Figure 2.11**). The situation becomes different when per hectare availability of credit is taken into account. Interestingly, Sindh takes the lead with an average disbursement of Rs 3,978 per hectare; next comes Punjab with Rs 2,890, followed by NWFP (Rs 1458/hectare) and Balochistan (Rs 937/hectare). This wide variation is mainly attributable to: (1) the financial position of farmers in the respective province, (2) variation in land holdings, (3) repayment position and track record, (4) interest of farmers towards institutional credit, and (5) concentration of agricultural activities.

Figure 2.10: Disbursement of Agricultural Credit

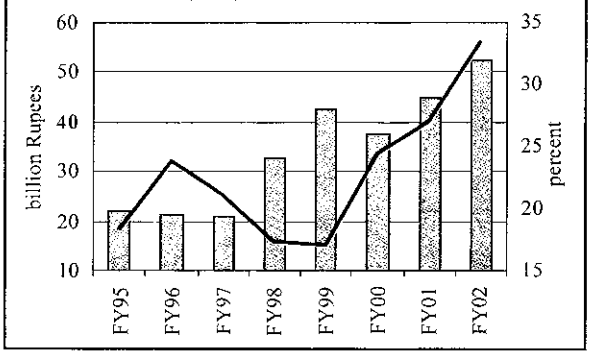
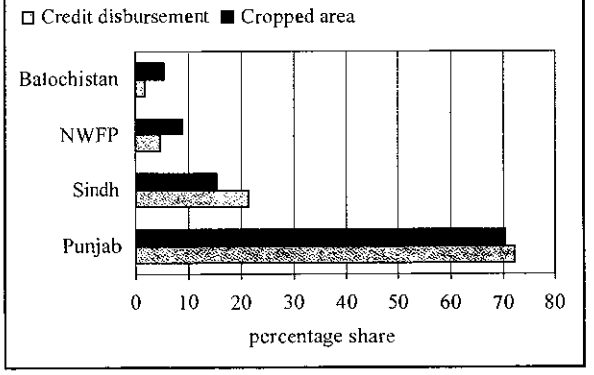


Figure 2.11: Credit & Area Under Crops



A comparison of provincial credit demand computed on the basis of a methodology developed by SBP and the information provided by each of the respective provincial departments, shows that the share of Sindh in total credit *demand* is higher relative to its share in total cropped area.

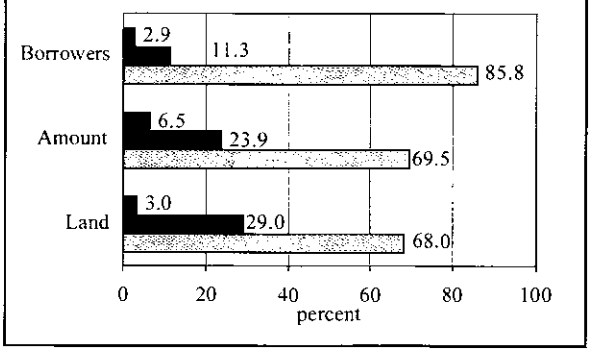
The functional distribution of credit showed that during FY02, around 83.0 percent of the total credit was disbursed for production purposes, while the remaining was given for development purposes (see **Table 2.10**). The lower off-take in development credit, as pointed out earlier, was the outcome of a decline in farm incomes during FY02, which compelled the farmers to defer their capital expenditures.

[10] SBP has not fixed any maximum or minimum mark-up for lending to agriculture sector by commercial banks. However, lending by ADBP and Provincial Cooperative Banks cannot exceed mark-up of 14 percent per annum.

[11] For detail see page 24 in the SBP *Annual Report* for FY02.

The credit distribution by size of holding shows that the subsistence farmers were the major beneficiaries of institutional credit, in proportion to their share in overall land holdings (see **Figure 2.12**).

Figure 2.12: Holding-wise Distribution of Credit



Recovery

Consistent with the concerted recovery drive launched by banks, the recovery of agri-loans saw an improvement of 11.7 percent during FY02. In fact, the amount recovered, at Rs 53.5 billion, was even higher than the overall disbursement made during the year. This was the second successive year that recoveries remained greater than disbursements.

During FY02, most of the loan recovery pertained to current dues, while the recovery of past due loans was weaker. Interestingly, this phenomenon is observable across all categories of banks (see **Table 2.11**). The above recovery pattern leads to the following conclusions:

Table 2.11: Recovery Performance[1]

percent

	Current dues			Past dues		
	FY01	FY02	Change	FY01	FY02	Change
ADBP	64	68	6.4	34	25	-26.6
Commercial banks[2]	78	86	10.7	44	42	-4.4
Cooperatives	52	54	5.4	38	26	-31.0
Total	66	71	8.4	36	28	-22.2

[1]: July-May

[2]: Includes: NBP, HBL, MCB, UBL, and ABL

Source: Agriculture Credit Department, SBP

- Recent loaning was prudent, enabling higher recoveries on current dues.
- Commercial banks have shown a substantial improvement during FY02 by achieving more than 85 percent recovery of the dues, while the ADBP is still unable to recover almost a third of its current dues.
- Overall decline in recovery of past-due loans during FY02 reflected that the probability of recovery from the stock of old loans appears remote.

Net agriculture credit (disbursements less recovery) declined by Rs 1.0 billion during FY02 (see **Table 2.12**), but the outstanding amount *increased* from Rs 93.4 billion at end-June FY01 to Rs 101.5 billion in FY02, on account of accrued interest on past-due loans. It must be noted that with less than

Table 2.12: Credit to Agriculture Sector

billion Rupees

	Disbursement			Recovery			Net credit[1]		Outstanding	
	July-June		Percent	July-June		Percent	July-June		by end June	
	FY01	FY02	Change	FY01	FY02	Change	FY01	FY02	2001	2002
ADBP	27.6	29.1	5.4	31.9	33.4	4.8	-4.3	-4.3	10.4	13.3
Commercial banks[2]	12.1	17.5	45.0	10.9	14.8	35.1	1.1	2.7	79.9	83.7
New private CBs[3]	--	0.6	--	--	0.5	--	--	0.1	--	0.7
Cooperatives	5.1	5.3	2.9	5.0	4.8	-4.5	0.1	0.5	3.1	3.7
Total	44.8	52.4	17.1	47.8	53.5	11.7	-3.0	-1.0	93.4	101.5

[1]: Net credit = disbursement minus recovery

[2]: Includes: NBP, HBL, MCB, UBL, and ABL

[3]: New private commercial banks started lending in FY02

Source: Agricultural Credit Department, SBP

100 percent recovery in current dues, and a deteriorating recovery ratio of past-due loans,[12] the outstanding stock of agricultural loans will continue to grow. This will ultimately restrict banks' capacity to meet the increasing demand from the sector.

2.3 Industry

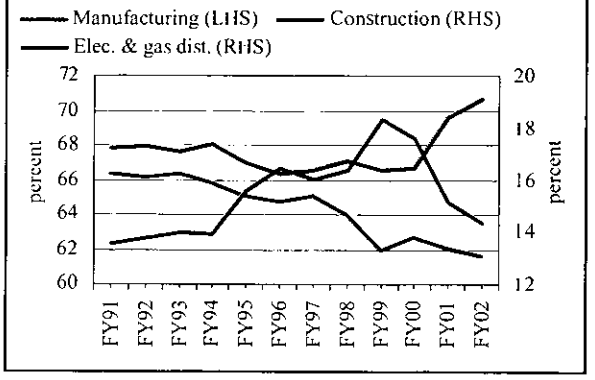
During FY02, an uncertain political and economic environment in the region affected industrial activities adversely; the total value added by industry rose to Rs 172.3 billion, representing a 2.8 percent growth – lower than the previous year's 3.1 percent growth (**see Table 2.13**). This slowdown was mainly caused by the weak performance of the manufacturing sector during FY02.

Table 2.13: Sectoral Growth of Industrial Value Added
at constant factor cost of 1980-81

Description	Growth rates	
	FY01	FY02
Manufacturing	7.6	4.4
Large-scale	8.6	4.0
Small-scale	5.3	5.3
Mining & quarrying	4.3	3.8
Construction	-0.4	0.9
Electricity & gas dist.	-11.0	-2.7
Industry	**3.1**	**2.8**

Source: Economic Survey 2001-02

Figure 2.13: Sectoral Shares in Industrial Value Added



In fact, due to its large share in overall industrial value addition, the manufacturing sector typically accounts for most of variation in industrial growth.[13] This was particularly true in FY02, when growth in value added by large-scale manufacturing (LSM) decelerated to just 4.0 percent compared to a growth of 8.6 percent in the preceding year.

The uncertain situation that emerged during the first half of FY02, resulted in low investor confidence as reflected in a decline in investment in LSM during FY02, despite a considerable improvement in the macroeconomic environment. During FY02, gross fixed capital formation in LSM recorded a sharp decline of 44.0 percent, causing a 5.9 percent fall in gross fixed capital formation by the industrial sector as a whole, for the first time in the last 20 years. There was also a drop in foreign direct investment (FDI) into LSM industries, other than textiles, leather and electronics.

FY02 also saw a considerable increase in focus on the development of small and medium enterprises (SMEs). However, its contribution to overall industrial value addition cannot be ascertained until the next survey of Small and Household Manufacturing Industries (SHMI) is conducted.[14]
The share of manufacturing in overall industrial value added grew marginally to 70.7 percent in FY02, at the expense of the other components (see **Figure 2.13**).

[12] The recovery ratio for past-due agri loans was 28 percent in FY02 compared to 36 percent in the preceding year.
[13] More specifically, LSM contributes the most within manufacturing sector, as small-scale manufacturing is assumed to grow at a constant rate of 5.3 percent per annum.
[14] The last such survey was conducted in 1996-97.

2.3.1 Large-scale Manufacturing[15]

The overall growth in LSM was weak during FY02, mainly because (1) a strong growth of 9.5 percent during FY01 had already raised the bar for LSM growth through a "high-base" effect, and (2) FY01 had seen the impact of new capacities in petroleum, fertilizer and automobile industries, while FY02 witnessed a net loss of capacity.[16]

Given these developments, the growth in LSM remained low at 4.3 percent during FY02. The trimmed growth rate was also down (see **Table 2.14**)[17] suggesting that the growth during FY02 was not only weaker but also narrowly based. During FY01, only one of 14 sub-categories saw output declines, with most others witnessing acceleration in output. By contrast, during FY02, the growth decelerated for many of the sub-categories (see **Figure 2.14**) while one-third of the sub-categories posted declines. The slowdown was particularly visible in the fertilizer, basic metals, leather, automotive, construction, and engineering-related industries.

The business uncertainty following the September 11 events, and the border tensions with India badly hit LSM in FY02; textiles, in particular, was hurt by the cancellation of export orders. Fortunately, it later benefited from increased access to key markets, and as a result, the pace of manufactured exports, which had been slowing since Q4-FY01, recovered by Q4-FY02 (see **Figure 2.15**). Also, domestic demand for electronics and cars remained strong throughout the year, pushing up overall capacity utilization in these industries, reflecting the increased availability of consumer credit. Finally, the sugar industry showed an increase in output relative to FY01.

Figure 2.14: Growth in Selected Industrial Groups

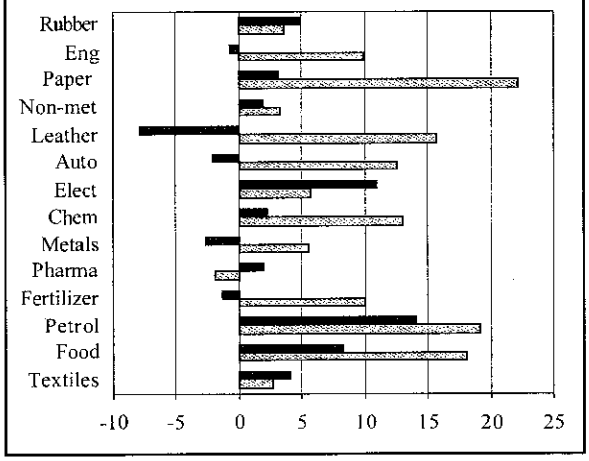


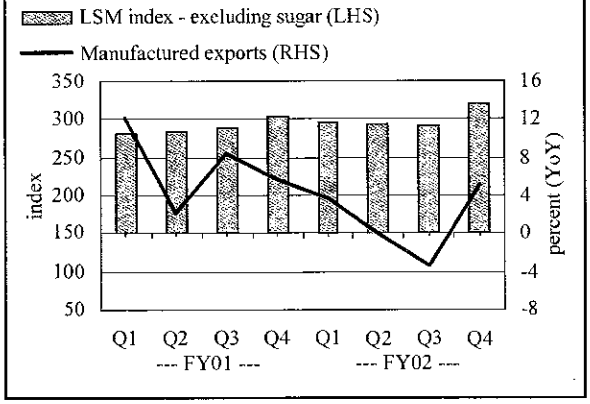
Table 2.14: Summary of LSM Growth Rates

percent

	FY01	FY02
Overall	9.5	4.3
Excluding sugar	7.7	3.5
Excluding petroleum products	8.9	3.7
Trimmed	7.9	3.5

Source: Federal Bureau of Statistics

Figure 2.15: Manufactured Production and Exports



[15] This section is based on the latest 12-months provisional data on the production of 96 LSM items. The growth rate of the LSM is calculated from the quantum index of manufacturing (QIM) constructed using production numbers. Therefore, it would differ from the growth rate quoted in **Table 2.1** and **Table 2.13,** which are based on the value added by LSM during the first nine months (i.e. July-March) of the FY02.

[16] During FY02, the DAP plant of the Fauji Jordan Fertilizer closed down operation in October 2001. Although, in the second half of FY02, a cement plant (Saadi cement) started trial operations, this did not have a significant impact on the performance of LSM.

[17] The trimmed growth rate is calculated after excluding 5 percent outliers each for the best and worst performing LSM sub-sectors. The objective is to come up with a robust measure of central tendency while minimizing the impact of volatile sectors that create biases in overall growth.

Table 2.15: Production of Selected Large-scale Manufacturing Items

Items	Weights	Percent change		Items	Weights	Percent change	
		FY01	FY02			FY01	FY02
Textile	**19.069**	**2.76**	**4.12**	**Chemicals**	**2.849**	**12.97**	**2.26**
Cotton yarn	8.850	3.06	4.24	Caustic soda	0.621	2.98	3.85
Cotton cloth	4.881	12.12	13.35	Soda ash	0.320	-11.32	-1.23
Cotton ginned	3.893	-4.50	-1.12	Other nine items	1.908	22.90	2.00
Other five items	1.445	2.14	-7.73	**Electronics & apparatus**	**2.681**	**5.65**	**11.00**
Food, beverages & tobacco	**17.336**	**18.16**	**8.18**	Electric transformers	0.577	-20.81	39.94
Sugar	**8.630**	21.67	9.83	Storage batteries	0.451	-0.14	10.31
Vegetable ghee	3.004	19.41	-7.24	TVs	0.363	-19.93	-20.24
Cigarettes	2.505	24.02	-5.05	Air conditioners	0.120	47.71	-47.89
Tea	1.785	-15.65	18.22	Refrigerators	0.015	28.76	15.21
Beverages	0.964	8.99	-1.96	Other five items	1.155	6.23	9.72
Cooking oil	0.448	15.72	27.06	**Automobile**	**2.348**	**12.53**	**-2.08**
Petroleum products	**7.824**	**19.17**	**14.06**	Trucks	0.698	-2.56	19.85
Fertilizer	**5.871**	**9.98**	**-1.32**	Tractors	0.593	-7.09	-25.26
Nitrogenous	5.441	5.42	4.55	LCVs	0.369	4.64	21.91
Phosphatic	0.430	75.46	-51.90	Cars & jeeps	0.309	21.90	2.85
Pharmaceuticals	**5.798**	**-1.95**	**1.95**	Motorcycles	0.249	24.22	13.13
Tablets	2.705	-3.83	5.20	Buses	0.130	-11.34	-17.80
Liquid / syrup	1.602	1.32	-4.12	**Non metallic minerals**	**1.915**	**3.36**	**1.95**
Injections	0.466	-2.14	7.01	Cement	1.846	3.87	2.70
Capsules	0.228	-2.16	-1.23	Glass sheets	0.069	-9.76	-20.50
Galenicals (Tincture)	0.179	4.17	-4.00	**Paper & board**	**1.359**	**22.21**	**3.13**
Ointment	0.104	-10.79	15.45	**Engineering items**	**0.865**	**9.83**	**-0.66**
Basic metal industries	**3.317**	**5.52**	**-2.72**	Bicycles	0.348	6.64	-4.07
Pig iron	1.477	-3.19	-2.65	Metal containers	0.153	11.67	0.08
Coke	1.319	8.25	-3.16	Diesel engines	0.109	2.04	-36.00
Billets	0.311	20.48	-0.64	Sewing machines	0.065	-2.83	-10.53
H.R/coils and plates	0.074	-9.81	-13.39	Power looms	0.051	-45.06	92.47
C.R coils / plates / sheets	0.013	-12.12	-14.59	Other six items	0.139	20.28	3.66
Leather products	**2.333**	**15.70**	**-7.90**	**Tyres & tubes**	**0.452**	**3.54**	**4.85**

Note: The items included in chemicals, automobile, pharmaceuticals and engineering sub-sectors were readjusted that resulted in change in number of items, as well as, the weights of these sub-categories. Therefore, chemicals moved up in the order with respect to its weight.

Source: Federal Bureau of Statistics

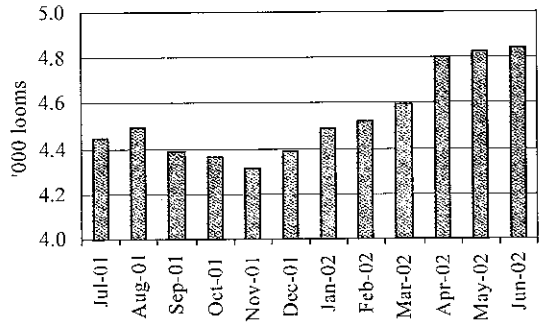
The recovery in textile, in particular, is very encouraging, given its substantial weight in LSM. Production of the *textile industry* recorded a growth of 4.1 percent during FY02 against 2.8 percent in the preceding year, as the impact of H1-FY02 policy adjustments was enhanced by increased access to the EU markets in H2-FY02. The government acted to accelerate payments of tax refunds, even as the SBP lowered key interest rates and re-instated its concessional export refinance facility for some major products.[18]

As a result, the working capacity of the industry, particularly in the weaving sector, started rising appreciably towards the end of CY01. This is mainly because concessions by the EU targeted value added textiles rather than grey cloth and cotton yarn. The working capacity of the *mills sector,* that

[18] In order to promote value addition in textile industry, SBP discontinued financing facility for low value added products like cotton yarn, bleached / unbleached fabrics etc. However, in view of the changing situation, the SBP included the low value added bleached cloth to avail the concessionary refinance facility on the condition that its export price would not be less than US$ 3 per square meter.

had fallen to as low as 4.3 million looms by November 2001, increased to 4.8 million looms by the end of FY02. As a result, the annual average working capacity of the mills sector during FY02, showed an 8.1 percent increase over the preceding year (see **Figure 2.16**).

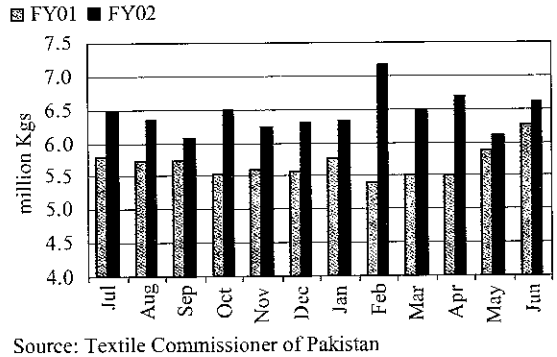
Figure 2.16: Working Capacity (Mill Sector)



Source: Textile Commissioner of Pakistan

As mentioned in the third SBP *Quarterly Report* for FY02, the rising domestic consumption of cotton yarn indicates increasing value addition in the textile industry (see **Figure 2.17**). It is also encouraging to note a similar shift within the weaving sector; the product mix is changing in favor of high value added dyed & printed cloth.

Figure 2.17: Yarn Consumption (Mill Sector)



Source: Textile Commissioner of Pakistan

During FY02, the share of dyed & printed cloth rose in overall production compared to lower value added grey cloth, although the latter continues to hold top position with respect to the quantity produced. The share of the dyed & printed cloth increased to 27.2 percent during FY02 from 25.5 percent last year, while the share of grey cloth declined from 56.7 percent to 56.0 percent in the same period.

In contrast to the performance of textiles, the production of the leather industry declined, but this was not reflected in weakening exports. During FY02, the exports of leather footwear increased by 22.2 percent while its production declined by 5.4 percent.[19] Therefore, it appears that the industry is mainly drawing down inventories. It should be noted that on the supply side there was no contraction in the availability of raw material as the import of raw hides and skins showed an increase of 41.2 percent during FY02.

In the consumer goods industries, output of the *food, beverage and tobacco* group increased by 8.2 percent during FY02, against a robust growth of 18.2 percent last year. The major item that recorded an output decline in this group was *vegetable ghee*, while growth in the production of sugar remained lower (at 9.8 percent) relative to the 21.7 percent growth in FY01. The increase in domestic sugarcane supplies during FY02 provided a boost to the output of sugar even over the high production in FY01.[20]

The *ghee* industry heavily depends on imported edible oil, as the domestic production hardly meets 28.8 percent of total requirements.[21] Palm oil prices rose in international market while its import quantum increased by 14.5 percent during FY02. Since traditionally the imported palm oil is mostly used to produce ghee, rising imports should have been reflected in higher production of ghee.

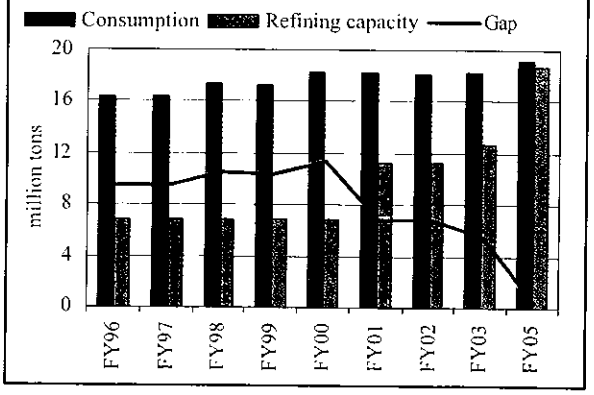
[19] Leather footwear is the major item included in LSM. Its share in total leather & leather product exports from Pakistan is approximately 4.0 percent.

[20] During FY01, sugar was also produced by processing imported raw sugar to offset the poor sugarcane crop.

[21] There are two broad categories of edible oil: hard and soft oil. The palm oil is considered as hard oil, and is mostly used to produce ghee only, while soyabean, safflower and sunflower oil are categorized as soft and these are mostly processed to produce cooking oil.

However, the production declined 7.2 percent YoY, due to a substitution between ghee and cooking oil, as could be gauged from the 27.1 percent increase in the production of cooking oil during FY02. Also, anecdotal evidence suggests that unregistered manufacturing units have eaten into the market share of the formal sector producers. [22]

Figure 2.18: Domestic Consumption & Production Capacity



The production of *petroleum products* has been showing significant increase over the last couple of years. During FY02, production rose by 14.1 percent, on top of a 19.2 percent growth last year. This improvement was mainly due to the Pak Arab Refinery (PARCO), which has been gradually expanding its capacity utilization since its establishment in Q1-FY01.[23] Although the consumption of petroleum products declined by 3.0 percent during FY02, the large gap between actual consumption and domestic refining capacity continue to drive up domestic production. The gap, which has already come down to around 6 million tons per annum with the establishment of PARCO, is expected to further contract by the mid-FY03, when another refinery (Bosicor Pakistan Refinery) with 1.4 million tons per annum capacity is to become operational. Yet a third refinery (Iran-Pak Refinery), with 6.0 million tons per annum capacity, is to become operational by 2005 (see **Figure 2.18**).

This growth in the petroleum industry is the result of a number of incentives provided under the Petroleum Policy of 1997. These incentives include zero duties/taxes for the import of machinery and equipment, construction of oil pipelines on competitive tariffs, and de-regulation in the lubricant industry.

The production of *fertilizer, chemicals and pharmaceuticals* remained depressed during FY02. Decline in the production of *fertilizer* by 1.3 percent during FY02 against 10.0 percent increase in the previous year, was mainly due to the closure of Di-Ammonium Phosphate (DAP) plant by the Fauji Jordan Fertilizer Company (FJFC) last year. The major reasons were the rising cost of production (mainly due to imported raw materials), and increasing competition from cheap imports.

Also, the margins of urea producers were also under pressure in FY02; natural gas (a key input) prices rose, even as lower farm incomes and water shortages held down demand.[24]

The production of *chemicals* increased by only 2.3 percent during FY02 against a strong growth of 13.0 percent last year (see **Table 2.16**). This was mainly due to a sharp decline in the production of *paints & varnishes* (liquid and solid), as against growths of 60.0 and 48.7 percent respectively during FY01. Paints & varnishes are mostly used in the automobile and construction industries, whose performance was not impressive during FY02. Since, *caustic soda* is

Table 2.16: Contributions in Growth of Chemicals

	Weights	FY01	FY02
Chemicals (overall)	2.849	13.0	2.3
Excluding paints & varnishes	2.295	6.0	6.4
Excluding soda ash	2.529	15.9	2.6

[22] These units supply their unbranded product to restaurants and other such consumers. This is resulting in closure of large registered units, and hence, the recorded production is declining.

[23] Since, PARCO started production in September 2000, its full year impact is reflected in FY02.

[24] Under the gradual subsidy reduction program announced in Fertilizer Policy 2001, the prices of feed gas were increased by 5.0 percent in July 2002. To eliminate the remaining 10 percent subsidy, the prices were to increase by 2.5 percent annually.

mostly consumed by the textile industry, its production usually follows similar trends. The FY02 decline in the production of soda ash, however, was mainly due to the closure of Sindh Alkalis Limited, a major producer.

Price rises of 3.0 and 4.0 percent, for controlled and decontrolled categories of medicines respectively, coupled with the appreciation of the Rupee (lowering costs of imported inputs) during FY02, resulted in a 2.0 percent increase in the production of *pharmaceuticals*.

The production of *consumer durables*, especially of cars & jeeps, motorcycles, LCVs, etc. has been showing improvement over the last couple of years.[25] This reflects rising availability of consumer finance; in fact, many manufacturers have entered into contracts with leasing companies and commercial banks to finance purchases of their products.

The increased availability of lease financing for the purchase of home appliances was also reflected in the higher production of air conditioners and refrigerators since FY00 (see **Table 2.17**). It is estimated that around 25 percent of all consumer durables (excluding vehicles) are purchased on installments.[26] In addition, due to increased vigilance on the Afghan border since the war on terrorism began, smuggling of electronics into Pakistan declined, expanding the market for domestic production.

Table 2.17: Sale of Domestically Manufactured Air conditioners and Refrigerators

'000' numbers

Year	Air conditioners	Refrigerators
FY99	38.4	186.5
FY00	40.3	202.0
FY01	43.0	223.0
FY02	46.0	250.0

In the *electronics and electric machinery* sub-sector, the manufacture of electric transformers, after showing persistent declines over the last few years, increased significantly during FY02.[27] This higher production was mainly driven by higher exports and tubewell installations. The exports of transformers more than trebled in FY02 over the previous year, rising to 2,514 transformers compared with only 700 earlier. Also, the persistent water shortage over the last couple of years resulted in greater reliance on tubewells, which use transformers

Although the production of motorcycles, cars, etc. increased during FY02, the overall growth of the automobile group declined by 2.1 percent due to a sharp fall in the production of tractors and buses. In fact, the production of cars, could not keep pace with growing demand, as production rose by only 2.9 percent. Interestingly, while the cost of production declined, mainly due to the appreciating Rupee and lower financing costs, prices of cars showed an upward trend.

The production of tyres & tube industry usually follows growth in automobile industry, but despite a decline in the production of automobile during FY02, this industry showed a stronger growth of 4.9 percent compared to 3.5 percent last year. Anecdotal evidence suggests that the discontinuation of smuggling of tyres and tubes from the Afghan border created an additional demand for the local production.

The impact of the slowdown in construction activities over the last few years was also reflected in slackness in related industries such as *basic metals, glass* and *cement*. However, the production of

[25] The production of air conditioners increased sharply during FY00 and FY01. The total manufacturing of air conditioners stood at 4,821 and 7,121 in these two years, respectively. Historically, the production of air conditioners has been showing erratic growth. This year too, it showed a sharp decline of 47.9 percent.

[26] This figure is provided by National Management Consultant (NMC) survey conducted in 1998.

[27] During FY02, the manufacturing of transformers increased by 39.9 percent against 20.8 and 12.5 percent declines in FY01 and FY00 respectively.

basic metals, mostly contributed by Pakistan Steel Mills, was also affected by reduction in tariffs on the import of various steel products in the FY02 budget. Although the consumption of steel increased by 4.7 percent during FY02, most of the requirements were met through imports and supplies from ship breakers, etc.

The supplies of steel from ship breakers increased by 25.8 percent during FY02, while import quantum of iron and steel increased by 37.2 percent. The lower sale of domestic steel products is also evident from the increase in stocks with Pakistan Steel that went up by 17.9 percent during FY02. These developments led to a reduction in its capacity utilization during FY02.

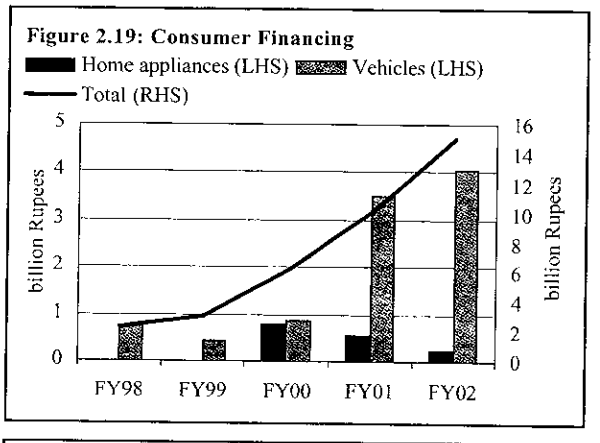
The second construction-related group of industries i.e., *non-metallic minerals* also remained under pressure, mainly due to weak demand. The production of cement showed a 2.7 percent increase during FY02, compared with a 3.9 percent growth in the previous year. During FY02, the cost of cement production declined, mainly because of lower furnace oil prices and substitution of furnace oil by coal.[28] The total installed capacity of the industry also increased by 0.6 million tons during FY02, when another plant, Saadi cement, started trial production in January 2002.

On the demand side, total dispatches remained at 9.8 million tons during FY02, showing a decline of 1.0 percent over last year's 9.9 million tons. Although, there was an increase in exports of cement during FY02, this was not significant, as over 43 percent of total capacity is lying idle in the industry.[29]

Growing Popularity of Consumer Financing and Industrial Growth

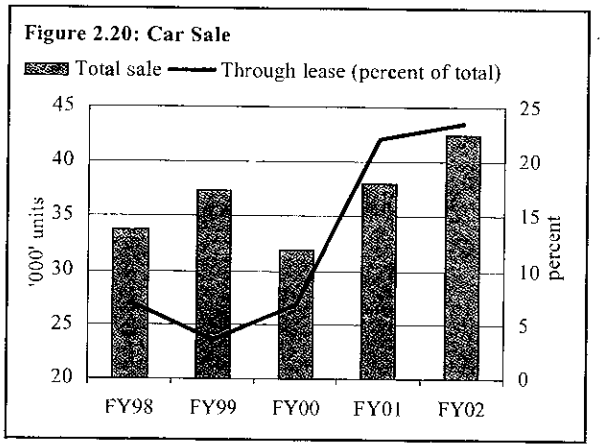
The last couple of years have witnessed tremendous growth in consumer financing. During FY02, overall consumer financing by the commercial banks jumped to Rs 10.7 billion, from Rs 6.1 billion in the previous year. The major proportion was utilized for the purchase of vehicles through lease financing (hire-purchase). The share of home appliances, however, has been declining since FY00 (see **Figure 2.19**).

Figure 2.19: Consumer Financing



The concept of leasing and hire purchase, however, is not new to Pakistan. Informal leasing existed even before the introduction of organized leasing in mid-eighties; initially, traders, carried out the hire-purchase business. Later, for quite some time, leasing companies were the key financial entities providing consumer financing in Pakistan, but even then the greater emphasis was on leasing vehicles. In fact, the share of financing for vehicles out of the total leasing business had increased from 27.2 percent in FY00 to 37.1 percent in FY01, as the total amount financed increased from Rs

Figure 2.20: Car Sale



[28] Till June 2002, four units completely shifted their production to coal, while the remaining units have converted 40 to 50 percent energy requirement to coal.

[29] During FY02, export of cement was 85,182 tons.

10.4 billion to Rs 14.6 billion during the same period.

However, the sale of consumer durables through hire purchase became more popular lately when commercial banks expanded their coverage to individuals and aggressively advertised their products. For example, out of 11 banks in this business, 8 banks started lease financing for the purchase of vehicles, either during FY01 or FY02. The entry of commercial banks has particularly boosted the sale of cars (see **Figure 2.20**), but credit sales of air conditioners and refrigerators also showed improvement in FY00.

As the interest rates are falling and competition is increasing, both leasing companies and commercial banks are expected to offer more attractive terms, and the number of customers is expected to increase. It is also hoped that the recent decision of the State Bank, allowing commercial banks to provide financing facility for the purchase of consumer durables, will help the home appliance industry.

2.3.2 Mining & Quarrying

During FY02, value added by mining & quarrying increased by 3.8 percent, lower than 4.3 percent increase recorded last year. However, the quantum index of mineral production, constructed on the basis of latest 12-month data, showed acceleration in growth; the quantum index stood at 332.7 during FY02 compared to 316.8 last year, mainly driven up by strong growth in the production of coal, crude oil and china clay (see **Table 2.18**).

Table 2.18: Growth in the Production of Selected Minerals

Items	FY01	FY02
Coal	3.3	6.3
Crude oil	3.4	10.0
Natural gas	7.0	5.5
Lime stone	13.3	-9.8
Rock salt	2.7	-2.5
China clay	-26.6	14.9
Gypsum	2.5	-9.9
Silica sand	-7.2	1.3
Chromite	-35.9	-2.9
Quantum index	2.9	5.0

Source: Federal Bureau of Statistics

Although the most recent geological surveys of Pakistan have confirmed deposits of silver, gold, platinum, chromite, iron and zinc, exploration of these requires both expertise and resources. Presently, Pakistan is producing only 50 mineral items (performance of selected items is given in **Table 2.18**). Among these, the major contribution in value addition is by natural gas, crude oil, gypsum and sulphur.

The production of most minerals is directly linked with the performance of user industries. A decline in the production of limestone and gypsum reflects the weak growth in cement production. Additionally, limestone, along with rock salt, is an essential raw material for soda ash, the production of which has been declining for the last two years. During FY02, coal demand increased as some cement-manufacturing units shifted away from costly furnace oil.[30] This is reflected in higher production, which increased by 6.3 percent during FY02 compared with 3.3 percent last year. Coal imports also increased.[31] This is because the domestic coal is not of high quality; imported coal is required to blend with domestic coal to get higher heating value.

Since the petroleum refining industry mostly uses imported crude oil (around 80 percent), its performance does not have a strong relation with domestic exploration. The exploration of oil & gas, over the last decade, has received considerable policy attention and, as a result, the oil and gas sector, has experienced higher inflows of foreign investment (For details, see **Special Section 2.1** *on*

[30] During FY02, four cement manufacturing units completely shifted to coal, while most of the remaining units have substituted 40 to 50 percent use of furnace oil to coal.

[31] During FY02, 49,037 metric tons of coal was imported, while FY01 saw no coal import.

Commercial Energy).[32] The increasing inflow of FDI in mining & quarrying over the last several years has resulted in higher gross fixed capital formation in this sub-sector during FY01 and FY02. Recently, some companies have also shown interest in coal mining as well.

2.3.3 Construction

Construction activities remained stagnant in the wake of reduced development expenditures, slackening housing construction in the private sector, and the tax documentation drive. During FY02, there was an increase in the Federal Government development expenditure on construction-related projects, especially in the transportation, housing and irrigation sub-sectors.[33] A host of measures were undertaken to revive the construction and housing sector. These include Khushhal Pakistan Program, Ghar Aasan Scheme, enhancement of the house loan limit from Rs 0.5 million to Rs 5 million, restructuring of House Building Finance Corporation (HBFC), etc.

In housing construction, Pakistan Housing Authority (PHA) was assigned the task of constructing affordable houses under the Ghar Aasan Scheme, which began construction of 4,500 apartments to be completed in FY03. On the other hand, a lack of housing finance continues to stifle housing construction activities; of the three housing finance companies in Pakistan, Citibank House Finance Corporation has already ceased operations, while disbursements by the remaining two also show a declining trend. The major reason behind this decline was stoppage of financing by HBFC in FY01 ahead of its switch to Islamic modes of financing.

Table 2.19: Selected Performance Indicators of Construction Sector

Description	Five years Average (FY96 to FY00)	FY01	FY02
Value addition (million Rupees)	22,080.2	22,374.0	22,581.0
Gross fixed capital formation (million Rupees)	15,131.6	19,065.0	23,511.0
Cement dispatches (million tons)	9.5	9.9	9.8
Development expenditures (million Rupees)	93,967.2	102,079.3	130,000.0
Development expenditures to GDP ratio (percent)	3.6	3.0	3.5
Disbursement by housing finance companies (million Rupees)	--	858.7	460.2

During FY02, the banking system was encouraged by the SBP to expand mortgage loans to businesses. Commercial banks were allowed to float long-term bonds to mobilize funds for housing loans to match assets with liabilities. The upper limit for mortgage financing was raised ten times to Rs 5 million. A new recovery law, that allowed banks to take possession of mortgaged property without resort to courts, was promulgated. Also, the allowed deduction of mortgage interest from taxable income was raised to Rs 100,000. The response to these measures has been muted so far, but the value added by the construction sector nonetheless managed a slight growth of 0.9 percent during FY02, against a decline of 0.4 percent last year (see **Table 2.19** for performance indicators of the construction sector).

2.3.4 Electricity & Gas Distribution

Value addition by the electricity & gas distribution recorded negative growth for a third consecutive year. This is in sharp contrast to the expansion since the mid-1990s. In spite of an increase in village electrification and higher use of Compressed Natural Gas (CNG) in automobiles, the value added by

[32] During FY02, out of total foreign direct investment (FDI) of US$ 484.7 million, the mining & quarrying sector received US$ 274.8 million.

[33] Among the major projects, the construction work on Lahore Airport and Ghazi Brotha dam has almost been completed and work on projects like Gwadar Port (Phase I) and National Highway Projects is underway. Most of the roads and bridges under the National Highway Projects are expected to be completed by the end of this calendar year. In addition, projects like construction of Turbat-Mand Road, Miran Dam, flyovers and Ghar Aasan Scheme, that were started during H1-FY02, are expected to be completed in the next few years.

Table 2.20: Performance of Public Sector Industries

billion Rupees

Corporations	Production value		Net sales		Pre tax profit/loss		Employment (000)	
	FY01	FY02	FY01	FY02	FY01	FY02	FY01	FY02
National Fertilizer Corporation	2.3	2.5	8.4	8.9	0.2	0.6	3.3	3.3
Pakistan Automobile Corporation	0.3	0.2	0.9	0.7	0.0	0.0	0.6	0.4
State Cement Corporation	0.4	0.5	1.1	1.2	-0.3	0.1	1.4	1.3
State Engineering Corporation	1.2	1.1	2.1	2.0	-0.5	-0.4	5.4	3.9
Sub -total	**4.3**	**4.2**	**12.5**	**12.7**	**-0.6**	**0.2**	**10.8**	**8.9**
Pakistan Steel	7.6	7.0	16.6	14.3	0.5	-0.5	16.6	16.0
Gross total	**11.8**	**11.3**	**29.1**	**27.0**	**-0.1**	**-0.3**	**27.3**	**24.9**

Source: Expert Advisory Cell, Ministry of Industries and Production

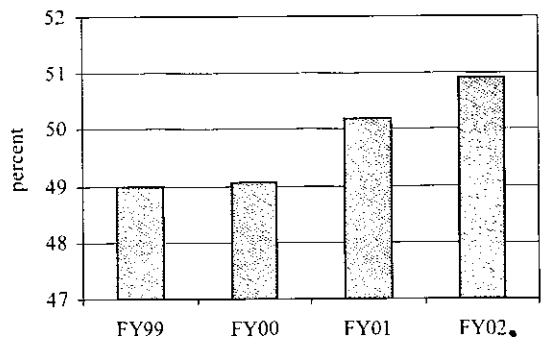
this sector declined by 2.7 percent during FY02 against much sharper decline of 11.0 percent last year.

2.3.5 Public Sector Industries

The total units under the administrative control of the Ministry of Industries & Production (MOIP) shrank from 40 in FY01 to 38 in FY02. The operating units also declined from 15 in FY01 to 13 in FY02. As in FY01, the production value and net sales of public sector industries (excluding Pakistan Steel), remained strong during FY02 and the pre-tax profit improved to Rs 0.2 million, against a loss of Rs 0.6 million last year (see **Table 2.20**). The major contribution in this improvement came from National Fertilizer Corporation (NFC).

As discussed in **Section 2.3.1**, the performance of Pakistan Steel was affected by lower import duties on various steel products that pressured sale volumes and prices. As competition from imports and ship breakers/melters increased, Pakistan Steel was forced to cut prices and capacity utilization, to curtail an inventory build-up.

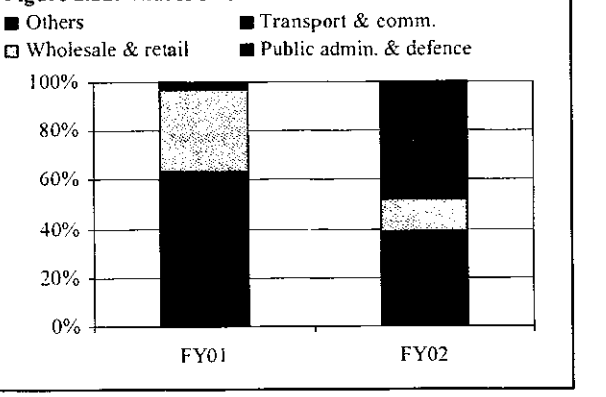
Figure 2.21: Share of Services Sector in GDP



2.4 Services

The services sector has been steadily gaining a larger share of the domestic economy over the past few years, lending support to overall growth during years of poor performance by the commodity-producing sectors. This has been especially true in the last two years (see **Figure 2.21**). In fact, during FY02 the 5.1 percent sectoral growth contributed 72 percent of the increase in the value-addition in the economy.

Figure 2.22: Shares in Services Growth



The structure of growth within the services sector reveals more interesting insights, especially when compared with the corresponding FY01 figures. About 60 percent of the services sector growth originated from a significant change in the performance of some sub-sectors from FY01 to FY02. Specifically, the share of *public administration and defense* was

negligible in FY01, but it contributed more than half of the sectoral growth in FY02. By contrast, the share of *wholesale and retail trade* shrank in FY02 compared with FY01, and *transport, storage and communication* recorded almost a negligible contribution to growth during FY02.

Figure 2.22 shows that more than 40 percent of the sectoral growth comes from a largely invariant components of the sector. This included *ownership and dwellings, other services (mostly community based services)* and *finance & insurance*. The first two of these sub-sectors have a combined share of about 32 percent in services sector, but their growth rates have held constant over the years. The third component has relatively less influence on overall growth.

In fact, there is a lack of well-organized data on services, particularly relating to the emerging new services. In particular, the data on *dwellings* and *other services* are mostly based on the findings of old surveys and therefore, may not be representative of current activities in these sub-sectors of the economy.

Table 2.21: Sectoral Growth and Shares
constant factor cost of 1980-81

Sectors/ Sub-sectors	Growth rates		Shares in services	
	FY01[R]	FY02[P]	FY01[R]	FY02[P]
Services	4.79	5.09	100	100
W & R trade	5.24	2.24	30.5	29.6
Transport, storage & comm.	5.01	0.13	20.87	19.9
Pakistan Railways	45.77	22.74	0.19	0.23
Water transport	-4.1	-1.23	0.46	0.43
Air transport	-12.06	6.54	1.01	1.02
Pipeline transport	-12.55	3.63	0.48	0.47
Road transport	6.04	0.35	14.49	13.83
Communication	1.88	-3.23	3.67	3.38
Storage	0.59	-4.64	0.57	0.52
Finance and insurance	2.75	3.77	4.5	4.5
Ownership of dwellings	5.28	5.28	12.2	12.2
Public admn. and defense	1.15	18.2	12.7	14.3
Other services	6.53	6.53	19.2	19.5

[R]: Revised, [P]: Provisional
Source: Federal Bureau of Statistics

As discussed above, the growth rate of value added in services during FY02 was largely driven by the rates of expansion in *public administration & defense* followed by *ownership of dwellings, finance & insurance*, and *transport, storage* and *communication* (see **Table 2.21**).

2.4.1 Wholesale and Retail Trade

A sizeable portion of the domestic economy is linked to *trade* through its forward and backward linkages. This sub-sector has the largest share in the services sector and also accommodates the largest share of the labor force after agriculture. During FY02, wholesale and retail trade grew by 2.2 percent compared with 5.2 percent in the preceding year.

To elaborate, the value-added in *wholesale and retail trade* is measured by the trade margin, which is the difference between the prices for the first seller and the final buyer. The total value-added thus depend on the margins, as well as the quantum of the commodities traded in the markets. The slower growth of *wholesale* and *retail trade* appears to reflect the combined impact of the deceleration of activities in the commodity producing sector of the economy, as well as in external trade, during FY02.

2.4.2 Transport, Storage and Communication

During the FY02, the value addition in the *transport, storage* and *communication* sector recorded a negligible growth of 0.13 percent compared with 5.0 percent growth recorded in the preceding year. The main reason for this deceleration was the slowdown in the value addition of the *road transport,* which has a 69.6 percent weight in the sub-sector. During FY02, *road transport*, recorded a marginal growth of 0.35 percent compared to a robust 6.0 percent growth in the preceding year, largely due to the decline in the agriculture crops and relatively weak growth in industrial production. The negative growth registered by *storage, communication* and *water transport* are among the other contributory factors in the slowdown in *transport, storage & communication.*

In fact, it was only the positive developments in some key segments that averted negative growth in this sub-sector:

- Pakistan Railways, followed by air transport at 6.54 percent during FY02, registered a significant growth of 22.74 percent. During FY02, Pakistan Railways not only minimized the operational losses but also improved service standards, thereby increasing gross receipts, that are estimated at Rs.18.8 billion during FY02. Pakistan International Airline (PIA) too depicted a similar story, recording a higher operating surplus in the FY02. This is attributable to improved utilization of its fleet, emphasis on cost reduction, declining prices of aviation fuels.

- Karachi Port Trust (KPT) recorded a 10.1 percent jump in operating revenues. This was mainly due to high berthing activity at the wharves in the period under review. The volume of cargo handled by Karachi Port during FY02, recorded an increase of 2.7 percent to 26.7 million tones compared with 26.0 million tones in last year. Container movement surged strongly by 8.9 percent to a record high of 1.0 million TEUS and Moves.

- The rapid technological change and enhanced business frontiers accelerated the tempo of the communications sector. There has been a marked expansion in the infrastructure of telecommunication, information and education. The expansion in cellular segment, Internet facilities and software houses also continued to rise. However, in FY02, communications sub-sector recorded a decline as compared to the previous year, mainly due to a high-base effect and a relatively slower growth in telephone subscriptions compared with the earlier year (when U-fone service was launched).

- Pakistan Post Office is also a part of the communications sub-sector. It continued to grow during the year, with estimated profit of Rs 298 million, 25 percent higher than in the preceding year. The visible improvement in earnings reflects the diversification of services, cost controls, and the introduction of franchise operations.

Finally, value added by the storage segment fell 4.64 percent in the FY02 as against a marginal increase of 0.59 percent last year. This too, is attributed to the weak performance of the commodity-producing sector.

2.4.3 Finance and Insurance

The *finance & insurance* sector includes the State Bank, scheduled banks, development finance institutions, leasing and insurance companies, etc. During FY02, this sub-sector demonstrated considerable resilience despite a number of shocks to the economy.

There was a marked improvement in the gross earnings of SBP, resulting in approximate net profit of Rs 26 billion during FY02. The better performance on the part of SBP was mainly on account of net exchange gains against losses in the preceding year. The growth in value added of finance and insurance was also due, in part, to improved performance of the banking and insurance industries.

Insurance sector experienced rapid development in recent years with a high increase in premium. During the FY02, despite weak economic activity, the insurance sector demonstrated good performance by increasing premium income.

2.4.4 Public Administration and Defense

The sub-sector recorded a massive growth of 18.20 percent compared with 1.15 percent last year. It will be noted that the value addition in this sub-sector is largely based on wages and salaries of government employees, i.e. federal, provincial and local government.

The higher FY02 growth of *public administration* and *defense* is associated with a number of factors, including: (1) an increase recorded in pay and pension of government employees during FY02 – the first since the 1994 revision; (2) unusual troop and related activities due to tensions at the Kashmir border and search operation at Northwestern borders of the country; and (3) increased activities under the head of *public administration* due to city government elections and the April 2002 referendum.

2.5 Savings

When we compare the growth of national savings in FY02 with the preceding year, two striking facts emerge: (1) The growth in FY02 is significantly lower; and (2) The source of the FY02 increase is entirely different. While the growth in national savings in FY01 was entirely indigenous, coming from the households and public sector (other than general government), the growth in FY02 was the outcome of increased net factor income from abroad through higher remittances. Public savings, which contributed substantially in FY01, decelerated in FY02.

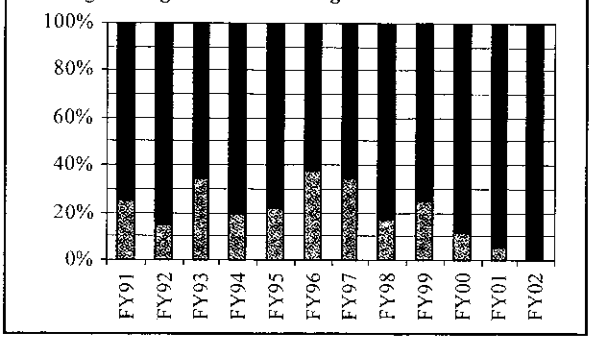
Table 2.22 shows that national savings, as a percentage of GNP, decreased from 15.3 percent in FY01 to 13.9 percent in FY02. This was because national savings grew at a lower pace relative to GNP. It is interesting that despite a decline in the savings ratio, national savings were still able to meet the gross investment requirements of the country. By contrast, in FY01, national savings financed only 94.5 percent of the total investments and foreign savings, i.e. net external resource inflows, funded the remaining investments. As a result, the saving-investment gap turned into a *positive* 0.1 percent of GNP in FY02 from a *negative* 0.9 percent in FY01, showing an overall improvement of about 1.0 percent of GNP.

Table 2.22: Savings

Billion Rupees

			Absolute change	
	FY01	**FY02**	**FY01**	**FY02**
National savings	**514.6**	**519.9**	**69.8**	**5.2**
Public	32.6	47.9	24.8	15.3
Gen government	*-28.4*	*-15.4*	*7.2*	*13.0*
Others	*61.0*	*63.3*	*17.6*	*2.3*
Private	482.0	471.9	45.1	-10.1
Household	*425.2*	*416.3*	*39.7*	*-8.9*
Corporate	*56.9*	*55.7*	*5.3*	*-1.2*
Net factor income	**-62.8**	**4.9**	**-9.2**	**67.7**
Domestic savings	**577.4**	**515.0**	**79.0**	**-62.4**

Figure 2.23: Financing Investment



The declining role of foreign savings in financing domestic investments over the past few years (see **Figure 2.23**) was generally a positive development as gross fixed capital formation had been on an up trend, *and* this was increasingly financed by national savings rather than foreign savings. However, this is not true for FY02, as the higher ratio this year is due to a *fall* in gross fixed investment rather than to an increased availability of national savings - such a savings-investment surplus is not a positive for a developing economy such as Pakistan's.

Table 2.23: Investment and Savings
at current prices

	Growth rates				
	FY98	FY99	FY00	FY01[R]	FY02[P]
1. Gross total investment	8.99	-3.56	10.19	8.02	-4.95
2. Gross fixed investment	1.51	1.62	10.49	7.94	-5.88
Public sector	-14.85	25.77	5.50	14.48	-17.67
Private sector	13.28	-11.44	14.31	3.30	3.37
3. Net external resource inflow	-44.33	36.97	-47.93	-49.73	-108.08
4. National savings	36.77	-12.16	29.42	15.70	1.01
Public savings	-59.53	192.27	-72.58	316.44	47.00
General government	77.18	96.51	-2,402.67	20.17	-45.73
Others	7.19	-40.69	44.92	404.8	3.80
Private savings	45.65	-17.39	38.66	10.31	-2.09
House-hold	45.64	-17.39	38.66	10.31	-2.09
Corporate	45.64	-17.39	38.65	10.31	-2.09
5. Net factor income from abroad	-22.76	3.54	-53.10	-17.13	107.81
6. Domestic savings	35.46	-11.43	31.60	15.85	-10.81
	As percent of GNP				
1. Gross total investment	17.87	15.70	16.25	16.18	13.79
2. Gross fixed investment	15.18	14.05	14.58	14.51	12.24
Public sector	5.33	6.10	6.05	6.38	4.71
Private sector	9.85	7.95	8.53	8.12	7.53
3. Net external resource inflow[1]	3.13	3.90	1.91	0.88	-0.06
4. National savings	14.75	11.80	14.34	15.29	13.85
Public savings	0.37	0.98	0.25	0.97	1.28
General government	-1.54	-0.05	-1.15	-0.84	-0.41
Others	1.90	1.03	1.40	1.81	1.69
Private savings	14.38	10.82	14.09	14.32	12.58
House-hold	12.68	9.54	12.42	12.63	11.09
Corporate	1.70	1.28	1.66	1.69	1.48
5. Net factor income from abroad	-1.37	-1.20	-1.73	-1.86	0.13
	As percent of GDP				
1. Domestic savings	15.97	12.89	15.84	16.90	13.82
	As percent of gross total investment				
1. Net external resource inflow	17.50	24.85	11.74	5.46	-0.46
2. National savings	82.50	75.15	88.26	94.54	100.46

[1]: The current account number may not be comparable because of different treatment

[R]: Revised; [P]: Provisional

Source Federal Bureau of Statistics, Planning and Development Division, Government of Pakistan

2.5.1 Public Savings

In absolute terms, public savings in FY02 were substantially higher than FY01 (see **Table 2.23**) and, as a result, its ratio to GNP rose to 1.3 percent in FY02 compared with 1.0 percent last year. However, in terms of growth, the momentum achieved in FY01 did not carry on to FY02.

While the rise in public sector savings during FY01 was concentrated in the 'others' sub-group (which includes PSEs), it was a higher 'general government' surplus which helped improve the corresponding FY02 figure - the savings in the 'others' category were almost unchanged (see **Table 2.23**).

The relative improvement in public savings appears to reflect prudent fiscal management, and an improved performance of public institutions, corporations, etc. Also, the strong growth in public savings over the last two years has substantially increased its *share* in national savings from 1.8 percent in FY00 to 9.2 percent during FY02. It can be argued that the increase in public savings would have been more pronounced in FY02 had it not been for higher defense spending.

2.5.2 Private Savings

Private savings, defined as the corporate and household savings, recorded a decline of 2.1 percent during FY02 against an increase of 10.3 percent in FY01 and an average growth of 19.4 percent during the last five years.[34] An increase in overall consumption expenditures (10.3 percent) and a slowdown of economic activities partially explain this decline (see **Table 2.23**).

2.6 Investment

The provisional estimates for FY02 show that gross fixed investment, in nominal terms, declined by 5.9 percent to Rs 459.4 billion, against an increase of 7.9 percent last year. As a result, the investment to GDP ratio declined for the second successive year, from 15.9 percent in FY01 to 13.9 percent in FY02, well below the 15.2 percent annual target. However, despite the adverse geo-political environment, foreign direct investment witnessed a significant increase, rising by 50 percent (US$ 162.3 million) to US$ 484.7 million during FY02.

The investment to GDP ratio had been hovering around the 16 percent mark since FY99, and the FY02 decline probably reflects the impact of the uncertain business environment during the year, as well as the fall in agricultural investment following poor crops (see **Table 2.24**).

Table 2.24: Investment

	FY99	FY00	FY01	FY02
As percent of GDP				
Total investment	15.6	16.0	15.9	13.9
Fixed investment	13.9	14.4	14.3	12.3
Public	6.1	6.0	6.3	4.7
Private	7.9	8.4	8.0	7.6
As percent of total investment				
Public	43.4	41.5	44.0	38.5
Private	56.6	58.5	56.0	61.5

If so, the FY02 decline, while unwelcome, is not a structural problem. Nonetheless, even without this decline, the 15.8 percent of GDP average for the preceding three years is not impressive when compared to that of some regional countries, and even with Pakistan's achievement in the early 1990s.

Another point to note is that the investment ratios of both, the public and the private sector, as a percent of GDP have declined over the 1990s, but the fall was more pronounced for the public sector. While the fall in the investment ratio reflects the weakness of the economy relative to earlier decades, the rise in the share of the private sector reflects the policy shift towards a market-based economy as well as the government's fiscal constraints.[35]

The trend continued in FY02 as well, with the public sector contributing more to the fall in the overall *investment to GDP* ratio. The public sector investment to GDP ratio fell from 6.3 percent in FY01 to 4.7 percent in FY02, while the corresponding private sector ratio dropped from 14.3 percent to 12.3 percent respectively (see **Table 2.23**).

The overall distribution of investments reveals that public investment was largely directed towards the creation and strengthening of the economic infrastructure, i.e., communication facilities, public utilities, social services, etc.

[34] It is difficult to obtain a reliable estimate of private savings when direct information on aggregate consumption is lacking. Under the current methodology, private savings is worked out as a residual-difference between the national savings and public savings. Public savings are mostly derived from the budgetary and non-budgetary accounts of the government including public sector enterprises.

[35] The share of private investment in total investment has increased over the period, reaching 61.5 percent during FY02.

2.6.1 Real Fixed Investment

In real terms, gross fixed investment declined by 3.1 percent during FY02 compared with a growth of 0.9 percent recorded in the preceding year (see **Table 2.25**). A key point to note is that the FY02 fall

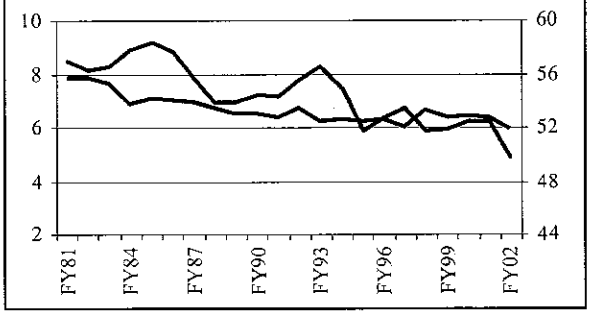
Table 2.25: Growth of Real Fixed Investment
at constant prices of 1980-81

	Total fixed investment		Public fixed investment		Private fixed investment	
Sector	FY01[R]	FY02[P]	FY01[R]	FY02[P]	FY01[R]	FY02[P]
Agriculture	12.0	-5.4	-71.1	331.1	-6.4	-15.2
Mining and quarrying	13.6	4.0	28.2	8.4	6.9	1.6
Manufacturing	21.4	-31.4	96.8	-89.2	2.1	-2.8
Large-scale	27.7	-45.9	96.8	-89.2	-1.2	-9.9
Small-scale	7.3	7.5	-	-	7.3	7.5
Construction	17.4	17.5	35.1	-2.6	13.3	23.1
Electricity and gas distrib.	-13.0	5.4	-9.7	-11.2	-22.2	58.6
Transport, storage & comm.	-7.5	-10.2	-9.7	-3.2	-3.7	-21.4
Wholesale and retail trade	13.2	19.1	-	-	13.2	19.1
Finance & insurance	-2.1	8.7	25.1	-0.9	-3.0	9.1
Services	15.9	16.0	47.8	106.0	12.3	2.6
General government	0.5	4.5	0.5	4.5	-	-
Total	**0.9**	**-3.1**	**3.1**	**-9.3**	**-0.8**	**1.9**

[R]: Revised; [P]: Provisional
Source: Federal Bureau of Statistics

was a continuation of a trend decline in key sectors such as agriculture, manufacturing and transport & communication, which collectively contribute approximately 45 percent of real GDP (see **Figure 2.24**).

Figure 2.24: Investment in Agriculture, Manufacturing & Transport



Agriculture

Real investment in agriculture declined for the third consecutive year in FY02, largely due to a 15.2 percent drop in private investment. Consequently, agricultural investment fell with respect to both, GDP and gross fixed investment.

Historically, the private sector accounted for approximately 80 percent of the total agricultural investment. However, water shortages, low product prices and an increase in input costs, all conspired to lower demand for agri-credit in FY02, pulling down the investment figure.[36]

Given its low share in the total, even the unprecedented 331.1 percent increase in public sector investment could not offset the decline in private agricultural investment. This FY02 increase in public investment reflects the government's medium-term plan to radically augment water resources, incorporating projects for storage water (such as Gomal Zam and Meerani Dam), new irrigation channels, and renovation of watercourses.

Manufacturing

Real investment in the manufacturing sector, which accounted for 13.1 percent of the real gross investment, declined sharply by 31.4 percent against a robust growth of 21.4 percent last year.

[36] The overall credit to agriculture sector for developmental purposes has declined by 17.2 percent in FY02.

However, unlike agriculture, it is public investment that saw the greater fall in FY02; the Rs 5.9 billion investment in FY02 is 89 percent lower than the Rs 53.5 billion seen in FY01. Within the public sector investment, the larger share was spent on the Development Scheme for People's Steel Mills, while the remainder was mainly invested in balancing & modernization of workshop facilities at PITAC, and other small projects.

The private sector investment in manufacturing declined by 2.8 percent in FY02 compared with an increase of 2.1 percent an year earlier, probably reflecting the uncertain business environment during the year.

Transport and Communication

Real investment in the transport and communication sector under both public and private sectors continued to decline for the second consecutive year. However, during FY02, the intensity of the decline was more pronounced in private sector investment.

Also, despite the fall in overall public investment in the sector, there were some notable exceptions:

- In particular, the real investment on railway infrastructure almost doubled in FY02. This was part of a phased program for the revival of Pakistan Railways; the focus of this program is mainly on the procurement of locomotives, renewal of tracks and sleepers, rehabilitation of the old and acquisition of new coaches.

- Another focus area for the government has been information technology (IT). The government has launched an integrated program to develop the IT sector, and has provided various incentives to the private sector as well.[37] A number of new institutions have been established (including a Virtual University), and others upgraded. The Pakistan Software Exports Board was also revamped to provide marketing support to the local IT companies.

- PTCL has embarked upon a joint venture program of bringing further expansion of NWD transit, local exchanges, improvement of universal Internet access, mobile coverage and international gateway exchanges. It continued the expansion program by enhancing investment in its subsidiaries namely PTML (U-fone) and Paknet. Other companies viz.; World Call Communications continued expanding the network and user base of payphones, and diversifying into other ventures in the telecommunications sector.

Construction

Investment in construction is estimated through the commodity flow approach taking mainly into account the availability of construction related machinery, land improvements, building maintenance, construction of roads, highways and public utility lines both in public and private sectors.

During the FY02, in real terms, investment in construction sector increased by 17.5 percent, slightly above the FY01 level; this was largely due to private sector participation. The government also stepped up its spending on infrastructure; a marked increase in spending on public works programs, such as Khushal Pakistan Program, was visible in FY02.

Mining and Quarrying

The growth rate of real investment in mining and quarrying decelerated from 13.6 percent in FY01 to 4.0 percent in FY02. The mineral sector is one of the important sectors having the potential for both, import substitution and boosting export earnings. In particular, the development of the petroleum

[37] These included tax holiday for fifteen years, 100 percent foreign equity ownership, income tax holiday on software exports and custom duty exemption on the import of IT-related equipments.

sector has been identified as one of the priority areas. Though mining and quarrying is emerging as an attractive area for investors, the unsettled questions of ownership of mines are still a hurdle and needs to be tackled. On the one hand, the respective provincial Governments issue licensing and charge taxes, while on the other, strong communities, *baradaries*, and tribes claim their right of ownership. Moreover, the virtual non-existence of infrastructure is another hindrance to investment in the mineral sector.

Table 2.26: Foreign Direct Investment (Net) – FY02
million US Dollar

	USA	UK	UAE	Germany	Others	Total
Food Group	3.5	0.7	2.0	0.0	-11.34	-5.1
Textiles	6.7	1.1	3.8	0.4	6.44	18.4
Chemicals	5.7	0.3	0.2	0.5	3.92	10.6
Petroleum refining & petro chemicals	3.7	0.7	0.0	0.0	0.6	5.0
Oil-gas & mining & quarrying	249.8	14.9	0.1	0.0	10	274.8
Pharmaceutical group	3.7	0.3	0.1	1.5	1.6	7.2
Machinery	0.6	0.0	0.0	0.0	9.9	10.5
Electronics	3.5	0.0	9.1	0.0	3.3	15.9
Transport & storage facilities	0.8	0.0	0.4	0.0	21.3	22.5
Communications	8.0	0.8	0.4	0.1	3.5	12.8
Construction	1.9	3.3	1.4	0.0	6.2	12.8
Trade	14.9	1.0	1.4	0.1	16.8	34.2
Power	11.5	2.5	0.0	5.4	17.0	36.4
Financial business	1.6	0.4	1.8	0.1	-0.3	3.6
Others	10.6	4.4	0.9	3.1	6.4	25.0
Total	**326.4**	**30.3**	**21.5**	**11.2**	**95.3**	**484.7**

Note: Totals may not tally due to separate rounding off.

Table 2.27: Foreign Private Direct Investment (Net)
million US Dollar

					Absolute Change	
Sectors	**FY99**	**FY00**	**FY01**	**FY02**	**FY01**	**FY02**
Food, beverages & tobacco	7.4	49.9	45.1	-5.1	-4.8	-50.2
Textiles	1.7	4.4	4.6	18.4	0.2	13.8
Chemicals, pharmaceuticals & fertilizers	54.1	119.9	26.3	17.8	-93.6	-8.5
Petro chemicals & petroleum refining	38.8	12.0	8.7	5.0	-3.3	-3.7
Cement	2.0	0.1	15.2	0.4	15.1	-14.8
Machinery	14.6	4.6	2.5	10.5	-2.1	8.0
Electronics	1.2	2.3	2.8	15.9	0.5	13.1
Power	131.4	67.4	40.3	36.4	-27.1	-3.9
Construction	13.9	21.1	12.5	12.8	-8.6	0.3
Trade, transport, storage & communication	38.8	38.6	94.7	68.3	56.1	-26.4
Financial business	24.4	29.6	-34.9	3.6	-64.5	38.5
Mining & quarrying-oil & gas explorations	112.8	79.7	84.7	274.8	5.0	190.1
Others	31.2	40.3	20.0	25.9	-20.3	5.9
Total	**472.3**	**469.9**	**322.5**	**484.7**	**-147.4**	162.2

Note: Totals may not tally due to separate rounding off.

2.6.2 Foreign Direct Investment

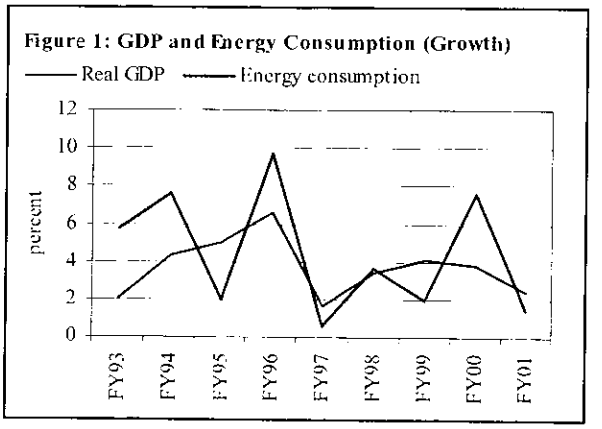
Despite a sluggish global economic environment and the risk perceptions regarding Pakistan's economy, foreign direct investment (FDI) in the country increased; the FY02 inflows totaled US$ 484.7 million. Although lower than the initial target of US$ 600 million, this was nonetheless 50 percent higher than in FY01 (see **Table 2.26**). The foreign investment inflows are expected to grow during 2003, as regional risk perceptions ease, and following the substantial improvement in Pakistan's external sector.

During FY02, the major beneficiary was the oil and gas sector, followed by power, trade, and transport (see **Table 2.27**). The country-wise position of foreign investment reveals that USA takes the lead, contributing about 67.3 percent of the total foreign investment during FY02. The major three areas for US investors in Pakistan were oil & gas exploration, trade and power (see **Table 2.26**).

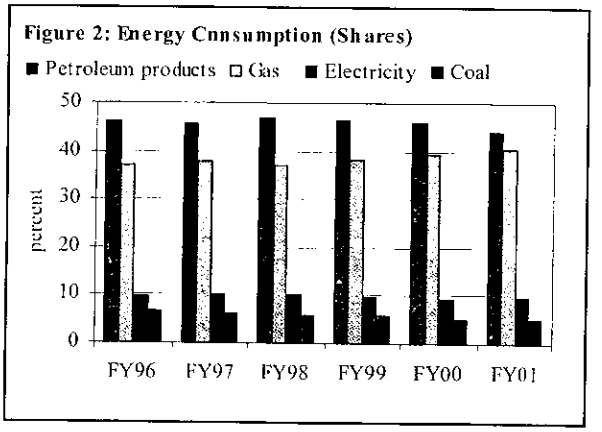
Special Section 2.1: Commercial Energy[38]

Backdrop

Typically, energy consumption is closely related to economic development, with consumption rising in congruence with economic growth. A cursory look at **Figure 1** indicates the existence of a loose correlation for Pakistan as well.[39] Thus, as economic growth experienced a deceleration for the second consecutive year in FY01, growth in commercial energy consumption plunged to 1.5 percent in FY01 from 7.6 percent during FY00.



Although the annual growth in energy consumption has been rather erratic, its broad composition has shown little variation since the mid-1990s. The petroleum sector still dominates the commercial energy consumption with a share of 44 percent in FY01, followed by gas (41 percent), electricity (10 percent) and coal (5 percent). However, a gradual increase in the share of gas in total energy consumption is visible over the last few years, largely at the expense of petroleum products (see **Figure 2**). The latter is partially explained by the growing use of CNG in automobiles and increased conversion of industrial units to alternate fuels.



Petroleum and Petroleum Products

The petroleum sector has witnessed significant changes during the last few years. Despite a marked increase in the availability of petroleum and petroleum products in FY01 and FY02, consumption has actually declined. Provisional estimates for FY02 show that the consumption of petroleum products fell marginally to 17.1 million tonnes, compared to 17.6 million tonnes in FY01.

In a remarkable development, since FY01, almost half of the country's demand for petroleum products is now met through local production: this is a sharp improvement from FY00 when local production of petroleum products was able to meet only 34 percent of the country's demand. The increased domestic production of petroleum products reflects the commissioning of the 4.5 million tonnes Pak-Arab Refinery (PARCO) in September 2000.

As refining capacity increased, imports of petroleum products declined 8.9 percent to 9.2 million tonnes during FY02, generating gross savings of US$ 424 million. Low domestic demand and increased domestic production allowed exports to rise by 194.2 thousand tonnes, to approximately 600 million tonnes; in fact, the FY02 export *increase* is more than total exports of petroleum products two years ago. These gains are expected to further consolidate with the commissioning of Bosicor

[38] Due to data constraints, much of the discussion in this section excludes FY02 developments.
[39] The weakness of this correlation may be explained by: (1) energy consumption by the large undocumented economy and, (2) use of non-commercial fuels, consisting of wood fuels, dung, crop residue and charcoal.

Pakistan Refinery in FY03 and Pak-Iran Refinery by 2005 with refining capacities of 1.4, and 6.0 million tonnes per year, respectively.[40]

Consumption

The consumption of petroleum products had decelerated since FY97, turning into a net decline in FY01.[41] Provisional estimates indicate a 3.0 percent decline in FY02, vs. a 0.7 percent fall in FY01.

Table 1: Petroleum and Petroleum Products Supplies

000 tonnes

	Crude oil		Petroleum products	
	Total	Import as % of Total	Total	Import as % of Total
FY00	7,147	61.8	17,993	66.0
FY01	9,672	70.8	18,892	53.6
FY02	10,332*	69.5	18,578	49.7

* Estimated

Source: Economic Survey 2001-02, OCAC

Looking at the user-shares in consumption of POL products since FY91, a general downtrend is clearly visible for every major sector of the economy, except power (see **Table 2**). The rise in the share of the latter is apparently due to the increase in thermal electricity generation after substantial investments by IPPs, which increased its share from 24 percent in FY91 to 37 percent in FY01. The usage of petroleum products by the power sector registered a growth of 3.2 percent during July-March FY02; this upsurge came largely from WAPDA, which reported an increase of almost 36 percent in thermal electricity generation through fuel oils.

Table 2: Consumption of Petroleum Energy Products

	Total	Share (percent)					
	000 tonnes	Domestic	Industry	Agriculture	Transport	Power	Others
FY91	9,961.3	9.5	11.5	2.7	48.6	24.4	3.3
FY99	16,647.8	3.0	12.9	1.5	47.2	33.2	2.3
FY00	17,767.8	2.7	11.9	1.6	46.8	35.0	1.9
FY01	17,647.9	2.6	10.9	1.4	46.2	36.8	2.1
FY01[1]	12,947.1	2.8	11.5	1.5	46.1	36.0	2.1
FY02[1]	12,711.2	2.2	9.8	1.4	45.1	37.8	3.7

[1]: Jul-Mar

Source: Hydrocarbon Development Institute of Pakistan (HDIP), Economic Survey 2001-02

On the other hand, the lower demand by the non-power sectors reflects subdued economic activity as well as the government's efforts to substitute fuel oils with other cheap sources of energy, so as to reduce the large oil import bill.

Electricity

Since the introduction of the Power Policy of 1994, the electricity sector has undergone substantial structural changes. The Policy envisaged the participation of private sector in power generation through new projects as well as privatization of state-owned units. It succeeded in drawing substantial foreign investment in new power generation projects, largely addressing the power shortages in the economy.[42]

[40] For related discussion on import and export of petroleum and petroleum products, see ***section 9.6*** on ***Trade Account*** in **Chapter 9** of this report.

[41] The compound annual growth of 9.2 percent recorded by the consumption of petroleum products during FY92-96, fell to 3.1 percent during FY97-01.

[42] However, in later years, as power consumption fell below projected demand due to a slowdown in economic growth, line losses mounted, and planned tariff hikes could not be implemented, WAPDA soon ran into financial problems. This instigated allegations of inflated tariffs of IPPs. The dispules between WAPDA and IPPs over tariff adjustment were gradually settled. The largest IPP, HUBCO, finally reached a settlement with WAPDA in December 2000.

Electricity Generation

As new power generation units were set up in both the public as well as private sector, the installed capacity of electricity generation increased from 13.0 Giga Watt (GW) in FY96 to 17.4 GW in FY00 and subsequently to 18.0 GW in FY02. The increase in the installed capacity of the country during the last two years was brought about by the addition of Chashma Nuclear Power Plant (325 MW), Chashma Hydropower Project (184 MW) and Liberty Power (235 MW). The addition in hydel and nuclear capacity is encouraging, as this would bring some financial relief to WAPDA and KESC through a fall in the overall cost of electricity generation.

WAPDA is expected to get additional relief from two sources: (1) the average cost of electricity generation will decline as the Ghazi Brotha hydel power station becomes operational in FY03, and (2) the capacity charges paid to IPPs will go down in coming years with a consequent decline in tariffs of IPPs.[43]

The increase in installed capacity during FY02 was accompanied by a 7.8 percent rise in electricity generation compared to a 3.7 percent increase in FY01. As expected, the rise has come from a surge in electricity generation by all the three sources (see **Table 3**). Moreover, as Ghazi Brotha Hydropower Project with installed capacity of 1,450 MW comes into commercial operation during FY03, hydel generation is expected to witness a substantial increase.

Table 3: Installed Capacity and Electricity Generation

	Installed capacity MW			Electricity generation GWh		
	Hydel	Thermal	Nuclear	Hydel	Thermal	Nuclear
FY00	4,827	12,436	137	19,288	46,064	399
FY01	5,008	12,302	462	17,258	49,187	1,997
FY02	5,039	12,537	462	19,062	50,509	2,313*

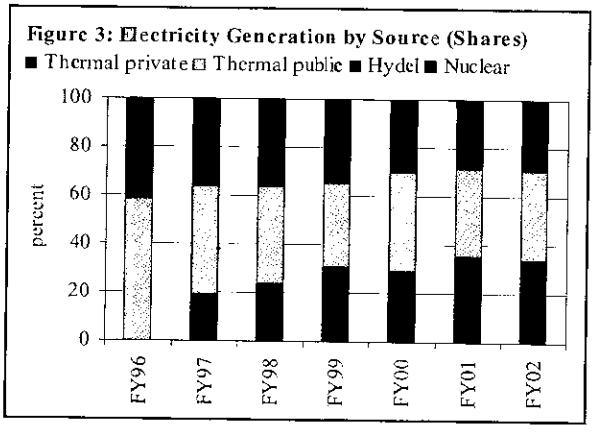
* Estimated

Source: WAPDA, KESC, Ministry of Water and Power

Composition of Electricity Generation

The composition of electricity generation has undergone substantial changes since 1997, when IPPs entered the Pakistani market. Since then, IPPs have been able to snatch a greater share of electricity generation by virtue of purchase clauses in their Power Purchase Agreements. As all of the private power companies had invested in thermal power stations, the share of thermal electricity in total power generation increased from 58 percent in FY96 to 72 percent in FY01.

Figure 3: Electricity Generation by Source (Shares)



However, hydel regained a 2-percentage point share in FY02, and its share is expected to increase further during FY03, with improved water availability and the commissioning of Ghazi Brotha hydel station. Furthermore, the share of nuclear energy has remained at 3 percent in FY02, after reaching this level in FY01 due to the commissioning of Pakistan's second nuclear power station viz., Chashma Nuclear Power Plant (CHASHNUPP).

Since commencing operations in 1997, the share of IPPs in total thermal electricity generation has risen from nil in FY96 to 50 percent in FY01 before declining to 46 percent in FY02 (see **Figure 3**).

[43] IPPs tariff consisted of a capacity price and energy price. Energy price component covered fuel costs and other variable expenses of electricity generation. On the other hand, capacity charges were to enable the private investor to repay debt portion of the investment, cover insurance and other fixed expenses besides earning a return on equity. Therefore, as debt liability of IPPs declines with its repayment, capacity charges would eventually drop, lowering IPPs tariff rates.

It is, however, interesting to note that this gain in share by IPPs came partly from a decline in thermal generation by WAPDA. The drop in electricity generation by WAPDA occurred on account of; (1) privatization of Kot Addu power station in FY96 with an installed capacity of 1466 MW; and (2) mandatory purchase of electricity from IPPs in accordance with Power Purchase Agreements, despite below-projected growth in power demand in later half of 1990s.

Auxiliary Consumption and Power Losses

In recent years the government has taken a number of steps to address operational and administrative inefficiencies in WAPDA and KESC. Pakistan Army personnel were inducted into WAPDA, and vigorous efforts were made to reduce line losses and curb power theft. Consequently, WAPDA was able to gradually cut its system losses from 27.5 percent in FY99 to 25.8 percent in FY01.[44] Unfortunately, after initial success, efforts to cut system losses now seem to have stalled, as no significant declines were registered during FY02. As a result, efficiency parameters registered by these power utilities are still below international norms, suggesting the need for further structural reforms.

Table 4 summarizes some efficiency parameters for the power sector. Auxiliary consumption has declined for both WAPDA and KESC in FY02. Yet the existing levels of auxiliary consumption are quite high as compared to the 4.6 percent for IPPs. On the other hand, the average fuel cost has marginally declined for KESC in contrast to WAPDA, which showed an increase in its average fuel cost. The fuel-wise generation of electricity reveals that KESC was able to reduce its average fuel cost through substitution of fuel oil with natural gas, while the rise in WAPDA's fuel cost is explained by its inability to switch from furnace oil to relatively cheaper fuels.

Table 4: Efficiency Parameters

percent of gross generation

	FY01	FY02
Auxiliary consumption (thermal)		
WAPDA	6.73	6.72
KESC	6.68	6.52
Transmission & distribution losses		
WAPDA	23.80	23.60
KESC	35.13	39.17
Average fuel cost (thermal)		
WAPDA	1.77	2.03
KESC	2.22	2.21
Average tariff (KESC only) (Rs/kWh)		4.30

Source: WAPDA, KESC

The average fuel cost of thermal generation provides important insights about the true basis of tariff increases sought by the power utilities. Even if the impact of very low-cost hydel generation is ignored, the overall cost of thermal generation to WAPDA & KESC range from Rs 3.18 - 3.32 per kWh. The average tariff for WAPDA was unavailable, but assuming that it is not too different from that of KESC, it becomes clear that the recent increases in power tariffs were probably because of the financial losses arising from: (1) the huge transmission and distribution losses, and (2) a sizeable amount of receivables outstanding against power consumers, especially the government sector. At end-June FY02, transmission and distribution losses stood at 23.6 and 39.2 percent for WAPDA and KESC respectively, far exceeding the average 15 percent mark for other countries.

Electricity Consumption

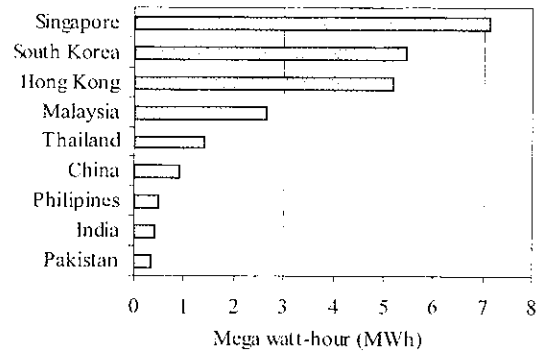
Despite frequent increases in tariffs since the early 1990s, electricity consumption has managed to hold to a share of approximately 10 percent in total commercial energy consumption, with an annual compound growth rate of 4.8 percent for the period.

[44] System losses include transmission and distribution losses as well as auxiliary consumption, which represents electricity used in power generation process.

After registering a small increase since FY97 and a decline in FY99, electricity consumption has shown strong positive growth thereafter. More specifically, consumption of electricity registered a compound growth rate of 5.3 percent during FY00-02 against 0.2 percent for FY97-99. The high growth in electricity demand over the last few years can be attributed mainly to a rise in the number of consumers as a result of village electrification programs, and sustained efforts by WAPDA to put power theft under check. By end-FY02, the number of electricity consumers was 12.7 million as against 11.6 in FY00. Meanwhile, the number of villages electrified increased to 70.8 thousand by February 2002, as compared to 68.3 thousand in FY00.

However, it needs to be emphasized that the above efforts have largely focused on growth in electricity consumption through increasing the number of consumers. Compared to the leading emerging economies of the world, per capita electricity consumption of Pakistan remains markedly low (see **Figure 4**). Any attempt to increase per capita electricity consumption would require linking more areas to the national power grid, as well as lowering prices. The latter, in turn, calls for concerted efforts to: (1) reduce huge system losses, (2) collect the large receivables, and (3) lower the average cost of electricity generation by switching to low-cost generation.

Figure 4: Per Capita Electricity Consumption (1999)



Source: International Energy Agency

Sectoral consumption of electricity over the last seven years is depicted in **Figure 5**. The domestic sector (households) clearly dominates electricity consumption, accounting for 46 percent of the total at end-FY02, as power consumption by households has been continually increasing over the years.

Table 5: Electricity Consumption

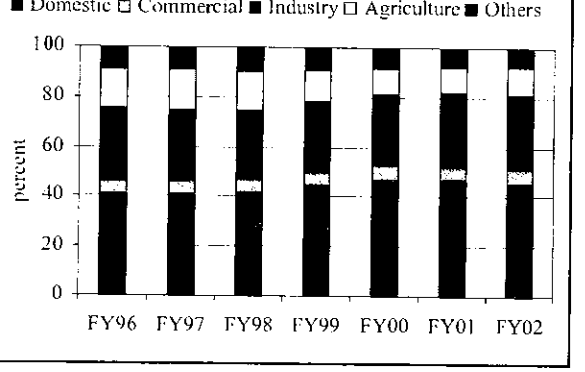
giga watt-hour

	FY90	FY00	FY01	FY02
Domestic	9,360	21,455	22,701	23,171
Commercial	1,963	2,544	2,774	2,950
Industry	10,324	13,202	14,349	15,141
Agriculture	5,027	4,540	4,924	5,607
Others	2,095	3,845	3,748	3,724
Total	**28,769**	**45,586**	**48,497**	**50,593**

Source: WAPDA, KESC

The rise in household consumption also reflects two key factors: (1) rapid urbanization, leading to a switch away from traditional non-commercial sources and, (2) an apparently price inelastic demand.

Figure 5: Electricity Consumption by Sector (Shares)



The most worrying aspect of electricity consumption during 1990s has been the declining share of industry in total demand. Consumption of electricity by industry sector grew only by an annual compound rate of 1.7 percent during 1991-99. That resulted in its share coming down to 28 percent in FY99 from 36 percent in FY91. It was only after FY00 that industrial consumption of electricity really picked up. However, during FY02 industrial consumption of electricity grew by 5.5 percent against 8.7 percent in FY01, reflecting either a reduced growth of industrial production during the outgoing fiscal year, or else increased reliance on internal generation.

Another important user of electricity is the agriculture sector. Electricity consumption by agriculture increased by a handsome 13.9 percent during FY02 compared with 8.5 percent in FY01. This high growth in electricity consumption by agriculture sector has been mainly due to the increased use of tubewells during FY02 (see *section on* ***Agriculture*** *in* ***Chapter 2***). As a result, the agriculture sector registered a 1 percent gain in its share of electricity consumption during FY02.

Natural Gas

The recoverable reserves of natural gas as on end-March FY02 stood at 26.4 trillion cubic feet against 24.1 trillion cubic feet at end-June FY01. During July-March FY02 the average production of natural gas increased to 2,521 million cubic feet (CFT) per day as compared to 2,375 million CFT per day during the same period in FY01. As it is economical and environment-friendly, the government has formulated the strategy of encouraging natural gas use in the power and transport sectors. Also, since this entails development of existing wells, as well as exploration of new gas reserves, various incentives have been offered to draw in private investment in oil and gas exploration.

Important among these are the reduction of tax from 52.5 percent to 40 percent, linking wellhead gas prices with crude oil, separate tariff of pipeline from field gas and removal of carrying interest of government holdings. The events following September 11, however, forced many expatriates working for foreign exploration and production companies to leave Pakistan, decreasing the number of wells drilled by the private sector during July-March FY02 to 26 as against 32 in the same period during FY01. However, private investment in oil and gas exploration has substantially picked up during FY02, and the number of wells to be drilled is therefore expected to rise in coming months.

Consumption of Gas

Significant developments were witnessed in the consumption of gas during FY02. Despite efforts to encourage substitution to natural gas from other expensive sources of energy, its consumption decelerated to 5.4 percent in FY02 against 7.0 percent in FY01. The sectoral consumption of gas is reported in **Table 6**. Surprisingly, gas consumption by the power sector declined during FY02 by almost 1 percent, reflecting the poor infrastructure of gas provision to thermal power stations.

Table 6: Gas Consumption
million CFT

	FY91	FY00	FY01	FY02
Domestic	66,797	139,973	154,031	156,647
Commercial	12,317	21,712	23,725	25,738
Industry	101,861	143,474	139,795	170,331
Fertilizer	107,954	177,152	185,691	194,095
Power	176,409	230,040	258,909	256,696
Total	**465,338**	**712,351**	**762,151**	**803,507**

Source: HDIP, Ministry of Petroleum and Natural Resources website

After showing a decline in FY01, industrial consumption of natural gas has registered 21.8 percent growth. Anecdotal evidence suggests that the conversion of industrial plants to natural gas is primarily responsible this rise.

Furthermore as domestic prices of natural gas are being rationalized, consumption by the domestic sector has recorded a deceleration in its growth from 10.0 percent in FY01 to 1.7 percent in FY02. This is indeed a positive development as it reflects a decline in uneconomical use of natural gas by the household sector and implies its increased availability for more productive uses in power generation and industry.

Coal

Before natural gas discoveries in the mid-1950s, coal accounted for almost 60 percent of total commercial energy consumption in Pakistan. However, with increased availability of relatively inexpensive gas and, in later years, of petroleum products, its share had continuously declined. Currently coal consumption represent only 5 percent of total commercial energy consumption of

Pakistan. During the first nine months of FY02, coal production in the country stood at 2.3 million tonnes as against 2.1 million tonnes for the same period in FY01. Vast unexplored reserves of coal in the country have gained focus in the new energy policy with the objective of reducing reliance on expensive fuel oils in power generation and industry. However, due to the inferior quality of domestic coal, imports have increased substantially during FY02 to meet the growing demand. Import of coal during FY02 increased to 1,102 thousand tonnes from 901 thousand tonnes in FY01, signifying an increase of US$13.4 million in country's import bill. The total coal resources in the country are estimated to be around 184.6 billion tonnes, which includes 175.5 billion tonnes of coal deposits in Thar. However, it is important to realize that more than 90 percent of estimated Thar deposits are only inferred or hypothetical, indicating a low degree of geological assurance.[45]

Consumption of Coal

Looking at consumption of coal since the mid-1990s, a substantial increase can be noticed in power sector, from 40.7 thousand tonnes in FY95 to 398.9 thousand tonnes in FY96. This huge increase is indicative of the shift in power generation from hydel to thermal generation. Though share of domestic sector in coal consumption was already very low, since 1990s it has declined further, indicating: (1) movement of people from rural to urban centers and, (2) increased access of the rural population to other sources of energy with a high heating value, especially LPG. Consumption of LPG has recorded a compound annual growth rate of 9.3 percent between FY95 to FY01.

Brick-kilns and its use as coke in steel manufacturing accounted for almost 95 percent of total coal consumption in FY01. During July-March FY02 total consumption of coal increased marginally to 3.0 million tonnes from 2.9 million tonnes during the same period in FY01. However, there are strong indications of increased coal consumption in cement plants and, to a lesser degree, in thermal power stations. As a matter of fact, industry sources point out continuing conversion of cement plants from natural gas and furnace oil to coal. The recent hike in coal prices is also reflective of its increased demand in the country. Since available data excludes its consumption in cement, figures reported in **Table 7** are underestimates of coal consumption in the country. Meanwhile use of coal in brick-kilns registered a rise during July-March FY02, indicating increased activity in construction industry during FY02.

Table 7: Consumption of Coal

000 tonnes

	Domestic	Power	Brick kilns	Coke use
FY95	3.2	40.7	2,998.9	1,095.9
FY96	3.1	398.9	3,235.8	1,080.0
FY00	1.0	348.1	2,818.8	956.7
FY01	1.0	205.8	2,887.9	950.0
FY01[1]	0.8	187.4	1,962.6	718.0
FY02[1]	1.0	190.1	2,131.2	713.0

[1]: Jul-Mar

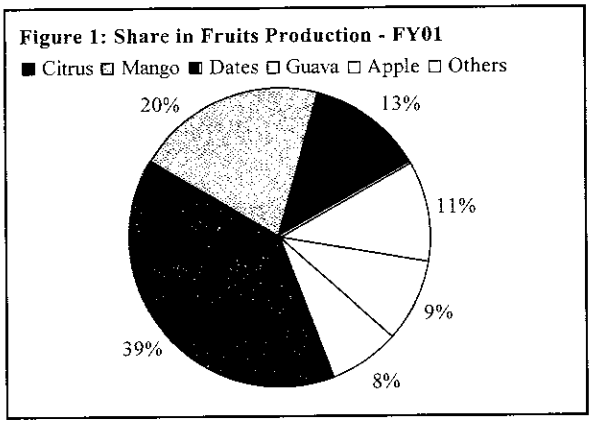
Source: HDIP, Economic Survey 2001-02

[45] Based on United States Geological Survey (USGS) coal resources are categorized into: measured, indicated, inferred and hypothetical with degree of geological assurance reducing at each level.

Special Section 2.2: Fruits Production, Marketing and Export

Pakistan's climate ranges from tropical to temperate, allowing the country to grow a variety of fruits. Judicious development of orchards helps to diversify farm incomes and reduce the intensity of crop and market failures. Hence, orchards have a good potential not only to contribute significantly to the incomes of the individual farmer but also to collectively enhance national income. Furthermore, the installation of fruit processing units, close to the orchards, generates employment opportunities in rural areas, besides discouraging migration to urban centers.

Figure 1: Share in Fruits Production - FY01



The major fruits grown in Pakistan include citrus, dates, mangoes, guavas, and apples. Others include apricots, bananas, grapes, almonds, peaches, plums and pomegranates. Citrus farming witnessed phenomenal growth over the past two decades, particularly in the upper belt of Punjab and in the NWFP. Since 1980, the area under citrus fruits more than doubled from 94 thousand hectares to 199 thousand hectares.

The total number of orchards in Pakistan is about 328,400.[46] The area under fruit cultivation is 3.4 percent of the total cropped area with a total production of 5.9 million tonnes.

Past growth trends show that the rise in production of fruits can be attributed mostly to the increase in area, because no improvement is visible in yields (see **Table 1**). Growers, in general, follow the traditional methods of horticulture. High investment cost, long gestation periods, lack of fruit processing units and inadequate infrastructure are the major constraints towards improvement in the productivity of fruits.

Table 1: Area, Yield and Production of All Fruits

Year	Area	Production	Yield
FY92	464	3989	8.6
FY93	476	4112	8.6
FY94	540	4850	9.0
FY95	566	5154	9.1
FY96	622	6091	9.8
FY97	629	6187	9.8
FY98	640	6295	9.8
FY99	646	6344	9.8
FY00	658	5846	8.9
FY01	672	5892	8.8

Source: Agricultural Statistics of Pakistan, 2000-01

Area: thousand hectares; Production: thousand tonnes

Yield: tonnes per hectare

Marketing of Fruits

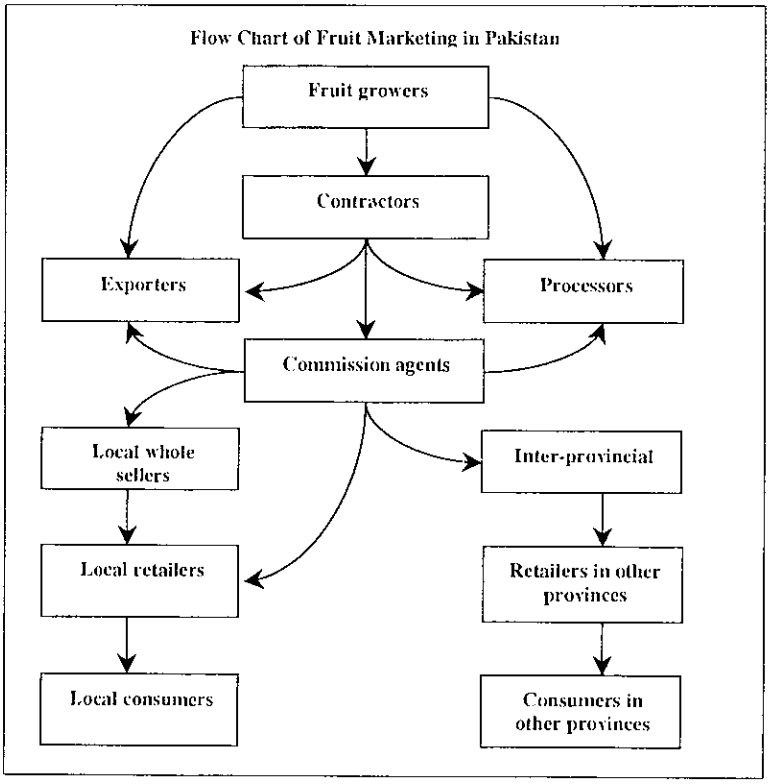
Pakistan has approximately 650 markets of fruit, vegetable and grain, of which only 203 are regulated under the Punjab Agricultural Produce (Markets) Act, 1939. In fact, there are two statutory acts, regulating the domestic and international trade of agriculture produce, including fruits. Internal marketing is regulated through the Agriculture Produce (*Markets*) Act, while Export marketing is regulated through another act called the Agriculture Produce (*Grading and Marking*) Act, 1937. Compulsory grading for export is applied to citrus fruits, mangoes, limes and lemons, guavas, dates

[46] Source: Pakistan and Gulf Economists, April 22-28, 2002 'Pakistan Profile and its Horticultural Scenario' by *Dr. S.M. Alam and S.M. Mujt*aba

and bananas. Efforts are underway to also include other fruits such a apples, pears, plums and peaches, etc., in the compulsory grading scheme.

The prevailing market mechanism of fruits ensures a minimum return to farmers even before reaching harvest, but it is not capable of transmitting any fraction of the extraordinary profits sometimes earned by the other operators in the marketing chain (that involves contractors, commission agents, wholesaler and retailers).

The commission agent or *arthi* has a fixed place of business in the fruit market in cities and towns generally known as *mandi*, and charges commissions ranging from 3 percent to 10 percent. However, the actual burden on the farmer is thought to be much higher due to under-weighing and additional unrecorded charges.



Exporters can have access to the fruit either directly from the grower, or from the contractors and commission agents. Direct sales to exporters help increase the margins of growers, due to lower marketing costs; exporters too, benefit by lower costs. Unfortunately, this is not feasible in most cases, and farmers and exporters are generally forced to rely on contractors and commission agents.

In the existing mechanism, contractors have emerged as the key players in the marketing of fruits. Although growers appear at the top of the marketing chain, they have a little functional downstream role; contractors purchase the entire produce of orchards even before its maturity; commission agents also deal with contractors to ensure a regular supply of quality fruits throughout the season. Since contractors effectively purchase future crops (assuming the risk of crops failure), they generally hedge their unsecured position by placing low bids. In such a situation, only the growers who enjoy better quality orchards and abreast with the latest market information, benefit substantially.

The lack of substantial infrastructure for refrigeration, transportation, storage, as well as weak dissemination of up-to-date information to farmers are the major constraints towards the steady growth of the fruit sub-sector.

Exports of Fruits

Exports of fruits in Pakistan mostly comprise of citrus, mangoes and dates, which constitute around 91 percent of total fruit export in FY01 (see **Table 2**). The trends for these three major fruits show a continuous rise in quantity and value

The marketable surplus in the case of fruits is 80 percent of the total production. The total losses from farm to the consumer ranges between 25-35 percent.[47] Around 15 to 25 percent loss is on account of wastage caused by perishing for the want of adequate cold storage and transport facilities. Inappropriate harvesting time and methods also contribute to total loss. The post harvest losses in fruits were approximately of Rs 30 billion[48] in 1997-98, this high rate of post harvest wastage results in narrowing the profit margins for growers and traders with end product of limited national export and high prices for domestic consumers. If this wastage can be eliminated, the export earnings could safely increase six to seven times the present level from the current 5.0 percent (FY02) of total production. Pre- and post- harvest management technologies, standardized market practices, accompanied by infrastructure and institutional support, are essential for promoting profitable fruit production.

Pakistani fruit exports are mainly confined to countries such as Middle East including Saudi Arabia, U.A.E., Oman, Kuwait, Bahrain and Qatar. Europe is also an important export market for our fruits. It is only recently that new markets have been tapped in the Far East, including Malaysia and Singapore.

Table 2: Share of Citrus, Mangoes and Dates in Fruit Exports

percent

FY96	FY97	FY98	FY99	FY00	FY01
69	79	75	76	81	91

Figure 2: Fruit Exports

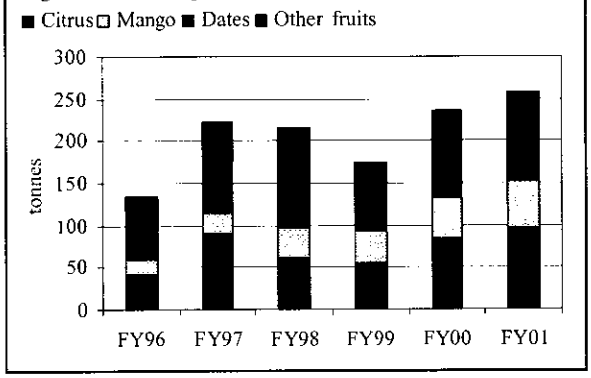
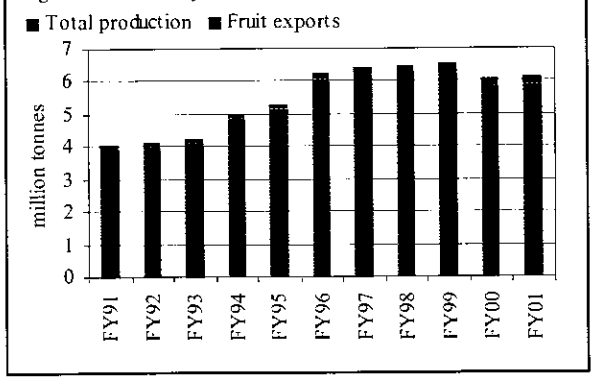


Figure 3: Fruit Exports



Export earnings through processed fruit can also be raised. According to the federal marketing department, there are about 55 large and modernized processing units in the organized sector with 29 in Punjab, 12 in Sindh, 11 in Balochistan and 3 in the NWFP. Majority of these units operate irregularly (and some open during particular seasons). This is because of an absence of well-organized storage facilities that are essential for maintaining continuous supply of fruits throughout the year, especially to medium and small scale processing units.

[47] Source: country paper by *Saifullah Khan Khattak,* in "Marketing of Vegetables and Fruits in Asia and the Pacific", Asian Productivity Organization, Tokyo, 2001.
[48] 'Pakistan Profile and its Horticultural Scenario' by *Dr. S.M. Alam and S.M. Mujt*aba.

3 Price Trends

3.1 Overview

Inflationary pressures dampened considerably during FY02 despite the aftermath of events of September 11 and continuation of a drought-like situation in the country. Better availability of essential commodities, due to improved production of both food and non-food items as well as the food stocks for prior periods, had a moderating influence on inflation. A noteworthy aspect of domestic goods market was the absence of hoarding and speculation that could otherwise have easily flared up the tempo of prices during US-led war against terrorism in Afghanistan and border tensions with India. Another important feature underlying the inflation that could also have reversed its deceleration was a relatively higher increase in money supply in FY02 compared with the previous year. However, a noticeable deceleration in the net domestic assets of SBP helped absorbing a significant increase in its net foreign assets that enabled the reserve money to expand at a much lower pace than that of money supply, thereby supporting the deceleration in inflation. Appreciation of Pak Rupee by 6.7 percent during FY02 also helped control the imported component of inflation.

Annual average rates of inflation in terms of all three price indices as well as the GDP deflator went down during FY02 from their levels last year.[1] The rate of inflation in terms of the Consumer Price Index (CPI) came down to 3.5 percent in FY02 from 4.4 percent last year. The deceleration was markedly visible in the Wholesale Price Index (WPI); from 6.2 percent in FY01 to 2.1 percent in FY02 (see **Table 3.1**). Deceleration in the Sensitive Price Indicator (SPI) was less pronounced than WPI but more than the CPI. In terms of the annual marginal rates of inflation, deceleration was amply visible in the WPI (down to 2.4 percent in FY02 from 4.5 percent in FY01).[2] However, the CPI and SPI registered acceleration. Nevertheless, the inflation outlook for the future remains subdued as visible in **Figure 3.1**, which indicates a continuing downward trend for the WPI that is likely to contain the pressure on retail prices. In fact, the annual marginal rates of inflation were negative for the WPI during November 2001 to February 2002.

Table 3.1: Inflation Trends

percent

	GDP deflator	Annual average July to June basis			Annual marginal June to June basis		
		CPI	WPI	SPI	CPI	WPI	SPI
FY98	7.7	7.8	6.6	7.4	6.5	5.3	5.7
FY99	5.9	5.7	6.4	6.4	3.7	4.6	4.1
FY00	2.8	3.6	1.8	1.8	5.1	3.4	3.3
FY01	5.6	4.4	6.2	4.8	2.5	4.5	2.0
FY02[P]	4.6	3.5	2.1	3.4	4.4	2.4	4.4

P: Provisional

Despite visible deceleration in inflation recorded by various indices, general perceptions about inflation remained skeptical and dismissive of the official figures that are compiled by the Federal Bureau of Statistics (FBS). **Box 3.1** provides important insights about the origin of these negative perceptions. The fact remains that the official inflation numbers are based on a systematic method of survey sampling, which minimizes a lot of biases that creep in selective efforts of individuals to compile prices and compute inflation. Price data compiled by the FBS is one of the most reliable among various data sets in Pakistan. The negative perceptions can be addressed by dissemination of compilation methods and full disclosure of price data along with the results of the Family Budget Survey.[3]

[1] Annual average rate is percent change of average 12-monthly indices for FY02, over the corresponding average for FY01.

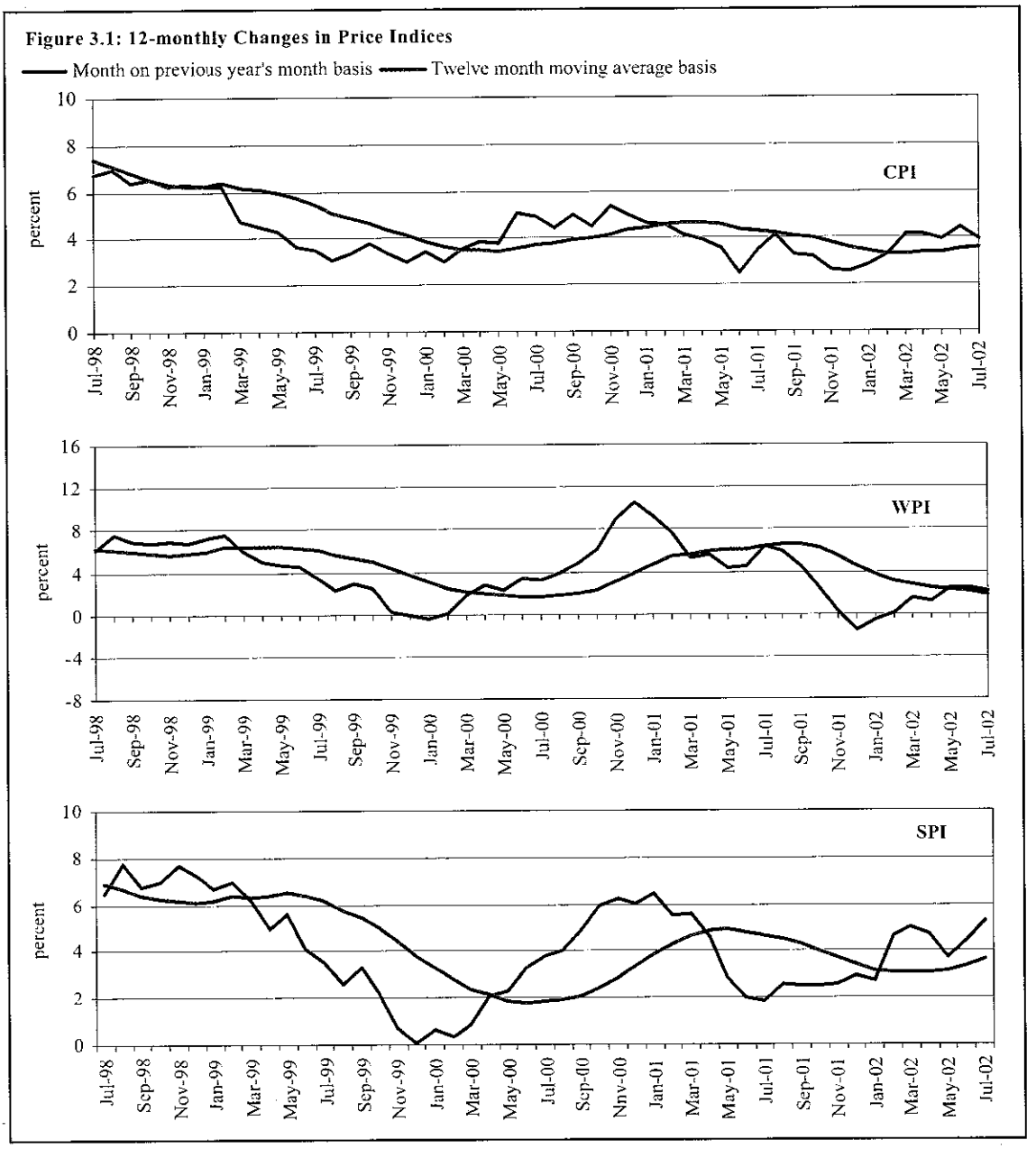
[2] Annual marginal (point-to-point) inflation rate is defined as percent change of June index level over previous June index.

[3] FBS has never published the results of the Family Budget Survey which is undertaken to recompose the consumer basket. Although the pamphlets explaining the compilation methods are available, importance of *all* consumer items in terms of their weights had never been disclosed.

3.2 Supply Side Factors

A slowdown in the rate of inflation during FY02 has been made possible mainly on account of the considerable improvement in domestic availability and the utilization of piled up stocks of essential items like wheat, sugar, cotton etc. The overall food situation recorded a significant improvement during FY02. The realization of sizeable cotton, wheat and sugarcane crops along with better livestock production largely contributed in improving the supply side. A significant improvement was also recorded in the quantum index of gram, rapeseed & mustard and other minor crops during the period under review. The continued import of raw and refined sugar in early months of the year and accumulating stocks combined with better production during the season were the other factors for keeping commodity prices in lower band. Moreover, the utilization of idle capacity in some of the sectors like cement etc. further eased the supply scenario.

Figure 3.1: 12-monthly Changes in Price Indices



3.3 Imported Commodities

The decline in some of the oil and non-oil commodity prices was another contributory factor in moderating domestic inflation during recent years. Given the fact that the economy has a considerable degree of openness to foreign trade, changes in world prices especially of strategic import items, can have significant pass through effects on domestic inflation. **Table 3.2** shows selected commodities of importance in Pakistan's trade basket along with the changes in their international prices during FY02. This importance becomes clear from the fact that during the FY02, Pakistan imported edible oil of US$ 393.0 million, tea of US$ 156.6 million and crude oil of US$ 1,230.8 million.

Table 3.2: Selected Global Commodity Prices

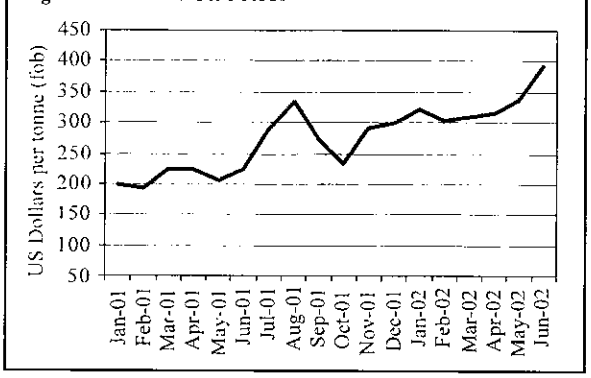
	Unit	Absolute prices/Index June 02	% Change in FY02 over FY01
Sugar (world)	cent/Kg	12.68	-36.4
Crude oil-Brent	$/bbl	24.49	-11.65
Cotton, " A" index	cent/Kg	95.40	-8.9
Aluminum	$/mt	1354.00	-7.6
Tea (avg. 3 auctions)	cent/Kg	154.50	-4.7
Iron ore	cent/dmtu	29.31	-3.3
Steel products index	---	66.50	0.8
Copper	$/mt	1648.00	2.5
Fertilizer-index	---	99.00	3.1
Wheat US	$/mt	132.00	4.5
Tin	cent/Kg	428.60	12.6
Rice Thai 5 %	$/mt	202.70	20.8
Rubber (Malaysia)	cent/Kg	84.50	31.8
Soya bean oil	$/mt	438.00	38.6
Palm oil	$/mt	411.00	59.9
DAP	$/mt	163.60	300

Note: June over June basis

Source: Commodity Price Data, World Bank

The second half of FY02, especially near the end months recorded a sharp increase in the prices of palm oil in international market. Consequent to the increase in international palm oil prices, domestic prices of ghee and cooking oil witnessed an increase in the second half of the FY02. The average price of palm oil in the international market was higher by 59.9 percent in June 2002 over the corresponding period last year. The surge was due to the low stocks, falling production and higher demand (see **Figure 3.2**). Malaysian market remained higher mainly on account of the poor stock, low production and heavy purchases by India, China and certain other countries. However, the surge in demand begin to die down as the stock in Malaysian market is likely to increase as a result of rising output which would have a depressing effect on future prices.

Figure 3.2: Palm Oil Prices



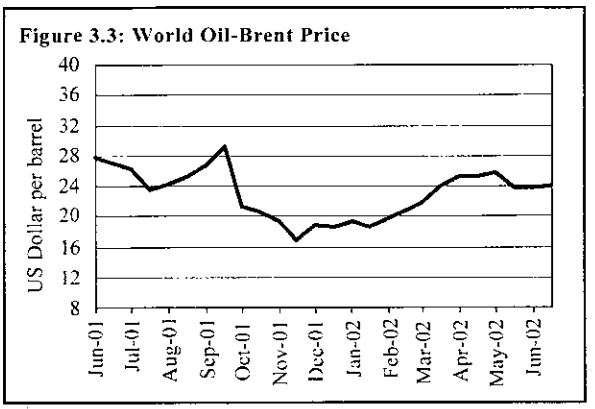
World petroleum prices recorded a considerable decline in early FY02. There was a considerable fall in world oil demand since September 11, mainly due to low demand and reduced economic growth coupled with excess oil supply that surpassed the last five-year average. However, petroleum prices rebounded in January 2002, largely in reaction of the OPEC's[4] decision to cut crude oil production by 1.5 million barrels on daily basis, conflicting statements from producers on supply increase in future, increasing world economic demand for oil, concerns related to potential oil supply disruptions in the Middle East and labor unrest in Venezuela along with weak inventories of crude petroleum products (see **Figure 3.3**).[5] The recent evidence suggests that international demand for oil has increased over supply, which might escalate energy prices in future (see **Figure 3.4**).

[4] OPEC has traditionally produced almost 40 percent of World oil and hold more than 77 percent of proven oil reserves. Its member includes 11 of the top 20 world oil producers. OPEC also holds most of the world excess oil capacity.

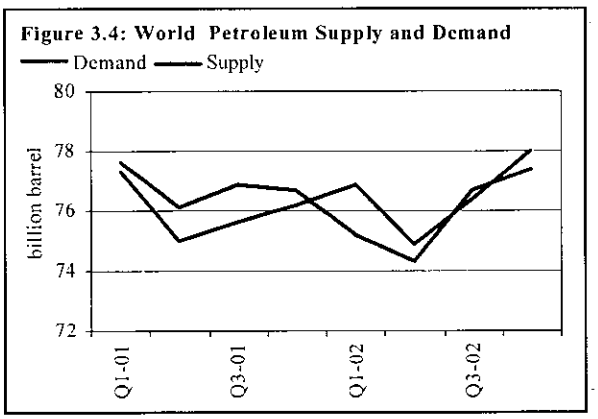
[5] OPEC announced in its November 14, 2001 meeting held in Vienna that it would cut crude oil production by 1.5 million barrels a day, effective from January 1, 2002.

3.4 Exchange Rate and Import Prices

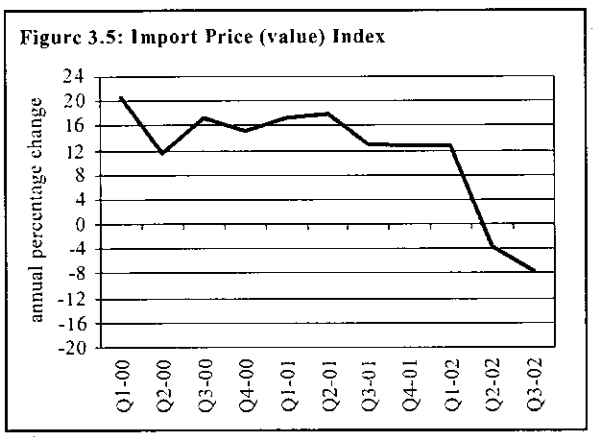
Appreciation of Pak Rupee vis-à-vis US Dollar, both in the kerb and official markets during FY02, has widely eased price pressures as each revaluation/appreciation was translated into a lower prices of imports and thereby, lower inflation. Stronger Rupee against the Dollar in the H2-FY02 also generated a speculative cycle in commodity markets with negative sentiments regarding future prices that further helped in softening inflationary expectations.



The moderation of prices was also attributable to the diminishing impact of imported inflation. The Import Unit Value Index in July-March FY02 was lower than the level in the corresponding period last year. It is also showing a continuous and sharp declining trend during the first three quarters of current fiscal year (see **Figure 3.5**). Producer prices were also affected by the import price of the key energy and raw materials items, whose growth, despite some fluctuations, continued lower during the year compared with the corresponding period.



Among the imported goods, pronounced declines were recorded by the unit values of pulses, petroleum products, petroleum crude, synthetic & artificial silk yarn, plastic materials, insecticides, iron & steel, paper & board, and rubber tyres etc. The decline in the cost of imported items like petroleum and petroleum products, chemicals and machinery may not only have reduced the cost structure of domestic industries but also significantly helped in lowering administered prices, i.e. of petroleum products for most of FY02.

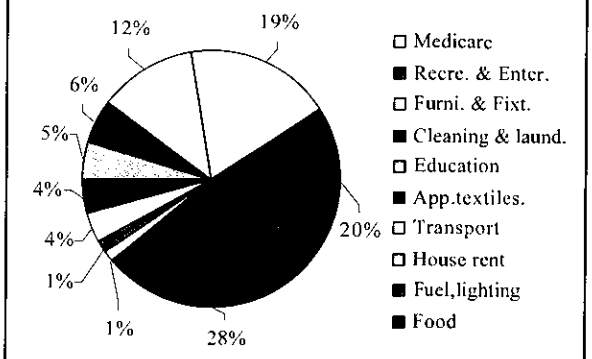


3.5 Consumer Price Index (CPI)

As discussed earlier, during FY02, the annualized average rate of increase in terms of CPI has been 3.5 percent compared with 4.4 percent last year. Further disaggregated analysis of the CPI basket reveals that the deceleration was the combined result of slower growth rates both of food and non-food prices. However, the deceleration in the prices of food group was much sharper compared with non-food group. *Food & beverages*, with a weight of 44.13 percent in CPI, increased by 2.5 percent compared with 3.6 percent last year. Similarly, non-food group posted a rise of 4.2 percent during FY02 as against 5.0 percent in the preceding year. This lower increase in the non-food groups during FY02 resulted mainly from reduced rate of increases in case of *fuel & lightening*, *transport & communication*, *house rent*, and *medicines/medicare*. The trend was in opposite direction in remaining other sub indices but their combined weight was too small to reverse the deceleration in

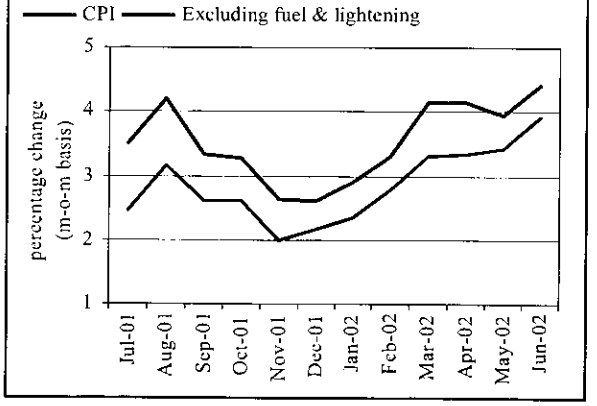
CPI. The contribution of each group towards overall increase of CPI by 3.5 percent during FY02 is given in **Figure 3.6.** Since the weights vary across the commodity groups, the highest contribution to overall CPI increase has been made by *nonfood.* Within the non-food, higher increases were seen in the *fuel & lightening*, followed by *house rent, transport & communication, textile, education, cleaning & laundry, household furniture* and *medicare.*

Figure 3.6: Weighted Contribution in Inflation



The considerable deceleration in prices of food & beverages occurred because prices of certain important food items of mass consumption either declined or remained stable during FY02. Food price component of the index declined primarily due to weaker prices of wheat, sugar, certain pulses, onion, tomatoes and other vegetables. The price of wheat during FY02 generally remained lower than in previous year because supply was higher than the domestic demand. Similarly, prices of refined sugar and gur also remained on lower side. This decline in prices was mainly due to the higher domestic production combined with large inventory from the FY01 production. Black tea is the major item of consumption in the country. Its prices remained stable with slight variation. The domestic prices of tea should have been much lower keeping in view the lower import prices (unit value of tea declined by 14.6 percent) as well as the pressure of large scale smuggling across the boarder (as suggested by the anecdotal evidence).

Figure 3.7: Trends in CPI



However, certain other items including vegetable ghee and cooking oil, and rice recorded an increase in their prices. Since the domestic ghee industries mostly process imported palm oil, the prices of vegetable ghee and cooking oil prices rose in the second half of the FY02, following the increase in international prices of palm oil. The subsequent increase in the import unit value by 17.2 percent of palm oil and fall in the domestic production of vegetable ghee by 5.7 percent further put pressure on the prices of vegetable ghee and cooking oil in the latter half of the year.

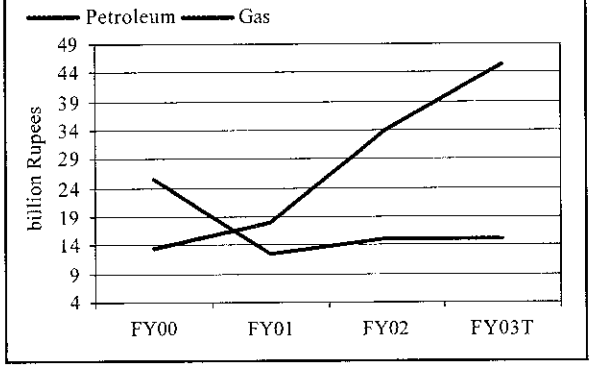
Month on month analysis of CPI trend revealed that during H2-FY02, there began an upward pressure on the prices, pushing up the overall index. This implies the impact of various developments such as rising international oil prices, increase in the rate of surcharges on gas & petroleum, electricity, steady rise in indirect taxes, and increase in prices of vegetable ghee and cooking oil, etc. (see **Figure 3.7**).

A detailed investigation reveals that sub indices of *fuel, lightening* and *transport & communication* contributed one-third of the overall increase in CPI. In the new basket of CPI the weights of *fuel and lightening* have not only increased but there is a structural change with substantial increase in the weight of *gas and electricity.*

Since increase in the prices of petroleum, gas and electricity had both a direct effect on consumer prices and an indirect in the form of increase in the prices of those consumer goods that make

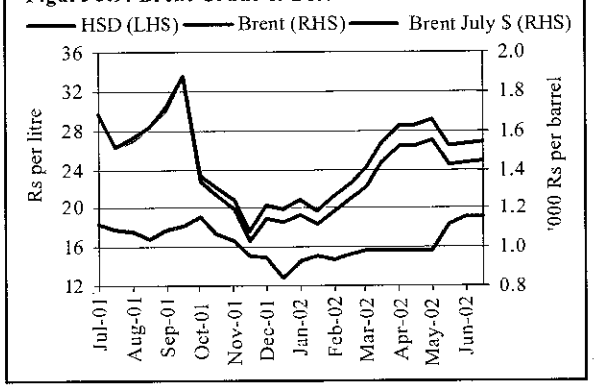
extensive use of these items as input. Any increase in the prices of these items pushes the rate of inflation with a magnitude determined by the extent with which these are used in the production of final goods. In recent years, there was a steady rise of government levy on petroleum and gas in addition to the rise of 3.5 percent in the distribution margin of oil marketing companies during the third quarter of FY02 (see **Figure 3.8**). This is likely to push the prices of POL products up in future.

Figure 3.8: Surcharges on Petroleum and Gas



The deceleration in prices of *transport & communication* was on account of the downward adjustment in the larger part of the year in the prices of certain important items covered under this group. According to the present practice, the Oil Companies Advisory Committee (OCAC) reviews the prices of petroleum products on a fortnightly basis, however, on average basis during FY02 petrol prices declined by 0.81 percent (see **Figure 3.9**).[6]

Figure 3.9: Brent Crude & Diesel Prices



3.6 Income distribution and incidence of inflation

The CPI is also constructed for separate four household monthly income groups: (a) Up to Rs 3,000; (b) Rs 3,001 to Rs 5,000; (c) Rs 5,001 to Rs 12,000 and; (d) Above Rs 12,000. An analysis of inflation across the different income groups reveals divergent but normal pattern of inflation from low to high. **Table 3.3** depicts that the inflation was higher for upper income group compared to the lower income group. In other words, the lowest income group recorded the lowest inflation of 3.0 percent.

Table 3.3: Inflation by Income Groups

percent

Income groups	Inflation	Deviation from mean
Income up to Rs 3000	3.0	-14.3
Income up to Rs 3001-5000	3.4	-2.9
Income up to Rs 5001-12000	3.4	-2.9
Income above Rs 12000	3.6	2.9
All income groups combined (mean)	**3.5**	**0.0**

The subdued growth of inflation in lower income group is mainly on account of the lower food prices that capture larger share of income of this group. A similar trend was observed in the inflation of middle-income group, though it is higher than that of lower income group but still lower than the overall inflation rate of 3.5 percent.

The lower *food* inflation reflects overall macroeconomic policy to protect the lower earning groups compare with the well-to- do from inflation through ensuring the availability of essential food items

[6] OCAC was established in early FY02 to introduce a market based pricing system on fortnightly basis for POL products with oil prices linked to international crude oil prices.

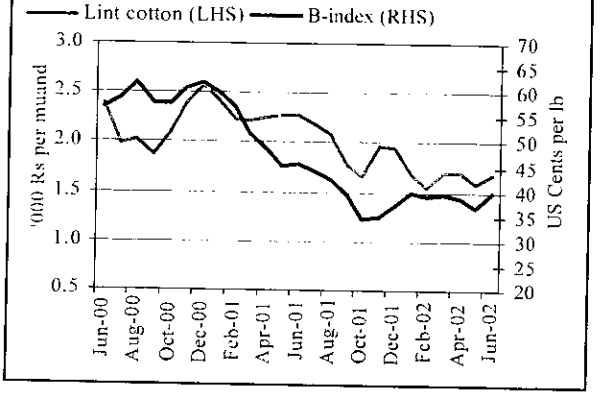
during FY02.[7] However, inflation was high in the upper income, indicating comparatively higher price increase in non-food items, on which larger portion of income of this class is spent. The escalating energy prices, increasing house rent and costlier education seemed to be the major reasons for high inflation in this group.

3.7 Wholesale Price Index (WPI)

WPI is comprised of prices of 96 items at wholesale level. The WPI, which had risen by 6.2 percent last year, recorded an increase of 2.1 percent. WPI trend in the last five years is given in Table 3.1. The food and non-food components of WPI also declined sharply during FY02 compared with last year. Sub-groups of WPI reveal that *fuel, lightening & lubricants* group recorded higher increases compared to overall increase in the WPI. However, the larger deceleration in the indices of *food*, *raw materials* and *building materials* largely pulled down the growth of wholesale price index. The decline in *raw materials* prices is attributed mainly to the decline in price of cotton, which carries a higher weight in this group. Price increases in terms of WPI items are given in **Table 3.4**.

During the FY02, cotton prices declined from Rs 2,186 per 40 Kg as on July 2001 to Rs 1,656 in October and to Rs 1,555 on February 2002 then showed a rise to Rs 1,706 in June 2002 (see **Figure 3.10**). Moreover, the export of cotton yarn has declined during FY02 both in value terms as well as in quantity.

Figure 3.10: Domestic & International Lint Prices



Realization of a good cotton crop last year, subsequent stockpiling by textile producers, the slight loss of momentum of textiles in terms of lower production in early parts of the FY02, slowdown in global economy and subsequent depressed demand for Pakistani textile products as well as the decline in the export of raw cotton largely influenced the behavior of domestic cotton prices. World cotton consumption is projected to increase by 1.2 percent, reaching a level of 20.7 million tons in 2003-04. Consumption is expected to increase by 1.5 percent in China, by 1.8 percent in India and by 4.0 percent in Turkey.[8] Assuming that during the FY03, world production of cotton will be stable, consumption will rise on account of the higher demand of the industrial economies. Also, China's cotton crop may have suffered a setback, which would necessitate its imports to feed its domestic industry. The emerging favorable external scenario for cotton exports and international prices are likely to offset the downward pressure on domestic cotton prices due to the glut of cotton production in 2001-02 and large carry over stocks to next crop season 2002-03.

Considerable deceleration was also observed in the prices of *raw materials*. The weak *raw materials* prices (cotton, pig iron and wool in particular) were on account of the slowdown in manufactured exports and lower domestic demand. Manufactures price index increased by 2.1 percent during the FY02 compared with 1.3 percent last year. However, on month-on-month basis, the prices of manufactures have shown a downward trend in the recent months (see **Figure 3.11**).

[7] For shielding the poor and vulnerable from adjustment costs, government has launched food support program. At around 1.2 million poor households with monthly income of Rs 2,000 are the beneficiaries of this program. Cash support of Rs 2,000 was provided to them through biannual installments. Rs 2.9 billion were spent on this program from the federal budget during FY02. In addition, with the recent revamping of Zakat and Ushar system, annual Zakat collection is around Rs 4 billion. About 2 million beneficiaries received assistance from the Zakat fund during the period under review.

[8] Monthly Review of World Cotton Situation, ICAC, May-June 2002.

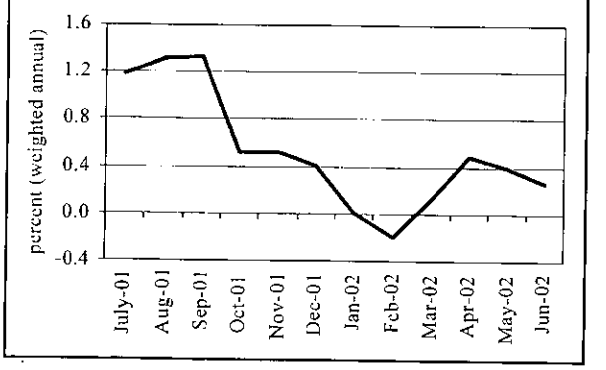
Table 3.4: WPI Items Classified by Range of Price Changes - FY02

Groups	Decrease or no change (0 % or less)		Subdued increase (up to 5%)		Moderate increase (5 to 10%)		Double digit increase over 10%	
	Weight	Items	Weight	Items	Weight	Items	Weight	Items
Food	5.4956	Meat	10.739	Fresh milk	3.2207	Cooking oil	2.6167	Cottonseed oil
	3.3547	Sugar refined	3.0645	Wheat flour	1.2659	Powdered milk	1.3234	Oil cakes
	2.2729	Fresh fruits	2.0262	Rice	0.6594	Wheat	0.4578	Spices
	1.1418	Chicken	0.3247	Beverages	0.106	Vegetables	0.1724	Gram split
	0.0508	Condiments	0.3929	Maida	0.0518	Vegetable ghee	0.2274	Gram whole
	0.0945	Suji	0.5111	Eggs	0.8633	Tea	0.0639	Moong
	0.0885	Salt					0.8933	Mustard & rap. oil
	0.0538	Mash					0.3132	Maize
	0.1818	Tomatoes					0.2762	Potatoes
	0.0733	Jowar					1.826	Fish
	0.0249	Barley						
	0.0734	Bajra						
	0.0534	Milk food						
	0.5469	Gur						
	0.4652	Dry fruits						
	0.3676	Onion						
	0.0586	Masoor						
Raw materials	3.8575	Cotton	0.161	Tobacco			1.5519	Cotton seed
	0.7515	Pig Iron	0.1157	Groundnuts seed			1.0766	Sugarcane
	0.2282	Wool					0.4976	Skins
							0.3805	Hides
							0.1409	Mustard & rapeseed
Fuel, Lighting & Lubricants	2.6561	Natural gas	0.8553	Lubricants	2.6878	Other oils	4.3021	Motor Fuels
	1.9134	Coal			0.0433	Fire wood	2.3364	Electricity
	0.4838	Coke						
Manufactures	5.8661	Cotton yarn	0.4191	Other electric goods	0.0292	Tubes	2.0334	Transport
	1.5974	Cigarettes	0.1401	Cosmetics	0.3705	Soaps	2.0309	Fertilizer
	1.329	Ready made Garments	2.3691	Cotton textiles	0.123	Glass products	0.3448	Jute manufactures
	0.1792	Papers	1.8356	Drugs & Medicines	0.8622	Matches	0.4539	Hosiery
	0.6109	Chemicals	0.7485	Machinery	0.0492	Woolen textiles	0.7338	Leather
	0.3331	Plastic products			0.3437	Tyres	1.5274	Footwear
	0.2619	Nylon yarn					0.2011	Utensils
	0.2303	Silk & rayon textiles						
	0.2256	Blended yarn						
	0.211	Audio-visual instruments						
	0.0696	Dyeing materials						
Building Materials	0.0363	Pipe fitting	0.0079	Tiles	1.7568	Cement	0.1534	Paints & varnishes
	0.0523	Bricks/Blocks	0.047	Glass sheets	0.0225	Timber		
	2.5407	Iron bars and sheets	0.0187	Wires and cables				
	0.0012	Sanitary wares						

This trend in prices of manufactures may partly be attributed to the global decline in prices of raw materials and manufactures on account of the slower growth in world economy and recession in industrial countries. During FY02, exports of certain manufactured goods also declined. Among these, significant decline was recorded in cotton yarn, hosiery, synthetic textiles, tarpaulin & canvas

goods, carpets and rugs. Being one of the major markets for Pakistani carpets, the recession in US economy had an adverse impact on the performance of carpet and other manufactures. The growing market competition among producers for increasing their outlets, adopting economies of scale through minimizing losses may also have an impact on falling prices of manufactures. Further, the decline in the cost of imported items like petroleum and petroleum products, chemicals and machinery may also reduce the cost structure of domestic industries. The prices of building materials recorded an increase of 0.5 percent compared with 2.9 percent last year. The decline in investment demand combined with lower prices of iron bar, sheets, bricks/blocks and sanitary-ware might have played their part in lowering prices of building materials. The higher import of iron and steel by 38.4 percent along with the decline in their unit value by 13.2 percent seems to be the other reason for lower prices.

Figure 3.11: Change in Maunfactures Price



3.8 Sensitive Price Indicator (SPI)

Sensitive Price Indicator (SPI) evaluates and assesses the impact of price changes of mostly kitchen items which have a direct bearing on the cost of living of the lower income groups. The sensitive price indicator comprises retail prices of 51 items including four items of utilities prevailing in 17 major cities. The SPI showed an increase of 3.4 percent compared to 4.8 percent last year. Movements in SPI were in line with CPI as marginal inflation rate showed a similar trend. SPI recorded an increase of 4.4 percent in June 2002 over June 2001 compared with 2.0 percent during the corresponding period last year. The lower increase is primarily on account of the lower prices of wheat, vegetables, sugar and other essentials.

Box 3.1: Why are Consumers Skeptical of Official Inflation Figure?

General notions about the rate of inflation depend mostly on judgment of persons in making a selection of prices of few items at two points in time and taking a simple average of these price changes. Two major biases creep into this approach, the first is due to the selection of items, which may not be a good representation of the consumption basket. Second is due to lack of accounting for the relative importance of items in the consumption basket. **Table 3.1.1** shows a simple example that illustrates the significance of using weighted average to calculate the rate of inflation. This example emphasizes that it is the change in the cost of living that is important rather than the changes in prices per se. If a family consumes a hefty amount of milk and a puny amount of spices, it will be reflected in its expenditure pattern that should be taken into account while estimating the impact of cost of living. Moreover, taking a large number of items, rather than just four in above example, will also reduce the bias in estimated rate of inflation.

Table 3.1.1: Example of Simple vs Weighted Average

Basket of four items	Price changes in a year	Relative importance (expenditure shares)
Milk	4.0%	63.0
Rice	2.0%	17.0
Spice	35.0%	2.0
Cooking oil	8.0%	18.0
Simple average of price changes	12.25%	100.0
Weighted average of price changes	5.00%	

As it is not practicable to obtain a census of prices for all consumer transactions in the country, the Consumer Price Index is calculated on the basis of well-designed sample surveys of prices of representative items that are conducted throughout the year. In addition, a Family Budget Survey is conducted every five or ten year to estimate the changing profile of consumption basket. Relative importance of consumer items is also established in this survey by estimating the expenditure shares of each item in the expenditure budget of families. These shares are then used to weight the price changes in an appropriate statistical formula (usually, the Laspeyre's formula) for estimating the price index. Items with higher weights have greater impact on CPI than those with lower weights. The lay person approach of calculating inflation rate is generally based on simple averages rather than the weighted average. These two methods of computing inflation provide significantly different results as illustrated above.

Table 3.1.2: Commodity Group Weights

Groups	Previous basket 1990-91=100		New basket 2000-01=100	
	No of items	Weight	No of items	Weight
1.Food group	163	49.35	124	40.34
2.Non-food group	297	50.65	251	59.66
Apparel, textile & footwear	69	7.56	42	6.10
House rent	1	18.98	1	23.43
Fuel & lightening	17	6.1	16	7.29
Household, furniture & equip.	53	2.0	44	3.29
Transport & communication	43	5.08	43	7.32
Recreation & entertainment	19	1.12	16	0.83
Education	26	2.0	24	3.45
Cleaning, laundry & personal appear.	45	5.4	36	5.88
Medicines/Medicare	24	2.38	29	2.07
Total	**460**	**100.0**	**375**	**100.0**

Source: Federal Bureau of Statistics

The CPI is a measure of the average change in prices paid by urban consumers for a fixed market basket of goods and services. It is a statistical average, and may not reflect the experience of particular individuals or that of specific families, in particular those whose expenditure pattern differ substantially from the "average" urban consumer.

In Pakistan, CPI is usually re-based and its weights revised once in every ten years to ensure that the consumer basket continues to reflect accurately the current expenditure pattern of all households in the country, and during the process, remains a reliable indicator for consumer inflation. Till now, Federal Bureau of Statistics has re-based the index six times including the latest revision of the base in 2000-01.

The coverage of CPI in terms of items has increased from 202 items in 1969-70 to 460 items in 1990-91. During 2000-01, the CPI basket was further refined to 375 items in the latest revision by introducing various new items and deleting irrelevant items to improve its representativeness. Commodity groups and their weights are given in **Table 3.1.2** for the new and previous basket.

Box 3.2: Per Capita Income and Food Consumption

If an economy's per capita income grows, its consumers normally spend a greater share of their income on non-essential items other than food. This expected behavior is usually reflected in the changing weights of food group within a country over a period of time as well as across the countries at a point of time. **Figure 3.2.1** illustrates a downward trend for food weights in CPI basket in Pakistan. The argument owes its support from economic theory and is verifiable from a comparison of CPI weights amongst the countries operating at different levels of development. In Pakistan, the share of food in CPI basket has declined from 54 percent in 1969-70 to 40 percent in 2000-01; backed by the fact that real per capita GNP in terms of Rupee has increased from Rs 3,589 in 1980-81 to Rs 5,294 in 2001-02. Similarly, cross-country analysis reveals that the weights of food group in CPI are lower (weights of non-food group are higher) in countries with higher per capita income and vice versa (see **Figure 3.2.2**).

Figure 3.2.1: Historical CPI Weights-Food Group

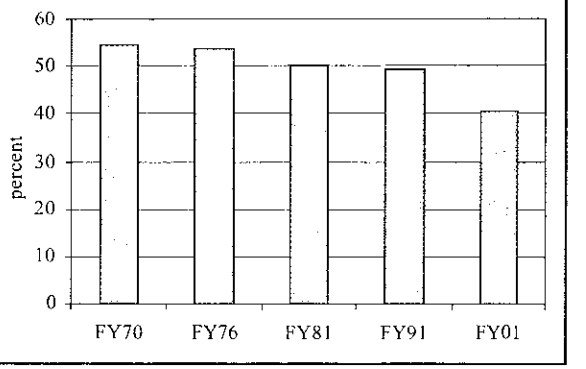
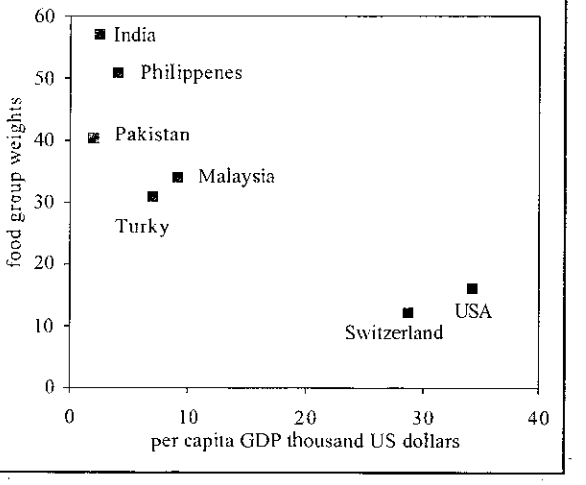


Figure 3.2.2: Inter-Country Food Weights in Relation to per Capita GDP



4 Public Finance and Fiscal Policy

4.1 Introduction

The emphasis on fiscal reforms encompassing documentation, transparency, and improving tax compliance, initiated by the present government, continued during FY02. However, unlike FY01, which saw a notable fiscal consolidation, the efforts to reduce the budget deficit during FY02 to the targeted 4.9 percent of GDP were not successful as the overall deficit rose to 6.6 percent of GDP. The specific factors driving this outcome include the negative impact of international political developments, unanticipated defense expenditures, and some one-off adjustments. Importantly, adjusting for the latter expenses of Rs 168.4 billion, the "*baseline*" deficit for FY02 falls to 4.6 percent of GDP. This is well below the FY02 target, as well as the FY01 deficit of 5.3 percent of GDP (see **Table 4.1**).

A compositional breakdown of the overall FY02 deficit is instructive; while revenue collections were admittedly lower than the target, the primary contribution to the above-target deficit was from a sharp rise in expenditures. The decline in revenues was, to a degree, explainable by a slowdown in domestic economic activity, a consequent decline in imports, as well as the negative impact of two unexpected trends that altered key tax bases, i.e. a continuing decline in domestic inflation and the appreciation of the Rupee against US Dollar, both of which contributed to a decline in ad-valorem tax receipts. However, the fact that the tax-to-GDP ratio remains weak suggests that the tax base needs to be broadened.

On the expenditure side, while higher defense spending was to be expected given the escalated tensions on borders with India (following the December 13 incident),[1] the larger drain was on account of three additional *one-off* expenditures; a grant to the CBR allowing it to clear accumulated income tax arrears owed to banks, a substantial investment in KESC to restructure its finances before privatization, and a settlement of WAPDA arrears.

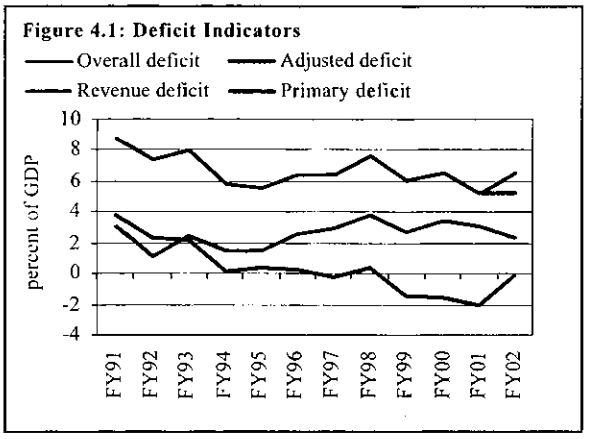
4.2 Fiscal Performance Indicators[2]

As no single indicator can properly assess the overall fiscal performance of a country, a set of indicators has been presented to gauge the consolidated fiscal operations of the federal and provincial governments during FY02.

4.2.1 Deficit Indicators

The unadjusted *overall budgetary deficit* has clearly deteriorated during FY02; not only is it higher than the actual budgetary deficit in FY01, the rise clearly disturbs the overall downward trend visible since FY99 (see **Figure 4.1**). However, the increase in the deficit over the FY02 target is almost entirely attributable to exceptional expenditures; excluding these gives an "adjusted" deficit of 4.6 percent of GDP (see **Table 4.2**), i.e. maintaining the recent downtrend.

Figure 4.1: Deficit Indicators



[1] India accused Pakistan of complicity in an attack on the Indian Parliament – an accusation that Pakistan vehemently denied. Nonetheless, India increased its military presence on the borders with Pakistan and threatened to take military action across the Line of Control to attack the alleged bases of the militants. This forced Pakistan to undertake pre-emptive defensive measures that raised military expenditures during FY02.

[2] Discussion in this section is based on consolidated data of the federal and provincial governments.

Table 4.1: Summary of Public Finance

Consolidated Federal and Provincial Governments

billion Rupees

	FY99	FY00	FY01	FY02		FY03
				Budget	Provisional	Budget
1. Revenue receipts (a+b)	468.6	536.8	546.4	657.9	630.3	691.9
a) Tax revenue	390.7	406.0	445.0	528.2	476.6	n.a.
b) Non-tax receipts	77.9	131.0	102.0	129.8	153.7	n.a.
2. Total expenditures (a+b+c)	647.8	743.6	726.9	844.8	873.1	854.4
a) Current	547.3	642.9	650.7	714.6	717.7	720.4
b) Development	98.3	95.6	92.5	130.0	123.6	134.0
c) Net lending to PSEs etc.	2.2	5.1	-16.3	0.2	31.9	
3. Revenue surplus/deficit (1-2.a)	-78.7	-106.1	-104.3	-56.6	-87.3	-28.5
4. Overall balance (1-2)	-179.2	-206.8	-180.5	-186.9	-242.8	-162.5
5. Adjusted balance	-	-	-	-	-168.4	-
6. Financing through:	179.2	206.8	180.4	186.9	242.8	162.5
a) External resources (net)	97.1	67.0	118.8	121.6	106.6	129.1
b) Internal resources (i+ii)	82.1	139.9	61.6	65.3	136.2	33.4
i) Domestic non-bank	155.9	100.0	93.9	54.8	123.7	64.5
ii) Banking system	-73.8	40.0	-32.3	10.5	12.5	-31.1
As per cent of GDP (mp)						
1. Revenue receipts (a+b)	15.9	17.1	16.0	17.3	17.1	17.1
a) Tax revenue	13.3	12.9	13.0	13.9	12.9	n.a.
b) Non-tax receipts	2.7	4.2	3.0	3.4	4.2	n.a.
2. Total expenditures (a+b+c)	22.0	23.6	21.3	22.3	23.7	21.1
a) Current	18.6	20.4	19.0	18.8	19.5	17.8
b) Development	3.3	3.0	2.7	3.4	3.4	3.3
c) Net lending to PSEs etc.	0.1	0.2	0.5	0.0	0.9	0.0
3. Revenue surplus/deficit (1-2.a)	-2.7	-3.4	-3.1	-1.5	-2.4	-0.7
4. Overall balance (1-2)	-6.1	-6.6	-5.3	-4.9	-6.6	-4.0
5. Adjusted balance	-	-	-	-	-4.6	-
6. Financing through:	6.1	6.6	5.3	4.9	6.6	4.0
a) External resources (Net)	3.3	2.1	3.5	3.2	2.9	3.2
b) Internal resources (i+ii)	2.8	4.4	1.8	1.7	3.7	0.8
i) Domestic non-bank	5.3	3.2	2.7	1.4	3.4	1.6
ii) Banking system	-2.5	1.3	-0.9	0.3	0.3	-0.8

Source: Ministry of Finance

The performance of the overall budget deficit is similar to that of another indicator, the *revenue deficit,* i.e. the gap between revenues and current expenditures, which indicates the portion of the government's revenues consumed by non-development expenditures.[3]

Borrowings undertaken to meet current expenditures are a matter of some concern, as the expenditures do not add to the repayment capacity of the country, but they increase the debt burden. Pakistan has been experiencing a revenue deficit for last two decades, but this has declined significantly in FY02 to 2.4 percent of GDP (see **Figure 4.1**).

[3] Revenue balance figure for FY02 must be read with caveat, as it excludes Rs 30 billion investment in KESC because it is classified under Net Lending to PSEs according to accounting standards.

To its credit, the government appears to recognize that even the FY02 *revenue deficit* figure is high. This concern is explicitly accepted in the government's proposed Fiscal Responsibility and Debt Limitation Ordinance, 2002 that aims to gradually eliminate the revenue deficit by FY07.

A troubling development for FY02 is the abrupt reduction in the *primary surplus* to 0.1 percent of GDP from 2.0 percent of GDP in the previous year (see **Figure 4.1**). This indicator is arrived at by deducting interest expenses from the overall budgetary deficit, and is used to gauge a country's ability to finance its expenditures in the absence of a debt burden. Pakistan has been running primary surpluses (or almost negligible deficits) since FY94, but it was only in the last few years that substantial primary surpluses had been generated, reflecting the increased emphasis on containing the debt burden.

Table 4.2: Adjusted Budget Deficit for FY02

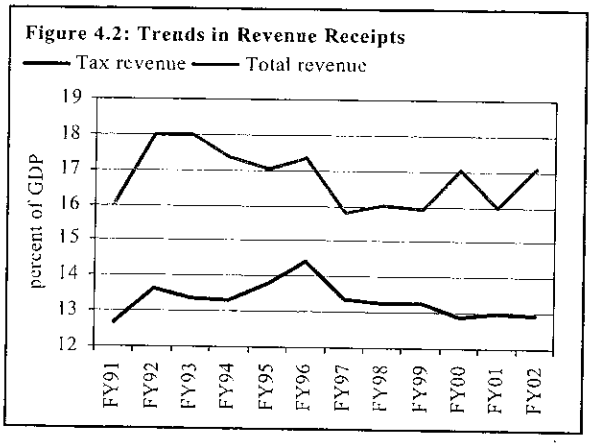
	billion Rupees	Percent of GDP
Budget target	186.9	4.9
Budget deficit [P]	242.8	6.6
Exceptional expenditures		
Grants to CBR	22.0	0.6
Investment in KESC	30.0	0.8
Defense expenditures	17.4	0.5
Wapda arrears	5.0	0.1
Total	74.4	2.0
Adjusted deficit[1]	168.4	4.6

[P]: Provisional

[1]: Adjusted exceptional expenditures only

The abrupt loss of this surplus in FY02 is largely attributable to the exceptional expenditures witnessed during the year (see **Table 4.2**). The absence of these in future years could therefore lead to the re-appearance of large primary surpluses.

Figure 4.2: Trends in Revenue Receipts



4.2.2 Revenue Indicators

FY02 has seen a surprisingly strong jump in the revenue-to-GDP ratio, which rose by 1.1 percentage points even as the tax revenue to GDP ratio remained almost unchanged (see **Figure 4.2**). In other words, the buoyant 15.4 percent growth in revenues is primarily driven by rising non-tax collections, which is based on three main sources: (1) interest income on government loans, (2) dividends from corporations, and (3) profits from other organizations such as the SBP.[4] None of these has traditionally been a stable income source, as evident from the high variance in these receipts over the last 12 years (see **Table 4.3**). As seen in **Figure 4.2**, tax revenues as a percent of GDP showed some growth from FY92 to FY97 and afterward remained worryingly stagnant despite the considerable efforts over the years to broaden the tax base of the economy. Clearly, the efforts to capture the tax potential of the economy have not succeeded so for.

To gain more insight, the buoyancy of revenues has also been computed for a 12-year period to assess the overall growth in revenue receipts. The estimated buoyancy of tax revenues averaged 0.9 as compared to 1.3 for non-tax revenue (see **Table 4.3**). In other words, the average growth and volatility in non-tax revenues remained significantly higher than for tax revenues over the estimation period.

[4] Within non-tax revenues, interest income from loans and advances to provincial governments is relatively stable with a share of around 23 percent in total non-tax revenues.

During FY02, the share of non-tax revenues and its buoyancy estimates were higher than the average for the 1990s. However, the concern due to the historical volatility may be misplaced, as the restructuring of public sector enterprises in recent years may finally permit them to regularly service their debt to the government. If so, this would add greatly to the stability of non-tax revenues going forward.

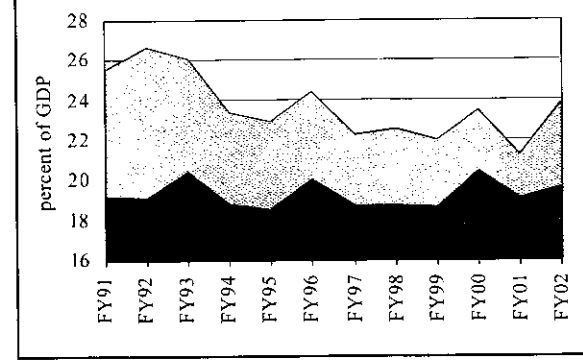
Table 4.3: Selected Fiscal Indicators (FY91 to FY02)

	Average	Standard deviation	Co-efficient of variation
As percent of GDP			
Tax revenues	13.4	0.5	3.6
Non-tax revenues	3.6	0.8	21.7
Total revenues	16.9	0.9	5.3
Current expenditures	19.3	0.8	3.4
Defense	5.5	0.9	17.0
Interest payments	6.3	1.0	16.5
Development expenditures	4.6	1.5	33.4
Total expenditures	23.9	1.7	7.0
As percent of budget targets			
Revenue receipts	92.1	3.7	4.0
Current expenditures	102.0	5.1	5.0
Development expenditures	95.7	12.5	13.1
Buoyancy estimates			
Tax revenues	0.9	0.3	34.3
Non-tax revenues	1.3	2.8	217.8
Total revenues	1.0	0.6	61.0
Current expenditures	1.1	0.6	55.5
Development expenditures	0.5	1.6	300.6
Total expenditures	1.0	0.8	75.8

4.2.3 Expenditure Indicators

The *total expenditure to GDP ratio* approximates the government's share in the overall economy and provides information on the fiscal stance of the government. As evident from **Figure 4.3**, after falling sharply in the first half of the 1990s, it depicts a gradual downtrend in succeeding years. Unfortunately, this gradual slide was almost exclusively at the cost of development expenditures.

Figure 4.3: Expenditure Trends



The average buoyancy of total (1.0), current (1.1), and development (0.5) expenditures computed for the preceding 12 years reinforces the conclusions drawn above (see **Table 4.3**). While expenditures kept pace with GDP on average, it is current expenditures that grew at the faster pace, driven mainly by a sharp rise in interest payments, and fiscal adjustments were largely made by cutting development expenditures.

During FY02, the *total expenditures to GDP* ratio has jumped sharply from 21.3 to 23.7 percent, largely on account of current expenditures (see **Figure 4.3**).[5] However, for once, this rise is not at the expense of development expenditures, which has also rose by 0.7 percent of GDP. Moreover, incorporating the one-off spending, the "adjusted" FY02 expenditures to GDP ratio falls to 21.7 percent.

A compositional breakdown of current expenditures over the years also provides interesting insights. As a ratio to GDP, expenditure on public sector development programs and defense recorded considerable declines since the early 1990s. However, the realized reductions did not lower the overall budget deficit, as the interest payments picked up over the same period (see **Figure 4.4**). On the positive side, over the last three years, the interest payments to GDP ratio has also witnessed a notable decline, reflecting the government's emphasis on better debt management.

4.2.4 Management Indicators

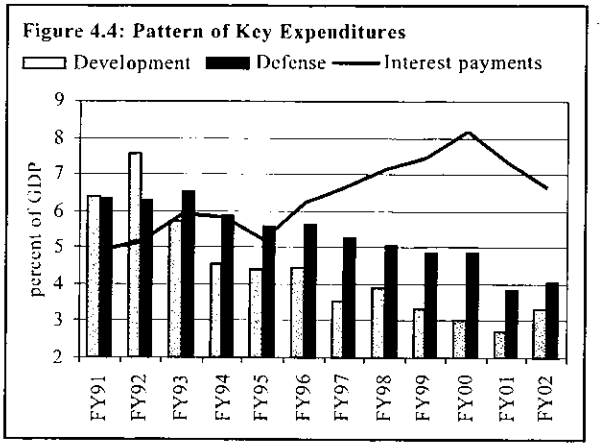
The ratio of budgetary targets to actual performance, for various revenue and expenditure heads, provides interesting insights on the government's ability to set realistic targets and perform within

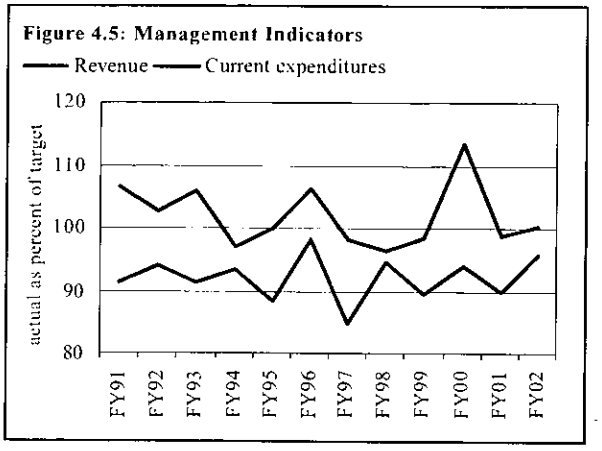
[5] Current expenditure increased by 1.9 percentage points (including net lending to PSEs) over the same period.

these budgetary parameters. It is pertinent to note here that both large positive or negative deviations from the target are not desirable.

Table 4.3 shows that revenue receipts remained persistently lower than the target, and strikingly, there has been very little deviation from the mean, i.e. there is a very consistent upward bias in the government's budgetary revenue estimates.

The expenditure ratio shows greater variability; current spending has seen both positive and negative deviations from targets, but on average, positive deviations (realized figures greater than budget targets) have dominated (see **Figure 4.5**). On average development expenditures are over-estimated (see **Table 4.3**).





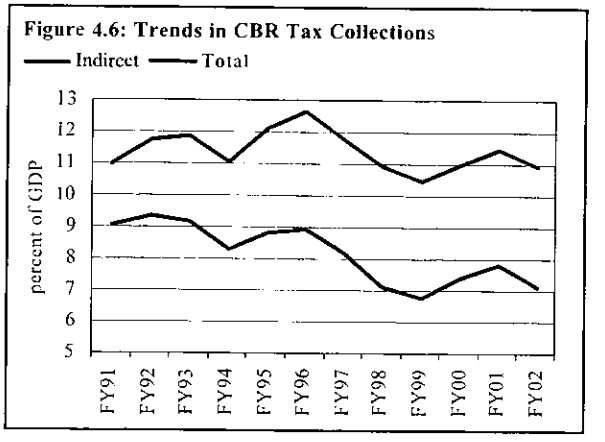
4.3 Fiscal Developments at Federal Level

The revised FY02 federal government revenue receipts stand at Rs 632.8 billion. While below budget target, this figure is still 18.3 percent higher than the collections during FY01. The improvement is almost entirely based on higher non-tax revenues.

4.3.1 CBR Performance[6]

Tax Efforts

The overall performance of the taxation system depends on its revenue generation, which is generally gauged by the *tax to GDP* ratio. Historically, the Federal *tax to GDP* ratio fluctuated in a band of about 2 percentage points around a mean of 11.4 percent (see **Figure 4.6**). The fact that post-1996, this ratio has generally remained below the average, despite lower GDP growth, indicates a continuing weakness in the taxation system.



Within total taxes, there is a structural shift from indirect taxes to direct taxes as reflected in the rising *direct tax to GDP* ratio (see **Figure 4.7**). During first half of 1990s, a sharp rise in this ratio was largely explained by the increasing resort to withholding taxes. However, recent tax reforms reduced the role of these taxes, and therefore the continuing marginal up trend in direct tax collections over the past three years is quite encouraging.

[6] In this section, data on actual tax collections are utilized, which are different from revised estimates reported in **Table 4.8**.

As can be seen from **Figure 4.6,** the variation in the indirect taxes to GDP ratio explains most of the variation in total tax collections. This co-movement also highlights the government's heavy dependence on indirect tax revenues despite the regressive nature of such taxes.

The present government has initiated wide-ranging taxation reforms to correct structural weaknesses, which include a Tax Survey and Registration Scheme supplemented with Tax Amnesty Schemes to ease public concerns, introduction of new Income Tax Law, a new Self-Assessment Scheme, etc.

Broadening the tax base and improving efficiency in tax administration remained the main planks of taxation policy. These were implemented by reducing the number of taxes, rationalizing tax rates and penalties, and simplifying collection procedures. All these measures helped the government realize double-digit growth in tax collections during FY00 and FY01, as also reflected in the rising tax to GDP ratio (see **Figure 4.6**). However, lower growth in FY02 primarily due to slowdown in economic activity, lower imports and higher tax refunds undermined the government efforts to record buoyant growth for a third year in a row.

Figure 4.7: Direct Taxes to GDP Ratio

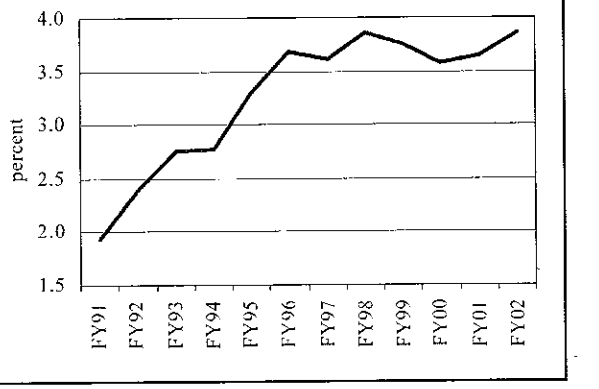


Table 4.4: Buoyancy Estimates

Category	Buoyancy	t-Stat	R^2
GDP as base			
Total taxes	0.95	30.28	0.99
Direct taxes	1.47	19.50	0.99
Indirect taxes	0.76	19.68	0.97
Sales taxes	1.70	11.85	0.98
CED	0.55	4.26	0.91
Customs	0.86	2.94	0.60
On alternative bases			
Total taxes (adjusted GDP)	0.98	28.99	0.99
Direct taxes (adjusted GDP)	1.55	16.99	0.99
Indirect taxes (private consumption)	0.72	19.72	0.97
Sales taxes (private consumption)	1.44	13.45	0.95
CED (large scale value added)	0.68	4.96	0.92
Customs (imports)	0.99	7.30	0.83

Buoyancy Estimates of Federal Taxes

Buoyancy is used to measure the relative increase in revenue collection (including the effects of discretionary changes in tax system) compared with the relative increase in the base. The buoyancy estimates for various federal taxes with respect to GDP, as well as with alternative bases, are reported in **Table 4.4**.[7] The buoyancy for total tax receipts is less than one for both GDP and non-agricultural GDP. This means that the CBR tax collections could not keep pace with growing national income over the period of estimation, despite discretionary tax measures.

Within total taxes, buoyancy estimates for direct taxes are significantly greater than one, both with respect to GDP and non-agricultural GDP.[8] This implies that the growth in direct tax collection remained healthy over the period of estimation, reflecting the success of the government policy to increasingly shift the tax burden to direct taxes.

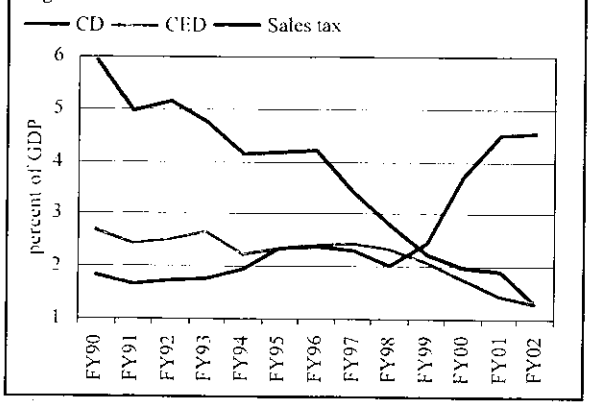
In contrast, indirect taxes could not grow in proportion to either overall GDP or private consumption; only sales tax witnessed buoyant growth, while the central excise duty and customs duty could not record any significant increase over the period of estimation. This behavior of indirect taxes is largely explainable by the taxation policies.

[7] Data from FY91 to FY02 is used to estimate the value of parameters a and b of Ln (Tax) = $a + b$ Ln (Base), which contains an important assumption that income elasticity is constant over the range of income. In other words, this implies that the proportionate response of the tax to an income change of one percent will be same regardless of the level of income.

[8] GDP adjusted for agricultural value added is used as a base for total taxes and direct taxes.

Customs duty collections fell as the maximum tariff rates were slashed from over 100 in FY91 to just 30 percent by FY02, driving the share of custom duties in total tax revenues from 48.6 percent in FY91 to 11.9 percent in FY02. The government attempted to offset this loss by imposing sales tax, but this effort was not too successful until FY99 (see **Figure 4.8**). Thereafter, the sales tax receipts have risen strongly amidst the broadening of the tax base, through elimination of exemptions, and shifting of CED collections. The central excise duty (CED), which had a 25.8 percent share in indirect taxes during FY91, was also gradually phased out for most commodities, being replaced by sales tax. As a result, the CED collection fell from 2.1 percent of GDP in FY99 to just 1.3 percent during FY02.

Figure 4.8: Trend in Indirect Taxes



The buoyancy estimates also reflect these developments, being greater than one for sales tax and less than one for customs duties and CED. The low buoyancy for indirect taxes thus simply reflects that the government failed to offset revenue losses from tariff cuts during the 1990s. However, the situation has witnessed tremendous improvement during FY00 and FY01.

FY02 CBR Tax Performance

Compared to buoyant growth in CBR tax collections during FY01, receipts increased by only 3.0 percent during FY02 (see **Table 4.5**). This marginal net growth was weaker than real GDP growth and the inflation rate, mainly due to an unexpected decline in import-based taxes, and exceptionally high tax refunds (that dragged down the net collections).

Both factors primarily pertain to indirect tax collections, which consequently saw a decline of 2.4 percent. Thus, in sharp contrast to low growth in total tax collections during FY02, revenues from direct taxes recorded a healthy growth of 14.5 percent over the preceding year (see **Table 4.5**).

Table 4.5: Actual Tax Collections (Net) by CBR

billion Rupees

				Growth rates		
	FY00	**FY01**	**FY02**	**FY00**	**FY01**	**FY02**
Direct taxes	113.0	124.6	142.6	2.5	10.3	14.4
Indirect taxes	234.2	267.7	261.3	18.1	14.3	-2.4
Sales tax	116.7	153.6	166.3	61.9	31.6	8.3
Central excise	55.8	49.1	46.9	-8.4	-12.0	-4.5
Customs	61.7	65.0	48.1	-5.6	5.3	-26.0
Total	**347.1**	**392.3**	**403.9**	**12.5**	**13.0**	**3.0**

Source: Central Board of Revenue

A compositional break down of direct taxes showed that the growth was largely driven by higher collections on account of both *normal returns* and *on demand* payments (arrears).[9] The compositional change is more encouraging given that the collections from withholding taxes have remained almost at the FY01 level. This is due to abolition of five types of withholding taxes, lower collections from interest/profit income on securities (largely driven by lower T-bill rates during the year), as well as a fall in receipts of import-based withholding taxes. The double-digit growth in direct taxes is thus quite creditable and indicates that the government taxation reforms have started paying dividends.[10]

[9] Collections with normal returns include amounts received from periodic returns filed by the businesses, while 'on demand' collections include receipts from outstanding arrears and amount detected by the auditors of the CBR. A rise in the former generally implies an increasing tax base of income tax, while the latter reflects the CBR efforts to collect arrears as well as improving audit capabilities.

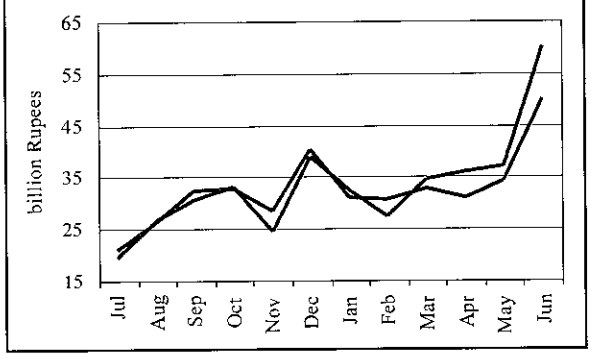
[10] Due to Survey and Registration drive, 234,189 new income tax payers and 34,000 sales tax payers have been added to the tax base.

The breakup of indirect taxes showed that only sales tax collections recorded positive growth as compared to FY01, while the customs collections were the hardest hit with a steep decline of 26.1 percent (see **Table 4.5**). In fact, the sales tax collections maintained moderate positive growth for the year, both on domestic and import related items. Specifically, while FY02 sales tax collections on domestic goods and services registered healthy growth of 13.1 percent over a year ago, sales tax collections on import related items rose only 4.8 percent, which lowered the overall growth rate to 8.3 percent.

Higher sales tax collections on domestic goods and services are largely attributable to the broadened tax base, both due to new sales tax payers and the government's efforts to substitute CED with sales tax. Also, it must be noted that relatively low growth in import-related taxes is not too discouraging, in the presence of dwindling dutiable imports and appreciating local currency.[11] Additionally, a one-time distortion caused by exceptional GST refunds was a key FY02-specific dampener on net collections. In absolute terms, FY02 sales tax refunds were Rs 6.1 billion higher than in FY01.

FY02 custom revenues too, were a major drag on CBR net tax collections. In absolute terms, these alone contributed Rs 21.5 billion to revenue shortfall of Rs 53.8 billion from the budget target. In fact, in proportion to its 11.9 percent share in actual tax collections, the contribution to overall shortfall is exceptionally large at 40.0 percent. The reasons for the fall are the same as for sales tax.

Figure 4.9: Monthly CBR Tax Collections

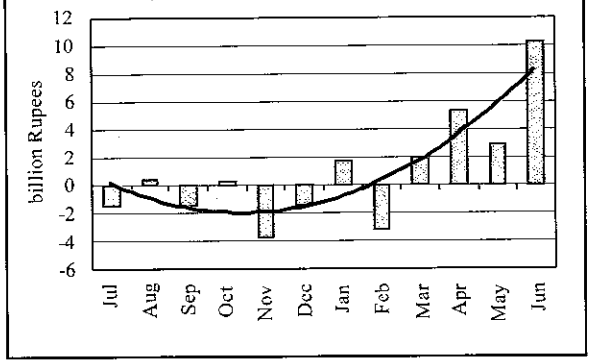


Trends in Monthly Tax Collections

Although overall growth in net tax collections was disappointing during FY02, trends in monthly tax collections are insightful. Despite exceptional developments during the year under review, the seasonality remained unchanged, with peaks in revenue collections coinciding with quarter ends (see **Figure 4.9**).

Another important point is the clear improvement in revenue collections during the last quarter of the year (see **Figure 4.10**). This suggests a waning of the negative September 11 impacts, with the passage of time. Specifically, revenue collection during Q4-FY02 witnessed impressive growth of 16 percent over the same period a year ago, with both direct and indirect taxes contributing to the improvement.

Figure 4.10: Incremental Tax Collections (FY02 Less FY01)



[11] Specifically, FY02 imports recorded a decline of 3.6 percent in US Dollar terms, and the Rupee appreciated by 6.7 percent during the year as compared to the deprecation of 18.6 percent in FY01. The past three-year average growth in imports is over 12 percent. The rough estimates based on three-year average growth showed that actual imports in terms of the Rupee were around Rs 74 billion lower during FY02, which had obvious implications for CBR tax collections as import related taxes constitute around 40 percent of CBR tax collections, which include customs, sales tax on imported items, withholding taxes and central excise duty on imports.

Expectations Fell Short of Targets

As in the previous year, the CBR tax targets saw three revisions during FY02, but the actual collections of Rs 403.9 billion were still quite low compared to the final revised target of Rs 414.2 billion, as well as the budget target of Rs 457.7 billion (see **Table 4.6**).

The initial budget target of Rs 457.7 billion was revised downward to Rs 444.7 billion in August 2001 to account for the shortfall realized in actual tax collections during FY01.[12] However, the impact of the September 11 shocks, and realized shortfall during Q1-FY02 forced CBR to resort to another downward revision of the FY02 target to Rs 429.9 billion by October 2001, based on preliminary projections of further revenue losses.

However, the mid-year collections again fell short of the revised target, as the economic assumptions proved too optimistic. To adjust for the shortfall accumulated upto January 2002, and to incorporate revisions in economic assumptions, the annual target was again adjusted downward to 414.2 billion, which was only 5.6 percent higher than the actual collections during FY01.[13] Unfortunately, the actual collections still fell short of this final revised target (see **Table 4.6**).

Table 4.6: CBR Revenue Targets

billion Rupees

	Budget	Revisions			
	target	1st	2nd	3rd	Actual
Direct taxes	149.8	143.1	142.4	146.5	142.6
Indirect taxes	307.9	301.6	287.5	267.7	261.3
Sales tax	185.2	183.1	176.8	170.1	166.3
Central excise	53.1	49.6	49.4	47.1	46.9
Customs	69.6	68.9	61.3	50.5	48.1
Total	**457.7**	**444.7**	**429.9**	**414.2**	**403.9**

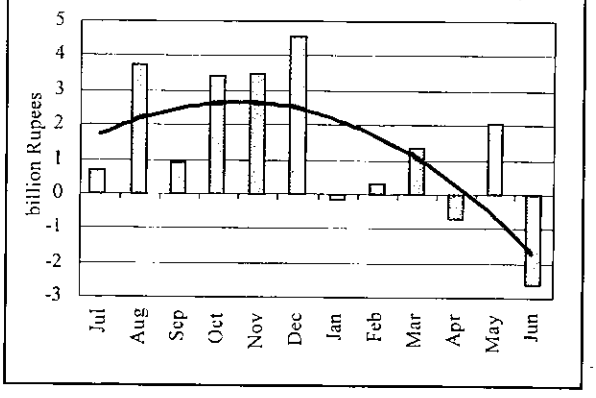
Table 4.7: Quarterly Collections and Refunds by CBR

billion Rupees

	Gross collections		Refunds		Growth rates	
	FY01	FY02	FY01	FY02	Collections	Refunds
Q1	95.6	98.5	15.7	21.1	3.0	34.4
Q2	114.1	120.6	12.0	23.5	5.7	95.8
Q3	111.5	113.6	16.8	18.3	1.9	8.9
Q4	133.2	150.4	17.6	16.3	12.9	-7.4
Total	**454.4**	**483.2**	**62.1**	**79.3**	**6.3**	**27.7**

Source: Central Board of Revenue

Figure 4.1t: Incremental Refunds (FY02 Less FY01)



Refund/Rebate and Gross Collections

During FY02, gross tax collections rose by 6.3 percent year-on-year, but net collections rose by only 3.0 percent due to a sharp increase in the payment of tax refunds/rebate. Specifically, refunds rose to Rs 79.3 billion during FY02 compared to Rs 62.1 billion a year before (see **Table 4.7**). Consequently, refunds/rebate as a percentage of gross collections jumped from 13.7 percent in FY01 to 16.4 percent during FY02.

The massive growth in refunds/rebates was the upshot of government efforts to substantially reduce the accumulated arrears of refunds/rebates. The government also streamlined the refund/rebate claims process, in a bid to help exporters remain competitive.

[12] For each fiscal year, the budget targets are generally computed toward the end of the preceding fiscal year, mostly on the basis of cumulative collections of 11 months and the estimated June collections. Therefore, any significant shortfall realized in the tax collections of the earlier year has to be incorporated into the budgetary target for the next year.

[13] During FY01, CBR revenue target witnessed three downward revisions, while the actual collections fell short of around Rs 12 billion from the revised target.

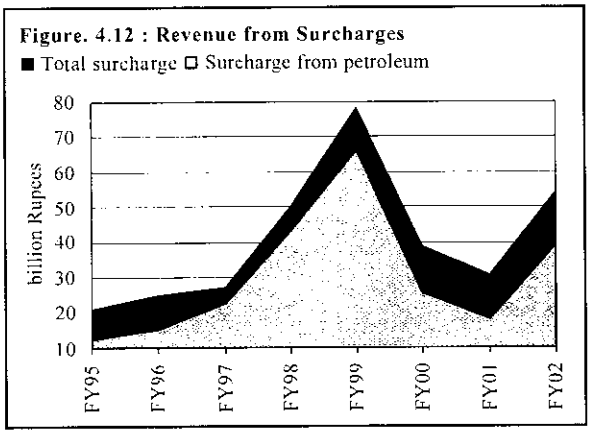
The monthly data on the disbursement of refunds shows that the bulk of the incremental refunds were concentrated in Q2-FY02 when business confidence was probably at its lowest ebb (see **Figure 4.11**).[14] During H2-FY02, refunds disbursements were in line with the corresponding period last year. However, substantial incremental payments are also visible in August (Rs 3.8 billion), March (Rs 1.4 billion) and May (Rs 2.1 billion), which suggest that this was not merely an effort to help out the exporters, but was also a genuine effort to eliminate the payments arrear overhang.[15] If the latter view is correct, this would be reflected in a relative increase in net collections in the next year.

4.3.2 Surcharges

Revised estimates of surcharges stood at Rs 53.9 billion for FY02 compared to the budget target of Rs 47.0 billion. The entire increase is attributed to higher development surcharges on petroleum products (see **Figure 4.12**).

The rise is the result of a Rs 0.75 per litre increase in petroleum development surcharge on diesel and Rs 0.25 per litre on other oil products.[16] This revenue generation measure was specifically designed to improve overall revenue receipts in the presence of a binding fiscal deficit target under the PRGF.

Figure. 4.12 : Revenue from Surcharges



Unlike tax revenues, surcharges remained a volatile source of government revenue receipts in the past. The development surcharges are the difference between production costs and the fixed sales price of the commodities, and the latter were not readily adjusted as international prices changed.

However, the volatility in surcharges is attributable entirely to the fluctuations in petroleum surcharges given the smaller share of gas surcharges. With the deregulation of petroleum prices from the FY02, it is envisaged that surcharges will emerge as a more consistent source for the exchequer.

4.3.3 Non-Tax Revenues

In sharp contrast to the tax revenue picture, revised non-tax receipts stood at Rs 164.7 billion, which are Rs 25.6 billion higher than the budget target and over Rs 50.0 billion higher than the actual receipts during FY01 (see **Table 4.8**). The breakup of non-tax revenue showed that all three heads posted a healthy growth over a year ago, but the major driving force was higher receipts from civil administration.

Receipts from property and enterprise were almost in line with the budget target, but Rs 13.4 billion higher as compared to the previous year. This improvement was shared by interest income from provinces and institutions (the biggest component was the higher dividend income received from OGDCL).[17]

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[14] Exporters were particularly vulnerable as: (1) prospects for exports were bleak in the aftermath of the September 11 incidents, and (2) an appreciating Pak Rupee was eating into exporters margins.

[15] Additionally, the government also helped CBR to clear accumulated income tax refunds to the banks of Rs 22 billion during the year, which are not included here as these were directly absorbed in federal budget for FY02. This again reflects government efforts to do away with the accumulated refunds.

[16] With the deregulation of petroleum products prices through Finance Act 2001, the old mechanism of development surcharges was replaced with a fixed petroleum levy at per liter price of various products.

[17] The higher dividend income from OGDCL is largely attributed to the clearance of accumulated arrears.

Table 4.8: Federal Government Revenue Receipts
billion Rupees

			FY02				FY03	
	FY00	FY01	Target	Revised	Excess/ Shortfall from Target	Excess/ Shortfall from Last year	Target	Excess over last year
1. Revenue receipts (I+IV)	**531.3**	**535.1**	**643.8**	**632.8**	**-11.0**	**97.7**	**674.9**	**42.1**
I. Total taxes and surcharges (II+III)	386.0	422.8	504.7	468.1	-36.6	45.3	521.1	53.0
II. Total taxes (i+ii)	347.1	392.3	457.7	414.2	-43.5	21.9	460.6	46.4
i) Direct taxes	113.0	124.6	149.8	146.5	-3.3	21.9	148.4	1.9
a) Taxes on income	105.4	117.5	144.2	142.0	-2.2	24.5	143.2	1.2
b) Wealth tax	3.9	1.5	0.2	0.4	0.2	-1.1	0.0	-0.4
c) Workers welfare tax	3.0	5.0	4.6	3.4	-1.2	-1.6	4.3	0.9
d) Capital value tax	0.7	0.6	0.8	0.7	-0.1	0.1	0.9	0.2
ii) Indirect taxes	234.1	267.7	307.9	267.7	-40.2	0.0	312.2	44.5
a) Customs	61.7	65.0	69.6	50.5	-19.1	-14.5	56.5	6.0
b) Central excise	55.8	49.1	53.1	47.1	-6.0	-2.0	50.0	2.9
c) Sales tax	116.7	153.6	185.2	170.1	-15.1	16.5	205.7	35.6
III. Surcharges	38.9	30.5	47.0	53.9	6.9	23.4	60.5	6.6
a) Petroleum	25.4	17.9	32.0	39.0	7.0	21.1	45.5	6.5
b) Natural gas	13.5	12.6	15.0	14.9	-0.1	2.3	15.0	0.1
IV. Non-tax revenue	145.3	112.3	139.1	164.7	25.6	52.4	153.8	-10.9
a) Property and enterprises	91.6	67.6	81.5	81.0	-0.5	13.4	79.5	-1.5
b) Civil administration	34.9	23.2	28.6	54.6	26.0	31.5	50.3	-4.3
c) Miscellaneous	18.7	21.5	29.0	29.1	0.1	7.6	24.0	-5.1
2. Less: transfers to provinces	**143.6**	**163.1**	**190.0**	**175.1**	**-14.9**	**11.9**	**193.5**	**18.4**
Revenue receipts (net) (1-2)	**387.7**	**372.0**	**453.8**	**457.7**	**3.9**	**85.8**	**481.4**	**23.7**

Source: Annual Budget Statement of the Federal Government

The increase in interest income was primarily driven by higher loan recoveries from financial and non-financial institutions. The increase in the former was largely on account of interest received on foreign loans of NDFC (which has now been merged with National Bank of Pakistan), while the surge in latter was due to loan recoveries from KESC, WAPDA and NHA.[18]

Civil administration receipts witnessed remarkable improvement during FY02 as compared to FY01. This increase of over Rs 30.0 billion was attributed to two factors: (1) a Rs 5.5 billion increase in transfers from SBP, and (2) a Rs 23.0 billion increase in defense receipts, largely on account of the logistic support to US forces operating in Afghanistan. The SBP profits largely depend on interest income and exchange gains or losses. Due to net exchange gains, the SBP was able to transfer an amount of Rs 28.5 billion to the government during FY02. As can be seen from **Table 4.8**, miscellaneous receipts also posted an increase of Rs 7.6 billion over a year before, largely on account of higher income from sale proceeds of oil and gas (on account of the government share in joint ventures).

4.3.4 Transfers to Provinces

The transfers to provincial governments are revised downwards to Rs 175.1 billion compared to Rs 190.0 billion in budget estimates (see **Table 4.8**). This downward revision is entirely on account of lower receipts in the divisible pool.[19] The underlying reasons for lower collections of these taxes are discussed in **Section 4.3.1**.

[18] During FY02, the government picked up Rs 83 billion accumulated losses of KESC and Rs 20 billion of WAPDA, which enabled these organizations to reduce their liabilities and honor their financial obligations.

[19] The divisible pool includes taxes on income, capital value tax, taxes on sales and purchase, export duty on cotton, customs duties, federal excise duty excluding gas duty charged at well-head, and any other tax that may be levied by the federal

4.3.5 Federal Expenditures

Revised FY02 federal government expenditures on the revenue account stand at Rs 697.7 billion, which is Rs 35.1 billion higher than the FY02 budget estimates and Rs 85.0 billion higher than the actual expenditures during FY01 (see **Table 4.9**). Both, current and development expenditures, shared in this increase, as the former surged by Rs 55.0 billion and the rest was absorbed by the latter.

Table 4.9: Federal Government Expenditures
billion Rupees

			FY02				FY03	
					Excess/shortfall			Excess over
	FY00	FY01	Target	Revised	Target	Last year	Target	Last year
I. Revenue expenditures (A+B)	604.4	612.7	662.6	697.7	35.1	85.0	647.3	-50.4
A. Current expenditures	592.5	593.6	621.7	648.6	26.9	55.0	608.0	-40.6
1. Debt servicing	330.6	312.7	329.2	320.1	-9.1	7.4	289.7	-30.4
i. Interest on domestic debt	207.1	188.4	197.9	192.6	-5.3	4.1	191.8	-0.8
ii. Interest on foreign debt	44.9	51.3	62.3	60.8	-1.5	9.5	53.0	-7.7
iii. Repayment of foreign debt	78.6	73.0	69.1	66.8	-2.3	-6.2	44.8	-22.0
2. Defense	152.8	131.1	131.6	151.7	20.1	20.5	146.0	-5.6
3. Civil government	47.9	83.2	80.6	84.7	4.1	1.5	92.7	8.0
General administration	19.6	50.8	47.6	51.2	3.6	0.4	54.9	3.7
Law and order	9.0	10.1	10.2	10.3	0.1	0.3	11.6	1.3
Social services	10.5	9.9	12.3	12.3	0.0	2.4	13.9	1.6
Economic services	3.0	5.9	3.4	3.7	0.3	-2.3	4.1	0.4
Community services	5.8	6.5	7.1	7.2	0.1	0.7	8.2	0.9
4. Grants and subventions	33.3	36.9	49.3	66.3	17.0	29.3	56.3	-9.9
5. Subsidies	20.4	20.4	20.7	25.6	4.9	5.2	20.8	-4.8
6. Un allocable	7.5	9.2	10.3	0.3	-10.0	-8.9	2.5	2.2
B. Development expenditures	11.8	19.1	40.9	49.1	8.2	30.0	39.4	-9.7
II. Capital disbursements (a+b)	137.1	95.4	173.5	259.2	85.8	163.8	121.5	-137.8
a. Current expenditures	59.6	30.8	99.8	196.5	96.7	165.7	55.5	-141.0
b. Development expenditures	77.5	64.5	73.7	62.8	-10.9	-1.8	65.9	3.2
Total expenditures (I+II)	741.4	708.1	836.1	956.9	120.8	248.8	768.8	-188.1

Source: Annual Budget Statement of the Federal Government

Within the current expenditures, changes in debt servicing, defense, grants and subsidies are notable. Debt servicing, which accounts for approximately half of current expenditures of the federal government, was Rs 9.1 billion lower than the budget target for the year (see **Table 4.9**). This unexpected saving was largely driven by lower interest payments (on domestic debt and foreign debt) as well as a fall in the repayment of foreign debt.

The savings on domestic debt were facilitated by lower-than-expected T-bill rates prevailing during the year and the retirement of Market Related Treasury Bills of worth Rs 193.0 billion in July 2001.[20] Although rates on long-term domestic debt also declined, the substantial budgetary impact of the lower profit rates on DSCs and PIBs will be realized only when existing stock matures and fresh

government. Under the current National Finance Award, provinces are given 37.5 percent of the total divisible pool in fixed ratios, after deducting 5 percent collection charges by the federal government. Additionally, royalty on crude oil and development surcharges on natural gas is also passed on to provinces after deducting 2 percent collection charges.

[20] For details, see **Section 8.2**.

issuances gain a larger share in the overall stock of such debt. Finally, the decline in the servicing cost of foreign debt simply reflects its re-profiling and re-scheduling during FY02.

Defense expenditures, the second major component of federal current expenditures, was revised up by Rs 20.1 billion during FY02 (see **Table 4.9**). This exceptional increase reflected the tension on borders with India. However, the government showed remarkable discipline in terms of expenditure on the running of civil government during FY02, as the spending was in line with the budget target.[21]

Revised expenditures on the grants to provinces and other organizations witnessed a stunning increase of Rs 17.0 billion over the budget target and Rs 29.3 billion over the actual spending during FY01 (see **Table 4.9**). This increase is primarily due to a Rs 22 billion grant to the CBR to clear accumulated income tax refunds to banks. Other than this, the grants to other organizations were in-line with the budget targets.

As can be seen from **Table 4.9**, expenditures on subsidies also played a role in pushing up the current expenditures of federal government. Specifically, subsidies were around Rs 5.0 billion higher than the budget target as well as the FY01 figure. This significant increase was primarily driven by higher payments to WAPDA (for GST adjustments), clearing arrears of AJK, and payments to oil refineries. However, this increase should be interpreted with caution as a large portion simply reflects the government efforts to eliminate accumulated arrears of WAPDA against provincial government and other government organizations.

The increase in development expenditures of the federal government on the revenue account is a welcome measure (see **Table 4.9**). The bulk of this increase came from higher expenditures on education, health and irrigation projects.

The revised current expenditures on the capital account saw a large increase of Rs 96.7 billion over the target to reach Rs 196.5 billion, representing a massive Rs 165.7 billion rise over the FY01 figure (see **Table 4.9**). These expenditures largely pertain to repayments of loans and advances by the government. The FY02 increase was mainly attributed to: (1) a Rs 100 billion repayment of short-term credit totaling over Rs 100 billion, and (2) a Rs 86 billion increase in government investment in public sector enterprises. The latter primarily driven by the government decision to pick up accumulated losses of KESC, and inject capital to prepare it for privatization.

4.3.6 Financing of Federal Budget

The revised data of federal government financing recorded considerable changes on account of factors affecting the inflow of receipts from internal and external sources, and changing borrowing requirements of the government due to shortfall in revenue receipts and overrun in expenditures.

On the external front, the improved track recorded with IFIs, bilateral grants from friendly countries and relief from debt rescheduling helped the government realize higher receipts from external sources. On the domestic side, higher receipts from the public account are mainly from the national savings schemes. Changes in underlying profit rates on these schemes and increased national savings in the economy were the main factor behind higher public account receipts. The remaining gap was financed by bank borrowings (see **Table 4.10**).

[21]Expenditures on the running of civil government include, general administration, law and order, social, economic and community services.

Table 4.10: Financing of the Federal Government Expenditures

billion Rupees

			FY02				FY03	
	FY00	FY01	Target	Revised	Excess/shortfall Target	Excess/shortfall Last year	Target	Excess over last year
I. Revenue receipts (net)	387.7	372.0	453.8	457.7	3.9	85.8	481.4	23.7
II. Internal resources (i+ii)	144.2	135.0	94.5	131.5	37.1	-3.5	103.4	-28.1
(i) Capital receipts	53.0	93.3	57.4	66.9	9.4	-26.4	44.2	-22.7
(ii) Public account	91.1	41.7	37.0	64.7	27.6	22.9	59.3	-5.4
III. External resources (1+2+3)	164.8	209.3	262.1	304.0	41.9	94.7	198.1	-106.0
1. Plan resources	99.3	170.3	239.3	236.4	-2.9	66.0	188.7	-47.7
2. Debt rescheduling	64.3	34.4	21.8	65.7	43.8	31.2	9.4	-56.3
3. Non-plan resources	1.2	4.5	1.0	2.0	1.0	-2.5	0.0	-2.0
IV. Total receipt (I+II+III)	696.7	716.3	810.4	893.3	82.9	177.0	782.9	-110.4
V. Credit from banking system	40.0	-33.0	10.5	62.0	51.5	95.0	-31.1	-93.1
VI. Provincial surplus (+)/deficit (-)	4.8	24.7	15.2	1.6	-13.6	-23.1	17.0	15.4
VII. Total resources (IV+V+VI)	741.4	708.1	836.1	956.9	120.8	248.8	768.8	-188.1

Source: Annual Budget Statement of the Federal Government

4.4 Budget Estimates for FY03

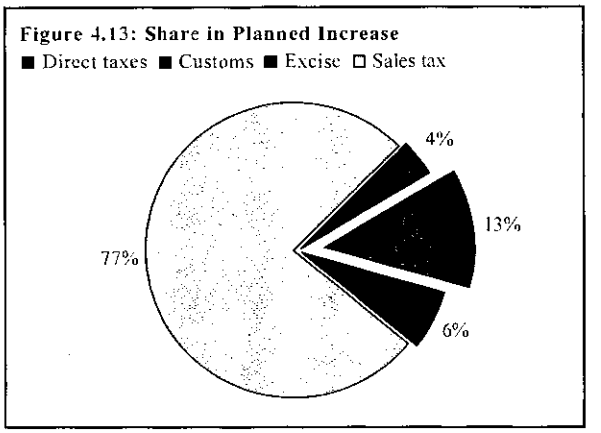
4.4.1 Consolidated Position

The budget for FY03 is also focused on fiscal consolidation. It envisages that higher revenues and a reduction in expenditures will help reduce the budget deficit to 4.0 percent of GDP (see **Table 4.1**). The massive fiscal consolidation of 2.6 percentage points of GDP is not ambitious given the expected absence of exceptional expenditures that bloated the FY02 deficit.

Expenditures are planned to decline by 2.6 percent of GDP, largely on account of lower current expenditures. On the other hand, development expenditure to GDP ratio has been kept unchanged at the FY02 level. Although development expenditures are budgeted at Rs 134.0 billion, it is envisaged that additional grant assistance received from bilateral donors will be used to increase development expenditures by another Rs 10.0 billion.

The financing of the budget deficit for FY03 is envisaged to be mainly through external sources (see **Table 4.1**). Domestic borrowings are to be entirely through non-banks (mainly from NSS), while banks borrowings are expected to see substantial retirements.

Figure 4.13: Share in Planned Increase



4.4.2 Federal Budget for FY03

Revenue Receipts

Gross revenue collections are budgeted at Rs 674.9 billion, 6.7 percent higher than the revised estimates of FY02 (see **Table 4.8**). The bulk of this increase is anticipated from tax revenues, which are Rs 46.4 billion higher than the revised FY02 estimates and indirect taxes are expected to contribute the greater share (see **Figure 4.13**). As in previous years, rationalization of tax rates,

broadening the tax base and reduction in number of taxes remain the key elements of the government taxation strategy.[22]

Despite revenue loss from reduction in tax rates and elimination of withholding taxes, the direct tax collections are projected to increase by 1.3 percent during FY03 mainly on account of an enlarged income tax base.

The increase in indirect taxes is envisaged through higher GST collections, stemming from higher imports, and a broader base for the tax. Although growth in custom duties and central excise duty (CED) is also envisaged, the revenue impact is smaller in absolute terms. The former is likely to grow on account of expected increase in,[23] while the projected 6.0 percent growth of large-scale manufacturing sector is expected to help CED collections.

Surcharges

Petroleum surcharge receipts are also expected to grow strongly due to the full year impact of a FY02 revision in surcharge rates, and normal growth in the base. The gas surcharge receipts are expected to be unchanged at FY01 levels (see **Table 4.8**).

Non-Tax Revenues

All three components of non-tax revenues are projected to fall below FY02 revised estimates. The high FY02 *dividend income* from OGCL and other corporations is expected to fall, even as the revenue from *income and property* declines following the elimination of the guaranteed profit for refineries. Also, *civil administration* receipts are expected to be lower in FY03.

Lower dividend income from the corporations, particularly from OGDCL, on account of the elimination of granted profit to few oil refineries is expected to reduce the revenue from income and property. The receipts from civil administration are likely to be effected by lower defense receipts. While expected decline in sales proceeds on oil and gas will impact the miscellaneous receipts.

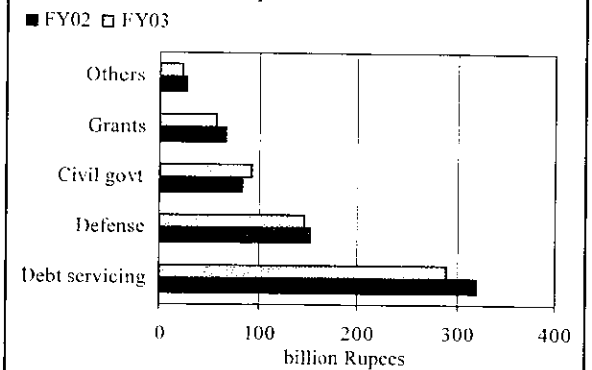
Federal Government Expenditures

On the expenditure side, a reduction of Rs 188.1 billion is estimated on both, the capital and the revenue, accounts. Within expenditures on the revenue account, the more significant decline is anticipated in current expenditures (Rs 40.6 billion lower than revised estimates for FY02), most of which is expected from lower debt servicing costs following the rescheduling of external debt during FY02 (see **Table 4.9**).

Defense expenditures are also likely to come down by 3.7 percent due to the expected de-escalation on borders tensions with India (see **Figure 4.14**). If the escalation does persist than this reduction becomes doubtful.

A decline of Rs 9.9 billion in expenditures on grants and subventions is envisaged in the federal budget for FY03. Expenditures on the

Figure 4.14: Current Expenditures



[22] Income tax rates on banking sector have been slashed from 50 percent to 47 percent; withholding tax on interest from securities has been reduced from 30 percent to 20 percent; elimination of CED on electric batteries, metal containers, polyester chips, filament yarn, shipping agents and travel agents; and impositions of GST on vegetable ghee and cooking oil. For further details, please see **Appendix V: Fiscal Measures proposed in Federal Budget FY03**.

[23] Customs budget targets exclude revenue loss from lowering maximum tariff rates from 30 percent to 25 percent.

banking sector reforms and population development forum are likely to increase, while a marginal decline is anticipated on all other heads, which include Bait-ul-Maal, People Steel Mills and Saindak Metals Ltd. Subsides are also expected to decline by Rs 4.8 billion in FY03. This is largely on account of planned lower payments to WAPDA for GST adjustment.

Federal government development expenditures on revenue and capital accounts are budgeted at Rs 105.3 billion, which are Rs 6.5 billion lower than the revised estimates for FY02 (see **Table 4.9**). While the consolidated expenditures of federal and provincial governments are estimated to increase from Rs 123.6 billion to Rs 134.0 billion, this clearly shows that the federal government is shifting its development responsibilities to the provincial governments.[24]

Financing of the Federal Expenditures

Revenue receipts remained the prime source of financing; an increase of Rs 23.7 billion is anticipated in the budget for FY03, largely on account of higher tax revenues (see **Table 4.10**).[25] In contrast, in both internal and external receipts are expected to decline in line with the lower overall budgetary requirements.

Decline in both capital and public accounts receipts (internal receipts) is envisaged in the federal budget for FY03. The bulk of this reduction is anticipated from capital receipts. Since, government has little control over public accounts receipt, which largely comprise of National Savings Schemes, therefore capital receipts necessarily the brunt of adjustments.

Gross financing from external receipts is estimated at Rs 198.1 billion for FY03 budget as compared to FY02 revised estimates of Rs 304.0 billion (see **Table 4.10**). This is largely attributed to two factors: (1) overall lower financing needs of the federal government in the wake of anticipated decline in budget outlay; and (2) absence of extraordinary gains of rescheduling and re-profiling of external debt and expected lower grants.

[24] Specifically, development expenditures of the federal government are allocated Rs 90.0 billion, which is less than the revised estimates of Rs 95.5 billion for FY02, while an upsurge of Rs 10.8 billion is anticipated at the provincial level.
[25] For detailed discussion on Revenue Receipts, please see **Section 4.4.2**.

5 Money and Credit

5.1 Overview

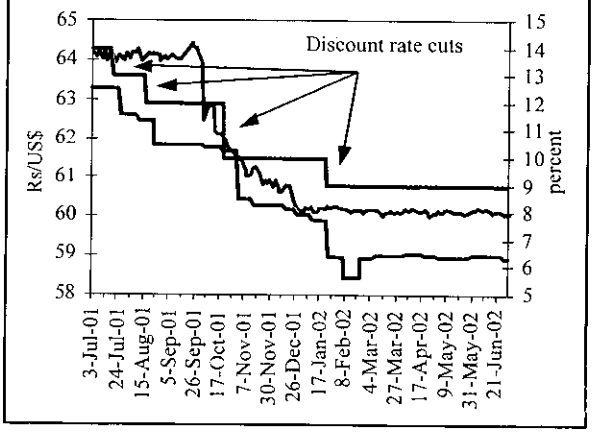
While the seeds of the monetary accommodation during FY02 lie in the macroeconomic discipline witnessed during the previous fiscal year, FY02 saw important structural shifts that considerably enhanced the SBP's ability to implement this monetary easing, and underpinned the phenomenal 14.8 percent rise in M2.

On the whole, interest rates fell dramatically in FY02, with the benchmark weighted-average 6-month T-bill yields falling by 6.6 percentage points, on the back of a 5.0 percentage point drop in the SBP discount rate during the period. The monetary easing should have a salutary short-term impact on the economy, but the high M2 growth (the strongest for the last 5 years), when seen in conjunction with the prevailing low GDP growth, could become a source of concern with respect to the build-up of inflationary pressures in the economy.

It must be noted that the tighter monetary posture witnessed in FY01 stemmed from both, the relative instability of the exchange rate during the year, as well as stringent IMF conditionalities, including tight limits on the SBP NDA. The fact that interest rates were raised even as a continuing decline in the domestic inflation rate drove up the real interest rates, serves to highlight the role of the exchange rate in the FY01 tightening as well as in the subsequent easing.

In fact, as soon as FY02 ushered in a degree of stability in the exchange rate, SBP promptly moved to cut the discount rate by a percentage point in July 2001, reversing the corresponding June 2001 increase. Then, in the face of the continuing stability in the exchange rate, it quickly followed up with yet another one percentage point cut in the discount rate in August 2001, before pausing to assess the impact (see **Figure 5.1**).

Figure 5.1: Monetary Easing



However, the macroeconomic environment changed dramatically in the second quarter. Specifically, September 11 shocks were reverberating in the domestic economy by October 2001, with a sharp drop in the already low net credit growth, and a very uncertain export outlook. The SBP responded to this crisis by lowering the discount rate by an unusual 2.0 percentage points, taking it to an all-time low of 10.0 percent. It then waited to gauge the impact of the earlier discount rate reductions before implementing a final 1-percentage point cut to take it to a new all-time low of 9.0 percent in response to an *apparently* continuing weakness in net credit demand by the private sector.

The absence of further rate cuts during FY02 simply reflects (1) the end of the seasonal credit off-take period, (2) a significant drop in the weighted average lending rate, and (3) the concerns that an excessive reduction in interest rates over too short a period could de-stabilize the financial system. The impact of the easier monetary stance on net private sector credit is discussed in **Section 5.6**.

Over the last few years, while monetary policy gained a degree of independence from fiscal policy, it remained captive to the exchange rate considerations. Interestingly, these shackles persisted through the whole of FY02 despite the current account surpluses seen post-September 2001, which led to a considerable appreciation of the Rupee. [1] However, the focus changed dramatically during the year as the emphasis shifted from preventing a *depreciation* of the Rupee, to avoiding a very abrupt *appreciation*.

As rising foreign currency inflows swamped the foreign currency markets, the SBP quickly increased its foreign currency purchases from the interbank market.[2] This served two purposes:

- It helped hold down the rise of the Rupee that threatened to debilitate Pakistan's export growth. This protection was obviously essential given that prospects for the continuity of the current account surpluses were still unclear.

- Higher reserves reduced the risk perception of the country, and helped lower the risk of speculative pressures against the local currency in future, because of SBP's increased ability to intervene aggressively in the interbank market.

Thus, by the end-FY02 SBP's net foreign currency purchases totaled US$ 3.9 billion. This represented a 273.7 percent rise over the corresponding figure for the previous year as well as a Rupee liquidity injection of Rs 234.2 billion into the domestic economy. The latter substantially added to the free liquidity of the banking sector during a period of relatively weak growth in net private sector credit.

This excess liquidity with the banking system was a key determinant of a shift in the structure of domestic public debt that saw the government's borrowings from scheduled banks rise sharply at the expense of borrowings from the SBP, without the generation of upward pressure on interest rates.

5.2 Credit Plan FY02

The credit plan for FY02 (see **Table 5.1**), formulated in the beginning of the year, anticipated a monetary expansion of Rs 146.0 billion (9.7 percent) in accordance with the projected nominal GDP growth of 9 percent. This expansion was to be achieved through an increase in the credit expansion to the private sector, and higher growth in Net Foreign Assets, and a retirement of government borrowings from the banking system.

These were projected on the basis of sound macroeconomic fundamentals reflected in the targeted reduction in the fiscal deficit, a current account surplus and a relatively stable exchange rate. This credit plan, however, was revised to factor in the post-September 11 developments. Although the overall growth in M2 was revised marginally downwards to 9.5 percent, in terms of its composition between NFA and NDA, the revised credit plan had major changes.

In anticipation of the foreign exchange inflows in the form of cash assistance or rescheduling, the NFA target was revised upwards from Rs 55.0 billion to Rs 75.4 billion. The compensating factor to neutralize this proposed expansion was the target for government credit retirement, which was increased from Rs 20.0 billion to Rs 54.0 billion. This revision in government credit retirement was done on two grounds: (1) the external inflows would enable the government to make expenditures with these resources, thereby reducing its borrowing needs from the banking system for budgetary support, and (2) a shifting of commodity operations to the private sector would allow the government

[1] See **Section 9.7** for details.
[2] For details of the SBP's kerb market and interbank market foreign currency purchases see **Section 9.7**.

to retire borrowings under this head.[3] Credit allocation for the non-government sector was increased from Rs 111.0 billion to Rs 124.2 billion in the revised plan. The revised and the original credit plan targets are given in **Table 5.1**.

Table 5.1: Credit Plan and Actual Outcome

billion Rupees

		Credit plan FY02		Actual outcome	
		Original	Revised	FY02[P]	FY01
A.	**Government sector borrowing (net)**	**-20.0**	**-54.0**	**12.7**	**-46.7**
1.	Net budgetary borrowing	-26.0	-19.0	12.5	-32.3
	From SBP			-112.0	-31.6
	From scheduled banks			124.4	-0.8
2.	Commodity operations	5.0		5.3	-12.5
3.	Net effect of zakat fund/privatization proceeds	1.0	1.0	2.5	-1.9
4.	Privatization commission's account with NBP			-7.6	0
B.	**Non-government sector borrowing (net)**	**111.0**	**124.2**	**19.0**	**69.2**
1.	Autonomous bodies[1]	12.0	18.0	-14.3	11.6
2.	Net credit to private sector and PSCEs	99.0	106.1	33.3	57.6
	Commercial banks	91.0	98.1	42.7	67.0
	PSCEs other than B (1)			-1.4	12.3
	Private sector			44.1	54.7
	of which export refinance			*-13.3*	*-65.2*
	Specialized banks	7.0	7.0	8.1	1.7
	Other financial institutions	1.0	1.0	-14.5	-7.7
	PSCEs special account-debt repayment with SBP			-2.9	-3.3
C.	**Other items (net)**	**0.0**	**0.0**	**-12.0**	**30.9**
D.	**Net domestic assets of the banking system**	**91.0**	**70.2**	**19.7**	**53.4**
		(6.08%)	(4.68%)	(1.31%)	(3.69%)
E.	**Net foreign assets of the banking system**	**55.0**	**75.4**	**206.2**	**72.7**
F.	**Monetary assets (M2)**	**146.0**	**145.6**	**225.8**	**126.0**
		(9.74%)	(9.54%)	(14.80%)	(9.00%)

[P] : Provisional

[1] WAPDA, OGDC, PTC, KESC, PR, PIA and PS

Source: Economic Policy Department, SBP

5.3 Bank Borrowings for Budgetary Support

During FY02, the government borrowed Rs 12.5 billion for budgetary support from the banking system. On face value, this was in breach of net retirement targets set in both, the FY02 credit plan (Rs 19.0 billion) and the IMF projections (Rs 6.9 billion). However, taking into account the waiver given by the IMF on account of KESC re-capitalization and the tax

Table 5.2: Net Budgetary Borrowing

billion Rupees

	FY02
Net budgetary borrowing (actual)	12.5
Adjustments	
KESC (-)	30.0
Tax refunds to banks (-)	22.0
Net budgetary borrowing (adjusted)	-39.5
IMF target	-6.9
Credit plan target	-19.0

[3] Borrowings for commodity operations by the government had accumulated to Rs 94.9 billion by the end of FY01. In theory, the government would buy crops from farmers with this credit from the banking system and retire it once the purchased stocks were sold. However, the stock of this debt rose over time, as the government was unable to fully retire annual borrowings due to losses and other factors.

refunds to banks, the government borrowing remains well within the target (see **Table 5.2** and **Section 5.5** for details).

A number of elements are of particular interest in this performance:

- Although the government's borrowings were initially quite consistent with historical trends, this changed dramatically by October 2002 as: (1) the government received a US$ 600 million grant from the US and (2) the Rupee liquidity jumped amidst heavy SBP purchases in the interbank market.[4] The former significantly depressed cumulative net government borrowings, while the latter helped the government to substitute its SBP borrowings with borrowings from commercial banks.

- Given that the increase in Rupee liquidity resulted from higher growth in the SBP NFA (through market purchases); and that a portion of this increased market liquidity was being channeled to the government (via rising net sales of government securities); and that the government, in turn, was retiring its SBP borrowings (reducing the SBP NDA), it can be seen that the rise in SBP NFA was *sterilized* by the fall in the SBP NDA (See **Table 5.3 and Figure 5.2**). Thus, reserve money growth was held down to 9.6 percent.

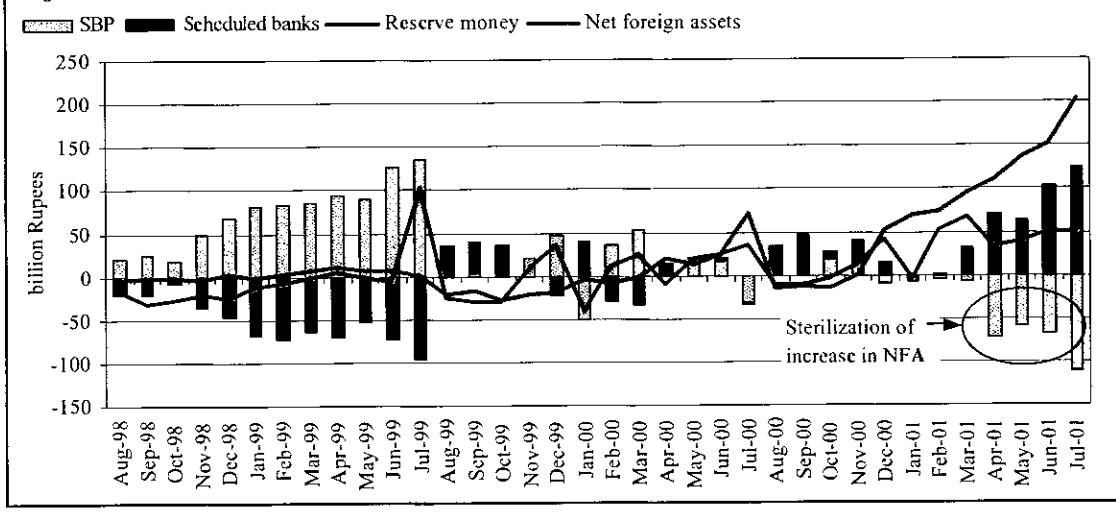
Table 5.3: Sterilization

billion Rupees

	Impact on SBP	
	NFA	NDA
Interbank US$ purchases	157	-
Interbank US$ sales	-7	-
Kerb US$ purchases	84	-
Government borrowings from commercial banks (Rs 160.4 billion)	-	-
Retirement of government securities with SBP	-	-287
Net impact	**234**	**-287**
Net impact on Reserve Money		**-53**

- More interestingly, the sterilization of SBP NFA brought an extraordinary change in the structure of the government borrowings from the banking system, with a sharp 50.3 percent retirement of SBP debt, which is offset by a jump in the borrowings from scheduled banks (see **Section 8.2** for details).

Figure 5.2: Government Borrowings for Budgetary Support, NFA and Reserve Money



[4] A surge in inflows into interbank market allowed the SBP not only to switch its purchases from the kerb market but also to increase the quantum of these purchases.

- The timing of the increased availability of external financing was also fortuitous, helping keep interest rates down precisely during the period of peak seasonal demand.

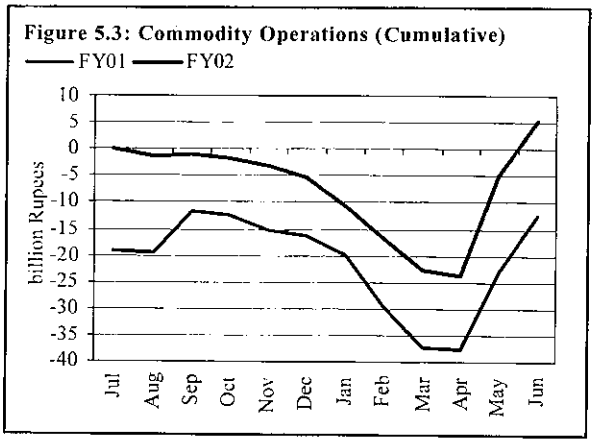
- Finally, the share of the government's bank borrowings in financing the overall budgetary deficit *fell* during FY02, even though the borrowings *increased* in absolute terms. This was because (1) large one-off increase in external financing; and (2) increased availability of non-bank borrowings due to rising inflows into the NSS, and high PIB sales to non-banks.

5.4 Commodity Operations

At first look, government borrowing for commodity operations seems to have risen considerably. However, this Rs 5.3 billion rise does not reflect an increase in the government's commodity operations:

- The level of retirement during FY02 was lower than that seen in FY01. The heavy FY01 retirement of commodity finance reflects exceptionally high commodity financing in the previous year (FY00). Similarly, the relatively low FY01 wheat purchases (which accounts for most of the credit off-take under commodity operations) meant that the FY02 retirement was lower (see **Figure 5.3**).

Figure 5.3: Commodity Operations (Cumulative)



- The government's actual wheat purchases during FY02 have probably been slightly lower than in FY01, as it already holds stocks purchased in the previous year.

5.5 Autonomous Bodies

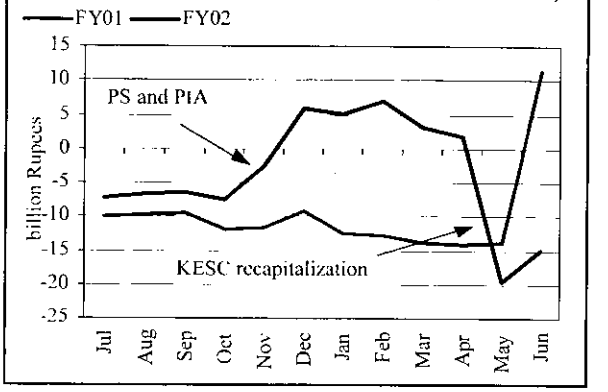
Developments during FY02 make the trend in borrowings by autonomous bodies quite different from FY01, especially after October 2001.

- First, the list of autonomous bodies changed. SSGC and SNGPL were excluded, and PIA and Pak Steel were classified as autonomous bodies.

- Second, a usual sharp surge in borrowings at the end of the year was not visible inFY02. This was because autonomous bodies, other than WAPDA, were restricted from borrowing.

This head usually witnesses an overall retirement trend during most of the fiscal year and, with a sudden borrowing jump in the month of June when these autonomous bodies borrow heavily to keep their credit lines intact. This year a surge in borrowing is evident after October 2001, with sharp decline in May 2002 (see **Figure 5.4**) as:

Figure 5.4: Credit to Autonomous Bodies (Cumulative)



- PIA borrowed Rs 1.7 billion in October 2001 and KESC borrowed Rs 4.9

billion in November that led to a sharp increase in net credit during October and November 2001.

- During May 2002, KESC was re-capitalized, with Rs 30.0 billion, by the government to bring it to the point of sale. For this purpose, Rs 22.0 billion owed to the commercial banks were retired by issuing T-bills to them.

5.6 Credit to Private Sector

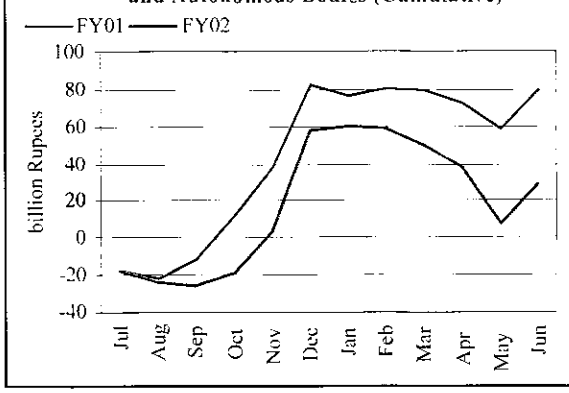
The net credit to the private sector grew by Rs 44.1 billion in FY02 against a growth of Rs 54.7 billion seen in FY01 which, taken at face value, represents a 19.4 percent year-on-year decline. However, as explained below, the FY02 figures are not comparable with the statistics of earlier years.

- Following the 2nd review under PRGF in May 2002, SBP and IMF agreed to scrutinize the data on Public Sector Enterprises (PSEs). As a result, out of some 143 PSEs, 94 were reclassified as private corporations;[5] two autonomous bodies[6] were reclassified as private corporations; and two PSEs were included in autonomous bodies.[7]

- Further, the merger of two non-bank financial institutions, NDFC and Faisal Investment Bank, with commercial banks (NBP and Faisal Bank Limited) inflated the FY02 figures for credit to private sector.

Unfortunately, data constraints make it impossible to disentangle the various impacts of these shifts into specific categories. Thus, in order to analyze the FY02 trends in relation to FY01 developments, one is forced to rely on the *aggregate* net credit figures, i.e. the net credit extended by commercial banks to (1) autonomous bodies, (2) PSEs and (3) the private sector.

Figure 5.5: Aggregate Credit to Private Sector, PSEs and Autonomous Bodies (Cumulative)



Aggregate net credit expansion by commercial banks was Rs 28.3 billion against Rs 78.6 billion in FY01 and the revised credit plan figure of Rs 116.1 billion (see **Figure 5.5**). It is important to note that the actual expansion in FY02 becomes even lower if we adjust these figures for the merger of two non-banks with commercial banks.

Up to end-March 2002, while the *net* credit growth was Rs 29.5 billion year-on-year, *gross* disbursement figures registered an increase of Rs 136.1 billion over the corresponding FY01 figure (see **Table 5.4**).

Table 5.4: Gross vs Net Credit Disbursements (Cumulative)

billion Rupees

	Gross disbursements		Change	Net credit		Change
	FY01	FY02		FY01	FY02	
Q1	225.5	288.7	63.3	-10.8	-25.5	-14.6
Q2	509.1	592.5	83.4	81.7	57.9	-23.8
Q3	762.1	898.2	136.1	78.7	49.2	-29.5
Q4	1,077.6	1,212.3	134.8	78.6	28.3	-50.3

It is also worth noting that the gross disbursement figures in FY02 remained higher

[5] When the list of PSEs from banks was compared with that of Ministry of Finance, it emerged that banks were still including in their list about 94 corporations, which were not public enterprises on the basis of the Program definition. Some of them had been privatized over the last 15 years, a few of them had been liquidated and their debt had been taken over by the government and a few large ones operating in oil and gas sector were not majority owned by government.

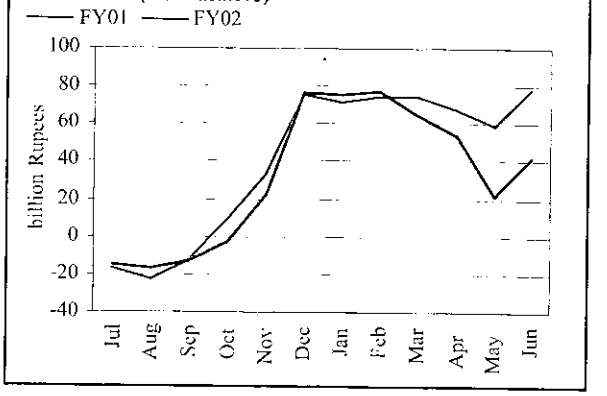
[6] Sui Southern Gas Pipe Lines Limited and Sui Northern Gas Pipelines limited.

[7] Pakistan Steel Mills and Pakistan International Airlines.

than FY01 through out the year, except for November and June. While this difference between the net and gross figures probably includes an element of re-pricing of loans, this would have impacted the disbursements only after December 2002, when weighted average lending rates began to decline. The earlier shift thus suggests that higher fresh disbursements were also masked by rising retirements.

If we net off export finance from net aggregate credit figures, the credit extended by commercial banks turn out to be slightly higher in the first and third quarter of FY02 (see **Figure 5.6**). A rather steep decline in the last quarter is mainly attributable to (1) ban by SBP on borrowing of PSEs/ Autonomous bodies after March (as a precautionary step to avoid any breach of performance criterion target for PSEs) and (2) retirement of Rs 22.0 billion KESC debt to commercial banks. In FY01, autonomous bodies and PSEs together had borrowed Rs 30 billion in the last quarter. If we take into account these two major factors, the credit expansion curves almost overlap each other.

Figure 5.6: Aggregate Credit (net) of Export Finance (Cumulative)



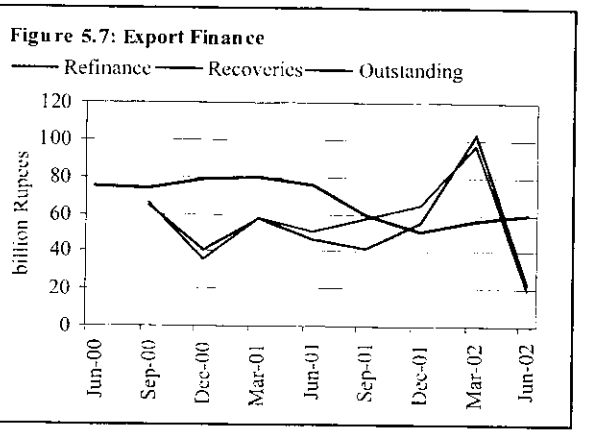
Thus it can be argued that in overall terms, barring September 11 events, the private sector in FY02 may have been better off than FY01 in terms of (1) market liquidity and availability of funds,[8] (2) lower input prices, (3) lower mark-up rates (4) higher CBR refunds and (5) increasing quantum of foreign currency loans. A detailed assessment of the relative availability of funds to the non-government sector is presented in (see **Section 6.3.2**).[9]

Data for manufacturing, and for exports, also indicates that the private sector has borne the brunt of external shocks rather well, which would not have been possible if its funding requirements had gone unmet.

5.7 Export Finance

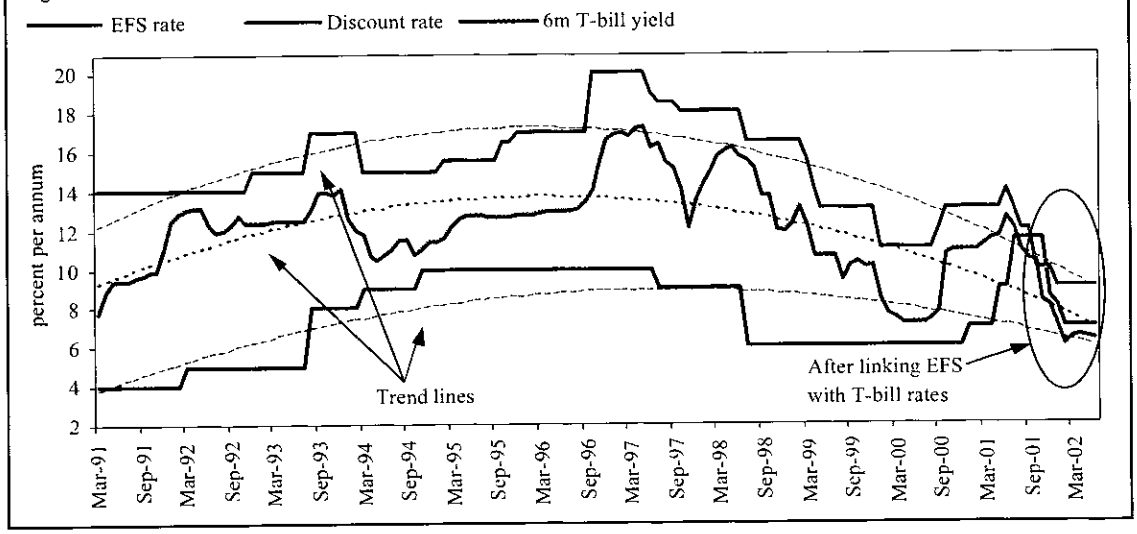
Export finance figures are reflective of the behavior of exporters. The outstanding volume of export finance, which was 75.1 billion in FY00 and Rs 75.4 billion in FY01, came down sharply to Rs 59.3 billion in FY02 (see **Figure 5.7**). This suggests that exporters had earlier been taking advantage of this concessionary scheme and delaying repatriation of export proceeds in order to gain from the customary depreciation of the Rupee. If this was the case, once expectations for a Rupee *appreciation* gained strength, the outstanding export receipts would have been expected to decline sharply. This is exactly what has happened. In fact, anecdotal evidence suggests that exporters even resorted to discounting their existing export bills.

Figure 5.7: Export Finance



[8] In FY01 due to pressure on Rupee, market remained very tight throughout the 2nd quarter.
[9] Discussion in section 6.3.2 includes funds utilized for commodity operations also.

Figure 5.8: SBP EFS, Discount and T-Bill Rates



While retirements under export finance are mainly attributable to appreciation of Rupee, the increase in gross disbursements, especially in the 3rd quarter, seems inspired mainly due to re-pricing. Earlier, SBP linked the mark up rates on EFS scheme with 6-month T-bills rates, but prior to December 2002, these had been adjusted only on a quarterly basis.

However, with effect from December 2001, to give exporters the full benefit of the FY02 cuts in interest rates, SBP began adjusting EFS rates on a monthly basis. As a result Q3-FY02 witnessed unprecedented disbursements of Rs 103.0 billion and almost matching retirement of Rs 96.6 billion (see **Figure 5.7**). The fact that this situation calmed down after SBP issued the directives that the outstanding existing loans would also be priced at new rates, lends support to our view that EFS loans were being re-priced during this period.

It is worth noting that, over the years, there had been a substantial difference in the market rates and EFS rate, distorting the overall interest rate structure. By linking the EFS rate to the 6-month T-bills rate this differential has been substantially reduced (see **Figure 5.8**).[10]

5.8 Net Foreign Assets

As explained earlier, ballooning net foreign assets (NFA) of the banking system were the key drivers of the exceptionally strong M2 growth during FY02.

The initial sharp increase in NFA in November 2001 represents inflow of US$ 600 million from USA, and later inflows of US$ 300 million for logistic support in the second quarter and US$ 640 million from the World Bank in the fourth quarter, contributed to bulk increases during the year (see **Table 5.5**). These were supported by the sustained surge in remittances October 2001 onwards.

Table 5.5: Sources of Increase in NFA - FY02

billion Rupees

Increase in SBP reserves	173
Net SBP purchases	*234*
IFIs and others	*165*
Increase in commercial banks' NOSTRO balances	18
Decrease in non-resident foreign currency deposits	28

[10] Although the subsidy in the form of lower-than-market prevailing rates has reduced, by pegging the EFS rate to T-bill rates, few realize that exporters are presently getting an implicit subsidy by way of SBP's efforts to keep the exchange rate hovering at around the Rs 60/US$ level. This cost is indirectly being borne by the (1) importers, (2) government and (3) the general public.

Other than the sheer extent of the increase, there are two major differences between NFA growth in FY02 and FY01 (see **Figure 5.9**):

- While rising remittances pushed up the NFA of Scheduled banks in FY02, heavy SBP interbank purchases dampened the resulting increase by substituting these with Rupee assets. As a result, contrary to past trends, the NFA growth of the SBP far outstripped the rise in the NFA of scheduled banks.

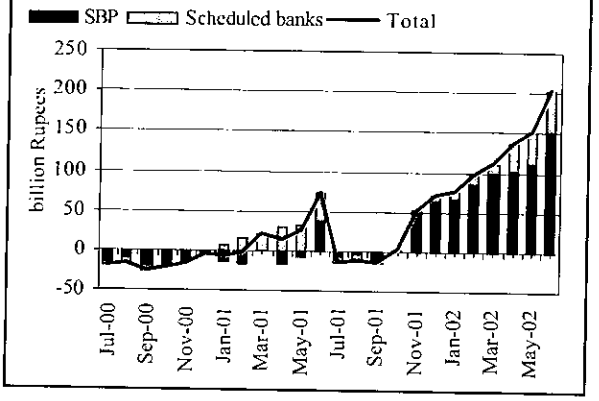
- In net terms, therefore, the growth in NFA of scheduled banks owed more to a decline in liabilities (i.e. a fall in non-residents foreign currency deposits) than to an increase in assets (see **Table 5.6**).

Table 5.6: Growth in Net Foreign Assets

billion Rupees

	Cumulative flows	
	FY01	FY02
State Bank of Pakistan	37.7	154.3
Scheduled banks	35.0	51.9

Figure 5.9: Net Foreign Assets

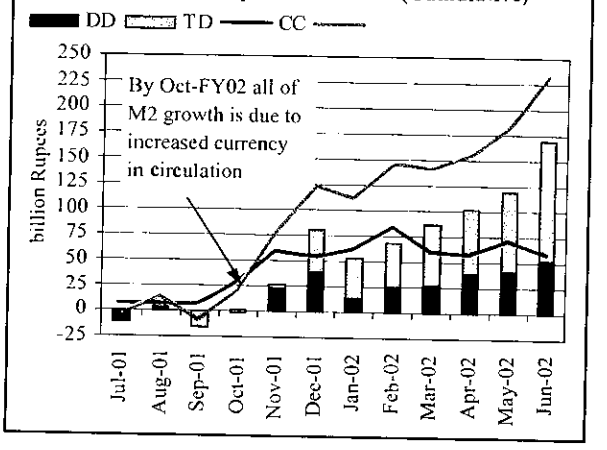


5.9 Components of M2

The unusual monetary developments during FY02 are reflected in the M2 components Q2-FY02 onwards (see **Figure 5.10**). Initially, during Q1-FY02, the pattern was similar to the normal seasonal developments, but it changed abruptly by September 2001, with a sharp jump in currency holdings at the expense of deposits growth, possibly reflecting the considerable increase in economic and political uncertainty during the period.[11]

By December 2001, however, the growth in cash holdings tapered off, and the M2 growth impetus reverted back to deposits,[12] which began recording large net increases (see **Section 6.3.1** for details). However, due to the initial jump, the currency in circulation (CC) contributed heavily to M2 growth for most of the year.

Figure 5.10: Currency in Circulation (Cumulative)



The structure of this increase in deposits during FY02 is also note worthy:

- In sharp contrast to past trends only Rupee deposits saw appreciable growth.[13]

- The growth rate for demand deposits (DD) is well below the historic average (the 5-year average is 15.6 percent).

[11] While the initial impetus to increased cash holdings was probably the September 11 events and the resulting economic shocks (e.g. the strengthening Rupee would have led to liquidation of cash US$ savings), political concerns, particularly fears of a war with India probably spurred precautionary cash holdings towards the end of CY01.

[12] This 'December effect' is a seasonal jump, and is often attributed to "window dressing" by banks seeking to depict an improved annual performance. This surge generally falls back in the following month as is visible in FY02.

[13] FY02 trends in the growth of foreign currency deposits are detailed in **Sections 6.3.1**

- On the other hand time deposits (TD) grew at a phenomenal 19.1 percent, far outstripping the 5-year average of 12.1 percent. This meant that time deposits provided half of the total M2 growth in FY02 (see **Table 5.7**).

A consequence of the see-saw increases in deposits and currency in circulation during FY02 is that the currency deposit ratio (CDR), which initially increased during the year, ended at 33 percent by end Jun-02 – the same as in FY01 (see **Figure 5.11**). This is a welcome development.

The overall CDR has been climbing steadily after reaching a low of 29 percent in FY98, reflecting the dis-intermediary role of the freeze on foreign currency deposits (RFCDs). While the cash to Rupee deposits ratio had continued to decline at that time, by FY00 this too had begun to rise, signaling an *increasing* dis-intermediation (see **Figure 5.11**).

Interestingly, the preference for liquid assets is mirroring the same consolidation around FY01 levels as visible in the CDR. The ratio between M1/ M2 that reflects the preference for liquidity had been on the rise since May-98 until it stabilized at approximately 50 percent over the last 3 years (see **Figure 5.12**).

Table 5.7: M2 Components

billion Rupees

	Cumulative flows		Growth	
	FY01	FY02	FY01	FY02
Currency in circulation	19.8	58.4	5.6	15.5
Demand deposits	-0.3	52.6	-0.1	14.0
Time deposits	61.5	116.6	11.2	19.1
RFCDs	41.7	-4.3	37.1	-2.8

Figure 5.11: Currency Deposit Ratio

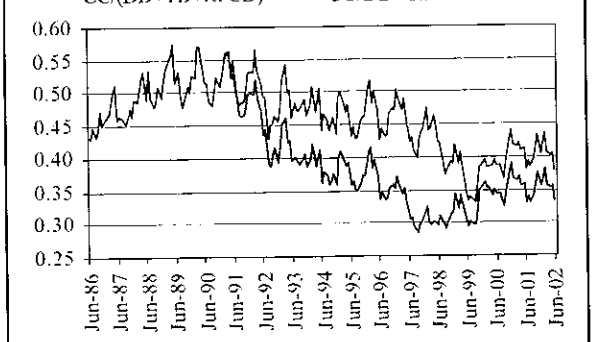
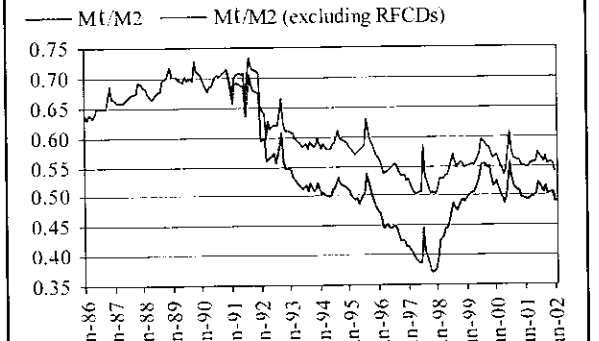


Figure 5.12: Ratio of M1 and M2



5.10 Money Market

The domestic money markets felt the impact of substantial structural and policy changes in FY02. The most important of these was the significant improvement in the macroeconomic environment that enabled the SBP to ease its monetary stance while remaining comfortably within the parameters of the IMF program. Despite increased liquidity injections in the money market through a pro-active liquidity management by SBP, volatility in overnight rates did not decline significantly. This was partly due to mis-reading of signals by the market participants, and to a certain extent, a significant change in investment behavior of banks towards speculative bidding in auctions.

The tight monetary discipline visible in FY01 was perceptibly eased in FY02. The benchmark 6-month T-bill yield witnessed a steady decline through the fiscal year, as the SBP signaled an easier monetary stance through four successive cuts in the discount rate; the cumulative 500 basis point reduction took the rate to an all-time low of 9 percent. However, as discussed in the overview of the chapter, the SBP objectives for the discount rate changes varied significantly through the period, and this is reflected in the interbank market.

The initial easing of monetary policy began well before the spillover effects of September 11 became visible in the form of substantially increased market liquidity. Q1-FY02 saw two successive adjustments in the discount rate, but in the T-bill auctions during this period, the government's net borrowings increased from both, the SBP and commercial banks.

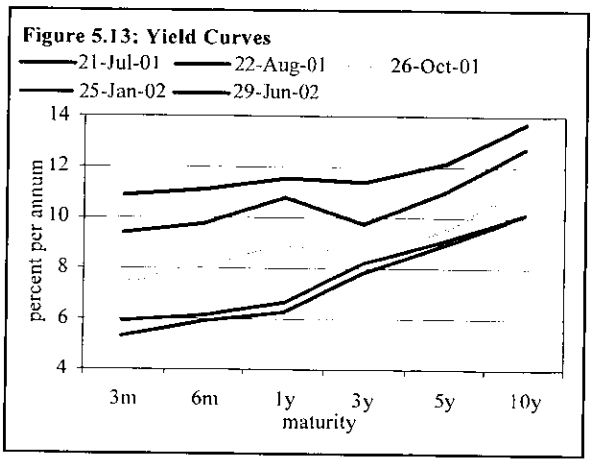
In the subsequent quarters (and especially Q2 FY02) the SBP's monetary stance became even more accommodative as it strove to mitigate economic shocks. In particular, the liquidity injections resulting from SBP's foreign currency purchases from the interbank market were very substantial. Given that net private sector credit demand from the commercial banks remained depressed, and that banks too were apparently unwilling to aggressively pursue credit, interest in government securities increased dramatically (see **Figure 5.16**).

As a result there was a visible shift in the government's borrowings patterns after October 2001. Each successive auction saw increasing reduction in the government's borrowings from the SBP with a corresponding increase in commercial bank borrowings (see **Section 5.3**). The fact that interest rates *declined* even as the government's borrowings from commercial banks *increased* is a telling indicator of the increase in liquidity and banks' investment preferences.

There is even an argument that bank's expectations of interest rate declines may have been, at least partially, self-fulfilling. A cursory look at the financing of the fiscal deficit shows that the larger contribution was from external and non-bank sources, i.e. the government's increased borrowings from commercial banks simply reflected increased *demand* for government securities, rather than an increased *supply* due to budgetary financing needs.

The easing of the monetary stance in FY02 is reflected well in the downward shifting yield curves (see **Figure 5.13**). At the same time, the shape of the yield curves became steeper, depicting a greater return at the longer end of the curve, i.e. although the long-term benchmark rates - PIB coupon rates - were also reduced; this decrease was lower than the decline in discount rate and T-bill rates.

Figure 5.13: Yield Curves



However, it must be noted that despite the smaller change in the *yield* of the long tenor security, the impact on its market *price* was proportionately larger. Thus, not surprisingly, as expectations of declining interest rates strengthened, interest in the longer tenor instruments soared; 10-year PIBs in particular, were in considerable demand and traded at high premiums.

5.10.1 Open Market Operations

The fixed schedule of fortnightly OMOs was dismantled in July 2001 to give the SBP more flexibility in managing market liquidity. In conjunction with the FY01 shortening of the OMO tenor structure, the move underlined the OMO's primary role as a liquidity management tool, rather than an indicator of the SBP's monetary stance.[14]

[14] See SBP *Annual Report* for FY01

The changes in interbank market interventions are clearly visible in **Table 5.8**; SBP interventions have distinctly increased in both number and scale during FY02, and are more evenly dispersed over the year, as well as among weekdays. [15]

Table 5.8: Open Market Operations

billion Rupees

	Injections			Absorptions		
	FY00	FY01	FY02	FY00	FY01	FY02
July	4.8	-	1.1	-	7.7	22.1
August	-	-	10.7	21.6	17.2	7.5
September	-	-	49.3	28.2	13.9	4.0
October	18.2	-	50.1	-	-	-
November	4.4	9.4	16.2	5.5	-	-
December	24.5	22.4	11.1	5.0	-	-
January	35.6	13.6	-	-	-	17.6
February	27.6	-	23.9	3.4	27.9	5.2
March	1.8	-	-	-	22.4	-
April	-	-	7.0	12.5	4.9	-
May	9.3	-	35.3	-	9.1	-
June	11.7	-	36.9	-	-	-
Total	**137.9**	**45.4**	**241.5**	**76.1**	**103.0**	**56.4**

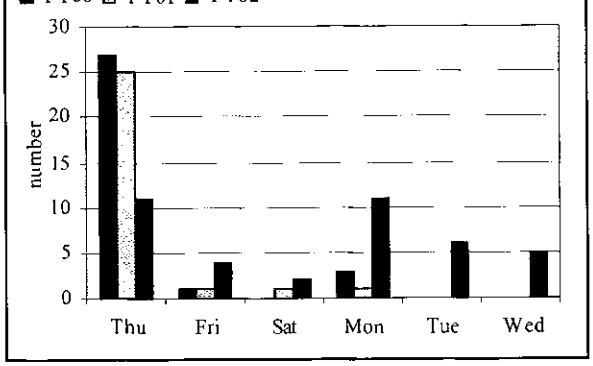
Source: Exchange and Debt Management Department, SBP

Importantly, the nature of the interventions also changed dramatically in FY02, with a net injection of Rs 185.1 billion as compared to the net absorption of Rs 57.6 billion in FY01. The latter is explainable by the strict IMF targets for NDA last year that compelled a squeeze on banks' liquidity as well as a need to defend the Rupee in the interbank market.

The need for the FY02 injections, however, is less obvious as, in theory, weak net private sector credit demand and the increased use of external finance by the government to finance the deficit should have left ample liquidity within the banking system. The answer to the apparent anomaly lies in the change in the investment preference of the banks, which opted to overbid aggressively in government security auctions to lock-in investments amidst expectations of a continuing decline in interest rates.

Indeed, there is a possibility that the SBP pro-active liquidity management may have inadvertently encouraged this trend by creating a moral hazard. As evident from **Figure 5.14**, unlike in previous years, the SBP interventions were more numerous and took place on all weekdays. In other words a bank could place speculative bids in auctions secure in the knowledge that auction acceptances in excess of market liquidity would probably result in an early OMO by the central bank. Since (1) the liquidity offered in OMOs was clearly cheaper than resort to the discount window and (2) banks no longer had to wait until a scheduled OMO for relief, the effective cost of overbidding would have certainly decreased.

Figure 5.14: Frequency of OMOs



5.10.2 Discounting of Government Securities by Banks

Apart from a few episodes of discounting, the money market remained fairly liquid during FY02 (see **Figure 5.15**). In the first quarter discounting was due to higher acceptance vis-à-vis maturities in primary auctions of government securities while in second quarter due to seasonal net credit off-take (although low) and Eid outflows that showed in an increase in currency in circulation. The discounting episodes in the second half of the year resulted mainly due to the over-bidding by banks in auctions (this is discussed in detail in the next section).

[15] A fixed schedule, previously in vogue, implied a concentration of OMOs on Thursdays (OMO was conducted every alternate Thursday) and a limit on frequency. However, in rare circumstances special OMOs could be conducted on days other than Thursday.

Figure 5.15: Discounting and Overnight Rates

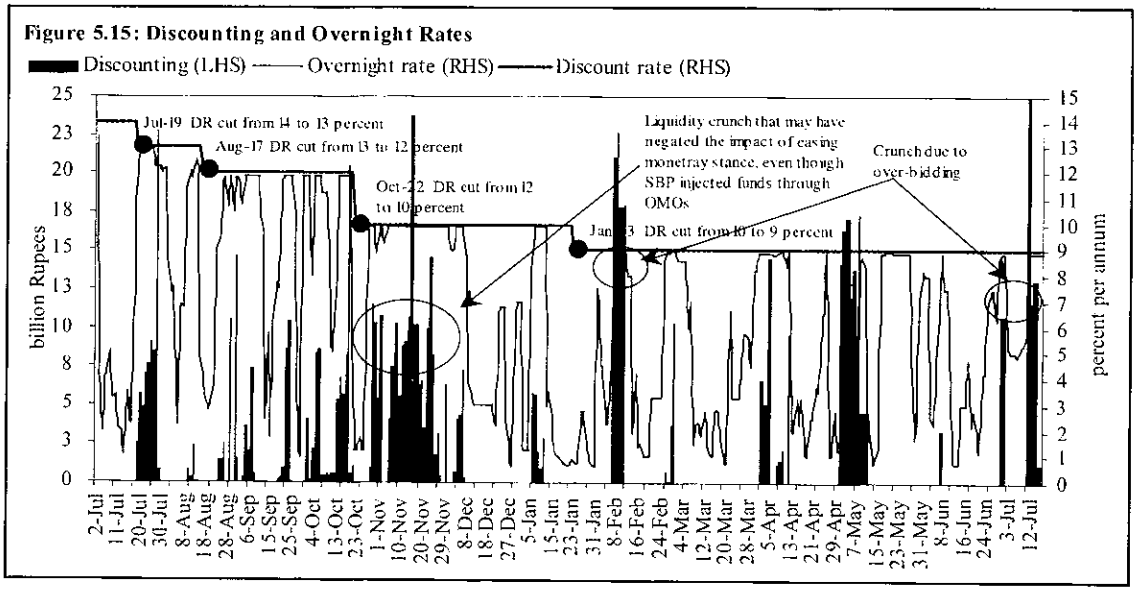


Table 5.9: Activities at Discount Window

billion Rupees

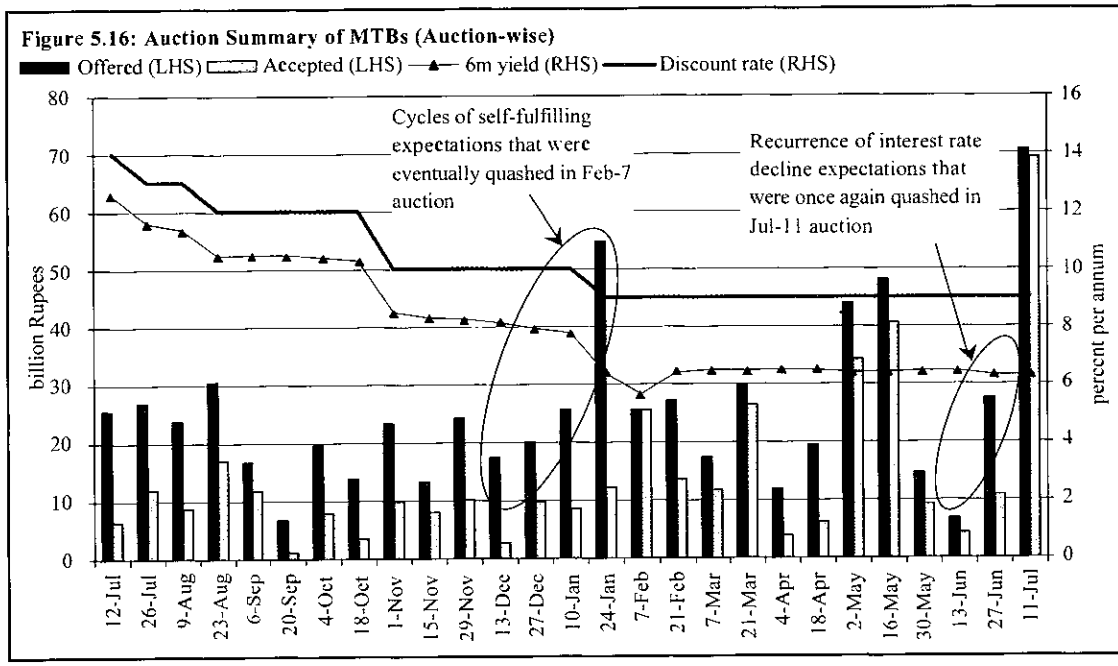
	Visits to discount window (Number of days)			Total amount of discounting			Average per visit		
	FY00	FY01	FY02	FY00	FY01	FY02	FY00	FY01	FY02
July	15	3	11	33.6	29.8	75.2	2.2	9.9	6.8
August	8	8	12	28.2	44.0	38.9	3.5	5.5	3.2
September	3	9	16	7.8	64.9	47.4	2.6	7.2	3.0
October	13	28	25	29.5	438.2	107.4	2.3	15.6	4.3
November	2	30	26	28.2	282.7	211.5	14.1	9.4	8.1
December	12	22	6	62.3	138.9	17.3	5.2	6.3	2.9
January	10	19	5	106.9	309.4	17.4	10.7	16.3	3.5
February	4	8	8	12.7	16.2	102.0	3.2	2.0	12.7
March	14	9	1	42.6	33.9	10.4	3.0	3.8	10.4
April	4	19	8	19.1	114.1	45.8	4.8	6.0	5.7
May	10	11	11	49.2	41.1	130.4	4.9	3.7	11.9
June	30	8	3	317.7	43.5	24.97	10.6	5.4	8.3
Annual	**125**	174	**132**	**737.6**	**1,556.7**	**828.4**	**5.9**	**8.9**	**6.3**

Source: Exchange and Debt Management Department, SBP

Comparing FY02 with the previous year, the amount of discounting and number of visits were visibly lower (see **Table 5.9**). More specifically, banks discounted Rs 828.4 billion worth of government securities against Rs 1,556.7 billion last year. The liquidity comfort this year represents the injections from improvements in NFA, and the rising deposits of banks; whereas the crunch faced in the last year was a reflection of the effective use of money market to ease off pressures on the foreign exchange market.

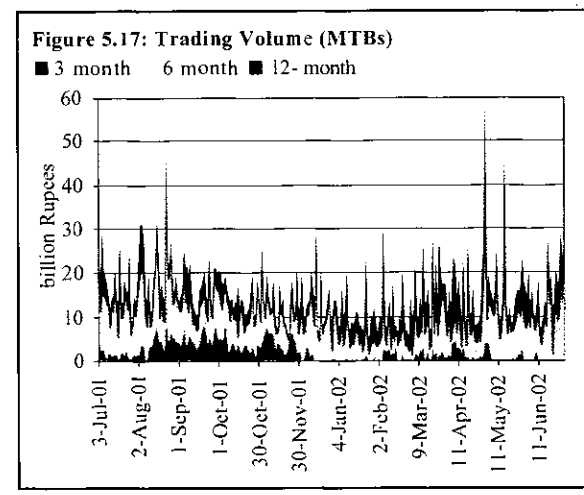
5.10.3 Treasury Bill Auctions

Figure 5.16 reveals a steady easing of monetary stance. In effect, the 6-month T-bill yield has declined from 12.5 percent at the end-June 2001 to 6.4 percent at the end-June 2002 (an all time low). In order to signal an easy monetary stance, the discount rate was cut on four occasions, i.e., one-percentage point in July, August and January respectively; and by two-percentage point in October.



In overall terms, banks offered Rs 565.9 billion compared with Rs 269.2 billion in the preceding year, of which SBP accepted 54.5 percent and 48.4 percent of the offered amount, respectively. An interesting observation here is that despite the declining interest rates the banks were offering heavy amounts while in FY01 rising interest rates failed to attract more funds.

This difference in FY02 was the result of: (1) ample liquidity in the banking system, (1) low net private sector credit demand (3) self-fulfilling expectations of banks regarding further decline in interest rate in coming auctions. By contrast, in FY01, rising interest rates had failed to attract more funds due to severe liquidity problems that imply; (1) a lack of funds, (2) profitable investment opportunities in short-term repo market, and (3) banks' expectation of a further liquidity squeeze, especially at respective quarter ends.[16]



It is also interesting to note that secondary market activity (see **Figure 5.17**) in T-bills suggests that market *expectations* of a decline in interest rates took greater hold during the latter half of the fiscal year. This is evident in a sharp drop in activity in the shorter tenors, and the rise in activity in the longer tenor T-bill. This is also mirrored in the T-bill auction data (see **Table 5.10**).

Occurrence of multiple spikes in the graphs shows, (1) sudden shift in trading towards longer tenors (this is also visible in PIB secondary market data, see **Figure 5.20**) reflecting a higher degree of volatility and uncertainty amongst market players regarding interest rate expectations, and (2) a

[16] For a detailed discussion see SBP *Annual Report* for FY01.

greater degree of interest in longer-term securities, one can easily identify periods where activity in 3-month is negligible.

The analysis of individual auctions is also quite revealing. In first eight auctions the market behavior was consistent with SBP view of interest rates as the rates declined only after the discount rate cuts and remained stable otherwise (see **Figure 5.16**). In next five auctions, between third and fourth discount rate cut, the banks offered heavy amounts at cheaper rates in anticipation of a further easing of monetary policy. This expectation is evident from the term repo rates, the tenor-wise break-up of banks' offers in T-bill auctions, as well as secondary market trading volumes.

Table 5.10: Trading Volume (Face Value) - FY02

billion Rupees

	3-month	6-month	12-month
Q1	269.3	747.2	330.3
Q2	205.7	547.6	226.2
Q3	55.0	351.3	374.6
Q4	63.5	653.6	479.8
Annual	**593.5**	**2,299.7**	**1,410.9**
H1	475.0	1,294.8	556.5
H2	118.5	1,004.9	854.4
Change (percent)	-75.1	-22.4	53.5

Figure 5.19 shows the daily trends in term repo rates, which clearly depicts the declining trend in these rates much before the discount rate cut. Furthermore, one can easily see the rates crashed before the February 7, 2002 auction. To further reinforce our view of these self-fulfilling expectations, the break-up of funds offered in different tenors and secondary market trading in different instruments shows a higher interest in longer tenors during the period when these expectations were prevailing in the market (see **Figure 5.17** and **5.18**).

As discussed in the SBP Third *Quarterly Report* for FY02, these expectations were eventually quashed in February 7, 2002

Figure 5.18: Composition of Amount Offered (Auctions)

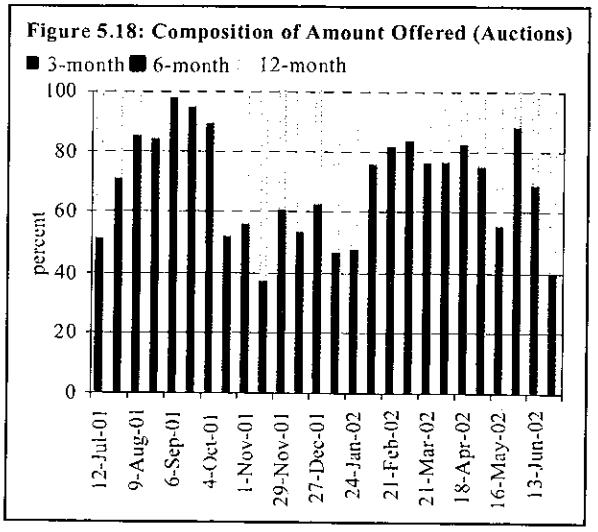
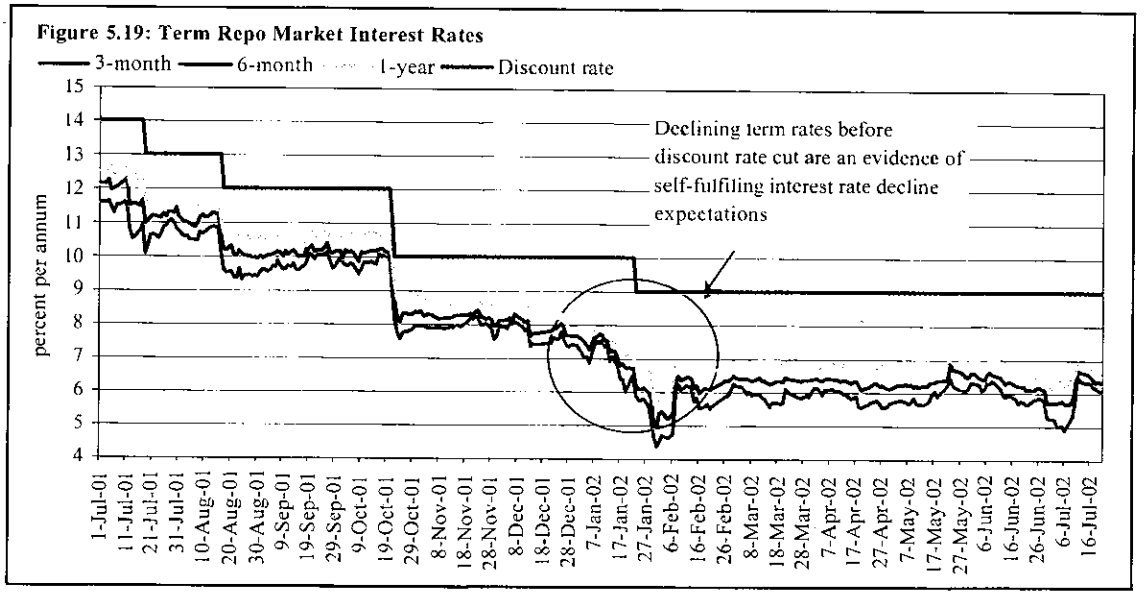


Figure 5.19: Term Repo Market Interest Rates



auction. Afterwards, in all remaining auctions (except the last auction) the T-bill rate remained stagnant closely aligned with SBP's view of interest rates. However, the budget speech in mid-June, 2001 re-ignited banks' expectations of another round of rate cut as evident in the last auction of FY02.

5.10.4 Pakistan Investment Bonds

In aggregate, the government mobilized Rs 77.1 billion in 11 regular PIB auctions and a further Rs 30.5 billion through special PIB sales during FY02, against an aggregate target of 83.0 billion (see **Table 5.11**).[17] In particular, the ten-year bond stands out as a clear success with mobilizations greater than the combined receipts of the other two tenors.

The role of PDs in development of a robust secondary market for PIBs, however, is still a matter of concern.

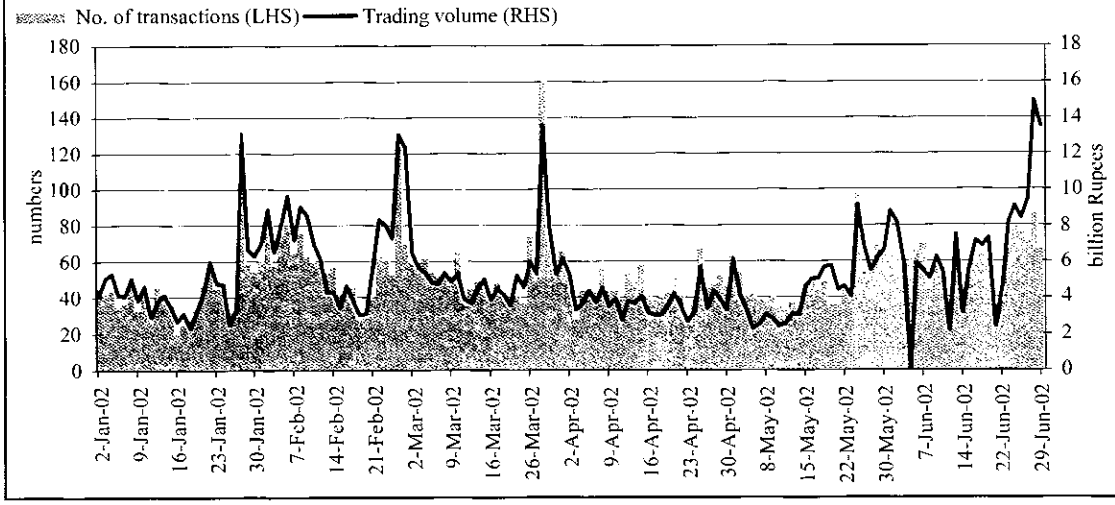
Firstly, so far, the PDs have failed to judge the extent of market demand, which is reflected in over-subscription in most of the auctions through out the year. SBP, on its part, has adhered to auction targets, which is clearly reflected in the target to acceptance ratio of 93 percent.

Secondly, the PDs have failed to quote two way pricing that is essential for market making.

Thirdly, anecdotal evidence suggests that, apart from allowed short-selling of 5 percent, pass-through bids are also excessively used, thus implying a reluctance on part of PDs to take PIBs on their books. This is supported by the higher than average trading evident on PIB auction settlement dates, especially in the case of 3 and 5-year bonds (see **Figure 5.20**).

Another problem for the long-term market, as already discussed in SBP *Quarterly Reports*, is that most institutional investors appear to lack proper professional skill and infrastructure to gauge market sentiments. This makes it difficult for institutional investors to quote appropriate prices. The PDs responsibility, here, is two-pronged, as they have to: (1) act as "market makers" and (2) help their clients make intelligent investment decisions. The SBP is therefore looking to improve the PD system to strengthen PIB primary and secondary market.[18]

Figure 5.20: PIB Secondary Market Trading



[17] Special sales include issuance of PIBs against tax refunds of banks, amounting to Rs 21.8 billion and the sale against the remaining short-selling amount.

The secondary market activity of PIBs reveals an increase in activity in periods when the interest rate decline expectations were prevalent in the market. A few spikes are also visible on auction dates, especially for 3 and 5 year bonds, this is presumably due to pass through bids and/or short selling (see **Figure 5.20**).

Figure 5.21: PIB Holdings to Demand & Time Liabilities Ratio

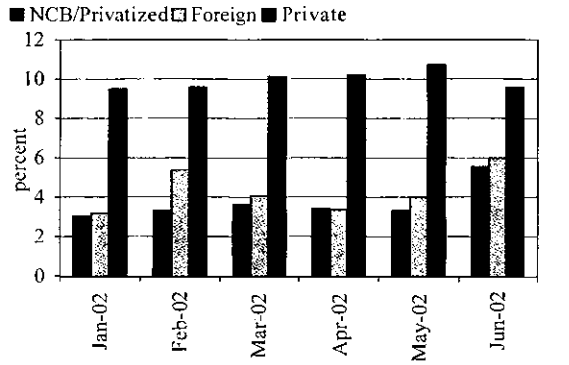


Figure 5.21 depicts excessive interest of banks, especially the private banks in holding PIBs in relation to their respective demand and time liabilities (DTL). As discussed in the SBP *Third Quarterly* Report, FY02 banks' holdings of PIB are still greater than non-bank holdings. Although it is not a desirable development, the excessive interest is understandable in a scenario of declining interest rates.

[18] The solution to these problems may lie in exercising the stripping of PIB coupons and/or issuance of a 'Jumbo Issue'.

Table 5.11: PIB Auctions (Summary of Results) – FY02

billion Rupees

Auction	Tenor	Target	Coupon (percent)	Amount offered	Range of price offered/Rs 100	Amount accepted	Weighted Avg. percent p.a.	Percent accepted
	3 Years		12.5	4.8	99.50--100.10	2.4	12.5	80.5
7th	5 Years		13.0	2.0	100.00--100.10	0.6	13.0	19.5
Jul 21, 01	10 Years		-	-	-	-	-	-
	Total	**3**	**0.0**	**6.8**	**-**	**3.0**	**-**	**100.0**
	3 Years		-	-	-	-	-	-
8th	5 Years		-	-	-	-	-	-
Aug 16, 01	10 Years		14.0	28.2	100.00--100.24	-	-	-
	Total	**10**	**0.0**	**28.2**	**-**	**0.0**	**0.0**	**0.0**
	3 Years		-	-	-	-	-	-
9th	5 Years		-	-	-	-	-	-
Aug 22, 01	10 Years		13.0	8.0	99.60--100.15	6.7	13.0	100.0
	Total	**10**	**0.0**	**8.0**	**-**	**6.7**	**-**	**-**
	3 Years		11.8	3.4	99.95--100.05	3.4	11.8	59.5
10th	5 Years		12.2	2.8	99.63--100.05	2.3	12.2	40.5
Sep 22, 01	10 Years		-	-	-	-	-	-
	Total	**8**	**0.0**	**6.3**	**-**	**5.8**	**0.0**	**100.0**
	3 Years		0.0	0.0	-	0.0	0.0	0.0
11th	5 Years		0.0	0.0	-	0.0	0.0	0.0
Oct 30, 01	10 Years		13.0	22.3	100.00--104.37	11.9	12.5	100.0
	Total	**12**	**0.0**	**22.3**	**-**	**11.9**	**0.0**	**100.0**
	3 Years		10.5	3.7	100.10--99.51	2.2	10.5	44.1
12th	5 Years		11.0	4.0	100.10--99.50	2.8	11.0	55.9
Nov 22, 01	10 Years		0.0	-	-	-	-	-
	Total	**5**	**0.0**	**7.7**	**-**	**5.0**	**0.0**	**100.0**
	3 Years		-	-	-	-	-	-
13th	5 Years		-	-	-	-	-	-
Dec 24, 01	10 Years		12.0	26.5	100.80--90.90	10.4	11.9	100.0
	Total	**10**	0.0	**26.5**	-	**10.4**	**0.0**	**100.0**
	3 Years		10.5	17.5	100.6--103.9	4.7	9.2	60.3
14th	5 Years		11.0	17.7	100.1--103.9	3.1	10.1	39.7
Jan 28, 02	10 Years		0.0	0.0	-	0.0	0.0	0.0
	Total	**8**	0.0	**35.2**	**-**	**7.8**	**0.0**	**100.0**
	3 Years		0.0	0.0	-	0.0	0.0	0.0
15th	5 Years		0.0	0.0	-	0.0	0.0	0.0
Feb 28, 02	10 Years		11.0	26.1	99.4--103.5	7.7	10.5	0.0
	Total	**8**	**0.0**	**26.1**	**-**	7.7	**0.0**	0.0
	3 Years		9.0	7.0	100.0--102.2	2.6	8.4	33.3
16th	5 Years		10.0	9.9	99.95--103.0	5.2	9.4	66.7
Mar 28, 02	10 Years		-	-	-	-	-	-
	Total	**8**	0.0	**16.9**	**-**	**7.8**	**-**	**100.0**
	3 Years		0.0	0.0	-	0.0	0.0	0.0
17th	5 Years		0.0	0.0	-	0.0	0.0	0.0
Apr 25, 02	10 Years		11.0	8.7	100.0--100.15	3.0	10.5	0.0
	Total	3	**0.0**	**8.7**	-	**3.0**	**0.0**	**0.0**
	3 Years		9.0	2.3	100.0--101.5	1.3	8.8	43.9
18th	5 Years		10.0	2.8	99.90--102.0	1.7	9.8	56.1
May 24, 02	10 Years		-	-	-	-	-	-
	Total	3	**0.0**	**5.2**	-	**3.0**	**-**	**100.0**
	3 Years		0.0	0.0	-	0.0	0.0	0.0
19th	5 Years		0.0	0.0	-	0.0	0.0	0.0
June 18, 02	10 Years		11.0	11.6	99.4--103.5	4.9	10.9	0.0
	Total	**5**	**0.0**	**11.6**	-	**4.9**	**0.0**	**0.0**
Grand Total		**93**		**209.4**		**77.1**		

Source: Exchange and Debt Management Department, SBP

6 The Banking Sector

6.1 Overview

While policy focus on strengthening the regulatory framework continued apace during the year, it was the phenomenal rise in the deposit base, on the back of improvements in the country's external sector, that was the major highlight of the banking sector's performance during FY02.

Overall deposits rose by 14.0 percent, the strongest growth recorded since FY97, which was all the more impressive given the decline in foreign currency deposits (the 13.7 percent fall in Rupee value of the latter was masked by a startling 19.7 percent rise in rupee deposits). As explained in **Chapter 5**, the tremendous increase in the deposit base was generated by the unprecedented improvement in Pakistan's current account October 2001 onwards, and the corresponding increase in SBP foreign currency purchases.[1]

By contrast, growth in net credit was relatively subdued during FY02, but not as weak as suggested by the monetary survey data, as becomes visible only after adjusting for factors that artificially depressed the reported net credit figures (see **Section 6.3.2**). As a result of the available liquidity and expectations of declining interest rates, banks bid aggressively in auctions for government papers (see **Section 5.10** on **Money Market** for details).

Another very interesting development, also stemming from the external sector improvement, was the considerable interest in foreign currency loans; by end-FY02, the outstanding foreign currency loans reached to a stunning Rs 20.4 billion (US$ 339.5 million), accounting for a quarter of the net credit growth during the year.[2]

Table 6.1: Foreign Curreney Loans (Stocks)

	June-00	June-01	June-02
Million US Dollar	8.2	1.4	339.5
Million Rupees	427.8	86.9	20,386.1

Source: Exchange and Debt Management Department, SBP

Finally, FY02 also saw visible indications of improvements in banks' Non-performing Loans (NPLs); the decline in NPLs (against domestic operations of banks), that began during the second half of FY01, not only continued but also gained momentum. The gap between the NPLs and defaulted loans has started to narrow, indicating at the better quality of fresh loans.

6.2 Policy Environment

The thrust of the regulatory framework during FY02 was much the same as in the previous fiscal year, with policies focusing on increasing the ability of the banking system to weather financial shocks, strengthening their capacity to extend credit at lower cost, reducing the direct role of the government, and fostering good governance. The following sub-sections discuss key policy developments during the year.

6.2.1 Privatization of State-owned Banks

The banking industry in Pakistan remains dominated by 3 nationalized and 2 partially-privatized banks, despite the emergence of private sector competitors following the banking sector liberalization initiated in the early 1990s. These bigger banks, for the last several years, have been confronted with structural drawbacks - especially overstaffing, unprofitable branches, poor customer services and inept credit discipline. To minimize the organizational weaknesses of nationalized banks and to improve the financial soundness of the overall system, privatization of these units have become

[1] During FY02, the Rupee injection due to the net SBP purchases (both from kerb and interbank) is estimated at Rs 234 billion.

[2] Adjusted net credit recorded an increase of Rs 83.9 billion during FY02.

inevitable. To facilitate this process, a vigilant restructuring of these institutions has remained on the agenda over the last five years. The rationalization of staff and branch network, establishment of CIRC to acquire their NPLs, reduction in tax rates, and promulgation of privatization ordinance are some of the measures taken to ensure the speedy process.

In September 2001, a 6.4 percent government stake in MCB has been off-loaded and only 10.2 percent more shares remain to be divested. The process for privatization of UBL through sale of a 51 percent stake was initiated in June 2002 and is now in its final phase. In addition, Privatization Commission (PC) has invited Expressions of Interest (EOI) from the investors interested in acquiring a minimum 26 percent stake in Habib Bank Limited. Also, the government offloaded 10 percent shares of National Bank of Pakistan through initial public offering in the local stock exchanges and has decided to sell another 10 percent in coming months.

6.2.2 Strengthening of Smaller Banks

In line with international practices, a risk-based capital adequacy system is already in place since 1997.[3] However, during FY01 SBP doubled the minimum paid-up capital (net of losses) requirement for scheduled banks to Rs 1.0 billion.[4] Banks were allowed to meet the requirements in two phases, with a minimum capital requirement of Rs 750 million to be met by December 2001 and the final target to be achieved by end-December 2002.

The measure aimed to encourage economies of scale and to further strengthen the competitive ability of banks. Banks failing to meet this minimum requirement will be converted into non-scheduled banks with corresponding restrictions on their banking activities. The first phase concluded in December 2001 (for progress, see **Section 6.4.1**). In addition, banks have been allowed to issue Term Finance Certificates (as subordinated debt) to raise capital; this will help them improve capital adequacy.

6.2.3 Specialized Institutions

Since there is risk aversion by banks towards extending credit to small and medium enterprises (SMEs), credit constraints had limited the expansion of these businesses. Realizing the large potential for growth and employment opportunities offered by the small-scale sector, government encouraged the creation of specialized institutions to extend credit to this market segment. As a result, a Small and Medium Enterprise (SME) Bank was established in public sector w.e.f. January 1, 2002.

Similarly, in order to provide increased access to small borrowers, particularly in rural areas, two other micro-credit institutions Khushali Bank and First Micro Finance Bank, started operations. In recognition of their anti-poverty focus and the nature of their operational requirements the SBP relaxed the licensing and regulatory environment for these institutions.

Finally, FY02 also saw the emergence of Meezan Bank, Pakistan's first commercial bank operating purely on Shariah-compliant transactions (for details on development in Islamic banking see **Chapter 10** on **Islamization of Financial System in Pakistan**).

6.2.4 Export Financing

As mentioned earlier in **Chapter 5**, SBP took an easy monetary stance throughout the year and the interest rates declined accordingly. The EFS rate that is now being adjusted on a monthly basis, was brought down to 8 percent from 14 percent at the start of FY02. In this context, banks and exporters have been advised to avail the benefits of rate cuts and re-price their outstanding amounts. Also relaxations have been given, by extending maturities, to certain industries such as the *carpet and rug*

[3] See BPRD circular No. 36, dated November 4, 1997.
[4] Vide BSD circular No. 31 dated December 6, 2000.

industry. New items have also been made eligible for refinance facility, including brown rice, information technology software as well as consultancy services such as medical, pharmaceuticals, engineering, etc.

6.2.5 Addressing Non-performing Loans and Risk Aversion

A three-pronged approach has been adopted to address the issue of NPLs. First, the Corporate and Industrial Restructuring Corporation (CIRC) was established in September 2000 to shift the ownership of NPLs from banking institutions. The activities of CIRC gained momentum in FY02. Second, the Committee on Revival of Sick Units (CRSU) was established. The CRSU has restructured and revived 130 units, which had stuck-up loans with banks. Third, the cases of willful defaulters have been referred to NAB after following due process of law. Banks have been asked to increase emphasis on adequate provisioning for their NPL portfolio. Also, in order to remove the legal difficulties and time delays faced by banks in recoveries against defaulted loans, the Financial Institutions (Recovery of Finance) Ordinance, 2001 has been promulgated. It ensures expeditious recovery of stuck up loans by foreclosure and the sale of mortgaged property, with or without the intervention of courts.

6.2.6 Corporate Governance, Disclosure and Transparency

A number of measures have been introduced in FY02 in this regard:

- To ensure transparency in banks' financial statements, they are required to report data on new formats in accordance with international standards.
- Banks have become liable to take prior clearance of SBP for appointment of CEOs.
- For promoting good corporate governance and to encourage an effective role of CEO/BOD, certain guidelines under "Fit and Proper Test" have been formulated for their appointment. These guidelines include conforming to the parameters like honesty, reputation, experience, track record, management and financial integrity.
- In order to ensure sound banking practices and existence of proper checks and balances in each institution, SBP has been issuing clear lines of responsibilities and proper guidelines to the board of directors. They have been made responsible to review and update policies in areas like internal audit, compliance, risk management, credit disbursement, management information system, etc. so as to enhance effective governance in the financial institutions.
- Also, the panel of auditors, that play an important part in promoting good governance in the banking sector, is being revised from time to time so as to improve the quality of audit services.

Following the mushroom growth in large denomination Rupee Travelers' Cheques (TCs) that were feared to be fostering undocumented transactions in the economy, the SBP capped the denominations of these instruments at Rs 10,000. Moreover, details on issuance of TCs are required to be reported to the SBP.

6.2.7 Relaxation in Tax Liabilities for the Banking Sector

Taxation has remained a major issue for the banking industry over the years. The tax rates applicable to Pakistani banks have been significantly higher than for other corporates. Additionally, many financial transactions face withholding taxes, the payments on which often cumulate to levels above the total tax liability of banks. While these do appear on banks' balance sheets as tax assets, the cash loss is obviously a drag on profitability (for details see **Special Section 6.1**). Also, banks received no tax exemptions for accrued (but unrealized) interest on non-performing assets. These issues are often cited by banks when defending their inability to further reduce lending rates.

The corporate tax rate that had been cut from 58 percent to 50 percent in July 2001, was again lowered to 47 percent in the FY03 budget. The rates will be further reduced over the next four years

to bring it at par with the rates applicable to other corporates. Also, the withholding tax on T-bills is being reduced; and Rs 22 billion was paid in June 2002 as a part-payment against outstanding advance taxes.

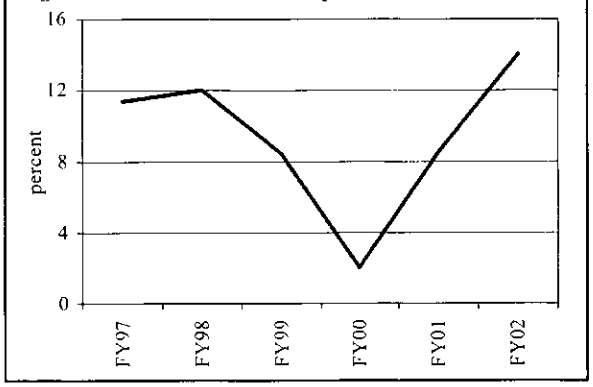
Finally, provisioning costs and interest income taken to the suspense account have been exempted from taxable income. All these relaxations in tax liabilities of banks will improve the shape of their balance sheets, enabling the banks to narrow the wedge between deposits and lending rates.

6.3 Developments in Banking Industry During FY02

6.3.1 Deposit Mobilization

Banks saw a remarkable expansion in deposits in FY02, recording a rise of 14.0 percent on an year-on-year basis. To put this in perspective, this growth is the strongest for any year since FY97 (see **Figure 6.1**), and in terms of Rupee deposits, it was one of the best since the introduction of Resident Foreign Currency Deposits (RFCDs) in 1991.

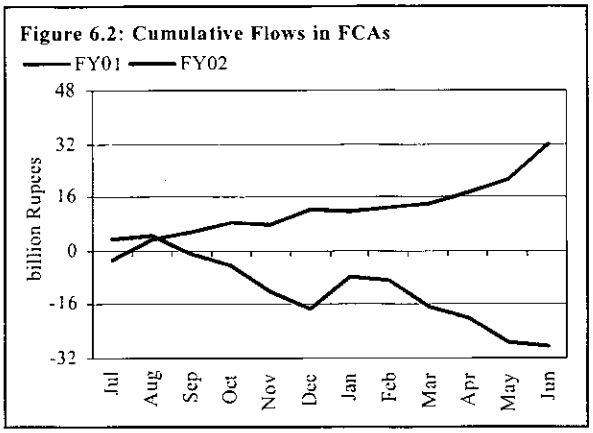
Figure 6.1: Growth Rates of Deposits



As with many other macroeconomic variables in FY02, the catalyst for this change appears to be the post-September 11 improvements in Pakistan's external account. Specifically, a burgeoning current account surplus permitted the central bank to greatly increase its foreign currency market purchases without an adverse impact on the exchange rate (for details see **Chapter 9** on **Balance of Payments**). This US$ 3.9 billion purchased by the SBP during FY02, represented a massive injection of fresh Rupee liquidity into the domestic economy.

Not surprisingly, the growth rate for Rupee deposits doubled in FY02 to an incredible 19.7 percent against the 8.5 percent growth observed in FY01. It must be noted that following the introduction of the FE-25 deposits, the rise in foreign currency deposits largely did not result in an increase in banks' Rupee liquidity, hindering credit expansion in the domestic economy. By contrast, the Rupee appreciation catalyzed by the current account surplus not only led to a US$ 195.9 million (5.8 percent) fall in foreign currency deposits but also depressed the Rupee value of the remaining deposits. As a result, in Rupee terms, these deposits fell 13.7 percent during the year (see **Figure 6.2**).

Figure 6.2: Cumulative Flows in FCAs

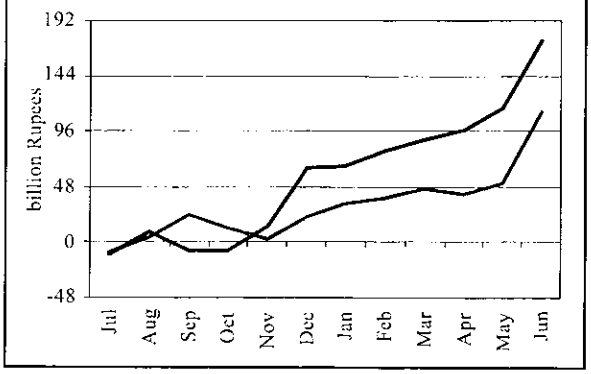


As visible in **Figure 6.3** the FY02 deposit growth was initially in line with the FY01 trends, and the September-October 2001 decline, which is visible for both Rupee and Foreign Exchange (FX) deposits, seems attributable directly to the September 11 shocks.[5] The strong surge in deposits that followed in the next two months seems to be based on the sharp improvement in the current account balance (particularly remittances) and the corresponding increase in SBP FX purchases. In fact, this

[5] For further details, see SBP Second *Quarterly Report* for FY02, SBP.

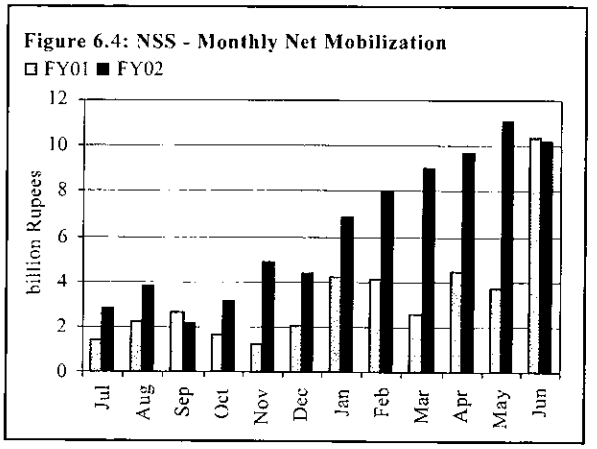
increase in deposits would have been even stronger, had there not been the negative impact of the fall in foreign currency deposits. By mid-FY02, the substantial appreciation of the Rupee, and expectations of further strengthening, had eroded the earlier "devaluation expectations"[6] of foreign currency holders sparking the liquidation of their holdings.

Figure 6.3: Cumulative Flows in Deposits



The deceleration visible in H2-FY02 is explainable primarily by the sharp increase in mobilization under National Saving Schemes (NSS), the seasonal decline in credit off take,[7] and an accelerating decline in foreign currency deposits (FCDs). In fact, it seems that with FCDs no longer a favored avenue, savers focused instead on the other familiar option, the NSS instruments. Not surprisingly, the surge in NSS investments is a mirror of the fall in FCDs, helping the government to raise Rs 76.1 billion from this source against Rs 40.7 billion mobilized in FY01 (see **Figure 6.4** & **6.5**).

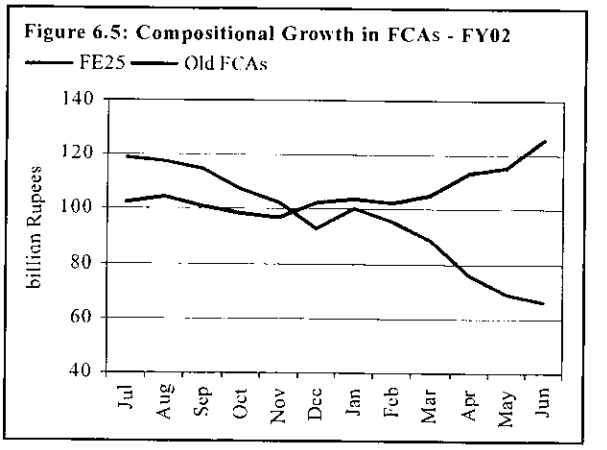
Figure 6.4: NSS - Monthly Net Mobilization



The structure of growth in deposits also makes an interesting comparison with FY01. Firstly, the deposit gains of Rs 173.5 billion in FY02 were spread across the year, in contrast to FY01 when 54 percent of the annual growth was recorded in the last month of the year.[8]

The increase in FE-25 deposits during H2FY02 in the face of the decline in overall FCAs (see **Figure 6.5**) can partially be explained by the announced merger of the FE-31 deposits with the FE-25 category.[9] The rising level of lending in foreign currency may also have a role behind rising deposits (FE-25), through the multiplier effect. Also, an unprecedented increase in kerb market inflows temporally drove the kerb rate below the interbank rate, allowed the arbitrage. Finally, the currency composition of the incremental deposits under the FE-25 reveals another possible explanation:

Figure 6.5: Compositional Growth in FCAs - FY02



[6] Over the last few years in particular, persistent (and growing) large annual depreciation of the Rupee had led to a substantial "dollarization" of savings due to the attractive effective Rupee equivalent returns.

[7] The change in net credit correspondingly affects deposit growth through the money multiplier effect.

[8] Rs 13.3 billion deposit of Al-Faysal Investment Bank were transferred to banking sector as a result of its merger with Faysal Commercial Bank w.e.f. January 1, 2002.

[9] In order to further liberalize the foreign currency market, it has been decided that Authorized Dealers would no longer be required to surrender foreign currency mobilized under FE-31 to the SBP. Accordingly (1) these are to be merged into FE-25 scheme, and (2) the SBP ceased to renew/provide forward cover contracts to banks.

anecdotal evidence suggests an increased focus on Euro and Sterling denominated accounts owing to their appreciating values.

Within the banking sector, the NCBs emerge as unambiguous leaders in deposit generation accounting for 54.7 percent of the overall FY02 growth (see **Table 6.2**). However, private banks maintained the highest growth rate.[10]

Table 6.2: Deposit by Scheduled Banks (Flows)

billion Rupees

Banks	Local currency		Foreign currency		Total	
	FY01	FY02	FY01	FY02	FY01	FY02
Nationalized	4.0	93.6	8.0	1.4	12.0	95.0
Privatized	18.3	23.9	5.4	-1.8	23.7	22.0
Specialized	-0.9	0.9	0.0	0.0	-0.9	0.9
Private	30.3	75.8	16.5	-3.8	46.8	71.9
Foreign	28.7	8.3	2.0	-24.6	30.7	-16.3
All	**80.4**	**202.4**	**32.0**	**-28.9**	**112.3**	**173.5**

Source: Banking Supervision Department, SBP

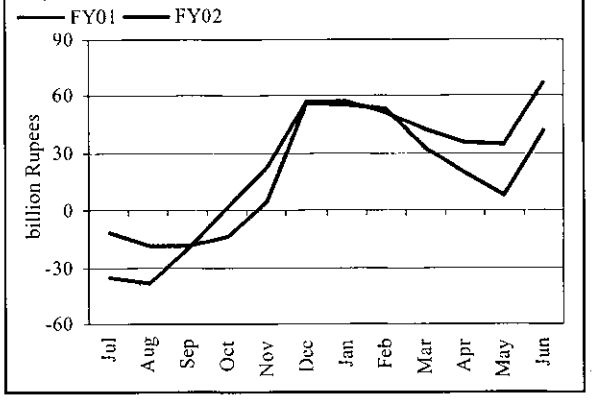
The striking success of the NCBs in raising deposits during FY02 is quite encouraging in view of the relatively poor performance in recent years. An important contribution to this could have been the recent efforts to attract remittances through official channels,[11] aided by their substantial capacity to absorb external inflows.[12]

Foreign banks, on the other hand, saw deposits decline by Rs 16.3 billion.[13] There are a number of reasons behind this, but the principal factor seems their relatively higher exposure to foreign currency deposits. Firstly, these comprised 30 percent of their total deposits, and thereby these institutions were particularly vulnerable to the impact of the appreciating Rupee, i.e. the exchange rate impact as well as the loss of deposits. Also, in recent months most foreign banks were unable to generate incremental FE25 deposits as they were already in breach of the SBP limits on deposits mix.[14] In other words their FX deposits primarily comprised of older US$ deposits, which saw the biggest decline within FCAs.

6.3.2 Total Credit by Scheduled Banks

In contrast to the phenomenal surge in deposits and declining lending rates, the broad credit numbers for FY02 look surprisingly weak. Specifically, the net credit[15] extended by banks saw an increase of only Rs 41.8 billion compared to Rs 66.9 billion recorded during FY01 (see **Figure 6.6**). This becomes even more surprising given that net credit extended in FY01 was in the face of a severe shortage of liquidity and increasing interest rates.

Figure 6.6: Net Credit (Cumulative Flows)



One explanation forwarded for this apparent anomaly is the fall in business confidence in the aftermath of 9/11, the uncertainty due to conflicts in Afghanistan, and the tension with India. However, though these negative shocks certainly put a dampener on economic activities, the 3.6 percent increase in real GDP (against a target of 4

[10] Even with adjustments for one time shift in deposit to Meezan Bank (from Societe Generale) and Faysal Bank (from Al-Faysal Investment banks) , their growth remains highest (around 27 percent).

[11] Part of foreign exchange inflow that deposited with banks in foreign currency account is not treated as remittances.

[12] FCAs of NCBs were around 10 percent of their total Rupee deposits.

[13] Adjusting it for Societe Generale Bank, which is now merged into Meezan Bank, this narrows to Rs 14.4 billion.

[14] Banks are not allowed to mobilize foreign currency deposits more than 20 percent of their Rupee deposits.

[15] This includes schedule banks advances (other than those to banks), import bills, inland bills, investment in other approved securities and other investments. This is the same definition that is being used in Monetary Survey and one may arrive at these figures by adding schedule banks credit for commodity operations and non-government sector.

percent), incorporating a reasonable 4.4 percent growth in manufacturing, and sharp jump in the quantum of exports, suggests that the decline in the "headline" net credit figure may be misleading.

Some possible explanations were discussed in the SBP Third *Quarterly Report* for FY02 including a fall in the prices of key inputs, higher CBR tax refunds, [16] loan write-offs, etc. [17]

In fact detailed analysis demonstrates that factors such as: (1) higher deletions/write offs during FY02 compared to FY01, (2) shifting of Rs 22.1 billion loans from the schedule banks to government liability, (3) ban on credit extension to PSEs and Autonomous bodies in March 2002, and (4) larger disbursement of fresh loans during the year, taken together, provide a more comprehensive picture than the reported (lower) net credit demand figures.

Thus, in order to more correctly assess the net credit picture, the subsequent analysis is based on the credit adjustment for the first two factors as well as the impact of mergers, for both FY01 and FY02. The adjusted figures show that FY02 net credit off-take was practically unchanged from that in FY01 (see **Table 6.3**).

Table 6.3: Adjusted - Net Credit by Scheduled Banks (Flows)

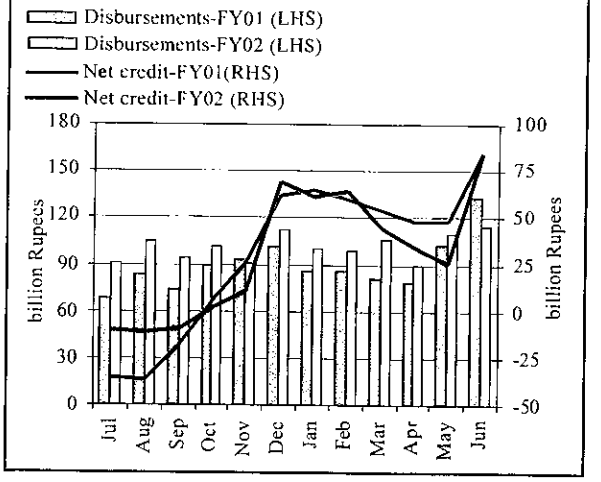
billion Rupees

	FY01	FY02
Net credit (banks balance sheets)	66.9	41.7
Adjustment for deletions/write-offs (+)	17.9	39.9
Adjustment for KESC (+)	0.0	22.1
Adjustment for NDFC and Al-Faysal Inv. bank[18] (-)	0.0	19.8
Adjusted net credit	**84.8**	**83.9**

Source: Banking Supervision Department, SBP

The availability of *funds* to the non-government sector looks even better; the Rs 17.2 billion in incremental FY02 tax refunds would have obviously depressed credit demand from banks accordingly. It is also worth noting that only a part of the rupee injection made through net SBP kerb forex purchases was captured by the banking system, as evident in the sharp rise in currency in circulation. A portion of the latter balances could have also helped finance business activity, reducing the need for credit from banks.

Figure 6.7: Cumulative Flows in Net Credit & Monthly Disbursements



It is important to note that cumulative net credit (adjusted) started picking up late in FY02 compared to FY01 (see **Figure 6.7**). This subdued growth till the end of Q1-FY02 may be explained by: (1) higher retirement due to larger credit extension in FY01over FY00, (2) decline in credit under EFS, and (3) the immediate impact of uncertain conditions after 9/11. It is generally observed that higher credit extension in a fiscal year results in higher retirement in the proceeding one. Accordingly, the nominal growth in net credit during Q1-FY02 *despite* significantly higher gross disbursement probably also reflected this phenomenon. Finally, Q1-FY02 posted a net contraction of Rs 12.1 billion in EFS credit against an expansion of Rs 1.2 billion in the corresponding period a year

[16] During FY02, CBR refunds were Rs 79.3 billion against Rs 62.1 billion recorded during FY01.

[17] Net credit extension is being computed by taking the difference of outstanding advances at different point of time. Given the fact that fresh disbursement and repayment are not the exhaustive factors responsible for changing outstanding credit (stock), sometimes it might be misleading.

[18] NDFC was merged with NBP at the end of November 01, while Al-Faysal Investment bank merged with Faysal Commercial banks w.e.f. January 01, 2002.

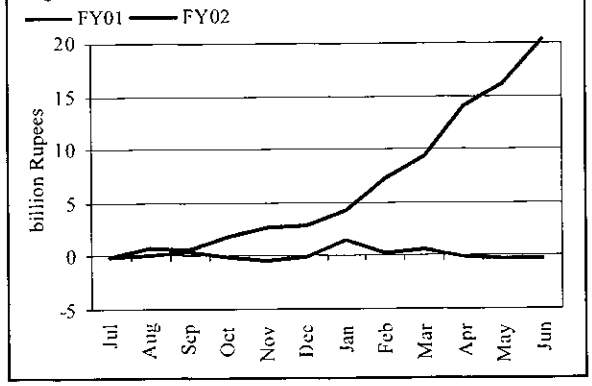
earlier.[19]

Thereafter, net credit off-take reflected normal seasonal demand trends. The incredible increase of Rs 58.2 billion in net credit during December 2001 is of particular interest though as: (1) all banks participated in the rise, and (2) weighted average lending rates were at a low during this period.

The subsequent decline in net credit appears seasonal, but it too incorporates interesting developments. First, a prosaic explanation for the unusually sharp fall in net credit in April-May 2002 could be that the bar on incremental bank financing for PSEs and autonomous bodies in March 2002 held down the net credit extension in the period.[20]

More interesting however is the spectacular growth in foreign currency denominated loans in the latter half of FY02 (see **Figure 6.8**).[21] These loans began rising gradually, in line with increasing expectations of a stable (or appreciating) Rupee, as the forex loans were extremely attractive in the absence of the exchange rate risk, with nominal interest rates ranging from 2-5 percent compared to much higher Rupee lending rates.[22]

Figure 6.8 : Lending in Foreign Currency



Not surprisingly, by end-June 2002, the outstanding forex loans totaled Rs 20.3 billion in Rupee terms. To put this into perspective, this is approximately 25 percent of the total adjusted net credit growth during the year.

A look at the performance of the banks by segments also provides interesting insights given their differing credit cycles. It appears that NCBs and privatized banks mainly finance the activities that follow a seasonal pattern; their net credit starts picking up in September, peaks in December and then follows a declining trend. On the other hand, private and foreign banks primarily finance trade related activities (their comparatively higher shares in EFS also support this view) that continue through the year.

During the first five months of H1-FY02, nationalized banks posted an exception to the declining trend in overall net credit. On the other hand, while net credit by privatized banks started increasing only from the beginning of Q2-FY02 (see **Figure 6.9**), their cumulative figure for H1-FY02 remained negative. It is important to note that in this period privatized banks saw low deposit growth.

Table 6.4: Net Credit by Scheduled Banks (Flows)

billion Rupees

	Actual		Adjusted	
	FY01	FY02	FY01	FY02
Nationalized banks	29.7	9.2	30.9	33.7
Privatized banks	0.7	-10.2	5.9	-3.4
Private banks	26.0	40.2	27.0	36.3
Foreign banks	8.8	-5.6	9.8	-1.7
Specialized banks	1.7	8.1	11.2	19.0
Total	66.9	41.7	84.8	83.9

Source: Banking Supervision Department, SBP

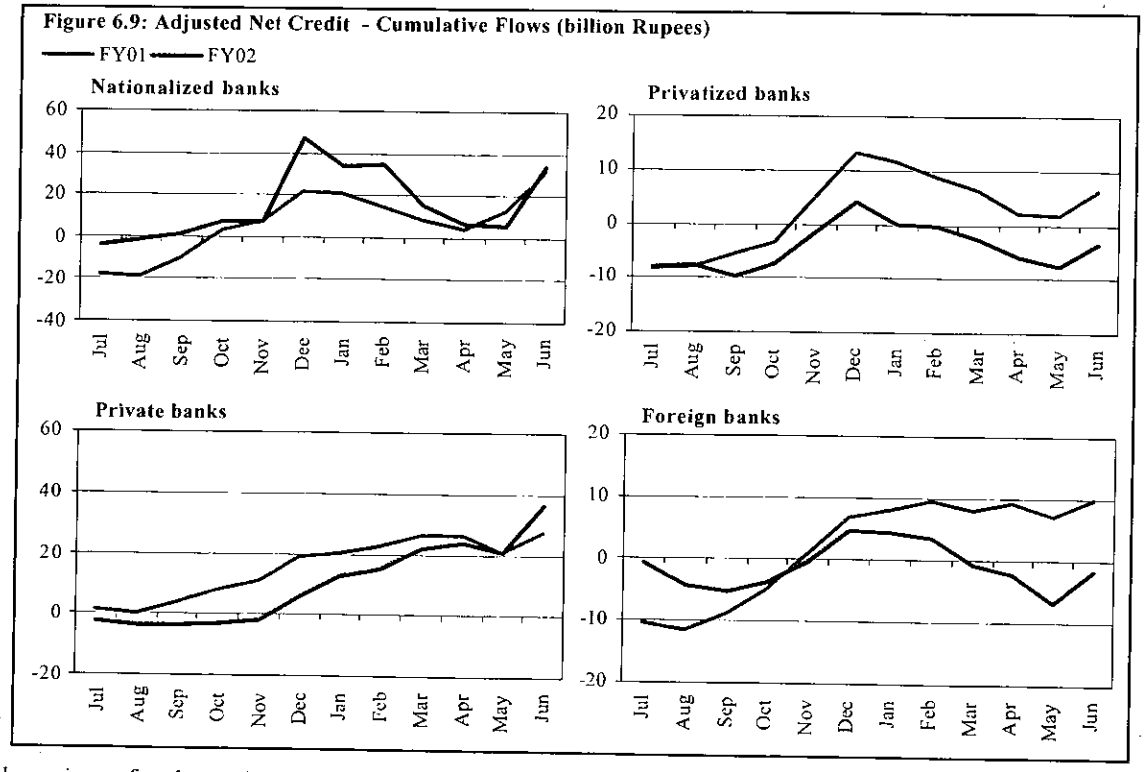
Both, nationalized and privatized, banks saw a sharp upsurge in net credit during December 2001, though this was much steeper for the former. The

[19] This was primarily because of a SBP decision to make grey/blended fabric and cotton yarn ineligible for concessional (EFS) financing. These had accounted for approximately Rs 12 billion in EFS credit over the last 2 years.

[20] See **section 5.5 & 5.6** for details.

[21] It has been decided that while computing the 20 percent cap on FE-25 deposits against local currency deposits, the amount in FE-25 deposits utilized for financing trade related activities will be netted-off.

[22] The weighted average rates on Rupee lending were 12.0 percent at end-June 2002.



large jump for the nationalized banks may be linked to a 146 basis point decline in their weighted average lending rates and their larger share in incremental deposits mobilized by the banking sector. During H2-FY02, though the net credit of nationalized and privatized banks followed seasonal declines till May 2002, but this was much sharper than the previous year, probably due to the restrictions on financing of PSEs and autonomous bodies. Nevertheless, NCBs managed to end the year with slightly higher increase in net credit during FY02 over previous year. Privatized banks on the other hand, recorded a negative growth (see **Table 6.4**).

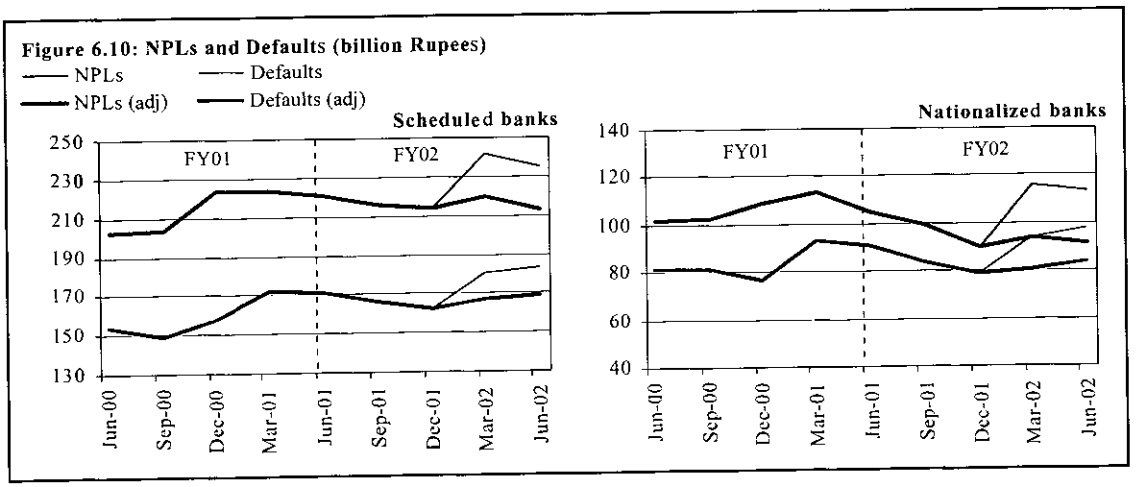
The net credit growth of private banks in FY02 depicted a behavior at variance from that of the overall banking industry (see **Figure 6.9**).[23] The decline in EFS credit appears to be the prime reason for their negative credit extension during the first five month of FY02, and the subsequent improvement appears to reflect their greater participation in foreign currency lending.

Finally, foreign banks largely failed to expand their credit during FY02, and particularly the sharp fall in H2FY02 appears to reflect a depleting deposit base.

6.3.3 Non-performing Loans

The declining trend in NPLs that started after Q3-FY01, was sustained during the current year, but this becomes visible only after adjusting for a one-off jump in February 2002 (see **Figure 6.10**).[24] Defaulted loans (a sub-set of NPLs) followed the same trend-line until H1-FY02, but thereafter saw a slight upward drift.

[23] Except the sharp increase in credit during the end months of both H1 and H2-FY02.
[24] The spike during Q3-FY02 (see **Figure 6.8**) was not because of banks themselves, rather this was due to shifting of bad loans of NDFC to National Bank of Pakistan Although NDFC's accounts were merged with those of NBP during November, but its bad loans were transferred in the third quarter.

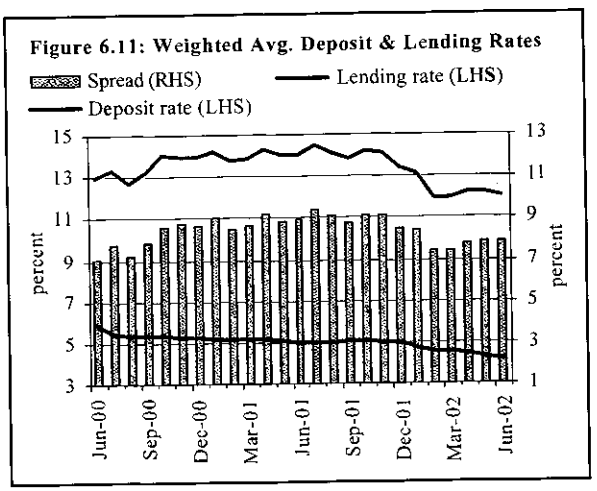


Although the increase in defaulted loans is not a welcome sign, indicating that at least some NPLs had worsened, the continuing overall decline in NPLs is unambiguously positive, suggesting that banks incremental loan portfolio has fewer problems.[25]

The two prime factors were responsible for this improvement:

- Fresh loans were being made in prudently. In FY02, Rs 73.2 billion were new additions against Rs 88.2 billion of previous year.
- Cash recoveries were higher in FY02. Specifically, Rs 33.7 billion were recovered during the year against Rs 30.4 billion in FY01.

Particularly heartening to note is the sharp decline in NPLs of nationalized banks, which was partially driven by the transfer of bad loans to the CIRC. As the share of these banks is very high in total bad loans of scheduled banks, an improvement in this segment was badly needed. The slower decline in the NPLs for the banking sector as a whole reflects the deteriorating portfolios of specialized and few small banks in private sector.



6.3.4 Banking Spread

The easing of monetary policy during FY02 did trickle down to the lending and deposit rates of banks, but largely during H2FY02.

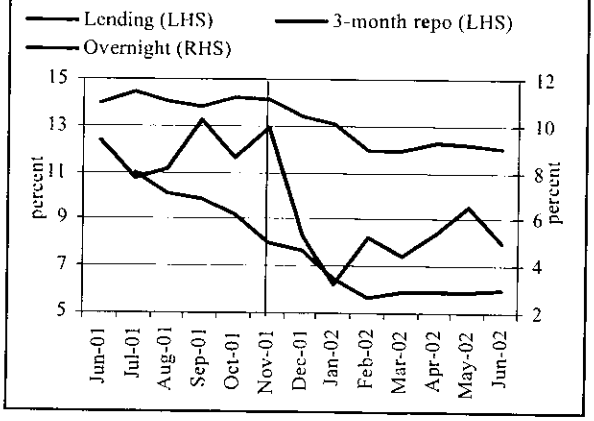
Also, the weighted average lending rates saw a larger decline compared to that of the weighted average deposits rate. As a result, the banking spread narrowed by 111 basis points to 7.9 percent (see **Figure 6.11**).[26]

[25] Since by definition NPL means the whole outstanding amount of loans and advances the payment of which (interest or principal) is over due by 90 days, its downward trend is a healthier note. Similarly, if defaulted loans (that portion of NPLs which is overdue by 365 days or more) are increasing it means that these are former NPLs that are now being converted into default and are not the current year's setback.

[26] It may be noted that weighted average lending rates are calculated on monthly disbursements and do not include the credit disbursements in foreign currency. As the rates on foreign currency loans are significantly lower (ranging between 2 to 5 percent) compared to lending rates on local currency, the headline figures of weighted average lending rates have an upward bias. Unfortunately, data constrains do not permit a very accurate estimate of this impact. However, if the monthly changes

This decline in spread became possible because of: (1) a cut in the tax rate to 50 percent with effect from July 2001, from 58 percent a year earlier;[27] (2) a fall in non-performing loans; (3) a relatively liquid interbank market and low reliance on costly borrowing (compared to the pervious two years) due to the phenomenal growth in deposits; and 4) a downward revision of EFS rates by 600 basis points.[28]

Figure 6.12: Weighted Average Lending and Overnight Rates



As depicted in **Figure 6.12**, the weighted average lending rate declined primarily after November 2001, even though the discount rate, and the benchmark T-bill yield, had dropped sharply much earlier.[29]

A factor in this could have been liquidity problems in the interbank market, as suggested by high overnight call rates until November 2001. This argument is supported by the fact that bank deposit growth accelerated only *after* October 2001.

Table 6.5: Financial Indicators of Scheduled Banks

percent

	CY97	CY98	CY99	CY00	CY01
Capital adequacy					
Risk-weighted assets to total assets ratio	43.5	42.9	44.5	43.7	42.7
Capital to risk-weighted assets (CRWA) ratio	4.5	10.9	10.9	9.7	8.8
No. of bank below 8 percent CRWA (in numbers)	7	2	3	5	5
NPLs to risk-based capital (Tier 1+ 2)	326.2	104.5	148.4	140.4	152.4
Credit risk - asset quality					
Gross NPLs to gross advances ratio	23.5	23.1	25.9	23.5	23.5
Net NPLs to net advances ratio	14.1	11.1	15.3	12.2	11.4
Provisioning held to gross NPLs ratio	46.6	58.6	48.6	55.0	56.2
Earnings and profitability					
Pre-provision profit to average assets ratio	0.6	1.3	1.0	1.1	1.3
Return on assets (ROA)	-1.2	-0.1	-0.2	-0.2	-0.5
Net interest margins (NIM)	2.8	3.7	3.3	3.5	4.3
Liquidity risk					
Liquid assets to total assets ratio	39.5	39.7	36.8	36.0	38.8
Advances to deposit ratio	57.6	56.6	62.0	66.2	61.7
Liquid assets to borrowing ratio	383.3	366.8	280.0	242.8	283.1

Source: Banking Supervision Department, SBP

in the stock of outstanding foreign currency credit is taken as a proxy of disbursement, the weighted average lending rate declines by approximately 25 basis points.

[27] Tax rate was further brought down to 47 percent from July 2002.

[28] For a detailed analysis on how the non-performing loans, share of subsidized credit (like EFS) and advance tax problem may contribute towards higher banking spread see **Special Section 6.1**.

[29] During July to October 2001, three gradual cuts brought down SBP Repo rate to 10 percent from 14 percent at the end of FY01.

6.4 Financial Performance of Scheduled Banking During CY01

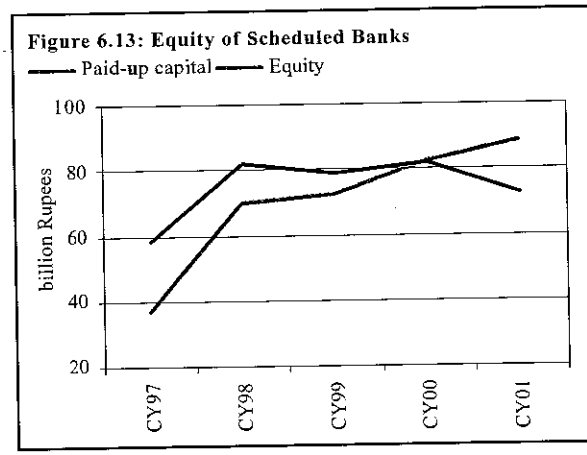
The following section will analyze the financial health of the banking sector during CY01. The data and findings of this section differ from those in the earlier sections mainly due to three reasons. First, the data in this section is based on annual audited balance sheets of banks at their end financial year (December) and covers the global operations of banks, while data in last section pertained to domestic operations only. Second, the analysis here is based on calendar year while the objective of earlier section was to cover developments during FY02 following the overall structure of the report. Third, the segmentation of the banks in this section is different from **Section 6.3**. The Bank-wise list in their respective grouping of this section is given in the **Statistical Annexure 6.12**.

On a December-to-December basis, banking sector continued to grow during CY01. Net assets (net of provision) of the overall banking industry registered an increase of 7.3 percent over last year to Rs 1939.6 billion, which was funded entirely through a surge in the deposit base that saved banks from resorting to expensive borrowings.[30] While this enabled most banks to improve profitability, many others, especially public sector banks, remained burdened by hefty provisioning requirements. In fact, the aggregate losses of the two public sector banks outweighed the aggregate profitability of the other banks. As a result, the financial indicators of profitability and capital adequacy of the overall banking industry deteriorated. However, appropriate provisioning, deletions & write-offs, and effective recovery drives, improved the asset quality of banks (see **Table 6.5**).

6.4.1 Capital Adequacy

The deadline for banks to meet the first phase of enhanced capital requirements was end-CY01 (banks had been directed to raise their respective paid-up capital - net of losses - to Rs 750 million).[31] Developments on this front show a mixed picture. Twelve out of total 43 banks have not achieved the target of which half have been exempted, and for the other half, deadline has been extended. Nevertheless, the paid-up capital of the banking sector witnessed an increase of Rs 6.2 billion (7.5 percent) during CY01 over the previous year (see **Figure 6.13**). Most banks issued both, right and bonus shares, to meet the requirement. It may be noted that aggregate paid-up capital also increased in FY01, but this was primarily because of a capital injections of Rs 8.0 billion by SBP in *one* of the public sector banks.

Figure 6.13: Equity of Scheduled Banks



Despite a modest increase in aggregate paid-up capital, the total equity of the banking industry declined by Rs 9.2 billion (11.2 percent) over last year (see **Figure 6.13**). This fall primarily stems from losses suffered by two public sector banks due to substantial provisioning against the large historic stock of un-provisioned non-performing assets. While the increase in the aggregate provisioning is a positive for the risk profile of the banking sector, it also leads to deterioration in the capital adequacy indicators, as visible in the CY01 data (see **Table 6.5**).

The SBP requires banks operating in Pakistan to maintain the risk-based capital at not less than 8 percent of risk-weighted assets, in accordance with BASEL committee recommendations and in line

[30] For example, during CY00 weak deposits growth had forced banks to fund their asset through a 23.1 percent rise in borrowings.

[31] In the second phase banks have to meet Rs 1.0 billion paid-up capital requirement by the end of December 2002, otherwise they will stand as non-schedule banks for detail see BSD circular No. 31 dated December 6, 2000.

with international practice. Despite a CY01 deterioration, on aggregate, the capital to risk-weighted assets ratio (CRWA) remained above this benchmark (see **Table 6.5**). However, if public sector banks are excluded, the figures see an improvement, since the entire decline this year is attributable to them. In fact, the ratio for the public banks has already gone below the 8 percent level in CY00, and it slipped further in CY01 (see **Table 6.6**).[32] This was largely due to *one* of the NCBs that had a substantial shortfall in equity in CY01, which was subsequently covered through capital injections by SBP.

Table 6.6: Capital Adequacy

percent

	CY00	CY01
Capital to risk-weighted assets (CRWA)		
Public sector banks	7.4	5.1
Private domestic banks	9.2	9.5
Foreign banks	18.0	18.6
Net NPLs to risk-based capital (Tier 1+ 2)		
Public sector banks	259.9	374.9
Private domestic banks	120.9	111.1
Foreign banks	9.2	6.1

Source: Banking Supervision Department, SBP

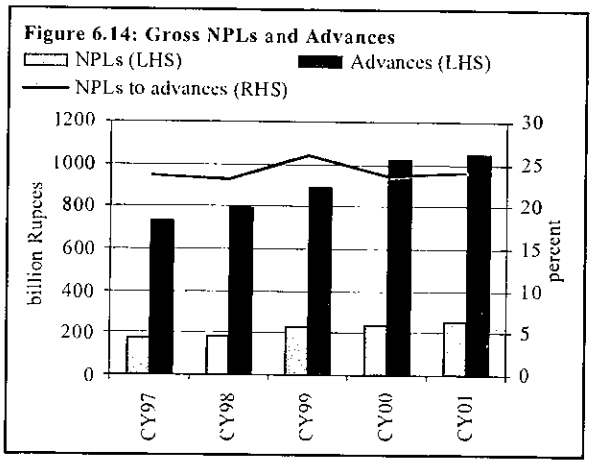
Nevertheless, still there is a need to improve the capital base of banks. A NPLs to capital ratio of over a hundred percent is still a serious threat to the equity of banks. Efforts are going on in this direction: banks are passing through the second phase of capital enhancement and several steps have been taken to deal with chronic NPLs.

6.4.2 Credit Risk – Asset Quality

The large stock of non-performing loans of banks (primarily of public sector banks) is the biggest drag on their performance. On the one hand, banks are not earning any income on these assets, and on the other hand, provisioning against such loans is reducing profitability. Thus, dealing with bad loans has remained an priority in the on- going reforms process. To address this problem, several measures were taken, which included recovery drives, different incentive schemes and the establishment of CIRC. Though the stock of non-performing loans of the banking system is still very high, their pace has slowed down. It is essential to mention that NPLs in this section pertain to banks global operations, hence may differ from that given in **Section 6.3.3** against domestic operations only. Furthermore, figures and analysis here are based on annual audited balance sheets of banks at end December, while the earlier section extended the discussion till end FY02.

Comparing the end December NPLs in 2001 and 2000 reveals an apparent deterioration of assets portfolio. Specifically, the non-performing loans of the overall banking system surged by 5.2 percent over the last year. However, the figures need adjustments on two counts: (1) the merger of NDFC (a non-bank financial institution) with the NBP[33] shifted bad loans of former to the banking sector; (2) the transfer of operations of UK branches of some of the banks to their newly established subsidiaries. The merger of NDFC with the NBP resulted in amassing another Rs 13.6 billion to the stock of NPLs of the banking system, whereas transfer of UK branches operations contributed around Rs 6.5 billion. Adjusted figures exhibited a comparatively subdued

Figure 6.14: Gross NPLs and Advances



[32] Total equity of private and foreign banks has gone up by 22.3 percent and 10.1 percent respectively.

[33] It may be noted that in monthly data, NPLs of NDFC were included in February 2002, while it has been there in audited (at December 2001) balance sheet of NBP.

increase of 2.2 percent against much higher growths of 4.0 percent and 26.1 percent in CY99 and CY00 respectively.

It is important to see the growth in NPLs in relation with that of advances. In CY01, the gross NPLs to advances ratio of the banking industry remained almost unchanged at the CY00 level (see **Figure 6.14**). Net NPLs to net advances ratio improved in CY01. A group-wise analysis reveals that public sector and foreign banks were better off whereas domestic private banks saw little change (see **Table 6.7**). Seen at a bank-wise level, the median value of this ratio came down in 2001 compared to the previous year. More specifically, 50 percent of total banks had net NPLs to net advance ratio either at 8.4 percent or below in 2001 against 9.5 percent a year earlier.

Table 6.7: Asset Quality

percent

	CY00	CY01
Net NPLs to net advances		
Public sector banks	16.1	14.8
Private domestic banks	10.3	10.4
Foreign banks	1.7	1.1
Provisioning held to gross NPLs		
Public sector banks	58.8	59.3
Private domestic banks	36.9	40.5
Foreign banks	65.9	74.1

Source: Banking Supervision Department, SBP

With the objective of strengthening the financial institutions, banks have been encouraged by SBP over last couple of years to make appropriate provisioning. The outturn of these efforts is not only increased absolute figures of provisioning but also its ratio to NPLs (see **Table 6.5**).

Analyzing the ageing of non-performing loans, it is apparent that major part fell in the loss category (especially for banks in public sector). As the future recovery of such long-outstanding loans appears unlikely, it may not be desirable for the banks to carry forward these on their balance sheets particularly when they hold provisions there against. Write-offs will not only improve the balance sheets of the banks but also lead them to focus more on fresh lending. SBP has recently issued guidelines to this effect, which will help the banks to clean up their balance sheets by writing off such un-collectible loans.

6.4.3 Earnings and Profitability

Higher provisioning dragged down the profitability of the whole banking sector in CY01. During the year around 12.0 percent of total income was eaten up by provisions as compared to 8.3 percent last year. Overall, banks' aggregate pre-tax profit recorded a sharp fall to Rs 1.1 billion against Rs 4.5 billion of previous year. After tax profit portrayed a more dismal picture, as banking industry suffered huge losses of Rs 9.8 billion during CY01 against losing Rs 2.8 billion in previous year. However, this deterioration was not broad based. The hefty losses sustained by two public sector banks, primarily because of massive provisioning against their NPLs, turned the whole sector in red. If adjustment is made for the two banks the profitability of the banking sector shows a remarkable improvement during CY01. This could be seen with Rs 7.1 billion after tax profit during current year compared to Rs 2.8 billion losses of CY00.

Table 6.8: Earnings and Profitability

percent

	CY00	CY01
Return on assets (ROA)		
Public sector banks	-0.1	-1.4
Private domestic banks	-0.7	0.4
Foreign banks	0.6	0.8
Net interest margins (NIM)		
Public sector banks	3.6	4.6
Private domestic banks	3.4	4.3
Foreign banks	3.2	3.3

Souree: Banking Supervision Department, SBP

Domestic private banks made a significant break-through by registering a *pre* and *post* tax profits of Rs 5.0 billion and Rs 2.0 billion, respectively (see **Table 6.8**). This was in sharp contrast to previous

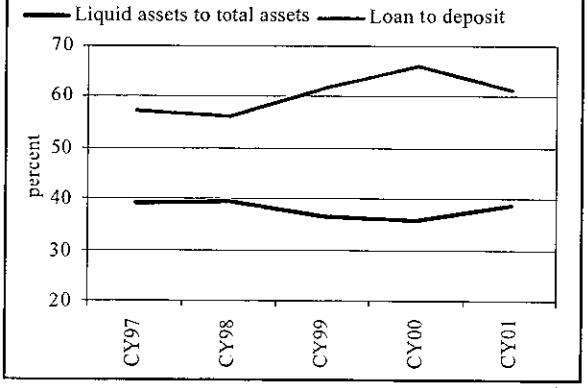
year, when this group recorded a pre-tax loss of Rs 0.6 billion that turnout to Rs 3.5 billion after deducting the tax amount. Foreign Banks faced problems during second half of CY01, but still managed to improve after tax profits to Rs 2.4 billion against Rs 1.4 billion earned in CY00. Though most of public sector banks (six out of nine) substantially increased their profits in CY01, exceptionally large losses suffered by two banks in the group dragged the profitability of whole sector into losses. As discussed earlier losses were mainly because of higher provisioning by these banks.

Higher profit earned by most of the banks during CY01 was primarily driven by higher net interest income. For the overall banking system, this rose to Rs 63.4 billion in CY01 from 46.5 billion of last year. On the expenditure side, re-profiling of the funds helped the banks in maintain the interest expenses for CY01 almost at the preceding year's level, despite a substantial increase in deposits. This was made possible because of increased share of deposits in current and saving categories (relatively cheap) during CY01, consequently the share of term-deposits has gone down. In addition, given the exceptional deposit growth, especially in local currency, banks resorted less to borrowings in CY01. On the other side increase in interest income, primarily on account of growing volume of earning assets also played important role in raising net interest income and the net interest margin (see **Table 6.5**).

6.4.4 Liquidity Risk

Calendar year 2001 ended with ample liquidity in the interbank market. This was in sharp contrast to the previous year when banks faced one of the most severe liquidity shortages in the banking history of Pakistan and overnight rates skyrocketed. Although the banks were indeed struggling to replenish their deposit base (especially in local currency), the CY00 turnout was primarily triggered by SBP efforts to meet tough NDA targets for end-December 2000. In CY01, both of the above problems were absent; the remarkable surge in deposits towards the end of CY01 significantly improved liquidity positions of banks, and developments on the external account in the aftermath of 9/11 made the end period NDA target much easier (for detail see **Chapter 5** on **Money and Credit**). As a result, all the liquidity indicators showed improvement during CY01, and the declining trend in the liquid assets to total assets ratio, visible since 1998, was reversed (see **Figure 6.15**).

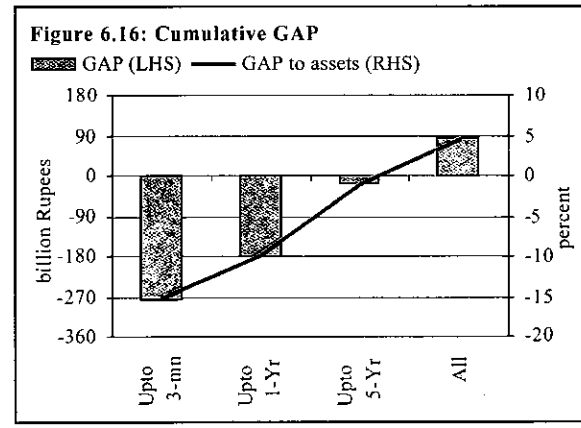
Figure 6.15: Liquidity Indicators



The improvement in liquidity can also be seen through the fall in the loan to deposit ratio. Significantly higher growth in deposits compared to advances was the prime factor behind decline in loan to deposit ratio during current year. Given the excess liquidity that was available during the closing months of the CY01, interbank borrowing was expected to go down; it did, but only by 2.0 billion. This, while surprising, is attributed to foreign banks' appetite for funds, on the back of their depleting deposit base during the second half of CY01 (see **Section 6.3.1**). A good part of the increase in foreign banks asset came from borrowings that went up by Rs 17.0 billion or 30.0 percent over the year. On the other hand, other groups were improving as evident from rising liquid assets to borrowing ratio.

Notwithstanding the above positive developments, the maturity profile of assets and liabilities showed considerable mismatches in shorter period of time (up to three-months). More specifically, the liabilities maturing within three-months period significantly exceeded the maturing assets in this period by Rs 132.1 billion. This, however, is understandable, as with the expectations of further fall

in interest rates on government securities banks naturally preferred to book their assets into longer-term maturities (for detail see section on **Money Market**).



6.4.5 Market Risk

Equity risk is not significant for banks simply because of the very small share it occupies in the investment portfolio as well as in total assets of the banks. However, banks are facing interest rate risk. The gap profile reveals that the rate sensitive assets and liabilities of the banking system, maturing within a three months time frame have a negative gap of Rs 277.6 billion or 14.3 percent of the total assets (see **Figure 6.16**). Having negative gap in the nearest bucket is natural in the declining interest rate scenario, as it would have a salutary impact on the earnings of the banking system. The standalone as well as cumulative gaps, as percentage of total assets, however, are within the internationally accepted limits of $\pm$10 percent in all the buckets, except up to three months time frame wherein the exposure is slightly above the acceptable limit.

The group-wise position shows that the interest rate exposure of public sector banks up to three months at negative 23.5 percent and up to one year at negative 14.1 percent exceeds the normal limit. The exposure of other two groups remained within the limit of $\pm$10 percent in all buckets.

Special Section 6.1: Long-run Dynamics of Interest Rate Spread and Banking Efficiency in Pakistan

The prime objective of the financial sector reforms, that started in late 1980s, was improving the efficiency of the financial sector.[34] Given the significantly higher share of banks in overall financial system of Pakistan,[35] efficiency of financial sector can hardly be achieved without its prior accomplishing for banks. The gap between lending and deposits rates (banking spread) is generally being used as a proxy of intermediation cost and hence its lower value is usually interpreted as improvement in banking efficiency. Contrary to the expected results of structural reforms, the actual data showed that the banking spread has almost doubled during the 1990s.[36]

Figure 1: Weighted Avg. Lending and Deposit Rates

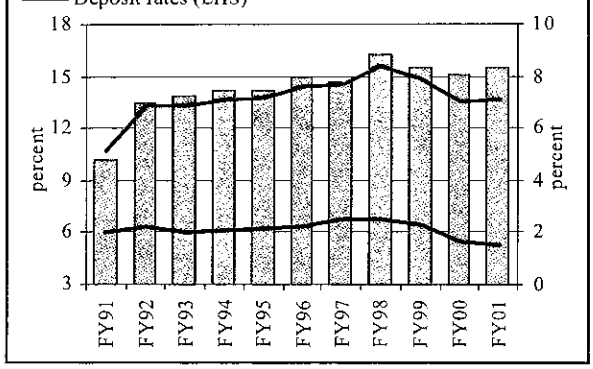
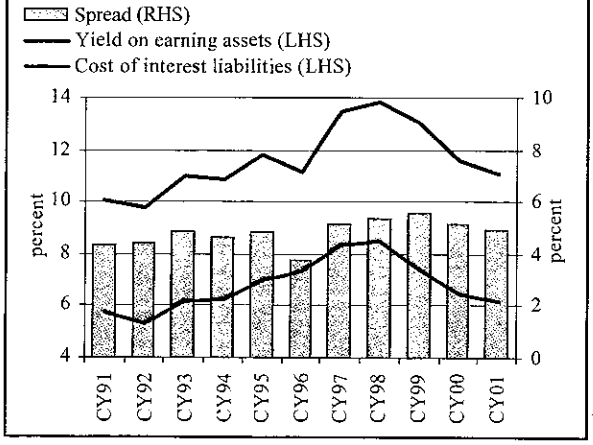


Figure 2: Interest Rate Spread



Specifically, the gap between weighted average lending and deposit rates has widened from 4.8 percent in June 91 to 8.3 percent at the end of FY01 (see **Figure 1**).[37] This widening of spread is often cited to conclude that the reforms were a failure. However, this is not a correct interpretation.

The increase in banking spread should be interpreted with caution, as in the pre-reform period, interest rates were controlled from both ends, with floors on deposit rates and ceilings on lending rates. Their widening after the reforms partially indicated the change from a repressed to a liberalized interest rate regime. Moreover, it is important to note that the banking spread might not be a good indicator for gauging the efficiency of the banking system, as it does not cover all the interest earning and interest paying activities of banks. The interest rate spread (a broader definition) may be used as a better alternative for this purpose.[38] As shown in **Figure 2**, the

[34] See "**Pakistan: Financial Sector Assessment 1990-2000**", Research Department, State Bank of Pakistan, 2002, for a comprehensive discussion on financial sector reforms and their impact.

[35] As on December 2000, banking sector held around 63 percent of total financial sector assets.

[36] Data on weighted average lending and deposit rates used here differs from that of the banking chapter. This is because lending rates in this section are calculated on net advances while those reported in chapter 5 are calculated on actual disbursements. In addition, deposit rates here are based on scheme-wise 6-monthly rates, while those in chapter 5 are based on rate-wise monthly data. As Statistic Department of SBP has recently adopted the methodology of computing lending rates on disbursement and deposit rates on rate-wise basis, it was not possible to use the same definition in both sections. Data for FY02 is not available yet on the methodology used in this section.

[37] The sharp increase in banking spread from 4.8 percent in FY91 to 6.9 percent in FY92 was mainly because of change in methodology for calculating weighted average lending rates by Statistics Department. Hence, FY92 should be taken as starting point for comparison.

[38] Interest rate spread = (Interest income / earning assets) – (interest expense / interest paying liabilities), where advances, investment and money at call are taken as earning assets, while deposits and borrowings are taken as interest paying liabilities.

interest rate spread also increased during the 1990s (from 4.0 percent in 1991 to 4.9 percent in 2001), but this increase was much lower than the widening of the banking spread.[39]

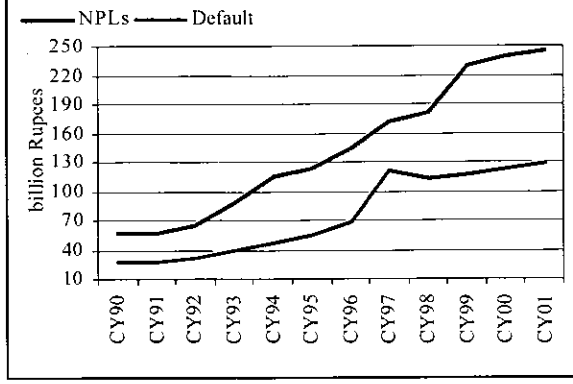
As a matter of fact, the higher intermediation cost by nationalized banks, given their size in the banking industry, is creating an upward bias in the cost structure of overall banking business in Pakistan.[40] It is generally believed that the large operating cost for this group is mainly attributed to their huge infected portfolio, overstaffing and over branching, and disproportionate tax burden.

The discussion that follows endeavors to explain the dynamics of the banking spread during the last decade. It is essential to mention that the purpose of this discussion is *not* to identify reasons for the higher spread in a static setting, but to analyze the factors responsible for increasing it in the changing scenario. More specifically, the following sections will highlight how bad loans, advance taxes on banks, and a decreasing share of concessional lending, affected the banking spread, over time.

Non-performing and Defaulted Loans

Over time, rising non-performing and defaulted loans usually result in increased intermediation costs for banks.[41] This is because infected loans not only constrain the earning opportunities, but resulting provisionings also increase the operating expenses.[42] Hence, this situation compels banks to increase the spread further to maintain profitability.

Figure 3: NPLs and Defaulted Loans



As shown in **Figure 3**, both NPLs and defaulted loans depict a rising trend during the 1990s. It is important to note that Nationalized Commercial Banks (NCBs) were the biggest contributors to both, the stock and growth, of bad loans of the banking industry.[43] This is primarily because substantial loans were provided by NCBs on political grounds. In addition, stricter disclosure requirements put in place by SBP forced banks to disclose a truer picture of accumulated bad loans, pushing up the aggregate figure. This alone resulted in considerable rise in NPLs during the 1990s, and especially in CY99. Not surprisingly, this would have added to pressure on profitability during the period, leading to larger spreads.

Another major factor that contributed towards the high spread was the ageing of bad loans that further deteriorated the balance sheets of banks.[44] Despite provisioning, banks (especially NCBs) had not been able to clean their balance sheets, mainly due to poor quality of underlying collateral and possible legal complications due to lacunas in the respective judicial framework. In order to remove the legal difficulties and time delays faced by banks in recoveries against defaulted loans, the Financial Institutions (Recovery of Finance) Ordinance, 2001 has been promulgated. This will help

[39] Calculation of interest rate spread is based on the data from audited balance sheets of banks, as financial year of banks end at end December, Calendar Year (CY) are used instead of Fiscal Year (FY).
[40] As on December 2001, Nationalized banks shared 52.9 percent in the total assets of banking industry.
[41] *Default* is the subset of non-performing loans. It refers to that portion of the *NPLs* which is overdue by 365 days or more.
[42] Provisioning is treated as an operating expense in the profit and loss statement.
[43] As on December 2001, Nationalized banks shared around 50 percent in the total NPLs of the banking system.
[44] Amount of provisioning depends on ageing of the NPLs, like for first category of NPLs (OAEM) where mark-up/interest or principal is overdue by 90 days from the due date, no provisioning is required. On the other hand for loans where markup/interest or principal is overdue by 3 years, 100 percent provisioning is required, see BPRD Circular No. 9 dated April 27, 2000 for details.

banks in recovering the stuck up loans by the right foreclosure and sale of mortgaged property with or without intervention of courts.

Problem of Advance Taxes

Banking is a heavily taxed industry in Pakistan. While the tax rate on banks has been gradually brought down from 66 percent at the beginning of 1990s to 47.0 percent by July 2002,[45] it is still high compared to that in regional countries, such as 40 percent in Bangladesh and 36.0 percent in Sri Lanka.

The declining tax rates during the 1990s should have helped banks to maintain after tax profits by operating at relatively lower interest rate margins. However, even though the banking and interest rate spreads (see **Figure 1** and **2**) rose, the profitability of the banking industry fell during second half of the 1990s (see **Figure 4**). The contributory factor to this dismal performance was the problem of advance deduction of taxes.

More specifically, since (1) banks were paying 30.0 percent withholding tax on T-bills[46] and 10.0 percent on FIBs/PIBs, and (2) the bulk of the interbank transactions in T-bills, this created a substantial accumulation of advance tax payments.[47] It is important to note that the advance taxes not only reduced the after tax profit but also increase the non-earning assets of banks, forcing the institutions to increase their spreads to maintain profitability.

Figure 4: After Tax Profit

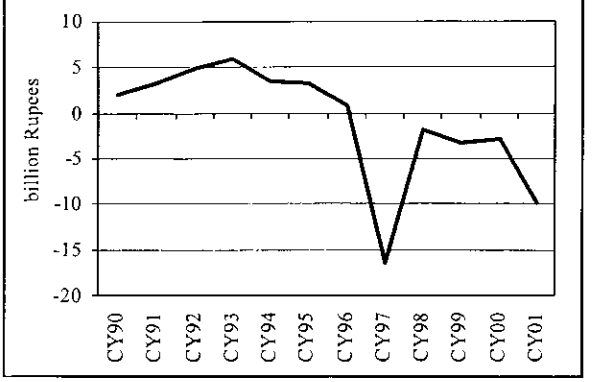
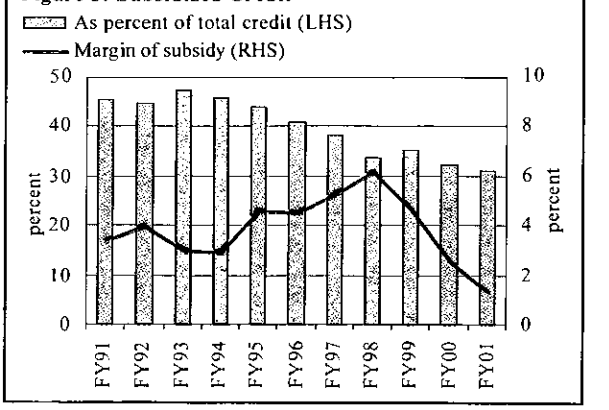


Figure 5: Subsidized Credit



This tax burden, computed by dividing the total tax paid by banks during 1990s with total profit of banking system, reached as high as 83.8 percent. It is essential to mention here, that this figure is a conservative estimate; for a better approximation one should also consider the opportunity cost of such unproductive tax assets. It is also important to note that this large tax burden was primarily because of nationalized banks; the tax paid by the other groups was close to their actual tax liability.[48] Realizing the severity of this problem, government had already taken a significant step by issuing PIBs worth Rs 22.0 billion to these banks against their tax adjustment receivables in June 2002. This will help not only in increasing the profitability of banks but also in lessening the spread in future.

[45] Banks faced tax rate of 64 percent since July 1994, cut to 62.0 percent w.e.f. July 1995, 60.0 percent from July 1996, and 58 percent since the beginning of FY99. With effect from July 2002, banks face 47.0 percent tax on their profit brought down from 50.0 percent a year earlier.

[46] This has been cut to 20 percent in July 2002

[47] Looking at all banks, the advance tax is as high as Rs 80 billion as of first week of December 2001, of which Rs 49.0 billion is for HBL, NBP and UBL together.

[48] During 1990s, actual tax burden calculated for Privatized, Private and foreign banks came out as 69.4 percent, 58 percent, and 63 percent, respectively. In the same period, Nationalized banks actually reported loss of Rs 7.0 billion, however, ended up paying Rs 8.1 billion as taxes.

Concessionary Credit Schemes

One may recall the fact that lending in Pakistan is not fully market-based. A large amount of credit has been extended under various concessionary and mandatory schemes, depriving the banks (generally higher) market-determined rates on their funds. The presence of subsidized credit has implications for the computation of weighted average lending rates, as the resulted figures may not reflect the true market rate and have downward bias. However, the share of this concessional credit in total credit has gone down substantially from 44.2 percent at the beginning of the 1990s to 31.0 at end June 01. Moreover, the subsidy margin has also declined significantly after FY98 (see **Figure 5**).[49] It is important to note that changes in both the share of concessional credit and margin of subsidy over time may alter the degree of downward bias in calculating the weighted average lending rates.

Table 1: Downward Bias in Lending Rates with Changing Share and Margin of Subsidy

percent	Symbol/Formula	Case 1		Case 2		Case 3	
		Period 1	Period 2	Period 1	Period 2	Period 1	Period 2
Market rate	A	16.0	16.0	16.0	16.0	16.0	16.0
Rate on subsidized scheme	B	14.0	14.0	14.0	15.0	14.0	15.0
Share of loan at market rate	C	50.0	60.0	50.0	50.0	50.0	60.0
Share of subsidized credit	D = 100-C	50.0	40.0	50.0	50.0	50.0	40.0
Weighted average rate	E = (AxC+BxD)/100	15.0	15.2	15.0	15.5	15.0	15.6
Downward bias	A-E	1.0	0.8	1.0	0.5	1.0	0.4

Case 1: Share of subsidized credit declines with the same margin of subsidy during period 1 and 2

Case 2: Margin of subsidy declines with the same share of subsidized credit during period 1 and 2

Case 3: Both share and margin of subsidy decline during period 1 and 2

The declining share of subsidized credit has the tendency to push up the weighted average lending rates over a period of time, even if the market rates are not increasing.[50] This would lead to the conclusion that a simple comparison of weighted average lending rates between two periods may not be advisable, as the weighted rates incorporating a larger share of subsidized credit would have a larger downward bias (see case 1 in **Table 1** for hypothetical examples). Another important dimension of concessional lending schemes that may influence the average lending rates over time, is the changes in margin of subsidy. A decline in margin may reduce the downward bias in calculating the weighted average lending rates (see case 2 in **Table 1**).

Hence, an adjustment is required in lending rates and spread for a meaningful comparison between two different points of time. As shown in **Table 2**, making the adjustments by excluding subsidized credit, spread has gone up by only 0.6 percentage points,[51] against 1.4 percentage point in overall lending rates (including both market-based and subsidized credit).

Conclusion

It is not advisable to use banking or interest rate spread alone to gauge the success of banking efficiency. A part of this increase in spread may be attributed to cost of reform process, as disclosure of true classification of loan quality and provisioning requirement under strict supervision by SBP added to the operating cost of banks. However, this has contributed positively towards the soundness

[49] Subsidy margin is calculated as the difference between weighted average lending rates on Non-subsidized schemes and that of subsidized schemes.

[50] This is because, amounts lent at different rates are used as weights and comparatively low share of subsidized credit means lower.
weight of loaning at subsidized (low) rates and results in relatively higher weighted average lending rates. However, these would be converging to market rates (see case 1 in **Table 1** for hypothetical example).

[51] Market rates are computed as

$$r_m = (r_o \times \text{total credit} - r_s \times \text{subsidized credit}) / (\text{total credit} - \text{subsidized credit})$$

where r_m = market rate, r_o = overall rates, and r_s = subsidized rates

Table 2: Weighted Average Rates of Return

percent

	Deposits	Lending			Banking spread	
		Overall	Subsidized	Market based	Overall	Market-based
FY92	6.4	13.3	10.4	14.5	6.9	8.1
FY93	6.1	13.3	12.2	13.7	7.2	7.6
FY94	6.2	13.7	13.0	13.9	7.5	7.7
FY95	6.3	13.7	13.4	13.8	7.5	7.6
FY96	6.4	14.4	13.6	14.4	7.9	8.0
FY97	6.8	14.6	12.8	15.0	7.8	8.2
FY98	6.8	15.6	11.4	16.8	8.8	10.0
FY99	6.5	14.8	11.0	16.1	8.3	9.6
FY00	5.5	13.5	11.2	14.2	8.1	8.7
FY01	5.3	13.6	12.3	13.9	8.3	8.7

Note: Subsidized and market rates are calculated weighted average rates on concessionary and non-concessionary lending respectively, while overall rates are on overall credit, same as published in SBP Banking Statistics.

of banking system, as earlier financial statements of banks were depicting better than their actual health. Hence, this higher spread may be treated as cost of this improvement. As discussed in **Section 6.3.3**, nationalized commercial banks in particular and the overall banking sector in general saw improvement in their asset quality. NPLs of the banking system are on downward trajectory since Q3-FY02 and banking spread has narrowed during FY02.

Similarly, efforts towards liberalization of interest rate structure as a part of reform process also contributed towards higher spread, earlier interest rates were controlled through floors on deposit rates and ceilings on lending rates. Moreover, decline in subsidized credit and subsidy margin overtime made the weighted average lending rate relatively closer to market rates, thus simple comparison at the beginning and end of 1990s are misleading.

Though the tax rate on the banking system was gradually brought down during last decade, but bank especially in public sector ended up paying huge amounts in the form of advance taxes. This was not only draining the after tax profit but also the future flow of income of these banks. This exogenous factor has contributed towards higher spreads and hence banks alone may not be held responsible for this. Ambitious tax revenue targets by IMF and limited option available to CBR may be a possible cause for this development. Banks saw some relief in this regard towards the end of FY02; Rs 22.0 billion PIBs have been issued to banks against their claims on CBR. This should help banks in narrowing down the spread further in coming months.

7 Capital Market

Karachi stock exchange remained the pre-eminent capital market in Pakistan during FY02, accounting for over 65 percent of the total shares traded, the majority of new equity (Initial Public Offerings) and the new listings of fixed income instruments in Pakistan.

7.1 Operations at Karachi Stock Exchange

FY02 was a relatively good year for the Karachi stock market, with the benchmark KSE-100 index recording a 29.5 percent rise, in sharp contrast to the 10.1 percent drop witnessed during the preceding fiscal year.

This performance, which appears to be underpinned by a steady improvement in economic fundamentals during the course of the year, is more impressive when viewed in the context of the various economic and non-economic shocks suffered by the country, as well as a number of disruptive market developments (see **Figure 7.1**).

Table7.1: Key Indicators of Capital Market

	FY00	FY01	FY02
Karachi Stock Exchange			
KSE-100 index	1,520.7	1,366.4	1,770.1
SBP General index of share prices[1]	128.8	89.7	106.7
Trading volume (billion numbers)	48.1	29.2	29.1
Paid up capital (billion Rupees)	229.3	239.9	260.6
Lahore Stock Exchange			
LSE-101 index	372.0	273.2	296.9
Trading volume (billion numbers)	16.4	7.8	18.3
Paid up capital (billion Rupees)	207.7	226.2	246.3
Islamabad Stock Exchange			
ISE-Network index	5,327.1	4,374.3	4,684.0
Trading volume (billion numbers)	2.0	0.7	1.7
Paid up capital (billion Rupees)	162.2	183.3	180.6
NBFIs			
Deposits (billion Rupees)	59.7	56.2	18.5
Disbursements (billion Rupees)	13.4	15.0	11.5
TFC's issued (numbers)	3	10	17

[1]: Base year FY01=100

In fact the year began on a negative note, as the downtrend evident during the concluding weeks of FY01 continued in early FY02 with the KSE-100 index shedding 60 points in the first week of July 2001. Factors instrumental to this fall included the continuing uncertainty regarding T+3 settlement system[1], and the crack down by National Accountability Bureau (NAB) on certain elements of the market in end-June 2001. While the market staged a partial recovery amidst mis-conceived hopes of a government-sponsored market fund, the uncertainty persisted, and from August till September 10, 2001 the index moved in a narrow range of 51 points with low volumes.

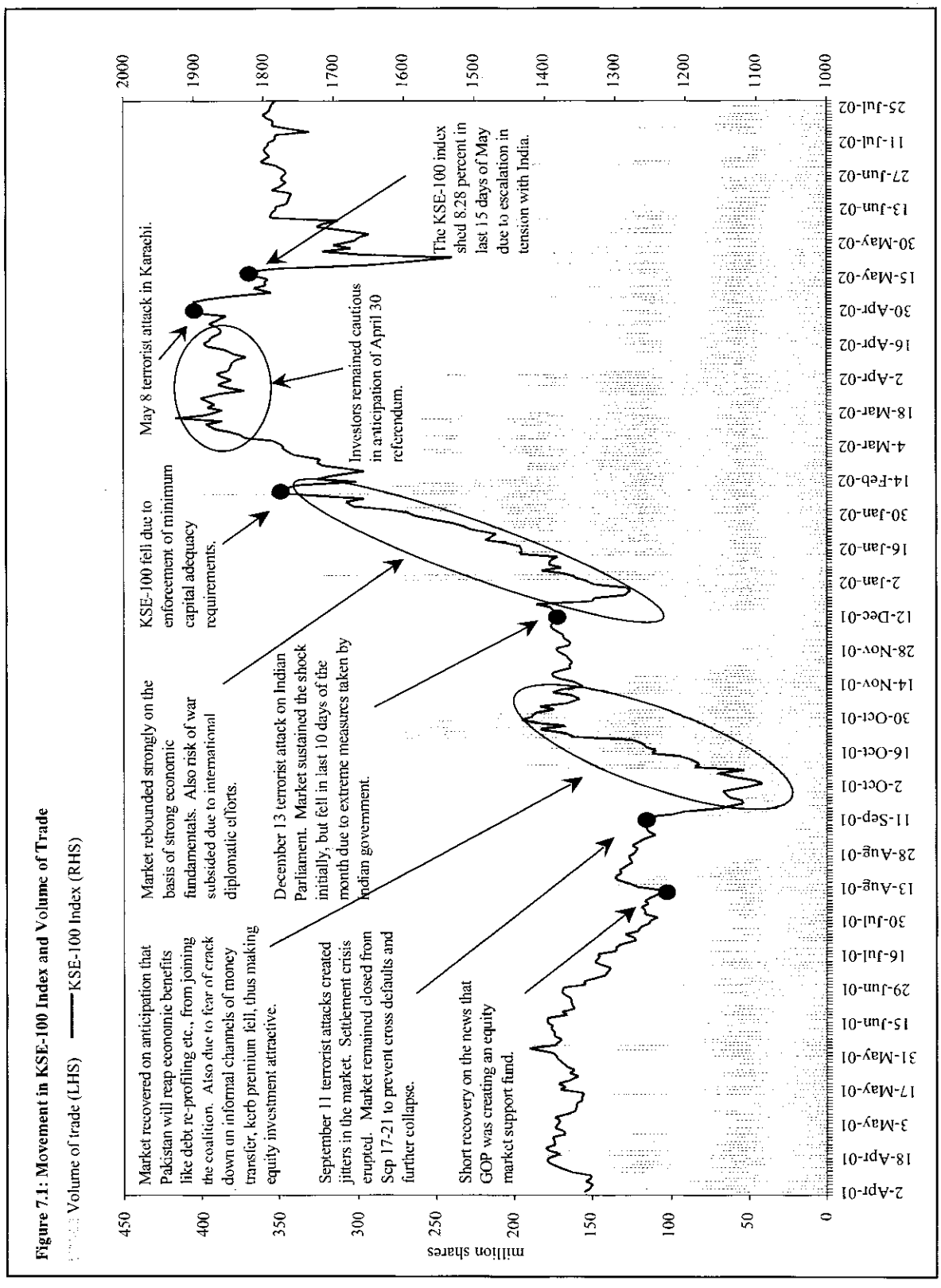
Thus, not surprisingly the September 11 attacks in New York and Washington pushed the market over edge for a 181 point (14.4 percent) collapse to reach the lowest for the year at 1075.2 by October 2, 2001. This collapse in turn sparked yet another crisis. Due to the decline in market value of their leveraged equity urchases, many market players were trapped by the rising cost of badla finance.[2] A decision/reminder by KSE management that it would not recognize any deal involving badla charges

[1] In the T+5 settlement system, any trade conducted between Monday-Friday would have to be settled on next Wednesday. Hence, there was ample time between actual trade and settlement. This system also provided investors space for excessive speculation. However, with the implementation of T+3 system, market players were worried about some practical issues like the working of badla or COT in new system. This cautioned the investors and kept the index under pressure, but these fears did not materialize and there was a smooth and gradual transformation to new settlement system.

[2] Badla is an informal source of financing, widely used in the Pakistan's stock exchanges. This transaction is made when an investor, who lacks funds, commits himself to buy certain shares. Badla *financier* provides financing against such shares at market-determined premium (rate of interest). This short term collateralized lending is very similar to a repurchase agreement (repo) used in the interbank market. In simple term, badla is a credit line against securities: usually brokers and financial institutions provide such badla funds. After the introduction of T+3 settlement regime, daily badla transactions are carried out.

Figure 7.1: Movement in KSE-100 Index and Volume of Trade

Volume of trade (LHS) —— KSE-100 Index (RHS)

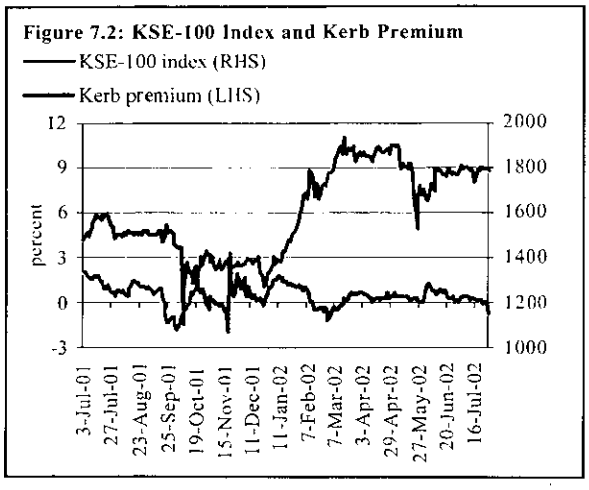


exceeding 24 percent per annum, worsened the crisis by discouraging badla financiers, who remained on the sidelines. Hence, to avoid a further decline in the market due to panic selling amidst the non-availability of badla financing, the bourses were closed down for a week (from September 17 to 21).

Among the troubled investors, Crescent Investment Bank[3] was an institution with a large but heavily leveraged portfolio. In a prompt and coordinated response, the State Bank of Pakistan, Securities and Exchange Commission of Pakistan and Ministry of Finance stepped in to pre-empt the threat of a possible cross-default stemming from a default by this large investor. Five major commercial banks were asked to buy out the otherwise healthy portfolio of Crescent Investment Bank at a discount. This helped the market by overcoming the liquidity shortage that had manifested following the September 11 events and avoided the possible systemic threat.

As a result of these measures, and with the comfort that Pakistan had assumed an important role in US led coalition; market started the second quarter on a positive note. In addition, market was anticipating that the country would reap significant economic benefits including debt rescheduling from this move. In the mean time, crack down by the international community on informal fund transfers, helped spark a sharp appreciation in the Rupee and also set expectation on future rise. The resulting de-Dollarization and accompanying fall in the interest rates (as a matter of loose monetary policy by SBP) eventually increased interest in equity investment (see **Figure 7.2**).

Figure 7.2: KSE-100 Index and Kerb Premium



Afterwards, the KSE-100 index consolidated in a narrow range of 61.86 points (between 1399.81 and 1337.95) from November 1 to December 13, 2001. However, the unfortunate terrorist attack on Indian parliament on December 13, 2001 caused edginess among investors, as Indian government accused Pakistan of complicity in the attack. Nonetheless, market absorbed this shock initially and stabilized. But it was after December 21, when Indian government raised the stakes by withdrawing its high commissioner from Pakistan and deploying its troops on the international borders. Resultantly, market went into a tailspin with the KSE-100 index shedding 130.95 points in next 10 days of the month.

Even though the Indian government continued with its rhetoric of blaming Pakistan together with its troop buildup on border, market rebounded strongly by the start of January 2002. Three factors were instrumental in this recovery; firstly, it became clear that war with India was unlikely in the wake of increasing international diplomatic efforts; secondly, domestic law and order situation remained stable in contrast to earlier fears of fundamentalist backlash and, thirdly, economic fundamentals remained strong during this period.[4]

[3] This leveraged position of the Crescent Investment Bank was caused by the huge absorption of Hubco scrips, sold by Templeton during the July-August period. With hindsight, it is evident that excessive leveraged position could produce systemic risks and may prove to be detrimental to the player, no matter how attractive the scrip is.

[4] There was no rush on retail or wholesale markets for buying. Also, banks remained immune from large withdrawals.

The market's exceptional gains of January 2002, when the index gained 347 points (27.3 percent) were underlined by its ranking as the top performing emerging market for the month by MSCI.[5] However, this upward momentum was broken in mid-February by the KSE circular, prudently reminding members of the strict minimum capital adequacy rules introduced by Karachi Stock Exchange. As a result, the index fell by 119 points in three trading days before recovering on the back of strong performance reported by Hubco, MCB and Askari Bank. Thereafter, sentiments on oil marketing company stocks dominated the market, taking the market to its FY02 peak of 1930.5 on March 14, 2002 as the government announced a much-awaited increase in their margins (this was also taken by the market as a precursor to the privatization of PSO).

Afterward, index was unable to remain above 1900 level and started sideways movement showing lack of clear direction and declining investor interest. This was also evident in falling volumes during the period (see **Figure 7.1**). The primary reason for this lackluster behavior by investors was the upcoming Presidential referendum, scheduled on April 30. Historically, it is observed that sideways movement of the index and falling volumes normally precede a fall in the index.

The trigger for the fall came due to the terrorist attack on French citizens in Karachi in early-May and the KSE-100 fell to 1798.45 levels by May 10, 2002. Worst still, this downward trend was further reinforced in mid-May after an attack on Indian Army camp in Indian held Kashmir. Characteristically, Indian government was very swift to put all blame on Pakistan to reap political benefits. As a result, this caused deterioration in already strained relations between the two neighbors and risk of war soared to new heights. Consequently, the equity markets in both the countries spilled out, with KSE-100 shedding approximately 8.28 percent, while Bombay Stock Exchange lost 8.35 percent during last 15 days of May. However, the KSE-100 staged a short recovery on the basis of continuous improvement in economic fundamentals, and high liquidity and consolidated itself close to 1800 mark since then.

In short, the KSE-100 index gain resilience from the overall improvement in economic fundamentals, consequent improvement in corporate profitability prospects, and the financial market liquidity (that boosted asset prices) to overcome political concerns.

Looking at the sector-wise performance, the SBP General Index for *cables & electrical goods* showed a significant improvement of 48.0 percent by end-June 2002 over the end-June 2001, followed by *engineering* (45.3 percent) and *paper & board* (33.2 percent). *Auto & allied* sector showed a significant improvement of 16.7 percent in the same period. The latter reflects expectations of strong profits amidst rising car prices despite declining production costs (due to an appreciating Rupee and lower interest rates). The other notable improvement was witnessed in *cotton & other textiles* (15.0 percent), probably reflecting expectations of higher profitability following greater access to EU and US markets during H2-FY02. (For further details, see **Table 7.2**).

The dividend declaration record of companies listed on KSE showed deterioration during FY02 over last year (see **Table 7.3**). Another important development during the year was de-listing of 40 companies as compared to 6 during last year. Out of these 40 companies 12 were de-listed due to their mergers with another company. Four new companies with a paid up capital of Rs 5.8 billion were listed on the KSE during FY02. Summary statistics concerning the Karachi Stock Exchange are shown in **Table 7.4**.

The FY02 witnessed a decrease in outflow in foreign portfolio investment in the stock exchanges on year on year basis. During FY01, US$ 140 million flowed out of the country as compared with only

[5] The MSCI Pakistan Index was up 31.24 percent for the month. The next best performing market was Indonesia with a 22 percent rise.

Table 7.2: SBP General Index of Stock Prices & Market Capitalization

percent changes

Groups	SBP general index			Market capitalization		
	FY00	FY01	FY02	FY00	FY01	FY02
Cotton and other textiles	28.9	-4.6	15.0	57.9	-12.3	7.0
Textile spinning	37.6	13.0	6.0	32.1	6.9	-4.7
Textile weaving & composite	53.9	-26.9	12.7	79.0	-16.4	19.5
Other textile	5.8	-0.6	27.3	65.3	-22.2	8.1
Chemicals & pharmaceuticals	12.7	-4.5	19.8	15.6	-14.4	5.7
Engineering	18.7	-3.1	45.3	11.7	-2.0	37.5
Auto and allied	27.7	-3.6	16.7	21.0	-1.5	29.0
Cables & electrical goods	8.5	-5.2	48.0	24.3	0.0	12.2
Sugar and allied	-2.1	21.5	10.0	-8.2	17.5	0.5
Paper and board	34.8	-8.9	33.2	37.8	14.2	45.2
Cement	53.0	-17.9	17.4	69.6	-0.1	54.5
Fuel and energy	35.8	-12.3	14.5	63.6	-8.9	31.1
Transport and communication	-6.4	-22.7	10.9	31.7	-33.3	-1.0
Banks & other financial institutions	7.8	-8.2	13.8	20.7	6.4	43.2
Banks and investment companies	9.4	-11.8	19.1	21.3	6.5	69.8
Modarabas	9.9	-11.6	0.0	12.5	2.3	33.0
Leasing companies	3.3	-7.9	1.5	8.4	-0.8	2.6
Insurance companies	0.9	-4.5	4.1	28.8	10.7	4.4
Miscellaneous	14.0	11.6	13.8	24.2	1.6	34.9
Jute	4.7	-10.8	7.7	23.3	-18.9	25.6
Food & allied	36.3	-4.6	20.6	31.0	-11.5	23.2
Glass & ceramics	26.8	38.2	28.3	8.8	21.6	41.5
Vanaspati & allied	-6.8	-13.1	6.0	8.3	-48.7	13.4
Others	6.5	5.9	10.5	7.5	46.9	60.7
Overall	21.1	-7.8	16.7	35.5	-13.4	20.2

US$ 8 million this year. Two factors were significant in this phenomenon; firstly, previous year saw huge selling by foreign investors (mainly as Morgan Stanley Dean Witter announced the liquidation of its Pakistan Fund by end-May or June and selling by Templeton) and secondly, the outflow in previous years had reduced the residual in Pakistan.[6]

Table 7.3: Number of Companies Declaring Dividend at KSE

	Cash dividend	Bonus shares	Right shares	Total
FY02				
Up to 20%	165	18	3	186
Above 20%	141	15	28	184
Total	**306**	**33**	**31**	**370**
FY01				
Up to 20%	211	45	2	258
Above 20%	157	27	26	210
Total	368	72	**28**	468
FY00				
Up to 20%	281	34	4	319
Above 20%	117	14	20	151
Total	**398**	**48**	**24**	**470**

Although, on yearly basis there was a net outflow, the second half of the FY02 saw an inflow of US$ 48 million. This is in line with the Bull Run in the market, which started in January and continued till early-May 2002. With the limited liquidity available in Pakistani market, foreign portfolio investment plays a significant role in setting the direction for the KSE-100 index. An interesting observation regarding the data of foreign portfolio investment is the difference between the data released by the State Bank of Pakistan and the Karachi Stock Exchange (see **Box 9.1** in **Chapter 9**).

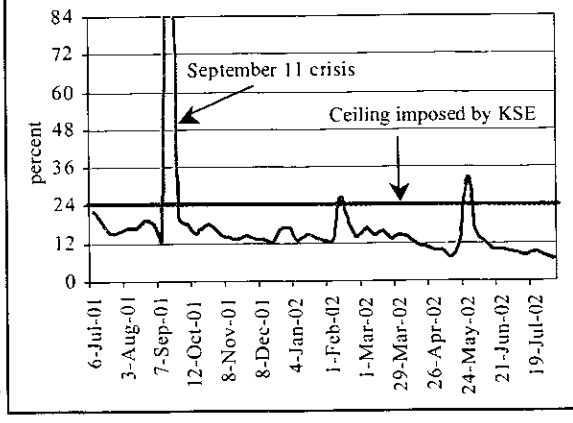
[6] The pressure on the market from these factors were compounded by the fact that all market participants were holding positions dependent upon short term financing and had no substantive capacity to absorb the foreign selling.

Table 7.4: Profile of Karachi Stock Exchange

	FY97	FY98	FY99	FY00	FY01	FY02
Total number of listed companies	782	779	769	762	759	725
Total listed capital (Rs billion)	206.7	211.2	215.0	229.0	239.9	260.6
KSE-100 index	1,565.7	879.6	1,054.7	1,520.7	1,366.4	1,770.1
KSE all share index	1,057.0	586.8	675.4	942.7	870.4	118.8
Initial public offering (IPO) during the year	7	2	0	3	4	4
New debt instrument listed during the year	1	3	2	3	2	10
Trade volume during the year (million shares)	8,023.1	15,004.2	25,532.8	48,108.8	29,165.3	29,140.7
Value of shares traded (Rs billion)	233.2	509.6	605.3	1,877.8	1,073.0	803.8
Average daily turnover (million shares)	33.6	63.8	103.4	193.2	119.5	120.9
Trading days	239	235	247	249	244	241
Foreign investment (during the year)						
Inflow- (Rs million)	8,392.6	31,122.4	8,869.9	7,433.8	2,306.5	5,993.0
Outflow- (Rs million)	8,618.7	27,831.9	9,997.8	8,562.4	8,148.9	10,795.4
Net flow- (Rs million)	-226.2	3,290.6	-1,127.9	-1,128.5	-5,842.4	-4,802.4

Source: Karachi Stock Exchange

Figure7.3: Badla Rates



Badla rates, which averaged around 18 percent at the start of FY02, ebbed as low as 9 percent during July 2002 (see **Figure 7.3**). This can be attributed to the fact that due to fall in the rate of return on almost all assets, and the advantage that badla returns are considered as capital gains (tax exempted), more money entered the badla market causing a plunge in the cost of badla finance. Although, currently badla is an important source of financing in the equity market, there is a widely held view that badla or Carry Over Trade encourages over-leveraged trade. Thus, augment systemic risk for the market. For this reason, it is expected that in future, margin financing will replace Carry Over Trade to reduce excessive volatility. Also with the development of futures market, investors now have a new instrument to hedge their risks. Another source of fall in badla rates may be the rise in the daily settlements from 1 percent to roughly 10 percent of the total trade.

Although, equity market came a long way with regard to improvement in regulations and development in infrastructure, it remained highly fragmented and relatively small. It is very skewed and concentrated in nature, as few listed companies dominate the index. The market concentration is a measure that shows as to what extent the market is skewed in favor of the top chips in the market. The less skewed the market is, the more developed it is.

Table 7.5 shows that in FY02 the KSE remained highly skewed in favor of three main chips namely Hub Power, PTCL 'A' and PSO. These three chips were the market leaders in terms of both market capitalization as well as market activity. In terms of market capitalization, the three accounted for 27.4 percent of the total capitalization of the market, which reveals significant skewness in terms of market capitalization. In terms of the turnover, the trend turns still more conspicuous with these three

accounting for 64.6 percent of the total market turnover for the year. Together PTCL'A' and Hub Power accounted for 58.2 percent of the trading activity.[7]

Table 7.5: Top Ten Stocks, end-June 2002

	By market capitalization			By turnover	
Stocks	billion Rupees	percent of market	Stocks	million shares	percent of market
PTCL'A'	64.7	15.9	Hub Power	9,198	31.6
Hub Power	26.8	6.6	PTCL'A'	7,730	26.6
PSO	20.0	4.9	PSO	1,848	6.4
KESC	11.8	2.9	Sui Northern	1,309	4.5
Fauji Fertilizer	11.6	2.9	FFC Jordan	970	3.3
Engro Chemical	8.3	2.0	ICI	897	3.1
Sui South	8.1	2.0	Engro Chemical	801	2.8
MCB	7.1	1.7	Dewan Salman	568	2.0
Sui North	6.9	1.7	MCB	476	1.6
ICI	5.6	1.4	Fauji Fertilizer	469	1.6
Total	**170.9**	**41.9**		**24,266**	**83.5**

Hence, the companies with greater capitalization proved to be the most liquid scrips as well. One plausible explanation for the fact that concentration on the basis of the turnover was far more than the concentration on the basis of the market capitalization could be that short buying and selling in these scrips, which tended to increase the turnover but did not reflect genuine trading and hence genuine market liquidity. Followed by these three were the relatively smaller but popular scrips namely Fauji Fertilizer, FFC Jordan, Sui Northern, Sui Southern and Engro Chemicals. With a market having 725 total scrips and the top ten accounting for such huge concentration, reveals that KSE is highly illiquid and lacks depth. The dominance of equity market by a handful of stocks may be traced to the weakness of the commodity-based manufacturing industries – textiles, cement, and sugar. The three sectors accounted for 30 percent of total market capitalization at the end-June 1991, but shrank to a little more than 15 percent of the market by the end-June, 2002.

Needless to mention, there is a need to enhance market access for the retail investors. Though, there are over 300 stockbrokers but none of them has retail coverage of more than one thousand active customers. After sweeping reforms and structural changes by SECP in the functioning of the bourses, retail investors should be more comfortable now. However, to address the practical issues of access to market for them, exchanges and brokers need to put more efforts. For instance, the exchanges need to develop the online trading system to facilitate trade through Internet.

7.2 Governance and Development

During FY02, the SECP and the Stock Exchanges have implemented several measures to improve the working of the capital market. These include the complete implementation of the T+3 system, rationalization of risk management measures (deposit requirements, capital adequacy & up tick/ downtick fluctuation bands), changes in the carryover market and more recently the launching of the new trading system.

[7] If market concentration is observed in relation to the entire stock market it is observed that during the FY02, in terms of market capitalization, the top ten scrips accounted for Rs 170.9 billion out of a total of Rs 407.6 billion, which was 41.9 percent of the total. The situation becomes far worse if concentration in relation to market liquidity is gauged. Out of a total turn over of 29,078 million shares, the top ten scrips accounted for 24,266 million, which makes 83.45 percent of the total turnover.

- On the regulatory front, Securities and Exchange Commission of Pakistan, for the purpose of establishing a framework of good corporate governance whereby a listed company is managed in compliance with best practices, issued the "Code of Corporate Governance" on March 28, 2002. Accordingly, all stock exchanges included the code of conduct in their respective listing requirements. This comprehensive law aims to enhance investor confidence by increasing transparency in the business practices of listed companies. It envelopes diverse areas of corporate governance including guidelines on the constitution of the Board of Directors of the company; a framework of internal control; rule on financial and accounting responsibilities of directors; directors' report; disclosure regarding pattern of shareholding; and scope of internal audit, etc.

- On July 18, 2002, in order to prohibit unfair trade practices and to ensure a level playing field for everyone, to inculcate good governance in business conduct and to promote transparency in the Securities Market, the SECP issued a directive to bar brokers or any nominee of the brokerage firm to become director in a listed company in which it has any financial interest (for example, trade in the securities or provide consultancy to that listed company).

- During FY01, SECP ordered some amendments in the Article of Association of the Stock Exchanges to address the sensitive issue like *conflict of interest* in management of bourses.[8] After these changes, SECP was able to nominate about 40 percent *outside* members on the Board of Directors, thus making it more independent from the influence of the members of the bourses.[9] Prior to that SECP could nominate only two members on the Board. As a result, influence of brokers and members of stock exchanges has been diluted and there are more checks and balances in place now. Notwithstanding these developments, SECP on August 13, 2002 and later on September 2, 2002 issued directives to bourses to make following changes in composition of their Boards from September 15, 2002 to further reinforce this process:
  - Five directors to be elected from amongst the members by the general body of the exchange;
  - Five non-member directors (including Managing Director) to be nominated and appointed by the SECP from professionals;
  - The Chairman of the exchange shall be elected by the Board from amongst the elected-member directors, where managing director shall not participate in the election process, and;
  - The position of Vice Chairman is to be abolished.

  It is expected that these steps will ensure further transparency in the market and provide comfort to investors by reducing the incidence of the conflict of interest.

- Also, with the successful implementation of T+3 system in September 2001, settlement risks are minimized. Besides, Stock Exchanges adopted a risk management system—which is perhaps the most crucial and sensitive function in any exchange—to minimize speculative and over-trading beyond the financial capacity of the brokers. These include imposition of minimum capital adequacy requirement, enhancement in exposure/loss limits for members and introduction of risk exposure margins for the badla market. Moreover, the imposition of circuit breakers has reduced the volatility in the KSE-100 index.[10] Since, the present system of static margin is impractical for effective risk management, as it does not account for the

[8] In addition to this, now SECP has final say on the appointment, removal/termination, and non-renewal of the Managing Director of KSE. Managing Director is also a member of the Board.
[9] However, purpose will only be served if these independent outside members take due responsibility.
[10] If there is 7.5 percent change (plus or minus) in price of scrip from its last closing price, trading in such scrip is suspended.

risks attached with the price volatility/liquidity of individual stocks. For this, work is presently underway on evolving a formula to determine margin on price volatility/liquidity of scrips and the concept of margins based on price volatility would be considered by SECP, once the study/report is finalized.

- Another highlight was the introduction of a market for futures contracts in July 2001. Grant of approval by SECP to KSE to commence trading in standard futures contracts in certain shares made a beginning. The emergence of a market in futures contracts would not only deepen the capital market in Pakistan but also provide investors with basic hedging instruments and investment alternatives.[11]

- An important development during FY02 has been the incorporation of the National Clearing Company of Pakistan Limited, which was incorporated on July 3, 2001. Although the system already started working but full implementation is yet to be completed.

- In an interesting development on August 10, 2002, SECP has asked the Karachi Stock Exchange to submit proposals relating to demutualization of the local bourses, a move to remove conflict of interest in the management of the exchanges (see **Box 7.1**).

7.3 Credit and Recovery Operations of NBFIs

DFIs were formed with a definitive purpose of enhancing the investment activities in the economy mostly during 1960s, these institutions played an important role in industrialization process since then. However, public sector DFIs performance started deteriorating gradually due to bad management and political influences. Increasing financial weakness due to volume of non-performing loans and the formulation of an IFI endorsed strategy for DFIs adversely impacted their financing ability. The sharp increase in the volume of non-performing loans (NPLs) forced these to consolidate their operations by reducing their gross lending. NPLs, which were 21.7 percent of the total assets of DFIs in FY90, grew to 41.6 percent in FY00. This in turn put a squeeze on the earning of these institutions. This worsening position of DFIs warranted bold decisions. The government is currently in the process of restructuring these institutions to make them financially viable.[12] While this was true for public sector, three private sector DFIs (foreign sponsored PLHC, SPIAIC and PKIC) demonstrated better performance. By looking at **Table 7.6**, it is evident that the sanction of

Table 7.6: Credit Indicators of DFIs[1]

million Rupees

	Sanctions			Disbursement			Recoveries		
Institutions	**FY00**	**FY01**	**FY02**	**FY00**	**FY01**	**FY02**	**FY00**	**FY01**	**FY02**
PICIC	988	2,185	3,607	193	1,030	1,602	2,926	3,264	3797
IDBP	135	27	65	91	47	26	1,161	1,304	2195
PLHC	490	335	785	401	273	437	528	428	813
PKIC	1,443	1,381	1,572	1,147	1,248	1,267	3,624	2,724	4017.7
SAPICO	965	780	1,773	798	935	1,040	1,238	1,215	1,293
ADBP	10,365	12,327	10,524	8,342	8,830	7,097	30,129	32,103	33546
FBC	36	80	155	35	60	0	5,135	5,558	3794
Total	**14,421**	**17,114**	**18,481**	**11,005**	**12,423**	**11,469**	**44,740**	**46,597**	**49,456**

[1]:excluding working capital

[11] Currently thirteen scrips are traded on this counter. These include Dewan Salman Fiber Ltd., Engro Chemical Pakistan, Fuji Fertilizer Company, FFC-Jordan Fertilizer Co., Hub Power Company, Ibrahim Fiber, ICI Pakistan Ltd., Muslim Commercial Bank Ltd., Nishat Mills Ltd., Pakistan State Oil Co., Pakistan Telecommunication Co., Sui Northern Gas Pipe Lines Ltd. and Pakistan PTA Ltd.

[12] Merger of NDFC with NBP, proposed closure of FBC, and expected privatization of ICP and NIT are the steps towards the restructuring of this sector.

Box 7.1: Demutualization of the Stock Exchanges

Demutualization is a term used to describe the transition of securities exchange from a mutual association of members operating on non-profit basis to a limited liability – for profit company accountable to shareholders. Essentially, demutualization separates ownership and voting rights from the right of access to trading.

Demutualization alters the governance structure of the exchange although its services and operation may remain the same. Access to trading becomes a matter of contract with the exchange. Shareholders, a separate group, are entitled to the profit obtained from market operations. And whereas exchange previously operated on non-profit basis, with demutualization, it becomes a profit seeking company, offering services to market intermediaries and listed companies. Although, many of the world exchanges are actively considering demutualization, few have reached the final stage of full demutualization, where shares are offered publicly and are widely held.

There are several arguments presented in favor of this process. Foremost is the stress on exchanges to remain competitive due to technological changes in a global environment. Globalization of the markets, advances in technology, a concentration of new investment capital, competitive pricing pressure and government deregulation are all contributing to the allure of demutualization. Traditional exchanges governed by its members are seen to be unable to adequately respond to competitive pressures. This may be because of the fact that the governance structure that relies on member decision-making is slow and often plagued by, conflicting interest of individual members. A shift from mutual organization to a profit seeking company with ownership separated from access to trading may allow the exchange to respond more effectively to competitive pressures and to act separately from the interest of individual members thereby creating a more streamlined and market oriented exchange.

However, in emerging markets, demutualization seems to be driven by regulators rather than the exchanges with very different basis. For example, in Thailand, Security and Exchange Commission (SEC) is pushing for demutualization of Thailand's only stock exchange. In SEC's view, the monopoly and non-profit status have resulted in inefficient use of resources and a resistance to change – with no incentive to modernize the exchange. As a result there is a poor quality of listing and Thai equity market has been marginalized with growing international competition this will only get worse.

India's National Stock Exchange (NSE) formed in 1992 is a demutualized exchange—it is owned by shareholders rather than members. The other large exchanges, notably the Bombay Stock Exchanges and Calcutta Stock Exchange have been mutual organizations. Under pressures to respond to a series of stock market scandals, the Ministry of Finance imposed a form of demutualization on these exchanges. This demutualization took the form of a Ministry of Finance decree that no broker would be allowed to sit on the board of an exchange. The brokerage representative on the board of BSE and CSE resigned leaving behind representative of Securities and Exchange Commission of India (SEBI) and a few independent board members. The authorities in India have planned to continue on this path.

In Pakistan, the changes in composition of the board of directors of the stock exchanges in December 2000, and recently in August/September 2002 again may be considered a step towards demutualization. Like in Thailand and India, demutualization in Pakistan is approached as cure for crippling self-interests of the members.

term loans by selected DFIs and specialized banks in FY02 stood at Rs 18.5 billion, which was higher than last year's Rs 17.1 billion. However, in terms of actual disbursement, a fall of about Rs 1.0 billion was recorded during the same period.

The modarabas sector is going through a critical phase. After experiencing initial boom in the 1980s, as a mode of business financing in accordance with Islamic principles, the sector suffered a setback when income tax exemption was withdrawn in 1993. Since then, the sector has struggled to stay afloat, while those engaged in equity trading have been hit again by the fall in share prices since 1994. Some of the modarabas have turned to the more profitable leasing industry in recent years. However, the sector is at a disadvantage in its funding, as modarabas are not allowed to use debt financing. As a result, financing activities of this sector are not significant, as can be seen in the **Table 7.7.**

Although the leasing companies disbursed Rs 14.3 billion during the FY02 as the term loan, it fell short of previous year amount by a significant 21.9 percent (see **Table 7.7**). This can be attributed to a general slow down in the economy, which resulted in fall in gross fixed investment approximately by 5.9 percent during FY02. Due to this lower demand in corporate sector, leasing companies have

shifted their focus on consumer leasing – vehicles, motorcycles etc. However, owing to increased competition in this field from investment banks, modarabas and banks, leasing companies are hit hard especially those with thin capital base.[13]

Table 7.7: Credit Indicators of Modarabas, Leasing Companies and Investment Banks

billion Rupees

	Sanctions				Disbursements			
	FY99	FY00	FY01	FY02	FY99	FY00	FY01	FY02
Overall assistance	**37.2**	**32.9**	**38.6**	**26.4**	**36.3**	**35.2**	**37.4**	**25.5**
Fixed industrial financing	13.8	19.8	23.0	19.5	13.0	20.7	22.7	18.8
Modarabas	2.6	3.7	2.8	3.2	2.5	5.1	2.8	3.2
Leasing companies	8.2	12.8	18.3	14.7	7.8	12.4	18.3	14.3
Investment banks	3.0	3.3	1.9	1.6	2.7	3.2	1.6	1.3
Working capital loans	23.4	13.1	15.6	6.9	23.3	14.5	14.7	6.7
Modarabas	1.6	2.5	3.0	2.4	1.6	4.6	3.0	2.4
Leasing companies	0.3	0.3	0.2	0.2	0.3	0.3	0.2	0.1
Investment banks	21.5	10.3	12.4	4.3	21.4	9.6	11.5	4.2
Percent changes								
Overall assistance	**25.0**	**-11.6**	**17.3**	**-31.7**	**-6.0**	**-3.0**	**6.3**	**-31.8**
Fixed industrial financing	3.1	43.5	16.2	-15.4	-43.5	59.2	9.7	-17.2
Modarabas	30.0	42.3	-24.3	14.3	-10.7	104.0	-45.1	14.3
Leasing companies	-10.9	56.1	43.0	-19.7	-57.4	59.0	47.6	-21.9
Investment banks	57.9	10.0	-42.4	-17.5	42.1	18.5	-50.0	-18.8
Working capital loans	41.8	-44.0	19.1	-55.8	49.4	-37.8	1.4	-54.4
Modarabas	-5.9	56.3	20.0	-20.0	-46.7	187.5	-34.8	-20.0
Leasing companies	0.0	0.0	-33.3	0.0	50.0	0.0	-33.3	-50.0
Investment banks	48.3	-52.1	20.4	-65.3	72.6	-55.1	19.8	-63.5

7.4 Corporate Debt Market

The country has already achieved a moderate level of capital mobilization through the bond and equity markets at 25 and 11 percent of gross domestic product (GDP) respectively, at the end of FY02. However, the figures are deceptive as government issues dominate the bond market – with corporate bond market accounting only 0.6 percent of GDP.

A Five-year bond issued in 1988 by the Water and Power Development Authority (WAPDA), a statutory corporation, was Pakistan's first corporate debt. The issue carried a coupon of 13.5 percent and raised Rs 3.1 billion, exceeding the target of Rs 2 billion. Since then, WAPDA has raised Rs 23.2 billion with seven issuances, the first six guaranteed by the Government. However, only the third and sixth issues, both of 10-year maturity, are listed on the two stock exchanges of KSE and Lahore Stock Exchange (LSE). The last three issues between 1993 and 1997 failed to raise the targeted amount because of limited investor interest and the fairly illiquid secondary market.

As early as 1985, privately placed TFCs issued by development finance institutions (DFIs) had been in existence. However, it was not until February 1995 that the first public TFCs issued by Packages Ltd. were listed on the stock exchange. The listing signaled the birth of a corporate debt market and was swiftly followed by three others, with yields of between 17.8 and 19 percent, bringing the stock of listed TFCs to a little more than Rs 2 billion. While listed TFCs are not approved securities for commercial banks' SLR, non-bank financial institutions (NBFIs) were allowed to invest in TFCs for SLR from May 1997 onward.

[13] Data from selected banks reveal that during FY02, these disbursed more than Rs 15 billion in consumer finance.

In September 1997, additional incentives in the form of tax exemption (on the 10 percent withholding tax) were granted to TFC holders, including corporate entities such as banks, giving a boost to the investor base of TFCs. However, six months later, the withdrawal of part of the tax exemption, leaving only individuals tax exemption, dealt a heavy blow to the fixed income market.[14]

While it was expected that long-term securities would be priced relative to government bonds, in reality TFCs' pricing (coupon and price) was based on the National Saving Schemes (NSS). The reason is twofold: first, secondary market for long term government papers was not in a stage where their yields were long-term benchmark rates; and second, NSS constitutes more than a quarter of all domestic government debt and is aimed mostly at the public, which the TFCs, through listing at the stock exchanges, were also targeting. This put the TFC issuers at a disadvantage in raising finance through this instrument.

However, to provide more enabling environment, the government has taken some important steps. Most prominent were changes in National Saving Schemes (rationalizing rates and banning incremental institutional investment in April 2000), and the launch of the Pakistan Investment Bonds (PIBs) with the aim of providing a benchmark for long-term securities. With the fall in interest rates, and more importantly, the cut in NSS rates since mid-1999, the effective benchmark for the pricing of corporate bonds has fallen sharply.[15] Since then, market has picked up steeply and 32 new issues were launched in the market, of which 22 were launched since the start of the FY02 to date (see **Table 7.8 & Figure 7.4**). **Figure 7.5** shows the sector wise composition of issuers. Also in the wake of falling interest rate scenario and limited quality investment options, TFCs provide an attractive opportunity for the investors. However, secondary market for these issues largely remain dormant due to lack of liquidity and absence of market makers.

Figure 7.4: Growth in TFC Market

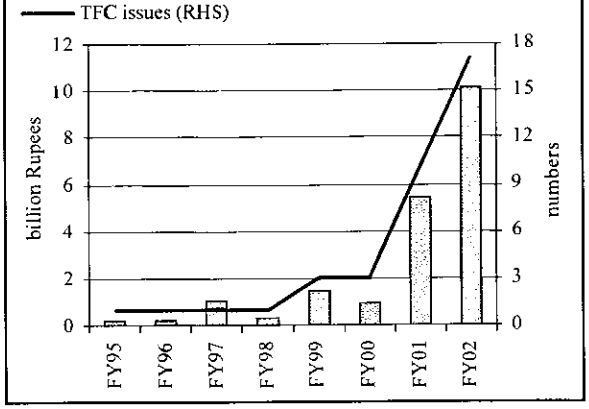
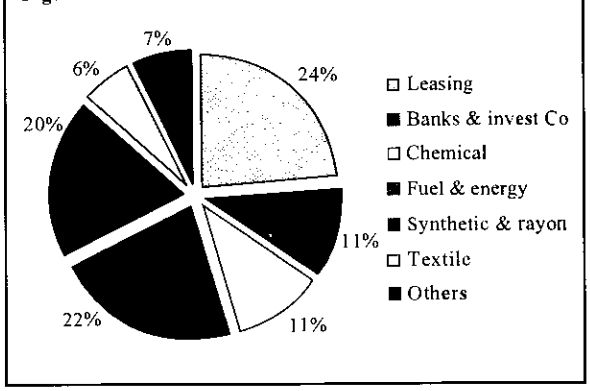


Figure 7.5: Sector-wise Issues of TFCs



In order to make issues more flexible and affordable for the investors, issuers are adding different features from shelf registration to the green shoe option to TFC structure.[16] Use of shelf registration implies that the issuer can split the TFC issue into tranches, which is

[14] The rational was to prevent banks from profiting from converting their taxable loan portfolio to tax exempt TFCs.
[15] The latest reduction in NSS rate was carried out in April 2002.
[16] Other options available with the issuers are Floating Coupon Rates, Asset Securitization and the Redemption Features like Call & Put option. A call option on TFCs gives the issuer the right to call the bond for redemption at a certain price at certain time. Likewise, a put option on a bond allows the investor the right to redeem his/her investment prematurely (commonly at fixed option dates).

Table 7.8: Corporate Debt
million Rupees

Security	Issue Date	Maturity	Issuance Size	Coupon Rate
GATRON	17-Jun-98	Jun-03	274	18.00
Inter-Bank	1-Dec-98	Dec-03	300	17.50
SPLC	28-Jan-99	Jan-03	250	18.25
DSFL	24-May-99	May-04	863	19.00
NDLC	1-Dec-99	Dec-04	550	17.00
PILCORP	21-Dec-99	Jan-05	287.5	18.00
Sigma Lease	18-Jan-00	Jan-03	100	17.00
Paramount Lease	2-Aug-00	Aug-04	250	16.25
Atlas Lease	27-Sep-00	Sep-05	200	15.00
Network Lease	4-Oct-00	Oct-05	100	16.25
Al-Noor Sugar	31-Oct-00	Oct-05	204	DR + 250bps (16.5-18.5)
PILCORP (2nd issue)	2-Mar-01	Mar-04	325	15.60
ORIX LEASING (1st Issue)	7-Apr-01	Apr-05	745	14.00
Shakarganj Mills	10-Apr-01	Apr-05	250	DR + 200 bps (15.5-18.75)
SSGC	31-May-01	May-06	1,000	Yr 1-2: Fixed at 14.15, Yr 3-5: Floating @ DR + 110bps (13.0-18.0)
Engro Asahi	15-Jun-01	Jun-06	500	5 Yr PIB + 150bps = 14.5 (13.0-17.0)
DSFL	22-Jun-01	May-05	1,816	16.00
ICI/PTA	2-Aug-01	Aug-06	1,600	PIB 5 Yr + 300bps = 16.00
Atlas Lease	16-Aug-01	Aug-06	100	15.0
PACKAGES	27-Aug-01	Jan-05	700	13.50%-17%, DR + 1.25% pa
Gulistan Textile	1-Sep-01	Sep-02	300	DR + 2%, Floor 14%, ceiling 17%
Dawood Leasing	1-Sep-02	Sep-02	250	DR + 1.75%, Floor 13.5% , Ceiling 17.5%
Interbank	15-Sep-01	Sep-06	500	13.75-16%
Nishat	19-Sep-01	Sep-05	600	14.5% 1st year, 2-4 year 1.5% over DR, floor 13% ceiling 17%
Engro Chemical	27-Nov-01	Nov-06	500	Floating rate (weighted average cut off yield of last three auction of 5 year PIB Plus 1.15) Floor 13 %, Ceiling 17%
PARCO	12-Dec-01	Dec-04	2,500	Base rate + 1.45 % (Floating rate) Floor 13% p.a, ceiling 15% p.a
Crescent Leasing	26-Dec-01	Dec-06	250	Base rate + 2 % (Floating rate) Floor 14.5% p.a, ceiling 18% p.a
Security Leasing	28-Dec-01	Dec-05	200	DR + 2.25%, 1st 2 years, Floor 14.75%, Ceiling 17.50%, 3 & 4 Year Floor 14.0%, Ceiling 17.5%
Reliance Weaving	6-Feb-02	Feb-07	150	DR + 2.5%, Floor 15.25%, Ceiling 17.50%
Union Leasing	9-Apr-02	Apr-05	250	DR + 2.25%, Floor 14.50%, Ceiling 16.75%
Shahmurad Suger	21-May-02	May-06	200	Min 15.50%, Max17.50%
SPLC 2	31-May-02	May-07	400	Weighted average last 3 cut off 5yrs PIB + 1.75%, Floor 12.00%, Ceiling 16.00%
SSGC 3	3-Jun-02	May-07	1,250	DR + 1.10%, Floor 11.50%, Ceiling 16.00%
Sitara Chemical	19-Jun-02	Jun-07	360	First 100mn 12%, increased 2% with each 100 mn
Engro Chemical 2	4-Jul-02	4-Jul-07	1,000	Weighted average last 3 cut off 5 year PIB + 1.15%, Floor 11.00%, Ceiling 15.00%
Maple Leaf Cement	18-Jul-02	18-Jul-06	225	5 Years PIB Rate + 2.50% Floor 15.25%, Ceiling 17.75%
Dawood Leasing 2	25-Jul-02	25-Jul-07	250	DR + 1.75% Floor 12.25% , Ceiling 16.25%
Orix Leasing 2	29-Jul-02	29-Jul-06	710	DR + 2, Floor 10%, Ceiling 13%
MCB	8-Aug-02	8-Feb-07	1,600	5 years PIB cut off yield + 1.50%, Floor 11.75%, Ceiling 15.75%

useful for periodic financing requirements of the issuer and also allows optimal pricing of the individual tranches.[17] Similarly, the green shoe option allows the issuer the right to retain the over subscribed portion of the initial public offer (IPO). However, the issuer has to specify the amount it would retain under this option in advance. A very interesting development is the gradual evolution in the pricing structure of the TFCs. Starting from the plain vanilla structure with fixed coupon rates, market has witnessed an increasing number of bonds with floating structures.[18]

[17] The shelf registration option is valid for a maximum period of twelve months for an issue amount of Rs 250 million and a maximum period of three years for an issue greater than this.

[18] In floater TFC, coupon rate is variable which changes with market conditions by being anchored to a benchmark rate (usually with SBP Discount Rate). This pegging protects the investors from any upward fluctuation in interest rate that would cause a fall in yield.

8 Domestic and External Debt

8.1 Overview

The persistent rise in the total debt over the last decades saw a notable reversal in trend during FY02, as the total debt stock edged down by Rs 105.5 billion; the year also witnessed an important shift in the term structures of both domestic and external debt towards longer tenors. The achievements reflect the country's adherence to the Debt Reduction and Management Strategy (DRMS)[1], as well as a one-off stock adjustment of domestic debt, enabling Pakistan to make concrete progress towards a sound and sustainable debt path.

On the external front, the successful completion of an IMF Stand-By Arrangement (SBA) restored Pakistan's credibility with International Financial Institutions (IFIs), and led to successful negotiations for a medium-term IMF assistance program, PRGF, as well as increased aid from other IFIs. Moreover, the decision to join the international war against terrorism revived the previously strained relations with bilateral creditors. This paved the way for the *stock* re-profiling of Pakistan's bilateral debt by the Paris Club creditors, on very generous terms. As a result, the net present value of Pakistan's external debt is expected to decline notably (see **Section 8.3** for details).

The domestic debt profile shows similar improvement. A one-time adjustment substantially reduced the stock of short-term debt (reducing the stream of future interest payments), and together with increased long-term borrowings, helped lengthen its maturity profile. Furthermore, improved exchange rate management and the spillover impact of external developments helped SBP to reduce the market-driven interest rates to all-time lows, fostering a sharp reduction in the cost of domestic debt.

While the above FY02 developments are quite commendable, it is necessary to emphasize that Pakistan still has a long way to go; an exit from the debt problems will require sustained macroeconomic discipline over a number of years.

At the close of FY02, total debt stood at Rs 3,760.5 billion and the total *debt to GDP* ratio declined from 113.2 percent to 102.0 percent (see **Table 8.1**). Of the three categories of Pakistan's total debt, the highest reduction was visible in external debt (Rs 53.9 billion) followed by explicit liabilities (Rs 34.6 billion), while domestic debt registered a smaller decline of Rs 17.0 billion during FY02.

In Rupee terms, the decline in external debt is entirely due to the appreciation of the Rupee, as the stock has actually increased in Dollar terms (by US$ 1,276 million). Nonetheless, the profile of the external debt stock reflects some qualitative improvement due to the re-profiling of bilateral debt, the retirement of expensive commercial debts, and increased reliance on soft credits from IFIs. As far as the explicit liabilities are concerned, the reduction of Rs 34.6 billion was mainly driven by the repayments of maturing 3-year Special US Dollar Bonds.

8.2 Domestic Debt

There is a distinct improvement in Pakistan's domestic debt profile during FY02, with a pause in the unremitting annual increase in public domestic debt, a perceptible decline in debt servicing costs, and an important shift in the term structure of the domestic debt. By end-June 2002 the total outstanding domestic debt was Rs 1695.5 billion, Rs 17.0 billion *lower* than the corresponding FY01 figure (see

[1] Formulated in March 2001, DRMS envisages a reduction in the stock of external debt through restructuring of bilateral debt, and for arresting the growth of debt by the retirement of expensive debt and liabilities, and the acquisition of fresh loans on concessional terms etc.

Table 8.1: Profile of Domestic and External Debt

billion Rupees

	FY98	FY99	FY00	FY01	FY02
Total debt	**2,671.9**	**3,060.4**	**3,318.0**	**3,866.0**	**3,760.5**
1. Domestic debt	**1,176.2**	**1,375.9**	**1,559.9**	**1,712.5**	**1,695.5**
	(44.0)	(45.0)	(47.0)	(44.3)	(45.1)
2. External debt	**1,483.1**	**1,614.4**	**1,682.7**	**2,059.5**	**2,005.6**
	(55.5)	(52.8)	(50.7)	(53.3)	(53.3)
3. Explicit liabilities[1]	**12.6**	**70.1**	**75.4**	**94.0**	**59.4**
	(0.5)	(2.3)	(2.3)	(2.4)	(1.6)
Total debt as % of GDP	99.8	104.2	105.4	113.2	102.0
Domestic debt as % of GDP	43.9	46.8	49.6	50.1	46.0
External debt as % of GDP[2]	55.4	54.9	53.5	60.3	54.4
Explicit liabilities as % of GDP	0.5	2.4	2.4	2.8	1.6
Total debt servicing	**278.3**	**343.1**	**353.9**	**340.3**	**412.5**
Total interest payments	191.6	220.1	256.8	254.4	245.4
i. Domestic	160.1	178.9	206.3	195.4	179.1
ii. Foreign	28.7	38.0	44.9	51.2	60.8
iii. Explicit liabilities	2.8	3.2	5.6	7.8	5.6
Repayment of principal[3]	86.7	123.0	97.1	85.9	167.1
Ratio of external debt servicing to					
Export earnings	55.4	35.3	36.5	37.3	44.1
Foreign exchange earnings	34.9	23.6	23.4	23.3	26.1
Ratio of total debt servicing to					
Tax revenues	78.4	87.8	87.2	76.5	86.5
Total revenues	64.8	73.2	65.9	62.3	65.4
Total expenditures	43.9	53.0	47.6	46.8	47.2
Current expenditures	52.5	62.7	55.0	52.3	57.5

[1] Explicit liabilities include Special US $ Bonds, FEBCs, FCBCs and DBCs; of which Special US $ Bond is a foreign liability that is payable in foreign exchange, while FEBCs, FCBCs and DBCs are also foreign liabilities but are payable in Rupees.

[2] External debt to GDP ratio is not comparable to ratio calculated in **Table 8.8** due to a methodological difference. This ratio is calculated by converting the external debt into Pak Rupee using end-June exchange rates.

[3] Repayment of principal is the sum of repayment of long-term foreign debt and short-term credit.

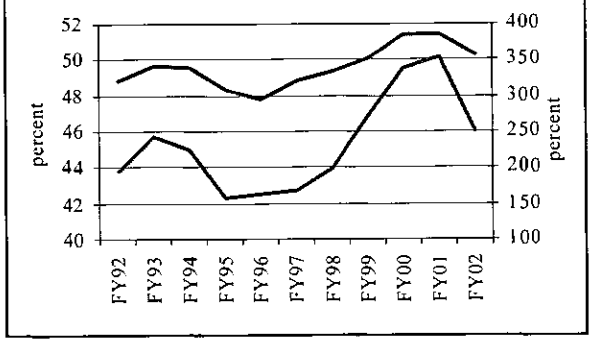
Note: Figures in parentheses are shares in total debt.

Sources: SBP & Ministry of Finance

Table 8.1). As detailed in **Section 8.2.1**, this was essentially due to a one-off stock adjustment, though it does have a continuing impact in the form of a lower stream of future interest payments. On the other hand, the rising share of long-term debt as well as the visible fall in the interest cost of domestic debt suggests a more definite improvement in the debt management (see **Section 8.2.2**).

As a result, most domestic debt indicators depict substantial improvement in FY02, e.g. the ratios of domestic debt to GDP, and to tax revenue, both witnessed sharp declines over FY01 figures (see **Figure 8.1**).

Figure 8.1: Domestic Debt Indicators



8.2.1 Adjustment in Debt Profile

The FY02 *fall* in the outstanding domestic debt creates some confusion in the presence of government's Rs 136.2 billion domestic borrowings to finance a portion of the budgetary deficit, i.e. contrary to standard theory, the FY02 change in domestic debt does not equate to the financing of budget deficit from domestic sources. The answer to this puzzle lies in a one-time adjustment in the *domestic* debt stock resulting from the rescheduling of the country's *external* debt, that has positive implications for the composition of the domestic debt stock as well as for the cost of servicing domestic debt.[2] Effectively, therefore, the adjustment acts as a *quasi-fiscal surplus*.

The roots of this change date back to the May 1998 economic sanctions imposed following Pakistan's nuclear test, which forced the government to declare a financial emergency. Trapped by a severe foreign exchange squeeze, the government decided to meet its external debt servicing obligations in Rupees instead of foreign currencies, at prevailing exchange rates. Accordingly, two new accounts, the "Special Account Debt Repayments I & II" were opened in July and December 1998 respectively.

While the government's fiscal balance reflected steady payments over the years, these *notional* external debt repayments only led to rising Rupee balances in the Special Accounts. Thus, by the time these accounts were eventually terminated in July 2001, these had accumulated to a very substantial Rs 194.6 billion. It is important to note that these notional payments had no monetary impact; while the payments were funded via budgetary borrowings from SBP and led to the increase in the SBP T-bill holdings (i.e. the SBP assets rose), the monetary impact was sterilized by keeping the borrowed funds in the reserved special accounts (i.e. an increase in SBP liabilities).

In fact, it was the rising fiscal burden of what were essentially notional payments that eventually persuaded an accounting change leading to the cancellation of a portion of the domestic debt stock against the accrued Rupees in the Special Accounts, reducing at a stroke the size of the domestic debt. It must be noted that these fiscal adjustments left the accrued external liability unaffected, until it too was eliminated through rescheduling of external debt, and the receipt of grants during FY02.

8.2.2 Composition of Domestic Debt

Pakistan's public domestic debt is divided into three categories, largely based on the maturity structure of the instruments.

<table>
<tr><th>Tenor of debt</th><th>Category</th><th>Billion Rupees</th><th>Redemption</th></tr>
<tr><td>Short term (one year or less) Rs557.8 billion</td><td>Floating debt</td><td>557.8</td><td rowspan="2">Fixed maturity Rs925.8 billion</td></tr>
<tr><td rowspan="2">Long term (greater than one year) Rs1137.7 billion</td><td>Permanent Debt</td><td>368.0</td></tr>
<tr><td>Unfunded debt</td><td>769.7</td><td>On demand Rs769.7 billion</td></tr>
</table>

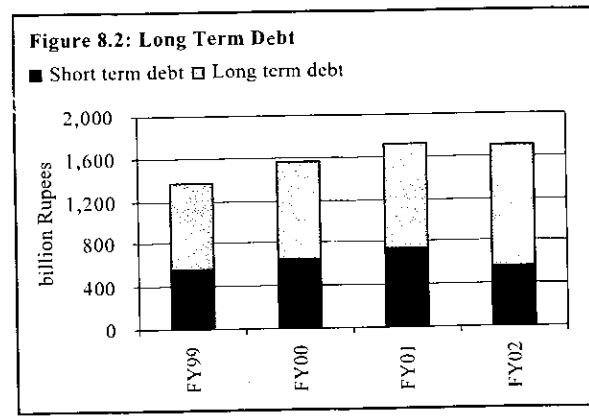
Note: Prize bonds are also included in permanent debt.

As can be seen from **Figure 8.2**, the composition of domestic debt has seen significant changes in FY02. The year saw a reversal of the steady up-trend in the share of short-term debt, helped by the retirement of MRTBs as well as the greater market interest in PIBs.

This points to greater stability in the government's funding cycle. Moreover, the fact that a larger portion of fresh long-term borrowings was through PIBs means that the government is locking-in the benefit of historically low interest rates. To put this in perspective, one of the important reasons for

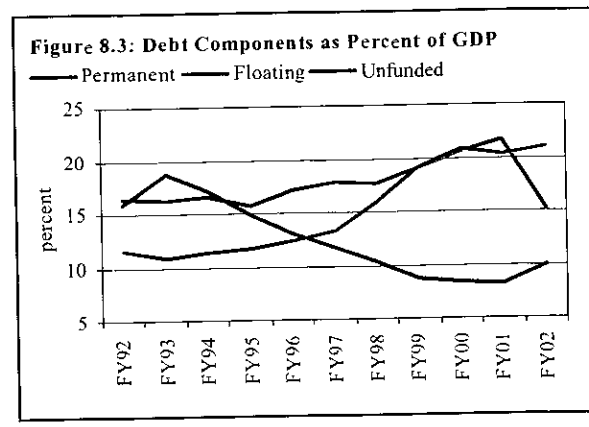
[2] A more detailed discussion on this issue is provided in a special section on Domestic Debt in SBP Second *Quarterly Report* for FY02.

the government's inability to reduce its debt servicing costs significantly over the last few years, is the lingering impact of very expensive long-term debt taken in earlier years.



Permanent Debt

The permanent debt to GDP ratio has persistently declined from over 18.0 percent in FY93 to only 8.2 percent in FY01, before spiking again to 10.0 percent during FY02 (see **Figure 8.3**). This declining trend was largely attributed to maturing market loans, Bearer National Fund Bonds (BNFB), and Federal Government Bonds. Specifically, the total outstanding balance of these instruments has gone down from Rs 58.8 billion in FY92 to Rs 15.1 billion in FY02. Maturing Federal Investment Bonds (with no fresh sale since FY98) have also played a role in dragging down the permanent debt to GDP ratio.



However, the FY02 reversal of the declining trend is largely attributable to the introduction of the "Pakistan Investment Bond", which was heavily subscribed by the market. During FY02, the government mobilized over Rs 100.0 billion from this instrument alone, causing an increase in the permanent debt to GDP ratio. The successful launch of this instrument not only set a market-based long-term benchmark yield, but also helped the government to finance its budgetary requirements with stable long-term debt.[3] In absolute terms, the permanent debt saw a net increase of Rs 86.9 billion during the year, compared to a Rs 21.5 billion rise in FY01 (see **Table 8.2**).

Floating Debt

In sharp contrast to previous years, the outstanding level of floating debt has witnessed a reduction of Rs 180 billion during FY02 (see **Table 8.2**). This massive retirement is the result of a variety of factors, including the termination of the Special Account for debt repayments and bilateral grants from friendly countries. As a result, the floating debt to GDP ratio has declined by 6.5 percentage points in just one year (see **Figure 8.3**).

Table 8.2: Outstanding Level of Domestic Debt

billion Rupees

	FY99	FY00	FY01	FY02
A. Permanent debt	256.9	259.6	281.1	368.0
B. Floating debt	561.6	647.4	737.8	557.8
C. Unfunded debt	557.4	652.9	693.7	769.7
Total (A+B+C)	1,375.9	1,559.9	1,712.5	1,695.5
As percent of GDP				
A. Permanent debt	8.7	8.2	8.2	10.0
B. Floating debt	19.1	20.6	21.6	15.1
C. Unfunded debt	19.0	20.7	20.3	20.9
Total (A+B+C)	46.8	49.6	50.1	46.0

Unfunded Debt

Unfunded debt largely comprises of instruments offered by Central Directorate of National Savings (CDNS). The outstanding level of unfunded debt touched the level of Rs 769.7 during FY02, with a net inflow of Rs 76.0 billion. As can be seen from **Figure 8.3**, the unfunded debt to GDP ratio has

[3] For detailed discussion on PIBs, please see section on **Money Market**.

witnessed a continual increase from FY93 to FY00, largely on account of higher profit rates relative to other government debt instruments, despite the absence of incremental risk factors.

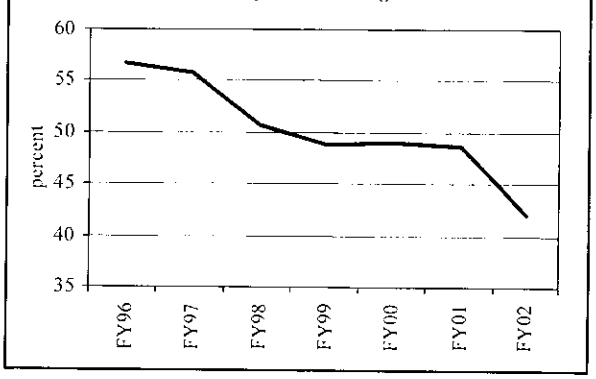
Realizing the dis-intermediary impact of higher profit rates of National Savings Scheme (NSS), as well as its distortionary implications for monetary policy, the NSS instruments have been restructured during the last three years. Their profit structure has been drastically changed and the profit income has been brought under the tax net. More specifically, the profit rates on Defense Saving Certificates (DSCs) have been linked with market based PIBs and are subject to revision after every six-month.

Furthermore, the institutional investment in NSS was banned before the launch of PIBs. This specific measure coupled with reduction in profit rates resulted in lower net inflows in these schemes (compared to average inflows in earlier years) during FY00 and FY01, which helped to arrest the increasing share of unfunded debt. However, unfunded debt to GDP ratio has again slightly increased during FY02 largely on account of higher inflows in NSS, which almost doubled as compared to last year.[4] The FY02 jump appears to reflect both, the external account improvement and the fact that rates on NSS instruments did not adequately mirror the decline in market-based instruments.

8.2.3 Classification of Domestic Debt by Owner

Domestic debt is broadly classified into two categories by ownership, i.e. by the banking and non-banking sectors. Although, the share of the banking sector in domestic debt has been declining since FY96, this trend was more pronounced during FY02 (see **Figure 8.4**), mainly due to a large one-off retirement of SBP T-Bills. The increased borrowings from non-banking sources were largely driven by higher inflows in the NSS and the sale of PIBs to non-banks.

Figure 8.4: Debt Held by the Banking Sector



Debt Held by the Banking Sector

Compared to an increase of Rs 67.8 billion during FY01, the banks' holdings of government debt saw a steep decline of Rs 118.0 billion during FY02 (see **Table 8.3**).

Table 8.3: Domestic Debt by Owners

billion Rupees

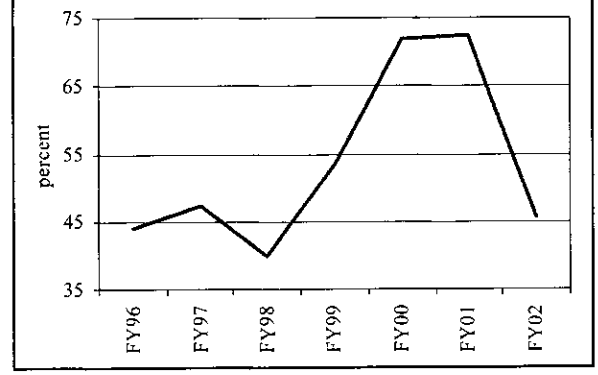
	FY99	FY00	FY01	FY02
Baok debt	**673.6**	**764.9**	**832.7**	**714.7**
Scheduled banks	314.0	213.5	228.1	388.5
SBP	359.5	551.4	604.6	326.2
Non-bank debt	**702.4**	**795.0**	**879.8**	**980.8**
NSS	542.4	633.8	670.2	741.2
Others	160.0	161.2	209.7	239.6
Total	**1,375.9**	**1,559.9**	**1,712.5**	**1,695.5**

Interestingly, this decline was not equally shared within the banking sector, as debt holdings of SBP declined sharply, while holdings of commercial banks rose by a smaller amount (see **Figure 8.5**). More specifically, the SBP holdings of government paper plummeted by Rs 278.4 billion during FY02, while commercial banks holdings surged up by Rs 160.4 billion over the same period. This drastic shift of government debt from SBP to commercial banks is largely attributed to two factors: (1) the government retired *Market Related T-Bills for replenishment* and *Adhoc T-Bills*, both of which are held entirely by the SBP, and (2) the easy monetary policy, coupled with large foreign exchange inflows, helped the government in re-pricing a portion of its outstanding

[4] This is because NSS rates have not weakened in correspondence with the declining yields on comparable market based instruments.

domestic debt through higher borrowing from commercial banks and an offsetting decline in SBP debt.[5]

Figure 8.5: Share of SBP in Debt Holdings of Banking Sector



Debt Held by the Non-banking Sector

In sharp contrast to the banking sector, the debt holdings of the non-banking sector recorded an increase of around Rs 101 billion during FY02 (see **Table 8.3**). This was primarily driven by higher inflows in NSS and Prize bonds.

Net inflows in NSS stood at Rs 71 billion during FY02, which is almost double as compared to a year ago. This increase is mainly attributable to higher national savings and rise in profit rates on these schemes. The instrument-wise mobilization reveals an interesting development as this increase was largely driven by higher amount in SSCs instead of DSCs, which had been the preferred instrument in past years. This departure from trend is quite visible in **Table 8.4**, as net inflows in SSCs during FY02 constitute around 50 percent of total inflows in NSS.

Table 8.4: Net Inflows in Major NSS

billion Rupees

	FY99	FY00	FY01	FY02
DSCs	38.3	41.2	16.6	21.2
SSCs	30.0	-14.7	9.4	36.3
RICs	59.1	26.1	8.6	10.9

The unusual shift from DSCs to SSCs appears to be the result of changing profit rates on these schemes. The government announced revised profit rates twice in the year under review; first with effect from July 1, 2001 to December 31, 2001 (for H1-FY02) and second with effect from January 1, 2002 to June 30, 2002 (for H2-FY02). In first revision, the compound profit rates on DSCs and SSCs were increased by about one percentage point to compensate for a withholding tax imposed with effect from July 1, 2001 (see **Table 8.5**).

Table 8.5: Profit Rates on DSCs and SSCs[1]

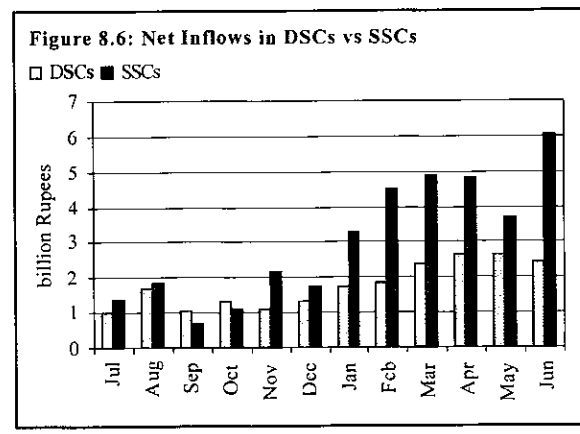
percent

	DSCs	SSCs
01-07-2000 to 30-06-2001	14.0	11.3
01-07-2001 to 31-12-2001	15.0	12.6
01-01-2002 to 30-06-2002	14.1	12.6

[1]: Compound annual average rates

During the second revision, the government reduced the profit rates on DSCs by one percentage point, following the reduction in PIBs coupon rates with effect from November 6, 2001, while the profit rates on SSCs were kept unchanged. This rendered the SSCs relatively more attractive as compared to DSCs, increasing their sales in the following months (see **Figure 8.6**).

Figure 8.6: Net Inflows in DSCs vs SSCs



Furthermore, this pattern of inflows for SSCs was also traceable in overall inflows in NSS. Specifically, investment in NSS stood at Rs 21.2 billion during H1-FY02, which was only

[5] For details, Please see section on **Money and Credit**.

27.9 percent of total net inflows for the year. The larger portion of FY02 NSS inflows was received in H2-FY02 when SSC rates were relatively more attractive.

8.2.4 Interest Payments on Domestic Debt

Interest payments on domestic debt for FY02 recorded an 8.3 percent decline (Rs 16.3 billion in absolute terms) over the preceding year. This was entirely driven by a massive fall in the cost of unfunded debt. The decline in interest payments on floating debt was almost negligible, while interest expenses on permanent debt *increased* by Rs 2.2 billion (see **Table 8.6**).

The rise in FY02 interest payments on permanent debt stems from rising stock of this component, as elaborated in **Sections 8.2.3**. Specifically, interest payments on PIBs rose sharply to Rs 8.5 billion as compared to only Rs 0.9 billion in FY01. Additional contributions to the rise were from interest payable on other maturing government bonds, and on liabilities of Pakistan Steel Mills.

Table 8.6: Interest Payments

billion Rupees

	FY99	FY00	FY01[1]	FY02[2]
Permanent debt	38.002	54.809	40.675	42.848
Floating debt	63.422	58.344	53.239	53.189
Unfunded debt	77.462	93.168	101.479	83.044
Total	178.886	206.321	195.393	179.081

Note: Data on 'permanent debt' exclude interest payments on FEBC, US$ bearer certificates, FCBCs and Special US $ bonds as these bonds are classified as explicit liabilities. Data on interest payments on unfunded debt include provincial interest payments, commissions, charges, and printing charges.

[1]: Data on Federal interest payments are taken from ABS FY03

[2]: Latest data received from Ministry of Finance

Source: Ministry of Finance

The marginal decline of Rs 50 million in the interest paid on floating debt calls for an explanation, given that the outstanding debt saw a steep fall of Rs 180 billion and that FY02 interest rates were lower. The apparent contradiction is explained by the accounting treatment; since the interest is computed on a cash basis, the cost shifts from one year to year. If we adjust the *accrued* interest of Rs 14.4 billion on MRTBs, the interest payments on floating debt drops to Rs 38.8 billion, which is substantially lower than both, the budget estimates and the interest cost for FY01.

Interest payments on unfunded debt include interest payment of provincial governments, commissions, charges and the printing costs of debt instruments. During FY02, these were Rs 18.4 billion lower than in the previous year; in fact, the fall was even higher than the fall recorded in overall interest payments on domestic debt. This suggests that a portion of this saving was offset by higher interest payments on permanent debt (see **Table 8.6**). Also, a compositional breakdown of the interest on unfounded debt shows that interest payments on NSS actually increased during FY02 (compared to FY01) but remained significantly below the budget target. This relatively low increase, despite heavy inflows in these schemes during FY02, is simply because the initial payments on the incremental NSS inflows will fall due in FY03 and beyond.

8.3 External Debt

The considerable improvement in Pakistan's external debt and liabilities (EDL) profile during FY02 reflects the country's adherence to the Debt Reduction and Management Strategy (DRMS). This period witnessed a reversal in the country's EDL trend through a US$ 0.6 billion reduction to US$ 36.5 billion. There was also a visible shift in its maturity profile and the cost structure (see **Table 8.7**). Within the EDL, while the debt burden has increased by US$ 1.3 billion, this is on very concessional terms and is more than offset by a US$ 1.9 billion fall in liabilities.

The EDL reduction in FY02 is quite creditable, but there is no room for complacency. Given the magnitude of the external debt burden, sustained macroeconomic discipline will be required over a number of years before Pakistan can completely extricate itself from the debt trap. Also, it must be

Table 8.7: Pakistan's External Debt and Liabilities

million US Dollar

	FY99	FY00	FY01	FY02 P
I. Public and publicly guaranteed debt	**26,025**	**27,862**	**28,145**	**29,235**
A. Medium and long term (> 1 year)	**25,873**	**27,732**	**27,888**	**29,052**
Paris club	11,873	12,428	11,822	12,516
Multilateral	10,599	12,292	13,343	14,331
Other bilateral	629	639	421	429
Eurobonds	608	620	645	643
Military debt	1,004	653	554	819
Commercial loans/credits	1,160	1,100	1,103	314
B. Short-Term (≤ 1 year)	**152**	**130**	**257**	**183**
IDB	152	130	257	183
II. Private non-guaranteed debts	**3,435**	**2,842**	**2,450**	**2,226**
Medium and long term (> 1 year)	3,435	2,842	2,450	2,256
Private loans/credits	3,435	2,842	2,450	2,256
III. IMF	**1,825**	**1,550**	**1,529**	**1,939**
Total external debt	**31,285**	**32,254**	**32,124**	**33,400**
IV. Foreign exchange liabilities	**5,315**	**5,664**	**5,015**	**3,132**
Foreign currency accounts	1,719	1,733	1,100	406
FE-45	1,380	1,072	774	234
FE-31 deposits (incremental)	272	300	326	172
FE-13	67	361	-	-
Special US Dollar bonds	1,164	1,297	1,376	924
National debt retirement program	196	156	150	75
Foreign currency bonds (NHA)	263	241	219	197
Central bank deposits	700	700	700	750
NBP/BOC deposits	616	781	749	500
Others liabilities	657	756	721	280
Total external debt and liabilities (I to IV)	**36,600**	**37,918**	**37,139**	**36,532**
FCBCs/FEBCs/DBCs (payable in Rupee)	**195**	**148**	**90**	**66**

P: Provisional

Note: Due to changes in definitions (as explained **in Sections 8.3**) the data in this table is not directly comparable with data presented in earlier Annual Reports

noted that a substantial part of the FY02 improvement is based on improved debt management rather than a very strong growth of the domestic economy.

Nonetheless, Pakistan did achieve a number of milestones during FY02 that will help the transition towards a sounder and more sustainable debt path:

1. The successful completion of an IMF Stand-By Arrangement (SBA) considerably restored Pakistan's credibility with IFIs by demonstrating the government's commitment to the reform agenda.
2. The government's decision to join the international war against terrorism also revived our previously strained relationships with major bilateral creditor countries. As a result, Pakistan received improved access to some key markets and saw the removal of a number of economic sanctions imposed after nuclear test and the military takeover in October, 1999.
3. These steps paved the way for the successful negotiation of a relatively generous medium-term PRGF and also led to additional assistance and support from bilateral creditors and IFIs, as reflected by the higher FY02 receipts on account of non-food aid (see **Table 9.1**).

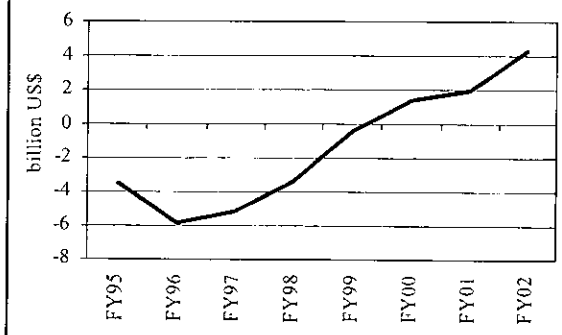
4. The restructuring of Pakistan's bilateral debt by Paris Club creditors was also on very generous terms[6]; the sharp reduction in the Net Present Value (NPV) of external debt (between 28 to 44 percent) was achieved without the stigma of a HIPC restructuring.[7]
5. Pakistan also posted a record current account surplus of US$ 2.7 billion during FY02. This was instrumental to the accumulation of the SBP foreign exchange reserves to an all-time high of US$ 4.8 billion by end-June 2002, as well as facilitating the retirement of the more expensive external debt and liabilities.
6. Finally, the unprecedented appreciation of Rupee/Dollar parity by 6.7 percent, and resulting end to devaluation expectations (evident in the virtual disappearance of the kerb market premium) carries major positive direct[8] and indirect[9] connotations.

8.3.1 External Debt Indicators

A majority of Pakistan's debt indicators witnessed an improvement during FY02.

External debt ratios show a mixed performance in FY02. The increase in soft loans worsened some debt indicators, while others saw dramatic improvements due to a jump in remittances, and the rise in net receipts under the services account. The *debt to GDP* and *debt to export earnings* ratios worsened, but despite the increased debt, the *TED/ FEE* ratio decreased (see **Table 8.8**). Similarly, an unprecedented US$ 4.8 billion accumulation of foreign exchange reserves increased the *RES/TED* ratio.

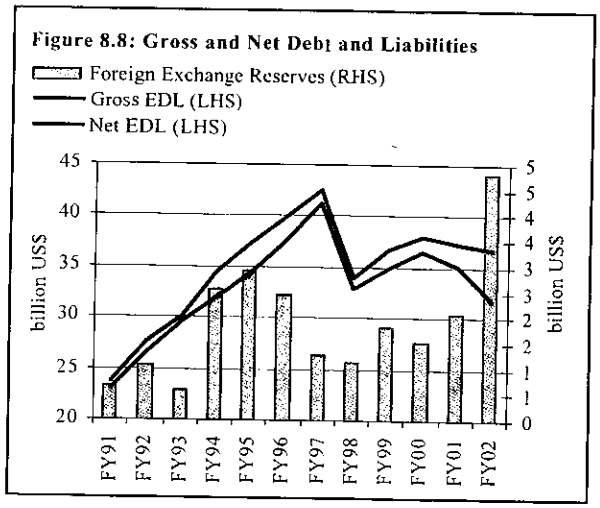
Figure 8.7: Non-interest Current Account Balance



By contrast, since the liabilities have decreased in absolute terms, all of the liability indicators show an unambiguous positive change in FY02. The record level of foreign exchange reserve build up during FY02 also bolstered the ratio of *foreign exchange reserves to EDL*, which improved from 5.6 percent in FY01 to 13.5 percent during FY02.

Another important indicator of a country's external debt profile is *the non-interest current account* balance. It reflects a turnaround from negative to positive balance since FY00, which shows the concerted efforts of current government to bring strength and stability to external sector and check the

Figure 8.8: Gross and Net Debt and Liabilities



[6] One can say that if the September incident had not occurred, Pakistan would have performed well and thus to be granted PRGF and restructuring from Paris Club but might be on bit harder terms.

[7] In a sense this is beneficial for Pakistan as the restructuring terms for Heavily Indebted Poor Countries (HIPC), restrict borrowings on normal terms from IBRD, ADB or market sources. Pakistan is the only fourth country in world to be granted such generous terms.

[8] Not only did the rupee cost of external debt servicing declined, foreign currency liabilities also fell sharply (as investors preferred to encash their holdings in Rupees)

[9] The improved external account contributed to the easing of monetary policy and a consequent decline in the cost of servicing domestic debt.

growth of un-sustainable external debt (see **Figure 8.7**).

Net External Debt & Liabilities

This is computed by subtracting the entire stock of a country's EDL from its liquid foreign exchange reserves, and it simply measures the country's immediate ability to redeem its EDL. Thus the smaller the value of this indicator, the better off the country is. The sharp US$ 3.3 billion improvement in this indicator during FY02 mirrors the unprecedented accumulation of foreign exchange reserves as well as a complementary decline in the country's EDL (see **Figure 8.8**).

8.3.2 Size & Structure of External Debt and Liabilities

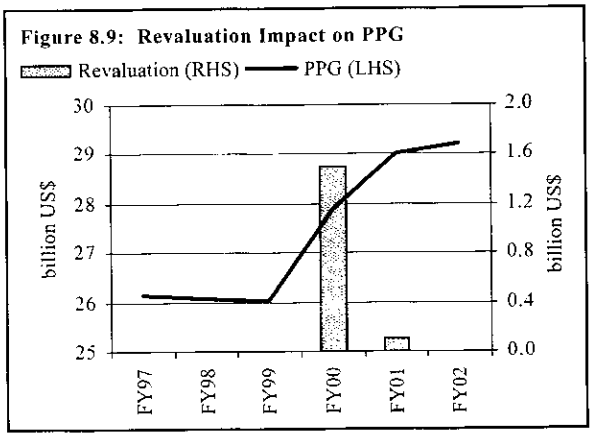
Prior to discussing the components of Pakistan's external debt and liabilities, it is important to note that the definitions of external debt and liabilities have undergone a small modification in FY02. Specifically, NHA bonds, central bank deposits and NBP/BOC deposits of different maturity, that were earlier components of external debt, have been re-classified as external liabilities. The change simply recognizes that funds under these heads were repeatedly rolled over and *effectively* had no definite repayments schedule. Accordingly, the data in **Table 8.7** has been adjusted to make it comparable over the years.

The following coverage of the components of EDL is based on the revised definitions. As mentioned earlier, according to provisional estimates, Pakistan's total external debt and liabilities declined by 1.6 percent to US$ 36.5 billion during FY02 (See **Table 8.7**). This was achieved principally due to the retirement of commercial and private loans/credits, IDB credits, foreign currency accounts, special US$ bonds, National Debt Retirement Program (NDRP), other liabilities and NBP deposits.

Public and Publicly Guaranteed Debt [10]

This is the single largest component with an 88 percent share in the Pakistan's total external debt. However, before discussing the PPG debt in detail, it is essential to highlight the issue of revaluation, which increased the stock of PPG significantly during the last three years.

Figure 8.9: Revaluation Impact on PPG



All data related to public and publicly guaranteed debt published in the report is taken from Economic Affairs Division (EAD). EAD data diverges significantly from creditor's external debt stock primarily due to the revaluation treatment. The main reason for this difference is that such loans are denominated in different currencies and these amounts were converted into the US dollar to report the outstanding stock at a particular point in time. Although EAD valued the disbursement and repayments at current exchange rates, but this revaluation had not been applied to previous debt stocks. Hence, past discrepancies in cross rate were corrected and an up-dated value of stock of debt was derived (for more detail, see External debt section in SBP *Annual Report* for FY01). In order to remove these discrepancies, the EAD carried out a revaluation of Pakistan's PPG debt during FY01, that increased the stock debt significantly (see **Figure 8.9**).

[10] This PPG debt owned by the government, public sector enterprises and autonomous bodies.

Table 8.8: Selected External Debt/Liabilities Indicators

	Total external debt to				Total external debt and liabilities (EDL) to				Non-interest current account balance (million US Dollar)
	GDP	EE	FEE	RES/TED	GDP	EE	FEE	RES/TEL	
FY95	47.7	371.4	232.9	9.5	61.4	479.0	300.3	7.4	-3,583
FY96	47.1	358.3	232.2	6.9	91.6	695.9	451.0	3.6	-5,923
FY97	48.4	372.6	233.4	4.0	68.0	523.3	327.7	2.9	-5,274
FY98	49.4	363.0	229.0	3.0	52.2	383.9	242.2	2.9	-3,421
FY99	53.4	415.6	278.2	5.5	62.5	486.2	325.5	4.7	-457
FY00	53.1	395.1	252.9	4.2	62.4	464.5	297.3	3.6	1,381
FY01	55.1	359.6	224.1	6.5	63.7	415.8	259.0	5.6	1,874
FY02	56.7	365.7	216.4	14.4	60.3	389.1	230.2	13.5	4,208

Note: Foreign Exchange Earnings is the sum of earnings from Goods, services, and income (credit entry from Item A: BOP-IMF/92) and private transfers (credit entry from Item B.7: BOP-IMF/92).

TED: Total External Debt

TEL: Total External Liabilities

RES: Foreign Exchange Reserves

EE: Export Earnings

FEE: Foreign Exchange Earnings

Despite this revaluation, some differences remained between EAD and creditors' book numbers, and the EAD finally reconciled the numbers in FY02 adopting the information provided by the creditor agencies during FY02. Since the EAD has already revalued the debt stock to a major extent, the adoption of creditors' number has a minor impact on total stock of debt during FY02. However, the IMF debt is denominated in SDRs and the value of IMF outstanding debt recorded an increase of US$ 103 million in FY02 due to valuation change in SDR/US Dollar parity.

Within total external debt, long-term public & publicly guaranteed debt has the dominant share due to heavy reliance on the official sources of financing (see **Table 8.9**); of this, 93 percent is from multilateral and bilateral sources. Multilateral claims are dominated by loans from IBRD, IDA and ADB, which constituted 98 percent of multilateral loans. The Paris Club creditors own 37.5 percent of the country's outstanding debt obligations. The bulk of these loans are from Japan, US, Germany and France.

It is evident that multilateral credit rose from US$ 10.6 billion in FY99 to 13.3 in FY01 mainly due to revaluation while the increase during FY02 was US$ 1.0 billion (see **Table 8.7**).

Table 8.9: Pakistan's External Debt: Share-wise

percent

	FY99	FY00	FY01	FY02
I. PPG guaranteed debt	**83.2**	**86.4**	**87.6**	**87.5**
A.MT/LT (> 1 year)	82.7	86.0	86.8	87.0
Paris club	38.0	38.5	36.8	37.5
Multilateral	33.9	38.1	41.5	42.9
Other bilateral	2.0	2.0	1.3	1.3
Eurobonds	1.9	1.9	2.0	1.9
Military debt	3.2	2.0	1.7	2.5
Commercial loans/credits	3.7	3.4	3.4	0.9
B.ST (≤ 1 year)	0.5	0.4	0.8	0.5
IDB	0.5	0.4	0.8	0.5
II. Private non-guaranteed debts	**11.0**	**8.8**	**7.6**	**6.7**
Private loans/credits	11.0	8.8	7.6	6.7
III IMF	**5.8**	**4.8**	**4.8**	**5.8**
Total External Debt	100	100	100	100

However, one of the positive aspects with respect to multilateral debt was the shift from 'hard' to 'soft' loans. More specifically, Pakistan contracted soft loans from IDA at zero interest rates with a 35-38 year maturity, and paid back US$ 0.9 billion in expensive loan of IBRD. This substitution of debt from hard to soft debt is one of the key elements of the DRMS. As a part of this strategy, the following inflows were realized from World Bank and ADB during FY02:

- US$ 510 million from the World Bank (specifically IDA). This loan has maturities between 30-35 years, 10-year grace period and service charges of 0.75 percent. It aims to support structural reforms in Pakistan and focuses on governance, economic growth and the delivery of social services.
- Another loan of US$ 188 million was also realized under the Banking Sector Adjustment Credit from World Bank, the facility aims to support the restructuring process of the financial system.
- A tranche of US$ 50 million under the Trade Export Promotion and Industry Program Loan of the ADB, which was approved on March 31, 1999. The facility aims to support the private sector exports by focusing on trade liberalization, financing, facilitation for trade and export, and the privatization of manufacturing units.
- US$ 100 million from the Asian Development Bank (ADB) under the Legal Reforms Program Loan. Approved on December 20, 2001, the facility aims to support a strengthening of the legal system to improve legal protection for all, and especially for the poor and other vulnerable groups.
- First tranche of US$ 35.0 million realized during current fiscal year from ADB's under Road Sector Development Program (RSDP) to uplift the roads in Pakistan. Approved on December 19, 2001, RSDP consists of a US$ 50 million policy loan to support national reforms and a US$ 150 million investment loan for a Provincial Sector Development Project. The program is taking a sequential approach, starting with Sindh province and to be extended to other provinces later on. The investment project will improve 164 km of provincial highways and 1,200 km of rural access roads in Sindh province. This rehabilitation will enhance communication between farm communities and market centers, as well as provide much-needed access to villagers for education and health facilities, and job opportunities in urban areas.

Commercial Loans/Credits

These comprise loans guaranteed directly by the federal government. Other than the oil import facilities, these are mostly cash disbursing facilities for BOP support received in one or multiple tranches, having maturities of less than two-years. The total stock of commercial loans and credit fell significantly, from US$ 1.1 billion in FY01 to US$ 0.3 billion during FY02, due to the repayments of PTMA credits.[11] The outstanding end-FY02 figure includes the amounts due under the Pakistan Trade Maintenance Agreement (PTMA), PTCL securitization and new loans contracted during last year, etc.

IDB Credits

The IDB does not provide any cash disbursing loans, but finances the import of crude oil and fertilizer. The closing stock of this debt fell by US$ 74 million during the year to US$ 183 million at end-June 2002.

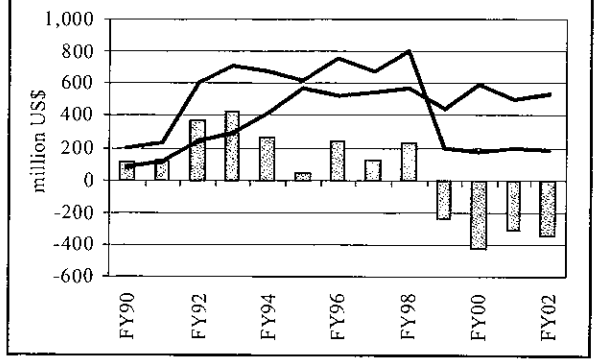
Private Loan/Credits

These are mainly "Supplier's Credit Schemes" (SCS) and "Pay as You Earn" (PAYE) credits and are contracted by private sector from multilateral sources, NCBs, and Export Credit Agencies in OECD countries. The federal government does not directly guarantee these loans, but convertibility is guaranteed by the SBP.

[11] The PTMA refers to Pakistan Trade Maintenance Agreements. Pakistan contracted this debt during 1990s to finance the huge current account deficit. However, after the nuclear test in 1998, which exposed Pakistan's inability to repay its debt following the economic sanctions from its major sovereign creditors. The country approached Paris Club to reschedule our bilateral debt during FY99, which in turn also invoked the comparability clause to private and commercial creditors. Therefore, we also rescheduled PTMA credits from "London Club" in December 1999.

While the schemes still exist, they have been effectively dormant after the imposition of economic sanctions following the nuclear test in 1998. More specifically, there was an embargo on deferred payment PAYE and SCS from donor countries as well as the difficulties in exchange risk coverage from SBP. The net outflows under these schemes over the years confirm the above point (see **Figure 8.10**). However, in light of the recent lifting of the relevant economic sanctions, these schemes could be reactivated.

Figure 8.10: Private Loans and Credit



The end-FY02 stock stood at US$ 2.2 billion as compared to US$ 2.5 billion last year. A breakup of the amount by economic groups shows that the largest component accrues to the Power sector (mainly IPPs), with the Cement sector a distant second.

IMF

The stock of debt from IMF increased from US$ 1.5 billion to US$ 1.9 billion during FY02. This is the upshot of the disbursements on account of SBA, PRGF and valuation changes (for details, see section on *Transactions with IMF* in **Chapter 9**).

External Liabilities

The most noteworthy development is the retirement of external liabilities by US$ 1.9 billion during FY02. The end-June FY02 stock of external liabilities is US$ 3.1 billion as compared to US$ 5.0 billion last year.

Foreign Currency Accounts

Due to the hefty increase in foreign exchange reserves, SBP returned the FE-31 and FE-13 (part of FE-25 placed with SBP previously) to the mobilizing commercial banks, while the stock of FE-45 deposits fell from US$ 1.1 billion to US$ 0.4 billion during FY02 due to hard currency payments.[12 &13]

Special US Dollar Bonds

As of end-June 2002, the outstanding stock amounted to US$ 0.9 billion as compared to US$ 1.4 billion at end-FY01 (see **Table 8.7**).[14] The majority of the bonds issued had a maturity of 3-years. Thus, as the initial maturities fell due in FY02, the SBP sought to protect its fragile foreign exchange reserves by offering (1) 5 percent bonus to bond-holder opting for Rupee redemptions keeping in view the kerb premium, and (2) an attractive reinvestment option, i.e., the face value of the bond could be re-invested for a further 3 years (from the date of redemption) at LIBOR + 2 percent.

The reinvestment option was relatively more attractive as compared to Rupee redemption bonus till November 2001 when the kerb premium collapsed. After the collapse of kerb premium the incentives to dollarize faded and bondholders increasingly availed the option of redemption in Rupees with 5

[12] Originally solicited under circular FE 45 of 1995, these deposits carry interest payments at LIBOR + 0.75. Rupee liquidity and forward cover (at 5.5 percent) is provided to mobilizing banks against these deposits.

[13] These represent the incremental deposits in the old FCA scheme. As was the case with the frozen FCAs, commercial banks are provided Rupee liquidity against these deposits at the prevailing interbank exchange rate, and mobilizing banks are permitted to purchase forward cover at a rate of 8 percent per annum.

[14] After the freeze of FCAs following the nuclear test, the Government of Pakistan launched the Special US Dollar Bond scheme in July 1998. This scheme offered 3, 5 and 7 years Dollar denominated instruments with interest payable half yearly at LIBOR + 1, 1.5 and 2 percent, respectively. These bonds could be purchased against frozen FCAs, FCBCs, DBCs, or by surrendering hard currency.

percent redemption bonus. Although the SBP withdrew the premium by March 2002, these Rupee redemptions continued apace in subsequent months (see **Table 8.10**).

National Debt Retirement Program (NDRP)

NDRP was launched on February 27, 1997 to solicit funds from non-resident Pakistanis (NRPs) towards retiring the country's external debt. Resident Pakistanis were also allowed to participate in the scheme using their foreign currency accounts, FEBCs, FCBCs, traveler cheques, remittance from abroad or by surrendering hard currency.[15] The bulk of funds mobilized under NDRP scheme was placed in 5-year maturity of profit bearing deposits. These expensive liabilities are expected to be retired as they mature. The end-June 2002 stock of NDRP is reported at US$ 75 million, down 50 percent from end FY01 level.

Table 8.10: Encashment and Reinvestment of Maturing 3-Years Special US$ Bonds

million US Dollar

	Maturity	Repayment			Reinvestment
		US$	Converted into Pak Rs	5% Bonus	
Oct-01	0.1	0.0	0.1	0.0	0.0
Nov-01	38.9	0.3	3.4	0.2	15.1
Dec-01	89.7	5.0	44.0	2.2	21.2
Jan-02	70.5	4.8	124.8	6.2	4.9
Feb-02	28.7	1.9	28.8	1.4	7.6
Mar-02	45.4	1.6	44.3	2.2	2.9
Apr-02	71.5	13.3	29.8	1.5	2.9
May-02	96.7	16.5	30.0	-	5.8
Jun-02	61.5	14.9	47.8	-	3.3
Jul-02	30.3	12.4	18.1	-	1.4
Total	**533.3**	**70.6**	**371.0**	**13.8**	**65.1**

Source: Karachi and Lahore offices of SBP

NHA Bonds

The end-June 2002 stock of NHA bonds is US$ 197 million as compared to US$ 219 million last year due to the normal repayments of these bonds.

Central Bank Deposits (CBD)

These comprise of deposits by central banks of various friendly countries (UAE: US$ 450 million and Kuwait: US$ 250 million) placed with SBP at end-June FY01.[16] The stock of these placements increased during FY02 as Libya also placed a deposit of US$ 50 million in December 2001.

NBP/BOC Deposits

These comprised NBP Bahrain and Bank of China deposits. The end-June 2002 stock of these deposits is US$ 500 million as compared to US$ 750 million last year. During FY02, Pakistan retired the two deposits of NBP Bahrain of US$ 46 million (placed with GOP) and US$ 203 million (placed with SBP). The remaining outstanding amount is a Bank of China deposit.

Others Liabilities

These comprise of swaps from various commercial banks and moneychangers. The stock of these swaps declined by US$ 441 million during FY02, as Pakistan repaid all the swaps to moneychangers, the remaining stock of US$ 280 million is owned to various commercial banks.

8.3.3 External Debt and Liability Servicing

Following the acute balance of payments difficulties after the nuclear detonations in May 1998, Pakistan has received two back-to-back rescheduling (January 1999 and January 2000), the first of which was accompanied by a rescheduling by the *quasi* London Club creditors (December 1999).[17]

[15] For details, please see FE Circular 2 of February 24, 1997.

[16] The UAE deposits were originally placed in FY97 and FY98 but have been rolled-over indefinitely. The deposit from Kuwait Monetary Authority had also been originally placed for two years in FY98 but has been rolled-over for two years.

[17] Debt restructuring is different from rescheduling as: (1) it provides relief in the form of reduction in NPV of external debt; (2) interest rate on the outstanding loans is on concessional terms; and (3) the consolidation period is much longer.

However, even after the recent consolidation period that ended in September 2001, Pakistan was still unable to rebuild its debt repayments capacity, and was therefore, again forced to approach Paris Club creditors for yet another restructuring. In view of Pakistan's strict adherence to the IMF reform program during FY01, the response was very positive.

Table 8.11: Salient Features of Paris Club Restructuring

Loan Group	Debt Restructured	Consolidation Date(s)	Interest rate	Grace	Maturity	Repayment Profile
Paris club eligible bilateral pre-cutoff bilateral concessional loans	Reschedule stock	As of Nov. 2001	Original interest rate; interest rates on Japanese loans reduced to 2.4 percent	15 years	38 years	Eaeh payments Each semester
Paris club eligible bilateral pre-cutoff bilateral non-concessional loans	Reschedule stock	As of Nov. 2001	Loan currency specific CIRR rate or equivalent proxy	5 years	23 years	Paris club provided repayment Profile
Paris club Concessional Pre. Restructure debt Jan. 1999 & Jan. 2001	Reschedule stock	As of Nov. 2001	Original interest rate; interest rates on Japanese loans reduced to 2.4 percent	15 years	38 years	Each payments each semester
Paris club Non-Concessional PRD Jan. 1999 and Jan. 2001	Reschedule stock	As of Nov. 2001	Loan currency specific CIRR rate or equivalent proxy	5 years	23 years	Paris club provided repayment Profile
Non-Paris club bilateral pre-cutoff bilateral concessional & non-concessional	Reschedule stock	As of Nov. 2001	Original interest Rate	15 years	38 years	Each payments Each semester
Cash-flow relief maturities on post cut off dates	Defer 100 percent Principal and interest	Dec. 2001 to June 2002	Market rate	3 years	5 years	4 equal payments each semester
Cash-flow relief interest payments due on restructure amounts	Capitalize 100 percent interest	Dec. 2001 to June 2002	Market rate	3 years	5 years	4 equal payments each semester
	Capitalize 20 percent interest	July 2002 to June 2003	Market rate	3 years	5 years	4 equal payments each semester
	Capitalize 20 percent interest	July 2003 to June 2004	Market rate	3 years	5 years	4 equal payments each semester

The Paris Club offered very generous terms; in contrast to the previous two rescheduling agreements that provided relief *only* in terms of debt flows (as per *Houston terms*), the existing arrangement is applicable to the entire stock of US$ 12.5 billion of Pakistan's bilateral debt owned by Paris Club creditors.[18]

Consequently, this provided an implied debt reduction without having a HIPC status, which is generally associated with *Naples terms*.[19] The other salient features of current restructuring can be gleaned from **Table 8.11**.

In overall terms, despite the restructuring, Pakistan's external debt and liabilities servicing increased from US$ 5.1 billion to US$ 6.3 billion during FY02 (see **Table 8.12**). The most noteworthy

[18] This comprised ODA: US$ 8.8 billion, non-ODA: USS 3.6 billion, and arrears of US$ 77 million. In this regard, "official development assistance (ODA)" is defined by the OECD as credits with a low interest rate and aimed at development.
[19] In a sense this is beneficial for Pakistan as HIPC status restricts borrowings on normal terms from IBRD, ADB or market sources.

Table 8.12: Pakistan's External Debt and Liabilities Servicing (New Format)

million US Dollar

	FY00		FY01 P		FY02 P	
	Actual paid	Rescheduled/ Rollover	Actual paid	Rescheduled/ Rollover	Actual paid	Rescheduled/ Rollover
1. Public and publicly guaranteed debt	**1,871**	**2,209**	**2,401**	**1,119**	**3,055**	**1,208**
A. Medium and long term (> 1 year)	1,723	2,209	2,209	1,119	2,631	1,208
Paris club	423	1,149	438	934	187	1,094
Principal	308	851	221	681	71	652
Interest	115	298	217	253	116	442
Multilateral	938	0	910	0	903	0
Principal	556	0	572	0	583	0
Interest	382	0	338	0	320	0
Other bilateral	40	132	221	68	124	32
Principal	29	104	180	55	100	25
Interest	11	28	41	13	24	7
Eurobonds	62	610	62	0	67	0
Principal	0	610	0	0	3	0
Interest	62	0	62	0	64	0
Military debt	49	166	56	117	24	82
Principal	49	130	56	92	19	63
Interest	0	36	0	25	5	19
Commercial loans/credits	211	152	522	0	1,326	0
Principal	59	152	445	0	1,283	0
Interest	152	0	77	0	43	0
B. Short-term (≤ 1 year)	148	0	192	0	424	0
IDB	148	0	192	0	424	0
Principal	141	0	184	0	403	0
Interest	7	0	8	0	21	0
2. Private non-guaranteed debts	**838**	**0**	**696**	**0**	**795**	**0**
A. Medium and long term (> 1 year)	838	0	696	0	795	0
Private loans/credits	838	0	696	0	795	0
Principal	590	0	500	0	586	0
Interest	248	0	196	0	209	0
B. Short-term (≤ 1 year)	0	0	0	0	0	0
3. IMF	**340**	**0**	**299**	**0**	**247**	**0**
Repurchases / principal	280	0	239	0	194	0
Charges / interest	60	0	60	0	53	0
Total debt servicing (1 thru 3)	**3,049**	**2,209**	**3,396**	**1,119**	**4,097**	**1,208**
4. Central bank deposits	**43**	**300**	**46**	**400**	**38**	**300**
Principal	0	300	0	400	0	300
Interest	43	0	46	0	38	0
5. NBP/BOC deposits	**64**	**500**	**209**	**500**	**287**	**500**
Principal	10	500	147	500	249	350
Interest	54	0	62	0	38	150
6. Special US$ bonds	**86**	**0**	**104**	**0**	**537**	**0**
Principal	0	0	0	0	470	0
Interest	86	0	104	0	67	0
7. Foreign currency loan bonds (NIIA)	**39**	**0**	**39**	**0**	**38**	**0**
Principal	22	0	22	0	22	0
Interest	17	0	17	0	16	0
8. Swaps	**0**	**0**	**866**	**0**	**441**	**0**
9. FCAs	**392**	**1,072**	**365**	**776**	**777**	**235**
FE-45 (institutional)	383	1,072	347	776	569	235
Principal	308	1,072	295	776	544	235
Interest	75	0	52	0	25	0
FE-13 (interest)	9	0	18	0	4	0
FE-31	0	0	0	0	204	0
10. NDRP	**0**	**0**	**0**	**0**	**62**	**0**
11. FEBCs/FCBCs/DBCs	**83**	**0**	**76**	**0**	**50**	**0**
Principal	48	0	39	0	27	0
Interest	35	0	37	0	23	0
Total (1 through 11)	**3,756**	**4,081**	**5,101**	**2,795**	**6,327**	**2,243**

P: Provisional

developments are the reduction of US$ 1.9 billion in total external liabilities during FY02, the immediate cash relief from Paris Club creditors by deferring all the interest and principal repayments due on the post cut-off date during November to June 2002.[20] On the other hand, the rescheduled and rollover amount decreased from US$ 2.8 billion to US$ 2.2 billion due to the lower rollover of external liabilities (FE-45 and CBD) in FY02 as against the case in FY01. In case of external debt, the rescheduling of all bilateral loans (pre and post cut-off date) from Paris Club increased the rescheduled amount marginally.

Financial Saving from the Current Restructuring of Paris Club Debt [21]

The realized financial savings from the current restructuring will, of course, depend on the interest rate negotiated with individual creditor countries.[22] However, **Table 8.13** presents an indicative implied debt reduction that is computed on the basis of various assumed interest rates both for ODA and non-ODA creditors.

Table 8.13: Financial Impact of Restructuring of Paris Club Debt

	Interest rate		Saving over		NPV of debt before restructuring	Expected NPV of debt after restructuring	Expected NPV reduction
			PRGF	Grace period			
	ODA	Non-ODA					
	percent		million US Dollar				percent
Scenario I	1.0	3.0	2,971	11,060	12,599	7,112	44
Scenario II	1.5	3.5	2,848	9,880	12,599	8,090	36
Scenario III	2.3	4.0	2,711	8,541	12,599	9,029	28

This NPV reduction of bilateral debt together with the exceptional increase in foreign exchange reserves would not only improve Pakistan's liquidity position, but also provide an opportunity to exit from IMF programs after the completion of the PRGF. Furthermore, the fiscal space provided by the restructuring would allow the government to increase development expenditures.

8.3.4 External Debt Sustainability

"External Debt Sustainability measures the country's ability to repay debt in relation to its earning capacity."

The debt sustainability is investigated using an analytical framework adopted from Cohen (1985) (for more detail on indices, see **Box 1**). If the value of the index turns out to be negative it means that the interest rate on external debt is less than the export earnings, which indicates that country is solvent. In case of positive number, the country is insolvent, as it is not

Box 8.1: Cohen's Solvency Index

Cohen (1985)[1] used following ratios to compute the solvency index for developing countries. The formula of Cohen's index is:

b1 = (R – X)/(1 + X) * Debt/GDP ratio **(A)**

b2 = (R – X)/(1 + X) * Debt/EE ratio **(B)**

where R is real average interest rate on external debt, X: growth rate of export earnings.

A simple solvency condition compares the growth rate of exports and real interest rate. A country is said to be insolvent if R is greater than real growth of exports. However, Cohen suggests that this is a simplistic and inadequate method of determining insolvency because a country is not necessarily insolvent as long as it satisfies the condition that PV of future debt tends toward zero in the long term. This index assumes that a country is interested in maintaining the variable at some constant level in order to be creditworthy. So it is essential to generate enough trade surpluses, represented by ***b***, to maintain a given level of debt to GDP ratio or Debt to EE. Therefore, ***b*** is a level of trade surplus or maximum proportion of resources above that a country would rather default than remain solvent.

[1]: Cohen, D. (1985), "How to Evaluate the Solvency of an Indebted Nation" *Economic Policy*, Vol. 1, No.1.

[20] When a debtor country first meets with Paris Club creditors, the "cutoff date" is defined and is not to be changed in subsequent Paris Club treatments; this means that credits granted after cutoff date are not subject to future rescheduling, thereby protecting credits granted by Paris Club creditors after a rescheduling.

[21] The financial impact or saving is measured by comparing the cash flow with that of the same stock of debt prior to the restructuring exercise.

[22] According to the Paris Club restructuring agreements, Pakistan has to negotiate the interest rate with individual member before the September 2002. However, the GOP has requested the Paris Club to extend this date upto December 2002.

earning enough resources to pay off its debt obligation. If a country pays all interest falling due every period, the value of debt remains constant. If an indebted country neither pays its debt nor makes the associated interest payments, the debt grows at the rate of interest. The central focus of Cohen's analysis is on the minimum level of debt repayments that keeps the debt to exports or debt to GDP ratios constant.

The Cohen's solvency indices computed for Pakistan are presented in **Table 8.14**. The total time period from FY81 to FY02 has divided into four sub-periods FY81-88, FY89-96, FY97-99 and FY00 -FY02. The indices imply that on average Pakistan was solvent throughout FY1981-88 due to the healthy real growth of exports. In second sub-period from FY89 to FY96, Pakistan remained solvent due to the buoyant growth of exports in FY91 and again in FY96. The solvency condition deteriorated during FY97-FY99 and reached a peak as shown by the index value of 8.4 in FY99. However, the solvency condition for Pakistan improved to –1.3 from 6.0 during FY00-02 despite the revaluation of external debt which increased the debt to GDP ratio from 53.1 percent to 56.6 in FY01.

Table 8.14: Cohen's Solvency Index for Pakistan

	TED to GDP	TED to EE	Real exports growth rate	Real interest rate	Solvency index	
					b1=(r-x)/(1+x)*Dg	b2=(r-x)/(1+x)*Dx
FY81	35.0	360.3	0.237	-0.063	-8.5	-87.2
FY85	39.2	486.1	-0.096	0.002	4.3	52.8
FY90	52.6	414.2	0.058	-0.022	-4.0	-31.5
FY97	48.4	372.6	-0.127	0.012	7.7	59.5
FY98	49.4	363.0	-0.012	0.023	1.7	12.8
FY99	53.4	415.6	-0.126	0.012	8.4	65.7
FY00	53.1	395.1	0.080	0.007	-3.6	-26.6
FY01	56.6	369.4	0.053	0.016	-2.0	-13.0
FY02	55.1	364.7	0.001	0.031	1.7	11.0
			Averages			
FY81-88	*38.8*	*418.9*	*0.087*	*-0.008*	*-2.9*	*-25.1*
FY89-96	*49.5*	*381.1*	*0.052*	*-0.003*	*-2.3*	*-17.4*
FY97-99	*50.4*	*383.7*	*-0.088*	*0.016*	*6.0*	*46.0*
FY00-02	*54.9*	*376.4*	*0.045*	*0.018*	*-1.3*	*-9.5*

8.3.5 Future Debt Reduction Strategy

As can be seen from **Table 8.11** and **Table 8.13**, Pakistan expects to achieve an NPV reduction of between 28 to 44 percent, from recent restructuring from Paris Club creditors. The expected write off of US$ 1 billion from US, which is in addition to the Paris Club restructuring, will further reduce the external debt burden.[23]

At the same time, since multilateral debt (from the IFIs) cannot be rescheduled or re-profiled, non-concessional loans from the World Bank, Asian Development Bank and IMF are being substituted by new loans on easier terms.[24]

[23] Under the US laws, the congress has to appropriate US$ 200 million in the budget which is equivalent to NPV of US$ 1 billion over 20 years.

[24] In addition to the current PRGF from IMF (which is on concessional terms compared to the SBA), the World Bank is also providing credit on IDA terms (zero interest rate, 0.75 percent service charge, 10 year grace period and 30-35 years repayment period). Furthermore, ADB is not only increasing its annual assistance to Pakistan, but also shifting gradually from ordinary capital resources to concessional resources of Asian Development Fund.

Unlike the recent past, when the buildup of foreign currency reserves was largely due to commercial borrowings, the present government is focusing more on retiring expensive short-term commercial debt as reflected from the retirement of US$ 1.9 billion during FY02.

In this backdrop, **Table 8.15** projects Pakistan's stock of external debt and liabilities from FY03 to FY04.[25] As evident from this table, by June 2003, FE-45, FE-31 and NDRP would be liquidated; BOC and Central Bank Deposits would be partially repaid; first installment of Eurobonds US$ 155 million would be paid and the stock of Private loans/credits and defense would also decline.

Table 8.15: Revised External Debt Stocks: Published in DRMS (Summary Report)

million US Dollar

	End-June 2001 Revised	End-June 2002 Revised	End-June 2003 Projected	End-June 2004 Projected
Medium & long-term EAD[1]	25,586	27,276	28,170	29,062
IMF	1,529	1,939	2,115	2,168
Short-term commercial & IDB	1,360	497	940	837
Euro & Saindak bonds	645	643	485	327
Defense	554	819	543	543
Private loaos un-guaranteed	2,450	2,226	1,853	1,626
NBP (BOC) deposits	500	500	300	-
NBP deposits with SBP	203	-	-	-
NBP deposits with GOP	46	-	-	-
Central bank deposits	700	750	400	-
Special US$ bonds	1,376	924	472	344
FE-45	774	234	-	
FE-31	326	172	-	
Bearer certificates				
NHA bonds	219	197	175	153
SWAP	721	280	177	175
NDRP	150	75	-	-
Total	**37,139**	**36,532**	**35,630**	**35,235**

[1] EAD: Economic Affair Division, Ministry of Finance

The actual stock of Medium & long-term debt (EAD) increased mainly due to the revaluation of debt and availability of highly concessional loans from World Bank and ADB.

In overall terms, the total stock of Pakistan's external debt and liabilities should gradually decline. In this regard, the current account surplus posted during the last two years and the substantial gains from recent developments in the external sector (higher worker remittances, forex reserves build up etc.) are very encouraging.

[25] These estimates, which are based on the Report prepared by Debt Reduction and Management Committee, also include other external debt and liabilities like NBP (Government) deposits, FE 31, FCL bonds, Swaps and NDRP.

9 Balance of Payments and Exchange Rate Policy

9.1 International Economic Scenario

The world output is estimated to have grown by 2.5 percent during calendar year 2001, which is substantially lower than the 4.7 percent achieved a year earlier. However, contrary to fears, the events of September 11, 2001 had only a short run impact on economic activities, and the contagion effects of Argentinean crisis were likewise limited. During 2002, while the US economy is still trying to recover from multiple shocks to the corporate sector and industry and the Japanese economy remains depressed, it is an expected upturn in Euro area together with better performance by Singapore, Taiwan, China, and economies-in-transition, which are projected to contribute to a growth of 2.8 percent in 2002 for the world economy.

In the USA, despite a 1.1 percent growth for the second quarter of calendar 2002, which is surprisingly lower than in the preceding two quarters, the Fed appears reluctant to ease monetary policy further as the federal funds target rate is already at 1.75 percent – the lowest since 1955.[1] The recent corporate bankruptcies, stock market crash and an unprecedented declining trend in fixed investment since the fourth quarter of 2000, suggest unfavorable economic prospects. A major impediment to a recovery is cautious bank lending following disclosure of inappropriate accounting practice of many US corporates that may hamper growth prospects. This in turn would hurt household savings and add to their debts, which are already under stress. On the other hand, the weak US Dollar, an expansionary fiscal policy, inventory buildup, productivity gains, and the fact that consumer spending remains strong despite the stock market collapse, are important positives for prospects of a modest recovery.

A moderate recovery is visible in the Euro area after the negative growth during the fourth quarter of 2001. The improvement is mainly due to the inventory buildup and an expansion in exports. Moreover, industrial production is also rising after touching a bottom in January 2002. In overall terms, the Euro-area GDP growth is expected at around one percent for 2002. The weakness in the German economy, however, remains a disturbing factor. In particular, the budget deficit for Germany is registered at 2.8 percent of GDP in FY02, which is close to the maximum allowed limit of 3.0 percent of GDP for individual Euro member countries. It is expected that the compensation to the victims of recent floods, will put further pressure on the fiscal balance.

The Japanese economy finally registered positive growth (albeit of less than 1 percent) in the second quarter of 2002 after showing sharp declines during last three consecutive quarters of 2001.[2] The improvement was largely on account of stronger electronic exports to Asia and inventory rebuilding. However, problems in the financial sector, and the slow restructuring and reform processes are still impeding economic recovery. Similarly, despite the liberal monetary stance that prevented deflationary pressures from worsening, inflation is not likely to occur in the near future. The overall negative outlook of the Japanese economy also impedes recovery of other important Asian economies, though the growing trade among ASEAN countries, China and Korea may dampen these impulses.

In Latin America, Argentina faced another major crisis in December 2001 – the third in 20 years. The Peso had lost 256 percent of its value by end-June 2002; and inflation soared to 28 percent during January-June, FY02. The economy posted a decline of 16 percent during the first quarter of 2002

[1] While the discount rate is 1.25 percent.

[2] The 5.7 percent growth in the first quarter of 2002 is considered as a statistical anomaly.

compared with the same period last year. This crisis underlines the importance of fiscal discipline for long-term economic growth and stability. This time, however, Argentina has not yet been offered any bailout package by the IFIs; this could be an important watershed, deterring moral hazard problems in future. In the past, expectations of a bailout have generally encouraged private investors to take unwarranted exposure despite high risks. Fortunately, the contagion effects of the Argentina crisis were not as strong as they were in 1980s. Although neighboring Brazil saw its currency – the *real* – come under attack, this was due more to political uncertainty arising from the presidential election. The *real* depreciated by more than 40 percent during January-June, 2002, and Brazil's industrial production also decreased due to a sharp decline in exports to Argentina. This led to a fall of 0.7 percent in Brazilian GDP during the first quarter of 2002.

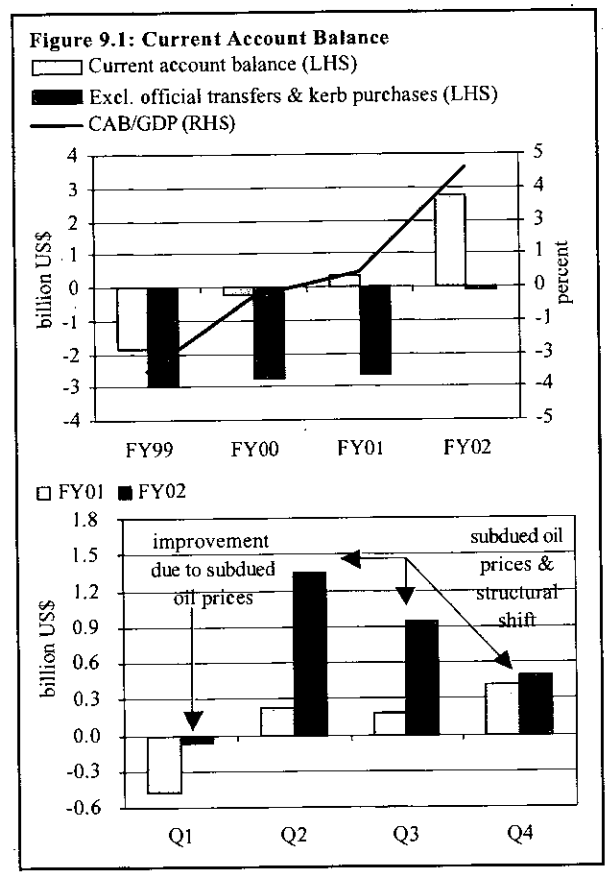
The emerging economies of Singapore and Taiwan recovered during 2002 after registering a decline in output last year. China is estimated to grow below the trend level but still above 7 percent growth witnessed last year. The GDP and industrial growth for Russia are impressive. After many years, the outlook for most of the African countries is bright, with GDP estimated to grow by relatively higher rates. A better economic performance in this region would help to reduce poverty and improve the living conditions of millions of the poorest.

9.2 Pakistan's Balance of Payments [3]

FY02 proved to be one of the most positive years, in terms of external sector developments, in the history of Pakistan, as reflected in the unparalleled surplus of US$ 2.7 billion in the overall balance of payments.

A number of inter-related developments propelled this improvement: (1) the kerb premium collapsed and the Rupee appreciated sharply, both in the kerb and the interbank markets, following the international crackdown on undocumented currency transactions; (2) this, in turn, caused a phenomenal increase in remittances through the banking channel, helping the country post its largest-ever current account surplus; (3) at the same time, improved relations with major creditors, due to greater credibility of economic policies and support to the international anti-terrorism campaign, led to greater assistance from sovereign creditors and IFIs; and (4) successful PRGF negotiations that, in turn, paved the way for a generous re-profiling of external debt by Paris Club creditors. The debt-re-profiling is expected to offer a sharp Net Present Value (NPV) reduction on external debt (between 27 to 43 percent) without having a HIPC or IDA only status.[4]

Figure 9.1: Current Account Balance



[3] Since this section is based on SBP's exchange records data, the trade numbers mentioned in this section may not tally with customs data used in the subsection on **Trade Account**.

[4] In a sense this is beneficial for Pakistan as HIPC or IDA only status restricts borrowings on normal terms from IBRD, ADB or market sources.

Not surprisingly therefore, the FY02 current account picture is notable for the depth of improvement, witnessing a surplus of US$ 2.7 billion during FY02 compared with US$ 0.3 billion in FY01 (see **Table 9.1** & **Figure 9.1**). In fact, even excluding official transfers and kerb purchases, the current account still shows an improvement of US$ 2.6 billion during the year. Indeed, the country's vulnerability to external shocks has reduced considerably.

Table 9.1: Balance of Payments - Summary

million US Dollar

	FY99	FY00	FY01	FY02	FY02	
					Jul-Sep	Oct-Jun
1. Trade balance	**-2,085**	**-1,412**	**-1,269**	**-360**	**-194**	**-166**
Exports (fob)	7,528	8,190	8,933	9,133	2,225	6,908
Imports (fob)	9,613	9,602	10,202	9,493	2,419	7,074
2. Services (net)	**-2,618**	**-2,794**	**-3,142**	**-2,620**	**-826**	**-1,794**
Shipment	-803	-751	-820	-746	-197	-549
Other transportation	110	71	61	103	-15	118
Travel	-122	-142	-180	-145	-35	-110
Investment income	-1,808	-2,018	-2,161	-2,311	-570	-1,741
Interest payments	-1,399	-1,598	-1,548	-1,464	-373	-1,091
Profits and dividends	-409	-420	-613	-847	-197	-650
Other goods, services, & income	5	46	-42	479	-9	488
3. Current transfers (net)	**2,847**	**3,989**	**4,737**	**5,724**	**959**	**4,765**
Private transfers –net	2,274	3,063	3,898	4,255	775	3,480
Workers' remittances	1,060	983	1,087	2,389	340	2,049
FCA (residents)	539	322	534	285	23	262
Outright purchases	531	1634	2157	1376	397	979
Official transfers	573	926	839	1,469	184	1,285
of which: Saudi oil facility	390	790	683	579	173	406
4. Current account balance (1+2+3)	**-1,856**	**-217**	**326**	**2,744**	**-61**	**2,805**
5. Capital account (net)	**-2,278**	**-4,177**	**-642**	**-1,050**	**-596**	**-454**
6. Errors & omissions	**992**	**500**	**625**	**961**	**359**	**602**
7. Overall balance	**-3,142**	**-3,894**	**309**	**2,655**	**-298**	**2,953**
8. Financing	**3,142**	**3,894**	**-309**	**-2,655**	**298**	**-2,953**
Changes in reserves (-Inc/+Dec)	**-824**	**-72**	**-1,001**	**-2,790**	**83**	**-2,873**
Assets	-1,254	208	-1,085	-3,080	-137	-2,943
SDRs	2	0	1	-9	2	-11
Forex (State Bank of Pakistan)	-809	380	-727	-2,707	-45	-2,662
Forex (commercial banks)	-447	-171	-359	-364	-97	-267
Liabilities	430	-280	84	290	220	70
Use of fund credit	430	-280	84	290	220	70
Repurchases	485	0	205	484	267	217
Purchases/drawings	55	280	121	194	47	147
Exceptional financing	**3,966**	**3,966**	**692**	**135**	**215**	**-80**
SBP reserves	1,740	1,358	2,084	4,809	2,134	4,809

Source: Statistics Department, SBP

By contrast, outflows under the capital account increased by US$ 0.4 billion to US$ 1.0 billion during FY02. The reasons can be traced to the following: (1) the Rupee repayment and redemption of maturing Special US Dollar bonds; (2) higher *notional* payments of long-term public & publicly guaranteed debt; (3) termination of swaps; and (4) repayment of commercial and PAYE loans/credits. Interestingly, the above developments had only a limited cash impact, as most of the payments are either *notional* or denominated in Rupees.

Nevertheless, the overall balance posted a surplus of US$ 2.7 billion compared to US$ 0.3 billion in the corresponding period last year, which in turn boosted the foreign exchange reserves to an unprecedented level of US$ 6.8 billion at end-June 2002.

This improvement in the external sector also has a major impact on SBP policies. In particular, the need to protect exporters from eroding competitiveness compelled SBP to set a floor for the Rupee/Dollar parity in the interbank market. Furthermore, the resultant mopping up of Dollar flows from the formal market led to an unparalleled buildup of reserves and allowed the retirement of expensive commercial and short-term liabilities. Indeed, the reserve accumulation also has implications for the conduct of monetary policy, as the absence of pressures on the exchange rate allowed SBP to reduce the Bank discount rate to all-time low.

It is significant that the positive turnaround in the balance of payments was partially the outcome of external shocks following September 11 events, and in particular, the international crackdown on undocumented fund flows. In fact, foreign exchange flows through the informal channels have been a major issue troubling Pakistan's external sector for the past decade, and it was this leakage due to lax international practices that had essentially forced the SBP to purchase forex directly from the kerb market. Also, the past attempts to attract remittances through formal channels were somewhat unsuccessful mainly due to the sheer outreach of the informal system.

Thus, from Pakistan's perspective, the international focus on undocumented flows has been a major boon for the domestic economy, diverting the forex flows from informal to formal channels. However, the resulting 129 percent growth in FY02 inward cash remittances only emphasizes the vulnerability and underlines strongly the urgency to cement and institutionalize the increased current transfers, in order to protect against any adverse developments in the future.

9.2.1 Current Account

Although the current account has been steadily improving over the last three years, the FY02 recovery is the first that is very *broad-based.* The trade deficit narrowed due to savings from lower oil prices in the international market; the services account showed lower net outflows following receipt of payments for logistic support; transfers receipts rose on account of buoyant growth in workers' remittances and a large grant from the US (see **Figure 9.2**). This FY02 upturn is reflected in almost all key indicators of the external account.

By contrast, improvements in previous years were largely concentrated under current transfers (see **Table 9.2**). The reason for this was simple: (1) as falling unit prices for key exports neutralized much of the gains in export volumes, over time, prospects of improvements in the trade account became a function of changes in oil prices in the international market. Similarly, (2) the services account was hostage to the debt servicing payments–any substantial drop in interest payments would require not only a reduction in overall debt stock but also

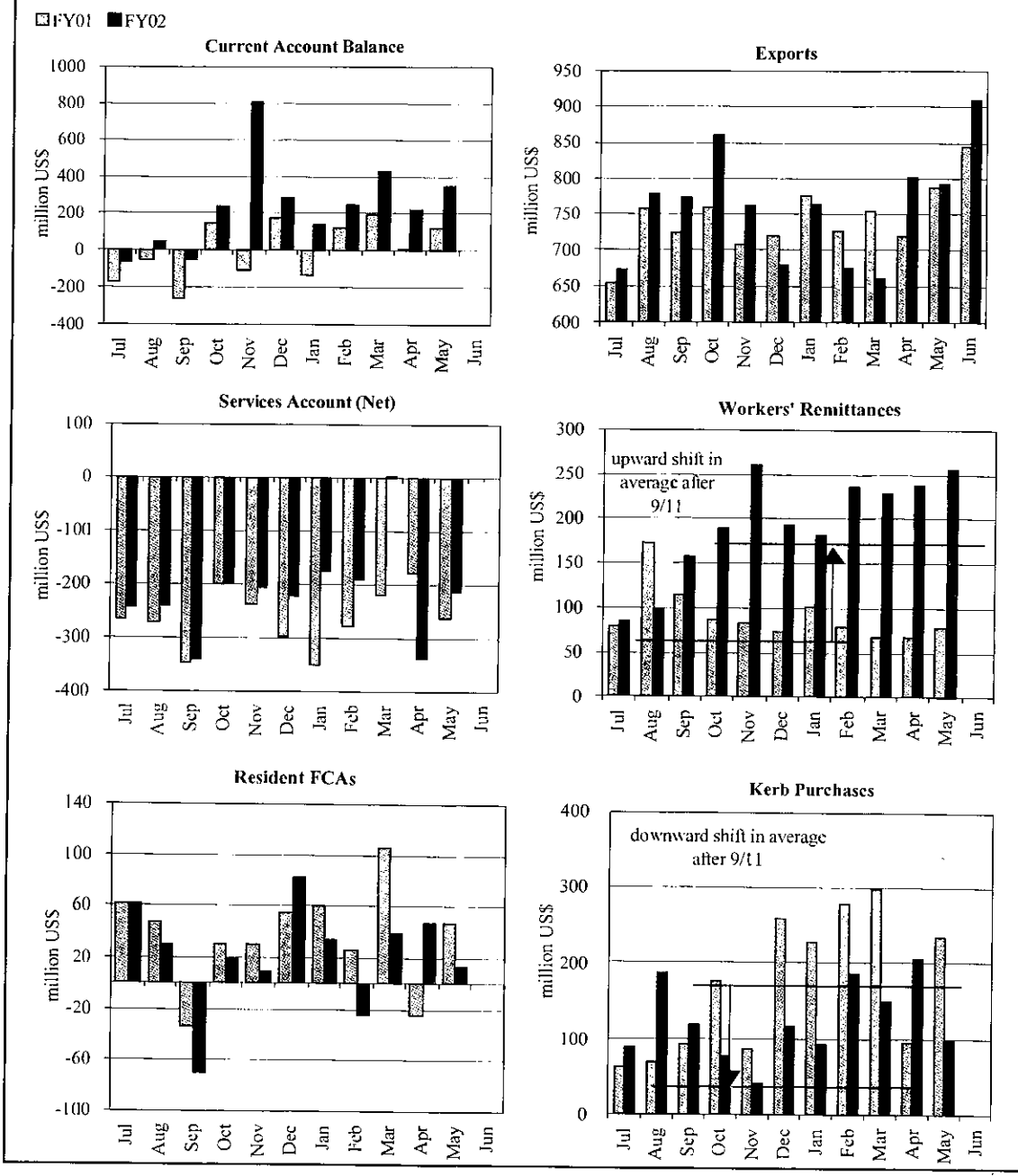
Table 9.2: Balance of Payments: Key Indicators
percent (or mentioned otherwise)

	FY99	FY00	FY01	FY02
Trade				
Exports/GDP	12.9	13.5	15.3	15.1
Imports/GDP	16.4	15.8	17.5	15.7
Services Account				
Services (net)/GDP	-4.5	-4.6	-5.4	-4.3
Debt-service to EE Ratio	18.6	19.6	17.3	16.0
Transfers				
Net transfers to GDP	4.9	6.6	8.1	9.5
Remittances/GDP	1.8	1.6	1.9	4.0
Current Account				
Current receipts/GDP	19.5	21.2	26.0	28.0
Current receipts growth	-13.0	16.4	17.6	11.5
FEE (million US$)	11,633	13,544	14,337	15,455
Growth of FEE	-15.9	13.4	12.4	7.8
Non-interest CAB (million US$)	-457	1,381	1,874	4,208
NICAB/GDP	-0.8	2.3	3.2	7.0
CAD/GDP	-3.2	-0.4	0.6	4.5
Capital Account				
FDI/GDP	0.8	0.8	0.6	0.8
FDI/exports	6.3	5.8	3.6	5.3
Others				
Import cover of reserves (in months)	2.2	1.7	2.4	6.1

Note: EE: Export Earnings; FEE: Foreign Exchange Earnings; NICAB: Non-imerest Current Account Balance; FDI: Foreign Direct Investment

changes in its composition.[5] Under such circumstances, current transfers become the only head in the external account that could show improvement in the short term.

Figure 9.2: Current Account Balance at Glance



[5] The government is already focusing on debt management strategy to reduce the overall debt burden.

Trade Balance

On the basis of SBP exchange records, the trade deficit declined by US$ 909 million to reach US$360 million during FY02, mainly due to lower oil prices in international markets. In fact, this outturn could have been even better if not for the continuing fall in unit prices of key exports, and the negative impact of risk perceptions due to the war in neighboring Afghanistan and subsequently, border tensions with India.[6] Fortunately, the increased access to the EU markets through larger textile quotas and reduced tariffs, provided some relief towards the end of the fiscal year and helped exports to cross the US$ 9.0 billion mark marginally (see **Trade Section** for more details).

Services (net)

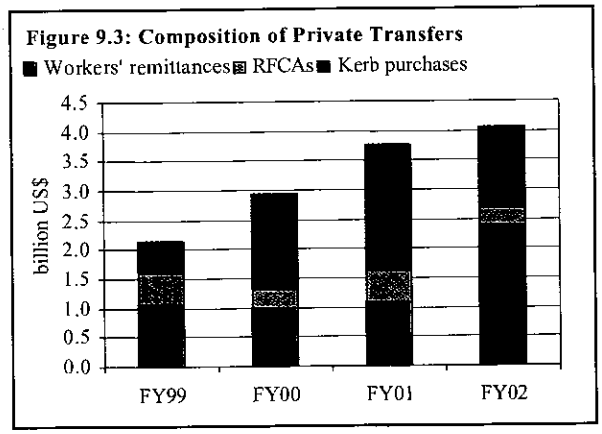
This deficit narrowed by US$ 0.5 billion to US$ 2.6 billion in FY02. The receipt of US$ 300 for logistic support in the war against terrorism, and increased earnings of PTCL (both appearing under '*other goods, services & income*') were the main contributing factors to this improvement.[7] In addition, the net receipts under '*shipment*' improved by US$ 74 million as lower imports offset higher per unit shipment charges during the year; '*other transportation*' increased by US$ 42 million due to higher aviation and bunker charges; and '*travel*' receipts jumped by US$ 35 million following the influx of foreign media personnel and journalists for the coverage of war in Afghanistan.

On the other hand, '*investment income*' witnessed a higher outflow of US$ 150 million in FY02 over the last year, despite falling interest rates in international markets and diminishing stock of external debt & liabilities (e.g. FE-45 deposits, Special US$ bonds, and commercial & private loans). The increased outflows mainly reflect higher *notional* payments on long-term publicly guaranteed debt. Moreover, the higher repatriation of dividend and income from sale of crude oil by foreign companies engaged in oil/gas extracting activities in Pakistan led to more outflows under '*profit and dividend*'.

Current Transfers

Although the events following September 11 influenced all categories of the external account, the impact was more intense for the current transfers, which experienced an unambiguous structural shift in the composition of private transfers (see **Figure 9.3**). The share of workers' remittances rose to 42 percent in FY02 from 23 percent last year, whereas the share of kerb purchases fell from 46 to 24 percent during the same period. It may be noted that the overall level of private transfers in FY01 (US$ 3.9 billion) and FY02 (US$ 4.3 billion) showed a slight change reflecting the fungibility between workers' remittances, inflows through kerb market and foreign currency deposits. In addition, Pakistan received a US$ 600 million grant from USA.

Figure 9.3: Composition of Private Transfers



Workers' Remittances

The cash remittances registered a phenomenal growth of 129 percent during FY02, which stretches to 145.5 percent after adjusting for receipts on account of Hajj Sponsorship Scheme (HSS) and payments to Kuwait war affectees (see **Table 9.3**). During the first quarter of FY02, cash remittances recorded

[6] In particular, exporters were facing cancellation of orders due to risk perceptions, higher freight costs, a slow-down in cargo handlings of international airlines.

[7] Interestingly, this resulted into a surplus of US$ 4 million under services (net) during March 2002 despite higher debt servicing at the end-quarter.

an inflow of US$ 325 million only. Indeed, the turning point was the international crackdown on the Hundi network, and the consequent collapse of the kerb premium that favorably changed the market dynamics of remittance inflows; as a result the remittances posted an inflow of US$ 2.0 billion during the last three quarters of FY02 (see **Figure 9.2**).[8]

Table 9.3: Country-wise Workers' Remittances

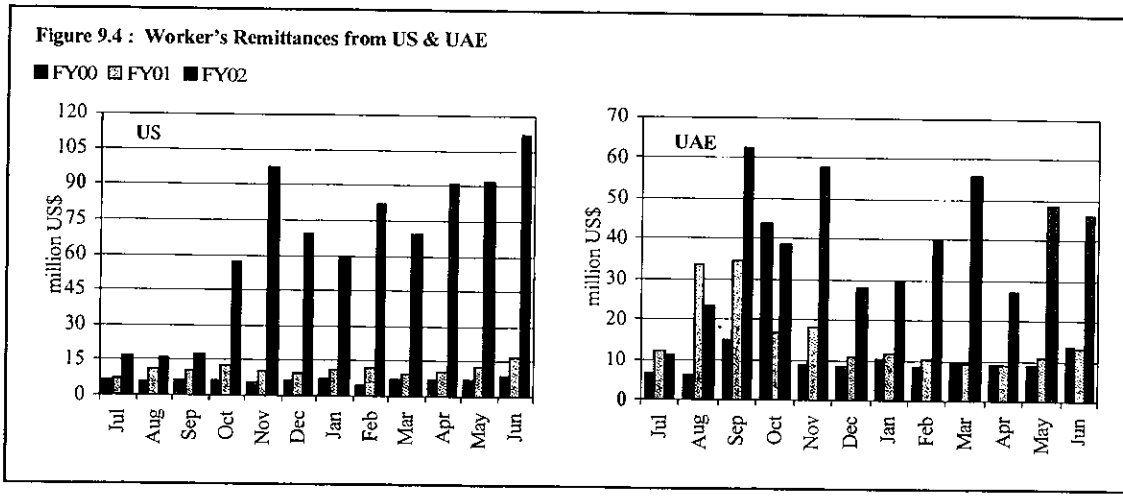
million US Dollar

Countries	FY99	FY00	FY01	FY02	Jul-Sep		Oct-Jun	
					FY01	FY02	FY01	FY02
Gulf region:	**641**	**682**	**693**	**1,070**	**275**	**216**	**418**	**854**
Bahrain	33	29	24	40	7	7	17	33
Kuwait	106	135	123	90	70	13	53	77
Qatar	13	13	13	32	4	4	9	28
Saudi Arabia	318	310	304	376	102	85	202	291
Sultanat-e-Oman	45	46	38	63	11	11	27	52
U.A.E.	125	148	190	469	80	97	110	372
Other than Gulf region:	**235**	**232**	**328**	**1,271**	**76**	**109**	**253**	**1,162**
Canada	3	4	5	21	1	2	4	18
Germany	12	10	9	13	3	2	6	11
Japan	3	2	4	6	1	1	3	5
Norway	5	6	6	7	2	2	4	5
U.K.	74	73	81	152	21	23	61	129
U.S.A.	82	80	135	779	29	50	106	729
Others	55	57	88	293	20	29	69	264
Total	**876**	**913**	**1,022**	**2,341**	**351**	**325**	**671**	**2,015**
Growth rate (percent)	-29.3	4.3	11.8	129.1		-7.3		200.5
Growth Rate (excluding HSS & KWA)	-	-0.6	15.2	145.5				
Encashment FEBCs & FCBCs	185	70	65	48	15	15	50	34
Grand Total	**1,060**	**984**	**1,087**	**2,389**	**366**	**340**	**721**	**2,049**

HSS: Hajj Sponsorship Scheme; KWA: Kuwait War Affectee

Source: Statistics Department, SBP

Figure 9.4 : Worker's Remittances from US & UAE



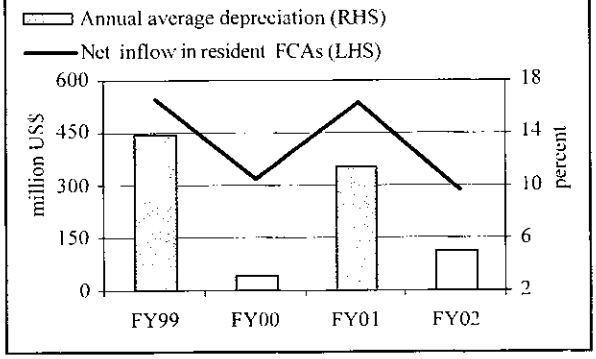
[8] To put this in into perspective, the full year FY01 remittances totaled US$ 1.0 billion.

Although remittances from all countries (except Kuwait) posted a double-digit growth during FY02, the inflows from the UAE & the US were exceptional, accounting for 70 percent of the total increase (see **Figure 9.4**). It seems that the increasing international restrictions on undocumented transactions have reduced Dubai's role as a hub of the Hundi network, which explains the larger formal sector flows into Pakistan directly from countries of origin.

Resident FCAs

The inflows in resident FCAs fell by US$ 249 million to US$ 285 million in FY02. Although, the Rupee/Dollar parity is still showing a depreciation of 5.0 percent on annual average basis, the reversal of devaluation expectations coupled with the meager dollar returns on FCAs, quelled incentives for the dollarization of savings in the economy. This opinion is also re-affirmed from **Figure 9.5** which portrays the direst relationship between inflows in resident FCAs and the annual average depreciation of the Rupee/US Dollar parity.

Figure 9.5: Resident FCAs and Depreciation



Kerb Purchases

The SBP purchases from the kerb market during FY02 were US$ 1.4 billion against US$ 2.2 billion last year (see **Table 9.1**). Initially, the SBP purchased heavily from the kerb market to maintain the foreign exchange reserves in view of end-quarter debt payments. After September 11, these purchases dipped before strengthening again in December 2001, as SBP purchased US$ 859 million during the Dec 01-May 02 period (see **Figure 9.2**).[9, 10] Nevertheless, as the country attained a comfortable position, SBP stopped purchasing from the kerb market with effect from June 2002.

Official Transfers

Despite lower inflows under Saudi Oil Facility (SOF), official transfers improved by US$ 630 million during FY02. The main contributing factors were the grants received from the US (US$ 600 million) and other countries to compensate for the revenue shortfall and a decline in exports following the war in Afghanistan. In terms of SOF, the inflow decreased by US$ 104 million as oil prices fell in the international market.

9.2.2 External Vulnerabilities

As discussed earlier, the current account has been improving over the last three years. During this period, the external sector has witnessed a narrowing of the trade deficit, an increase in non-debt creating inflows, reduction in debt servicing, and higher inflows of concessional loans.

Despite these improvements, the FY02 upturn in the current account is better than the combined improvement in the earlier three years. Nonetheless, **Table 9.4** also highlights the fact that a significant contribution to the FY02 improvement was from factors that may be absent in future years.

This not only underlines the prudence of the SBP moves to boost forex reserves through market purchases, but also the urgency to document the informal market flows.

[9] Since SBP purchases from the interbank market are already part of the formal flows, these are not considered in current transfers.

[10] It is also worth noting that by December 2001, the market exchange rate was identical to the interbank rate, i.e. the SBP had the luxury of purchasing from both the kerb and interbank market without adversely affecting the market exchange rate.

9.3 Capital Account

The successful completion of IMF's Stand-by program by Pakistan led to a major shift in the relationships with International Financial Institutions (IFIs). Also, Pakistan's decision to join hands with the international community in the war against terrorism revived the previously strained relationship with bilateral creditors. These developments had a positive impact on the capital account as well, in terms of higher official assistance, on concessional terms, from multilateral and bilateral creditors, and re-profiling of bilateral debt on particularly generous terms. At the same time, the sharp appreciation of the Rupee has not only triggered the realization of outstanding export bills but also encouraged extinguishments of maturing special US$ bonds, through local currency payments as well redemption in dollars. The higher current account inflows also gave teeth to the debt management reduction strategy, enabling the country to retire most of its expensive debt.

Table 9.4: External Sector Vulnerability

million US Dollar

Vulnerabilities	FY02 Contribution	Future outlook
Oil saving	554	This saving may be curtailed sharply by the upward pressure on international oil prices (especially if fears of a US attack on Iraq materialize).
Workers' remittances	1,302	The permanence of workers' remittances will depend on the continuity of global scrutiny of Hundi transactions and successful merger of Pakistan's formal and informal foreign exchange markets.
Kerb purchases	-781	The SBP has decided to discontinue kerb market purchases.
Saudi oil facility	-104	Expected to become positive due to higher oil prices, but the tern of this arrangement is unclear
US aid	600	Expected to fall to US$ 200 million in FY03.
Logistic support	300	Will depend on the ongoing operation in Afghanistan.
Total	**1,871**	

In overall terms, the capital account deficit increased by US$ 407 million during FY02 to US$ 1,050 million (see **Table 9.1**). The higher outflows are on account of maturing Special US$ bonds and termination of swap contracts. Since most of the above-mentioned payments were made in the Rupees, the *notional* hard currency outflows were offset by inflows under errors and omissions. Furthermore, the hard currency payments on account of rescheduled PTMA and FE-45 deposits resulted in the reduction of exceptional financing by US$ 557 million to US$ 135 million this year (see **Table 9.5**).

Table 9.5: Exceptional Financing

million US Dollar

	FY99	FY00	FY01	FY02
	3,966	**3,966**	**692**	**135**
Debt relief from Paris Club	1,406	1,451	1,124	1206
Central bank deposits	150	300	250	0
Rollover of FE-45	1,212	1,072	(299)	(540)
PTMA	830	152	(297)	(531)
Euro bond	0	610	0	0
NBP deposits	150	500	0	0
Others	218	(119)	(86)	-

PTMA: Pakistan Trade Maintenance Agreement
Source: Statistics Department, SBP

9.3.1 Net Foreign Investment[11]

Net Portfolio Investment

Net portfolio investment comprises of foreign investment in stock exchange and government securities. Looking at **Table 9.6**, the outflows from stock market fell to US$ 8 million in FY02 against US$ 140 million last year (for detail, see chapter on **Capital Market**).[12]

The repayment of Special US$ bonds, which started maturing from August 2001, dominated the outflow of US$ 482 million from investments in government securities during FY02. In order to

[11] It covers items 1-3 of **Table 9.6**, which also include investment of Pakistanis abroad.
[12] The foreign investment in stock market is different from figure reported by Karachi Stock Exchange due to varying definitions (see **Box 9.1**).

Table 9.6: Capital Account

million US Dollar

	FY99	FY00	FY01	FY02	FY02	
					Jul-Sep	Oct-Jun
Capital Account (1 through 9)	**-2,278**	**-4,177**	**-643**	**-1,050**	**-596**	**-454**
Credit	**4,511**	**2,219**	**2,932**	**3,343**	**552**	**2,791**
Debit	**6,789**	**6,396**	**3,575**	**4,393**	**1,148**	**3,245**
1. Direct investment abroad	-44	1	-37	-2	0	-2
2. Direct investment in Pakistan	472	472	323	486	69	417
3. Portfolio investment	142	-550	-141	-491	-53	-438
of which: (Stock markets)	28	73	-140	-8	-47	39
Special US Dollar bonds	251	36	39	-452	3	-455
4. LT Capital, (official)	797	-678	-600	75	-252	327
Credit	3,188	1,304	1,463	1,608	166	1,442
of which: Project assistance	1,499	988	785	643	166	477
Food aid	230	191	0	0	0	0
Non-Food aid	550	125	678	885	0	885
Debit	2,391	1,982	2,063	1,533	418	1,115
of which: Amortization	2,038	1,967	1,795	1,512	396	1,116
Central bank deposits	250	0	-250	0	0	0
5. LT capital, (DMBs)	0	-2	-2	-1	0	-1
Credit	0	0	0	0	0	0
Debit	0	2	2	1	0	1
6. LT capital, (Others)	10	-265	-212	-667	-337	-330
Credit	446	324	283	184	13	171
of which: Suppliers credits/MNCs	195	167	191	184	13	171
Debit	436	591	495	851	350	501
of which: Suppliers credits repayments	436	591	495	531	141	390
7. ST capital, (official)	-1,288	-373	338	-438	5	-443
Credit	211	118	762	875	226	649
of which: Commercial banks	59	0	431	496	104	392
IDB	152	118	331	330	100	230
Debit	1,499	491	424	1,313	221	1,092
of which: Commercial banks	917	197	146	753	176	577
IDB	157	141	185	404	45	359
Others liabilities (NBP deposits)	374	135	34	155	0	155
8. ST capital, (DMBs)	-1,315	-1,829	-19	-144	51	-195
Credit	46	0	29	3	63	-60
Debit	1,361	1,829	48	147	12	135
of which: Outstanding exports bills	46	-127	29	-54	62	-116
FCAs (non-residents)	-1,211	-1,164	-48	-47	-12	-35
NBP deposits	-150	-500	0	-46	0	-46
9. ST capital, (Others)	-1,052	-952	-293	132	-79	211
Credit	0	0	72	187	15	172
Debit	1,052	952	365	55	94	-39
of which: Outstanding exports bills	-6	-305	-261	120	-81	201
FCAs (non-residents)	-1,084	-720	-48	-126	-13	-113
Other liabilities	38	73	-39	193	28	165

Note: LT: Long-term, DMBs: Deposit Money Banks, ST: Short-term
Source: Statistics Department, SBP

Box 9.1: Issues in the reconciliation of SBP & KSE figures for foreign investment in stock market

Investment by non-residents in the equity market is reported separately by the SBP and the KSE, but the wide variation in these two figures is a source of considerable confusion. In this background, an attempt has been made to identify the reasons for the difference.

The data reported by SBP in the balance of payments (BOP) account is based on statements submitted by commercial banks on a monthly basis. On the other hand, KSE reports foreign investment based on information provided by brokers/brokerage houses.

The resulting difference in the definition of the two reported figures is illustrated by considering transactions in a typical account meant for portfolio investment by a non-resident (see **Table 9.1.1**).

It becomes clear that a major discrepancy between the two arises due to different timing of reporting. Any fresh *inflow* of the foreign investment either through Special Convertible Rupee Account or other accounts will appear in the BOP statement for that month – indicating fresh Dollar investment in the stock market. The KSE, on the other hand, will report this foreign investment only at the time when the Rupee counterpart is *used* for the purchase of shares.

Table 9.1.1: Transactions in FPI Account

Items	Impact on KSE	Impact on BOP
1 Fresh Inflows	No	Yes, there will an inflow as FPI in the stock market
- Fresh Buying	Yes	No
2 Profits & Dividends		
- Outflow	No	No, there will be no impact for FPI in the stock market, but it will appear as outflow from 'Investment Income' head of the BOP
- Re-investment	Yes	Yes, there will an inflow as FPI in the stock market
3 Sale Proceeds		
- Outflow	Yes	Yes, there will an outflow as FPI in the stock market
- Re-investment	No	No

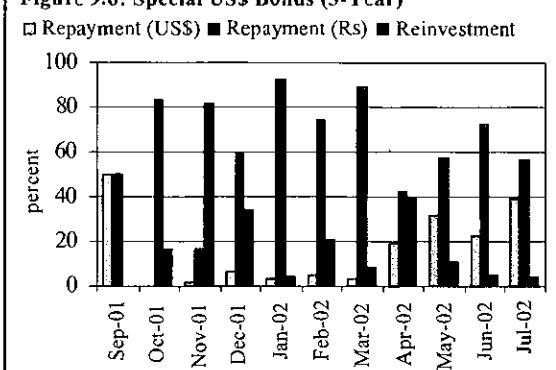
Similarly, when a non-resident sells his shares, this transaction will be promptly accounted for in the KSE records when reported by the brokers/brokerage houses. However, this transaction will appear in the BOP account *only* when (and if) the non-resident *repatriates* the sale proceeds. If the proceeds from the sale of shares are kept in an account in Pakistan or are invested elsewhere within Pakistan, the BOP figure will be unaffected. This difference is an additional source of difference.

The difference in coverage is the second major source of variation. The volume of foreign investment in stock market reported by KSE does not cover investments made through the Lahore Stock Exchange (LSE) and Islamabad Stock Exchange (ISE). It implies that any fresh flow, reinvestment of profit and sale proceeds adding to LSE and ISE would not show up in KSE numbers.

Summing up, the net flows in or outside the *country* by the non-residents, in respect of the sale and purchase of shares on any stock exchange of Pakistan would appear in BOP account. On the other hand, KSE reports the net sale or purchase of shares *only on Karachi Stock Exchange* by the non-residents. In effect, these are two different variables.

protect its slender foreign currency reserves, the government announced a 5 percent bonus on Rupee redemption, which was equivalent to the then-existing kerb market premium. Despite this incentive, the re-investment remained relatively more attractive till November 2001. Later, following the collapse of the kerb premium, the Rupee redemption increased in December 2001 (see **Figure 9.6**). However, after the withdrawal of bonus in March 2002, the Dollar encashment is again becoming more attractive.

Figure 9.6: Special US$ Bonds (3-Year)

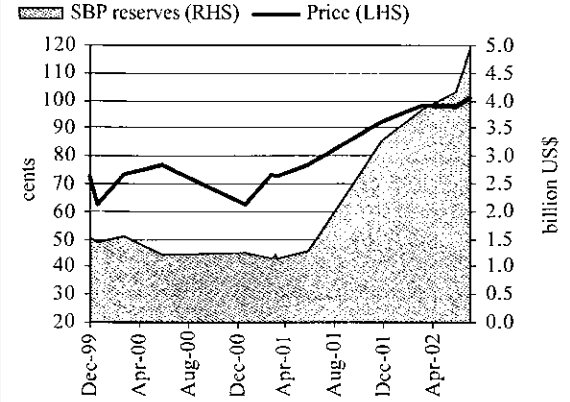


Foreign Direct Investment

Foreign direct investment (FDI) in the country showed an improvement of US$ 163 million over the last year to US$ 486 million during FY02. Of this inflow, US$ 417 million were received in the last three quarters. This reflects enhanced investors confidence following a buildup of foreign exchange reserves, improved credit worthiness and

reduction in country risk.[13] The latter is also evident from secondary market prices of Eurobonds, which have increased from US¢ 73 in December 1999 to more than US$ 1.0 by July 2002 (see **Figure 9.7**). Similarly, taking the difference between Eurobond yield over comparable US treasury bonds also reflects the extent of the improvement in country risk (see **Figure 9.8**). In addition, the Moody's investment rating agency also upgraded Pakistan's sovereign credit rating to B3 in March 2002.

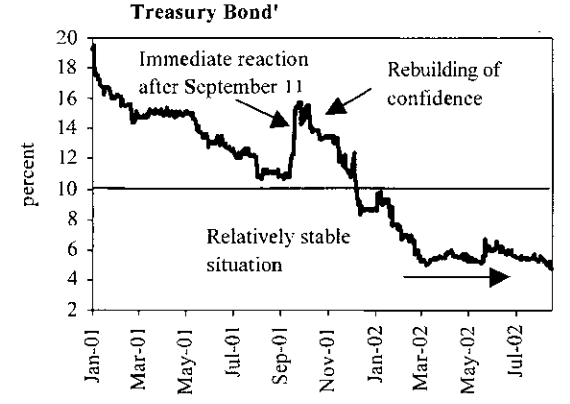
Figure 9.7: Prices of Eurobonds in Secondary Market



Intensities of FDI

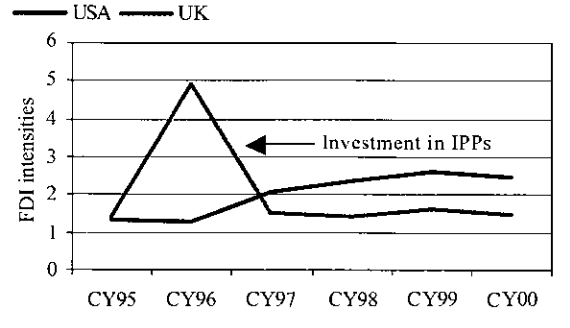
The analysis based on FDI intensities provides a picture of a source country inflow in Pakistan with respect to its international position. In other words, FDI intensity is the ratio of two factors: (1) share of source country in total FDI flows in Pakistan; and (2) the share of source country in total world FDI.

Figure 9.8: Country Risk 'Spread over 10-year US Treasury Bond'



The US and the UK are the major investors in Pakistan and their investment constitutes almost 60 percent of total FDI. The interest of US investors in oil & gas exploration sector is reflected in rising investment intensities despite the fact that its share in Pakistan's total investment has declined (see **Figure 9.9**). On the other hand, UK has almost constant intensity, whereas its share of FDI in Pakistan is increasing over the time.

Figure 9.9: FDI Intensities of Source Countries



9.3.2 Long-term Capital (official)

The drying up of the aid pipeline following economic sanctions in May 1998 meant that the long-term capital (official) showed net outflows during FY00 and FY01. In comparison, higher non-food aid (BOP assistance) from IFIs and reduced principal payments of long-term debt during FY02 resulted in a net inflow of US$ 75 million. Although, project assistance is still on a declining trend, it is hoped that the improved relations with major creditors and Pakistan's emerging positive track record in implementing projects will result in its reversal.[14] On the debit side, the absence of any rollover of the central bank deposits, this year, is notable.

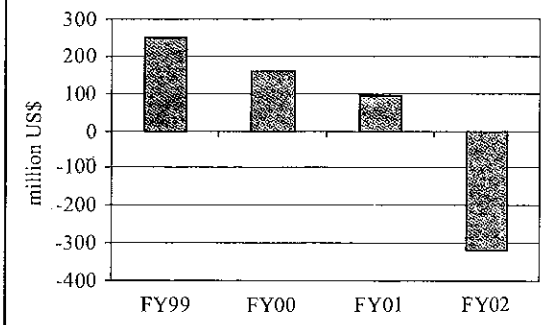
[13] The major share in these flows was again from the US investors (US$ 326.4 million) as their investment interest remained high in oil & gas sector. For country shares and sectoral distribution of FDI, see **Section 2.6.2**.

[14] Whereas higher than expected disbursement from World Bank was observed during FY02, US$ 787 million (of which US$ 640.4 million came in the last quarter) as compared to US$ 395 million last year, the inflows from Asian Development

9.3.3 Long-term Capital (others) [15]

The net outflow under long-term capital (others) was higher by US$ 455 million in FY02 (see **Table 9.6**). This was mainly driven by the closure of swaps of US$ 320 million with banks and moneychangers, and higher repayments of suppliers' credit (see **Figure 9.10**). On the inflow side, suppliers' credit and PAYE credit remained low at US$ 184 million as compared to US$ 191 million last year.

Figure 9.10: Net Swaps (more than one year)



9.3.4 Short-term Capital (official)

The short-term capital (official) posted an *outflow* of US$ 438 million this year against an *inflow* of US$ 338 million in FY01. This turnaround reflects higher repayments of expensive short-term loans from commercial banks, and IDB credits for oil imports. This outflow also includes repayment of a short-term swap to Shamil Bank (Bahrain) in July 2001.

9.3.5 Short-term Capital (DMBs and others)

The short-term capital mainly comprises of outstanding export bills (OEBs) held by commercial banks and exporters, and non-resident FCAs mobilized by commercial banks and NBFIs. In aggregate, this showed a net outflow of US$ 12 million during FY02 as compared to a net outflow of US$ 312 million last year. This marked improvement comes mainly on account of a fall in outstanding exports bills (OEBs) held by commercial banks and exporters, following the reversal of devaluation expectations.

On the debit side, outflows from non-resident FCAs (with NBFIs) have risen by US$ 78 million over the last year, and at the same time, due to stability in rupee/dollar parity, a decline of US$ 10 million was observed in the inflows in FE25 deposits with commercial banks.

9.4 Foreign Exchange Reserves

The most noteworthy economic development during FY02 was the unprecedented increase in liquid foreign currency reserves to US$ 6,432 million at end FY02, of which the SBP reserves comprised US$ 4,805 million with the rest being held by commercial banks.[16] However, contrary to popular view, the reserve build up had begun well before September 2001, and the reserves had already crossed the US$ 3 billion mark by end-June 2001; the factors associated with September 11 simply acted as catalyst to accelerate the reserve accumulation (see **Figure 9.12**).

Table 9.7: SBP Market Purchases - FY02

million US Dollar

	Jul-Sep	Oct-Jun
Net purchases	421.0	3,437.0
Share (percent)		
- Kerb market	94.4	28.4
- Interbank market	5.6	71.6

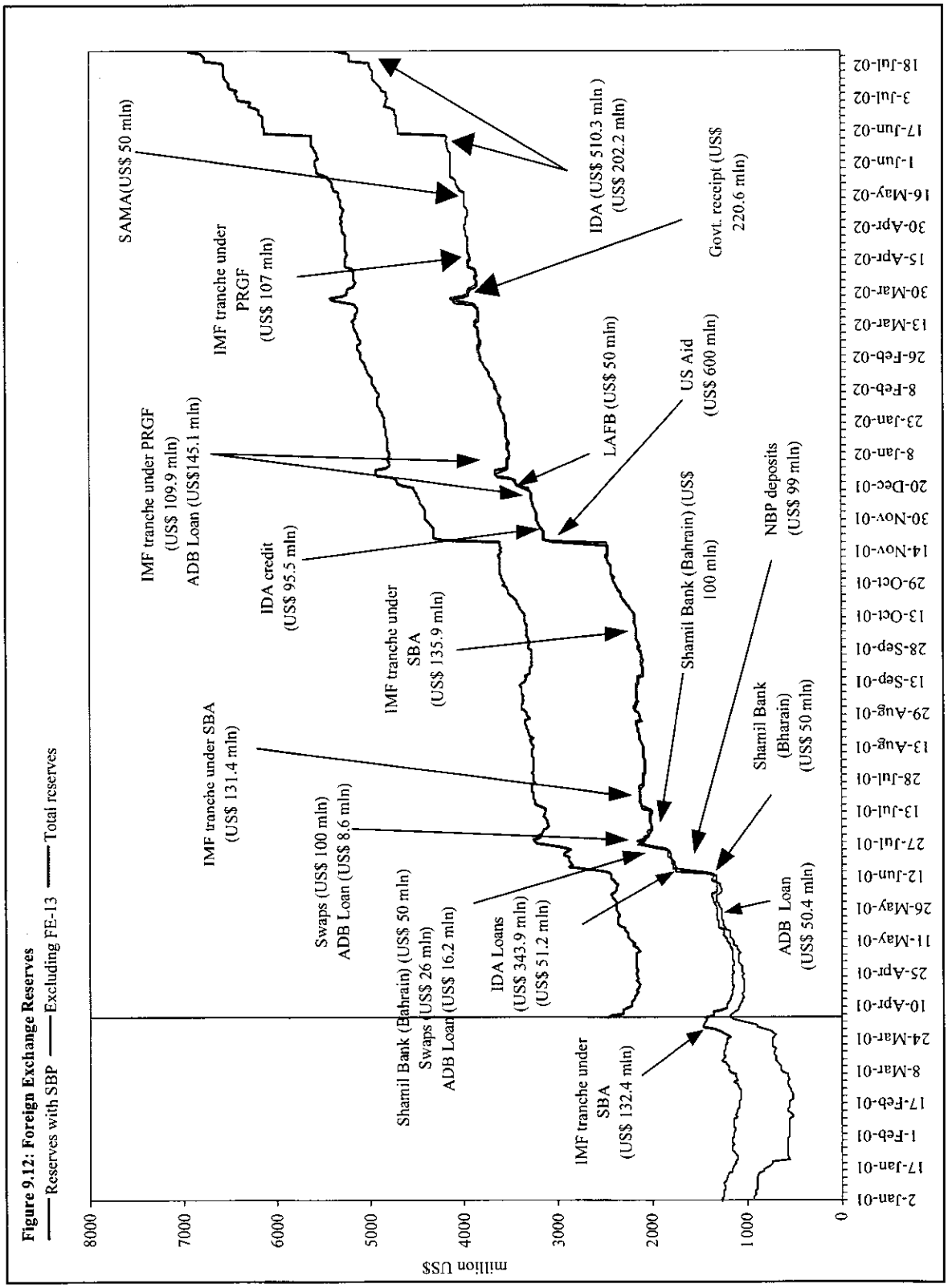
Source: Exchange & Debt Management Department, SBP

The latter is evident in the shift in pattern of SBP forex purchases during FY02 following the October 2001 collapse of the kerb market premium (see **Table 9.7**).

Bank were lower (US$ 215.8 million against US$ 394.6 million last year) due to delays in certain agriculture reforms and privatization of KESC.

[15] This comprises of suppliers' credit, PAYE loans and foreign exchange swaps.

[16] The SBP reserves also include US$ 471.5 million as CRR/SLR on FE-25 deposits.


Figure 9.12: Foreign Exchange Reserves
Reserves with SBP
Excluding FE-13
Total reserves
million US$
8000
7000
6000
5000
4000
3000
2000
1000
0
2-Jan-01
17-Jan-01
1-Feb-01
17-Feb-01
8-Mar-01
24-Mar-01
10-Apr-01
25-Apr-01
11-May-01
26-May-01
12-Jun-01
27-Jul-01
13-Jul-01
28-Jul-01
13-Aug-01
29-Aug-01
13-Sep-01
28-Sep-01
13-Oct-01
29-Oct-01
14-Nov-01
30-Nov-01
20-Dec-01
8-Jan-02
23-Jan-02
8-Feb-02
26-Feb-02
13-Mar-02
30-Mar-02
15-Apr-02
30-Apr-02
16-May-02
1-Jun-02
17-Jun-02
3-Jul-02
18-Jul-02
SAMA(US$ 50 mln)
IMF tranche under PRGF
(US$ 109.9 mln)
ADB Loan (US$145.1 mln)
IMF tranche under PRGF
(US$ 107 mln)
IDA credit
(US$ 95.5 mln)
IMF tranche under SBA
(US$ 131.4 mln)
Swaps (US$ 100 mln)
ADB Loan (US$ 8.6 mln)
IMF tranche under
SBA
(US$ 135.9 mln)
Shamil Bank (Bahrain) (US$ 50 mln)
Swaps (US$ 26 mln)
ADB Loan (US$ 16.2 mln)
IDA Loans
(US$ 343.9 mln)
(US$ 51.2 mln)
IMF tranche under
SBA
(US$ 132.4 mln)
IDA (US$ 510.3 mln)
(US$ 202.2 mln)
Govt. receipt (US$
220.6 mln)
LAFB (US$ 50 mln)
US Aid
(US$ 600 mln)
Shamil Bank (Bahrain) (US$
100 mln)
NBP deposits
(US$ 99 mln)
Shamil Bank
(Bharain)
(US$ 50 mln)
ADB Loan
(US$ 50.4 mln)

As a result, for the full year, the FY02 kerb purchases fell by US$ 781 million over FY01. In contrast, the purchases (net) from the interbank market showed a dramatic shift of US$ 3,609 million from a *negative* US$ 1,126 to a *positive* US$ 2,483 million (see **Table 9.8**). This primarily reflects conscious effort by SBP to stabilize the exchange rate and to ensure competitiveness of Pakistani exports.[17]

Table 9.8: Foreign Exchange Reserves with SBP - FY02

million US Dollar

	Q1	Q2	Q3	Q4	FY02
Opening balance	**2,080.0**	**2,126.0**	**3,538.0**	**3,937.0**	**2,080.0**
Receipts	**717.4**	**2,075.2**	**1,722.4**	**2,131.4**	**6,646.4**
Purchases	**421.4**	**935.3**	**1,238.3**	**1,263.7**	**3,858.7**
Kerb market	397.9	239.1	431.6	307.1	1375.7
Interbank (net)	23.5	696.2	806.7	956.6	2483.0
Loans	**272.2**	**400.6**	**26.5**	**791.0**	**1,490.3**
IBRD/IDA	0	129.1	17.5	640.4	787.0
ADB	2.6	161.5	9.0	42.7	215.8
IMF	267.4	109.5	0	107.8	484.7
JBIC (OECF)	2.2	0.5	0	0.1	2.8
Grants	**0**	**600.0**	**42.1**	**50.0**	**692.1**
USA	**0**	600.0	0	0	600.0
UK	0	0	42.1	0	42.1
SAMA	0	0	0	50.0	50.0
Other receipts	**23.8**	**139.3**	**415.5**	**26.7**	**605.3**
Logistic support	0	**0**	300.0	0	300.0
UN troops	0	27.8	31.5	4.2	63.5
Misc. receipts[1]	23.8	111.5	84	22.5	241.8
Payments	**671.4**	**663.2**	**1,323.4**	**1,263.4**	**3,921.4**
IMF	61.7	53.9	47.5	80.4	243.5
IDA	29.6	20.6	24.2	20.3	94.7
IBRD	72.6	36.8	78.8	43.7	231.9
ADB	35.3	22.1	52.4	26.5	136.3
IFAD	2.7	2.0	2.9	2.1	9.7
OPEC	3.2	0.6	2.7	0.7	7.2
Euro bonds	0.1	31.1	0	31.1	62.3
PTMA	105.7	103.1	159.3	157.3	525.4
IDB (Short term)	48.8	122.8	133.0	118.5	423.1
Swaps	0	0	136.0	91.0	227.0
Deposits	142.7	82.0	260.7	92.4	577.8
NDRP	5.0	2.4	15.2	40.0	62.6
FE-45	0	148.1	244.9	134.0	527.0
FE-31	21.8	0	0	177.8	199.6
Repayment of Hajj	0	0	107.0	6.1	113.1
ACU settlement	68.7	2.0	38.1	37.8	146.6
Miscellaneous payments[2]	73.5	35.7	20.7	203.7	333.6
Closing balance	**2,126.0**	**3,538.0**	**3,937.0**	**4,805.0**	**4,805.0**

[1] Includes interest on deposits US$ 88.5 million, increase in CRR US$ 71.2 million and Libyan Deposit US$ 50 million.

[2] Includes Catic China US$ 83.2 million, Uch power project US$ 43.2 million, FCY loan bond US$ 37.7 million, Al-Faysal bank US$ 25.8 million, interest on FE-45 US$ 29.9 million and encashment of US Dollar bonds US$ 32.5 million.

Source: Exchange & Debt Management Department, SBP

[17] The total SBP purchases during FY02 at US$ 3.85 billion were almost sufficient to meet all payments of US$ 3.9 billion from SBP reserves.

The exchange rate management through reserve accumulation offered other advantages as well. Firstly, this helped in repaying most of the expensive commercial and short-term liabilities, which in turn improved country's creditworthiness. Secondly, reserve buildup also contributed in the reversal of market expectations of devaluation, thereby supporting exchange rate stability. More importantly, the vulnerability of the country to external shocks has been reduced considerably.

The relationship between SBP purchases and liquid reserves is shown in **Figure 9.11**. It is clear that reserves (excluding foreign loans and grants) were increasing steadily despite repayments of expensive and short-term debt. Had these loans not been paid, the forex reserves would have reached US$ 6.7 billion by end-June 02.

Foreign loans & grants were also important contributors to the reserve buildup. While grants are a one-off phenomenon, a part of foreign loans should be considered in the context of debt management strategy, whereby non-concessional loans from multilateral institutions are being substituted with fresh loans on concessional terms. It is evident from **Figure 9.11** that loans and grants have led to perceptible increase in reserves (excluding purchases) in June 2001, November 2001 and June 2002.

In terms of import coverage, the liquid foreign exchange reserves have improved remarkably from 2.6 months of import at end-April 2001 to 8 months by June 2002 (see **Figure 9.13**).[18] The reserve ratios with external debt are also important indicators. These ratios have also improved considerably following the reserve buildup and repayment of short terms debt (see **Figure 9.14**).

9.5 Transactions with IMF

The completion of SBA in September 2001 was the first-ever successful conclusion to an IMF

Figure 9.11: Foreign Exchange Reserves with SBP

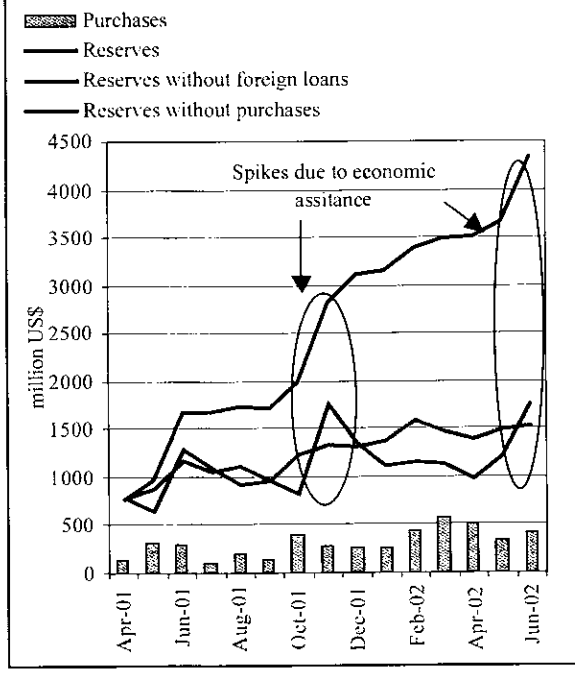


Figure 9.13: Reserves and Import Coverage

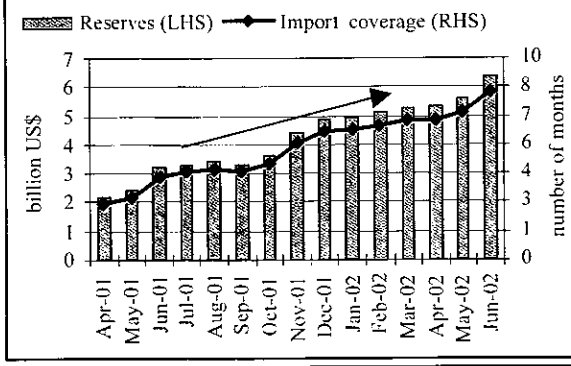
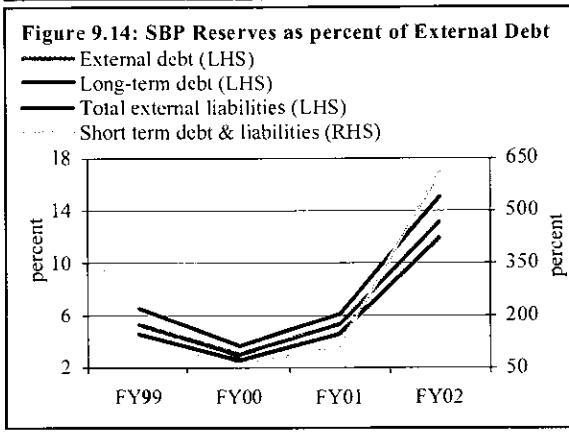


Figure 9.14: SBP Reserves as percent of External Debt



[18] This ratio takes into account openness and size of the economy by scaling reserves in terms of number of months a country can support its imports.

program during the last ten years.[19] This also paved the way towards cheap and long-term assistance through PRGF facility (amounting to US$ 1.3 billion that is equivalent to 100 percent of the SDR quota of Pakistan).[20] The program that was approved on December 6, 2001 will expire on December 5, 2004. The structural targets embodied in this program mainly cover reforms in tax policy and administration, public expenditure, fiscal transparency and liberalization of financial sector.

So far, the current government is maintaining a very good record for the fulfillment of IMF conditionalities other than the CBR revenue targets. Nonetheless, since this slippage was attributed to reduced imports due to exogenous factors, a waiver from IMF for the revenue target allowed Pakistan to avail third tranche in July 2002.

Although, the comfortable external account suggests that Pakistan would not need any further assistance from the IMF after the completion of PRGF, this essentially requires the continuation of economic reforms even after the induction of a new political government.

In FY02, the country received US$ 484.4 million under SBA and PRGF that is US$160.4 higher million than in FY01. In net terms, inflows at US$ 291.5 million were significantly more than US$ 85 million received during the preceding year (Details of purchases and repurchases with IMF are given in **Table 9.9**).

Table 9.9: Transactions with IMF

million US Dollar

Facility	FY00	FY01	FY02
Purchases			
Stand by Arrangement (SBA)	Nil	324	267.1
Poverty Reduction & Growth Facility (PRGF)	Nil	Nil	217.3
Total		**324.0**	**484.4**
Repurchases			
Extended Fund Facility (EFF)	18.3	26.3	30.2
Poverty Reduction & Growth Facility (PRGF)	36.9	44.2	43.6
Stand by Arrangement (SBA)	168.0	133.2	42.4
Structural Adjustment Facility (SAF)	52.1	27.6	13.9
Saudi Fund for Development (SFD)	4.0	7.7	7.6
Contingency & Compensatory Financing Facility (CCFF)	Nil	Nil	55.2
Total	**279.3**	**239.0**	**192.9**
Use of Fund Credit (Net)	**-279.3**	**85.0**	**291.5**

Source: Accounts Department, SBP

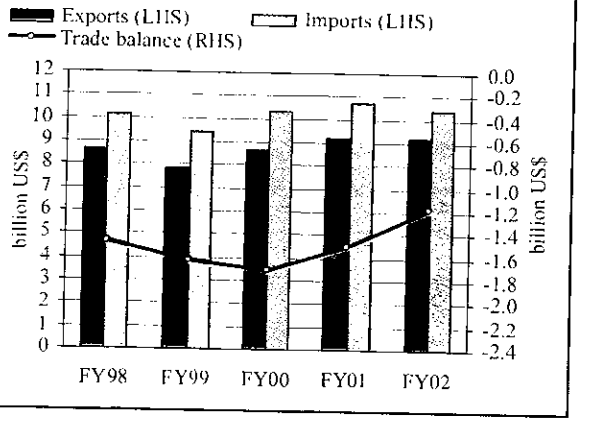
Table 9.10: Foreign Trade Performance at a Glance

billion US Dollar

	FY02			% Δ over	
	FY01	Target	Actual	FY01	Target
Imports	10.7	10.9	10.3	-3.6	-5.1
Exports	9.2	10.0	9.1	-0.7	-8.7
Trade deficit	1.5	0.9	1.2	-21.1	33.9

Source: Federal Bureau of Statistics and Trade Policy FY02

Figure 9.15: Trade Account



9.6 Trade Account[21]

The continuing weaknesses in key export markets and extraordinary events of September 11 have adversely impacted Pakistan's foreign trade during FY02. Both exports and imports declined but the fall in the latter was greater, which resulted in an improvement in the trade balance. The trade deficit narrowed by US$ 322.4 million to US$ 1.2 billion, it was still higher than the target of US$ 0.9 billion envisaged in the FY02 trade policy (see **Figure 9.15** & **Table 9.10**). During the year, export receipts financed 88.3 percent of imports compared to 85.8 percent last year.

[19] For a chronological series of agreements with IMF since 1988, see SBP Annual Report FY00.

[20] The PRGF is the IMF's concessional facility for low-income countries. Such facilities are based on country-owned poverty reduction strategies adopted in a participatory process and articulated in a Poverty Reduction Strategy Paper (PRSP).

[21] The analysis is based on customs data received from FBS, as it is more detailed.

9.6.1 Exports

September 11 events and the subsequent war in neighboring Afghanistan added to difficulties of Pakistani exporters, who were already under strain due to sluggish international markets. In particular, the imposition of a war risk surcharge by shippers, cancellation of export orders, and suspension of flight operations by the foreign airlines, all adversely affected export efforts. In addition, the competitiveness of exports was also eroded by the sharp appreciation in the Rupee/Dollar parity during FY02.

In this backdrop, it is quite creditable that total export earnings, at US$ 9.1 billion, recorded only a small decline of 0.7 percent over the record earnings of FY01.[22]

Looking at **Figure 9.16**, it is clear that the impact of September 11 events on exports became visible in November, 2001 when exports declined by 5.7 percent over the same month last year – this falling trend continued till February 2002. In order to stem this slide, the GOP and the SBP initiated immediate relief measures by pushing down interest rates on EFS, and accelerating payment of tax refunds, the impact of which boosted by successful negotiation for enhanced market access to EU and the US markets. Consequently, the exports reversed their downward trend from March 2002 and continued to grow thereafter. The cumulative export receipts in the last quarter of FY02 registered a positive growth of 4.7 percent over the same period last year.

Figure 9.16: Monthly Growth of Exports (YoY) -FY02

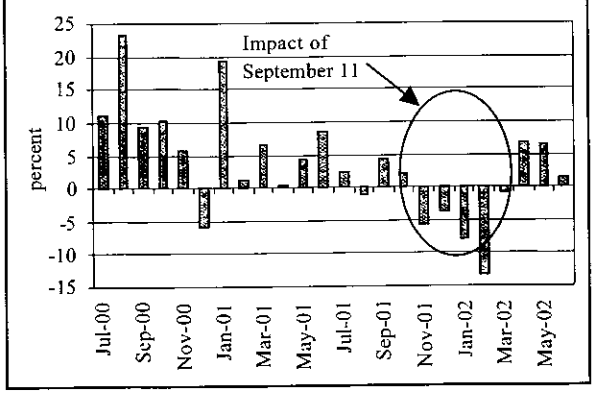


Table 9.11: Pakistan's Major Export Markets

value: million US Dollar; share: percent

	FY01		FY02	
	Value	Shares	Value	Shares
Total Exports	**9,201.6**	**100.0**	**9,134.6**	**100.0**
North America	**2,428.7**	**26.4**	**2,432.6**	**26.6**
Central America	**78.2**	**0.8**	**92.1**	**1.0**
South America	**113.0**	**1.2**	**78.2**	**0.9**
Western Europe	**2,474.0**	**26.9**	**2,555.8**	**28.0**
Eastern Europe	**79.1**	**0.9**	**87.5**	**1.0**
Africa	**491.2**	**5.3**	**426.6**	**4.7**
Asia	**3,390.9**	**36.9**	**3,326.9**	**36.4**
Oceania	**146.5**	**1.6**	**134.7**	**1.5**
Middle East	***1,331.8***	***14.5***	***1,548.6***	***17.0***
E.C.	***2,420.6***	***26.3***	***2,503.7***	***27.4***
U.S.A.	2,245.6	24.4	2,257.5	24.7
Dubai	615.4	6.7	719.6	7.9
U.K.	576.0	6.3	659.1	7.2
Germany	495.0	5.4	452.1	4.9
Hong Kong	504.5	5.5	442.2	4.8
Saudi Arabia	273.0	3.0	330.4	3.6
South Korea	278.4	3.0	261.9	2.9
France	265.8	2.9	246.7	2.7
China	303.2	3.3	228.6	2.5
Japan	193.6	2.1	166.5	1.8
Australia	113.1	1.2	101.3	1.1

Source: Federal Bureau of Statistics

FY02 also saw a continuation of the shift in Pakistan's export structure towards manufactured goods, which reached an all time high of 74.9 percent of total exports, up 3.5 percent from FY01. Semi-manufactured and primary commodities accounted for 14.3 percent and 10.8 percent of total export earnings respectively, during this period.

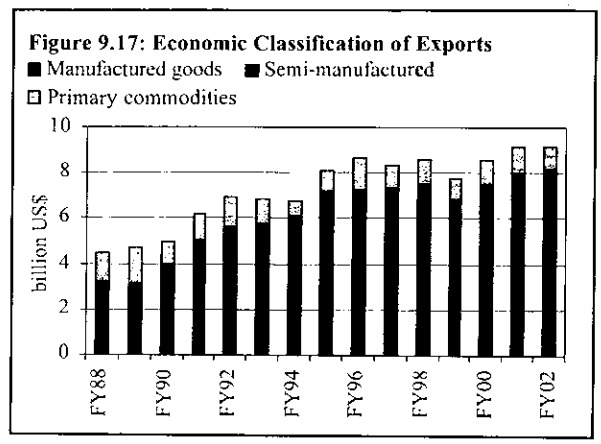
The rise in the share of manufacturing has been almost a continuous feature throughout the 1990s, increasing from 56.0 percent in FY90 to 72.5 percent in FY00. At the same time, primary

[22] In comparison, Indian exports during the fiscal year (April 2001-March 2002) recorded a decline of 2.2 percent over last year, while Sri Lanka's exports declined by 15.2 percent in Jan-Mar 2002 over the corresponding period. During July 2001-March 2002, Bangladesh also registered a 9.9 percent decline in exports.

commodities and semi-manufactures have seen their shares shrink from 20.3 percent and 23.6 percent to 12.1 percent and 15.4 percent respectively (see **Figure 9.17**).

In FY02, the Asian region remained the largest export market for Pakistani products, followed by Western Europe and North America (see **Table 9.11**). USA continued to dominate the top 10 export markets. During FY02, Italy and Netherlands replaced China whose share declined from 3.3 percent in FY01 to 2.5 percent.

Figure 9.17: Economic Classification of Exports



Textile Manufactures

In FY02, total export earnings of textile manufactures increased merely by 0.3 percent to US$ 5.8 billion (see **Table 9.12**). However, what is more encouraging is the enhanced share of high value-added items within the group, which went up from 54.2 percent to 57.5 percent despite depressed prices in the international market (see **Figure 9.18**). This clearly indicates the success of the BMR drive currently underway to revitalize the textile sector to face the challenges of a quota free environment from 2005.[23]

Figure 9.18: Composition of Textile Exports

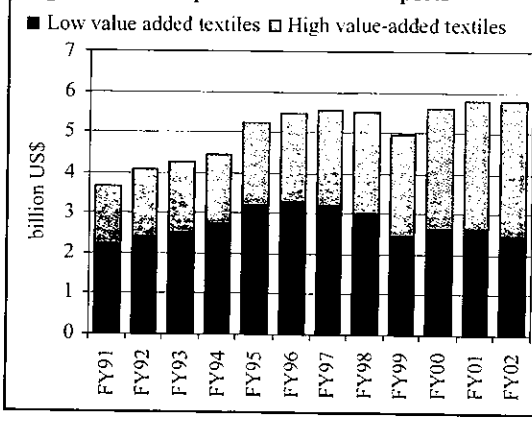
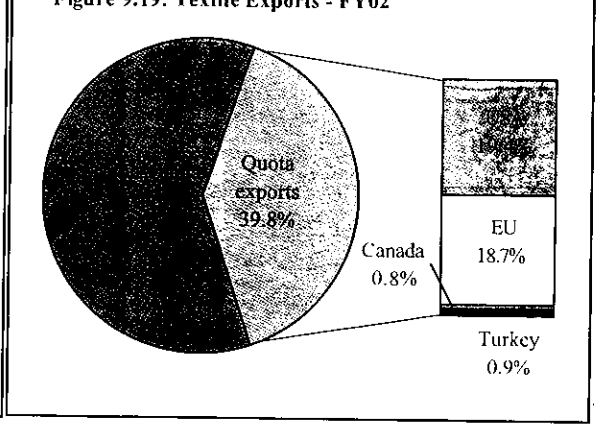


Figure 9.19: Textile Exports - FY02



During FY02, quota exports accounted for 39.8 percent of total export of textile manufactures and earned US$ 2.3 billion, registering a 1.7 percent rise over FY01 (see **Figure 9.19**).[24] Export of non-quota textile items earned an additional US$ 1.4 billion from these quota countries, showing a 5.3 percent increase over FY01 (see **Table 9.13** & **Figure 9.20**).

Table 9.13: Textile Exports during FY02

million US Dollar; percem

	Value	Growth	
		FY02	H2-FY02
Total	**5,810.6**	**0.34**	**-0.66**
Non-Quota	3,499.8	-0.54	-0.41
Quota	2,310.8	1.71	-1.14
USA	*1,127.7*	*-4.25*	*-11.48*
EU	*1,084.8*	*10.45*	*11.51*
Canada	*46.9*	*-17.51*	*-29.83*
Turkey	*51.4*	*-6.82*	*21.42*

Source: Federal Bureau of Statistics and Export Promotion Bureau

[23] Under the vision 2005, a massive balancing, modernization and replacement (BMR) drive is underway in the textile sector since FY00. Textile mills are investing huge amounts to improve the quality of the products and efficiency of the textile mills in order to stand with major competitors like India, China and Vietnam in the world markets.

[24] Exports of textile manufactures are generally subject to quota restrictions in four markets, i.e. USA, EU, Canada & Turkey.

Interestingly, during the second half of FY02, quota exports to EU depicted a slightly higher growth of 11.5 percent, which clearly shows the impact of 15 percent quota increase from January 2002.[25] On the other hand, the impact of quota enhancements by the USA is not yet clearly visible.

Table 9.12: Major Exports

value: million US Dollar; unit value: US Dollar

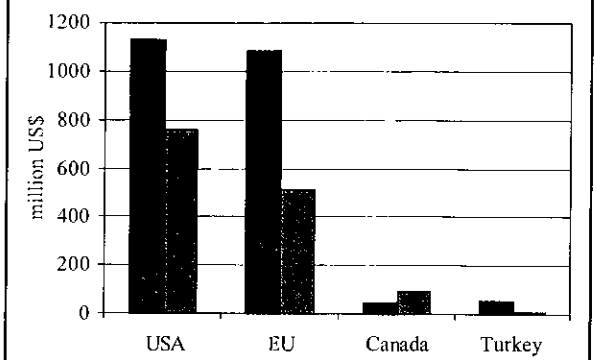
Commodities	Unit	FY01		FY02		Absolute Change in Value	% Δ in FY02 over FY01		
		Value	Unit Value	Value	Unit Value		Quantity	Value	Unit Value
A. Primary Commodities		**1,199.9**		**1,001.7**		**-198.2**		**-16.5**	
1 Rice	MT	525.5	229.1	448.2	266.1	-77.3	-26.6	-14.7	16.2
2 Raw cotton	MT	139.3	1,031.0	24.7	707.4	-114.5	-74.1	-82.2	-31.4
3 Raw wool (excl. wool tops)	MT	0.7	1,209.3	0.9	860.6	0.3	101.7	43.6	-28.8
4 Fish and fish preparations	MT	137.8	1,679.4	125.6	1,487.7	-12.1	2.9	-8.8	-11.4
5 Leather	SQM	232.9	13.3	239.9	13.9	7.0	-1.2	3.0	4.3
6 Guar and guar products	MT	20.5	926.9	16.4	698.3	-4.1	6.1	-20.1	-24.7
7 Fruits	MT	78.7	302.6	83.1	286.7	4.4	11.4	5.6	-5.3
8 Vegetables	MT	36.9	193.0	29.1	183.5	-7.8	-17.2	-21.2	-4.9
9 Crude animal material	MT	15.8	517.1	13.2	606.1	-2.6	-28.7	-16.4	17.2
10 Oil seeds & nuts etc.	MT	11.8	519.7	20.5	422.5	8.7	113.2	73.3	-18.7
B. Textile Manufactures		**5,790.9**		**5,810.6**		**19.7**		0.3	
11 Cotton yarn	MT	1,073.5	1969.3	929.7	1,721.6	-143.9	-0.9	-13.4	-12.6
12 Cotton fabrics (woven)	SQM	1,032.5	0.6	1,130.8	0.6	98.3	10.0	9.5	-0.4
13 Hosiery (knitwear)	Doz.	911.4	23.1	845.9	23.1	-65.5	-7.2	-7.2	0.0
14 Bed ware	MT	744.9	5,020.6	918.6	5,070.2	173.7	22.1	23.3	1.0
15 Towels	MT	241.7	3582.6	267.7	3,401.1	26.0	16.7	10.8	-5.1
16 Cotton bags and sacks	MT	19.0	4,034.9	15.8	3,931.2	-3.2	-14.7	-16.9	-2.6
17 Readymade garments	Doz.	826.8	23.1	875.0	21.1	48.2	15.5	5.8	-8.4
18 Tarpaulin & other canvas goods	MT	49.2	2,262.8	49.7	2,204.6	0.4	3.5	0.9	-2.6
19 Tule, lace embroidery etc.	---	10.4	---	9.7	---	-0.7	---	-7.2	
20 Synthetic textiles	SQM	544.6	0.6	410.0	0.6	-134.6	-22.3	-24.7	-3.1
21 Other textile made up	---	330.9	---	350.9	---	20.0	---	6.0	
22 Waste material of textile fibres/fabrics	MT	6.0	529.6	6.9	571.3	0.9	7.0	15.5	7.9
C. Other Manufactures		**1,577.9**		**1,583.5**		**5.5**		0.4	
23 Carpets, carpeting rugs & mats	SQM	288.7	45.2	249.6	49.1	-39.2	-20.4	-13.6	8.6
24 Petroleum and petroleum products	MT	183.9	223.1	190.7	186.7	6.8	23.9	3.7	-16.3
25 Sports goods	---	270.6	---	304.5	---	33.9	---	12.5	
26 Leather manufactures	---	425.5	---	383.2	---	-42.3	---	-9.9	
27 Foot wear	PAIR	40.9	5.4	54.4	5.9	13.5	22.2	33.0	8.8
28 Surgical and medical instruments	No	124.1	1.3	145.0	1.2	20.9	24.5	16.8	-6.2
29 Cutlery	GR	26.4	34.9	24.5	33.6	-1.9	-3.9	-7.3	-3.5
30 Onyx manufactured	MT	12.0	1,711.8	10.0	1,601.2	-2.0	-10.8	-16.6	-6.5
31 Chemicals and pharmaceuticals	---	164.3	---	152.8	---	-11.5	---	-7.0	
32 Molasses	MT	41.3	34.7	68.7	39.4	27.3	46.4	66.2	13.5
D. Others		**632.9**	**---**	**738.8**	**---**	105.9		16.7	
Total Exports		**9,201.6**		**9,134.6**		**-67.0**		**-0.7**	
excluding Major food items and raw cotton		8,271.6		8,403.3		131.8		1.6	
excluding Major food items and raw cotton and yarn		7,198.0		7,473.6		-67.0		3.8	

Source: Federal Bureau of Statistics

[25] The EU has increased textile quotas by 15 percent for all categories and withdrew duties on all imports from Pakistan, except five items (yarn, fabrics, leather and leather products and carpets) with effect from January 2002. However, the USA allowed 'selective' quota increases with no tariff suspensions after protracted negotiations.

A point of concern is that Pakistani exporters are facing a continual decline in prices of almost all the major export items, and especially textile manufactures (see **Figure 9.21** & **Table 9.14**).[26] The pass-through effect of the persistent fall in international prices of lint cotton (that has reached historic low during FY02), in conjunction with regular depreciation of the Rupee over the years could be possible explanation, as suggested by the graph below.

Figure 9.20: Textile Exports to Quota Countries - FY02



Since Pakistani exporters are essentially price takers, they tend to compete for market access by lowering prices, thus passing on their exchange gains to foreign importers. The monthly price effect in terms of US dollars (textile manufactures group) and exchange rate depreciation, when plotted together against time suggests some co-movements in both the variables, which needs to be looked into in much more detail (see **Figure 9.22**).

Table 9.14: Quantum and Price Impact on Selected Commodities

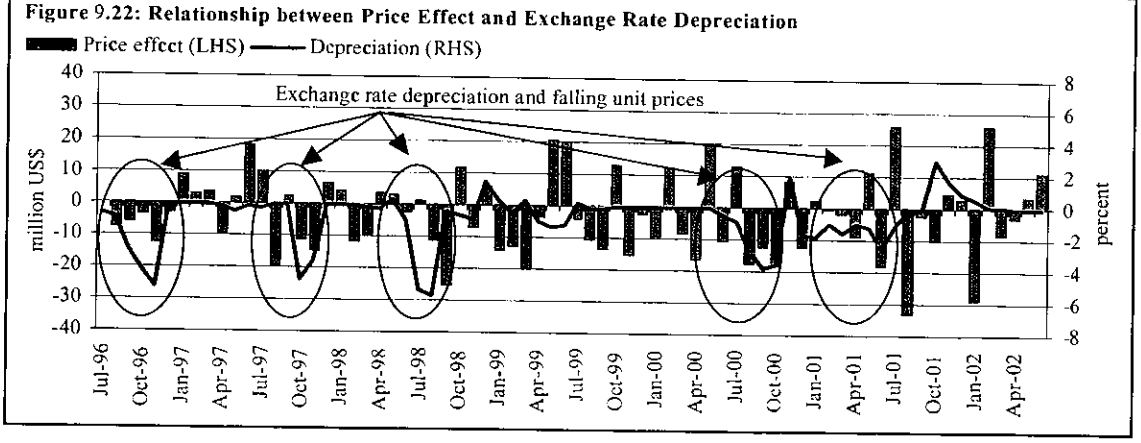
quantum and price impact: million US Dollar

Commodities	% change in quantity	% change in price	Quantum impact	Price impact
Rice	-26.6	16.2	-139.7	62.4
Raw cotton	-74.1	-31.4	-103.2	-11.3
Cotton yarn	-0.9	-12.6	-10.1	-133.8
Cotton fabrics	10.0	-0.4	103.1	-4.8
Bed-wear	22.1	1.0	164.7	9.0
Towels	16.7	-5.1	40.3	-14.3
Readymade garments	15.5	-8.4	128.1	-79.9
Carpets	-20.4	8.6	-58.9	19.7
POL group	23.9	-16.3	43.9	-37.1

The following points highlight the performance of specific export items during FY02:

- ***Raw cotton*** exports during FY02 decreased by US$ 114.5 million largely because of a decline in the export volume and depressed international prices (see **Table 9.14** & **Figure 9.23**). In FY02, the higher world production of raw cotton against limited consumption (due to global economic slowdown), improved technology and competition from synthetics kept the world market prices at historic lows. This, in turn, also depressed the domestic prices.

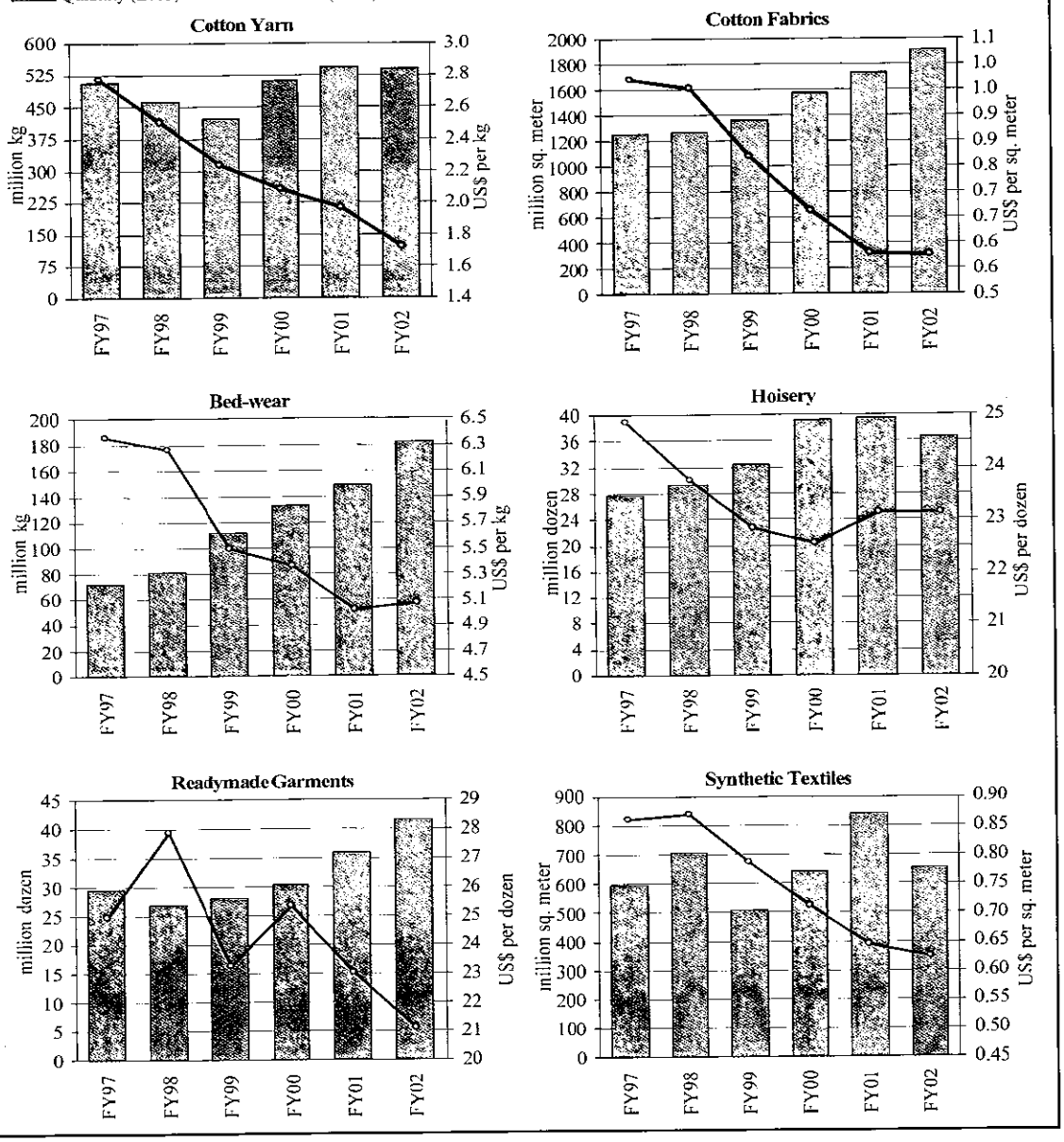
Figure 9.22: Relationship between Price Effect and Exchange Rate Depreciation



[26] This decline in export earnings can be decomposed into quantity effect (+ US$ 51.7 million) and a price effect (–US$ 224.0 million). The quantity and price effects are calculated on the basis of detailed data available on 27 items covering 78.8 percent of total exports.

In addition, over the years, exports of Pakistani cotton have suffered from the concerns about contamination and poor quality.[27] Interestingly in the same period, local spinners imported 202,298 metric tons of high quality raw cotton, a substantial 146.7 percent increase over FY01,

Figure 9.21: Exports of Major Textile Manufactures



[27] In August 2001, the government set a target of one million bales of contamination-free cotton by announcing cash incentives to growers (Rs 200 per bale for contaminated free cotton and Rs 75 per bale for cotton having impurity up to 2.5 grams per kg.). Unfortunately, these incentives did not produce desired results and only 0.1 million bales of contamination-free cotton were produced in the last cotton season. However, the cash incentives have since been revised (for a bale having

apparently in a bid to manufacture yarn of higher counts to satisfy the increasing demand by the high value-added textile manufacturers both at home and abroad.

- Export receipts from ***Cotton yarn*** continued to suffer due to a persistent decline in international prices. However, in contrast to the previous two years, the export volume during FY02 also posted a marginal fall. Consequently, export revenues at US$ 929.7 million showed a significant decline of 13.4 percent (see **Figure 9.21**). The decline in export volume may be attributed to the rising domestic consumption in the high value added textile sector.

- Within '*textile manufactures*', ***bed-wear*** exports showed remarkable improvement in terms of both value and volumes during FY02 (see **Figure 9.24**). Enhanced market access by EU and USA, exemption from custom duties and withdrawal of 6.4 percent anti-dumping duty by the EU helped in augmenting their exports.[28] As a result, bed-wear exports to USA and EU, in terms of volume, increased by 36.1 and 29.0 percent respectively, earning a total of US$ 643.4 from these two major markets (see **Figure 9.25**). Importantly, per unit export price registered an improvement of 4.6 percent in the US market. In overall terms, export receipts from bed-wear increased by 23.3 percent over previous year to reach US$ 918.6 million.[29]

- The fall in export unit prices is also noticeable for ***cotton fabrics***, ***readymade garments***, and ***towels*** (see **Table 9.13** & **Figure 9.21**). The resulting losses were, however, more than offset by significant increase in the export volumes. Consequently, the total export receipts from these items increased by US$ 172.5 million during FY02.

Figure 9.23: Export/Import of Raw Cotton (YoY Growth) - FY02

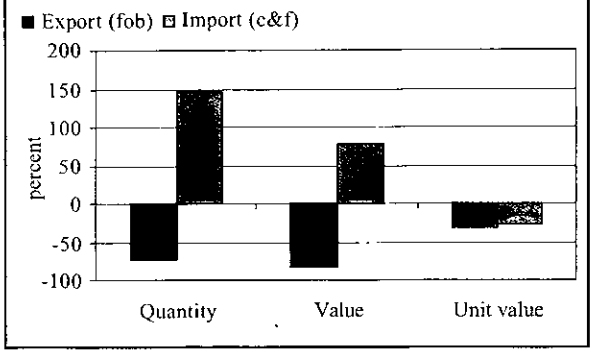


Figure 9.24: Exports of Bed-wear (YoY Growth) - FY02

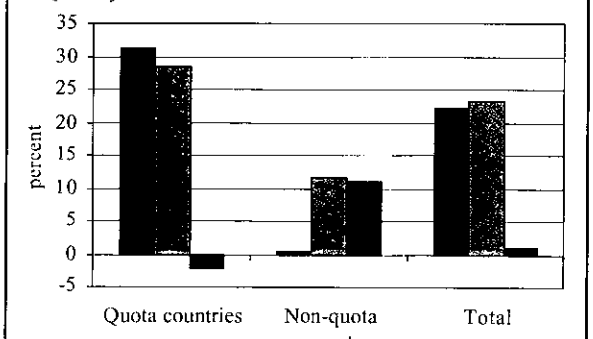
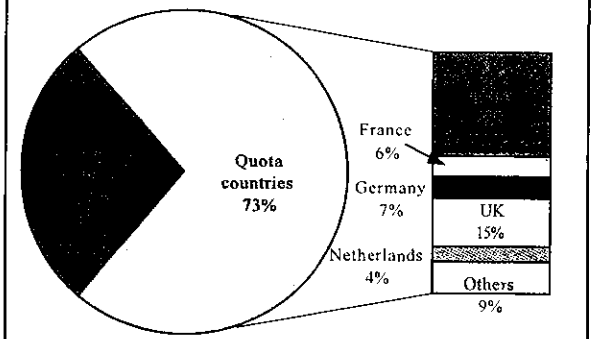


Figure 9.25: Bed-wear Exports to Major Markets - FY02

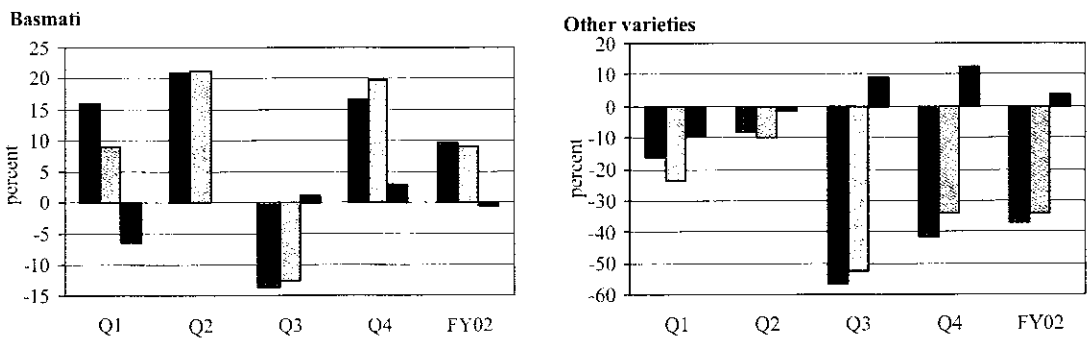


2.0 gm contamination per kg, the premium rate would be Rs 100 per maund; Rs 75 for a bale of 2.5 gm as premium and a bale with 3.0 gm contamination will get Rs 50 premium).

[28] The reported imposition of 9.8 percent anti-dumping duty by the European union (EU) on bed-wear imports from India also gave an edge to the Pakistani exporters.

[29] The quality assurance committee on bed linen in consultation with the Quota Supervisory Council (QSC) has fixed the minimum export price of bed linen at US$ 5 per kg to ward off the risk of anti-dumping proceedings from the EU.

Figure 9.26: Exports of Rice (YoY Growth) - FY02



- Export of ***Rice*** during FY02 showed a dismal performance registering a net loss of US$ 77.3 million in foreign exchange earnings, despite 16.2 percent increase in the average per unit export price over FY01 (see **Table 9.15** & **Figure 9.26**). The increase in domestic prices following lower production of Irri-varieties (in view of water shortages) rendered Pakistani rice exporters non-competitive against major competitors (Vietnam, China, India).[30] The quality and marketing concerns are also adding to difficulties faced by Pakistani Irri-rice exporters. For example, exports of inferior varieties fell significantly in African markets (53.9 percent in terms of volume and 55.4 percent in value), while there was no export to Bangladesh (in FY01, 81,457 metric tons of inferior quality rice was exported to Bangladesh), resulting in the loss of US$ 98.8 million export revenues.

  In contrast, during FY02, basmati rice exports increased despite a slight fall in per unit export price, fetching an additional US$ 21.5 million. Dubai is the main market for Pakistani rice (importing US$ 94.5 million and US$ 17.1 million worth of basmati and other varieties of rice respectively) while other major buyers include Saudi-Arabia, Oman, Yemen, UK, Qatar, Bahrain, Mauritius, Kuwait, Netherlands and USA.

Table 9.15: Export of Rice

value: million US Dollar; quantity: 000 metric tons

	FY02		FY01	
	Quantity	**Value**	**Quantity**	**Value**
Basmati	550.0	258.0	502.1	236.5
Other varieties	1,134.3	190.3	1,792.2	289.1
Total	**1,684.3**	**448.2**	**2,294.3**	**525.5**

Source: Federal Bureau of Statistics

Table 9.16: Export of Wheat

quantity: metric tons; value: million US Dollar

	FY02		FY01	
	Quantity	**Value**	**Quantity**	**Value**
Export	**642,595**	**71.38**	**80,498**	**11.01**
Abu Dhabi	24	0.00	--	--
Afghanistan	48,764	6.11	45,497	6.69
African countries	40,050	4.26	--	--
Dubai	148,940	15.78	--	--
Iran	3,259	0.36	--	--
Iraq	137,098	16.87	35,001	4.31
Kenya	132,895	13.95	--	--
Kuwait	11,800	1.24	--	--
Malaysia	110	0.01	--	--
Republic of Turkmenistan	2,160	0.43	--	--
Sudan	63,670	6.72	--	--
Egypt	25,000	2.70	--	--
Viet Nam	28,825	2.95	--	--

Source: Federal Bureau of Statistics

- The two consecutive bumper wheat crops in FY00 and FY01 created a substantial exportable surplus in FY02.[31] A substantial quantity of ***wheat*** valuing US$ 71.4 million was exported during

[30] India is reported to have large rice stocks and emerged as a leading rice exporter this year due to its competitive prices.
[31] In FY01, Pakistan was able to export only a small quantity thus leaving a substantial carryover stock.

Table 9.17: Export of Leather and Leather Products

million US Dollar

	FY01	FY02	Percent change over FY01			Quantum effect	Price effect
			Quantity	Value	Unit value		
Total	**693.2**	**671.7**		**-3.1**		**-12.4**	**-9.0**
Finished leather	232.9	239.9	-1.2	3.0	4.3	-2.9	9.9
Leather footwear	34.8	48.6	47.0	39.9	-4.8	16.3	-2.5
Leather gloves	37.3	51.3	36.0	37.5	1.1	13.4	0.6
Leather apparel and clothing	375.6	321.3	-9.8	-14.4	-5.1	-37.0	-17.3
Other leather manufactures	12.6	10.5	-18.6	-16.3	2.8	-2.3	0.3

Source: Federal Bureau of Statistics

- the period to markets in Middle East, Africa, Southeast Asia and Afghanistan (see **Table 9.16**).[32] However, the absence of a grading system and lack of experience and track record as a reliable supplier, are the main factors limiting wheat exports.

- Export receipts of ***leather and leather products*** *(including leather footwear)*, which is second only to textiles in terms of export earnings, has been declining since FY97 (except in FY01 – due to the spread of *foot & mouth* disease in Europe). During FY02, export earnings from this sub-group amounted to US$ 671.7 million, registering a 3.1 percent decline over FY01 (see **Table 9.17** & **Figure 9.27**). During the year, despite a 6.0 percent increase in the per unit import price, Pakistan imported raw leather (hides and skins) valuing US$ 20.6 million for domestic utilization and re-export after value addition.[33] Exports to USA, the main market of Pakistani *leather apparel & clothing*, which accounted for 19.0 percent share (US$ 61.1 million), registered a decline of 9.0 percent over FY01.

Figure 9.27: Export of Leather and Leather Manufactures - FY02

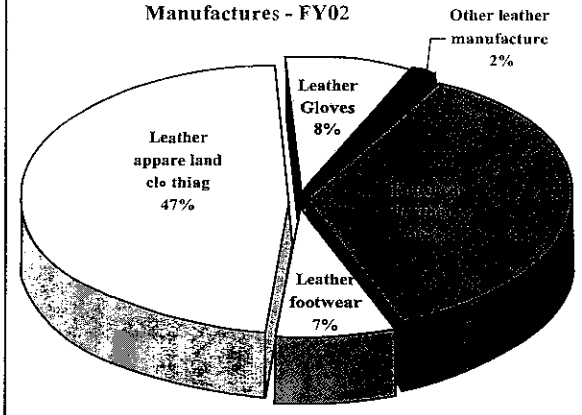
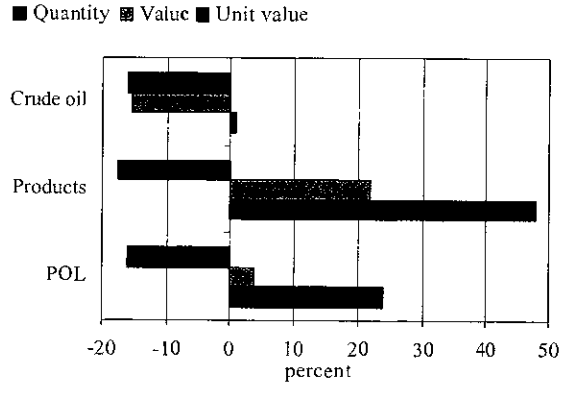


Figure 9.28: Export of POL (YoY Growth) - FY02



- ***Petroleum and petroleum products (POL)*** exports earned US$ 190.7 million during FY02, registering a 3.7 percent increase over previous year despite a decline in per unit export prices (see **Figure 9.28**). Export of petroleum products contributed US$ 115.8 million, while crude oil exports amounted to US$ 74.9 million. During the period, 599.9 thousand metric tons of petroleum products and 421.5 thousand metric tons of crude oil were exported.[34] The increase in export earnings was not commensurate

[32] Government allowed the private sector to export wheat without any restriction on quantity, value and purchase from any source. On February 16, 2002, SBP also allowed export finance facility to wheat exporters under part-I of the export finance scheme at post shipment stage.

[33] Pakistan imported raw hides and skins from Kenya, Tanzania, Uganda, Yemen, Sudan, Somalia, Dubai, Saudi Arabia, Afghanistan, Iran, United Kingdom, etc.

[34] This reflects the lack of refining capacity for low-grade crude oil produced in the country.

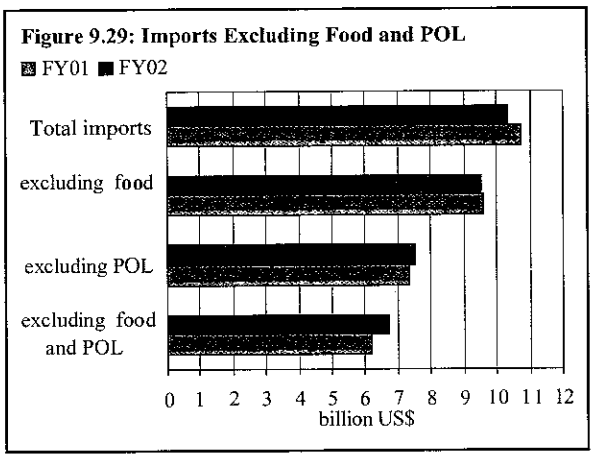
with the enhanced volumes due to sharp reduction in the international prices. In FY02, Pakistan exported all its exportable *crude oil* to Indonesia, Thailand, Singapore and China while 99.1 percent of total export of *petroleum products* went to Dubai, South Korea, Japan, Afghanistan and Jordan.

- Exports of ***carpets and rugs*** during FY02 registered a net fall of US$ 39.2 million compared to FY01 despite an improvement of 8.6 percent in the realized per unit export prices. Carpet exports came under pressure in major markets due to continuing world recession and especially after September 11, 2001 incident. A 25.1 percent fall in the export volume to USA (accounting for 30.0 percent share in FY02) resulted in the overall decline of 20.4 percent over previous year.

9.6.2 Imports

The total import bill in FY02 amounted to US$ 10.3 billion, depicting a decline of 3.6 percent over the previous year (see **Table 9.18** and **Figure 9.29**). A significant reduction in the POL import bill (resulting from a sharp fall in international oil prices as well as lower import volumes) and lower imports of food items were mainly responsible for this decline.[35] Excluding POL group, the import bill in fact increased by 2.2 percent, while non-food non-oil imports increased by a wider margin of 7.6 percent. During the period, almost all the major import items (including palm oil and pulses from the food group) showed positive growth, especially the machinery for the textile industry. Import of industrial raw materials (including crude oil and some petroleum products), which showed a 23.4 percent increase in FY01, again registered a 5.9 percent growth during FY02 indicating some improvement in industrial activity in the country.

Figure 9.29: Imports Excluding Food and POL



Important developments in the Pakistan's major import categories are as follows:

- During FY02, a sharp decline in world oil prices coupled with lower domestic consumption of petroleum products resulted in a net saving of US$ 553.8 million in ***POL*** imports (against US$ 3,360.8 million in FY01 – see **Table 9.19**).[36, 37] As a result, oil import bill, which shot up to 31.3 percent of total imports in FY01 again fell to 27.1 percent, but was still higher than the 5 years average of 21.7 percent.

  The import volume of 'petroleum products' declined by 8.9 percent to 9.2 million tons in FY02. The following factors contributed to this fall: (1) the commissioning of Pak-Arab Oil Refinery (PARCO) in FY01 (which reduced the need for imported petroleum products); (2) switching of some of the power and cement plants to other energy sources; (3) increased conversion of

[35] However, it is expected that with the reduction in average tariff rate from 30 percent to 25 percent, the imports may pick-up in the coming months. In order to fulfill its international obligations under WTO, the government has reduced the maximum customs tariff rate, with four slabs of 25, 20, 10 and 5 percent.

[36] Average Brent crude prices during FY02 were US$ 22.7 per barrel compared to US$ 28.4 per barrel during FY01.

[37] September 11 incident and tension on our eastern borders caused a slump in industrial activity, which resulted in reduced domestic consumption of petroleum products. According to market sources, industrial consumption of petroleum, oil and lubricants (POL) declined by 4 percent in FY02 over last year. Despite improved bus and truck sales in FY02, consumption of high-speed diesel (HSD) declined by 0.34 percent. Similarly, consumption of petrol fell by 1.8 percent.

Table 9.18: Major Imports

value: million US Dollar; unit value US Dollar

Commodities	Unit	FY01		FY02		Abs.	% Δ in FY02 over FY01		
		Value	Unit value	Value	Unit value	Change	Quantity	Value	Unit value
A Food Group	---	**1,131.4**	---	**823.3**	---	**-308.1**	---	**-27.2**	---
Milk & cream *incl.*milk food for infants	MT	20.0	1,961.1	16.1	2,293.8	-3.9	-31.3	-19.7	17.0
Wheat un-milled	MT	15.4	192.4	50.0	187.2	34.6	233.9	224.9	-2.7
Dry fruits	MT	37.2	438.0	31.2	342.0	-6.0	7.5	-16.1	-21.9
Tea	MT	206.4	1,845.0	156.6	1575.1	-49.8	-11.1	-24.1	-14.6
Species	MT	18.6	1,107.2	17.0	793.5	-1.6	27.3	-8.8	-28.3
Edible oil	MT	327.6	286.4	393.0	328.4	65.4	4.7	20.0	14.6
Soya bean	*MT*	*44.1*	*343.5*	*12.7*	*369.4*	*-31.4*	*-73.3*	*-71.3*	*7.5*
Palm oil	*MT*	*283.5*	*279.2*	*380.3*	*327.2*	*96.9*	*14.5*	*34.2*	*17.2*
Sugar	MT	393.3	270.2	23.6	273.5	-369.7	-94.1	-94.0	1.2
Pulses	MT	113.0	309.7	135.9	295.3	22.9	26.2	20.3	-4.7
B Machinery Group	---	**2,066.3**	---	**2,116.6**	---	**50.3**	---	**2.4**	---
Power generating machinery	---	197.9	---	203.8	---	5.9	---	3.0	---
Office machinery	---	233.1	---	224.3	---	-8.8	---	-3.8	---
Textile machinery	---	370.2	---	406.9	---	36.8	---	9.9	---
Construction & mining machinery	---	82.5	---	118.6	---	36.1	---	43.7	---
Electrical machinery & apparatus	---	131.6	---	128.0	---	-3.6	---	-2.7	---
Railway vehicles	---	25.7	---	38.3	---	12.6	---	49.1	---
Road motor vehicles	---	320.9	---	329.9	---	9.1	---	2.8	---
Aircraft, ships and boats	---	79.7	---	132.3	---	52.6	---	65.9	---
Agricultural machinery & implements	---	23.8	---	16.1	---	-7.7	---	-32.4	---
Other machinery	---	601.0	---	518.4	---	-82.6	---	-13.8	---
C Petroleum Group	**MT**	3,360.8	197.9	2,807.0	171.5	**-553.8**	**-3.6**	**-16.5**	**-13.3**
Petroleum products	MT	2,000.3	197.5	1,576.2	170.8	-424.0	-8.9	-21.2	-13.5
Petroleum crude	MT	1,360.6	198.5	1,230.8	172.4	-129.8	4.2	-9.5	-13.2
D Textile Group	---	**161.8**	---	**187.5**	---	**25.7**	---	**15.9**	---
Synthetic fibre	MT	77.8	1,291.3	74.4	1242.1	-3.4	-0.6	-4.4	-3.8
Synthetic & artificial silk yarn	MT	59.5	1,753.5	82.4	1521.3	22.9	59.6	38.5	-13.2
Worn clothing	MT	24.5	303.6	30.7	307.5	6.2	23.8	25.3	1.3
E Agricultural and Other Chemicals Group	---	**1,901.7**	---	**1,839.6**	---	**-62.1**	---	**-3.3**	---
Fertilizer	MT	170.5	178.7	176.2	144.5	5.7	27.8	3.4	-19.1
Insecticides	MT	61.2	2,878.5	85.9	2,703.6	24.7	49.5	40.4	-6.1
Plastic materials	MT	354.3	847.0	352.7	770.2	-1.6	9.5	-0.5	-9.1
Medicinal products	MT	238.7	22,534.1	228.1	23,471.0	-10.6	-8.2	-4.4	4.2
Others	---	1,077.0	---	996.6	---	-80.5	---	-7.5	---
F Metal Group	---	**361.4**	---	**433.9**	---	**72.5**	---	**20.1**	
Iron and steel scrap	MT	43.0	117.1	50.6	123.7	7.6	11.4	17.7	5.6
Iron and steel	MT	277.9	337.0	336.1	297.0	58.2	37.2	20.9	-11.9
Aluminum wrought & worked	---	40.4	---	47.2	---	6.8	---	16.7	
G Miscellaneous Group	---	**265.5**	---	**285.4**	---	**19.9**	---	**7.5**	---
Rubber crude	MT	39.2	668.0	41.1	628.5	1.9	11.5	4.9	-5.9
Rubber tyres & tubes	No.	62.5	22.4	66.6	21.1	4.1	13.2	6.5	-5.9
Wood & cork	---	15.3	---	14.7	---	-0.6	---	-4.0	---
Jute	MT	23.2	259.4	26.2	288.1	3.0	1.7	12.9	11.1
Paper and paper board & manufactures	MT	125.3	780.7	136.8	694.1	11.5	22.8	9.2	-11.1
H Others	---	**1,480.0**	---	**1,846.3**	---	**366.3**		**24.7**	
Total Imports		**10,728.9**		**10,339.5**		**-389.4**		**-3.6**	
excl. Food group		9,597.5		9,516.2		-81.3		-0.8	
excl. POL group		7,368.1		7,532.5		164.5		2.2	
excl. Food and POL groups		6,236.7		6,709.2		472.6		7.6	

Source: Federal Bureau of Statistics

Table 9.19: Import of POL

value: millioo US Dollar; Quantity: '000' metric tons

	FY02			FY01		
	Quantity	Value	Unit value	Quantity	Value	Unit value
Total POL	**16,368.9**	**2,807.0**	**171.5**	**16,983.6**	**3,360.8**	**197.9**
Crude Oil	**7,140.4**	**1,230.8**	**172.4**	**6,855.0**	**1,360.6**	**198.5**
Petroleum Products	**9,228.5**	**1,576.2**	**170.8**	**10,128.5**	**2,000.3**	**197.5**
High speed diesel oil	4,547.4	881.0	193.7	4,724.4	1,132.8	239.8
Furnace oil	4,615.9	663.3	143.7	5,331.6	831.7	156.0
Aviation sprit	1.3	0.8	611.1	0.8	0.5	678.3
Parafin liquid (white oil)	3.3	1.6	467.3	2.3	1.2	541.5
Lubricating petroleum oil (ns)	24.8	14.5	587.5	24.6	15.6	634.9
Lubricating mineral greases	2.1	0.9	415.4	1.7	1.1	629.4
Lubricating preparations	5.8	3.8	664.4	5.0	3.5	688.6
Petroleum jelly	1.5	1.0	636.0	1.2	0.8	636.8
Parafin wax	7.1	3.1	441.4	5.8	2.9	494.6
Xylole	5.4	2.0	368.9	4.7	1.8	383.0
Petroleum bitumen (ns)	6.6	1.2	187.9	2.4	0.4	176.2

Source: Federal Bureau of Statistics

automobiles to compressed natural gas – CNG; and (4) suspension of flights by various international airlines.[38] However, PARCO necessitated the higher imports of crude oil, which rose by 4.2 percent over FY01. Pakistan met crude oil requirements from Saudi-Arabia (under Saudi oil facility), Abu Dhabi, Iran and Dubai, while Kuwait, Fujairah, Dubai, Saudi Arabia, and Bahrain accounted for 98.0 percent of total import of petroleum products.

- In ***edible oils***, out of the annual domestic consumption of around 1.95 million metric tons, only 29 percent is met through domestic production. This ranks edible oils as the single largest food import item. During FY02, its imports at US$ 393.0 million showed a sharp increase of 20.0 percent over previous year. The increase in volume and international prices led to additional expenditures of US$ 15.3 million and US$ 50.2 million, respectively. In value terms, palm oil accounted for 96.8 percent of total edible oil imports. In addition to edible oils, imported oil seeds are also crushed to extract oil and during the FY02, US$ 171.8 million were spent to import oil seeds (mainly soya bean, rapeseed and canola – see **Table 9.20**).[39]

Table 9.20: Import of Oilseeds during FY02

value: million US Dollar; Quantity: '000' metric tons

	FY01		FY02		% Δ over FY01	
	Quantity	Value	Quantity	Value	Quantity	Value
Soya beans	--	--	257.1	61.9	--	--
Rape seeds / Canola seeds	298.9	69.1	451.3	109.9	51.0	59.0
Total	**298.9**	**69.1**	**708.5**	**171.8**	**137.0**	**148.6**

Source: Federal Bureau of Statistics

- In FY02, the outlay on the import of fertilizer increased by 3.4 percent over FY01 to US$ 176.2 million. FFC-Jordan Fertilizer Company's decision to stop Di-Ammonium Phosphate (DAP) production due to heavy losses and dismal prospects (following sharp decline in the price of DAP in the world market) forced greater reliance on imports during FY02.[40] A total of 1,072 thousand metric tons of DAP, costing US$ 161.1 million, was imported during the year.

- For the last many years, import of machinery group depicts an erratic behavior (see **Figure 9.30**). During FY02, import bill of machinery group amounted to US$ 2,116.6 million registering a rise

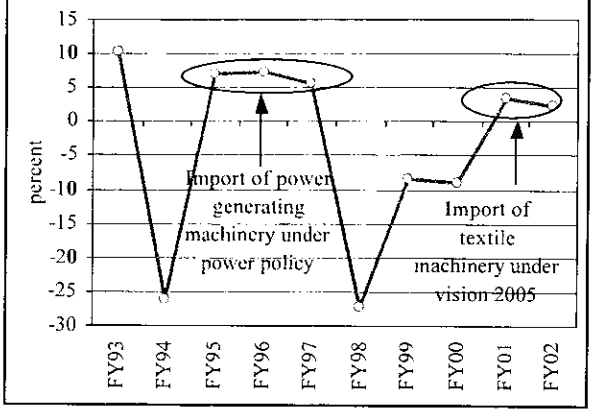
[38] In terms of volume, furnace oil import during FY02 declined by 13.4 percent, while its value declined by 20.2 percent over FY01.

[39] Import of canola seed was exempted by the GOP from the payment of sales tax in October 2001.

[40] Compared with FY01, average import price of DAP fell sharply by 21.0 percent in FY02.

of 2.4 percent over FY01. Share of this group in total imports also increased from 19.3 percent in FY01 to 20.5 percent in FY02. Within this group, textile machinery imports after registering an impressive growth of 75.5 percent in FY01, again increased by 9.9 percent during FY02, showing the continuation of BMR in the textile sector under vision 2005.[41] During the last two years, the textile industry has imported machinery amounting US$ 777 million. Construction & mining machinery imports also registered a 43.7 percent increase over FY01 and amounted to US$ 118.6 million.[42]

Figure 9.30: Import of Machinery Group (YoY Growth)

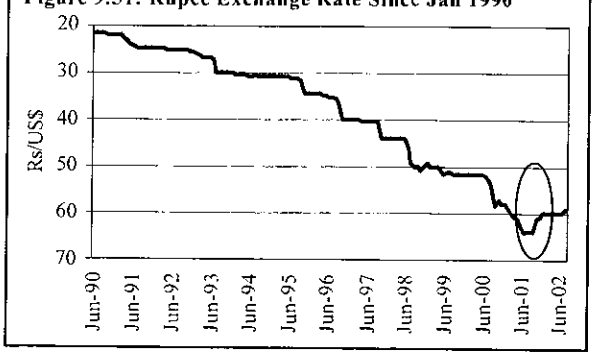


- In order to bridge the gap between domestic production and consumption, a total of 460,346 metric tons of pulses (rise by 26.2 percent over FY01) at a cost of US$ 135.9 million was imported in FY02. Resultantly, the import bill of *pulses* registered a net increase of US$ 22.9 million during FY02. The US$ 29.6 million positive quantum effect was partially neutralized by the negative price effect of US$ 6.6 resulting from lower unit prices.

9.7 Exchange Rate Policy

The FY02 was an extraordinary year for the Rupee (see **Figure 9.31**). The global crackdown on Hundi network led to (1) the collapse of the kerb market premium; (2) a reversal of market devaluation expectations; and (3) a consequent U-turn in the exchange rate management strategy of SBP. All of which set the basis for accelerating liberalization of the foreign exchange market, and particularly, the removal of segmentation between the interbank and the kerb markets.

Figure 9.31: Rupee Exchange Rate Since Jan 1990



It is important to note that the massive improvement in the forex market post-September 2001 overshadowed the notable exchange rate stability already evident during July-September FY02. This stability was in sharp contrast to the 10.9 percent depreciation of the Rupee during the same period last year (see **Figure 9.32**). The narrower trade deficit during this period, and the fact that the Rupee had already depreciated by 18.6 percent in the interbank market during FY01 were the important contributors to exchange rate stability during this period. However, the most important factor was the pro-active management by SBP that allowed Authorized Dealers (ADs) to meet lumpy payments even without recourse to support from the central bank (see **Figure 9.35**).[43]

[41] An investment of Rs 23.0 billion in textile spinning sector, Rs 5.3 billion in weaving, Rs 4.4 billion in polyester fibre, Rs 3.4 billion in processing and Rs 4.3 billion in knitting and garment sector has reportedly been made till the end of FY02.
[42] Immense opportunities are likely to emerge in the reconstruction and rebuilding of Afghanistan.
[43] In such cases, SBP occasionally provided support in the forward market with the expectations that the contract would be settled in due course from the market itself at a time when the forex liquidity improves.

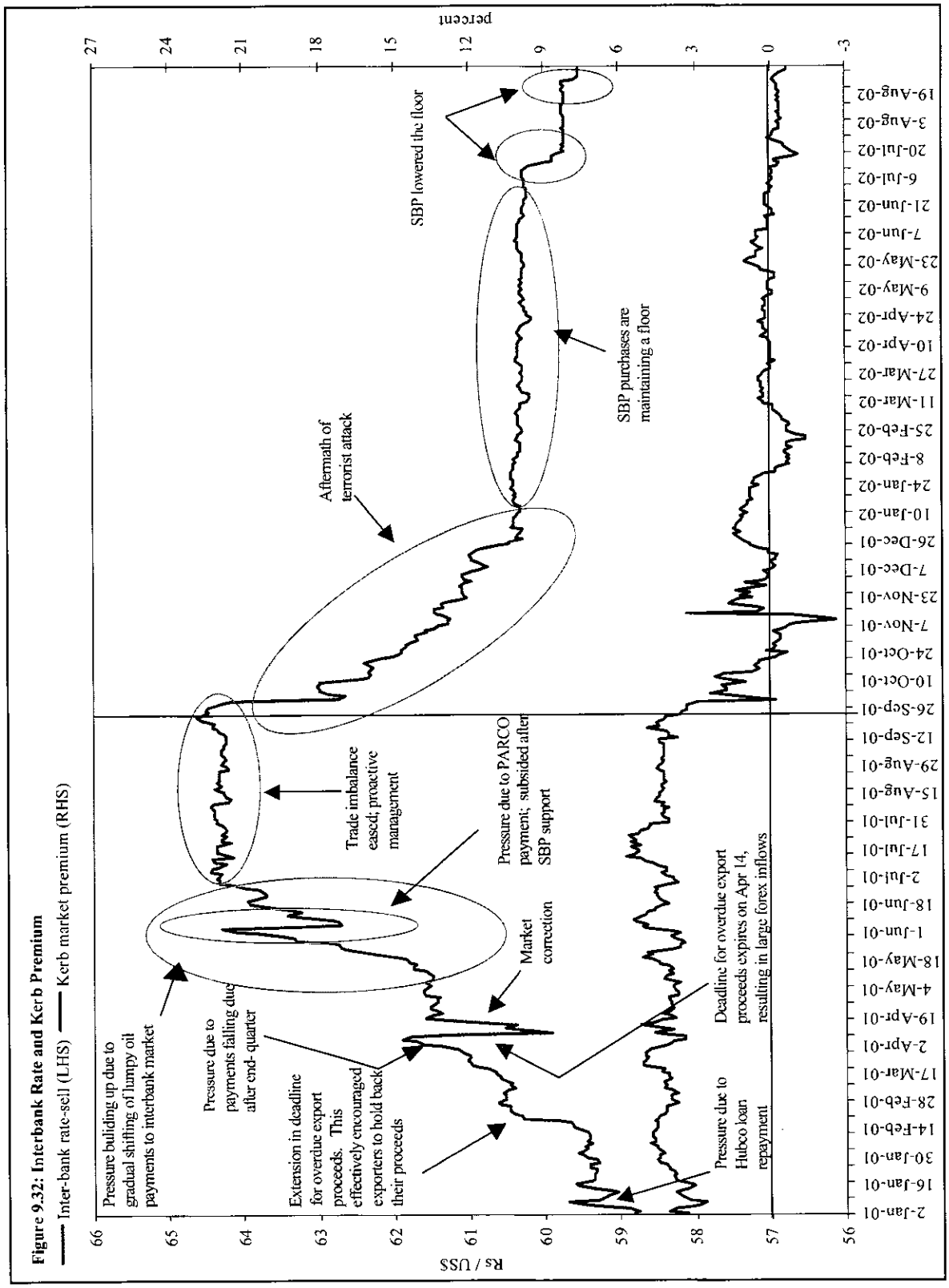


Figure 9.32: Interbank Rate and Kerb Premium

The collapse of the kerb market premium: Initially, in line with its traditional role as a precautionary hedge, demand for US Dollar rose in the immediate aftermath of September 11. Anxiety came to the fore in the kerb market only when the US government decided to crack down on possible funding avenues for terrorist organizations. The Dollar suffered heavily in the kerb market when it depreciated by 3.9 percent on October 1, 2001. In another important development, UAE central bank introduced documentation requirement for any outward or inward flows (beyond AED 5,000). These developments led to the collapse of the kerb market premium (see **Figure 9.33**).[44] The impact was so overwhelming that on several occasions, the kerb rate for cash transactions even dipped below the interbank TT rate (see **Figure 9.32**).[45] In overall terms, the Rupee appreciated by 11.0 percent in the kerb market during FY02 against 17.8 percent depreciation last year.

Figure 9.33: Monthly Average Kerb Market Premium

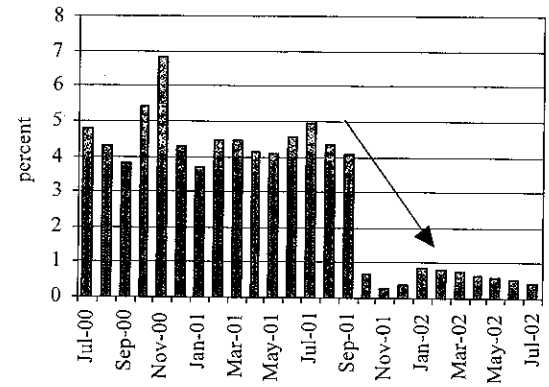
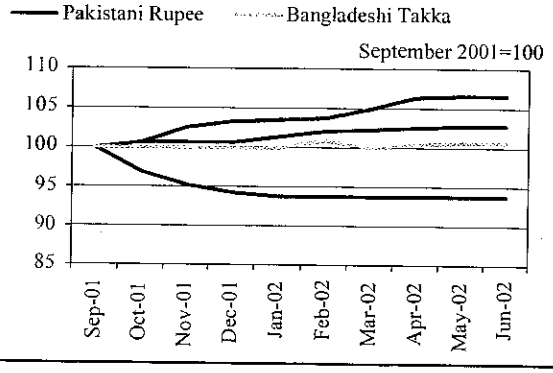


Figure 9.34: Index of Regional Currencies vs US Dollar



It is worthwhile to mention here that a clear statistical causality had been established from the interbank to the kerb rate after the free float on July21, 2000, implying that changes in the interbank rate were leading to changes in the kerb rate.[46] However, the external shock to the kerb market following international drive against informal networks was so strong that it impacted the interbank rate as well. Afterward, the changes in the kerb rate continued to be driven by the interbank rate. This assertion is re-affirmed from the fact that the recent slide of the Rupee/Dollar parity during May 2002 in the interbank market immediately carried forward to the kerb rate (see **Figure 9.32**).

Interestingly, the kerb rate appreciated by 11.0 percent during FY02, while the interbank rate showed gains of 6.7 percent. This tendency is in contrast to past practice, when the kerb rate was sticky in downward direction. This downward stickiness was thought to reflect the market power of the large suppliers of foreign exchange in the kerb market.[47] The recent developments support this hypothesis as it appears that the worldwide probe against Hundi network that coincided with large inflows through the kerb market has constrained the capacity of those large suppliers to hold the hard currency.[48]

[44] The developments in the foreign exchange market following September 11 are covered in SBP First *Quarterly Report* for FY02.

[45] Since the kerb market transfer funds through the normal banking channels, the Telegraphic Transfer (TT) rate in the kerb typically cannot be less than that prevailing in the interbank market.

[46] See SBP Second *Quarterly Report* for FY01.

[47] See Special Section in SBP Second and Third *Quarterly Reports* for FY01.

[48] Despite a very low average premium of 0.14 percent during the Oct 01– Aug 02 period, moneychangers are still continuing their business.

The exchange rate of other regional countries (Sri Lanka, India, and Bangladesh) did not strengthen following the crackdown on the Hundi network (see **Figure 9.34**). This simply suggests that remittances in these countries are not under-reported by high margins, and therefore, the size of their informal forex market is small relative to that in Pakistan. In other words, while the exchange rate for these countries already incorporated large remittances,[49] the Rupee assumed this impact only after the collapse of the kerb market.

A setback to market expectations for devaluation:
The reversal in devaluation expectations was another important implication of the post-September 2002 developments. Since the historical trends of the Rupee/Dollar parity are generally characterized by long periods of stability before being interrupted by sharp phases of depreciation, this created a general perception that the Rupee/US$ parity would *move only in one direction* (see **Figure 9.31**).[50] Although, the Rupee has even shown some minor phases of appreciation during second quarter of FY99 and FY01, these were preceded by large Rupee depreciation, and therefore, may be termed as correction in the parity. Similarly, the Rupee stability during FY00 was more due to an unofficial cap imposed by the SBP in the interbank market than some improvement in market flows.

With this background, the appreciation of the Rupee caught market participants by surprise, and their response added further strength to the Rupee.[51] However, its impact on total FCAs mitigated as many individuals brought back their foreign currency deposits held abroad.

A U-turn in the exchange rate management strategy of SBP:
In terms of exchange rate management, FY02 was completely different from earlier years as demand management strategies gave way to the need to stem the rise of the Rupee.

To put this into perspective, a 2-year background is instructive. During FY00, the absence of an IMF program allowed SBP to place an unofficial ceiling on the Rupee/Dollar parity along with a number of restrictions on market participants to prevent speculative activities and maintain orderly conditions.[52] In order to maintain parity, SBP had been providing one-sided market support (Dollar sales to the interbank market) to match inflows and outflows in the interbank market; and the resulting draw down of reserves was largely neutralized by SBP purchases from the kerb market.[53] At the same time, SBP was able to keep interest rates at lower levels.

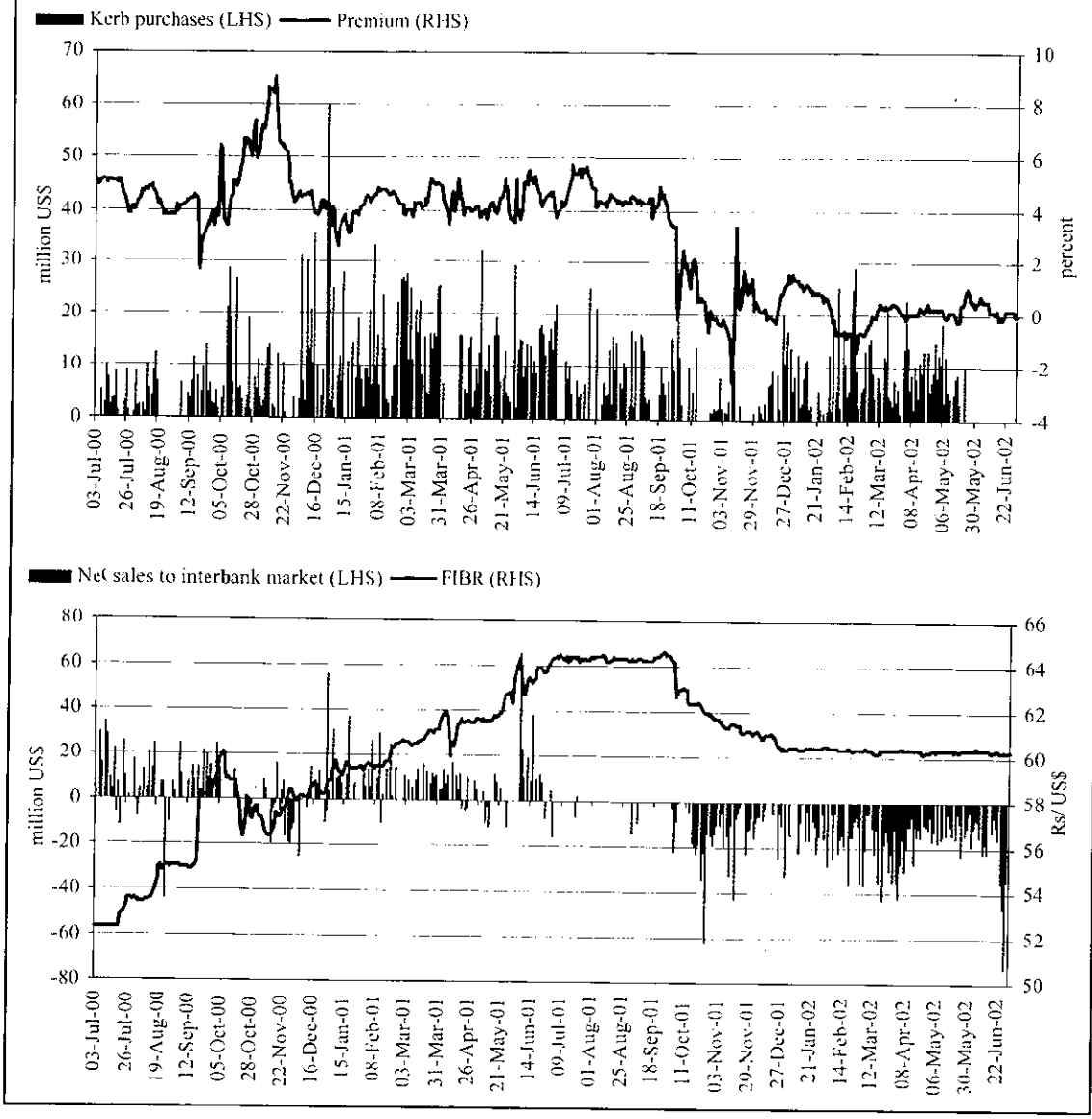
During FY01, as a part of stabilization program, the Rupee band was dismantled in July 2000, and the monetary policy was used to quell market pressures and smooth out volatility. However, in the absence of any commitment *per se* for the desired exchange rate parity, the need to provide one-sided market support also increased marginally during the year, which coincided with higher SBP purchases from the kerb market during the year (see **Table 9.21**). In overall terms, despite sharp increase in interest rates to stabilize the Rupee/Dollar parity, the exchange rate depreciated by 18.6 percent during the year.

However, what distinguishes FY02 is the heavy SBP *purchases* from the interbank market to stabilize the exchange rate. Looking from a different perspective, since these purchases are preventing the exchange rate from appreciating, the quantum of support required during FY02 was much higher

[49] For example, during FY02, Bangladesh saw a 32% YoY increase in remittances as against the 129% YoY growth posted by Pakistan for the same period
[50] On annual basis, the Rupee has witnessed average depreciation of 8.7 percent during FY90-FY01.
[51] See SBP Second *Quarterly Report* for FY02.
[52] This includes the condition of commercial backing for all forex transactions in the interbank market by ADs.
[53] See SBP Third *Quarterly Report* for FY01.

compared to the last two years (see **Figure 9.35**). The impact of upturn in forex flow through interbank market was sufficient enough to meet the payments independently without the recourse to the central bank; in fact, SBP ensured that even the lumpy payments were directed towards banks. This was clearly reflected in reduced sales to the market, which remained to mere US$ 120 million in FY02 (practically all pre-Sept 11) against US$ 1856 million in FY01. In a concurrent development, the absence of speculative pressures in the forex market also allowed SBP to bring interest rates to their historical lows.

Figure 9.35: Kerb Purchases, Premium and Market Support



The prime objective of the FY02 SBP purchases from the interbank market was to ensure that the stable exchange rate did not erode the competitiveness of the Pakistani exporters. This was important, as exporters were already facing the loss of export orders and imposition of a war risk premium on shipments and, in some cases, are unable to meet their commitments. It can be argued that the SBP's resistance at the current level of exchange rate has eroded the potential benefits to consumers/

Figure 9.21: SBP Purchases

million US Dollar

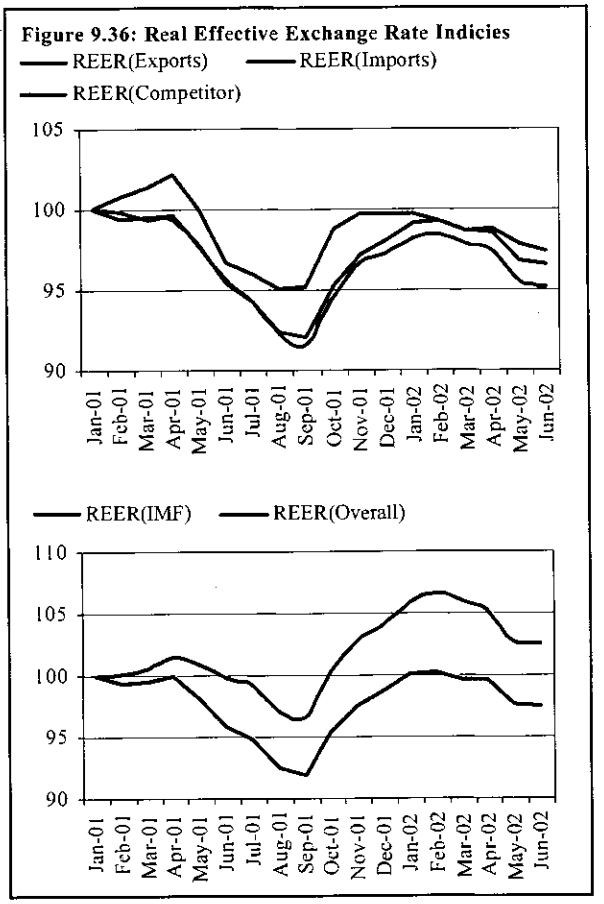
	Q1		Q2		Q3		Q4			
	FY01	FY02	FY01	FY02	FY01	FY02	FY01	FY02	FY01	FY02
Kerb purchases	227	398	528	239	806	432	596	307	2,157	1,376
Interbank	-396	28	15	696	-459	796	-286	957	-1,126	2,477
Purchases	171	33	266	705	142	902	152	957	731	2597
Sales	567	5	251	9	601	106	438	0	1857	120

Source: Exchange and Debt Management Department, SBP

producers in the form of low import costs in domestic currency. While this is true, it can be argued that the benefits of such a policy would have been limited as prices are somewhat sticky for downward adjustments in Pakistan. Also any loss of export markets to competitors is always difficult to recover.

In this regard, it is worth mentioning that the strengthening of the Rupee in the interbank market has already led to its sharp appreciation in real terms (see **Figure 9.36**). Since other major currencies depreciated against the US Dollar in the aftermath of September 11 (see **Figure 9.37**), this further eroded the competitive edge of the Rupee. Fortunately, this was offset to some extent on account of relatively lower inflation in Pakistan compared to the major competitors. Also, with the depreciation of the Dollar against major currencies since February 2002, the REER of the Rupee is now depicting a downward trend.

Figure 9.36: Real Effective Exchange Rate Indicies



9.7.1 Liberalization of the Foreign Exchange Market

The relative exchange rate stability during the Q1-FY02 allowed SBP to abolish limits on Nostro balances held by banks with effect from August 31, 2001.[54] Later developments in the forex market allowed SBP to further liberalize the exchange rate regime. For example,

- The condition of approved commercial transaction for any interbank deal was abolished.
- The limits on foreign exchange payments relating to travel, education and health were also abolished.
- The facility to back-to-back remittances was reinstated as ADs were allowed to issue traveler's check against surrender of an equivalent amount of foreign exchange in cash.

[54] These are the foreign currency balances in bank's own accounts with the correspondent banks outside Pakistan for clearance purpose only.

- The surrender requirement on FCAs mobilized under FE-31 scheme was withdrawn. This measure not only resulted into the integration of the two deposit schemes (i.e. FE-25 and FE-31), but also reduced the foreign exchange liability of SBP. In the short term, this decision also led to a fall in the *Rupee liquidity* in the market.[55]

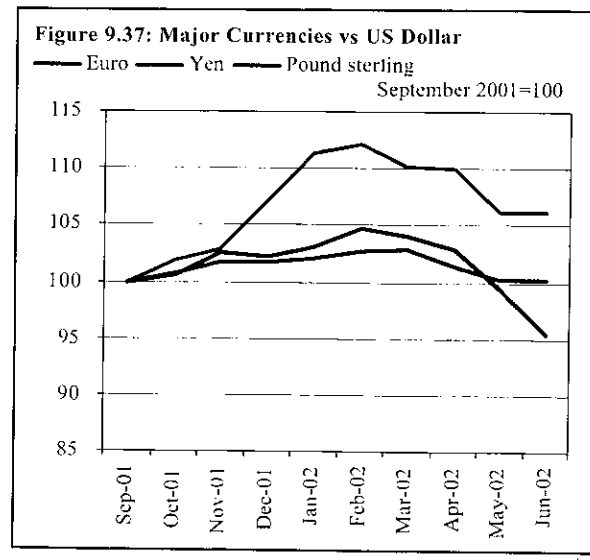


Figure 9.37: Major Currencies vs US Dollar

- With the withdrawal of surrender requirement, the forward cover facility also stands abolished. This effectively eliminates the risk of any FCA freeze due to mandatory surrender requirement to SBP. In a scenario when the Rupee is appreciating, this forward cover facility could have been a major source of earning for SBP. However, in principle, the forward cover facility should rest with the market.

The most significant implication provided by recent external shock to Hundi network is the opportunity to remove segmentation in the foreign exchange market, which is one of the conditions of the current PRGF. With the kerb premium floating around almost 'zero' level, and the fact that the forces responsible for the structural shift in forex market are still in place, this sets the stage for the merger of the two markets.

Accordingly, on July 30, 2002 the SBP issued the guidelines for the establishment of exchange companies (ECs). The formulation of ECs would corporatize the moneychangers' business, while ensuring that various types of risks associated with this activity are properly addressed and covered.[56]

In this new mechanism, the prescribed paid-up capital of Rs 100 million would allow only commercial banks and large existing moneychangers to operate. However, a period of 3 years is granted to the moneychangers to enable a full transition of the existing business under the stated guidelines.

[55] Under FE-31, commercial banks were to surrender the foreign exchange to SBP against the equivalent Rupee counterpart. Now, in order to take out the foreign exchange from SBP, banks are required to surrender Rupee equivalent. Thus, abolishment of this restriction would shift the foreign exchange back to bank and squeeze the Rupee liquidity.

[56] The exchange companies are authorized to deal in foreign currency notes, coins, postal notes, money orders, bank drafts, travelers' cheques and transfer.

10 Islamization of Financial System in Pakistan

Islamic banking has been defined as banking in consonance with the ethos and value system of Islam and governed by the principles and rules laid down by Islamic Shariah. Interest free banking is a narrow concept denoting a number of banking instruments or operations, which avoid interest. Islamic banking, the more general term is expected not only to avoid interest-based transactions, prohibited in the Islamic Shariah, but also to participate actively in achieving the goals and objectives of an Islamic economy.

Establishment of a small saving bank in a rural area of Egypt in 1963 was the first formal attempt for putting the principles of Islamic finance into practice. Islamic banking and finance is now an established sector and an important segment of the international financial market arena (see **Box 10.1**).

Steps for Islamization of banking and financial system of Pakistan were started in 1977-78. Pakistan was among the three countries in the world that had been trying to implement interest free banking at comprehensive/national level. But as it was a mammoth task, the switchover plan was implemented in phases.[1] An Ordinance was promulgated to allow the establishment of Mudaraba companies and floatation of Mudaraba certificates for raising risk capital. Amendments were also made in the Banking Companies Ordinance (BCO), 1962 to include provision of bank finance through PLS, mark-up in prices, leasing and hire purchase.

Separate Interest-free counters started operating in all the nationalized commercial banks, and one foreign bank (Bank of Oman) on January 1, 1981 to mobilize deposits on profit and loss sharing basis. Regarding investment of these funds, bankers were instructed to provide financial accommodation for Government commodity operations on the basis of sale on deferred payment with a mark-up on purchase price. Export bills were to be accommodated on exchange rate differential basis. In March, 1981 financing of import and inland bills and that of the then Rice Export Corporation of Pakistan, Cotton Export Corporation and the Trading Corporation of Pakistan were shifted to mark-up basis. Simultaneously, necessary amendments were made in the related laws permitting the State Bank to provide finance against Participation Term Certificates and also extend advances against promissory notes supported by PTCs and Mudaraba Certificates. From July 1, 1982 banks were allowed to provide finance for meeting the working capital needs of trade and industry on a selective basis under the technique of Musharaka.

As from April 1, 1985 all finances to all entities including individuals began to be made in one of the specified interest-free modes. From July 1, 1985, all commercial banking in Pak Rupees was made interest-free. From that date, no bank in Pakistan was allowed to accept any interest-bearing deposits and all existing deposits in a bank were treated to be on the basis of profit and loss sharing. Deposits in current accounts continued to be accepted but no interest or share in profit or loss was allowed to these accounts. However, foreign currency deposits in Pakistan and on-lending of foreign loans continued as before. The State Bank of Pakistan had specified 12 modes of non-interest financing classified in three broad categories. However, in any particular case, the mode of financing to be adopted was left to the mutual option of the banks and their clients. An explanation of some of the important modes of financing under Islamic Sharia is provided in **Box 10.2**.

[1] The Islamization measures included the elimination of interest from the operations of specialized financial institutions including HBFC, ICP and NIT in July 1979 and that of the commercial banks during January 1981 to June 1985. The legal framework of Pakistan's financial and corporate system was amended on June 26, 1980 to permit issuance of a new interest-free instrument of corporate financing named Participation Term Certificate (PTC).

Box 10.1: Islamic Banking: Global Scenario

Over the last three decades Islamic banking and finance has developed into a full-fledged system and discipline reportedly growing at the rate of 15 percent per annum[2]. Today, Islamic financial institutions, in one form or the other, are working in about 75 countries of the world. Besides individual financial institutions operating in many countries, efforts have been underway to implement Islamic banking on a country wide and comprehensive basis in a number of countries. The instruments used by them, both on assets and liabilities sides, have developed significantly and therefore, they are also participating in the money and capital market transactions. In Malaysia, Bahrain and a few other countries of the Gulf Islamic banks and financial institutions are working parallel with the conventional system.

Bahrain with the largest concentration of Islamic financial institutions in the Middle East region, is hosting 26 Islamic financial institutions dealing in diversified activities including commercial banking, investment banking, offshore banking and funds management. It pursues a dual banking system, where Islamic banks operate in the environment in which Bahrain Monetary Agency (BMA) affords equal opportunities and treatment for Islamic banks as for conventional banks. Bahrain also hosts the newly created Liquidity Management Centre (LMC) and the International Islamic Financial Market (IIFM) to coordinate the operations of Islamic banks in the world[3]. To provide appropriate regulatory set up, the BMA has introduced a comprehensive prudential and reporting framework that is industry-specific to the concept of Islamic banking and finance. Further, the BMA has pioneered a range of innovations designed to broaden the depth of Islamic financial markets and to provide Islamic institutions with wider opportunities to manage their liquidity.

Another country that has a visible existence of Islamic banking at comprehensive level is Malaysia where both conventional and Islamic banking systems are working in a competitive environment. The share of Islamic banking operations in Malaysia has grown from a nil in 1983 to above 8 percent of total financial system in 2001. They have a plan to enhance this share to 20 percent by the year 2010. However, there are some conceptual differences in interpretation and Shariah position of various contracts like sale and purchase of debt instruments and grant of gifts on savings and financial papers.

In Sudan, a system of Islamic banking and finance is in operation at national level. Like other Islamic banks around the world the banks in Sudan have been relying in the past on Murabaha financing. However, the share of Musharaka and Mudaraba operations is on increase and presently constitutes about 40 percent of total bank financing. Although the Islamic financial system has taken a good start in Sudan, significant problems still remain to be addressed.

Like Sudan, Iran also switched over to Usury Free Banking at national level in March 1984. However, as in case of Malaysia, there are also some conceptual differences between Islamic banking in Iran and the mainstream movement of Islamic banking and finance.

The procedure adopted by banks in Pakistan since July 1, 1985 was, however, declared un-Islamic by the Federal Shariat Court (FSC) in November 1991. The system was based largely on 'mark-up' technique with or without 'buy-back arrangement'. The FSC declared that various provisions of the laws held repugnant to the injunctions of Islam in its Judgment dated November 14, 1991 would cease to have effect as from July 1, 1992. However, the Government and some banks/DFIs preferred appeals to the Shariat Appellate Bench (SAB) of the Supreme Court of Pakistan. The SAB delivered its judgment on December 23, 1999 rejecting the appeals and directing that laws involving interest would cease to have effect finally by June 30, 2001. In the judgment, the Court concluded that the present financial system had to be subjected to radical changes to bring it into conformity with the Shariah. It also directed the Government to set up, within specified time frame, a Commission for Transformation of the financial system and two Task Forces to plan and implement the process of the transformation. The Court indicated some measures, which needed to be taken, and the infrastructure and legal framework to be provided in order to have an economy conforming to the injunctions of Islam.

[2] Bahrain Monetary Agency: Islamic Banking and Finance in the Kingdom of Bahrain, 2002.

[3] The LMC id designed to manage the asset liquidity mismatch, to create a pool of quality assets for Islamic financial institutions (IFIs) and an Islamic interbank money market collaterally with enhancing Shariah credibility and achieving higher returns for investors and shareholders. It also facilitates the pooling of assets acquired from the government, financial institutions and corporates to be securitized through the issuance of tradable instruments (sukuk), where IFIs will invest their surplus liquidity.

Box 10.2: Islamic Modes of Financing

Ijarah / Ijarah-wal-Iqtina' (Hire-purchse)

A contract under which an Islamic bank finances equipment, building or other facilities for the client against an agreed rental together with a unilateral undertaking by the bank or the client that at the end of the lease period, the ownership in the asset would be transferred to the lessee. The undertaking or the promise does not become an integral part of the lease contract to make it conditional. The rental as well as the purchase price are fixed in such manner that the bank gets back its principal sum along with profit, which is usually determined in advance.

Murabaha

Literally it means a sale on mutually agreed profit. Technically, it is a contract of sale in which the seller declares his cost and profit. Islamic banks have adopted this as a mode of financing. As a financing technique, it involves a request by the client to the bank to purchase a certain item for him. The bank does that for a definite profit over the cost, which is settled in advance.

Bai'Muajjal

Literally it means a credit sale. Technically, a financing technique adopted by Islamic banks takes the form of *Murabaha Muajjal*. It is a contract in which the seller earns a profit margin on his purchase price and allows the buyer to pay the price of the commodity at a future date in a lump sum or in installments. He has to expressly mention cost of the commodity and the margin of profit is mutually agreed. The price fixed for the commodity in such a transaction can be the same as the spot price or higher or lower than the spot price.

Bai'Salam

Salam means a contract in which advance payment is made for goods to be delivered later on. The seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advance price fully paid at the time of contract. It is necessary that the quality of the commodity intended to be purchased is fully specified leaving no ambiguity leading to dispute. The objects of this sale are goods and cannot be gold, silver or currencies. Barring this, Bai'*Salam* covers almost everything, which is capable of being definitely described as to quantity, quality and workmanship.

Istisna'a

It is a contractual agreement for manufacturing goods and commodities, allowing cash payment in advance and future delivery or a future payment and future delivery. *Istisna'a* can be used for providing the facility of financing the manufacture or construction of houses, plants, projects, building of bridges, roads and highways.

Mudarabah

A form of partnership where one party provides the funds while the other provides expertise and management. The latter is referred to as the *Mudarib*. Any profits accrued are shared between the two parties on a pre-agreed basis, while loss is borne by the provider of the capital.

Musharakah

Musharakah means a relationship established under a contract by the mutual consent of the parties for sharing of profits and losses in the joint business. It is an agreement under which the Islamic bank provides funds, which are mixed with the funds of the business enterprise and others. All providers of capital are entitled to participate in management, but not necessarily required to do so. The profit is distributed among the partners in pre-agreed ratios, while the loss is borne by each partner strictly in proportion to respective capital contributions.

Diminishing Musharaka

In a *Diminishing Musharaka* contract, two parties enter into a partnership to jointly own an asset. One of the parties agrees to sell its part of ownership (divided into units) to the other party periodically and at the end of the contract, complete ownership is transferred from one party to the other. The rental payments decrease with periodical purchase of units of ownership in the asset by the other party.

10.1 Post Judgment Measures [4]

The Commission for Transformation of Financial System (CTFS) was constituted in January 2000 in the State Bank of Pakistan under the Chairmanship of Mr. I.A. Hanfi, a former Governor State Bank of Pakistan. A Task Force was set up in the Ministry of Finance to suggest the ways to eliminate interest from Government financial transactions. Another Task Force was set up in the Ministry of Law to suggest amendments in legal framework to implement the Court's Judgment. The CTFS constituted a Committee for Development of Financial Instruments and Standardized Documents in the State Bank to prepare model agreements and financial instruments for new system.

The first Interim Report of the CTFS submitted in October 2000 identified a number of prior actions, which were needed to be taken to prepare the ground for transformation of the financial system. The second Interim Report submitted in May, 2001 identified major Shariah compliant modes of financing, their essentials, draft seminal law captioned 'Islamization of Financial Transactions Ordinance, 2001', model agreements for major modes of financing, and guidelines for conversion of products and services of banks and financial institutions. The Commission submitted its final report, by joining together the above two reports, to the Government in August 2001. The Commission also dealt with major products of banks and financial institutions, both for assets and liabilities side, like letters of credit or guarantee, bills of exchange, term finance certificates (TFCs), State Bank's Refinance Schemes, Credit Cards, Interbank transactions, underwriting, foreign currency forward cover and various kinds of bank accounts. The Commission observed that all deposits, except current accounts, would be accepted on Mudaraba principle. Current accounts would not carry any return and the banks would be at liberty to levy service charge as fee for their handling. The Commission also approved the concept of Daily Product and Weightage System for distribution of profit among various kinds of liabilities/deposits. The CTFS suggested that its recommendations concerning the modes of financing, their essentials and guidelines for conversion of banks' services and products be circulated among banks, financial institutions, trade bodies, etc. to help them prepare for the adoption of the new system when the proposed law is promulgated. The Report also contained recommendation for forestalling willful default and safeguarding interest of the banks, depositors and the clients.

According to the Commission, prior/preparatory works for introduction of Shariah compliant financial system briefly included creating legal infrastructure conducive for working of Islamic financial system, launching a massive education and training program for bankers and their clients and an effective campaign through media for the general public to create awareness about the Islamic financial system.

The Report of the Task Force of the Ministry of Law comprises the Case History of the movement for eliminating Riba from the economy, proposed ordinances and draft amendments in various laws or provisions of laws and the record of discussions held during meetings of the Task Force. While the CTFS had proposed one comprehensive seminal law namely, 'Islamization of Financial Transactions Ordinance' the Task Force proposed two separate draft ordinances namely 'Prohibition of Riba Ordinance' and the 'Financial Transactions Ordinance'. However, it corresponds to the proposal by the CTFS that in case of two separate laws, the same may be promulgated simultaneously to avoid any gap or dislocation.

10.1.1 Follow up Measures

The Finance Minister in his budget speech for the FY02 declared the following:
"Government is committed to eliminate Riba and promote Islamic banking in the country. For this purpose a number of steps are under way, which are:

[4] Supreme Court's judgment dated December 23, 1999

1. A legal framework is designed to encourage practice of Islamic banking by banks and financial institutions as subsidiary operations of their main operations;
2. Consultations and exchanges are undertaken with brother Islamic countries and renowned institutions of Islamic learning such as Middle Eastern countries and Al-Azhar University of Egypt, to learn more about their experiences and practices;
3. Amendments in HBFC Act are being made in line with the directive of the Supreme Court. With these changes, HBFC would be fully Shariah compliant institution, which will play an effective role both in promotion of Islamic financing method but also in the development of the important housing sector;
4. Sharia compliant modes of financing like Musharaka and Mudaraba will be encouraged so that familiarity and use of such products is enhanced and their adoption at a wider scale made possible.
5. The transformation commission established in the State Bank of Pakistan will continue to function and its recommendations whenever finalized will be considered by the government for appropriate action.

It is government's intention to promote Islamic banking in the country while keeping in view its linkages with the global economy and existing commitments to local and foreign investors".

The House Building Finance Corporation had shifted its rent sharing operations to interest based system in 1989. The Task Force of the M/O Law proposed amendments in the HBFC Act to make it Shariah Compliant. Having vetted by the CTFS, the amended law has been promulgated by the Government. Accordingly, the HBFC has launched "Ghar Aasan Scheme" in the light of amended Ordinance based on the Diminishing Musharakah concept. A Committee has been constituted in the Institute of Chartered Accountants, Pakistan (ICAP), wherein the SBP is also represented, for development of accounting and auditing standards for Islamic modes of financing. The Committee is reviewing the standards prepared by the Bahrain based Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) with a view to adapt them to our circumstances and if considered necessary, to propose new accounting standards. The State Bank has also reviewed its forms of financial statements for banks in the light of AAOIFI standards. A new Islamic Banking Division has been established in Banking Policy Department of SBP for regulation and promotion of Islamic banking. Existing Prudential Regulations for banks have been reviewed by SBP for their application on Islamic banks.

10.2 Policy Decision

It was decided that the shift to interest free economy would be made in a gradual and phased manner and without causing any disruptions[5]. It was also agreed that State Bank of Pakistan would consider:

1. Setting up subsidiaries by the commercial banks for the purpose of conducting Shariah compliant transactions;
2. Specifying branches by the commercial banks exclusively dealing in Islamic products, and
3. Setting up a new full-fledged commercial bank to carry out exclusively banking business based on proposed Islamic products.

Accordingly, the State Bank issued detailed criteria in December 2001 for establishment of full-fledged Islamic commercial banks in the private sector (see Annexure). Al Meezan Investment Bank received the first Islamic commercial banking license from SBP in January 2002 and the Meezan

[5] This decision was made in a meeting held on September 4, 2001 under the Chairmanship of the President of Pakistan, attended by officials of the Ministries of Finance and Law, Governor State Bank of Pakistan, Chairman and some members of the Council of Islamic Ideology and the Chairmen of the CTFS and the two Task Forces.

Bank Limited (MBL) commenced full-fledged commercial banking operation from March 20, 2002. Further, all formalities relating to the acquisition of Societe Generale, Pakistan by the MBL were completed, and by June, 2002 it had a network of 5 branches all over the country, three in Karachi, one in Islamabad and one in Lahore. The MBL maintains a long term rating of AA and short term rating of A1+, assessed by JCR VIS Credit Rating Co Ltd, signifying a consistent satisfactory performance.

Meanwhile, the Shariat Appellate Bench (SAB) of the Supreme Court, in its short judgment dated June 24, 2002 set aside the previous verdicts on Riba, i.e. judgment by the Federal Shariat Court dated November 14, 1991 and the verdict by the SAB dated December 23, 1999 and referred the issue back to the Federal Shariat Court for rehearing.

While discussion on Riba may go on in the Court, the Government/State Bank shall proceed ahead with Islamic Banking practices in parallel with the conventional banking. Some extracts from the 'Affidavit' filed by Deputy Governor of the State Bank in the Supreme Court of Pakistan during recent hearing of the Riba case are given below which also reflect the future policy of the Bank for the time being.

"The SBP is itself committed to promoting Islamic banking in Pakistan on a parallel basis. The SBP strategy provides for three institutional options: an independent and dedicated Islamic bank; an Islamic banking subsidiary of a conventional bank; or a dedicated Islamic banking branch of a conventional bank with all safeguards to ensure integrity and purity of Islamic banking operations. In this respect, SBP has taken a number of initiatives since the judgment:

1. A detailed set of criteria for establishment of Islamic commercial banks in the private sector was issued in December 2001.
2. A new fully dedicated Islamic bank, Meezan Bank Limited, has been issued a license and the bank has started its business.
3. In order to allow existing banks to set up subsidiaries for Islamic banking, draft amendments in Section 23 of Banking Companies Ordinance, 1962 have been submitted to Government for approval.
4. A new Islamic Banking Division has been established in the Banking Policy Department for regulation and promotion of Islamic banking.
5. Existing Prudential Regulations have been reviewed by SBP for their application on Islamic banks, and revised regulations are being prepared.
6. Export Finance Scheme of SBP is being revised to conform to Musharaka basis.
7. Courses on Islamic economics, banking and finance have been included in the curricula of the Institute of Bankers in Pakistan.
8. International Islamic University, Islamabad, has conducted a training course for trainers on Islamic Financial System in April 2002. SBP staff along with staff of other banks attended the course.
9. SBP has reviewed its Forms of Financial Statements for banks in the light of newly developed accounting standards."

The Affidavit further says:

"That having taken a series of steps to promote Islamic banking, ... and considering all other practical problems associated with the complete transformation of the financial system, discussed herein, it is State Bank of Pakistan's considered judgment that a parallel approach will be in the best interest of the country. This means that Islamic banking is introduced as a parallel system, of which a beginning has already been made; it is provided a level playing field vis-à-vis the existing conventional banks, and its further growth and development is supported by Government and State

Bank of Pakistan through appropriate actions. This approach will eliminate the risk of any major cost/damage to the economy, give a fair chance to Islamic banks to develop alongside the conventional banks, and will provide a choice to the people of Pakistan, and the foreigners doing businesses in/with Pakistan, to use either of the two systems".

10.3 Regulation of Islamic Banks

Granting permission for Islamic banking operations in the country necessarily entails an appropriate framework for regulating and supervising Islamic banks applying the principles of sound banking business. The State Bank of Pakistan is working to evolve such a framework. It would require an innovative approach keeping in view the Shariah essentials of Islamic modes, accounting and auditing standards recommended by AAOIFI (Bahrain) and the international best practices. In this context recourse could be made to the experience of Bahrain Monetary Agency (BMA) that in addition to the application of rigorous regulatory and transparency standards, has pioneered a range of innovations designed to broaden the depth of Islamic financial markets and to provide Islamic institutions with wider opportunities to manage their liquidity and risk spectrum.

A number of factors relating to institutional arrangements, supervisory/regulatory and legal framework, and human resource development in the central bank, the treasury and the banks need to be taken care of. The State Bank will also have to strengthen the set-up for preparation and evaluation of feasibility reports and follow-up on project implementation.

The problem of alternative liquidity management by banks and monetary management by the State Bank needs to be resolved. For this purpose, development of financial instruments on the basis of Musharaka, Mudaraba, Leasing and Salam – related to a wide spectrum of maturities, projects and issuing entities, whether governmental or private, to cover needs of the financial market would require resolute and common efforts by the State Bank, Islamic banks and the concerned research institutions.

The State Bank would like to ensure that Islamic banks, subsidiaries, windows or the branches operating parallel with the conventional banking practices are prototype of commercial banks, i.e. doing all functions that a commercial bank normally does. Taxation laws also require some amendments in order to save the banks from extra burden due to their involvement in trading and leasing activities. These and other related issues are under consideration.

The State Bank is also managing to benefit from the global Islamic banking experience. As a part of international collaboration, the IMF provided technical assistance to the Ministry of Finance and the Commission for Transformation of Financial System. A Technical Assistance Mission comprising the Fund's experts, on Islamic banking namely Dr. Ghiath Shubsigh and Mr. Michael Taylor provided guidelines on Islamic financial system. The Commission had detailed discussion with them on the practical aspects of transforming the system. Specific issues discussed with them included:

1. Viability of the new system
2. Effects on Resource Mobilization
3. Tools for Monetary Management
4. Supervisory and Regulatory Needs of the new system

The IMF experts believed that there was no priori reason to believe that the system *per se* would generate adverse effects on savings and resource mobilization. They also made presentation on how the tools for monetary management could be developed within the interest free framework. They however, emphasized the need to review and revamp the supervisory and monetary mechanism to provide adequate supervision and regulation of the new system.

The Governor, State Bank of Pakistan has been participating in various meetings arranged for establishment of the Islamic Financial Services Board (IFSB) with the active participation of

International Monetary Fund. Based in Malaysia, the IFSB will be a coordinating body among regulators/supervisors of Islamic banks in various parts of the world (see **Box 10.3**). State Bank has also been sending its officials to international seminars and conferences on Islamic banking held in Iran, Sudan, Bahrain, Lebanon, Egypt, etc.

In order to gather experience on Islamic banking in some Islamic countries a delegation comprising representatives of Ministry of Finance, State Bank and a renowned Lawyer, Dr. Riazul Hasan Gilani was sent by the Finance Minister to Malaysia, Egypt and Saudi Arabia in October-November, 2001 which met with experts in Islamic banking and finance, religious scholars, central bankers and relevant Government officials.

The delegation discussed relevant issues with senior officials of regulatory agencies, Islamic banks, training institutes and Shariah scholars of these countries as well as the officials of Islamic Development Bank, Jeddah. These issues included conceptual, legal, regulatory, operational, products and services, training, etc. Overall, the visit gave the delegation an opportunity of getting first hand knowledge of Islamic banking practices in these countries and discussing with experts matters of common interest.

Box 10.3: The Islamic Financial Services Board (IFSB)

The decision to establish an institution to support the design and adaptation of uniform prudential supervision standards for Islamic financial products was made in a Conference of Central Banks Governors held in February 2000 in Bahrain on regulation of Islamic banking industry.

Consequently, and at the request of many of the central bank governors, the IMF staff convened a meeting of the Governors and senior officials of 18 countries and organizations on September 23,2000 in Prague, on the occasion of the IMF-World Bank Annual meetings. The Central Bank Governors of Pakistan, Bahrain, Egypt, Iran, and Sudan, senior officials from Jordan, Malaysia, Indonesia, the IDB, AAOIFI, and a number of senior officials from the IMF attended the meeting. The meeting discussed the need to adapt and, where necessary, develop new standards to control the unique risks associated with Islamic financial products. The setting and harmonization of such standards, it was agreed, would not only promote a level playing field and foster industry development, but would also enhance the basis for more effective supervision of institutions offering such products and improve the prospects for better risk management.

The delegations unanimously supported the proposal to establish an Islamic Financial Services Board (IFSB) that would, amongst other roles, develop and disseminate uniform prudential, disclosure and regulatory standards to govern risks incurred in Islamic financial products. It was also decided that the Organization would be structured around a General Assembly, an Islamic Financial Services Board (IFSB), a Technical Committee (TC) and a permanent Secretariat.

Accordingly, it was decided in a meeting held in April 2002 at the IMF headquarters, to facilitate the establishment of an Islamic Financial Services Board (IFSB) to harmonize Shariah based banking system in the world. They also agreed to establish a Steering Committee headed by Dr. Zeti Akhtar Aziz, Governor, Bank Negara Malaysia, to undertake the necessary steps for the establishment and inauguration of the IFSB in Kuala Lumpur. With its headquarter at Kuala Lumpur, the IFSB will consist of the General Assembly, a Board, a Technical Committee and the Secretariat.

The IFSB will serve as an association of institutions that have responsibility for the regulation and supervision of the Islamic financial services industry and will perform the following functions:

i. Set and disseminate standards and core principles-as well as adapt existing international standards-for supervision and regulation, consistent with the Shariah principles governing the industry, and for voluntary adoption by member countries;
ii. Cooperate with other standard-setters in the areas of monetary and financial stability; and
iii. Promote good practices in risk management in the industry through research, training, and technical assistance.

According to the report submitted by the delegation, Egypt and Saudi Arabia have no separate laws but have allowed Islamic banking to operate under their existing laws for conventional banks. None of these two countries has any constitutional, judicial or administrative policy or plan for a complete transformation of their economic and financial system. Malaysia has developed a parallel Islamic banking system in a systematic and planned manner. Of the three countries, only Malaysia has opted for a separate legal framework for Islamic Banking. The Bank Negara Malaysia issues license to conventional banks to open branches and windows for Islamic banking operations. In order to ensure segregation of funds of these operations, it has established a separate cheque clearing system.

An important conclusion made by the Delegation is that the introduction of Islamic Banking System is a long process requiring development of legal and regulatory framework, institutions, markets, and efficient and appropriate practices. This process requires constant monitoring and fine-tuning. The Delegation has suggested that Pakistan should follow the example of Malaysia, Egypt and Saudi Arabia and adopt a dual/parallel banking system. The Delegation also observed that the Government should be mindful of the following factors, which have so far impeded the development of Islamic banking in Pakistan:

- Inadequate legal framework for Islamic banks
- Inadequate regulatory and accounting framework for Islamic banking
- Ineffective enforcement of contracts and inefficient system for early recovery
- Ineffective code of conduct for professionals
- Absence of Shariah audit in financial institutions
- Absence of Shariah Supervisory Boards in banks
- Non-availability of Shariah compliant government securities
- Lack of research and development in the field of Islamic finance and economics
- Inadequate training to the staff of SBP and banks
- Disoriented education system devoid of Islamic principles
- Lack of public awareness about Islamic economic system
- Adoption of free market economic (capitalistic) policies
- Social and cultural factors
- Weak Political resolve of successive governments for Islamization of economy

Box 10.4: Musharaka Based Term Finance Certificates

Sitara Chemical Industries Ltd, a public limited company, made a public issue of profit & loss sharing based Term Finance Certificates (TFCs) worth Rs 360 million which were subscribed on June 19 and 20, 2002. The Issue, rated 'AA" by JCR-VIS was under written by Saudi Pak Industrial and Agricultural Investment Company (Pvt) Ltd, Meezan Bank Ltd, Faysal Bank Ltd and Pakistan Kuwait Investment Company (Pvt) Ltd. Out of total, TFCs worth Rs. 255 million were made available for private placement by institutions while Rs. 105 million was offered to the general public. The Sitara clearly indicated, "These TFCs are based on profit and loss sharing, subscribers are, therefore, advised to carefully read the features of profit and loss sharing of TFCs as mentioned in the Prospectus". The public gave enthusiastic response and Rs 224 million were subscribed against the offer of Rs 105 million.

The TFCs for the period of 5 years are based on the mechanism of profit and loss sharing. The payment of profit to or sharing of loss with the TFC holders are linked to the operating profit or loss of the Chemical Division of the Company. Therefore, the investors assume the risk of sustaining losses proportionate to their principal amount in case of operating losses incurred by their Chemical Division. The exact rate of profit on investment in the TFCs will not be possible to determine for each year in advance. Changes in any government regulations may affect the profitability of the Company. By investing in the TFCs, the investor assumes the risk of not being able to sell the TFC without adversely affecting the price.

10.4 Training and Education

The importance of training and education of the bankers, their clients and the public at large for the purpose of promotion of the new system cannot be overemphasized. Some efforts have been made in this regard as well. National Institute of Banking and Finance (NIBAF), training wing of the State Bank, has included a Module on Islamic banking and finance in its training courses designed for State Bank's Officers Training Scheme (SBOTS) and other fresh inductees. Planning is also underway for imparting training on the subject to State Bank's existing officials. Courses of the Institute of Bankers, Pakistan have been revised to include topics on Islamic economics, banking and finance. Some other institutions like International Institute of Islamic Economics, International Islamic University Islamabad, Centre for Islamic Economics, Karachi, etc are also organizing seminars and training courses on Islamic banking and finance.

10.5 The Main Challenge

The experience in Islamic banking operations around the world reveals that transformation of retail banking is not a big problem. The financial sector in Pakistan is already familiar, at least to some extent, with the concepts of Islamic banking and finance. Some of the Investment Banks, Mudaraba Companies and other financial institutions are already practicing not only Murabaha and leasing but also profit/loss sharing based financing operations. The experience of an Investment Bank shows that they had been earning very lucrative profit of over 100 per cent per annum in export financing on the basis of Musharaka/Mudaraba.

However, there are problems in development of instruments for liquidity management by banks and monetary management by the State Bank and this is the main challenge. Government financial transactions constitute a large part of the financial system of the country. Banks and financial institutions have sizable investment in Government securities. The monetary management is also primarily linked to transactions of government securities. Therefore, the process of Islamization of financial system will crucially depend on development of instruments for Shariah compliant government financial transactions. Accordingly, the development of instruments of Government financing and restructuring the national/public debt on the Shariah compliant basis is the main challenge facing the country for making its financial system Shariah compliant. Internal and external debt as a whole is equivalent to about 100 per cent of the GDP by end-FY02. While the instruments for raising resources by the Government should be real assets based, borrowing needs of the Government are so large that the real assets are quite insufficient to cover them.

The Task Force of the Ministry of Finance in its Report that was submitted to the Court during recent hearing has come to the following conclusion:

"The Task Force, after carefully considering a series of financial data of the Government, the available assets and their remunerative capacity has come to the conclusion that the outstanding government debt cannot be securitized against the pool of the existing assets and a Mutual Fund based there on. The privatization program, which is one of the possible ways of reducing the debt burden, is another complication in the process. It further complicates the possibility of converting GOP borrowing into Islamic modes of financing".

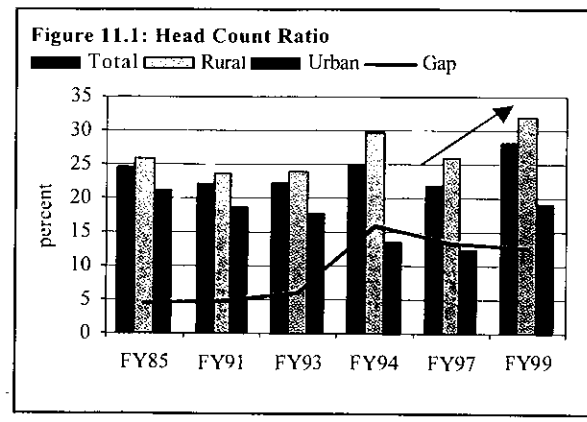
11 Socio-economic Update

While economic growth is essential for development, this is hardly an end in itself. In order to derive benefits of growth, it is important to recognize the interdependence between social and economic policies and promote their integration. Unfortunately social sector development has been an area of neglect by successive governments over a long period. In fact, this underdevelopment of human capital is a serious concern facing Pakistan at present.

In this backdrop, this new chapter in SBP Annual Report provides a brief update on socio-economic developments in Pakistan with a focus on poverty, demography, employment, literacy, education and health.

11.1 Poverty

Poverty is the result of economic, social, and political processes that interact with and reinforce each other in ways that can accentuate the state of deprivation in which poor people live. Hence, any assessment of poverty encompasses a wide range of inter-related issues, including income level and its distribution, population growth, education, health, gender discrimination, and geographical location.[1] For this reason, it is always difficult to come up with a poverty estimate that captures all of its multidimensional features. Nevertheless, the most commonly used measure of poverty is the estimate of population falling below the poverty line which is defined as a minimum acceptable level of income or consumption of individual or households. Since the calculation of a poverty line is itself a debatable issue, this generates a considerable difference of opinion among the economist about the precise measurement of poverty.[2]



Notwithstanding the issues regarding lack of consistency in definition and estimation methods for poverty measurement, there is a broad agreement that the incidence of poverty in Pakistan has increased considerably during the decade of 1990s, particularly between FY97 and FY99 (see **Figure 11.1**).[3] This finding also receives considerable support from various social and human development indicators, which are showing a dismal picture, both in absolute and relative terms (discussed later).

Focusing on FY97-99, this period is marked by severe fiscal crunch and slowdown in economic growth. While limited fiscal resources constrained the government from undertaking pro-poor initiatives, the economic slowdown capped any notable rise in the per capita income (see **Figure 11.2**). Given the kind of shocks the economy has been facing since FY99, the prospects for any

[1] In a broader context, poverty is also related to institutional factors like inability of poor to access public goods and services, which determine the overall human development.

[2] The Planning Commission has defined poverty line estimates at 2,350 calories per adult equivalent per day, which in monetary terms is equal to Rs 670 per capita per month.

[3] The head count ratio (defined as the number of poor below the poverty line) is derived from Household Income Expenditure Survey (HIES) published by the Federal Bureau of Statistics (FBS), which is available latest for FY99.

significant poverty reduction have considerably mitigated.[4] Although the development expenditures have risen recently following the take-off of PRGF, the poverty reduction initiatives would yield definite results after a time lag.

Looking at **Figure 11.1**, the poverty trends were strikingly different in rural and urban areas during early 1990s: while the poverty in urban areas was *declining*, the rural areas were facing a sharp *rise* in poverty incidence, thus leading to a notable jump in the rural-urban poverty gap during FY94. The steep rise in rural poverty appears unusual, as agricultural sector witnessed an average annual growth of 3.6 percent during FY91-94. This seeming anomaly can be explained by the large variations in the agricultural growth (see **Figure 11.3**). To explain it further, the resulting contraction in rural incomes might have forced households to use up their assets as well in order to meet current expenses. Since asset accumulation and poverty reduction are closely related, any cut on asset holdings negatively impacts household welfare.

Figure 11.2: Growth in Per Capita Income

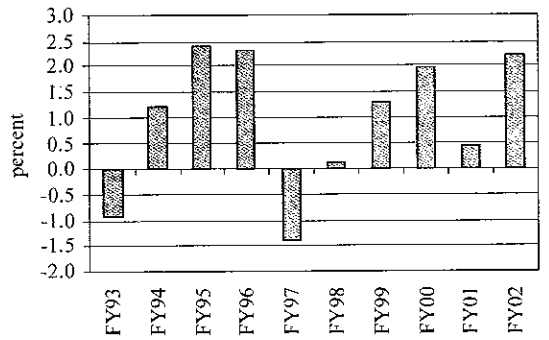
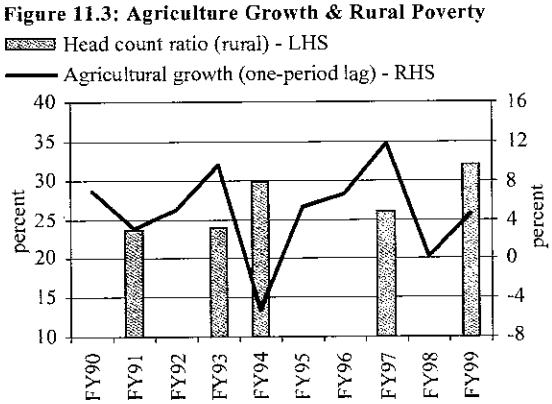


Figure 11.3: Agriculture Growth & Rural Poverty



Interestingly, the subsequent growth in the agriculture sector coincides with the decline in rural poverty during FY94-97. Afterwards, though the poverty has been growing both in rural and urban areas, the incidence is marginally higher in urban household, thus resulting into slower narrowing of the gap (see **Figure 11.1**).

The persistently higher rural poverty is also attributable to the highly skewed pattern of land holdings. While more than one-half of the rural population in Pakistan is landless, 93 percent of total farms (covering over 60 percent of area) was smaller than the subsistence land holding of 10 hectares (see **Table 11.1**). The land ownership is also important in determining the access to credit from the formal banking system.

Table 11.1: Farm Classification by Size - 1990

percent

Hectares	Number of farms	Farm area
Less than 5	81	39
5 and under 10	12	22
10 and under 20	5	16
20 and under 60	2	14
More than 60	--	10

Source: Pakistan Statistical Year Book 2002 by FBS

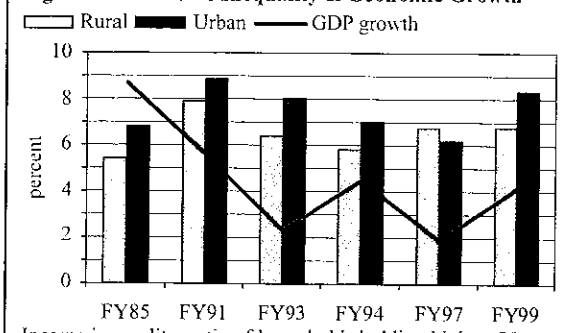
In addition, the nature of contract between landowner and cultivator also influences the economic status of the rural population. For example, a more traditional contract based on 'sharecropping', (whereby the landowner and the cultivator share the cost of the inputs and the revenues from the harvest) is chosen when the leasee is poor and cannot raise the funds to pay the amount for lease and inputs beforehand. In such a case, the risks for the cultivator are lower, but so are the revenues. Furthermore, low level of mechanization does not allow significant increases in value addition and a

[4] Since FY99, the economy has suffered the implication of SBA (fiscal squeeze and sharp changes in exchange rate/interest rates), severe drought, and the September 11 shock on investment climate.

consequent reduction in poverty incidence. According to Census of Agriculture (1990), a 35 percent of total farm area was cultivated by other than owners.

The changes in poverty incidence are also explained by trends in income inequality that largely follow the economic growth rates (see **Figure 11.4**). While the overall income distribution improved slightly during FY91-99 period, the inequality in urban household is consistently higher than in rural areas, except for FY97; the gap has widened considerably in FY99.

Figure 11.4: Income Inequality & Economic Growth



Income inequality: ratio of households holding highest 20 percent income to lowest 20 percent income.

As discussed earlier, the poverty is a much broader concept than represented by consumption and income measures alone. In particular, the notion of poverty also considers deficiency in social and human development as well as institutional growth. Looking from this perspective, the broad definition of poverty provides some understanding on the widening social gap between urban and rural areas, and between genders, which is considered as one of the main reasons hindering growth and poverty reduction. Although it is difficult to estimate a single index of poverty that includes all of its dimensions, the Mahbub-ul-Haq Centre for Human Development (MHCHD) has come up with a composite index of poverty in Pakistan that incorporates deprivation in health and education along with the income poverty.[5]

Table 11.2: Poverty of Opportunity Index (POPI)

percent

	Poverty of opportunity in			POPI	POPI		
	Health	Education	Income		Male	Female	Gap
1970	55	77	40	61	56	67	100
1975	49	74	35	58	52	64	102
1980	46	73	38	56	51	62	101
1985	42	67	25	51	46	59	107
1990	36	62	20	46	41	56	114
1995	30	58	30	44	37	52	116

Source: Mahbub-ul-Haq Centre for Human Development, 1999

It is evident from **Table 11.2** that income poverty is increasing during 1990s. However, the overall poverty of opportunity index (POPI) is falling largely due to significant improvements in health. On the other hand, the poverty of education opportunities is showing a more gradual decline. Like income-based measure, POPI is also showing widening gender-gap since 1980. The rural-urban gap has narrowed since 1986, which is in contrast to earlier findings based on income poverty (compare **Figure 11.1** with **Table 11.3**).

Table 11.3: Trends in POPI for Rural and Urban Areas

	Poverty of opportunity		Gap
	Urban	Rural	
1986	40	61	100
1988	37	55	99
1993	35	48	92

Source: Mahbub-ul-Haq Centre for Human Development, 1999

11.2 Demography

There is a broad consensus that the rapid population growth and poverty reinforce each other (i.e., high fertility causes poverty, which

Table 11.4: Pakistan's Ranking in the World Population

	1950-55	2000-05	2045-50
Population size[1]	13	7	4
Population increase	9	3	2
World annual births	9	3	3

[1]: Data pertains to 1950, 2000 and 2050 respectively
Source: World Population Prospects: the 2000 Revision, Vol. III, United Nation Population Division

[5] The POPI is a composite of deprivation in health, education and income. The POPI for health is a weighted average of three variables: the percentage of people not expected to survive to age 40; the percentage of people without access to safe water; and percentage of malnourished children under age 5. The POPI for education includes two variables: the percentage of illiterate adults and the percentage of primary school-age children who are out of school. The income deprivation is based on estimates from work conducted by Shahid Javed Burki.

in turn, contributes to the higher fertility). In this context, the low fertility turns up as one of the keys to reducing poverty incidence.

However, in the case of Pakistan, despite definite evidences of fertility decline in 1990s, the population growth rate is still very high in relative terms.[6] To put this into perspective, in terms of *population size*, Pakistan is the 7th most populous country in the world and the 4th in Asia. It is expected that by 2050, Pakistan's population will rank fourth in the world after India, China and USA (see **Table 11.4**). Even considering the projected world *population increase* during 2000-2005, Pakistan ranks third in absolute numbers after India and China.

Table 11.5: Intercensal Growth Rates in Pakistan

	Population	Annual growth rate
1941	28,282	1.9
1951	33,816	1.8
1961	42,978	2.4
1972	65,321	3.6
1981	84,253	3.0
1998	130,580	2.6

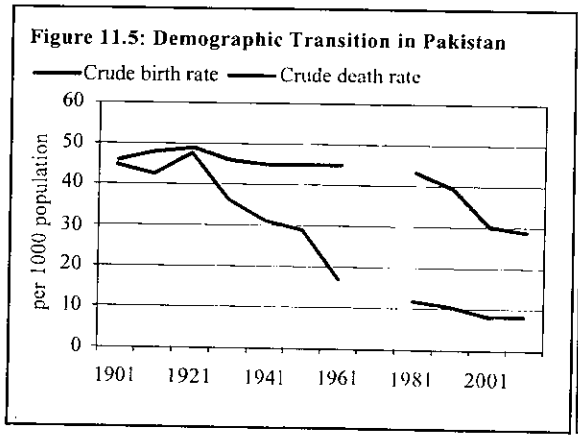
A further analysis of demographic increase for Pakistan indicates a long history of high population growth rates (see **Table 11.5**). The expansion during 1960s and 1970s is attributable to the lagged impact of the rapid decline in crude death rate observed during 1950s and 1960s, which was not followed by any fall in crude birth rate in these decades (see **Figure 11.5**).[7] In fact, the total fertility rate (TFR) was relatively higher in 1970s compared to the previous decade (see **Table 11.6**).[8]

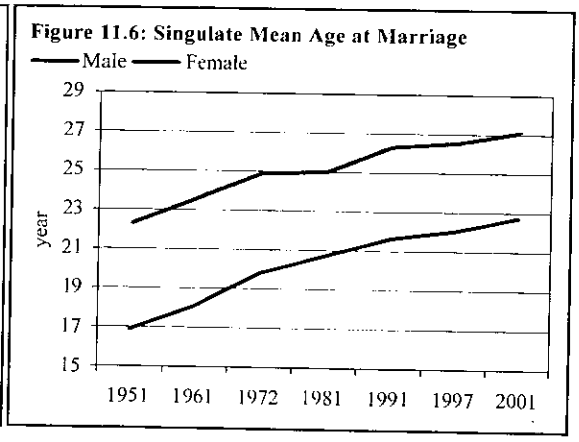
Table 11.6: Trends in Total Fertility Rates Depicted by Various Data Sources

1960s		1970s		1980s		1990s	
Source	TFR	Source	TFR	Source	TFR	Source	TFR
PGE 1962-65 (CD)	7.95	PLM 1975-79	6.50	PCPS 1984-85	6.0	PCPS 1994-95	5.6
PGE 1962-65 (LR)	6.09	PLM 1970-75	7.10	PDS 1984-88	6.9	PFFPS 1992-96	5.4
NIS 1968-69	5.02	PFS 1970-74	6.28	PDHS 1986-91	5.5	PIHS 1994-96	4.5
PGS 1968-71	6.04	PFS 1965-69	7.07	PIHS 1987-91	6.3		
		PGS 1976-79	6.90				
Average	6.3		6.8		6.2		5.1

Source: 'Fertility in Pakistan: Past, Present and Future' by Zeba A. Sathar
PGE (1962-65) CD: Population Growth Experiment Rates Adjusted by Chandra-Deeming Formula
PGE (1962-65) LR: Population Growth Experiment - Rates Based on Longitudinal Registration
NIS (1968-69): National Impact Survey
PGS (1968-71): Population Growth Survey, 1968, 1969, 1971
PLM (1970-74 & 1975-79): Pakistan Labor Force and Migration Survey 1979
PFS (1965-69 & 1970-74): Pakistan Fertility Survey 1975
PGS (1976-79): Population Growth Survey, 1976, 1977, 1978 and 1979
PCPS (1984-85): Pakistan Contraceptive Prevalence Survey 1984-85
PDS (1984-88): Pakistan Demographic Surveys 1984, 1985, 1986, 1987 and 1988
PDHS (1986-91): Pakistan Demographic and Health Survey 1990-91
PIHS (1987-91): Pakistan Integrated Household Survey 1991
PCPS 1994-95: Pakistan Contraceptive Prevalence Survey
PFFPS 1996-97: Pakistan Fertility and Family Planning Survey
PIHS 1994-96: Pakistan Integrated Household Survey

[6] According to current estimates, Pakistan has a total population of 145.96 million, with intercensal growth rate recording a considerable fall from 3.0 to 2.6 percent during 1981-98 period.
[7] Crude birth rate is calculated as the number of births per 1000 population, whereas crude death rate is calculated as the number of deaths per 1000 population. The **Figure 11.5** is based on numbers available in various issues of Pakistan Economic Survey.
[8] Total fertility rate indicates the number of children per woman during her reproductive span of life.





Subsequently, the TFR showed a marginal decline during 1980s, and a more distinct fall for 1990s. The recent evidence on fertility transition is also supported by rising age of females at marriage (see **Figure 11.6**).[9] Consequently, the population growth rate that remained at fairly high level of 3.0 percent during 1972-81, fell to 2.6 percent during 1981-98. Since the growth is an average of intercensal period, this suggests that the population growth during the latter part would be still lower.

Despite this falling population growth rate, the pace and size of fertility transition are very slow compared to other developing countries. As shown in **Table 11.7**, Pakistan's performance is very poor in terms of improvement in total fertility rate per decade. This also points out the fact that the decline in birth and death rates is not necessarily a function of economic development. Indeed, the effectiveness of population policies is also a major determinant of falling birth and death rates. In this regard, the examples of Sri Lanka and Bangladesh are notable where the total fertility rate declined rapidly despite the fact that these countries have not yet achieved significant levels of economic development.

Table 11.7: Improvement in Total Fertility Rate

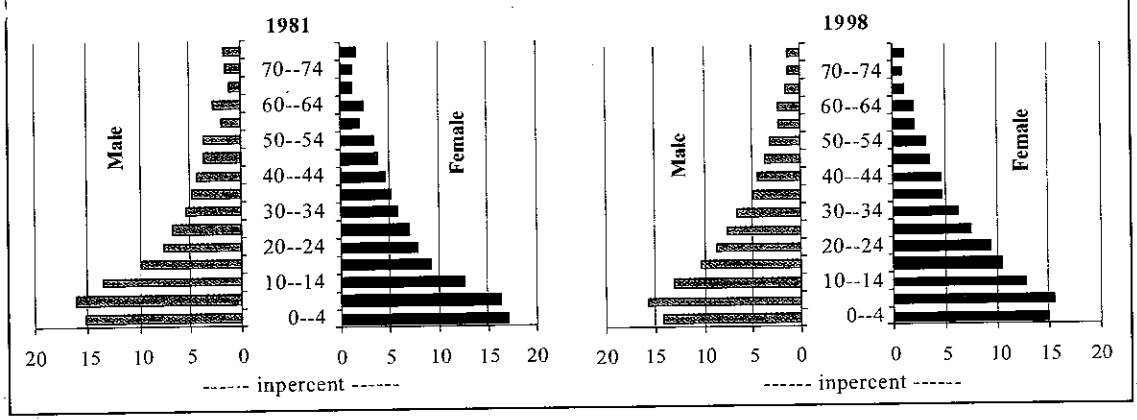
	Population in 2000	Total fertility rate				Improvement	Number of	Improvement
	(in thousands)	Maximum	Year	Minimum	Year	in TFR	years taken	per decade
Sri Lanka	18,924	5.98	1958	2.10	1998	3.88	40	0.97
Bangladesh	137,439	7.10	1963	3.80	1998	3.30	35	0.94
Turkey	66,668	6.90	1953	2.70	1998	4.20	45	0.93
Malaysia	22,218	6.94	1958	3.26	1998	3.68	40	0.92
Indonesia	212,092	5.67	1958	2.60	1998	3.07	40	0.77
India	1,008,937	5.97	1953	3.32	1998	2.65	45	0.59
Pakistan	**141,256**	**6.28**	**1978**	**5.48**	**1998**	**0.80**	**20**	**0.40**
Nepal	23,043	6.06	1963	4.83	1998	1.23	35	0.35

Source: World Population Prospects: the 2000 Revision, Vol. III, United Nation Population Division

This slower pace of fertility transition has clear implications for the age structure of the population. As evident from **Figure 11.7**, around 43 percent of the population is under 15 years of age, whereas the adolescent population (age 15-24) is around 20 percent. This means that a sizeable cohort will very soon be reaching childbearing age. At the same time, the large female population in the age group of 15-44 is also adding to the built-in inertia of population growth that may not allow reduction in fertility rate to immediately translate into equivalent fall in birth rates. It may be noted that the

[9] The singulate mean age at marriage (the average number of years lived in single state) is based on census for years 1951, 1961, 1972 and 1981; Pakistan Demographic Housing Survey for 1991; Pakistan Fertility and Family Planning Survey for 1997; and Pakistan Reproductive Health and family Planning Survey for 2001.

Figure 11.7: Population Pyramid



longer the fertility rate remains at high levels, the more extended will be the population growth momentum. In other words, even if the fertility rate reaches the replacement level, this will take further several decades to attain population stability (where birth rate balances death rate).

According to the projections provided by the Ministry of Population Welfare, if the fertility rate declines to replacement level of 2.1 children per woman by the year 2023, Pakistan's population will reach 204 million (see **Table 11.8**). However, due to momentum alone, population will continue to grow for another 3-4 decades. Thus, the attainment of population stabilization is not possible before 40-50 years now onward. Indeed, any shortcoming in the actual fertility rate from the targeted level will further stretch the projected timeline.

The slower pace of fertility transition has strong implications for economic and social development. In particular, this results into relatively higher dependency ratio. According to 1998 Census, only 32 percent of the total population lies in the working age group (25-59), which is almost unchanged since 1981. The resulting high dependency ratio not only constraints the saving capacity of average households but it also has strong implications for their consumption pattern and overall quality of life.

Table 11.8: Population Estimates for 2023

Total fertility rate children per woman	Population million
2.6	217
2.4	212
2.1	204

Source: Interim Population Sector Perspective Plan 2012, The Ministry of Population Welfare

Finally, the rapid urbanization during the last two decades is a remarkable change in the population structure. During 1981-98, the urban population has grown at an annual rate of 3.5 percent, which is higher than the total population growth of 2.6 percent during the same period. Apart from urbanization related problems, this also has some positive implications for overall population growth, as fertility rates are found to be considerably lower in major urban areas.[10]

11.3 Employment

The employment profile of a country is determined by an interaction of demographic, economic, social and political factors. In Pakistan, despite a discernible fall in the intercensal growth rate, population pressures continue to impact negatively on the employment. In addition, relatively lower economic growth during the last ten years affected the employment situation.

[10] According to the Pakistan Demographic Survey (1992), the fertility rates for urban and rural population were 6.2 and 7.3 children per woman respectively – a differential of 1.1 child per woman. However, Pakistan Fertility and Family Planning Survey (1996-97) shows a higher differential of 2 children per woman, with fertility rates for urban and rural population at 3.8 and 5.8 respectively.

The rate of unemployment in Pakistan is estimated with the help of Labour Force Survey (LFS), which was conducted in FY00 by the Federal Bureau of Statistics (FBS). According to the survey, "The unemployment situation has shown an increase from 5.9 percent in FY98 to 7.8 percent in FY00. This increase has been observed for both males and females. Females are more unemployed (17.3 percent) compared to males (6.1 percent). Further by treating the employed persons, who worked less than 15 hours during the reference week, as unemployed, the unemployment rate jumps to 9 percent".

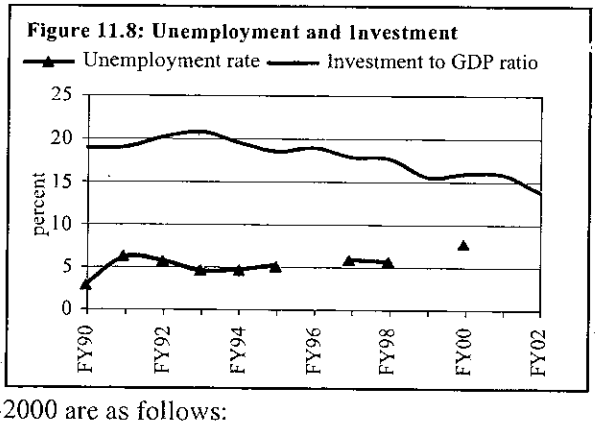
Although, estimates for the unemployment rate in the current (and recent years) will not be available till the next Labour Force Survey is conducted by FBS, it can be safely conjectured that the significant declines in this rate would remain unlikely unless the economic growth and investment scenario changes significantly. **Table 11.9** shows the rates of unemployment for the years in which LFS were conducted along with the investment to GDP ratios for the past ten years. An inverse relationship between unemployment rates and investment to GDP ratios is also observable in **Figure 11.8**.

Table 11.9: Unemployment and Investment

	Rate of unemployment	Investment to GDP ratio
FY90	3.1	18.9
FY91	6.3	19.0
FY92	5.9	20.3
FY93	4.7	20.8
FY94	4.8	19.6
FY95	5.4	18.6
FY96	-	19.0
FY97	6.1	17.9
FY98	5.9	17.7
FY99	-	15.6
FY00	7.8	16.0
FY01	-	15.9
FY02	-	13.9

While there is a considerable misunderstanding regarding estimates of unemployment rate, **Chart 11.1** helps in clarifying some of the underlying concepts. The size of the labour force is assessed by estimating the Currently Active Population (labour force) that considers all persons (ten years age and above) fulfilling requirements for inclusion among employed or unemployed during the reference period of survey (i.e., one week preceding the date of interview).[11] The ratio of unemployed to the size of labour force gives the unemployment rate.

Figure 11.8: Unemployment and Investment



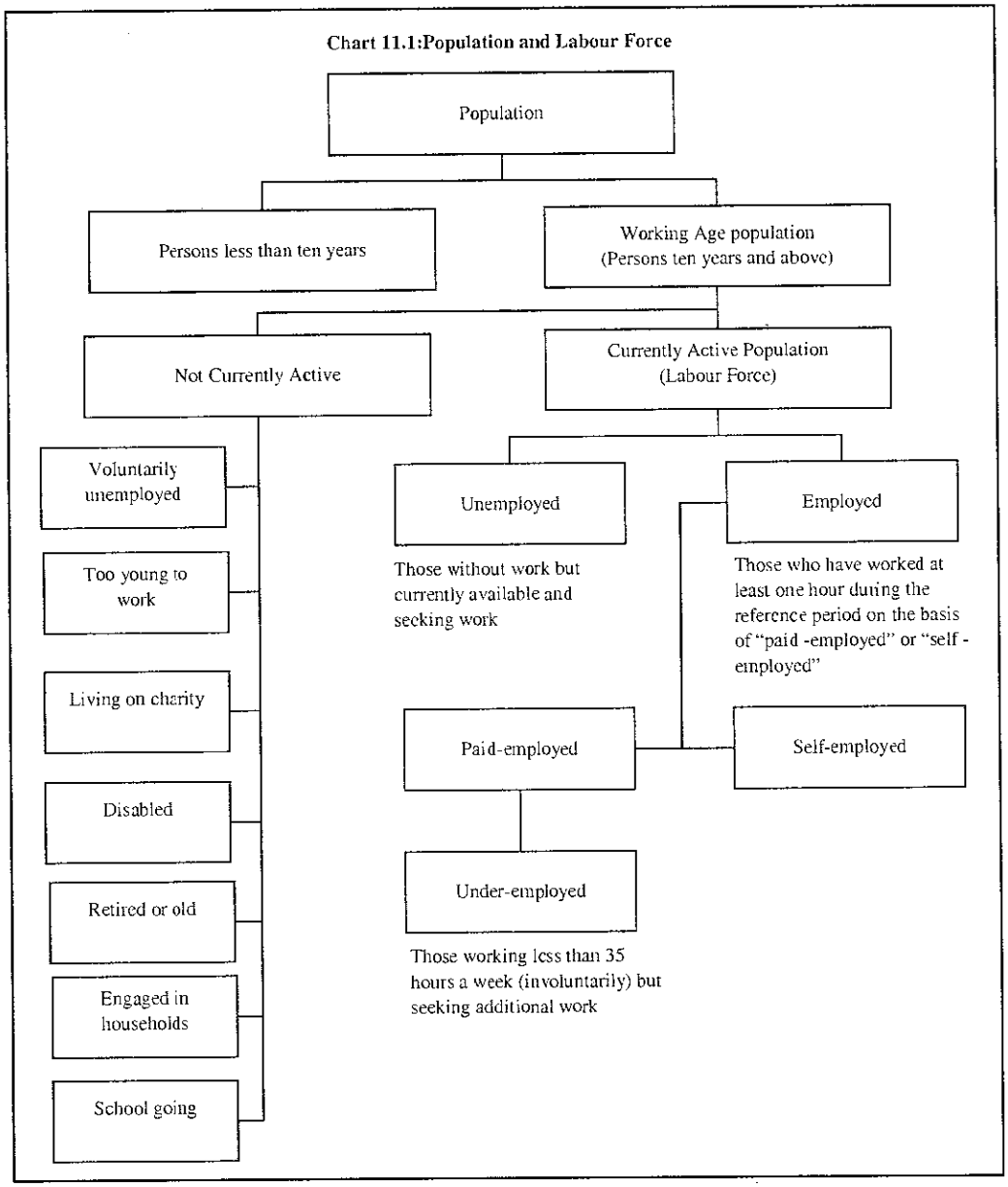
Some of the important findings of the LFS 1999-2000 are as follows:

- In Pakistan, the participation rate in economic activities has decreased from 29.4 percent in FY98 to 29.0 percent in FY00. The decrease has been observed for male as well as females.

- The structure of employment by industry shows that the share of agriculture sector has increased from 47.2 percent in FY98 to 48.4 percent in FY00 which is an year of exceptional growth. This may be related to a disguised unemployment in agriculture sector. Persons who are not getting employment in the non-agriculture sectors are accommodated by the growing agriculture sector.

[11] This definition is fully in accordance with the guidelines of International Labour Orgnization regarding compilation of labour statistics.

Chart 11.1:Population and Labour Force



- Further, within the non-agriculture sector, two-thirds (65.8 percent) of the employed persons were engaged in informal sector. Informal sector in rural areas has accommodated relatively more employed persons (68.0 percent) compared to urban areas (63.8 percent). This shows that the formal sector is unable to create enough jobs consistent with the labour supply.

- Parallel to the increase in agriculture sector, farming activities have also shown an upward trend from 39.9 percent in FY98 to 40.6 percent in FY00. In addition to other reasons, the disguised unemployment factor may have also contributed to its size, as persons who are not getting employment in other sectors are engaged in farming activities.

- The employment status indicates that self-employed category has increased from 41.5 percent in FY98 to 42.2 percent in FY00. Similarly the employees category have also shown an increasing

trend. In contrast, the unpaid family helpers and employers categories have experienced a downward trend.

11.4 Literacy

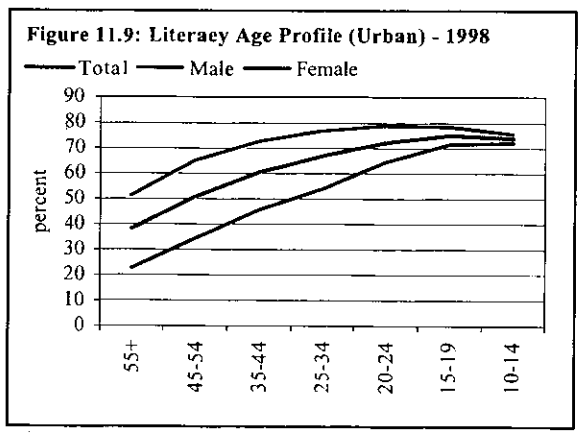
According to 1998 Census, the literacy rate in Pakistan increased for both men and women during intercensal period (see **Table 11.10**). However, there is still wide disparity between male and female, and between rural and urban populations.

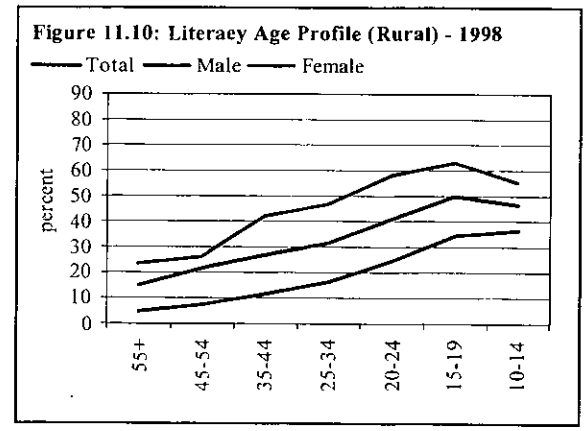
Table 11.10: Literacy Rate

		Male	Female	Overall
Overall	**1998**	56.5	32.6	45.0
	1981	35.0	16.0	26.2
Rural	**1998**	47.4	20.8	34.4
	1981	26.2	7.3	17.3
Urban	**1998**	72.6	55.6	64.7
	1981	55.3	37.3	47.1

Source: Pakistan Statistical Year Book 2002

The analysis of the literacy age profile for urban population suggests higher literacy rates for younger group. Interestingly, the gender disparity almost disappears for this age group as the female literacy rate is increasing at a much faster pace. In the case of rural population, though the literacy rate is increasing, the gender-gap remains still very high for all age brackets (see **Figure 11.9** & **Figure 11.10**).

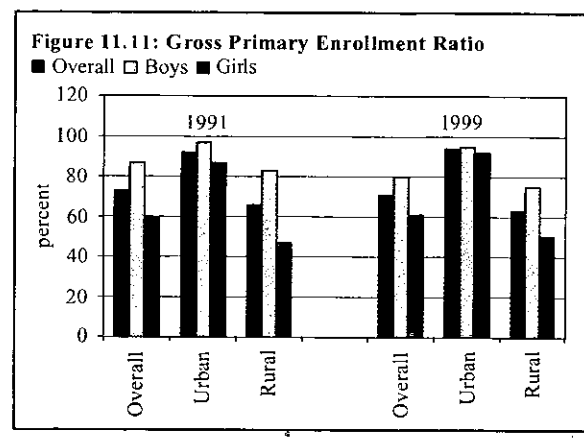




Looking from a different perspective, the difference in the male literacy rate between rural and urban population is falling with lower age. However, disparity in the female literacy rates is widening with lower age groups (compare **Figure 11.9** with **Figure 11.10**).

11.5 Education

The primary gross enrollment ratio (GER) is one of the indicators for measuring the success of initiatives undertaken in the education sector.[12] In the case of Pakistan, though the female GER has increased marginally during 1991-99, there is a notable fall in the male GER, which is a point of great concern (see **Figure 11.11**).



A further analysis shows that the drop in male GER is more pronounced in the rural population. The female GER, however, is

[12] The primary gross enrollment ratio is the number of students enrolled at the specified level (regardless of their age) as percent of population of official school age for that level.

showing an improvement both in rural and urban areas, and thereby leading to decline in the gender gap.

The inter-country comparison of selected indicators in the education sector reflects very poor standing for Pakistan (see **Table 11.11**). This shows that the education sector is generally accorded low priority in economic policy decision despite its important role in economic growth and poverty reduction. The situation is more disturbing as the lower quality of education and mismatch of acquired skills with the market demand lead to lower returns on investment in human capital. This, in turn, weakens the role of education as a catalyst in poverty reduction efforts. The poor education also drags country's ability to adopt technological innovation, and in turn integrating with the global economies.

Table 11.11: Education Indicators for Selected Countries

	Expenditures as % of GNP		Adult literacy ratio (age 15 and above)		Gross primary enrollment ratio[1]	
	1985-87	1995-97	1985	2000	1970	1997
Pakistan	**3.1**	**2.7**	**31.4**	**43.2**	**40**	**74**
Malaysia	6.9	4.9	76.4	87.5		
Thailand	3.4	4.8	90.3	95.5		
Sri Lanka	2.7	3.4	87.1	93.3	99	109
China	2.3	2.3	71.9	84.1		
Indonesia	1.0	1.4	74.7	86.9		
India	3.9	3.2	45.2	57.2	73	100
Bangladesh	1.4	2.2	32.0	41.3	54	92

Sources: Human Development Report 2002, UNDP

[1]: Human Development in South Asia 2001, Globalization and Human Development, Mahbub ul Haq Human Development Centre, Oxford University Press.

11.6 Health

Health is also closely related to the social sector performance. In this regard, infant mortality rate, life expectancy at birth, access to basic health services, and expenditure on health services are important indicators.

Infant mortality rate (IMR) reflects the quality of health services provided in the country. As shown in the **Table 11.12**, IMR declined from 107.7 in 1990 to 85.0 in 2002,but it is still very high on account of unhygienic livings, infectious diseases, malnutrition, and lack of education and information of childcare on the part of mothers.

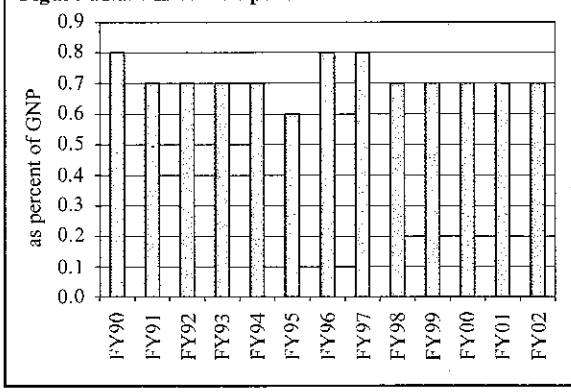
Table 11.12: Indicators of Health

	1990	2002
Infant mortality rate (per 1,000 live births)	107.7	85.0
Life expectancy at birth (years)	57.7	63.6
Expenditure on health (as percent of GNP)	0.8	0.7
Mortality (per 1,000)	123[1]	110.3

[1]: Mortality rate pertains to the year 1996.

Life expectancy at birth is about 63.6 years in Pakistan in year 2002, although it has improved from year1990 (see **Table 11.12**), but still lower than the average of 67.3 years for countries at medium level of human development. Furthermore life expectancy in males is slightly higher (63.7years) than the females (63.3 years).

Figure 11.12: Health Expenditure



Under 5 years mortality (per 1000) has also reduced but still far behind as compared to Pakistan's peer group. Maternal mortality rate ranges between 350-500 per hundred thousand live births. Consequently, every year about seventeen thousands newly born become motherless, which reflects the poor health conditions.

The low budgetary allocation explains much of the poor performance in the health sector. As shown **Figure 11.12,** expenditures on health are unchanged for the last five years.

In comparison to other regional and developing countries, the Pakistan's performance in the selected health indicators is not satisfactory (see **Table 11.13**).

Table 11.13: Indicators of Health

	Life expectancy (years)		Infant mortality (per 1000 live births)		Under 5-years mortality (per 1000)	
	1990	**2000**	**1970**	**2000**	**1970**	**2000**
Pakistan	**57.7**	**60.0**	**118**	**95**	**183**	**110**
Malaysia	70.1	72.5	46	9	63	9
Thailand	66.1	70.2	74	30	102	29
Sri Lanka	70.9	72.1	65	17	100	19
China	70.1	70.5	85	38	120	40
Indonesia	61.5	66.2	104	40	172	48
India	59.1	63.3	130	69	206	96
Bangladesh	51.8	59.4	148	79	239	82

Source: Human Development Report 2002, UNDP

12 State Bank's Administration

12.1 Constitution of the Central Board of Directors

The Central Board of Directors consisted of the following as on June 30, 2002:

1.	Dr. Ishrat Husain	Governor & Chairman
2.	Ch. Mueen Afzal	Member
3.	Dr. Salman Shah	Member
4.	Mr. M. Hussain Dawood	Member
5.	Mr. R. A. Akhund	Member
6.	Mr. Azam Faruque	Member
7.	Mr. Fazal-ur-Rehman Dittu	Member
8.	Mr. Qaiser Zulfaqar Khan	Member
9.	Mr. Zia Khaleeli	Member

12.2 Meetings of the Central Board

The Central Board held 8 meetings during the year. Besides administrative & policy decisions, and review of monetary and credit developments, the Board approved the credit plan and quarterly reports on the state of the economy for FY02.

12.3 Banking Legislation

No changes in the existing banking laws were made during FY02. However, a new Ordinance for the establishment of the State Bank of Pakistan Banking Services Corporation, as a subsidiary of the State Bank (SBP), was promulgated on December 29, 2001.

12.4 State Bank of Pakistan Automation Project

Under the ongoing Technology Up-gradation Project, the following actions have been taken:

12.4.1 Software

For implementation of Globus, the User Acceptance Testing (UAT) for foreign exchange, government securities, and deposit banking (covering 90 percent treasury products) was conducted in South Africa. For this purpose, a team of important users was flown to South Africa in November 2001. The second phase of the UAT was conducted in Karachi during January 14-31, 2002, covering UAT for the remaining 10 percent treasury products, as well as the re-testing of the incidences reported in South Africa. Temenos team was also available to fix the incidences being reported.

12.4.2 Training

A total of 207 SBP users were trained on Globus; 142 from the Karachi Office, 35 from Accounts Department, 18 from External Debt and Management Department, 7 from Audit Department, 4 from Exchange Policy Department, and 1 from Research Department. Furthermore, the following training programs have been completed:

- MS-Office Training for over 750 officers.
- Specialized Technical Training to 32 officers of Information System Department (ISD) in areas of Globus, Data Warehouse, System Administration (Unix), and Networking from UAE, Singapore, and Malaysia.

- Executive Training to 55 Executives on MS Outlook & Internet usage.

12.4.3 Mock Banking

In February 2002, the mock banking exercise was conducted to familiarize SBP users and management with Globus banking system in real time banking environment. This exercise enabled application users to understand issues involved in the real time banking. A major issue noted was the lack of reports specific to some users' requirements. Further, it was felt that a parallel run before going live is imperative for the successful implementation.

12.4.4 Networking

All offices of the State Bank in Karachi are accessing the Internet, email and business applications across the network. At present, 840 email accounts are in use by the employees of the SBP. In addition, the Press Building office is connected to the Central Directorate via Radio at 256Kbps, whereas the North Nazimabad and the Boulton Market offices are linked to the Central Directorate at 128Kbps.

The strategy for the WAN beyond Karachi is to use Digital Cross Connect from PTCL as a primary medium along with VSAT links for a hot backup. The balance will be loaded across the DXX and VSAT links for optimal use of the bandwidth, quick application response times and resiliency in the network.

12.4.5 Procurement of Hardware:

- 803 PCs have been installed in different offices/departments.
- 6 large N-Class Server machines received; 3 are in operation; remaining 3 are being energized.
- 30 laptops were distributed to different departments.
- 4 large high-end Laser Printers have been installed in different offices.
- 48 Network Printers have been delivered and installed in different offices/departments.
- 83 dot matrix printers are operational in different offices/departments.
- 14 desktop printers have been installed.
- 1 Plotter and 1 Scanner have been installed in ISD.

12.5 Training

During FY02, the policy as outlined in the Training Policies and Programs Paper was followed throughout the year to further strengthen and institutionalize training arrangements within SBP. With the objective of providing applied training to SBP officers, resources were deployed to impart managerial training through different programs such as Grid Managerial Workshops, Leadership Works, and Creative Problem Solving Workshops. In addition, concerted efforts were put forth to assist the departmental teams in developing their Business Plans with respect to their Key Result Areas and Key Performance Indicators, developmental goals and objectives for the year 2002-03. These Business Planning Workshops held throughout the year and departmental heads have presented their Business Plan, which will be integrated with the overall business plan of the SBP.

12.5.1 Training Activities

SBOT 6th Batch

The training program for 45 inductees of SBOT 6th batch was held at NIBAF. Phase 1 of 24-week was started in mid-September, 2001 and concluded in March 2002. The program was focused on applied and modular training in core areas of central banking such as macro finance, external sector, financial market, monetary management, foreign exchange management, and banking supervision. In addition, inductees were also imparted training in accounting and communication skills. In Phase II (May – September,

2002), the practical hands-on training was carried out in different departments of SBP, commercial banks and financial institutions. The objective of these hands-on training was to give them practical exposure so that they can undertake new assignments efficiently, once posted to the departments of SBP.

Research Officers Training Program

Training program for newly appointed Research Officers in SBP was designed and conducted at NIBAF Islamabad. The program was of 18-week duration, and broadly focused on providing conceptual background of modern quantitative techniques, monetary policy issues, macro-finance concepts, Islamic banking etc.

SBP Foundation Courses

SBP Foundation Training Program remains a regular feature of training activities at NIBAF, Islamabad and NIBAF, Karachi Campuses. The program aims to provide modular training for officers (OG-2 to OG-5) working in SBP. During FY02, a total of 65 weeks of training was imparted through various modules developed for the Foundation courses, in which 1,007 officers participated.

International Courses

The 33rd International Central Banking Course was conducted at NIBAF Islamabad (March 11- April 20 2002) for twenty participants from Bangladesh, Libya, Iraq, Nepal, Thailand, Sudan, Sri Lanka and Pakistan.

Foreign Training

During FY02, 83 officers working at senior & middle management level were imparted foreign training through participation in different courses of IMF, World Bank, Bank of England, Federal Reserve Bank of New York, SEACEN Research and Training Centre & Bank Negara Malaysia. The principal areas where foreign training imparted included: Treasury & Risk Management Operation; Consolidated Banking Supervision; Financial Markets, Operations, Role & Perspective; Asset Price Modeling; Macro Economic Management, Financial Sector issues and money laundering.

Change Management Program

As a follow-up to the Change Management Conference (CMC) in FY00, another conference was held in November 2001. In addition, 17 workshops and various dissemination seminars were organized, in which more than 600 officers from the Bank participated.

12.6 Inspection of Banks and NBFIs

During FY02, on-site inspection of 30 scheduled banks was conducted as against 35 in FY01. Out of these, 19 were Pakistani Banks (11 Private Banks, 2 Provincial Banks, 4 Nationalized Commercial Banks, 1 Denationalized Commercial Bank and 1 Specialized Bank) and the remaining 11 were Foreign Banks. Besides this, inspection of 26 NBFIs (5 DFIs, 12 Investment Banks, 4 Housing Finance companies, 4 Discount Houses and 1 Venture Capital Company) was also conducted during the year.

12.7 Foreign Exchange Adjudication Department

Pursuant to the amendments made through Finance Act, 1987 in Section 23 of Foreign Exchange Regulation Act, 1947, SBP has been given powers to impose penalty for the contravention of provisions of the said Act or any rule, direction or order made thereunder for non-repatriation of export proceeds, non-compliance of instructions/directions etc. of the SBP. This power is exercised by the Foreign Exchange Adjudication Courts established at Karachi, Lahore, Faisalabad and Sialkot.

1,910 cases were outstanding as on July 1, 2001. During FY02, a total of 578 cases were filed by the Exchange Policy Department. However, 669 cases were disposed-of by the Foreign Exchange Adjudication Courts till June 30, 2002. During the year, penalties aggregating Rs 122.8 million were imposed, out of which a sum of Rs 1.6 million has been recovered. Further, as a result of Court proceedings, foreign exchange equivalent of US$ 9.8 million has been repatriated to Pakistan by exporters.

12.8 Internal Audit and Inspection

The Audit Department revamping study was carried out by the Consultants. This study has totally changed the approach from conventional compliance based to Risk-based audit. The audit during the period has attempted to gradually implement the risk-based audit approach on the following departments:

1. Internal Bank Security Department
2. Legal Services Department
3. Foreign Exchange Adjudication Department
4. Information System Department
5. Statistics Department
6. Training Department

The following departments are presently being audited and reports will be submitted shortly:

1. Human Resources Department
2. Exchange Policy Department
3. Purchases from Kerb Market
4. Project Management Office

The Audit Department will also ensure that recommendations/observations raised in Audit Report has been complied by the Department concerned.

12.9 Building Projects of the Bank

During FY02, several projects were completed by the Engineering Department. These included:

- The renovation/furnishing of remaining portion of 6th floor occupied by the Statistics Department, which was completed by end-February 2002.
- The renovation work to house Training Department of the Bank at 2nd floor of North Nazimabad Office Building, which was completed by the September 30, 2001.
- The work for housing IT Lab on 1st floor of North Nazimabad Office Building, awarded to M/s. Bestow Interiors, was completed on 15-10-2001.

The Building Sub-Committee in its meeting held on March 8, 2002 approved the pre-qualification of Contractors for renovation/furnishing of remaining floors of Main Building. The renovation and furnishing of 5th floor will be taken up first, and Banking Supervision Department & Banking Policy Department presently housed at 7th floor would be shifted to 5th floor after completion of work on the latter, by October 31, 2002. The expected date for completion of 7th floor is by end-February 2003, while the expected date for completion of renovation work on all the floors of Main Building is December 31, 2003.

13 State Bank's Accounts for 2001-02

13.1 Annual Accounts

During the year 2001-02 SBP has accomplished another strategic goal to segregate its core and retail businesses. SBP Banking Services Corporation, a 100% owned subsidiary of State Bank of Pakistan, was established with effect from 2nd of January 2002. The Corporation is responsible to carry out retail business such as currency management, banking for federal and provincial government, management of prize bonds etc. on behalf of State Bank of Pakistan. During the year SBP has also formally taken over the control of National Institute of Banking and Finance (Guarantee) Limited. NIBAF will be exclusively responsible to cater the training needs of the State Bank of Pakistan and SBP- Banking Services Corporation. The Accounts of NIBAF will be consolidated with the Accounts of State Bank of Pakistan from the financial year 2002-03.

Table 13.1: Summary of Profit and Loss Account

'000' Rupees

	2002	2001
A. Incomes		
Discount, interest/mark-up and/or return earned	38,819,096	64,143,082
Interest/mark-up expense	(5,794,502)	(11,120,405)
Sub total	**33,024,594**	**53,022,677**
Commission	347,209	296,858
Dividend income	336,777	261,120
Other operating income	472,763	407,427
Gross earnings	**34,181,343**	**53,988,082**
Net gain/(loss) on foreign exchange transactions	8,937,276	(49,168,208)
Net earnings	**43,118,619**	**4,819,874**
Other and exceptional income	291,710	23,307,911
Total income for the year	**43,410,329**	**28,127,785**
B. Expenditure: -		
Note printing charges	1,535,765	1,371,544
Agency commission	1,167,102	1,094,012
SDR charges	345,355	557,240
Sub total	**3,048,222**	**3,022,796**
Salaries, pension & other benefits	2,182,225	2,237,705
ERIS/SERIS, retirement benefits	1,620,000	--
Depreciation	490,756	409,566
Other items.	1,277,919	1,190,083
Sub total	**5,570,900**	**3,837,354**
Total expenditure	**8,619,122**	**6,860,150**
Net profit for the year	**34,791,207**	**21,267,635**
Provision for retirement benefits and employees' compensated absences	2,494,300	3,333,388
Provisions for loans, investments etc	5,425,671	2,266,612
Loans and advances written off	1,402,252	--
Sub total	**(9,322,223)**	**(5,600,000)**
Transferred from reserve fund	3,000,000	5,600,000
Available for appropriation	**28,468,984**	**21,267,635**
C. Appropriations		
Amount set aside for payment of dividend at the rate of 10 per cent per annum	10,000	10,000
Surplus payable to the federal government	28,458,984	21,257,635
Total	**28,468,984**	**21,267,635**

The consolidated Financial Statements of State Bank of Pakistan for the year 2001-02 duly audited by external auditors, have been presented on following pages of the report:

Profit and Loss Account----------228
Balance Sheets----------226,227
Cash flow statement----------229
Changes in Equity----------230
Notes to the Accounts----------231 to 259

The executive summary of Accounts is as follows:

13.2 Income And Expenditure Account

Gross Income

For the year under review, the gross income of the Bank declined by 36% compared to previous year. The decline was mainly attributable to reduction in holding of Market Treasury Bills and rate of interest thereon {holdings: Rs 199.7 billion in 2002, Rs 487.3 billion in 2001) (rate of interest 5.6450 % in 2002, 12.8756 % in 2001). Net earnings however increased from Rs 4.8 billion to Rs 43.1 billion due to exchange gain of Rs 8.9 billion during the year as compared to exchange loss of Rs 49.2 billion during preceding year. The exchange gain for the year was mainly due to appreciation of Pak rupees against US Dollar and other international currencies (Exchange rate 1 US $ = Rs 60.0244 on 30th June 2002 and Rs. 63.9825 per US dollar on 30th June 2001).

Corporate Cost:

During the year corporate costs increased by about 10%; the cost of printing currency notes increased by about 12% against last year due to increase in cost and volume of notes and agency commission to National Bank of Pakistan increased by about 7% on account of increased government transactions through them. The SDR charges decreased by 35% on account of reduction of interest rate.

Establishment Cost

Expenses on salaries and benefits declined by 2.5%, after netting off against increase, on account of annual increments and promotions, against last year due to reduction in numbers of employees as a result of early retirement.

An amount of Rs 1.6 billion was paid to employees opted for early retirement schemes ERIS/SERIS during the year under review. These payments have been charged to Profit and Loss Account. The amount of depreciation increased by 19.8% due revaluation of assets carried out as per IAS. Other charges increased by 7% due to normal increase in property tax, utilities etc.

Net Profit

Net profit for the year jumped from Rs 21.3 billion as of last year to Rs 34.8 billion for the year under review.

Provisions & Write-Off

An amount of Rs 2.5 billion has been provided on account of retirement benefits and employees' compensated absences. The amounts are best estimates based on actuarial valuation. As part of its policy of prudence an amount of Rs 2.3 billion has been provided against loans given to BEL (Banker Equity Limited), which is under liquidation. Loans and Advances amounting to Rs 1.4 billion outstanding against defunct NDFC have been written off during the year. A further amount of Rs 3.1 billion has been provided against sale shares of UBL; difference of cost and value realizable on dis-

investments of 51% shareholding. These provisions and write-off were partially met by transfer of Rs 3.0 billion from Bank's Reserve Fund.

Appropriations

The net available balance for the year for appropriation thus worked out to Rs 28.5 billion as compared to Rs 21.3 billion in financial year 2001 which has been appropriated as follows: -

	billion Rupees
Dividend @ Rs 10/- per share	0.010
Surplus payable to the Federal Government	28.459

13.3 Consolidated Balance Sheet of the Banking and Issue Departments: -

13.3.1 Banking Department: -

The Consolidated balance sheet of the Banking department showing position as at 30th June 2002 is set out on page No 227 of the report.

Assets

On the Assets side, 'Foreign Currency Reserves' increased by 116.4% over last year. The increase has been a result of increased remittances in post 11th September scenario. (An amount of Rs 245.3 billion has been shown as approved Foreign Exchange in Balance Sheet of Issue Department against issue of currency out of total Forex Reserve at Rs 287.8 billion). 'Special Drawing Rights' increased from Rs 281.4 million at end June 2001 to Rs 509.6 million at end June 2002. 'Reserve Tranche' with International Monetary Fund under Quota arrangements' stood at Rs 9.0 million at year-end level as compared to Rs 8.9 million at last year-end level. Total investments declined from 670.8 billion to Rs 384.7 billion during the year under review; showing a decrease of Rs 286.1 billion, which was mainly due to decline in holdings of MTBs (MTBs valuing at Rs 170.4 billion has been shown in Balance Sheet of Issue Department as assets against liabilities of Currency in circulation). 'Loans, advances and bills of exchange' declined to Rs 183.0 billion at end June 2002 from Rs 202.8 billion at the end of June 2001. Balances due from the Governments of India and Bangladesh (Former East Pakistan) increased to Rs 3.4 billion from Rs 3.2 over the previous year due to accrual of interest on over due amounts from Bangladesh (former East Pakistan) during the year. 'Fixed Assets' decreased to Rs 8.3 billion at end June 2002 from Rs 8.4 billion at end June 2001 showing decrease of Rs 0.1 billion due to depreciation of assets. 'Other Assets' decreased from Rs 47.4 billion at end June 2001 to Rs 27.6 billion at end June 2002 due to closure of SWAP arrangements.

Liabilities

On the liabilities side, Bills payable declined by Rs 110.9 million during the year. The Current accounts of the Federal Government and provincial governments increased from Rs 45.0 billion as of last year to Rs 56.3 billion as on 30th June 2002. The balance of the Federal government was higher at Rs 29.5 billion on 30th June 2002 as compared to Rs 23.5 billion last year. As for the current account of the Provincial Governments, the Government of Punjab, NWFP, Balochistan and AJK had credit balance of Rs 16.6 billion, Rs 4.2 billion, Rs 5.3 billion and Rs 1.7 billion as on 30th June 2002 respectively against credit balances of Rs 11.1 billion, Rs 3.7 billion, Rs 3.3 billion and Rs 1.4 billion as on 30th June 2001. While the current accounts of Governments of Sindh, had debit balance of Rs 1.0 billion as on 30th June 2002 as against credit balance of Rs 1.9 billion last year.

Deposits of banks and Financial Institutions declined by Rs 32.2 billion (Rs 133.0 billion from Rs 165.2 billion as of last year) due to repayment of Special Rupee Deposits Accounts which were contra accounts to FE-45 Deposits of Banks and Financial Institutions. During the year US $ 527 million were repaid against FE-45 Deposits. Other Deposits, including counterpart funds, Special Debt

Repayments Accounts and funds received for re-structuring of banking sector, decreased from Rs 275.3 billion at the end of June 2001 to Rs 80.7 billion at the end of June 2002, due to return of Rs 194.0 billion to Government held under Special Debt Repayment accounts. The amount payable to International Monetary Fund increased to Rs 113.1 billion in FY 2002 from Rs 95.8 billion in FY 2001. The increase is due to receipt of tranches under PRGF arrangement with IMF. The 'Other Liabilities' decreased by Rs 36.2 billion from Rs 62.0 billion at end June 2001 to Rs 25.8 billion at end June 2002. Deferred Liabilities-Staff retirement benefits increased from 6.3 billion at end June 2001 to Rs 7.9 billion at end June 2002 due to provision made on the report of actuarial review (required under IAS-19), while 'Deferred income' on account of FSDIP grant for computerisation stood at Rs 480.8 million at end June 2002 as compared with Rs 272.5 million at end June 2001.

The Net Assets Are Represented By

1) Share Capital which remained unchanged at Rs 0.1 billion,
2) Capital Receipts stood unchanged at Rs 1.5 billion which represent the allocation of Special Drawing Rights (SDRs) by the International Monetary Fund (IMF).
3) After transfer of Rs 3.0 billion from Reserve Fund to meet the requirements of IAS for provisioning of retirement benefits and employees' compensated absences as well as to make provision for loans, investments and write-off, the Reserve Fund declined to Rs 16.7 billion from Rs 19.7 billion.
4) Unrealised appreciation on Gold Reserves increased form Rs 33.3 billion to Rs 37.0 billion.
5) Surplus on Revaluation of Fixed assets stood unchanged at Rs 6.9 billion on 30th June 2002.

The balances in the Bank's Main account with Reserve Bank of India remained unchanged, as India did not write up the State Bank's balance with it under the provisions of the payments agreement between the two countries. The matter is still in dispute.

13.3.2 Issue Department

The balance sheet of Issue department of State Bank of Pakistan has been produced on pages No 226 of the Report. The total amount of Liabilities against currency stood at Rs 458.4 billion as of 30th June 2002, which is higher by 16.6%. On the "Assets side", the value of 'Gold Reserves held by the Bank' (Gold Coin and Bullion) increased from Rs.35.6 billion (on 30th June, 2001) to Rs.39.4 billion as on 30th June, 2002 due to purchase of confiscated gold from Government, and appreciation booked on revaluation of gold at the market rate (London afternoon fixing) as on 29th June, 2002 (30th June, market being closed due to Saturday). 'Foreign Currency Reserves' (Approved Foreign Exchange) increased from Rs.111.0 billion to Rs.245.3 billion over the year. The balance of 'Indian Notes representing assets receivable from the Reserve Bank of India' decreased from Rs.0.6 billion to Rs.0.5 billion due to depreciation of India Rupee in terms of Pakistan Rupee. Holding of 'Investment in Securities' (GOP Securities) decreased from Rs.243.2 billion to Rs.170.4 billion mainly due to transfer of these securities from Issue to Banking Department against adjustment on account of appreciation booked on revaluation on gold holdings and increase in foreign exchange reserves, partly offset by transfer of these securities from Banking to Issue Department on account of expansion of currency. The 'Assets held with the Reserve Bank of India pending transfer to Pakistan' increased from Rs.0.9 billion to Rs.1.0 billion mainly due to appreciation booked on revaluation of Gold Coin and Bullion, Sterling Securities partly offset by depreciation booked on revaluation of India Rupee Securities and India Rupee coin in terms of Pakistan Rupee.

13.4 Coinage:

Rupee coins in circulation amounted to Rs.0.7 billion as on 30th June 2002 as against Rs.0.6 billion a year ago. The circulation increased due to issuance of Rupee 1 and 2 coins in place of as Re.1/- and Rs.2/- notes which ceased to be legal tender from 1st January 2002. The increase in circulation of Rupee coins was partly offset due to withdrawal of One Rupee Notes whose circulation at the end of 30th June, 2001 amounted to Rs.0.1 billion and stands nil at the end of this year. The circulation of

coins of the denomination lower than one rupee including old half Rupee and quarter Rupee coins, in circulation as on 30th June, 2002 remained un-changed at last year's end-June level of Rs.0.7 billion.

13.5 Transfer Of Assets:

According to the provisions of the Pakistan (Monetary System and Reserve Bank) Order, 1947 as amended the value of Assets of the Issue Department of the Reserve Bank of India which became due to Pakistan was as under:

	billion Rupees
Against Notes in Circulation as on 30th June, 1948	0.5
Against India Notes Retired there after.	1.3
Total	**1.8**

Out of Rs.1.8 billion, the State Bank of Pakistan received Assets of Rs.1.3 billion and the balance is yet to be transferred by the Reserve Bank of India.

13.6 Auditors

The Accounts for the year 2001-2002 were audited by Messrs. Hussain Rehman and A.F. Fergusons, Chartered Accountants.

ANNUAL ACCOUNTS
FOR
2001-2002

Consolidated Financial Statements *2002*

STATE BANK OF PAKISTAN & ITS SUBSIDIARY

REPORTS OF THE AUDITORS

TO THE SHAREHOLDERS

We have examined the annexed consolidated financial statements comprising consolidated balance sheets of the Issue and Banking Departments of the State Bank of Pakistan and its subsidiary, SBP Banking Services Corporation as at June 30, 2002 and the related consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity together with the notes forming part thereof, for the year then ended. We have also expressed a separate joint opinion on the financial statements of the State Bank of Pakistan while the financial statements of the subsidiary, SBP Banking Services Corporation, were audited solely by A. F. Ferguson & Co.

It is the responsibility of the management of State Bank of Pakistan to establish and maintain a system of internal control, and prepare and present the financial statements in conformity with the International Accounting Standards approved for adoption by the Central Board of the Bank. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion and we report that:

Events have rendered impossible the verification of assets recoverable from the Reserve Bank of India or the Government of India or pertaining to transactions in former East Pakistan included in the financial statements. Realisability of these assets amounting to Rs. 5,668.544 million is subject to final settlement between the Government of Pakistan and the Governments of India and Bangladesh respectively. Out of these, assets valuing Rs. 1,731.716 million have been included in the Issue Department as backing against the liability towards notes in circulation. Had these assets not been included in the Issue Department, Government securities of the equivalent value would have been transferred from the Banking Department to the Issue Department as replacement.

Except for the financial effect of the matter stated in the preceding paragraph:

(a) in our opinion the consolidated financial statements together with the notes thereon have been drawn up in conformity with the International Accounting Standards approved for adoption by the Central Board of the Bank and are further in accordance with accounting policies consistently applied; and

(b) in our opinion the consolidated financial statements together with the notes forming part thereof conform with the International Accounting Standards approved for adoption by the Central Board of the Bank, and, give the information required by these Standards in the manner so required, and respectively give a true and fair view of the state of affairs of the Bank and its subsidiary as at June 30, 2002 and of their profits, cash flows and changes in equity for the year then ended.

Without further qualifying our opinion, we draw attention to notes 7.2.3 and 7.2.4, which state the reasons for not making any provision for diminution in the value of the investments held by the Bank in the shares of United Bank Limited and Habib Bank Limited as at June 30, 2002.

A.F.Ferguson & Co.
Chartered Accountants

Husain Rahman
Chartered Accountants

Karachi, the 27th day of September 2002.

STATE BANK OF PAKISTAN AND ITS SUBSIDIARY - ISSUE DEPARTMENT
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2002

	Note	2002	2001
		(Rupees'000)	
ASSETS			
Gold reserves held by the Bank	3	39,378,223	35,617,683
Foreign currency reserves	4	245,300,329	111,027,187
Notes and rupee coins:			
- Indian notes representing assets receivable from the Reserve Bank of India	5	528,640	580,676
- Rupee coins	6	1,738,021	1,726,702
		2,266,661	2,307,378
Investment in securities	7	170,389,508	243,187,199
Commercial papers	8	78,500	78,500
Assets held with the Reserve Bank of India	9	961,283	896,174
		458,374,504	393,114,121
LIABILITIES			
Bank notes issued	10	458,374,504	393,114,121

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

STATE BANK OF PAKISTAN AND ITS SUBSIDIARY - BANKING DEPARTMENT
CONSOLIDATED BALANCE SHEET
AS AT JUNE 30, 2002

	Note	2002	2001
		(Rupees'000)	
ASSETS			
Local currency	6	126,622	177,598
Foreign currency reserves	4	42,454,293	21,934,215
Special Drawing Rights	11	509,591	281,419
		43,090,506	22,393,232
Reserve tranche with the International Monetary Fund under quota arrangements	12	9,001	8,864
Investments	7	214,347,596	427,569,842
Loans, advances and commercial papers	13	183,024,990	202,809,264
Balances due from the Governments of India and Bangladesh (former East Pakistan)	14	3,429,262	3,237,048
Fixed assets:			
- Operating fixed assets	15	8,055,460	8,105,678
- Capital work-in-progress	16	257,057	288,755
		8,312,517	8,394,433
Other assets	17	27,651,356	47,455,350
Total assets		479,865,228	711,868,033
LIABILITIES			
Bills payable		323,293	434,206
Current accounts of the Government*	18	56,292,623	45,007,583
Deposits of banks and financial institutions	19	132,950,113	165,176,194
Other deposits and accounts	20	80,692,401	275,295,359
Payable to the International Monetary Fund	21	113,053,034	95,801,871
Other liabilities	22	25,825,247	62,059,426
		409,136,711	643,774,639
Deferred liability - staff retirement benefits	23	7,934,975	6,280,136
Deferred income	24	480,754	272,535
Total liabilities		417,552,440	650,327,310
Net assets		62,312,788	61,540,723
Share capital	25	100,000	100,000
Capital receipt	26	1,525,958	1,525,958
Reserves	27	16,700,000	19,700,000
		18,325,958	21,325,958
Unrealised appreciation on gold reserves	28	37,033,311	33,261,246
Surplus on revaluation of fixed assets	15	6,953,519	6,953,519
		62,312,788	61,540,723
Contingencies and commitments	29		

*Government includes Federal and Provincial Governments of Pakistan and Government of Azad Jammu and Kashmir.

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

STATE BANK OF PAKISTAN AND ITS SUBSIDIARY
CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2002

	Note	2002	2001
		(Rupees' 000)	
Discount, interest/mark-up and/or return earned	30	38,819,096	64,143,082
Interest/mark-up expense	31	5,794,502	11,120,405
		33,024,594	53,022,677
Commission	32	347,209	296,858
Exchange gain / (loss)	33	8,937,276	(49,168,208)
Dividend income		336,777	261,120
Other operating income	34	472,763	407,427
		43,118,619	4,819,874
Direct operating expenses			
Note printing charges	35	1,535,765	1,371,544
Agency commission	36	1,167,102	1,094,012
Provisions for:			
- loans and advances		2,281,014	1,584,216
- diminution in value of investments		3,144,657	282,396
- reimbursement of agricultural losses under Agricultural Loans Scheme			400,000
		5,425,671	2,266,612
Loans and advances written off		1,402,252	-
		33,587,829	87,706
Establishment costs	37	7,987,784	6,933,467
OPERATING PROFIT / (LOSS)		25,600,045	(6,845,761)
Other income	38	291,710	13,060,465
		25,891,755	6,214,704
Other charges	39	422,771	794,515
PROFIT BEFORE EXCEPTIONAL ITEM		25,468,984	5,420,189
Exceptional item		-	10,247,446
NET PROFIT FOR THE YEAR		25,468,984	15,667,635
Transferred from Reserve Fund		3,000,000	5,600,000
AVAILABLE FOR APPROPRIATION		28,468,984	21,267,635
Appropriations:			
Dividend to the Government of Pakistan @ Rs 10 per share (2001: Rs 10 per share)		10,000	10,000
BALANCE TRANSFERRED TO THE GOVERNMENT OF PAKISTAN		28,458,984	21,257,635

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

STATE BANK OF PAKISTAN AND ITS SUBSIDIARY
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2002

	Note	2002	2001
		(Rupees '000)	
Profit for the year after non-cash items	40	36,913,254	13,197,871
(Increase)/decrease in assets			
Reserve tranche with the International Monetary Fund under quota arrangements		(137)	(8,864)
Investments		292,715,477	(69,331,556)
Loans, advances and commercial papers		16,101,008	24,692,924
Foreign currency reserves not included in cash and cash equivalents		(377,558)	(156,371)
Indian notes representing assets receivable from the Reserve Bank of India		52,036	(82,045)
Assets held with the Reserve Bank of India		(4,519)	(37,488)
Other assets - net		19,654,879	(14,356,843)
		328,141,186	(59,280,243)
Increase/(decrease) in liabilities			
Bank notes issued		65,311,359	19,297,495
Bills payable		(110,913)	21,666
Current accounts of the Government		11,285,040	1,200,405
Deposits of banks and financial institutions		(32,226,081)	(1,942,110)
Other deposits and accounts		(194,602,958)	47,410,145
Payable to the International Monetary Fund		17,251,163	43,717,422
Other liabilities - net		(39,777,221)	11,594,543
		(172,869,611)	121,299,566
		192,184,829	75,217,194
Retirement benefits and employees' compensated absences paid		(2,047,720)	(1,118,458)
Dividend income received		485,892	167,943
Gold purchased		(49,065)	
Fixed capital expenditure		(84,321)	(60,865)
Proceeds from disposal of fixed assets		8,235	47,126
		(1,686,979)	(964,254)
Dividend paid to the Government of Pakistan		(10,000)	(10,000)
Surplus profits paid to the Government of Pakistan		(26,000,000)	(20,000,000)
		(26,010,000)	(20,010,000)
Increase in cash and cash equivalents for the year		164,487,850	54,242,940
Cash and cash equivalents at the beginning of the year		134,315,803	80,072,863
Cash and cash equivalents at the end of the year	41	298,803,653	134,315,803

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

STATE BANK OF PAKISTAN AND ITS SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2002

	Share capital	Capital receipt	Reserves						Unrealised appreciation on gold reserves	Surplus on revaluation of fixed assets	Profit and loss account	Total
			Reserve Fund	Rural Credit Fund	Industrial Credit Fund	Export Credit Fund	Loans Guarantee Fund	Housing Credit Fund				
	(Rupees '000)											
Balance at June 30, 2000	100,000	-	14,000,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	28,570,254	-	-	53,970,254
Net profit for the year	-	-	-	-	-	-	-	-	-	-	15,667,635	15,667,635
Transferred from reserves to the profit and loss account	-	-	(5,600,000)	-	-	-	-	-	-	-	5,600,000	-
Dividend to the Government	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Balance profits transferred to the Goverament	-	-	-	-	-	-	-	-	-	-	(21,257,635)	(21,257,635)
Unrealised appreciation on gold reserves during the year	-	-	-	-	-	-	-	-	4,690,992	-	-	4,690,992
Surplus on revaluation of fixed assets during the year	-	-	-	-	-	-	-	-	-	6,953,519	-	6,953,519
Reclassification of allocation of SDRs as capital receipt	-	1,525,958	-	-	-	-	-	-	-	-	-	1,525,958
Balance at June 30, 2001	100,000	1,525,958	8,400,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	33,261,246	6,953,519	-	61,540,723
Net profit for the year	-	-	-	-	-	-	-	-	-	-	25,468,984	25,468,984
Transferred from reserves to the profit and loss account	-	-	(3,000,000)	-	-	-	-	-	-	-	3,000,000	-
Dividend to the Government	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Balance profits transferred to the Government	-	-	-	-	-	-	-	-	-	-	(28,458,984)	(28,458,984)
Unrealised appreciation on gold reserves during the year	-	-	-	-	-	-	-	-	3,772,065	-	-	3,772,065
Balance at June 30, 2002	100,000	1,525,958	5,400,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	37,033,311	6,953,519	-	62,312,788

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

STATE BANK OF PAKISTAN AND ITS SUBSIDIARY
NOTES TO THE CONSOLIDATED ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2002

1.STATUS AND NATURE OF OPERATIONS

The Bank is the Central Bank of Pakistan and is incorporated under the State Bank of Pakistan Act, 1956. The Bank is primarily responsible for management of credit, foreign exchange and currency in the country and also acts as the fiscal agent of the Government. The activities of the Bank mainly include:

- implementing the monetary and fiscal policies;
- issuing of currency;
- facilitation of free competition and stability in the financial system;
- licensing and supervision of credit institutions;
- organisation and management of the inter-bank settlement system and promotion of smooth functioning of payment systems;
- providing of loans and advances to the Government, banks, financial institutions and local authorities under various facilities;
- purchase, holding and sale of securities of banks and financial institutions on the directives of the Federal Government; and
- acting as depository of the Government under specific arrangements between the Government and certain institutions.

The Bank has two subsidiaries as at June 30, 2002:

- SBP Banking Services Corporation, established during the year as mentioned in note 1.1; and
- National Institute of Banking and Finance (Guarantee) Limited, which remained inoperative during the year as mentioned in note 7.2.5 and has accordingly not been consolidated.

1.1 Transfer of assets and liabilities to SBP Banking Services Corporation

During the year the Bank has constituted a wholly owned subsidiary, SBP Banking Services Corporation, which is responsible for carrying out certain functions and activities principally related to public dealings on behalf of the Bank. These functions and related assets, liabilities and employees were transferred to the Corporation with effect from January 2, 2002 in accordance with the provisions of Transfer Order dated December 29, 2001. The transfer order was approved by the Governor of the Bank under section 15 of the Ordinance.

In consideration for the transfer of fixed and other assets, the Corporation issued 491 fully paid ordinary shares of Rs 1.0 million each to the Bank based on the estimated value of assets transferred. In addition, 509 fully paid ordinary shares of Rs 1.0 million each were

also issued by the Corporation against cash. The actual value of fixed assets transferred has been determined by the Bank as of December 31, 2001 and the differential between the estimated and actual values amounting to Rs 269.579 million has been settled through current account maintained between the Bank and the Corporation.

The employee related loans, advances and liabilities including pension, gratuity and provident fund balances pertaining to employees transferred to the Corporation amounted to Rs 1,265.942 million as of January 2, 2002 (net liability) which have also been settled between the Bank and the Corporation through the current account maintained between them.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These accounts have been prepared in accordance with the requirements of the International Accounting Standards (IASs) as applicable in Pakistan and approved for adoption by the Central Board of the Bank under the powers conferred by the State Bank of Pakistan Act, 1956.

The consolidated financial statements include the accounts of State Bank of Pakistan and SBP Banking Services Corporation, which have been consolidated on a line-by-line basis.

All inter-group balances and transactions have been eliminated.

2.2 Accounting convention

These accounts have been prepared under the historical cost convention, except that gold reserves and certain fixed assets, as referred to in note 2.6 and 2.7 have been included at revalued amounts.

2.3 Bank notes and rupee coins

The liability of the Bank towards bank notes issued as a legal tender under the State Bank of Pakistan Act, 1956 is stated at the face value and is represented by the specified assets of the Issue Department of the Bank. The cost of printing of notes is charged to the current profit and loss account. Any unissued notes lying with the Bank are not reflected in the books of account.

The Bank also issues one and two rupee coins on behalf of the Government of Pakistan. These coins are purchased from the Government at the respective face values. The unissued coins form part of the assets of the issue department.

2.4 Bad and doubtful balances

Balances considered bad and irrecoverable are written off from the books of account. Provision is made against debts considered doubtful based on the management's best estimate of the loss likely to arise on these balances.

2.5 Investments

Investments in listed and short-term Government securities are stated at the lower of cost and market value determined on a portfolio basis. Long-term investments in Government and other securities, unlisted companies and financial institutions are stated at cost less provision for any diminution in value. Provision for diminution in the value of long-term investments is made only if there is a permanent impairment in the value of these investments.

The cost of securities is adjusted for any amortisation of discounts or premiums on a straight-line basis over the period to maturity.

The Bank enters into transactions of outright sale, repurchase (Repo) and resale (Reverse Repo) of securities at contracted rates for specified periods of time.These are recorded as follows:

i) in case of outright sale or sale under repurchase obligations, the securities are deleted from investments and the charges arising from the differential in sale and face/repurchase value are accrued on a prorata basis and recorded as discount expense which is deducted from the interest/mark-up and/or return earned on these securities. Upon maturity, the securities are reinstated at their respective original cost.

ii) in case of purchase under resale obligations, the securities are included under investments at the contracted purchase price and the differential of the contracted purchase and resale prices is amortised over the period of the contract and recorded under discount, interest/mark-up and/or return earned on these securities.

2.6 Gold reserves

Gold reserves, including those held with the Reserve Bank of India are stated at the revalued amounts of the fine gold content thereof in accordance with requirements of the State Bank of Pakistan Act, 1956 and the State Bank of Pakistan General Regulations. Any appreciation or depreciation on revaluation is taken to "Unrealised appreciation on gold reserves" account. Appreciation realised on disposal of gold reserves is credited to the profit and loss account.

2.7 Fixed assets and depreciation

Operating tangible assets except freehold land and capital work-in-progress are stated at cost or revalued amounts less accumulated depreciation and any accumulated impairment losses. Freehold land is stated at revalued amount less any accumulated impairment losses while capital work-in-progress is valued at cost.

Depreciation is calculated using the straight-line method so as to write off the assets over their expected useful lives without taking into account any residual value.

Depreciation on additions is charged from the month in which the asset is put to use while no depreciation is charged in the month in which the assets are deleted. Normal repairs and maintenance are charged to the profit and loss account as and when incurred; major renewals and improvements are capitalised and the assets so replaced, if any, are retired. Gain and losses on disposal of fixed assets are included in income currently.

Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight-line method so as to write off the assets over their expected useful lives without taking into account any residual value.

2.8 Deferred income

Grants received on account of capital expenditure incurred under modernisation and reforms programme are recorded as deferred income. These are amortised over the useful life of the relevant asset.

2.9 Staff retirement benefits

The Bank and its subsidiary operates:

a) an un-funded contributory provident fund (old scheme) for those employees who joined prior to 1975 and have opted to remain under the old scheme;

b) an un-funded general contributory provident fund (new scheme) for all employees who joined after 1975 and those employees who had joined prior to 1975 but have opted for the new scheme;

c) following other staff retirement benefit schemes:

- an un-funded gratuity scheme for all its employees other than those who opted for the new general provident fund scheme or joined the Bank after 1975 and are entitled only to pension scheme benefits;
- an un-funded pension scheme;
- an un-funded benevolent fund scheme; and
- an un-funded post retirement medical benefit scheme.

Annual provisions are made to cover the obligations arising under these schemes based on actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. Actuarial gains and losses arising at the valuation date are recognised as income/expense in the following year based on actuarial recommendations.

The above staff retirement benefits are payable to staff on completion of prescribed qualifying period of service.

2.10 Compensated absences

Annual provision is made in respect of liability for employees' compensated absences based on actuarial estimates.

2.11 Revenue recognition

- Interest/ mark-up and/ or return on loans and advances and investments is recorded on accrual basis. However, income on balances pertaining to transactions in former East Pakistan (now Bangladesh), doubtful loans and advances and overdue return on investments are recognized as income on receipt basis.

- Dividend income is recognised when the Bank's right to receive dividend is established.

- All other revenues are recognised on accrual basis.

2.12 Finances under profit and loss sharing arrangements

The Bank provides various finances to financial institutions under profit and loss sharing arrangements. Share of profit/loss under these arrangements is recognised on accrual basis.

2.13 Taxation

The income of the Bank is exempt from tax under section 49 of the State Bank of Pakistan Act, 1956 while the income of the subsidiary is exempt from tax under section 25 of the SBP Banking Services Corporation Ordinance, 2001.

2.14 Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into rupees at the rates of exchange prevailing at the balance sheet date or at contracted rates. However, certain balances with the International Monetary Fund (IMF) are revalued at the end of the Fund's financial year i.e. April 30 in accordance with the provisions of Aide Memoire, a document of the IMF for accounting of transactions and balances with the Fund.

Exchange gains and losses are taken to the profit and loss account except for certain exchange differences on balances with the International Monetary Fund (IMF) referred to in note 2.15, which are transferred to the Government of Pakistan.

The Bank also provides forward covers to the commercial banks and financial institutions under the Exchange Risk Coverage Scheme at prescribed fees. The exchange differences arising under these arrangements and on currency swap transactions are recognised in the books of account on accrual basis.

2.15 Transactions and balances with the International Monetary Fund

Transactions and balances with the International Monetary Fund (IMF) are recorded on the basis of International Accounting Standards (IASs) and the guidelines contained in the Aide Memoire and specific arrangements entered into between the Bank and the Government. A summary of the policies followed by the Bank for recording of these transactions and balances is as follows:

- The Government's contribution for quota with the IMF is recorded by the Bank as depository of the Government and exchange differences arising under these arrangements are transferred to the Government account.

- Exchange gains or losses arising on revaluation of borrowings from the IMF are recognised in the profit and loss account except for the gains or losses transferable to the Government under specific arrangements.

- The cumulative allocation of SDRs by the IMF is treated as capital receipt and is not revalued.

- Income or charges pertaining to balances with the IMF are taken to the Government account, except for the following which are taken to the profit and loss account:

    - charges on borrowings under Structural Adjustment Facility (SAF) and Enhanced Structural Adjustment Facility (ESAF);
    - charges on net cumulative allocation of Special Drawing Rights; and
    - return on holdings of Special Drawing Rights.

2.16 Cash and cash equivalents

Cash and cash equivalents include cash and bank balances in current and deposits accounts and investment in securities realisable within three months.

2.17 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

	Net content in troy ounces	2002 (Rupees' 000)	2001
3. Gold reserves held by the Bank			
Opening balance	2,057,201	35,617,683	31,002,043
Additions during the year	2,570	49,065	-
Appreciation arising from revaluation during the year - note 28		3,711,475	4,615,640
	2,059,771	39,378,223	35,617,683

	2002	2001
	(Rupees' 000)	
4. Foreign currency reserves		
Securities	18,249,366	177,814
Current accounts	14,494,057	9,939,049
Deposit accounts	255,011,199	122,844,539
	287,754,622	132,961,402
The above foreign exchange has been held as follows:		
- Issue Department	245,300,329	111,027,187
- Banking Department	42,454,293	21,934,215
	287,754,622	132,961,402

4.1 The above include assets valuing Rs 163.293 million recoverable from the Government of India as at June 30, 2002 (2001: Rs 179.366 million). Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.

4.2 Interest was credited on deposit accounts during the year at various rates ranging between 1.6 to 3.9 percent per annum.

	2002	2001
	(Rupees' 000)	
5. Indian notes representing assets receivable from the Reserve Bank of India	528,640	580,676

These represent Pak Rupee equivalent of Indian rupee notes which remained in circulation in Pakistan until retirement from circulation and are to be repatriated to India under the Monetary Order from the Government of Pakistan. Realisability of these assets is subjet to final settlement between the Governments of Pakistan and India.

	2002	2001
	(Rupees' 000)	
6. Local currency		
Bank notes held by the Banking Department - note 10	126,622	177,598
Rupee coins	1,738,021	1,726,702
	1,864,643	1,904,300
Less: Rupee coins held as assets of the Issue Department - note 6.1	1,738,021	1,726,702
	126,622	177,598

6.1 As mentioned in note 2.3, the Bank is responsible for issuing one and two rupee coins on behalf of the Government. The closing balance represents the face value of unissued coins held by the Bank as at June 30, 2002.

	2002	2001
	(Rupees' 000)	
7. Investments		
Government securities - note 7.1		
Treasury bills :		
Market Treasury Bills	199,690,268	487,297,549
Adhoc Treasury Bills	122,830,242	125,301,611
	322,520,510	612,599,160
Federal Investment Bonds	3,824,750	4,994,117
Pakistan Investment Bonds	182,000	-
Federal and Provincial Government scrips	3,613,715	3,623,958
	330,140,975	621,217,235
Banks and financial institutions		
Ordinary shares - note 7.2		
- Listed	1,195,411	225,301
- Unlisted	39,882,871	41,249,501
	41,078,282	41,474,802
Advance against issue of share capital	16,650,000	8,000,000
Term Finance Certificates	282,400	282,400
	58,010,682	49,757,202
Subsidiary		
National Institute of Banking and Finance (Guarantee) Limited - note 7.2.5	7,500	-
Other investments		
Certificates of Deposits	112,351	172,351
Others	5,000	5,000
	117,351	177,351
	388,276,508	671,151,788
Less: Provision for diminution in value of investments	3,539,404	394,747
	384,737,104	670,757,041
Less: Investment in securities held as assets of the Issue Department	170,389,508	243,187,199
	214,347,596	427,569,842

7.1 Investment in securities

The above include investments amounting to Rs 330,140,975 million (2001: Rs 621,217,235 million) secured by Government guarantees. The following is a profile of return on securities during the year:

	% per annum
Market Treasury Bills	5.6450 to 12.8756
Adhoc Treasury Bills	0.5 and 5
Federal Investment Bonds	15
Federal and Provincial Government scrips	3 to 16

7.2 Investment in shares of banks and financial institutions

	Holding more than 50 %		2002	2001
	2002	2001	(Rupees' 000)	
Listed investments - note 7.2.1				
- Muslim Commercial Bank Limited	-	-	15,301	225,301
- National Bank of Pakistan - note 7.2.2	88.36%	-	1,180,110	-
			1,195,411	225,301
Unlisted investments - note 7.2.2				
- United Bank Limited - note 7.2.3	99.58%	99.58%	22,386,331	22,386,331
- Habib Bank Limited - note 7.2.4	98.42%	98.42%	11,986,185	11,986,185
- Agricultural Development Bank of Pakistan	99.69%	99.69%	3,204,323	3,204,323
- National Bank of Pakistan	-	93.36%	-	1,366,630
- Federal Bank for Cooperative	75.00%	75.00%	150,000	150,000
- Equity Participation Fund	65.81%	65.81%	102,000	102,000
			37,828,839	39,195,469
- Others with holding less than 50%			2,054,032	2,054,032
			39,882,871	41,249,501
			41,078,282	41,474,802

7.2.1 The market value of these shares are as follows:

Muslim Commercial Bank Limited	401,264	857,711
National Bank of Pakistan	6,773,366	-

7.2.2 The investments in the above entities have been made under the specific directives of the Government in accordance with the provisions of the State Bank of Pakistan Act, 1956 and other relevant statutes. The management of the Bank does not exercise significant influence or control over these entities except for any regulatory influence or control arising as a consequence of any statute which applies to the entire sector to which these entities belong. Accordingly, these entities have not been consolidated as subsidiaries or accounted for as investments in associates.

7.2.3 The break-up value of the Bank's investment in United Bank Limited (UBL) amounted to Rs 1,232,648 million as at December 31, 2001 based on the financial statements of UBL for the year then ended. During the year, the Government of Pakistan, through the Privatisation Commission, offered 51% shares in UBL for sale to private investors as part of the Privatisation Plan of UBL. The cost of this investment (including advance for issue of shares) amounted to Rs 15,494,657 million while the Government has received the highest offer of Rs 12,350 million for this equity stake. Accordingly, the Bank has made a provision of Rs 3,144,657 million to account for the loss which will arise upon disposal of 51% shares in UBL. No provision has been made for any diminution in the value of the remaining shares as the management is confident that the privatisation of UBL will enhance its value and the Bank will not incur any losses at the time of disposal of the remaining shares in UBL.

7.2.4 The break-up value of the Bank's investment in Habib Bank Limited (HBL) amounted to Rs 12,692.043 million at December 31, 2001 based on the financial statements of HBL for the year ended on this date while the cost of this investment (including advance for issue of shares) was Rs 19,986.185 million. The Bank has offered 51% shares in HBL for sale to private investors and the management is confident that the Bank will not incur any losses at the time of disposal of investment in HBL. Accordingly, no provision has been made for diminution in value of Rs 7,294.142 million as at December 31, 2001.

7.2.5 National Institute of Banking and Finance (Guarantee) Limited (NIBAF) had discontinued its business with effect from February 13, 1997 and resolved to go into members' voluntary winding up. However, during the year the Bank has acquired the control of the company. NIBAF is currently in the process of reorganisation and will recommence its operations in the near future. Accordingly, the Bank's investment in NIBAF amounting to Rs 7.500 million, which was written off in prior years, has now been restated.

		2002	2001
		(Rupees' 000)	
8.	**Commercial papers**	78,500	78,500

These represent face value of certain commercial papers which are held in Bangladesh (former East Pakistan). The realisability of the underlying amount is subject to final settlement between the Governments of Pakistan and Bangladesh.

		2002	2001
		(Rupees' 000)	
9.	**Assets held with the Reserve Bank of India**		
	Gold reserves		
	- Opening balance	581,470	506,118
	- Appreciation arising from revaluation during the year - note 28	60,590	75,352
		642,060	581,470
	Sterling securities	303,157	297,077
	Government of India securities	12,400	13,621
	Rupee coins	3,666	4,006
		961,283	896,174

The above assets were allocated to the Government of Pakistan as their share of the assets of the Reserve Bank of India under the provisions of Pakistan (Monetary System and Reserve Bank) Order, 1947. The transfer of these assets to the Bank is subject to final settlement between the Governments of Pakistan and India.

		2002	2001
		(Rupees' 000)	
10.	**Bank notes issued**		
	Notes held with the Banking Department - note 6	126,622	177,598
	Notes in circulation	458,247,882	392,936,523
		458,374,504	393,114,121

	2002	2001
	(Rupees' 000)	
11. Special Drawing Rights	509,591	281,419

Special Drawing Rights (SDRs) are the foreign reserve assets which are allocated by the International Monetary Fund (IMF) to its member countries in proportion to their quota in the Fund . In addition, the member countries can purchase SDRs from the IMF and other member countries in order to settle their various obligations. The above represents the rupee value of the SDRs held by the Bank as at June 30, 2002. Interest is credited by the IMF on the SDR holding of the Bank at weekly interest rates on daily products of SDRs held during each quarter.

	2002	2001
	(Rupees' 000)	
12. Reserve tranche with the International Monetary Fund under quota arrangements		
Quota allocated by the International Monetary Fund	78,806,730	80,105,702
Less: liability under quota arrangements	78,797,729	80,096,838
	9,001	8,864
13. Loans, advances and commercial papers		
Government - note 13.2	14,140,000	20,640,000
Government owned / controlled financial institutions - note 13.4	120,157,737	117,538,708
Private sector financial institutions - note 13.5	47,680,096	60,956,075
	167,837,833	178,494,783
Employees	4,990,887	5,337,197
	186,968,720	204,471,980
Provision for doubtful balances - note 13.7	3,865,230	1,584,216
	183,103,490	202,887,764
Less: Commercial papers - note 8	78,500	78,500
	183,024,990	202,809,264

13.1 The above include loans and advances amounting to Rs 181,977.833 million (2001: Rs 199,134.783 million) which are secured either by Government guarantees or by demand promissory notes.

13.2 **Loans and advances to the Government**

	Total	
	2002	2001
	(Rupees'000)	
Federal Government	13,500,000	16,500,000
Provincial Governments		
- Punjab	-	-
- Sindh	-	2,900,000
- North West Frontier Province	-	-
- Balochistan	640,000	1,240,000
	640,000	4,140,000
	14,140,000	20,640,000

13.3 The mark-up was charged on Federal and Provincial Government accounts during the year at various rates ranging between 6.3124 to12.0057 percent per annum.

13.4 **Loans and advances to Government owned/ controlled financial institutions**

	Scheduled banks		Non banking financial institutions		Total	
	2002	2001	2002	2001	2002	2001
	(Rupees'000)					
Agricultural sector	55,163,836	54,607,049	-	-	55,163,836	54,607,049
Industrial sector	3,282,405	3,896,146	2,594,566	4,236,374	5,876,971	8,132,520
Export sector	17,529,797	19,148,788	3,567	3,567	17,533,364	19,152,355
Housing sector	66,907	66,907	15,257,300	16,496,300	15,324,207	16,563,207
Others	14,084,759	6,817,310	12,174,600	12,266,267	26,259,359	19,083,577
	90,127,704	84,536,200	30,030,033	33,002,508	120,157,737	117,538,708

The above include amounts aggregating to Rs 507.566 million (2001: Rs 504.681 million) which were recoverable from various financial institutions operating in former East Pakistan. The realisability of these balances is subject to final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan).

13.5 **Loans and advances to private sector financial institutions**

	Scheduled banks		Non banking financial institutions		Total	
	2002	2001	2002	2001	2002	2001
	(Rupees'000)					
Industrial sector	211,222	346,233	3,673,652	3,739,237	3,884,874	4,085,470
Export sector	42,043,739	56,323,413	-	-	42,043,739	56,323,413
Others	1,751,483	547,192	-	-	1,751,483	547,192
	44,006,444	57,216,838	3,673,652	3,739,237	47,680,096	60,956,075

13.6 The interest/mark-up rate profile of the interest/mark-up bearing loans and advances is as follows:

	% per annum
Government owned/ controlled and private sector financial institutions	4 to 12
Staff loans	10

	2002	2001
	(Rupees' 000)	
13.7 Movement of provision		
Opening balance	1,584,216	-
Provision made during the year	2,281,014	1,584,216
Closing balance	3,865,230	1,584,216

14. Balances due from the Governments of India and Bangladesh (former East Pakistan)

India		
- Advance against printing of notes	39,616	39,616
- Receivable from the Reserve Bank of India	837	837
	40,453	40,453
Bangladesh (former East Pakistan)		
- Inter office balances	819,919	819,919
- Loans and advances - note 14.1	2,568,890	2,376,676
	3,388,809	3,196,595
	3,429,262	3,237,048

14.1 These represent loans and advances provided to the Government of East Pakistan. The realisability of these balances is subject to final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan).

15. Operating fixed assets

The following is a statement of operating fixed assets:

	Cost at July 1, 2001	Additions / revaluation (deletions) during the year	Cost or revalued amount at June 30, 2002	Accumulated depreciation at July 1, 2001	Charge for the year/ (accumulated depreciation on deletions)	Accumulated depreciation / amortisation at June 30, 2002	Net book value at June 30, 2002	Annual rate of depreciation / amortisation %
				Rupees '000				
Tangible assets								
Freehold land	966,606	-	966,606	-	-	-	966,606	-
Leasehold land	5,136,018	-	5,136,018	7,917	115,993	123,910	5,012,108	over the term of lease
Building on freehold land	784,394	2,922	787,316	106,898	45,217	152,115	635,201	5
Building on leasehold land	1,092,468	21,508	1,113,972	68,557	69,129	137,686	976,286	5
		(4)						
Furniture and fixtures	77,984	17,453	95,420	32,439	8,004	40,443	54,977	10
		(17)						
Office equipment	652,907	26,302	678,696	425,849	114,134	539,945	138,751	20
		(513)			(38)			
EDP equipment	95,171	337,405	429,660	74,342	123,133	197,475	232,185	33.33
		(2,916)						
Motor vehicles	56,824	7,681	57,505	40,692	4,505	39,441	18,064	20
		(7,000)			(5,756)			
Library books	636	-	636	636	-	636	-	
	8,863,008	413,271	9,265,829	757,330	480,115	1,231,651	8,034,178	
		(10,450)			(5,794)			
Intangible asset								
Computer software	-	31,923	31,923	-	10,641	10,641	21,282	33.33
2002	8,863,008	445,194	9,297,752	757,330	490,756	1,242,292	8,055,460	
		(10,450)			(5,794)			
2001	1,848,799	67,259	8,863,008	350,981	409,566	757,330	8,105,678	
		6,953,519			(3,217)			
		(6,569)						

15.1 Certain items of freehold land, leasehold land, building on freehold land and building on leasehold land were revalued on June 30, 2001 by Iqbal A. Nanjee & Co., Valuation and Engineering Consultants, on the basis of market value. The revaluation resulted in a surplus of Rs. 6,953.519 million at that date. Out of this surplus, Rs. 6,778.398 million remians undepreciated at June 30, 2002 and has been included in the carrying value of the related assets.

		2002	2001
		(Rupees' 000)	
16.	**Capital work-in-progress**		
	Building on freehold land	-	1,246
	Building on leasehold land	8,745	13,879
	Office equipment	2,018	2,166
	EDP equipment	182	204,921
	Intangible assets	246,112	66,543
		257,057	288,755
17.	**Other assets**		
	Amounts due from financial institutions under currency swap arrangements - note 17.1	10,945,061	34,834,993
	Accrued interest/ mark-up and return	3,689,150	11,217,074
	Exchange gain recoverable under risk coverage scheme - net	228,219	-
	Share of profit under profit and loss sharing arrangements - net	483,693	-
	Stationery and stamps on hand	17,152	20,044
	Other advances, deposits and prepayments	531,849	45,671
	Others	11,756,232	1,337,568
		27,651,356	47,455,350

17.1 This represents the Bank's right to receive rupee counterpart of the foreign currency on the maturity of certain currency swap arrangements with commercial banks and non-banking financial institutions. The related obligation of the Bank to exchange foreign currency with the rupee counterpart has been disclosed in note 22.

		2002	2001
		(Rupees' 000)	
18.	**Current accounts of the Government**		
	Federal Government - note 18.1	29,532,746	23,531,410
	Provincial Governments		
	- Punjab - note 18.2	16,568,627	11,121,297
	- Sindh - note 18.3	(953,942)	1,917,607
	- North West Frontier Province - note 18.4	4,155,734	3,692,003
	- Balochistan - note 18.5	5,328,239	3,308,561
		25,098,658	20,039,468
	Government of Azad Jammu and Kashmir	1,661,219	1,436,705
		56,292,623	45,007,583

		2002	2001
		(Rupees' 000)	
18.1	**Federal Government**		
	Non-Food account	11,693,816	596,166
	Food account	405,107	2,617,621
	Zakat Fund account	22,108,382	24,330,478
	Railways - Ways and means advances	(4,701,598)	(3,857,072)
	Fertilizer account	(229,011)	(285,363)
	Saudi Arab special loan account	4,124	4,124
	Pakistan Baitul Mal Fund account	85	85
	Pakistan Railways special account	246,565	107,106
	Government deposit account no. XII	5,276	18,265
		29,532,746	23,531,410
18.2	**Provincial Government - Punjab**		
	Non-Food account	(6,077,565)	(3,928,650)
	Food account	1,349,109	1,359,298
	Zakat Fund account	398,726	329,555
	District Government account no. IV	8,518,997	-
	Social action program	12,379,360	13,361,094
		16,568,627	11,121,297
18.3	**Provincial Government - Sindh**		
	Non-Food account	(3,250,398)	1,438,582
	Food account	508,306	402,625
	Zakat Fund account	123,247	76,400
	District Government account no. IV	1,664,903	-
		(953,942)	1,917,607
18.4	**Provincial Government - NWFP**		
	Non-Food account	1,451,942	3,142,124
	Food account	13,636	549,397
	Zakat Fund account	3,022	482
	District Government account no. IV	2,687,134	-
		4,155,734	3,692,003
18.5	**Provincial Government - Baluchistan**		
	Non-Food account	2,845,862	3,155,684
	Food account	344,694	149,184
	Zakat Fund account	2,908	3,693
	District Government account no. IV	2,134,775	-
		5,328,239	3,308,561

	2002	2001
	(Rupees' 000)	

19. Deposits of banks and financial institutions

Foreign currency		
- Scheduled banks	21,475,584	35,935,378
- Held under CRR scheme	28,221,731	25,518,958
	49,697,315	61,454,336
Local currency		
- Scheduled banks	82,293,239	101,355,563
- Non-banking financial institutions	959,559	2,366,295
	83,252,798	103,721,858
	132,950,113	165,176,194

19.1 The interest / mark-up rate profile of the interest/ mark-up bearing deposits is as follows:

	% per annum
- Foreign currency	1.14 to 2.86
- Local currency	10.99 to 15.62

	2002	2001
	(Rupees' 000)	

20. Other deposits and accounts

Foreign currency		
- Foreign central banks	27,012,767	28,793,914
- International organisation	18,007,320	15,995,625
- Others	12,517	-
	45,032,604	44,789,539
Local currency		
- Special debt repayment - note 20.2	15,182,626	204,400,267
- Government - note 20.3	18,464,962	23,845,034
- Others	2,012,209	2,260,519
	35,659,797	230,505,820
	80,692,401	275,295,359

20.1 The interest rate profile of the interest bearing deposits is as follows:

	% per annum
- Foreign central banks	2.17 to 5.92
- International organisation	4 to 4.5

20.2 These represent amounts kept in separate special accounts to meet forthcoming foreign currency debt repayment obligations of the Government of Pakistan. During the current year a major portion out of this was adjusted with retirement of market treasury bills in accordance with the instructions of the Goverment of Pakistan.

20.3 These represent rupee counterpart of the foreign currency loan disbursements received from various international financial institutions on behalf of the Government and credited to separate deposit accounts in accordance with the instructions of the Government.

	2002	2001
	(Rupees' 000)	
21. Payable to the International Monetary Fund		
Borrowings under:		
- Fund facilities - note 21.1	70,810,494	63,551,531
- Other credit schemes - note 21.2	42,242,471	32,250,189
	113,052,965	95,801,720
Current account for administrative charges	69	151
	113,053,034	95,801,871

21.1 These facilities are secured by demand promissory notes issued by the Government of Pakistan.

21.2 This includes Rs 1,198.572 million in respect of the finance provided by the Saudi Fund for Development under Enhanced Structural Adjustment Facility (ESAF) programme of the International Monetary Fund (IMF). The amount is paid through the IMF as it acts as Trustee of the Saudi Fund in respect to this arrangement.

	2002	2001
	(Rupees' 000)	
22. Other liabilities		
Foreign currency		
Amounts due to financial institutions under currency swap arrangements - note 17.1	10,204,148	38,980,572
Accrued interest and discount	394,096	579,212
Charges on allocation of SDR	53,000	81,000
Others	2,032	-
	10,653,276	39,640,784
Local currency		
Overdue mark-up and return	3,326,782	2,823,881
Unearned exchange risk fee	1,100,000	2,000,000
Remittance clearance account	31,282	135,224
Exchange loss payable under exchange risk coverage scheme	-	6,881,991
Share of loss under profit and loss sharing arrangements	-	952,579
Dividend payable to the Government	10,000	10,000
Payable to Government in respect of privatisation proceeds	2,929,066	2,929,066
Other accruals and provisions - note 22.1	2,699,898	2,116,850
Others	5,074,943	4,569,051
	15,171,971	22,418,642
	25,825,247	62,059,426

		2002	2001
		(Rupees' 000)	
22.1	**Other accruals and provisions**		
	Interest, mark-up and discount	380,276	670,132
	Printing charges	14,235	64,452
	Agency commission	286,776	248,514
	Provision for employees' compensated absences	1,500,000	602,000
	Others	518,611	531,752
		2,699,898	2,116,850
23.	**Deferred liability - staff retirement benefits**		
	Provident fund scheme	811,145	769,136
	Gratuity	97,000	30,000
	Pension	6,032,000	4,642,000
	Benevolent fund scheme	805,830	701,000
	Post retirement medical benefits	189,000	138,000
		7,934,975	6,280,136

23.1 The following is a reconciliation of movement in the net recognised liability in respect of the defined benefit schemes mentioned above:

	Net recognised liability as at July 1, 2001	Charge for the year	Payments made during the year	Recognised liability as at June 30, 2002
	----------Rupees ('000)----------			
Gratuity	30,000	74,000	7,000	97,000
Pension	4,642,000	2,875,000	1,485,000	6,032,000
Benevolent	701,000	353,000	248,170	805,830
Post retirement medical benefits	138,000	108,000	57,000	189,000
	5,511,000	3,410,000	1,797,170	7,123,830

		2002	2001
		(Rupees' 000)	
24.	**Deferred income**		
	Opening balance	272,535	-
	Grants received during the year	329,175	277,803
	Amortisation during the year	(120,956)	(5,268)
	Closing balance	480,754	272,535

25. **Share capital**

Number of shares			
	Authorised share capital		
1,000,000	Ordinary shares of Rs 100 each	100,000	100,000
	Issued, subscribed and paid-up capital		
1,000,000	Fully paid-up ordinary shares of Rs 100 each	100,000	100,000

The entire share capital of the Bank is owned by the Government of Pakistan except for 200 shares held by the Central Bank of India (held by Deputy Custodian Enemy Property, Banking Supervision Department, State Bank of Pakistan) and 500 shares held by th the State of Hyderabad.

		2002	2001
		(Rupees' 000)	
26.	**Capital receipt**		
	Allocation of Special Drawing Rights	1,525,958	1,525,958
27.	**Reserves**		
	Reserve Fund - note 27.1	5,400,000	8,400,000
	Rural Credit Fund	2,600,000	2,600,000
	Industrial Credit Fund	1,600,000	1,600,000
	Export Credit Fund	1,500,000	1,500,000
	Loans Guarantee Fund	900,000	900,000
	Housing Credit Fund	4,700,000	4,700,000
		16,700,000	19,700,000

27.1 Reserve Fund

This represents appropriations out of the annual profits of the Bank in accordance with the provisions of the State Bank of Pakistan Act, 1956 for the purpose of providing cover against risks relating to events which are contingent and non-foreseeable.

27.2 Other Funds

These represent appropriations out of the surplus profits of the Bank for certain specified purposes in accordance with the provisions of the State Bank of Pakistan Act, 1956.

		2002	2001
		(Rupees' 000)	
28.	**Unrealised appreciation on gold reserves**		
	Opening balance	33,261,246	28,570,254
	Appreciation arising from revaluation during the year:		
	- held by the Bank - note 3	3,711,475	4,615,640
	- held with the Reserve Bank of India - note 9	60,590	75,352
		3,772,065	4,690,992
		37,033,311	33,261,246

28.1 Gold reserves are revalued under the State Bank of Pakistan Act, 1956 and State Bank of Pakistan General Regulations at the closing market rate fixed on the last working day of the year in London.

	2002	2001
	(Rupees' 000)	

29. Contingencies and commitments

Contingencies

Money for which the Bank is contingently liable:

a) Contingent liability in respect of guarantees given on behalf of:

i) Government	16,153,310	15,833,436
ii) Government owned/controlled bodies and authorities	107,665,549	116,950,167

Guarantees amounting to Rs 115,135.310 million (2001: 131,226.205 million) are secured by counter guarantees either from the Government of Pakistan or local financial institutions.

b) The liquidators of BCCI Overseas have filed a claim for the recovery of US$ 50 million and interest thereon in respect of deposits placed by the entity which were simultaneously placed by the Bank with another entity of BCCI Group on similar terms and conditions under back to back arrangements. The liquidators contend that the Bank has set off these accounts although both the entities were separate concerns. However, the management contends that the Bank was entitled to consider and treat BCCI entities as forming part of a larger group in accordance with the legal advice obtained in this respect. The matter is currently pending for adjudication in the United States Court of Appeals and Grand Court of Cayman Islands. The management is confident that the eventual outcome of the matter will be in favour of the Bank and accordingly no provision has been made against the above claim of the BCCI liquidators.

c) Other claims against the Bank not acknowledged as debts	843,364	429,195

Commitments

Forward exchange contracts for sale	18,898,027	78,509,151
Repurchase and outright sale of securities	41,577,177	40,828,203
Import letters of credit	95,921,553	272,233,596

	2002	2001
	(Rupees' 000)	

30. Discount, interest/mark-up and/or return earned

Market Treasury Bills - net	26,640,337	45,940,702
Adhoc Treasury Bills	624,468	446,737
Other Government securities	1,036,745	1,918,471
Loans and advances to Government	1,420,818	2,830,043
Loans and advances to banks and financial institutions	2,122,624	8,498,858
Share of profit on finances under profit and loss sharing arrangements - net	2,456,662	-
Foreign currency deposits	4,134,121	3,903,382
Foreign currency Treasury Bills	284,616	501,779
Others	98,705	103,110
	38,819,096	64,143,082

31. Interest/ mark-up expense

Deposits	5,745,141	10,080,660
Share of loss on finances under profit and loss sharing arrangements - net	-	952,579
Others	49,361	87,166
	5,794,502	11,120,405

32. Commission income

Market Treasury Bills	31,111	19,197
Draft /payment orders	117,901	92,170
Prize Bonds and National Saving Certificates	95,715	105,092
Management of public debts	55,017	43,107
Others	47,465	37,292
	347,209	296,858

33. Exchange gain/ (loss)

Gain / (loss) on:

- Foreign currency placements, deposits and other accounts - net	(4,596,425)	(5,869,572)
- Open market operations (including currency swap arrangements)	(662,102)	(20,158,963)
- Forward covers under Exchange Risk Coverage Scheme	8,213,411	(31,270,105)
- Payable to the International Monetary Fund	(925,604)	(6,107,686)
- SDRs	8,320	2,686,847
- Others	285,831	673,616
	2,323,431	(60,045,863)
Exchange risk fee income	6,613,845	10,877,655
	8,937,276	(49,168,208)

34. Other operating income

Penalties levied on banks and financial institutions	458,999	386,805
License/ CIB fee recovered	13,374	14,769
Others	390	5,853
	472,763	407,427

35. Note printing charges

Note printing charges are payable to Pakistan Security Printing Corporation (Private) Limited at agreed rates under specific arrangements.

36. Agency commission

Agency commission is payable to National Bank of Pakistan (NBP) under an agreement at the rate of 0.15 %; (2001: 0.15 %) of the total amount of collection and remittances handled by NBP.

37. Establishment costs

	2002	2001
	(Rupees' 000)	
Salaries and other benefits	2,182,225	2,237,705
Retirement benefits and employees' compensated absences	4,600,559	3,522,237
Daily wages staff	7,803	5,300
Medical allowances	193,919	251,804
Overtime allowance	10,785	11,428
Rent and taxes	20,112	31,168
Insurance	1,551	4,329
Electricity, gas and water charges	101,612	97,786
Depreciation - note 15	490,756	409,566
Repairs to Bank's property	14,567	12,506
Repairs to Bank's vehicles	1,940	1,970
Repairs to mechanical/ electrical equipment	18,260	14,702
Directors' fee	1,441	886
Auditors' remuneration - note 37.3	3,311	2,745
Legal and professional charges	34,673	23,841
Travelling expenses	20,702	13,068
Daily expenses	35,716	37,946
Passages	14,656	12,972
Fuel charges	9,821	9,630
Conveyance charges	7,623	7,296
Postages	4,746	3,071
Telegram/ telex	20,980	16,818
Telephone	38,202	34,863
Training	11,093	40,000
Examination/ testing services	1,047	2,617
Remittance of treasure	28,371	22,785
Stationery	17,521	13,160
Books and newspapers	4,784	3,474
Advertisement	2,960	5,611
Bank Guards	29,715	27,091
Uniforms	18,193	21,766
Others	38,140	33,326
	7,987,784	6,933,467

37.1 As mentioned in note 2.9 (e), the Bank operates the following staff retirement benefit schemes:

- an un-funded gratuity scheme for all employees other than those who opted for the new general provident fund scheme or joined the Bank after 1975 and are entitled to pension scheme benefits;
- an un-funded pension scheme;
- an un-funded contributory benevolent fund scheme; and
- an un-funded post retirement medical benefit scheme.

During the year the Bank has had actuarial valuations carried out for all the above schemes. Projected Unit Credit Method using the following significant assumptions was used for the valuations of these schemes as at June 30, 2002:

- Expected rate of increase in salary 8.89 percent per annum
- Expected rate of discount 11.0 percent per annum
- Pension increase at the rate of 2.7 percent per annum
- Benevolent fund grants and contributions at the rate of 2.7 percent per annum
- Medical cost trend 5.71 percent per annum

The transitional liability arising on adoption of IAS is being amortised over a period of five years with effect from July 1, 1999 except for the liability pertaining to employees transferred to SBP Banking Services Corporation which has been fully recognised during the year.

The following are the fair values of the obligations under the schemes and liabilities recognised thereagainst for the past services of the employees at the latest valuation dates:

	Present value of the defined benefit obligation	Provisions made in respect of the staff retirement benefits	Unrecognised net loss	Unrecognised transitional liability
	----------Rupees ('000)----------			
Gratuity	98,000	97,000	(19,000)	14,000
Pension	6,586,000	6,032,000	-	554,000
Benevolent	832,830	805,830	-	27,000
Post retirement medical benefits	248,000	189,000	-	59,000
	7,764,830	7,123,830	(19,000)	654,000

The accumulated provision as at June 30, 2002 includes an amount of Rs 2,742 million in respect of transitional liability recognised till that date.

The following amounts have been charged in the profit and loss account in respect of the above benefits:

	Current service cost	Interest cost	Transitional liability recognised	Past service cost	Total
	----------Rupees ('000)----------				
Gratuity	3,000	14,000	57,000	-	74,000
Pension	251,000	872,000	1,213,000	539,000	2,875,000
Benevolent	36,000	111,000	206,000	-	353,000
Post retirement medical benefits	7,000	33,000	68,000	-	108,000
	297,000	1,030,000	1,544,000	539,000	3,410,000

37.2 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2002 using the Projected Unit Credit Method. An amount of Rs 1,101 million has been charged to the profit and loss account in this respect based on actuarial recommendation.

37.3 Auditors' remuneration

	A.F. FERGUSON & CO.	HUSAIN RAHMAN	2002	2001
	----------(Rupees' 000)----------			
Audit fee	1,500	500	2,000	2,000
Special certifications/ examinations and sundry advisory services	590	21	611	245
Out of pocket expenses	600	100	700	500
Others	-	-	-	-
	2,690	621	3,311	2,745

	2002	2001
	(Rupees' 000)	
38. Other income		
Profit on disposal of fixed assets	3,579	221,774
Liabilities and provisions no longer required written back - net	-	12,770,161
Profit on disposal of investments	141,424	55,287
Amortisation of deferred income - note 24	120,956	5,268
Others	25,751	7,975
	291,710	13,060,465
39. Other charges		
Charges on allocation of SDR	345,355	557,240
Others	77,416	237,275
	422,771	794,515
40. Profit for the year after non-cash items		
Profit for the year	25,468,984	15,667,635
Adjustments for:		
Exceptional item	-	(10,247,446)
Depreciation	490,756	409,566
Amortisation of deferred income	(120,956)	(5,268)
Provision for:		
- retirement benefits and employees' compensated absences	4,600,559	3,522,237
- loans and advances	2,281,014	1,584,216
- reimbursement of agricultural losses under Agricultural Loans Scheme	-	400,000
- share of (profit) / loss under profit and loss sharing arrangements	(1,436,272)	952,579
- diminution in value of investments	3,144,657	282,396
Loans and advance written off	1,402,252	-
Profit on disposal of fixed assets	(3,579)	(221,774)
Restatement of investment in NIBAF	(7,500)	-
Dividend income	(336,777)	(261,120)
Other accruals and provisions - net	1,430,116	1,114,850
	36,913,254	13,197,871
41. Cash and cash equivalents		
Rupee coins	1,738,021	1,726,702
Foreign currency reserves	286,723,344	132,307,682
Special Drawing Rights	509,591	281,419
Securities acquired under agreements to re-sell	9,832,697	-
	298,803,653	134,315,803

42. Interest/ mark-up rate risk

	Interest/ mark-up bearing *			Non interest/ mark-up bearing			Grand Total
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total	
	(Rupees '000)						
Financial assets							
Rupee coins	-	-	-	1,738,021	-	1,738,021	1,738,021
Foreign currency reserves	286,886,637	495,684	287,382,321	-	372,301	372,301	287,754,622
Special Drawing Rights	509,591	-	509,591	-	-	-	509,591
Reserve tranche with the International Monetary Fund under quota arrangements	9,001	-	9,001	-	-	-	9,001
Investments	200,690,328	129,450,649	330,140,977	15,494,657	39,093,970	54,588,627	384,729,604
Loans, advances and bills of exchange	130,132,816	33,175,694	163,308,510	1,675,042	18,119,938	19,794,980	183,103,490
Balances due from Governments of India and Bangladesh (former East Pakistan)	2,568,890	-	2,568,890	860,372	-	860,372	3,429,262
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	528,640	-	528,640	528,640
Assets held with the Reserve Bank of India	315,557	-	315,557	3,666	-	3,666	319,223
Other assets	-	-	-	16,691,835	10,945,061	27,636,896	27,636,896
	621,112,820	163,122,027	784,234,847	36,992,233	68,531,270	105,523,503	889,758,350
Financial liabilities							
Bank notes in circulation	-	-	-	-	458,247,882 **	458,247,882	458,247,882
Bills payable	-	-	-	323,293	-	323,293	323,293
Current accounts of the Government	-	-	-	56,292,623	-	56,292,623	56,292,623
Deposits of banks and financial institutions	31,693,262	-	31,693,262	101,256,851	-	101,256,851	132,950,113
Other deposits and accounts	-	45,032,604	45,032,604	35,659,797	-	35,659,797	80,692,401
Payable to the International Monetary Fund	24,195,014	88,858,020	113,053,034	-	-	-	113,053,034
Other liabilities	-	-	-	14,521,099	10,204,148	24,725,247	24,725,247
	55,888,276	133,890,624	189,778,900	208,053,663	468,452,030	676,505,693	866,284,593

* includes finances provided under profit and loss sharing arrangements

** Bank notes have been assumed to have a maturity of more than one year.

42.1 Risk management policies

The Bank is primarily subject to interest/mark-up rate, credit, currency and liquidity risks. The policies and procedures for managing these risks are outlined in notes 42.1.1 to 42.1.4. The Bank has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and management of these risks.

42.1.1 Interest/mark-up rate risk management

Interest/ mark-up rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest/ mark-up rates. The Bank has adopted appropriate policies to minimize its exposure to this risk. The Bank's management, the Central Borad and the investement committee has set appropriate duration limits and a separate department deals with the monitoring af the Bank's interest/ mark-up rate risk exposure based on these limits.

42.1.2 Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk in the Bank's portfolio is monitored, reviewed and analysed by the appropriate officials and the exposure is controlled through counterparty and credit limits. Counterparties are allocated to a particular class based mainly on their credit rating. Foreign currency placements are made in approved currencies and government securities. Loans and advances to scheduled banks and financial institutions are usually secured either by Government guarantees or by demand promissory notes. Geographical exposures are controlled by country limits and are updated as and when necessary with all limits formally reviewed on a periodic basis. The Bank's exposure to credit risk associated with foreign operations is managed by monitoring compliance with investment limits for counterparties. The Bank's credit risk mainly lies with exposure towards government sector and financial institutions.

42.1.3 Currency risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency activities result mainly from the Bank's holding of foreign currency assets under its foreign reserves management function and the overall level of these assests is detemined based on the prevailing extent of credit and liquidity risks. In order to avoid losses arising from adverse changes in the rates of exchange, the Bank's compliance with the limits established for foreign currency positions is being regularly monitored by the management.

The Bank also holds from time to time, foreign currency assets and liabilities that arise from the implementation of domestic monetary policies. Any foreign currency exposure relating to these implementation activities are hedged through the use of foreign currency forwards, swaps and other transactions.

The Bank also enters into forward foreign exchange contracts with the commercial banks and financial institutions to hedge against the currency risk on foreign currency swap transactions.

42.1.4 Liquidity risk management

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with the financial instruments. In order to reduce the level of liquidity risk arising out of the local currency activities, the Bank manages the daily liquidity positions of the banking system including advancing and withdrawal of funds from the banking system for smoothening out daily peaks and troughs.

The risk arising out of the Bank's obligations for foreign currency balances or deposits is managed through available reserves generated mainly from borrowings and open market operations.

42.1.5 Fair value of assets and liabilities

The fair value of all financial assets and financial liabilities is estimated to approximate their carrying values.

		2002	2001
43.	**Number of employees**		
	Number of employees at June 30	7,158	7,691

44. General

- The corresponding figures have been re-arranged and re-classified for comparison, wherever necessary.

- Figures have been rounded off to the nearest thousand rupees.

45. Date of Authorisation

These financial statements were authorised for issue on 25th September 2002 by the Central Board of Directors of the Bank.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

Financial Statements
2002

STATE BANK OF PAKISTAN

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS

We have audited the annexed balance sheets of the Issue and Banking Departments of the **State Bank of Pakistan** as at June 30, 2002 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the year then ended and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Bank's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the International Accounting Standards approved for adoption by the Central Board of the Bank. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

Events have rendered impossible the verification of assets recoverable from the Reserve Bank of India or the Government of India or pertaining to transactions in former East Pakistan included in the financial statements. Realisability of these assets amounting to Rs. 5,668.544 million is subject to final settlement between the Government of Pakistan and the Governments of India and Bangladesh respectively. Out of these, assets valuing Rs. 1,731.716 million have been included in the Issue Department as backing against the liability towards notes in circulation. Had these assets not been included in the Issue Department, Government securities of the equivalent value would have been transferred from the Banking Department to the Issue Department as replacement.

Except for the financial effect of the matter stated in the preceding paragraph:

(a) in our opinion the balance sheets and related profit and loss account, cash flow statement and statement of changes in equity together with the notes thereon have been drawn up in conformity with the International Accounting Standards approved for adoption by the Central Board of the Bank and are further in accordance with accounting policies consistently applied; and

(b) in our opinion and to the best of our information and according to the explanations given to us, the balance sheets, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the International Accounting Standards approved for adoption by the Central Board of the Bank, and, give the information required by these Standards in the manner so required, and respectively give a true and fair view of the state of the Bank's affairs as at June 30, 2002 and of the profit, its cash flows and changes in equity for the year then ended.

Without further qualifying our opinion, we draw attention to notes 7.2.3 and 7.2.4, which state the reasons for not making any provision for diminution in the value of the investments held by the Bank in the shares of United Bank Limited and Habib Bank Limited as at June 30, 2002.

A.F.Ferguson & Co.
Chartered Accountants

Husain Rahman
Chartered Accountants

Karachi, the 27th day of September 2002.

STATE BANK OF PAKISTAN - ISSUE DEPARTMENT
BALANCE SHEET
AS AT JUNE 30, 2002

	Note	2002	2001
		(Rupees'000)	
ASSETS			
Gold reserves held by the Bank	3	39,378,223	35,617,683
Foreign currency reserves	4	245,300,329	111,027,187
Notes and rupee coins:			
- Indian notes representing assets receivable from the Reserve Bank of India	5	528,640	580,676
- Rupee coins	6	1,738,021	1,726,702
		2,266,661	2,307,378
Investment in securities	7	170,389,508	243,187,199
Commercial papers	8	78,500	78,500
Assets held with the Reserve Bank of India	9	961,283	896,174
		458,374,504	393,114,121
LIABILITIES			
Bank notes issued	10	458,374,504	393,114,121

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

STATE BANK OF PAKISTAN - BANKING DEPARTMENT
BALANCE SHEET
AS AT JUNE 30, 2002

	Note	2002	2001
		(Rupees'000)	
ASSETS			
Local currency	6	126,622	177,598
Foreign currency reserves	4	42,454,293	21,934,215
Special Drawing Rights	11	509,591	281,419
		43,090,506	22,393,232
Reserve tranche with the International Monetary Fund under quota arrangements	12	9,001	8,864
Investments	7	214,828,732	427,569,842
Loans, advances and bills of exchange	13	178,881,813	202,809,264
Balances due from the Governments of India and Bangladesh (former East Pakistan)	14	3,429,262	3,237,048
Fixed assets:			
- Operating fixed assets	15	7,899,803	8,105,678
- Capital work-in-progress	16	254,857	288,755
		8,154,660	8,394,433
Other assets	17	27,638,147	47,455,350
Total assets		476,032,121	711,868,033
LIABILITIES			
Bills payable		323,293	434,206
Current accounts of the Government*	18	56,292,623	45,007,583
Current account of SBP Banking Services Corporation		2,450,017	-
Deposits of banks and financial institutions	19	132,950,113	165,176,194
Other deposits and accounts	20	80,692,401	275,295,359
Payable to the International Monetary Fund	21	113,053,034	95,801,871
Other liabilities	22	24,472,021	62,059,426
		410,233,502	643,774,639
Deferred liability - staff retirement benefits	23	3,005,077	6,280,136
Deferred income	24	480,754	272,535
Total liabilities		413,719,333	650,327,310
Net assets		62,312,788	61,540,723
Share capital	25	100,000	100,000
Capital receipt	26	1,525,958	1,525,958
Reserves	27	16,700,000	19,700,000
		18,325,958	21,325,958
Unrealised appreciation on gold reserves	28	37,033,311	33,261,246
Surplus on revaluation of fixed assets	15	6,953,519	6,953,519
		62,312,788	61,540,723
Contingencies and commitments	29		

*Government includes Federal and Provincial Governments of Pakistan and Government of Azad Jammu and Kashmir.

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

STATE BANK OF PAKISTAN
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED JUNE 30, 2002

	Note	2002	2001
		(Rupees' 000)	
Discount, interest/mark-up and/or return earned	30	38,794,648	64,143,082
Interest/mark-up expense	31	5,794,502	11,120,405
		33,000,146	53,022,677
Commission	32	347,209	296,858
Exchange gain / (loss)	33	8,937,276	(49,168,208)
Dividend income		336,777	261,120
Profit transferred from SBP Banking Services Corporation	37.3	24,487	-
Other operating income	34	472,763	407,427
		43,118,658	4,819,874
Direct operating expenses			
Note printing charges	35	1,535,765	1,371,544
Agency commission	36	1,167,102	1,094,012
Provisions for:			
- loans and advances		2,281,014	1,584,216
- diminution in value of investments		3,144,657	282,396
- reimbursement of agricultural losses under Agricultural Loans Scheme		-	400,000
		5,425,671	2,266,612
Loans and advances written off		1,402,252	-
		33,587,868	87,706
Establishment costs	37	7,987,784	6,933,467
OPERATING PROFIT / (LOSS)		25,600,084	(6,845,761)
Other income	38	291,671	13,060,465
		25,891,755	6,214,704
Other charges	39	422,771	794,515
PROFIT BEFORE EXCEPTIONAL ITEM		25,468,984	5,420,189
Exceptional item		-	10,247,446
NET PROFIT FOR THE YEAR		25,468,984	15,667,635
Transferred from Reserve Fund		3,000,000	5,600,000
AVAILABLE FOR APPROPRIATION		28,468,984	21,267,635
Appropriations:			
Dividend to the Government of Pakistan @ Rs 10 per share (2001: Rs 10 per share)		10,000	10,000
BALANCE TRANSFERRED TO THE GOVERNMENT OF PAKISTAN		28,458,984	21,257,635

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

STATE BANK OF PAKISTAN
CASH FLOW STATEMENT
FOR THE YEAR ENDED JUNE 30, 2002

	Note	2002	2001
		(Rupees '000)	
Profit for the year after non-cash items	40	35,726,223	13,197,871
(Increase)/decrease in assets			
Reserve tranche with the International Monetary Fund under quota arrangements		(137)	(8,864)
Investments		293,234,341	(69,331,556)
Loans, advances and bills of exchange		16,149,761	24,692,924
Foreign currency reserves not included in cash and cash equivalents		(377,558)	(156,371)
Indian notes representing assets receivable from the Reserve Bank of India		52,036	(82,045)
Assets held with the Reserve Bank of India		(4,519)	(37,488)
Other assets - net		19,649,823	(14,356,843)
		328,703,747	(59,280,243)
Increase/(decrease) in liabilities			
Bank notes issued		65,311,359	19,297,495
Bills payable		(110,913)	21,666
Current accounts of the Government		11,285,040	1,200,405
Current account of SBP Banking Services Corporation		2,450,017	-
Deposits of banks and financial institutions		(32,226,081)	(1,942,110)
Other deposits and accounts		(194,602,958)	47,410,145
Payable to the International Monetary Fund		17,251,163	43,717,422
Other liabilities - net		(39,630,447)	11,594,543
		(170,272,820)	121,299,566
		194,157,150	75,217,194
Retirement benefits and employees' compensated absences paid		(1,986,131)	(1,118,458)
Payment to SBP Banking Services Corporation	40.1	(1,535,521)	-
Investment made in SBP Banking Services Corporation		(509,000)	-
Dividend income received		485,892	167,943
Gold purchased		(49,065)	-
Fixed capital expenditure		(73,588)	(60,865)
Proceeds from disposal of fixed assets		8,113	47,126
		(3,659,300)	(964,254)
Dividend paid to the Government of Pakistan		(10,000)	(10,000)
Surplus profits paid to the Government of Pakistan		(26,000,000)	(20,000,000)
		(26,010,000)	(20,010,000)
Increase in cash and cash equivalents for the year		164,487,850	54,242,940
Cash and cash equivalents at the beginning of the year		134,315,803	80,072,863
Cash and cash equivalents at the end of the year	41	298,803,653	134,315,803

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

STATE BANK OF PAKISTAN
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2002

	Share capital	Capital receipt	Reserves: Reserve Fund	Rural Credit Fund	Industrial Credit Fund	Export Credit Fund	Loans Guarantee Fund	Housing Credit Fund	Unrealised appreciation on gold reserves	Surplus on revaluation of fixed assets	Profit and loss account	Total
	(Rupees '000)											
Balance at June 30, 2000	100,000	-	14,000,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	28,570,254	-	-	53,970,254
Net profit for the year	-	-	-	-	-	-	-	-	-	-	15,667,635	15,667,635
Transferred from reserves to the profit and loss account	-	-	(5,600,000)	-	-	-	-	-	-	-	5,600,000	-
Dividend to the Government	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Balance profits transferred to the Government	-	-	-	-	-	-	-	-	-	-	(21,257,635)	(21,257,635)
Unrealised appreciation on gold reserves during the year	-	-	-	-	-	-	-	-	4,690,992	-	-	4,690,992
Surplus on revaluation of fixed assets during the year	-	-	-	-	-	-	-	-	-	6,953,519	-	6,953,519
Reclassification of allocation of SDRs as capital receipt	-	1,525,958	-	-	-	-	-	-	-	-	-	1,525,958
Balance at June 30, 2001	100,000	1,525,958	8,400,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	33,261,246	6,953,519	-	61,540,723
Net profit for the year	-	-	-	-	-	-	-	-	-	-	25,468,984	25,468,984
Transferred from reserves to the profit and loss account	-	-	(3,000,000)	-	-	-	-	-	-	-	3,000,000	-
Dividend to the Government	-	-	-	-	-	-	-	-	-	-	(10,000)	(10,000)
Balance profits transferred to the Government	-	-	-	-	-	-	-	-	-	-	(28,458,984)	(28,458,984)
Unrealised appreciation on gold reserves during the year	-	-	-	-	-	-	-	-	3,772,065	-	-	3,772,065
Balance at June 30, 2002	100,000	1,525,958	5,400,000	2,600,000	1,600,000	1,500,000	900,000	4,700,000	37,033,311	6,953,519	-	62,312,788

The annexed notes form an integral part of these accounts.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

STATE BANK OF PAKISTAN
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2002

1. STATUS AND NATURE OF OPERATIONS

The Bank is the Central Bank of Pakistan and is incorporated under the State Bank of Pakistan Act, 1956. The Bank is primarily responsible for management of credit, foreign exchange and currency in the country and also acts as the fiscal agent of the Government. The activities of the Bank mainly include:

- implementing the monetary and fiscal policies;
- issuing of currency;
- facilitation of free competition and stability in the financial system;
- licensing and supervision of credit institutions;
- organisation and management of the inter-bank settlement system and promotion of smooth functioning of payment systems;
- providing of loans and advances to the Government, banks, financial institutions and local authorities under various facilities;
- purchase, holding and sale of securities of banks and financial institutions on the directives of the Federal Government; and
- acting as depository of the Government under specific arrangements between the Government and certain institutions.

1.1 Transfer of assets and liabilities to SBP Banking Services Corporation

During the year the Bank has constituted a wholly owned subsidiary, SBP Banking Services Corporation, which is responsible for carrying out certain functions and activities principally related to public dealing on behalf of the Bank. These functions and related assets, liabilities and employees were transferred to the Corporation with effect from January 2, 2002 in accordance with the provisions of Transfer Order dated December 29, 2001. The transfer order was approved by the Governor of the Bank under section 15 of the Ordinance.

In consideration for the transfer of fixed and other assets, the Corporation issued 491 fully paid ordinary shares of Rs 1.0 million each to the Bank based on the estimated value of assets transferred. In addition, 509 fully paid ordinary shares of Rs 1.0 million each were also issued by the Corporation against cash. The actual value of fixed assets transferred has been determined by the Bank as of December 31, 2001 and the differential between the estimated and actual values amounting to Rs 269.579 million has been settled through current account maintained between the Bank and the Corporation.

The employee related loans, advances and liabilities including pension, gratuity and provident fund balances pertaining to employees transferred to the Corporation amounted to Rs 1,265.942 million as of January 2, 2002 (net liability) which have also been settled between the Bank and the Corporation through the current account maintained between them.

The details of the above assets and liabilities and the values at which these have been transferred to the Corporation are given in note 40.1 of these accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These accounts have been prepared in accordance with the requirements of the International Accounting Standards (IASs) as applicable in Pakistan and approved for adoption by the Central Board of the Bank under the powers conferred by the State Bank of Pakistan Act, 1956.

2.2 Accounting convention

These accounts have been prepared under the historical cost convention, except that gold reserves and certain fixed assets, as referred to in note 2.6 and 2.7 have been included at revalued amounts.

2.3 Bank notes and rupee coins

The liability of the Bank towards bank notes issued as a legal tender under the State Bank of Pakistan Act, 1956 is stated at the face value and is represented by the specified assets of the Issue Department of the Bank. The cost of printing of notes is charged to the current profit and loss account. Any unissued notes lying with the Bank are not reflected in the books of account.

The Bank also issues one and two rupee coins on behalf of the Government of Pakistan. These coins are purchased from the Government at the respective face values. The unissued coins form part of the assets of the issue department.

2.4 Bad and doubtful balances

Balances considered bad and irrecoverable are written off from the books of account. Provision is made against debts considered doubtful based on the management's best estimate of the loss likely to arise on these balances.

2.5 Investments

Investments in listed and short-term Government securities are stated at the lower of cost and market value determined on a portfolio basis. Long-term investments in Government and other securities, unlisted companies and financial institutions are stated at cost less provision for any diminution in value. Provision for diminution in the value of long-term investments is made only if there is a permanent impairment in the value of these investments.

The cost of securities is adjusted for any amortisation of discounts or premiums on a straight-line basis over the period to maturity.

The Bank enters into transactions of outright sale, repurchase (Repo) and resale (Reverse Repo) of securities at contracted rates for specified periods of time. These are recorded as follows:

i) in case of outright sale or sale under repurchase obligations, the securities are deleted from investments and the charges arising from the differential in sale and face/repurchase value are accrued on a prorata basis and recorded as discount expense which is deducted from the interest/mark-up and/or return earned on these securities. Upon maturity, the securities are reinstated at their respective original cost.

ii) in case of purchase under resale obligations, the securities are included under investments at the contracted purchase price and the differential of the contracted purchase and resale prices is amortised over the period of the contract and recorded under discount, interest/mark-up and/or return earned on these securities.

2.6 Gold reserves

Gold reserves, including those held with the Reserve Bank of India are stated at the revalued amounts of the fine gold content thereof in accordance with requirements of the State Bank of Pakistan Act, 1956 and the State Bank of Pakistan General Regulations. Any appreciation or depreciation on revaluation is taken to "Unrealised appreciation on gold reserves" account. Appreciation realised on disposal of gold reserves is credited to the profit and loss account.

2.7 Fixed assets and depreciation

Operating tangible assets except freehold land and capital work-in-progress are stated at cost or revalued amounts less accumulated depreciation and any accumulated impairment losses. Freehold land is stated at revalued amount less any accumulated impairment losses while capital work-in-progress is valued at cost.

Depreciation is calculated using the straight-line method so as to write off the assets over their expected useful lives without taking into account any residual value.

Depreciation on additions is charged from the month in which the asset is put to use while no depreciation is charged in the month in which the assets are deleted. Normal repairs and maintenance are charged to the profit and loss account as and when incurred; major renewals and improvements are capitalised and the assets so replaced, if any, are retired. Gain and losses on disposal of fixed assets are included in income currently.

Intangible assets are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation is calculated using the straight-line method so as to write off the assets over their expected useful lives without taking into account any residual value.

2.8 Deferred income

Grants received on account of capital expenditure incurred under modernisation and reforms programme are recorded as deferred income. These are amortised over the useful life of the relevant asset.

2.9 Staff retirement benefits

The Bank operates:

a) an un-funded contributory provident fund (old scheme) for those employees who joined prior to 1975 and have opted to remain under the old scheme;

b) an un-funded general contributory provident fund (new scheme) for all employees who joined after 1975 and those employees who had joined prior to 1975 but have opted for the new scheme;

c) following other staff retirement benefit schemes:

- an un-funded gratuity scheme for all its employees other than those who opted for the new general provident fund scheme or joined the Bank after 1975 and are entitled only to pension scheme benefits;
- an un-funded pension scheme;
- an un-funded benevolent fund scheme; and
- an un-funded post retirement medical benefit scheme.

Annual provisions are made by the Bank to cover the obligations arising under these schemes based on actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. Actuarial gains and losses arising at the valuation date are recognised as income/expense in the following year based on actuarial recommendations.

The above staff retirement benefits are payable to staff on completion of prescribed qualifying period of service.

2.10 Compensated absences

The Bank makes annual provision in respect of liability for employees' compensated absences based on actuarial estimates.

2.11 Revenue recognition

- Interest/ mark-up and/ or return on loans and advances and investments is recorded on accrual basis. However, income on balances pertaining to transactions in former East Pakistan (now Bangladesh), doubtful loans and advances and overdue return on investments are recognized as income on receipt basis.

- Dividend income is recognised when the Bank's right to receive dividend is established.

- All other revenues are recognised on accrual basis.

2.12 Finances under profit and loss sharing arrangements

The Bank provides various finances to financial institutions under profit and loss sharing arrangements. Share of profit/loss under these arrangements is recognised on accrual basis.

2.13 Taxation

The income of the Bank is exempt from tax under section 49 of the State Bank of Pakistan Act, 1956.

2.14 Foreign currency translation

Monetary assets and liabilities in foreign currencies are translated into rupees at the rates of exchange prevailing at the balance sheet date or at contracted rates. However, certain balances with the International Monetary Fund (IMF) are revalued at the end of the Fund's financial year i.e. April 30 in accordance with the provisions of Aide Memoire, a document of the IMF for accounting of transactions and balances with the Fund.

Exchange gains and losses are taken to the profit and loss account except for certain exchange differences on balances with the International Monetary Fund (IMF) referred to in note 2.15, which are transferred to the Government of Pakistan.

The Bank also provides forward covers to the commercial banks and financial institutions under the Exchange Risk Coverage Scheme at prescribed fees. The exchange differences arising under these arrangements and on currency swap transactions are recognised in the books of account on accrual basis.

2.15 Transactions and balances with the International Monetary Fund

Transactions and balances with the International Monetary Fund (IMF) are recorded on the basis of International Accounting Standards (IASs) and the guidelines contained in the Aide Memoire and specific arrangements entered into between the Bank and the Government. A summary of the policies followed by the Bank for recording of these transactions and balances is as follows:

- The Government's contribution for quota with the IMF is recorded by the Bank as depository of the Government and exchange differences arising under these arrangements are transferred to the Government account.

- Exchange gains or losses arising on revaluation of borrowings from the IMF are recognised in the profit and loss account except for the gains or losses transferable to the Government under specific arrangements.

- The cumulative allocation of SDRs by the IMF is treated as capital receipt and is not revalued.

- Income or charges pertaining to balances with the IMF are taken to the Government account, except for the following which are taken to the profit and loss account:

    - charges on borrowings under Structural Adjustment Facility (SAF) and Enhanced Structural Adjustment Facility (ESAF);
    - charges on net cumulative allocation of Special Drawing Rights; and
    - return on holdings of Special Drawing Rights.

2.16 Cash and cash equivalents

Cash and cash equivalents include cash and bank balances in current and deposits accounts and investment in securities realisable within three months.

2.17 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

	Net content in troy ounces	2002 (Rupees' 000)	2001
3. Gold reserves held by the Bank			
Opening balance	2,057,201	35,617,683	31,002,043
Additions during the year	2,570	49,065	-
Appreciation arising from revaluation during the year - note 28		3,711,475	4,615,640
	2,059,771	39,378,223	35,617,683

	2002	2001
	(Rupees' 000)	
4. Foreign currency reserves		
Securities	18,249,366	177,814
Current accounts	14,494,057	9,939,049
Deposit accounts	255,011,199	122,844,539
	287,754,622	132,961,402
The above foreign exchange has been held as follows:		
- Issue Department	245,300,329	111,027,187
- Banking Department	42,454,293	21,934,215
	287,754,622	132,961,402

4.1 The above include assets valuing Rs 163.293 million recoverable from the Government of India as at June 30, 2002 (2001: Rs 179.366 million). Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.

4.2 Interest was credited on deposit accounts during the year at various rates ranging between 1.6 to 3.9 percent per annum.

	2002	2001
	(Rupees' 000)	
5. Indian notes representing assets receivable from the Reserve Bank of India	528,640	580,676

These represent Pak Rupee equivalent of Indian rupee notes which remained in circulation in Pakistan until retirement from circulation and are to be repatriated to India under the Monetary Order from the Government of Pakistan. Realisability of these assets is subject to final settlement between the Governments of Pakistan and India.

	2002	2001
	(Rupees' 000)	
6. Local currency		
Bank notes held by the Banking Department - note 10	126,622	177,598
Rupee coins	1,738,021	1,726,702
	1,864,643	1,904,300
Less: Rupee coins held as assets of the Issue Department - note 6.1	1,738,021	1,726,702
	126,622	177,598

6.1 As mentioned in note 2.3, the Bank is responsible for issuing one and two rupee coins on behalf of the Government. The closing balance represents the face value of unissued coins held by the Bank as at June 30, 2002.

	2002	2001
	(Rupees' 000)	
7. Investments		
Government securities - note 7.1		
Treasury bills :		
Market Treasury Bills	199,171,404	487,297,549
Adhoc Treasury Bills	122,830,242	125,301,611
	322,001,646	612,599,160
Federal Investment Bonds	3,824,750	4,994,117
Pakistan Investment Bonds	182,000	-
Federal and Provincial Government scrips	3,613,715	3,623,958
	329,622,111	621,217,235
Banks and financial institutions		
Ordinary shares - note 7.2		
- Listed	1,195,411	225,301
- Unlisted	39,882,871	41,249,501
	41,078,282	41,474,802
Advance against issue of share capital	16,650,000	8,000,000
Term Finance Certificates	282,400	282,400
	58,010,682	49,757,202
Subsidiaries		
SBP Banking Services Corporation	1,000,000	-
National Institute of Banking and Finance (Guarantee) Limited - note 7.2.5	7,500	-
	1,007,500	-
Other investments		
Certificates of Deposits	112,351	172,351
Others	5,000	5,000
	117,351	177,351
	388,757,644	671,151,788
Less: Provision for diminution in value of investments	3,539,404	394,747
	385,218,240	670,757,041
Less: Investment in securities held as assets of the Issue Department	170,389,508	243,187,199
	214,828,732	427,569,842

7.1 **Investment in securities**

The above include investments amounting to Rs 329,622.111 million (2001: Rs 621,217.235 million) secured by Government guarantees. The following is a profile of return on securities during the year:

	% per annum
Market Treasury Bills	5.6450 to 12.8756
Adhoc Treasury Bills	0.5 and 5
Federal Investment Bonds	15
Federal and Provincial Government scrips	3 to 16

7.2 **Investment in shares of banks and financial institutions**

	Holding more than 50 %		2002	2001
	2002	2001	(Rupees' 000)	
Listed investments - note 7.2.1				
- Muslim Commercial Bank Limited			15,301	225,301
- National Bank of Pakistan - note 7.2.2	88.36%	-	1,180,110	-
			1,195,411	225,301
Unlisted investments - note 7.2.2				
- United Bank Limited - note 7.2.3	99.58%	99.58%	22,386,331	22,386,331
- Habib Bank Limited - note 7.2.4	98.42%	98.42%	11,986,185	11,986,185
- Agricultural Development Bank of Pakistan	99.69%	99.69%	3,204,323	3,204,323
- National Bank of Pakistan	-	93.36%	-	1,366,630
- Federal Bank for Cooperative	75.00%	75.00%	150,000	150,000
- Equity Participation Fund	65.81%	65.81%	102,000	102,000
			37,828,839	39,195,469
- Others with holding less than or equal to 50%			2,054,032	2,054,032
			39,882,871	41,249,501
			41,078,282	41,474,802

7.2.1 The market values of these investments are as follows:

Muslim Commercial Bank Limited	401,264	857,711
National Bank of Pakistan	6,773,366	-

7.2.2 The investments in the above entities have been made under the specific directives of the Government in accordance with the provisions of the State Bank of Pakistan Act, 1956 and other relevant statutes. The management of the Bank does not exercise significant influence or control over these entities except for any regulatory influence or control arising as a consequence of any statute which applies to the entire sector to which these entities belong. Accordingly, these entities have not been consolidated as subsidiaries or accounted for as investments in associates.

7.2.3 The break-up value of the Bank's investment in United Bank Limited (UBL) amounted to Rs 1,232.648 million as at December 31, 2001 based on the financial statements of UBL for the year then ended. During the year, the Government of Pakistan, through the Privatisation Commission, offered 51% shares in UBL for sale to private investors as part of the Privatisation Plan of UBL. The cost of this investment (including advance for issue of shares) amounted to Rs 15,494.657 million while the Government has received the highest offer of Rs 12,350 million for this equity stake. Accordingly, the Bank has made a provision of Rs 3,144.657 million to account for the loss which will arise upon disposal of 51% shares in UBL. No provision has been made for any diminution in the value of the remaining shares as the management is confident that the privatisation of UBL will enhance its value and the Bank will not incur any losses at the time of disposal of the remaining shares in UBL.

7.2.4 The break-up value of the Bank's investment in Habib Bank Limited (HBL) amounted to Rs 12,692.043 million at December 31, 2001 based on the financial statements of HBL for the year ended on this date while the cost of this investment (including advance for issue of shares) was Rs 19,986.185 million. The Bank has offered 51% shares in HBL for sale to private investors and the management is confident that the Bank will not incur any losses at the time of disposal of investment in HBL. Accordingly, no provision has been made for diminution in value of Rs 7,294.142 million as at December 31, 2001.

7.2.5 National Institute of Banking and Finance (Guarantee) Limited (NIBAF) had discontinued its business with effect from February 13, 1997 and resolved to go into members' voluntary winding up. However, during the year the Bank has acquired the control of the company. NIBAF is currently in the process of reorganisation and will recommence its operations in the near future. Accordingly, the Bank's investment in NIBAF amounting to Rs 7.500 million, which was written off in prior years, has now been restated.

		2002	2001
		(Rupees' 000)	
8.	**Commercial papers**	78,500	78,500

These represent face value of certain commercial papers which are held in Bangladesh (former East Pakistan). The realisability of the underlying amount is subject to final settlement between the Governments of Pakistan and Bangladesh.

	2002	2001
	(Rupees' 000)	
9. Assets held with the Reserve Bank of India		
Gold reserves		
- Opening balance	581,470	506,118
- Appreciation arising from revaluation during the year - note 28	60,590	75,352
	642,060	581,470
Sterling securities	303,157	297,077
Government of India securities	12,400	13,621
Rupee coins	3,666	4,006
	961,283	896,174

The above assets were allocated to the Government of Pakistan as their share of the assets of the Reserve Bank of India under the provisions of Pakistan (Monetary System and Reserve Bank) Order, 1947. The transfer of these assets to the Bank is subject to final settlement between the Governments of Pakistan and India.

	2002	2001
	(Rupees' 000)	
10. Bank notes issued		
Notes held with the Banking Department - note 6	126,622	177,598
Notes in circulation	458,247,882	392,936,523
	458,374,504	393,114,121

	2002	2001
	(Rupees' 000)	
11. Special Drawing Rights	509,591	281,419

Special Drawing Rights (SDRs) are the foreign reserve assets which are allocated by the International Monetary Fund (IMF) to its member countries in proportion to their quota in the Fund . In addition, the member countries can purchase SDRs from the IMF and other member countries in order to settle their various obligations. The above represents the rupee value of the SDRs held by the Bank as at June 30, 2002. Interest is credited by the IMF on the SDR holding of the Bank at weekly interest rates on daily products of SDRs held during each quarter.

	2002	2001
	(Rupees' 000)	
12. Reserve tranche with the International Monetary Fund under quota arrangements		
Quota allocated by the International Monetary Fund	78,806,730	80,105,702
Less: liability under quota arrangements	78,797,729	80,096,838
	9,001	8,864
13. Loans, advances and bills of exchange		
Government - note 13.2	14,140,000	20,640,000
Government owned / controlled financial institutions - note 13.4	120,157,737	117,538,708
Private sector financial institutions - note 13.5	47,680,096	60,956,075
	167,837,833	178,494,783
Employees	847,710	5,337,197
	182,825,543	204,471,980
Provision for doubtful balances - note 13.7	3,865,230	1,584,216
	178,960,313	202,887,764
Less: Commercial papers - note 8	78,500	78,500
	178,881,813	202,809,264

13.1 The above include loans and advances amounting to Rs 181,977,833 million (2001: Rs 199,134,783 million) which are secured either by Government guarantees or by demand promissory notes.

13.2 Loans and advances to the Government

	2002	2001
	(Rupees'000)	
Federal Government	13,500,000	16,500,000
Provincial Governments		
- Punjab	-	-
- Sindh	-	2,900,000
- North West Frontier Province	-	-
- Balochistan	640,000	1,240,000
	640,000	4,140,000
	14,140,000	20,640,000

13.3 The mark-up was charged on Federal and Provincial Government accounts during the year at various rates ranging between 6.3124 to12.0057 percent per annum.

13.4 Loans and advances to Government owned/ controlled financial institutions

	Scheduled banks		Non banking financial institutions		Total	
	2002	2001	2002	2001	2002	2001
	(Rupees'000)					
Agricultural sector	55,163,836	54,607,049	-	-	55,163,836	54,607,049
Industrial sector	3,282,405	3,896,146	2,594,566	4,236,374	5,876,971	8,132,520
Export sector	17,529,797	19,148,788	3,567	3,567	17,533,364	19,152,355
Housing sector	66,907	66,907	15,257,300	16,496,300	15,324,207	16,563,207
Others	14,084,759	6,817,310	12,174,600	12,266,267	26,259,359	19,083,577
	90,127,704	84,536,200	30,030,033	33,002,508	120,157,737	117,538,708

The above include amounts aggregating to Rs 507.566 million (2001: Rs 504.681 million) which were recoverable from various financial institutions operating in former East Pakistan. The realisability of these balances is subject to final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan).

13.5 Loans and advances to private sector financial institutions

	Scheduled banks		Non banking financial institutions		Total	
	2002	2001	2002	2001	2002	2001
	(Rupees'000)					
Industrial sector	211,222	346,233	3,673,652	3,739,237	3,884,874	4,085,470
Export sector	42,043,739	56,323,413	-	-	42,043,739	56,323,413
Others	1,751,483	547,192	-	-	1,751,483	547,192
	44,006,444	57,216,838	3,673,652	3,739,237	47,680,096	60,956,075

13.6 The interest/mark-up rate profile of the interest/mark-up bearing loans and advances is as follows:

	% per annum
Government owned/ controlled and private sector financial institutions	4 to 12
Staff loans	10

	2002	2001
	(Rupees' 000)	
13.7 Movement of provision		
Opening balance	1,584,216	-
Provision made during the year	2,281,014	1,584,216
Closing balance	3,865,230	1,584,216

14. Balances due from the Governments of India and Bangladesh (former East Pakistan)

India		
- Advance against printing of notes	39,616	39,616
- Receivable from the Reserve Bank of India	837	837
	40,453	40,453
Bangladesh (former East Pakistan)		
- Inter office balances	819,919	819,919
- Loans and advances - note 14.1	2,568,890	2,376,676
	3,388,809	3,196,595
	3,429,262	3,237,048

14.1 These represent loans and advances provided to the Government of East Pakistan. The realisability of these balances is subject to final settlement between the Governments of Pakistan and Bangladesh (former East Pakistan).

15. Operating fixed assets

The following is a statement of operating fixed assets:

	Cost or revalued amount at July 1, 2001	Additions / revaluation / (deletions) during the year	Cost or revalued amount at June 30, 2002	Accumulated depreciation/ amortisation at July 1, 2001	Charge for the year/ (accumulated depreciation on deletions)	Accumulated depreciation/ amortisation at June 30, 2002	Net book value at June 30, 2002	Annual rate of depreriation / amortisation %
	---------- Rupees '000 ----------							
Tangible assets								
Freehnld land	966,606	-	966,606	-	-	-	966,606	-
		-			-			
		-						
Leasehold land	5,136,018	-	5,136,018	7,917	115,993	123,910	5,012,108	over the tenn nf lease
		-			-			
		-						
Building na freehold land	784,394	2,922	787,316	106,898	45,217	152,115	635,201	5
		-			-			
Building on leasehold land	1,092,468	21,508	1,113,972	68,557	69,129	137,686	976,286	5
		-			-			
		(4)						
Furniture and fixtures	77,984	15,507	46,971	32,439	5,848	13,631	33,340	10
		-			(24,656)			
		(46,520)						
Office equipment	652,907	20,953	97,536	425,849	64,522	78,334	19,202	20
		-			(412,037)			
		(576,324)						
EDP equipment	95,171	336,593	379,814	74,342	119,597	160,076	219,738	33.33
		-			(33,863)			
		(51,950)						
Mntnr vehicles	56,824	7,255	38,843	40,692	3,860	22,803	16,040	20
		-			(21,749)			
		(25,236)						
Library books	636	-	636	636	-	636	-	
		-			-			
		-						
	8,863,008	404,738	8,567,712	757,330	d24,166	689,191	7,878,521	
		-			(492,305)			
		(700,034)						
Intangible asset								
Computer snftware		31,923	31,923	-	10,641	10,641	21,282	33.33
		-						
		-						
2002	8,863,008	436,661	8,599,635	757,330 -	434,807	699,832	7,899,803	
		-			(492,305)			
		(700,034)						
2001	1,848,799	67,259	8,863,008	350,981	409,566	757,330	8,105,678	
		6,953,519			(3,217)			
		(6,569)						

15.1 Deletinns include assets transferred to SBP Banking Services Corporatinn as of January 2, 2002 at a mutually agreed value of Rs 203.156 million.

15.2 Certain items nf freehnld land, leasehnld land, building on freehnld land and huilding nn leasehold land were revalued nn June 30, 2001 hy Iqbal A. Nanjee & Co., Valuation and Engineering Consultants, on the basis nf market value. The revaluation resulted in a surplus nf Rs 6,953.519 millinn at that date. Out nf this surplus, Rs 6,778.398 millinn remains undepreciated at June 30, 2002 and has been inclnded in the carrying value nf the related assets.

	2002	2001
	(Rupees' 000)	

16. Capital work-in-progress

Building on freehold land	-	1,246
Building on leasehold land	8,745	13,879
Office equipment	-	2,166
EDP equipment	-	204,921
Intangible assets	246,112	66,543
	254,857	288,755

17. Other assets

Amounts due from financial institutions under currency swap arrangements - note 17.1	10,945,061	34,834,993
Accrued interest/ mark-up and return	3,689,150	11,217,074
Exchange gain recoverable under risk coverage scheme - net	228,219	-
Share of profit under profit and loss sharing arrangements - net	483,693	-
Stationery and stamps on hand	17,152	20,044
Other advances, deposits and prepayments	518,640	45,671
Others	11,756,232	1,337,568
	27,638,147	47,455,350

17.1 This represents the Bank's right to receive rupee counterpart of the foreign currency on the maturity of certain currency swap arrangements with commercial banks and non-banking financial institutions. The related obligation of the Bank to exchange foreign currency with the rupee counterpart has been disclosed in note 22.

	2002	2001
	(Rupees' 000)	

18. Current accounts of the Government

Federal Government - note 18.1	29,532,746	23,531,410
Provincial Governments		
- Punjab - note 18.2	16,568,627	11,121,297
- Sindh - note 18.3	(953,942)	1,917,607
- North West Frontier Province - note 18.4	4,155,734	3,692,003
- Balochistan - note 18.5	5,328,239	3,308,561
	25,098,658	20,039,468
Government of Azad Jammu and Kashmir	1,661,219	1,436,705
	56,292,623	45,007,583

		2002	2001
		(Rupees' 000)	
18.1	**Federal Government**		
	Non-Food account	11,693,816	596,166
	Food account	405,107	2,617,621
	Zakat Fund account	22,108,382	24,330,478
	Railways - Ways and means advances	(4,701,598)	(3,857,072)
	Fertilizer account	(229,011)	(285,363)
	Saudi Arab special loan account	4,124	4,124
	Pakistan Baitul Mal Fund account	85	85
	Pakistan Railways special account	246,565	107,106
	Government deposit account no. XII	5,276	18,265
		29,532,746	23,531,410
18.2	**Provincial Government - Punjab**		
	Non-Food account	(6,077,565)	(3,928,650)
	Food account	1,349,109	1,359,298
	Zakat Fund account	398,726	329,555
	District Government account no. IV	8,518,997	-
	Social action program	12,379,360	13,361,094
		16,568,627	11,121,297
18.3	**Provincial Government - Sindh**		
	Non-Food account	(3,250,398)	1,438,582
	Food account	508,306	402,625
	Zakat Fund account	123,247	76,400
	District Government account no. IV	1,664,903	-
		(953,942)	1,917,607
18.4	**Provincial Government - NWFP**		
	Non-Food account	1,451,942	3,142,124
	Food account	13,636	549,397
	Zakat Fund account	3,022	482
	District Government account no. IV	2,687,134	-
		4,155,734	3,692,003
18.5	**Provincial Government - Baluchistan**		
	Non-Food account	2,845,862	3,155,684
	Food account	344,694	149,184
	Zakat Fund account	2,908	3,693
	District Government account no. IV	2,134,775	-
		5,328,239	3,308,561

	2002	2001
	(Rupees' 000)	

19. Deposits of banks and financial institutions

Foreign currency		
- Scheduled banks	21,475,584	35,935,378
- Held under CRR scheme	28,221,731	25,518,958
	49,697,315	61,454,336
Local currency		
- Scheduled banks	82,293,239	101,355,563
- Non-banking financial institutions	959,559	2,366,295
- Other financial institutions	-	-
- Others	-	-
	83,252,798	103,721,858
	132,950,113	165,176,194

19.1 The interest / mark-up rate profile of the interest/ mark-up bearing deposits is as follows:

	% per annum
- Foreign currency	1.14 to 2.86
- Local currency	10.99 to 15.62

	2002	2001
	(Rupees' 000)	

20. Other deposits and accounts

Foreign currency		
- Foreign central banks	27,012,767	28,793,914
- International organisation	18,007,320	15,995,625
- Others	12,517	-
	45,032,604	44,789,539
Local currency		
- Special debt repayment - note 20.2	15,182,626	204,400,267
- Government - note 20.3	18,464,962	23,845,034
- Others	2,012,209	2,260,519
	35,659,797	230,505,820
	80,692,401	275,295,359

20.1 The interest rate profile of the interest bearing deposits is as follows:

	% per annum
- Foreign central banks	2.17 to 5.92
- International organisation	4 to 4.5

20.2 These represent amounts kept in separate special accounts to meet forthcoming foreign currency debt repayment obligations of the Government of Pakistan. During the current year a major portion out of this was adjusted with retirement of market treasury bills in accordance with the instructions of the Government of Pakistan.

20.3 These represent rupee counterpart of the foreign currency loan disbursements received from various international financial institutions on behalf of the Government and credited to separate deposit accounts in accordance with the instructions of the Government.

	2002	2001
	(Rupees' 000)	
21. Payable to the International Monetary Fund		
Borrowings under:		
- Fund facilities - note 21.1	70,810,494	63,551,531
- Other credit schemes - note 21.2	42,242,471	32,250,189
	113,052,965	95,801,720
Current account for administrative charges	69	151
	113,053,034	95,801,871

21.1 These facilities are secured by demand promissory notes issued by the Government of Pakistan.

21.2 This includes Rs 1,198.572 million in respect of the finance provided by the Saudi Fund for Development under Enhanced Structural Adjustment Facility (ESAF) programme of the International Monetary Fund (IMF). The amount is paid through the IMF as it acts as Trustee of the Saudi Fund in respect of this arrangement.

	2002	2001
	(Rupees' 000)	
22. Other liabilities		
Foreign currency		
Amounts due to financial institutions under currency swap arrangements - note 17.1	10,204,148	38,980,572
Accrued interest and discount	394,096	579,212
Charges on allocation of SDR	53,000	81,000
Others	2,032	-
	10,653,276	39,640,784
Local currency		
Overdue mark-up and return	3,326,782	2,823,881
Unearned exchange risk fee	1,100,000	2,000,000
Remittance clearance account	31,282	135,224
Exchange loss payable under exchange risk coverage scheme	-	6,881,991
Share of loss under profit and loss sharing arrangements	-	952,579
Dividend payable to the Government	10,000	10,000
Payable to Government in respect of privatisation proceeds	2,929,066	2,929,066
Other accruals and provisions - note 22.1	1,430,116	2,116,850
Others	4,991,499	4,569,051
	13,818,745	22,418,642
	24,472,021	62,059,426

		2002	2001
		(Rupees' 000)	
22.1	**Other accruals and provisions**		
	Interest, mark-up and discount	380,276	670,132
	Printing charges	14,235	64,452
	Agency commissian	286,776	248,514
	Provision for employees' compensated absences	279,000	602,000
	Others	469,829	531,752
		1,430,116	2,116,850
23.	**Deferred liability - staff retirement benefits**		
	Provident fund scheme	140,077	769,136
	Gratuity	23,000	30,000
	Pension	2,482,000	4,642,000
	Benevolent fund scheme	269,000	701,000
	Post retirement medical benefits	91,000	138,000
		3,005,077	6,280,136

23.1 The following is a reconciliation of movement in the net recognised liability in respect of the defined benefit schemes mentioned above:

	Net recognised liability as at July 1, 2001	Transferred to SBP Banking Services Corporation	Charge for the year	Payments made during the year	Recognised liability as at June 30, 2002
	----------Rupees ('000)----------				
Gratuity	30,000	72,000	68,000	3,000	23,000
Pension	4,642,000	3,215,000	2,509,000	1,454,000	2,482,000
Benevolent	701,000	499,000	307,000	240,000	269,000
Past retirement medical benefits	138,000	89,000	99,000	57,000	91,000
	5,511,000	3,875,000	2,983,000	1,754,000	2,865,000

		2002	2001
		(Rupees' 000)	
24.	**Deferred income**		
	Opening balance	272,535	-
	Grants received during the year	329,175	277,803
	Amortisation during the year	(120,956)	(5,268)
	Closing balance	480,754	272,535

25. **Share capital**

Number of shares			
	Autharised share capital		
1,000,000	Ordinary shares of Rs 100 each	100,000	100,000
	Issued, subscribed and paid-up capital		
1,000,000	Fully paid-up ordinary shares of Rs 100 each	100,000	100,000

The entire share capital of the Bank is owned by the Government of Pakistan except far 200 shares held by the Central Bank of India (held by Deputy Custodian Enemy Property, Banking Supervision Department, State Bank of Pakistan) and 500 shares held by the State of Hyderabad.

		2002	2001
		(Rupees' 000)	
26.	**Capital receipt**		
	Allocation of Special Drawing Rights	1,525,958	1,525,958
27.	**Reserves**		
	Reserve Fund - note 27.1	5,400,000	8,400,000
	Rural Credit Fund	2,600,000	2,600,000
	Industrial Credit Fund	1,600,000	1,600,000
	Export Credit Fund	1,500,000	1,500,000
	Loans Guarantee Fund	900,000	900,000
	Housing Credit Fund	4,700,000	4,700,000
		16,700,000	19,700,000

27.1 Reserve Fund

This represents appropriations out of the annual profits of the Bank in accordance with the provisions of the State Bank of Pakistan Act, 1956 for the purpose of providing cover against risks relating to events which are contingent and non-foreseeable.

27.2 Other Funds

These represent appropriations out of the surplus profits of the Bank for certain specified purposes in accordance with the provisions nf the State Bank of Pakistan Act, 1956.

		2002	2001
		(Rupees' 000)	
28.	**Unrealised appreciation on gold reserves**		
	Opening balance	33,261,246	28,570,254
	Appreciation arising from revaluation during the year:		
	- held by the Bank - note 3	3,711,475	4,615,640
	- held with the Reserve Bank of India - note 9	60,590	75,352
		3,772,065	4,690,992
		37,033,311	33,261,246

28.1 Gold reserves are revalued under the State Bank of Pakistan Act, 1956 and State Bank of Pakistan General Regulations at the closing market rate fixed on the last working day of the year in London.

	2002	2001
	(Rupees' 000)	

29. Contingencies and commitments

Contingencies

Money for which the Bank is contingently liable:

a) Contingent liability in respect of guarantees given on behalf of:

i) Government	16,153,310	15,833,436
ii) Government owned/controlled bodies and authorities	107,665,549	116,950,167

Guarantees amounting to Rs 115,135.310 million (2001: 131,226.205 million) are secured by counter guarantees either from the Government of Pakistan or local financial institutions.

b) The liquidators of BCCI Overseas have filed a claim for the recovery of US$ 50 million and interest thereon in respect of deposits placed by the entity which were simultaneously placed by the Bank with another entity of BCCI Group on similar terms and conditions under back to back arrangements. The liquidators contend that the Bank has set off these accounts although both the entities were separate concerns. However, the management contends that the Bank was entitled to consider and treat BCCI entities as forming part of a larger group in accordance with the legal advice obtained in this respect. The matter is currently pending for adjudication in the United States Court of Appeals and Grand Court of Cayman Islands. The management is confident that the eventual outcome of the matter will be in favour of the Bank and accordingly no provision has been made against the above claim of the BCCI liquidators.

c) Other claims against the Bank not acknowledged as debts	843,364	429,195

Commitments

Forward exchange contracts for sale	18,898,027	78,509,151
Repurchase and outright sale of securities	41,577,177	40,828,203
Import letters of credit	95,921,553	272,233,596

		2002	2001
		(Rupees' 000)	
30.	**Discount, interest/mark-up and/or return earned**		
	Market Treasury Bills - net	26,630,473	45,940,702
	Adhoc Treasury Bills	624,468	446,737
	Other Government securities	1,036,745	1,918,471
	Loans and advances to Government	1,420,818	2,830,043
	Loans and advances to banks and financial institutions	2,122,624	8,498,858
	Share of profit on finances under profit and loss sharing arrangements - net	2,456,662	-
	Foreign currency deposits	4,134,121	3,903,382
	Foreign currency Treasury Bills	284,616	501,779
	Others	84,121	103,110
		38,794,648	64,143,082
31.	**Interest/ mark-up expense**		
	Deposits	5,745,141	10,080,660
	Share of loss on finances under profit and loss sharing arrangements - net	-	952,579
	Others	49,361	87,166
		5,794,502	11,120,405
32.	**Commission income**		
	Market Treasury Bills	31,111	19,197
	Draft /payment orders	117,901	92,170
	Prize Bonds and National Saving Certificates	95,715	105,092
	Management of public debts	55,017	43,107
	Others	47,465	37,292
		347,209	296,858
33.	**Exchange gain/ (loss)**		
	Gain / (loss) on:		
	- Foreign currency placements, deposits and other accounts - net	(4,596,425)	(5,869,572)
	- Open market operations (including currency swap arrangements)	(662,102)	(20,158,963)
	- Forward covers under Exchange Risk Coverage Scheme	8,213,411	(31,270,105)
	- Payable to the International Monetary Fund	(925,604)	(6,107,686)
	- SDRs	8,320	2,686,847
	- Others	285,831	673,616
		2,323,431	(60,045,863)
	Exchange risk fee income	6,613,845	10,877,655
		8,937,276	(49,168,208)
34.	**Other operating income**		
	Penalties levied on banks and financial institutions	458,999	386,805
	License/ CIB fee recovered	13,374	14,769
	Others	390	5,853
		472,763	407,427

35. Note printing charges

Note printing charges are payable to Pakistan Security Printing Corporation (Private) Limited at agreed rates under specific arrangements.

36. Agency commission

Agency commission is payable to National Bank of Pakistan (NBP) under an agreement at the rate of 0.15 %; (2001: 0.15 %) of the total amount of collection and remittances handled by NBP.

	Note	2002	2001
		(Rupees' 000)	
37. Establishment costs			
Salaries and other benefits		1,357,013	2,237,705
Retirement benefits and employees' compensated absences		3,748,438	3,522,237
Daily wages staff		5,102	5,300
Medical allowances		57,714	251,804
Overtime allowance		7,675	11,428
Rent and taxes		3,598	31,168
Insurance		1,518	4,329
Electricity, gas and water charges		64,933	97,786
Depreciation - note 15		434,807	409,566
Repairs to Bank's property		7,447	12,506
Repairs to Bank's vehicles		1,633	1,970
Repairs to mechanical/ electrical equipment		9,817	14,702
Directors' fee		1,441	886
Auditors' remuneration - note 37.6		1,811	2,745
Legal and professional charges		33,813	23,841
Travelling expenses		18,591	13,068
Daily expenses		30,818	37,946
Passages		10,709	12,972
Fuel charges		7,986	9,630
Conveyance charges		5,208	7,296
Postages		3,610	3,071
Telegram/ telex		20,980	16,818
Telephone		27,950	34,863
Training		11,093	40,000
Examination/ testing services		1,047	2,617
Remittance of treasure		12,221	22,785
Stationery		11,438	13,160
Books and newspapers		4,045	3,474
Advertisement		2,522	5,611
Bank Guards		6,067	27,091
Uniforms		6,765	21,766
Others		28,453	33,326
		5,946,263	6,933,467
Expenses allocated by SBP Banking Services Corporation	37.1	908,070	-
Expenses reimbursed to SBP Banking Services Corporation	37.2	1,133,451	-
		7,987,784	6,933,467

	2002	2001
	(Rupees' 000)	
37.1 Expenses allocated by SBP Banking Services Corporation		
Retirement benefits and employees' compensated absences	852,121	-
Depreciation	55,949	-
	908,070	-
37.2 Expenses reimbursed to SBP Banking Services Corporation		
Salaries and other benefits	825,212	-
Daily wages staff	2,701	-
Medical allowances	136,205	-
Overtime allowance	3,110	-
Rent and taxes	16,514	-
Insurance	33	-
Electricity, gas and water charges	36,679	-
Repairs to Bank's property	7,120	-
Repairs to Bank's vehicles	307	-
Repairs to mechanical/ electrical equipment	8,443	-
Auditors' remuneration	1,500	-
Legal and professional charges	860	-
Travelling expenses	2,111	-
Daily expenses	4,898	-
Passages	3,947	-
Fuel charges	1,835	-
Conveyance charges	2,415	-
Postages	1,136	-
Telephone	10,252	-
Remittance of treasure	16,150	-
Stationery	6,083	-
Books and newspapers	739	-
Advertisement	438	-
Bank Guards	23,648	-
Uniforms	11,428	-
Others	9,687	-
	1,133,451	-

37.3 As mentioned in note 2, SBP Banking Services Corporation carries out certain functions and activities principally related to public dealing on behalf of the Bank and incurs administrative costs in this respect. Accordingly under mutually agreed arrangements, all of the above costs have been reimbursed to or allocated by the Corporation while net profit of the Corporation for the period ended June 30, 2002, amounting to Rs 24.487 million has been transferred to the Bank.

37.4 As mentioned in note 2.9 (c), the Bank operates the following staff retirement benefit schemes:

- an un-funded gratuity scheme for all employees other than those who opted for the new general provident fund scheme or joined the Bank after 1975 and are entitled to pension scheme benefits;
- an un-funded pension scheme;
- an un-funded contributory benevolent fund scheme; and
- an un-funded post retirement medical benefit scheme.

During the year the Bank has had actuarial valuations carried out for all the above schemes. Projected Unit Credit Method using the following significant assumptions was used for the valuations of these schemes as at June 30, 2002:

- Expected rate of increase in salary 8.89 percent per annum
- Expected rate of discount 11.0 percent per annum
- Pension increase at the rate of 2.7 percent per annum
- Benevolent fund grants and contributions at the rate of 2.7 percent per annum
- Medical cost trend 5.71 percent per annum

The transitional liability arising on adoption of IAS is being amortised over a period of five years with effect from July 1, 1999 except for the liability pertaining to employees transferred to SBP Banking Services Corporation which has been fully recognised during the year.

The following are the fair values of the obligations under the schemes and liabilities recognised thereagainst for the past services of the employees at the latest valuation dates:

	Present value of the defined benefit obligation	Provisions made in respect of the staff retirement benefits	Unrecognised actuarial loss	Unrecognised transitional liability
	----------Rupees ('000)----------			
Gratuity	21,000	23,000	(16,000)	14,000
Pension	3,036,000	2,482,000	-	554,000
Benevolent	296,000	269,000	-	27,000
Post retirement medical benefits	150,000	91,000	-	59,000
	3,503,000	2,865,000	(16,000)	654,000

The accumulated provision as at June 30, 2002 includes an amount of Rs 2,742 million in respect of transitional liability recognised till that date.

The following amounts have been charged in the profit and loss account in respect of the above benefits:

	Current service cost	Interest cost	Transitional liability recognised	Past service cost	Total
	----------Rupees ('000)----------				
Gratuity	2,000	9,000	57,000	-	68,000
Pension	149,000	608,000	1,213,000	539,000	2,509,000
Benevolent	22,000	79,000	206,000	-	307,000
Post retirement medical benefits	4,000	27,000	68,000	-	99,000
	177,000	723,000	1,544,000	539,000	2,983,000

37.5 **Employees' compensated absences**

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2002 using the Projected Unit Credit Method. An amount of Rs 736 million has been charged to the profit and loss account in this respect based on actuarial recommendation.

37.6 **Auditors' remuneration**

	A.F. FERGUSON & CO.	HUSAIN RAHMAN	2002	2001
	----------(Rupees' 000)----------			
Audit fee	500	500	1,000	2,000
Special certifications/ examinations and sundry advisory services	590	21	611	245
Out of pocket expenses	100	100	200	500
Others	-	-	-	-
	1,190	621	1,811	2,745

		2002	2001
		(Rupees' 000)	
38.	**Other income**		
	Profit on disposal of fixed assets	3,540	221,774
	Liabilities and provisions no longer required written back - net	-	12,770,161
	Profit on disposal of investments	141,424	55,287
	Amortisation of deferred income - note 24	120,956	5,268
	Others	25,751	7,975
		291,671	13,060,465
39.	**Other charges**		
	Charges on allocation of SDR	345,355	557,240
	Others	77,416	237,275
		422,771	794,515
40.	**Profit for the year after non-cash items**		
	Profit for the year	25,468,984	15,667,635
	Adjustments for:		
	Exceptional item	-	(10,247,446)
	Depreciation	434,807	409,566
	Amortisation of deferred income	(120,956)	(5,268)
	Provision for:		
	- retirement benefits and employees' compensated absences	3,748,438	3,522,237
	- loans and advances	2,281,014	1,584,216
	- reimbursement of agricultural losses under Agricultural Loans Scheme	-	400,000
	- share of loss / (profit) under profit and loss sharing arrangements	(1,436,272)	952,579
	- diminution in value of investments	3,144,657	282,396
	Loans and advance written off	1,402,252	-
	Profit on disposal of fixed assets	(3,540)	(221,774)
	Restatement of investment in NIBAF	(7,500)	
	Dividend income	(336,777)	(261,120)
	Other accruals and provisions - net	1,151,116	1,114,850
		35,726,223	13,197,871
40.1	**Transfer of assets and liabilities to SBP Banking Services Corporation**		
	Liabilities transferred :		
	Liabilities against staff retirement benefits		
	- Provident Fund	617,366	-
	- Gratuity	72,000	-
	- Pension	3,215,000	-
	- Benevolent Fund	499,000	-
	- Post retirement medical benefits	89,000	-
	- Employees' compensated absences	868,000	-
		5,360,366	-
	Adjustment for differential between the estimated and actual values of assets as mentioned in note 2 to these accounts	269,579	-
	Assets transferred :		
	Employee loans and advances	(4,094,424)	-
		1,535,521	-
41.	**Cash and cash equivalents**		
	Rupee coins	1,738,021	1,726,702
	Foreign currency reserves	286,723,344	132,307,682
	Special Drawing Rights	509,591	281,419
	Securities acquired under agreements to re-sell	9,832,697	-
		298,803,653	134,315,803

42. **Interest/ mark-up rate risk**

	Interest/ mark-up bearing *			Non interest/ mark-up bearing			
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total	Grand Total
	(Rupees '000)						
Financial assets							
Rupee coins				1,738,021		1,738,021	1,738,021
Foreign currency reserves	286,886,637	495,684	287,382,321		372,301	372,301	287,754,622
Special Drawing Rights	509,591		509,591			-	509,591
Reserve tranche with the International Monetary Fund under quota arrangements	9,001	-	9,001	-	-	-	9,001
Investments	200,171,464	129,450,649	329,622,113	15,494,657	39,093,970	54,588,627	384,210,740
Loans, advances and bills of exchange	130,119,805	32,997,132	163,116,937	1,428,531	14,414,845	15,843,376	178,960,313
Balances due from Governments of India and Bangladesh (former East Pakistan)	2,568,890	-	2,568,890	860,372	-	860,372	3,429,262
Indian notes representing assets receivable from the Reserve Bank of India	-	-	-	528,640	-	528,640	528,640
Assets held with the Reserve Bank of India	315,557	-	315,557	3,666	-	3,666	319,223
Other assets	-	-	-	16,691,835	10,945,061	27,636,896	27,636,896
	620,580,945	162,943,465	783,524,410	36,745,722	64,826,177	101,571,899	885,096,309
Financial liabilities							
Bank notes in circulation	-	-	-	-	458,247,882 **	458,247,882	458,247,882
Bills payable	-	-	-	323,293	-	323,293	323,293
Current accounts of the Government	-	-	-	56,292,623	-	56,292,623	56,292,623
Current account of SBP Banking Service Corporation	-	-	-	2,450,017	-	2,450,017	2,450,017
Deposits of banks and financial institutions	31,693,262	-	31,693,262	101,256,851	-	101,256,851	132,950,113
Other deposits and accounts	-	45,032,604	45,032,604	35,659,797	-	35,659,797	80,692,401
Payable to the International Monetary Fund	24,195,014	88,858,020	113,053,034	-	-	-	113,053,034
Other liabilities	-	-	-	13,167,873	10,204,148	23,372,021	23,372,021
	55,888,276	133,890,624	189,778,900	209,150,454	468,452,030	677,602,484	867,381,384

* includes finances provided under profit and loss sharing arrangements

** Bank notes have been assumed to have a maturity of more than one year.

42.1 Risk management policies

The Bank is primarily subject to interest/mark-up rate, credit, currency and liquidity risks. The policies and procedures for managing these risks are outlined in notes 42.1.1 to 42.1.4. The Bank has designed and implemented a framework of controls to identify, monitor and manage these risks. The senior management is responsible for advising the Governor on the monitoring and management of these risks.

42.1.1 Interest/mark-up rate risk management

Interest/ mark-up rate risk is the risk that the value of a financial instrument will fluctuate due to changes in the market interest/ mark-up rates. The Bank has adopted appropriate policies to minimise its exposure to this risk. The Bank's management, the Central Board and the investment committee has set appropriate duration limits and a separate department deals with the monitoring of the Bank'sinterest/ mark-up rate risk exposure based on these limits.

42.1.2 Credit risk management

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk in the Bank'sportfolio is monitored, reviewed and analysed by the appropriate officials and the exposure is controlled through counterparty and credit limits. Counterparties are allocated to a particular class based mainly on their credit rating. Foreign currency placements are made in approved currencies and government securities. Loans and advances to scheduled banks and financial institutions are usually secured either by Government guarantees or by demand promissory notes. Geographical exposures are controlled by country limits and are updated as and when necessary with all limits formally reviewed on a periodic basis. The Bank's exposure to credit risk associated with foreign operations is managed by monitoring compliance with investment limits for counterparties. The Bank's credit risk mainly lies with exposure towards government sector and financial institutions.

42.1.3 Currency risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency activities result mainly from the Bank'sholding of foreign currency assets under its foreign reserves management function and the overall level of these assets is determined based on the prevailing extent of credit and liquidity risks. In order to avoid losses arising from adverse changes in the rates of exchange, the Bank'scompliance with the limits established for foreign currency positions is being regularly monitored by the management.

The Bank also holds from time to time, foreign currency assets and liabilities that arise from the implementation of domestic monetary policies. Any foreign currency exposure relating to these implementation activities are hedged through the use of foreign currency forwards, swaps and other transactions.

The Bank also enters into forward foreign exchange contracts with the commercial banks and financial institutions to hedge against the currency risk on foreign currency swap transactions.

42.1.4 Liquidity risk management

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with the financial instruments. In order to reduce the level of liquidity risk arising out of the local currency activities, the Bank manages the daily liquidity position of the banking system including advancing and withdrawal of funds from the system for smoothening out daily peaks and troughs.

The risk arising out of the Bank'sobligations for foreign currency balances or deposits is managed through available reserves generated mainly from borrowings and open market operations.

42.1.5 Fair value of assets and liabilities

The fair value of all financial assets and financial liabilities is estimated to approximate their carrying values.

		2002	2001
43.	**Number of employees**		
	Number of employees at June 30	1,231	7,691

44. General

- The corresponding figures have been re-arranged and re-classified for comparison, wherever necessary.

- Figures have been rounded off to the nearest thousand rupees.

45. Date of Authorisation

These financial statements were authorised for issue on 25th September 2002 by the Central Board of Directors of the Bank.

Muhammed Saleem Rehmani
Director of Accounts

R. A. Chughtai
Deputy Governor

Financial
Statements
2002

SBP BANKING SERVICES CORPORATION

REPORT OF THE AUDITORS

TO THE SHAREHOLDER

We have audited the annexed balance sheet of the **SBP Banking Services Corporation** as at June 30, 2002 and the related profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof, for the period from January 2, 2002 to June 30, 2002 and we state that we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

It is the responsibility of the Corporation's management to establish and maintain a system of internal control, and prepare and present the above said statements in conformity with the International Accounting Standards approved for adoption by the Board of Directors of the Corporation. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the auditing standards as applicable in Pakistan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the above said statements are free of any material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the above said statements. An audit also includes assessing the accounting policies and significant estimates made by management, as well as, evaluating the overall presentation of the above said statements. We believe that our audit provides a reasonable basis for our opinion and, after due verification, we report that:

(a) in our opinion the balance sheet and related profit and loss account, cash flow statement and statement of changes in equity together with the notes thereon have been drawn up in conformity with the International Accounting Standards approved for adoption by the Board of Directors of the Corporation; and

(b) in our opinion and to the best of our information and according to the explanations given to us, the balance sheet, profit and loss account, cash flow statement and statement of changes in equity together with the notes forming part thereof conform with the International Accounting Standards approved for adoption by the Board of Directors of the Corporation, and, give the information required by these Standards in the manner so required, and respectively give a true and fair view of the state of the Corporation's affairs as at June 30, 2002 and of the profit, its cash flows and changes in equity for the period from January 2, 2002 to June 30, 2002.

A.F.Ferguson & Co.
Chartered Accountants

Karachi, the 27th day of September 2002.

SBP BANKING SERVICES CORPORATION
BALANCE SHEET
AS AT JUNE 30, 2002

	Note	2002 (Rupees'000)
ASSETS		
Investment	3	518,864
Employees loans and advances		4,143,177
Prepaid expenses		13,209
Balance in current account with the State Bank of Pakistan		2,450,017
Tangible assets:		
- Operating fixed assets	4	155,657
- Capital work-in-progress	5	2,200
		157,857
Total assets		7,283,124
LIABILITIES		
Other liabilities	6	1,353,226
Deferred liability - staff retirement benefits	7	4,929,898
Total liabilities		6,283,124
Net Assets		1,000,000
REPRESENTED BY		
Share capital	8	1,000,000

The annexed notes form an integral part of these accounts.

Taslim Kazi
Director Accounts

Muhammad Akram Shad
Managing Director

SBP BANKING SERVICES CORPORATION

PROFIT AND LOSS ACCOUNT

FOR THE PERIOD FROM JANUARY 2, 2002 TO JUNE 30, 2002

	Note	For the period ended June 30, 2002 (Rupees' 000)
Discount and interest earned	9	24,448
Net operating expenses	10	
Total expenses		2,041,521
Less: Reimbursed from the State Bank of Pakistan		1,133,451
Less: Allocated to the State Bank of Pakistan		908,070
		-
NET PROFIT FOR THE PERIOD		24,448
Profit on disposal of fixed assets		39
BALANCE TRANSFERRED TO THE STATE BANK OF PAKISTAN		24,487

The annexed notes form an integral part of these accounts.

Taslim Kazi
Director Accounts

Muhammad Akram Shad
Managing Director

SBP BANKING SERVICES CORPORATION
CASH FLOW STATEMENT
FOR THE PERIOD FROM JANUARY 2, 2002 TO JUNE 30, 2002

	Note	For the period ended June 30, 2002 (Rupees' 000)
Cash flow from operating activities		
Profit for the year after non-cash items	11	(192,532)
Expenses reimbursed by the State Bank of Pakistan		1,133,451
Balance profits paid to the State Bank of Pakistan		(24,487)
Retirement benefits and employees' compensated absences paid		(61,589)
		854,843
Increase in assets		
- Loans to employees		(48,753)
- Other assets - net		(13,209)
Increase in liabilities		
Other liabilities - net		132,226
Net cash inflow from operating activities		**925,107**
Cash flow from investing activities		
Fixed capital expenditure		(10,733)
Investment made		(509,000)
Receipt from the State Bank of Pakistan	12	1,535,521
Proceeds from disposal of fixed assets		122
Net cash inflow from investing activities		**1,015,910**
Cash inflow from financing activities		
Proceeds from issue of share capital		509,000
Increase in cash and cash equivalents for the period		**2,450,017**
Cash and cash equivalents at the beginning of the period		
Cash and cash equivalents at the end of the period		**2,450,017**

The annexed notes form an integral part of these accounts.

Taslim Kazi
Director Accounts

Muhammad Akram Shad
Managing Director

SBP BANKING SERVICES CORPORATION

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD FROM JANUARY 2, 2002 TO JUNE 30, 2002

	Share capital	Profit and Loss Account	Total
	---------- (Rupees '000) ----------		
Issue of share capital	1,000,000	-	1,000,000
Profit for the period ended June 30, 2002	-	24,487	24,487
Balance profits transferred to the State Bank of Pakistan	-	(24,487)	(24,487)
Balance as at June 30, 2002	1,000,000	-	1,000,000

The annexed notes form an integral part of these accounts.

Taslim Kazi
Director Accounts

Muhammad Akram Shad
Managing Director

SBP BANKING SERVICES CORPORATION
NOTES TO THE ACCOUNTS
FOR THE PERIOD FROM JANUARY 2, 2002 TO JUNE 30, 2002

1. STATUS AND NATURE OF OPERATIONS

SBP Banking Services Corporation (the Corporation) has been constituted under the SBP Banking Services Corporation Ordinance, 2001 (the Ordinance) as a wholly owned subsidiary of the State Bank of Pakistan (SBP) and has commenced its operations with effect from January 2, 2002. The Corporation is responsible for carrying out certain statutory and administrative functions and activities on behalf of SBP, as transferred or delegated by SBP under the provisions of the Ordinance mainly including:

- disbursing of loans and advances to the Government, banks, financial institutions and local authorities and facilitating in inter-bank settlement system;
- collecting revenue and making payments for and on behalf of and maintaining accounts of the Government, local bodies, authorities, companies, banks and other financial institutions;
- receipt, supply and exchange of bank notes and coins;
- dealing in prize bonds and other savings instruments of the Government; and
- operational work relating to management of debt and foreign exchange.

Any assets, liabilities, income and expenditure directly relating to the above activities are accounted for in the books of SBP while the cost incurred by the Corporation in carrying out the above activities are either reimbursed from or allocated to SBP and are accounted for as deduction from the expenditure while net profit/ loss, if any, of the Corporation is transferred to/ recovered from SBP.

1.1 Transfer of assets and liabilities from the State Bank of Pakistan

SBP has transferred the operational functions and related assets, liabilities and employees and their related benefits to the Corporation as of January 2, 2002 in accordance with the provisions of Transfer Order dated December 29, 2001, approved by the Governor of SBP under section 15 of the Ordinance.

In consideration for the transfer of moveable assets specified in the Transfer Order, the Corporation issued 491 fully paid ordinary shares of Rs 1.0 million each to SBP based on the estimated value of assets transferred. In addition, SBP contributed an amount of Rs 509 million in cash against issue of 509 fully paid ordinary shares of Rs 1.0 million each. The difference between actual value of assets subsequently determined by SBP and the estimated value amounting to Rs 269.579 million has been settled through current account maintained between the Corporation and SBP.

The employee related loans, advances and liabilities including pension, gratuity and provident fund balances pertaining to employees transferred to the Corporation amounted to Rs 1,265.942 million (net liability) which have also been settled through the current account maintained between the Corporation and SBP.

The details of the above assets and liabilities and the values at which these have been transferred to the Corporation are given in note 12 of these accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These accounts have been prepared in accordance with the requirements of the International Accounting Standards (IAS) as applicable in Pakistan and approved for adoption by the Board of Directors of the Corporation, being consistent with the accounting framework approved by the Central Board of SBP for the preparation of the financial statements of SBP. The accounting policies used for the preparation of the financial statements of the Corporation are consistent with the accounting policies being used by the management of SBP for the preparation of its financial statements.

2.2 Accounting convention

These accounts have been prepared under the historical cost convention.

2.3 Investments

Short-term investments in Government and other securities are stated at lower of cost and market value determined on an aggregate portfolio basis. The cost of securities is adjusted for any amortisation of premiums on a straight line basis over the period of maturity.

2.4 Fixed assets and depreciation

Operating fixed assets are stated at cost less accumulated depreciation and any accumulated impairment losses while capital work-in-progress is stated at cost.

Depreciation is calculated using straight-line method so as to write off the assets over their expected useful lives without taking into account any residual value.

Depreciation on additions is charged from the month in which the asset is put to use while no depreciation is charged in the month in which the assets are deleted. Normal repairs and maintenance are charged to the profit and loss account as and when incurred; major renewals and improvements are capitalised and the assets so replaced, if any, are retired. Gains and losses on disposal of fixed assets are included in income currently.

2.5 Provisions

Provisions are recognised when the Corporation has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

2.6 Staff retirement benefits

The Corporation operates:

a) an unfunded contributory provident fund (old scheme) for those employees who joined SBP prior to 1975 and have opted to remain under the old scheme;

b) an unfunded general contributory provident fund (new scheme) for all employees who joined SBP after 1975 and those employees who had joined SBP prior to 1975 but have opted for the new scheme;

c) following other staff retirement benefit schemes:

- an unfunded gratuity scheme for all its employees other than those who opted for the new general provident fund scheme or joined SBP after 1975 and are entitled only to pension scheme benefits;
- an unfunded pension scheme;
- an unfunded contributory benevolent fund scheme; and
- an unfunded post retirement medical benefit scheme.

Annual provisions are made by the Corporation to cover the obligations arising under these schemes based on actuarial recommendations. The actuarial valuations are carried out using the Projected Unit Credit Method. Actuarial gains and losses arising at the valuation date are recognised as income/expense in the following year based on actuarial recommendations.

The above staff retirement benefits are payable to staff on completion of prescribed qualifying period of service.

2.7 Compensated absences

The Corporation makes annual provision in respect of liability for employees' compensated absences based on actuarial estimates.

2.8 Revenue recognition

Revenue is recognised on accrual basis.

2.9 Taxation

Income of the Corporation is exempt from Tax under section 25 of the SBP Banking Services Corporation Ordinance, 2001.

2.10 Cash and cash equivalents

Cash comprises cash on hand and balance in current account with the State Bank of Pakistan. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant changes in value.

3. Investment	2002 (Rupees'000)
Government securities	
Market Treasury Bills	518,864

The above investment carries mark-up at the rate of 6.9 percent per annum.

4. Operating fixed assets

The following is a statement of operating assets:

	Additions during the period from January 2, 2002 to June 30, 2002	Deletions during the period from January 2, 2002 to June 30, 2002	Cost as at June 30, 2002	Charge for the period from January 2, 2002 to June 30, 2002	Accumulated depreciation on deletions	Accumulated Depreciation as at June 30, 2002	Net book value as at June 30, 2002	Annual rate of depreciation %
	(Rupees '000)							
Furniture and fixtures	23,808	15	23,793	2,156	-	2,156	21,637	10
Office equipment	169,229	68	169,161	49,612	-	49,612	119,549	20
EDP equipment	15,983	-	15,983	3,536	-	3,536	12,447	33.33
Motor vehicles	2,669	-	2,669	645	-	645	2,024	20
	211,689	83	211,606	55,949	-	55,949	155,657	

4.1 Additions include assets transferred from the State Bank of Pakistan as of January 2, 2002 at mutually agreed value of Rs 203.156 million.

5. Capital work-in-progress	2002 (Rupees'000)
Office equipment	2,018
EDP equipment	182
	2,200

	2002
	(Rupees'000)

6. Other liabilities

Accruals and provisions -note 4.1	1,269,782
Others	83,444
	1,353,226

6.1 Accruals and provisions

Provision for employees' compensated absences	1,221,000
Others	48,782
	1,269,782

7. Deferred liability - staff retirement benefits

Provident fund scheme	671,068
Gratuity	74,000
Pension	3,550,000
Benevolent fund scheme	536,830
Post retirement medical benefits	98,000
	4,929,898

7.1 The following is the reconciliation of the movement in the net recognised liability in respect of the defined benefit schemes mentioned above:

	Liability transferred from SBP	Charge for the year	Payments during the year	Recognised liability as at June 30, 2002
	---------- Rupees '000 ----------			
Gratuity	72,000	6,000	4,000	74,000
Pension	3,215,000	366,000	31,000	3,550,000
Benevolent fund scheme	499,000	46,000	8,170	536,830
Post retirement medical benefits	89,000	9,000	-	98,000
	3,875,000	427,000	43,170	4,258,830

8. Share capital

Number of shares		2002 (Rupees'000)
	Authorised share capital	
1,000	Ordinary shares of Rs 1,000,000 each	1,000,000
	Issued, subscribed and paid-up capital	
1,000	Fully paid-up ordinary shares of Rs 1,000,000 each	1,000,000

9. Discount, interest/mark-up and/or return earned

	For the period ended June 30, 2002 (Rupees'000)
Discount on Market Treasury Bills	9,864
Interest on staff loans	14,584
	24,448

10. Establishment costs

Reimbursable from the State Bank of Pakistan

Salaries	825,212
Daily wages staff	2,701
Medical allowance	136,205
Overtime allowance	3,110
Rent and taxes	16,514
Insurance	33
Electricity, gas and water charges	36,679
Repairs to office's property	7,120
Repairs to office's vehicles	307
Repairs to mechanical/ electrical equipment	8,443
Auditor's remuneration - note 10.3	1,500
Legal and professional charges	860
Travelling expenses	2,111
Daily expenses	4,898
Passages	3,947
Fuel charges	1,835
Conveyance charges	2,415
Postages	1,136
Telephone	10,252
Remittance of treasure	16,150
Stationery	6,083
Books and newspapers	739
Advertisement	438
Bank Guards	23,648
Uniforms	11,428
Others	9,687
	1,133,451

Allocable to the State Bank of Pakistan

Retirement benefits and employees' compensated absences	852,121
Depreciation - note 4	55,949
	908,070
	2,041,521

10.1 As mentioned in note 2.6, the Corporation operates the following staff retirement benefit schemes:

- an unfunded gratuity scheme for all employees other than those who opted for the new general provident fund scheme or joined the SBP after 1975 and are entitled to pension scheme benefits;
- an unfunded pension scheme;
- an unfunded contributory benevolent fund scheme; and
- an unfunded post retirement medical benefit scheme.

During the year the Corporation has had actuarial valuations carried out for all the above schemes. Projected Unit Credit Method using the following significant assumptions was used for the valuations of these schemes as at June 30, 2002:

-Expected rate of increase in salary 8.89 percent per annum
-Expected rate of discount 11.00 percent per annum
-Pension increase at the rate of 2.7 percent per annum
-Benevolent fund grants and contributions at the rate of 2.7 percent per annum
-Medical cost trend 5.71 percent per annum

The following are the fair values of the obligations under the schemes and liabilities recognised thereaguinst for the past services of the employees at the latest valuation dates:

	Present value of the defined benefit obligation	Provisions made in respect of the staff retirement benefits	Unrecognised actuarial loss
	(Rupees '000)		
Gratuity	77,000	74,000	3,000
Pension	3,550,000	3,550,000	-
Benevolent fund scheme	536,830	536,830	-
Post retirement medical benefits	98,000	98,000	-
	4,261,830	4,258,830	3,000

The following amounts have been charged in the profit and loss account in respect of the above benefits:

	Current service cost	Interest cost	Total
	(Rupees '000)		
Gratuity	1,000	5,000	6,000
Pension	102,000	264,000	366,000
Benevolent fund scheme	14,000	32,000	46,000
Post retirement medical benefits	3,000	6,000	9,000
	120,000	307,000	427,000

10.2 Employees' compensated absences

During the year, actuarial valuation of employees' compensated absences has been carried out as at June 30, 2002 using the Projected Unit Credit Method. An amount of Rs 365 million has been charged to the profit and loss account in this respect based on actuarial recommendations.

10.3 Auditors' remuneration

	For the period ended June 30, 2002 (Rupees'000)
Audit fee	1,000
Out of pocket expenses	500
	1,500

11. Profit for the year after non-cash items

	For the period ended June 30, 2002
	(Rupees'000)
Net profit for the period	24,487
Expenses reimbursed by the State Bank of Pakistan	(1,133,451)
Expenses allocated to the State Bank of Pakistan	(908,070)
	(2,017,034)
Adjustments for:	
Depreciation	55,949
Provision for retirement benefits and employees' compensated absences	852,121
Expenses allocated to the State Bank of Pakistan	908,070
Discount on Market Treasury Bills	(9,864)
Medical inventory consumed	18,265
Profit on disposal of fixed assets	(39)
	1,824,502
	(192,532)

12. Assets and liabilities transferred from the State Bank of Pakistan

	Transfer in consideration of issue of shares	Adjustments/ transfers through current account with SBP	Adjsuted balance transferred
	----------(Rupees '000)----------		
Operating fixed assets	472,735	(269,579)	203,156
Medicine inventory	18,265	-	18,265
Employee loans and advances	-	4,094,424	4,094,424
	491,000	3,824,845	4,315,845
Less: liabilities in respect of staff retirement benefits			
Provident Fund	-	617,366	617,366
Gratuity	-	72,000	72,000
Pension	-	3,215,000	3,215,000
Benevolent	-	499,000	499,000
Post retirement medical benefits	-	89,000	89,000
Employees' compensated absences	-	868,000	868,000
	-	5,360,366	5,360,366
	491,000	(1,535,521)	(1,044,521)

13. Financial assets and liabilities

	Interest/ mark-up bearing			Non interest/ mark-up bearing			
	Maturity upto one year	Maturity after one year	Total	Maturity upto one year	Maturity after one year	Total	Grand Total
	(Rupees '000)						
Financial assets							
Investments	518,864	-	518,864	-	-	-	518,864
Employee loans and advances	13,011	178,562	191,573	246,511	3,705,093	3,951,604	4,143,177
Balance in current account with the State Bank of Pakistan	-	-	-	2,450,017	-	2,450,017	2,450,017
	531,875	178,562	710,437	2,696,528	3,705,093	6,401,621	7,112,058
Financial liabilities							
Other liabilities	-	-	-	1,353,226	-	1,353,226	1,353,226
	-	-	-	1,353,226	-	1,353,226	1,353,226

13.1 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The management of the Corporation believes that it is not exposed to any significant level of credit risk. Loans to employees are secured by deposit of title documents with the Corporation and by insurance policies covering any loss arising from the death of the employees. The remaining balances are recoverable from the State Bank of Pakistan and accordingly are not subject to any significant level of credit risk.

13.2 Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulties in raising funds to meet commitments associated with financial instruments. The Corporation believes that it is not exposed to any significant level of liquidity risk.

13.3 Fair value of financial assets and liabilities

The fair value of all financial assets and financial liabilities is estimated to approximate their carrying values.

14. Number of employees

	2002
Number of employees at June 30, 2002	5,927

15. Date of authorisation for issue

These financial statements were authorised for issue on 25th September, 2002 by the Board of Directors of the Corporation.

Taslim Kazi
Director Accounts

Muhammad Akram Shad
Managing Director

APPENDICES

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Appendix 1: Money and Credit Policy Measures During FY02

Money Market Measures

- Habib Bank Limited, National Bank of Pakistan, Union Bank Limited, Citibank, ABN Amro Bank, American Express Bank and Standard Chartered Bank were reappointed as Primary Dealers for FY02. This decision was made on June 18, 2001.
- With effect from July 25, 2001, State Bank of Pakistan decided to conduct OMOs as and when required by market conditions, giving prior intimation to banks. Other terms and conditions on the subject remained unchanged.

Liquidity Control Measures

- On July 19, 2002 it was decided to reduce the discount rate (the minimum rate of return to be paid by recipients of financing facilities from SBP for temporary liquidity shortages and SBP 3-Day Repo facility against GOP Market Treasury Bills and Federal/Pakistan Investment Bonds) from 14.0 percent to 13.0 percent. This rate was further reduced to 12.0 percent on August 16, 2002. On October 20, 2002 the discount rate was again reduced by 2 percentage points to 10 percent per annum, and then by 1 percentage point to 9 percent with effect from January 23, 2002.
- In order to meet liquidity requirements Investment Banks and Development Finance Institutions (DFIs), were also allowed to access SBP 3-Day Repo facility, on the same terms and conditions as for the commercial banks, with effect from January 31, 2002.

Export Finance Scheme

- Effective from July 1, 2001, the maximum rate of finance to be charged by banks from their borrowers under Export Finance Scheme for all eligible commodities and export sales under locally manufactured machinery (LMM) was raised from 10.5 percent to 13.0 percent per annum and SBP refinance rate was correspondingly raised from 9.0 percent to 11.5 percent. However, these rates were later reduced by 1 percentage point with effect from October 1, 2001.
- Effective from October 1, 2001 the State Bank of Pakistan introduced new instructions under Part-I of the Export Finance Scheme. Modifications in the old scheme were aimed at simplification of procedures to eliminate excessive documentations, lowering the markup rate, extending coverage and setting up of a Pre-shipment Export Finance Guarantee (PEFG) agency.
- In order to enable banks registered in Pakistan to have the confirmation of their L/Cs at a reasonable rate, the government negotiated a facility with the Asian Development Bank (ADB). The facility, which was notified on October 17, 2001, was to guarantee payments to international banks confirming eligible L/Cs, if the payment obligation under the L/C is not made by the Issuing Bank and this failure to pay is solely, directly and immediately caused by the occurrence of certain events which have been pre-agreed between ADB and the GOP. The guarantee so provided effectively transferred country risk associated with Pakistan into ADB risk and ensured the continued willingness of international banks to confirm import L/Cs issued by Pakistani banks used for imports required for export production. The facility is administered through a facility agent, Standard Chartered Bank in Dubai, appointed by ADB with concurrence of the government.
- It was decided on October 24, 2001 to relax the provision of EFS up to 270 days (both pre-shipment and post-shipment) for availing finance for export of carpets and rugs. In case of fresh finances, granted by banks to exporters, the facility was made available for 270 days to these exporters. Banks were required to adjust the finance within a maximum period of 180 days, and allow refinance for an additional period of 90 days, (provided shipment was made by the exporters within a period of 180 days after the withdrawal of the finance). In case of

export finance already availed by exporters under Part-I of the EFS, banks were authorized to allow an additional period up to 90 days for repayment of export finance.

- Banks were advised on October 30, 2001 to provide financing facility under EFS to consultancy services. Since the government accorded "deemed export" status to foreign exchange receipt remitted into Pakistan against consultancy services, such earnings qualified for export finance facility under Part-I for a period not exceeding 180 days. However, the facility was made available on a case-by-case basis.
- Effective from December 1, 2001 the rate at which SBP allowed refinance to banks on their disbursement to exporters was reduced to 8.5 percent per annum. (This rate was further reduced to 8 percent effective from January 1, 2002, 7 percent effective from February 1, 2002, and then again cut to 6 percent effective from March 1, 2002). However, commercial banks were required to ensure that where financing facilities were extended by them for availing refinance facilities under the EFS, their maximum margin/spread did not exceed 1.5 percent per annum. The financing facilities under Part-B of the Scheme (for financing LMM) would also attract similar mark up rate structure. The rates under EFS were revised upwards by half a percentage point effective from April1,2002.
- Following September 11 incidents the consequent cancellation of export orders of the producers of leather garments and leather products, SBP relaxed instructions on December 21, 2001, for such exporters availing loans under export finance Part-I and II. Accordingly, exporters who had availed loan under Part-I of the scheme, for export prior to September 30, 2001 and had shipped goods with a delay, a maximum period of 90 days were granted during which time the fine for delayed shipment would not be levied. However, exporters were obliged to liquidate the finance/refinance within a period of 180 days. On the other hand, exporters under Part-II were required to show matching performance for FY02 equal to at least 1.5 times (instead of 2.0 times) prescribed for all other eligible commodities under the scheme.
- Exporters of bleached/unbleached clothes were provided financing facilities under Part-I of the EFS, effective from January 30, 2002. The provision of the facility was however, made conditional to maintaining an export price equivalent to, or above, US$ 3 per square meter.
- With effect from February 16, 2002 Export Finance Facility was extended to export of bones under both parts of the Scheme, and for the export of wheat, under Part-I at post shipment stage to the private sector exporters only.
- In order to boost the export of brown rice to the European countries, effective from April 13, 2002 finance/refinance for export of Brown Rice in bulk/loose was allowed, on a case-by-case basis under Part-I of the Scheme against L/Cs only. The existing facility for export of "Brown Rice" in packing of 1-50 KG continued to be available.
- On April 27, 2002, it was decided that the rate of refinance under Export Refinance Scheme would remain at 6.5 percent for the month of May 2002. The condition of maintaining the maximum margin/spread to 1.5 percent for providing facility to exporters availing refinance, was retained. The financing facility under Part-B (LMM) attracted a parallel mark up rate structure. Further, for the months of May and June 2002, the refinance rates under both export finance and LMM finance were retained at 6.5 percent, while maintaining a maximum margin/spread of 1.5 percent.

Inception of Housing Refinance Window

On July 13, 2001, in order to allow banks to have an active role in lending for mortgage purposes as envisaged in the National Housing Policy approved by the Federal Government, and with a view to bring in healthy competition among the commercial banks in respect of their lending activities for Housing Finance, it was decided to activate a Housing Refinance Window at the State Bank of Pakistan, which would be operative through Housing Finance Companies (HFCs) registered and functional in the private and public sectors. Following guidelines were issued with immediate effect: -

- Banks are free to extend mortgage loans for construction of houses, up to a maximum period of fifteen years. The commercial banks would ensure matching of asset and liability. For the purpose, the commercial banks are encouraged to float long-term housing bonds of not less than 10 years maturity.
- While extending financing facilities to their customers, the banks would ensure that the installment of the loan extended by them is commensurate with the cash flow and payment capacity of the borrower. This measure would be in addition to banks' usual evaluation of each proposal concerning credit worthiness of the borrowers as also the fact that the banks' portfolio under housing finance fulfills the prudential norms and instructions issued by the State Bank and do not impair the soundness and safety of the bank itself.
- Banks are encouraged to develop floating rate products for extending housing loans, thereby managing interest rate risk to avoid its adverse effects. State Bank would also encourage banks to develop in-house system to stress test their housing portfolio against adverse movements in interest rates as also maturity mismatches.
- Commercial banks shall ensure that at no time their total exposure under house financing exceeds 5 percent of their net advances.
- The housing finance facility would attract a minimum debt equity ratio of 70:30.

Wheat Procurement Facilitation by SBP

In order to ensure that the transition to procurement of wheat by private sector is accomplished smoothly, without causing any inconvenience to the general consumers, following guidelines were issued to banks for providing financial facilities to private sector for wheat procurement/storage through BSD Circular letter No.33 dated December 3, 2001:

- The banks would provide credit to private sector for wheat procurement under commodity operations at 12 percent mark up rate to the eligible flourmills for the initial year. The lending rates would subsequently be made market based on their linkage with rates on T-bills.
- In order to assess the credit risk, banks would have a direct interaction with the borrowers. The Flour Mill Association would ensure cooperation in this regard so that banks are able to complete their credit approval/appraisal process and legal documentation required for this purpose.
- For the purpose of enhancement in the wheat storage capacity in the private sector, banks will provide adequate funds for a maximum period up to 7 years for the construction of silos, and other structures that can serve as a storage area for wheat at a debt equity ratio of 60:40 at normal lending rates. The banks would ensure that the transactions are viable and their exposure is secured adequately. The banks may like to approach Ministry of Food, Agriculture and Livestock (MINFAL) that would prepare standardized models for construction of storage facilities (of various sizes/types).

Other Measures

- NBFIs' financing facilities against shares of listed companies, which were subject to minimum margin of 30 percent of their average market value of the preceding 12 months, was reduced to 25 percent from September 15, 2001.
- On October 10, 2001 SBP amended the existing forms of Accounts and Balance Sheet of banks. The revised forms of Balance Sheet, Profit and Loss Account, Statement of Changes in Equity and Cash Flow Statement together with notes forming part thereof substituted the existing forms effective from December 31, 2001.
- It was decided to create a database of NPLs at the State Bank of Pakistan so as to have a consolidated as well as individual borrower wise figures of NPLs on a uniform basis for the purposes of SBP monitoring and for sharing it with other banks. Banks were, therefore, advised to submit to the Credit Information Bureau, data of their non-performing loans of Rs

10 million and above on monthly basis, starting from the month of October 2001, within 15 days of the end of each month.

- On January 1, 2002 the SBP instructed all banks/DFIs not to nominate as director including nominee director on the board of a bank/DFIs, persons related with the business of money changers, members of the stock exchanges, brokerage houses or companies owned or controlled by them or persons directly or indirectly associated with the business of stock market/money changer. Banks having such persons on their board were asked to regularize their positions within 90 days.
- Effective from January 1, 2002 sub-ordinated debt was redefined to include rated and listed subordinated debt instruments (like TFCs/Bonds) raised in the capital market. To be eligible for inclusion in the supplementary capital, the instrument had to be fully paid up, unsecured, sub-ordinated as to payment of principal and profit to all other indebtedness of the bank, including deposits and not be redeemable before maturity without prior approval of the SBP.
- Prudential regulations pertaining to FE-25 deposits were amended on January 1, 2002, stating that foreign currency deposits mobilized under FE-25 schemes should not at any point exceed twenty percent of the local currency deposits of the banks / NBFIs at the close of business on the last working day of the preceding quarter. The banks/NBFIs that were in breach of this new requirement as on January 1, 2002, were required to ensure compliance by July 1, 2002.
- Prudential regulation related to maintenance of assets by banks was amended under which effective from March 2, 2002, all banks in Pakistan were required to maintain 80 percent (as against 85 percent) of the assets created by them against their time and demand liabilities, in Pakistan, and the remaining 20 percent of the time and demand liabilities, as specified in Form-X, could be held abroad.
- Effective from March 22, 2002, the sale of Special US Dollar Bonds against payment of value in US dollars and payment of "Rupee Redemption Bonus of 5 percent", on maturity of three years Special US Dollar Bonds, for encashment in Pak Rupees was stopped by SBP, by amending Special US Dollar Bonds Rule of 1998.
- In order to prevent use of traveller cheques for money laundering purposes and to re-emphasize its use for traveling purposes, effective from May 23, 2002 SBP disallowed the banks to issue traveller cheques in denomination exceeding Rs 10,000.

Appendix 2: Exchange and Payment Reforms During FY02

The following exchange and payment reforms were introduced in FY02:

- On August 27, 2001, authorized dealers (ADs) were empowered to allow remittances of surplus passage/freight collection of foreign airlines/ GSAs of foreign airlines in respect of those passages/freight that have already been undertaken.
- With a view to liberalize the foreign exchange activities, Nostro limits of the ADs were withdrawn with effect from August 31, 2001.
- Effective from September 1, 2001 resident Pakistanis, including firms and companies, were allowed to make equity based investment (other than portfolio investment) in companies (whether incorporated or not)/ joint ventures abroad on repatriable basis, in accordance with the prescribed guidelines, with prior permission of the SBP.
- The restriction placed on ADs for buying and selling foreign exchange from/to other ADs in Pakistan unless backed by permissible customer transaction was withdrawn with effect from November 21, 2001. Hence, ADs could freely buy and sell foreign currency from/to other ADs within permissible exposure limits.
- With a view to further liberalizing the foreign exchange activities, the amounts of foreign exchange in excess of the prescribed limits on payments for travel, education, medical treatment aboard and other specified invisibles were allowed subject to certain conditions with effect from November 21, 2001.
- It was been decided that after January 31, 2002, fresh deposits under NDRP-III would not be accepted, and that rollover of earlier deposits would also cease. Hence all existing deposits would be paid on maturity.
- With effect from February 13, 2002 ADs were allowed to issue foreign currency travelers' cheques to foreign and Pakistani nationals (residents and non-residents) against surrender of an equal amount of foreign exchange in cash.
- Effective from February 19, 2002 ADs were delegated powers to allow the opening of Special Foreign Currency Accounts in Pakistan by owners, charterers and operators of ships and/or all floating crafters including tugs, dredgers survey vessels and other specialized crafts. The cash deposits and withdrawals were, however, not permitted.
- To further liberalize the foreign exchange market, surrender requirement for ADs on incremental deposits (FE-31) was withdrawn with effect from April 01, 2002. Hence, no forward cover would be provided by the SBP. The rollover of existing forward covers was also prohibited and ADs advised to take-up the respective forward contracts on maturity. With effect from July 1, 2002, the same CRR and SLR were made applicable on FE-31 deposits as were applicable to FE-25. Effective January 01, 2003, FE-31 deposits will form an integral part of FE-25 deposits.

Major Updation/Revision of the Foreign Exchange Manual Announced on January 2, 2002

- Previously, the ADs license to branches of the banks/NBFIs was granted by SBP on case-to-case basis. Now, after obtaining an authorization from SBP to deal in foreign exchange, head offices/ principal offices of the banks/NBFIs were freed to decide full/restricted AD license for their branches.
- ADs are allowed to sell foreign currencies forward to non-residents for their portfolio investment in the Rupee denominated shares and securities on repatriation basis out of funds remitted from abroad. The forward cover can also be provided on the date of conversion of foreign currency into Rupees pending their investment. Such sales were to made only for the amounts brought in or the face value of the security, whichever was higher. No forward cover was to be provided for dividend/interest/coupon income and for foreign direct investment.
- ADs were allowed to provide forward cover to investment banks, modarabas and leasing companies holding restricted AD license in respect of funds mobilized against issuance of

Certificate of Investment and surrendered to the SBP, provided the forward cover facility was not been obtained from SBP.

- ADs were permitted to extend forward contracts on rollover basis even for less than one month.
- Foreign oil/minerals exploration companies and foreign contractors and their foreign sub-contractors were allowed to open foreign currency account with ADs subject to certain conditions.
- Firms and companies raising foreign equity and foreign currency loans were allowed to open special foreign currency accounts for receiving and retaining the foreign funds under specified conditions.
- Monthly ceiling of Rs 5,000 on cheques drawn from non-resident accounts of persons, firms and companies other than banks, for maintenance were withdrawn.
- The facility of retaining export proceeds in special exporters account for 3 days is also available for advance payment received for exports.
- ADs were allowed to extend realization period to six months (where the terms of sale provide for payment earlier than six months) subject to satisfactory explanation for the extension in the realization period.
- The powers to allow remittances against import documents received directly by the importer were delegated to the ADs.
- The powers to allow remittances of claim in respect of reinsurance business were delegated to ADs.
- The requirement of submission of details of credit entries in bank account other than monthly pay and allowances and sale proceeds realized in respect of locally and imported purchased articles each of value of Rs 500 was dispensed with.
- The ceiling of Rs 10,000 for payment of fee for approved correspondence course was been abolished.
- The powers to sanction foreign currency loan for working capital of foreign controlled companies were delegated to ADs.

Appendix 3: Trade Policy for FY 02.

Trade policy for FY02 was designed with a view to attain a quantum jump in country's exports to reduce the adverse impacts of falling unit prices of major commodities on our export earnings. The export target for FY02 was set at US$ 10.1 billion and with projected imports of US$ 11 billion; the trade deficit was expected to remain below US$ 1 billion. For achieving this target, the need of correcting the structural weaknesses in our export sector was emphasized. In this connection following areas were identified:

- Enhancing exporters profitability.
- Simplification of export procedure by removing irritants.
- Enhancing competitiveness of exports by ensuring adequate availability of finance.
- Reducing the anti-export bias and ensuring emergence of new generation of exporters.
- Ensuring greater access of our products to new markets.

Besides, these structural problems, emphasis was laid on continuation of previous years objective of achieving greater value addition and diversification of products and markets.

The salient features of the FY02 trade policy are listed below:

Exporters' Profitability

- In addition to Duty and Tax Remission for Exports (DTRE) rules, the scheme of Common Bonded Warehouses was revived with immediate effect. The Common Bonded Warehouses was designed to work as a virtual Duty Free Shop of inputs for the exporters thus reducing their 'carrying costs'.
- Exporters who posted at least ten percent growth over the last year's exports were allowed to retain 50 percent of their additional export receipts in their local foreign currency accounts effective from December 3, 2001. This amount could be used for purchase of machinery and equipment and raw materials and payment of commission, promotional expenses etc.
- Export Development Surcharge was waived on the additional exports.
- Monetary rewards were also announced for exporters showing better performance, through an 'incentivization scheme' that seeks to reward three categories of exporters (large, medium and small) for increase in overall exports, new markets, value addition etc. An amount of Rs. 2 billion was allocated for this scheme.

Export Finance Scheme

Government withdrew the 'subsidy' on export finance as part of the commitment with the IMF and interest rates were linked to Market Treasury Bills (MTB). The main elements of the export finance package announced included:

- Effective from April 2, 2001 foreign currency export finance facility by the SBP was provided for the benefit of exporters with a view to provide support to domestic manufacturers requiring foreign inputs for exportable goods and increasing access to export financing by small and medium size exporters and contribute towards increased exports.
- In order to boost country's exports and reduce shipment risks, Pakistan Export Finance Guarantee Agency (PEFGA) for Pre-shipment export finance guarantee, was launched on July 16, 2002. PEFGA will also provide bankable guarantees that may be used as collateral. It has started post-shipment insurance cover facility for the exporters on April 4, 2002. The indemnity of the post-shipment scheme is 90 percent, which covers commercial, insolvency, failure to pay and protracted default. The insurance also covers political, war and civil disturbance risks. The provision of insurance is, however, made subject to the condition that goods should be acceptable to buyers, and a system of third-party inspection is created.

New Generation of Exporters

A new " hand-holding" scheme was introduced to induct a large number of new/emerging exporters. Important components of the scheme included:

- Capacity building of identified SMEs for covering product development, quality up-gradation, cost reduction measures and sale promotional efforts through private sector professionals. In this regard, Rs 20 million from the Export Development Fund were earmarked for the estimated expenditures during the first year.
- EPB was to sponsor special delegations abroad of the selected SMEs to explore market prospects as well as provision of special facilities for these SMEs in the overseas trade fairs organized by EPB.
- Exporters with total exports of less than US$ 1 million were exempted from the Export Development Surcharge.

Market Access

- In order to effectively counter buyer perception that Pakistan is an unreliable supplier, especially in terms of quality and " in-time" delivery, a major scheme was proposed for Warehousing of Pakistani products abroad. This scheme envisaged setting up of companies by groups of exporters in major cities around the world to market their products through 'bonded stores' in these cities.
- For attaining higher social, environmental and labor standards, a scheme was setup through funding from the EDF, to help exporters acquire SA 8000 certification.
- The zero rating of dollar exports to Afghanistan (currently available to cement, rice, pharmaceuticals, glass sheets, and G.I. pipes and hardware items) was expanded to safety matches; furniture (wood, plastic, metal and fibre glass); water storage tanks (fibre glass, plastics, and metal); tobacco leaf (in crates/cartons); gur; agricultural machinery, electric motors, pumps, fans, transformers; leather manufactures & footwear; confectionery items, jams, juices and pickles.

Export of Services

In order to promote the export of services, following facilities were provided for the exports of entire range of 'services':

- Retention from export proceeds for commission etc. @ 35 percent, as is the case with I.T.
- Permission to export equipment from Pakistan, without a bank guarantee, and its free re-import upon conclusion of contract.
- Facilities from banks for bonds, performance guarantees and advance payments. Details will be worked out in consultation with SBP/banks/insurance companies.
- Work actively to provide Technical Assistance to friendly countries for this sector.

Emerging Electronic Products Assembly Scheme (EEPAS)

Emerging Electronic Products Assembly Scheme (EEPAS) for local assembly of televisions was expended to include mobile phones, cassette players, and electronic calculators, DVD players etc. with the objective to become a recognized world-class assembler of local and foreign branded goods. The salient features of the scheme included:

- No deletion program for the next 5 years under the EEPAS.
- Customs duty of 5 percent on CKD kits.
- No limit on number of units an assembler may like to assemble.

Trade Related Measures Announced by SBP

- SBP on September 28, 2001 revised its earlier instructions regarding repatriation of export proceeds. The exporters are now required to repatriate the export proceeds on the due date for payment or within six months from the date of shipment, whichever is earlier.

- SBP on September 27, 2001 decided to extend the facility (to retain export proceeds upto 35 percent in a Foreign Currency Account available to the exporters of software and to all Service Sectors such as Financial Services, Wholesale, Distribution and Retail Trade, Transportation, Storage and Communications, Tele-communication Services, Medical Services, Educational Services, Engineering Services, Real Estate Development, Hotel and Tourism/Tourism Related Services, Technical Testing Facilities and Consultancy Services etc.
- The instructions regarding application to lower the exchange rates prevailing on due date or on the date of realization of export proceeds have been withdrawn with effect from September 28, 2001.
- With effect from September 28, 2001, exporters were allowed to retain up to 6 percent of exports value (FOB basis) in FCAs with ADs in Pakistan subject to the condition that the exporter is not required to pay commission or required to pay to the foreign agent an amount less than the maximum permissible limits. Previously such exporters could retain up to 5 percent of export value on FOB basis in their FCAs.
- In order to encourage the exporters, SBP on December 3, 2001 allowed the exporters who post at least 10 percent growth over the last year's export performance to retain 50 percent of their additional export proceeds in their foreign currency account maintained with the Authorized Dealers in Pakistan.

Other Trade Related Measures Announced during the FY02

- The government fully deregulated the export of wheat and allowed the private sector to export wheat and its flour without any restrictions on quantity, value and purchase from any source. The government also allowed the wheat imports by the private sector and increased the import duty to 30 percent from 5 percent on July 4, 2001.
- All Pakistan Textile Mills Association (APTMA) revised downwards the minimum export prices (MEP) for various counts of cotton yarn as well as polyester cotton yarn effective from August 9, 2001. Standing Committee on Export Price Check of APTMA reduced MEP for all counts of cotton yarn by US$ 10 per bale while MEP for polyester cotton yarn of all counts, have been slashed by US$ 5 a bale.
- The Central Board of Revenue (CBR) imposed the regulatory duty on the import of edible oils, oil seeds, di-sodium carbonate (Soda Ash), polyester staple fibre, polyester filament yarn, polyvinyl chloride and pure terephthalic acid (PTA) effective from July 1, 2001. Regulatory duty on the export of raw hides and skins, wet blue tanned hides & skins and various types of bones including crushed bones was also levied by the CBR.
- On August 1, 2001 the CBR withdrew the duty drawback facility from the manufacturers-cum-exporters of leather shoes allowed on April 30, 2001 with immediate effect.
- In pursuance of the decision announced in the FY02 trade policy, the CBR on August 29, 2001 exempted from sales tax the export of 20 items to Afghanistan and Central Asian Republics through land route.
- The CBR on October 16, 2001 announced the Zero-rating supplies of taxable goods made by registered persons against international tender to UNICEF, UNDP, WHO, WFP, UNHCR and IRC for Afghan refugees.
- On November 28, 2001 the federal government granted sales tax exemption to the supplies of hand-knotted carpets by registered persons to foreign nationals (against payment through a foreign credit card) for subsequent export as personal baggage.
- With effect from December 27, 2001 ADs were allowed to approve import payments up to US$ 5,000 per person during a fiscal year in respect of cost of medicines, hearing aids, braille watches and small carts or parts of special gadgets for the disabled persons or life saving instruments imported by the applicants for their personal use. Previously this limit was Rs 5,000 per person during a fiscal year.

- Effective from December 27, 2001, ADs were permitted to issue foreign currency demand draft up to US$ 15,000/- for import of spare parts/ machinery without opening of letter of credit provided such import is made by air or by courier. Previously this ceiling was US$ 7,000/- per fiscal year.
- The European Union (EU) withdrew duty on many Pakistani value-added products, besides allowing 15 percent increase in quota with effect from January 2002. In return Pakistan would improve market access to EU clothing and other textile exports through reducing import duty by 5 percent.
- Under the second phase of the WTO agreement, effective from January 1, 2001, several products exported by Pakistan to European Union (EU), Canada and the US, were declared quota-free which included Bar mopes (Cat-369-R); flat dish towels (Cat-369-FP); knitted gloves for the USA; bathrobes for the EU (Cat-18); and knitted blouse and boxers' shorts for Canada (Cat-8A-1).
- The Ministry of Commerce in consultation with CBR decided on January 16, 2002, to abolish Export Development Surcharge (EDS) on all exports up to June 30, 2002. This decision was taken to reduce extra financial burden on exporters.
- European Union announced the withdrawal of 6.4 percent anti-dumping duty on imports of bed linen from Pakistan with immediate effect on January 28, 2002.
- On February 12, 2002 CBR announced the repayment of custom duty on the import of raw materials used in the manufacturing of various kinds of batteries produced in the country.
- The CBR announced the exemption of central excise duty (CED) on the import of 'hydraulic cement', used specifically in the construction of oil wells on February 13, 2002.
- On February 21, 2002 the Economic Co-ordination Committee of the Cabinet (ECC) approved the negative list for export to Afghanistan and allowed the exports of urea, high speed diesel, furnace oil and all other petroleum products, zero rated export from EPZ/Bonds except vegetable ghee and cooking oil.
- The CBR on March 4, 2002 decided to repay custom duty on the import of raw materials used in the manufacturing of 'core spun yarn' by the textile industry. The duty drawback facility would only be applicable on the import of 'lycra yarn or spandex yarn' used for producing 'core spun yarn with lycra', for export.
- On March 7, 2002, CBR withdrew the concession in the rate of custom duty on the import of hot roll clad (HRC) sheets of all sizes, on the recommendations of the Engineering Development Board (EDB).
- CBR announced the extension of duty draw back facility to 50 new raw materials, which included all man-made yarns used in the manufacturing of textile products to be re-exported by the commercial exporters as well manufacture-cum-exporters on March 17, 2002.
- Pakistan Export Finance Guarantee Agency (PEFGA) started post-shipment insurance cover facility for the exporters in April 2002. The indemnity of the post-shipment scheme is 90 percent, which covers commercial, insolvency, failure to pay and protracted default. The insurance also covers political, war and civil disturbance risks. The provision of insurance is, however, made subject to condition that goods should be acceptable to buyers, and a system of third-party inspection is created.
- In view of the expanding wheat exporting operations of the Trading Corporation of Pakistan, the facility of demurrage-free days was extended to 20 days instead of the normal 2 days under the tariff in April 2002.
- On April 12, 2002 the federal government allowed the export of urea to Afghanistan by the private sector subject to contract registration with Export Promotion Bureau (EPB), as mentioned in an official handout issued.
- From May 1, 2002 Saudi Arabia and the United Arab Emirates (UAE) have lifted the ban (imposed in 2000) on import of meat and other livestock products from Pakistan.

- In order to protect the local industry, the CBR withdrew the concessionary rate of custom duty on the import of 20 items including ceramic goods and steel line pipes on April 24, 2002.
- In a move to enhance the exports of cooking oil, the government has allowed duty drawback facility to the exporters of 10 different types of cooking oil and banaspati/vanaspati vegetable ghee from May 7, 2002.
- In order to facilitate the exporters of textiles. on May 13, 2002 the CBR enhanced the duty drawback rates on 20 different types of polyester blended fabrics and yarn exported from March 1 to June 30, 2002.
- On May 18, 2002 the Export Promotion Bureau (EPB) announced the new rules for Kinno export. The consignments were only allowed in cartons with net weight of 8, 10 and 13 kilograms and the net weight must be printed on the cartons.
- While reducing the customs duty on the import of cars; plant and machinery for development of grain handling/storage facilities; aircraft/spare parts and stainless/alloy steel, the government on June 16, 2002 has slashed the maximum customs tariff rate of 30 percent to 25 percent. The new slabs would be 25, 20, 10 and 5 percent.
- With a view to promote trade and business activities among the region, under the SAARC Preferential Trading Arrangement (SAPTA), the Central Board of Revenue announced new concessional duty rates on the import of 685 items from the seven South Asian Association for Regional Corporation (SAARC) member states, including India, on June 18, 2002. The concessionary rate of duty on these items would range between 10-20 percent of the existing tariff if imported from India and Sri Lanka, whereas in case of imports from Bangladesh, Nepal, Bhutan and Maldives Islands, the extent of duty concession rate would range between 10-30 percent.
- On June 19, 2002 the Federal Cabinet approved zero-rated duty on import of agriculture machinery and equipment for Corporate Agriculture Farming (CAF) and also exempted these from sales tax.

Appendix 4: Policy Measures for Industrial Sector During FY02

The following measures were taken for the promotion of domestic industry in FY02:

Trade Related Measures

- On July 01, 2002 the government enhanced duty drawback rates on the export of all kinds of gray, bleached, and dyed/printed fabrics, garments, wearing apparel and made ups. This decision will provide an impetus to local industry to increase their access to new markets and enhance their production.
- To promote nuclear research and power generation in the country, the rate of custom duty on the import of nuclear reactors, machinery and apparatus for isotopic separation and parts thereof, fuel elements non-irradiated and parts of nuclear reactors was reduced by 5 percent on July 1, 2001.
- To provide relief to pharmaceutical industry from increasing costs of production, the import of over 400 raw and packing materials for the industry were exempted from custom duty in excess of 10 percent ad valorem at the import stage on July 13, 2001.
- To boost the tyre and tube industry, repayment of customs duty on the export of tyres and tubes of trucks, buses, cars, jeeps and motorcycle, was allowed on July 26, 2001.
- On August 2, 2001, repayment of customs duty was allowed on the import of raw materials used in 100 percent cotton gray made-ups filled with polyester stable fiber and polypropylene; woven or knitted made-ups whether dyed or printed; 100 percent cotton bleached made-ups filled with polyester stable fibre and polypropylene; dyed and printed made-ups; partially-dyed or printed; gray blended made-ups (all blends of polyester stable fibre from 15 percent and cotton fibre) filled with polyester stable fibre and other textile products meant for export.
- In order to rationalize the prices of steel products to promote economic activities in engineering and construction industries, custom duty on the import of a number of steel products was reduced by 10 percent on September 7, 2001. The major items on import of which custom duty was reduced included flat rolled products of iron or non-alloy steel of width of 6000 mm, cold rolled, non-clad, plated or coated, cold rolled tubes, pipes of hollow profiles and seamless of iron or steel.
- In view of insufficient domestic production, custom duty on the import of synthetic staple fibre-not carded, combed or otherwise, was reduced from 20 percent to 5 percent on September 7, 2001.
- For the locally manufactured vehicles to be supplied to diplomats, diplomatic mission, privileged person and organization etc., eligible to import duty free vehicle, import of CKD kits was allowed free of duty on September 7, 2001.
- To accelerate the domestic production, the CBR on October 7, 2001, withdrew 20 percent regulatory duty (RD) on the import of raw material and components required for production of chloro-fluro carbons (CFC) used in refrigerators, deep freezers and air conditioners.
- In order to provide relief to the textile industry, the Central Board of Revenues (CBR), with effect from February 1, 2002 announced repayment of custom duty on the import of raw material to be used in the manufacturing.
- In order to promote the domestic production of various kinds of electric batteries in the country, the duty drawback facility was allowed to domestic manufacturers on February 12, 2002.
- The exemption of ships and all the floating crafts from the customs duty from April 1, 2002, till the year 2020, will adequately facilitate the expansion of the national merchant fleet besides helping it function in the international market in a more competitive manner. The duty exemption to be allowed on import of ships and floating crafts included - tugs, dredgers, survey vessels and other specialized crafts purchased or bare-boat chartered by a Pakistani entity and flying Pakistani flag.

- To familiarize and encourage the use of CNG in the country, on April 8, 2002, the Central Board of Revenue (CBR) decided to allow duty free import of compressed natural gas (CNG) machinery, equipment, conversion kits and cylinders without prior approval of Ministry of Petroleum and Natural Resources.

Tax Incentives

- In order to boost the production of petroleum products, Central Excise Duty (CED) on 'base lube oil' used in the manufacturing of lubricating oil in refineries was withdrawn since July 5, 2001.
- General sales tax on the import and local supplies of over 50-fertilizer and fertilizer raw materials was imposed on September 2, 2001.
- On September 7, 2001, sales tax on the import and supply of raw materials like oleostearin, oleo-oil, tallow oil used in the production of oil and soap, was increased from 15 percent to 20 percent.
- Under the 6th schedule issued by the CBR, raw materials for basic manufacture of pharmaceutical active gradients and raw materials for manufacture of pharmaceutical products were exempted from sales tax in the federal budget FY02.
- CED on cigarettes was increased from Rs 1.77 to Rs1.91 per ten cigarettes with effect from October 1, 2001. Furthermore, in the case of price exceeding Rs 10 per ten cigarettes, an additional 63 percent of the retail price will be charged.
- To promote domestic production of oil seeds, GST levied at a rate of 15 percent on the import of canola seed was withdrawn on October 11, 2001.
- On February 2, 2002 the rate of GST was increased from 15 percent to 20 percent on local and imported steel products and ship-breaking items. A CBR note (No C.4/1-STB/2001-01) stated that the five percent increase in GST rate would be implemented with immediate effect through an amendment in the budget notification wherein 190 items were put under 20 percent GST rate. The normal rate of GST is 15 percent.
- To boost the production of petroleum products, the local supply of bitumen, natural bitumen and asphalt, were exempted from central excise duty (CED) on February 22, 2002.
- To provide relief to the pharmaceutical industry, the CBR, with effect from March 22, 2002 exempted the import of raw materials from customs duty in excess of five percent ad valorem. On March 10, 2002, two more raw materials were exempted from custom duty in excess of 10 percent ad valorem.
- The Central Board of Revenue (CBR) imposed 20 percent GST on the import and local supply of 'castings for automobiles and tractors' with effect from March 18, 2002.
- To provide an incentive to pharmaceutical companies and ultimate ease to consumers, the CBR on May 17, 2002, has withdrawn sales tax on the local supply of all the pharmaceutical raw materials.
- On June 11, 2002, the Central Board of Revenue exempted networking equipment from sales tax to promote Information Technology in the country.

Protection

- To promote the domestic production of air conditioners for the motor vehicles, the rate of custom duty on their import was increased from 25 percent to 30 percent with effect from July 1, 2001.
- To protect the local industry, regulatory duty on the import of soda ash (Di-sodium carbonate) Polyester Staple Fibre (PSF), Pure Terephthalic Acid (PTA), polyester filament yarn and polyvinyl chloride was imposed at the rate of 5 percent ad valorem with effect from July 1, 2001.

- In order to promote production and export of value added leather products, a regulatory duty of 20 percent ad valorem was imposed on the export of raw hides and skins, wet blue tanned hides and skins w.e.f. July 1, 2001.
- The custom duty on the import of flat rolled products of iron or non-alloy steel of a width of less than 600 mm, not clad, plated or coated, was increased from 10 percent to 20 percent on September 7, 2001. The government also levied custom duty of 10 percent on the imports of special round steel bars and rods of non-alloyed steel exceeding diameter 75 mm.
- On September 7, 2001, the duty exemption on the import of compressors and filter dryers for air conditioners, refrigerators and deep freezers, trichlorofluoromethane, dichlorodifluoromethane, trichlorofluoroethane, dichlorotetrafluoroethanes, and chloropentafluoroethane was withdrawn (and the previously leviable rate of 10 percent was enhanced to 20 percent).
- In order to promote indigenous production of steel chord used in the manufacturing of tyres, 5 percent duty was notified on its import on September 7, 2001.
- To provide relief to the domestic sugar industry, custom duty on the import of refined sugar was increased from 10 percent to 20 percent on September 21, 2001. At the same time, 20 percent import duty was also imposed on the import of raw sugar with immediate effect.
- To boost the sale of vehicles, the CBR on October 5, 2001, allowed the foreign diplomats to purchase locally assembled vehicles from recognized local manufacturers free of duty subject to the condition that such vehicles, including four-wheelers should not be sold to another party without prior permission of the customs authorities.
- In order to promote domestic production of synthetic staple fibre, 5 percent ad valorem regulatory duty (RD) was imposed on its import on October 14, 2001. The RD has been levied on a particular type of synthetic staple fiber not exceeding 2.22 decitex.
- In order to boost the foot wear industry, cut in duty drawback rates for the manufacturers of synthetic and leather shoes, was withdrawn on November 20, 2001. The CBR also revised the repayment of customs duty on the import of such raw materials used in the production of canvas or textile shoes.
- In order to avoid the glut of sugar in the wake of good sugarcane crop, customs duty on the import of raw and refined sugar was increased from 20 percent to 30 percent on February 27, 2002.
- For the support of local foot wear industry the Central Board of Revenue, on May 3, 2002, announced exemption of custom duty in excess of 10 percent ad valorem on the import of 'Isocyanate' used in the manufacture of foot wear. Now, the manufacturers could import 'Isocyanate' at the concessionary rate of custom duty with effect from April 30, 2002.

Import of Machinery

- On June 17, 2002 the government notified procedures for zero-rating of sales tax on supplies of locally manufactured plant and machinery for petroleum and gas sectors exploration and productions companies so as to encourage the local machinery manufacturers.
- The CBR, on December 28, 2001 allowed Sui Southern Gas Company Ltd. (SSGCL) and Sui Northern Gas Company Ltd. (SNGCL) duty-free import of items for infrastructure, rehabilitation and expansion of their projects.
- In a move to encourage the textile industry, the federal government, on June 17, 2002 exempted textile machinery from customs duty in the budget of FY03. The exemption will be available on components, sub- assemblies, assemblies and other items of machinery.

Credit Facilities

- To alleviate poverty and meet the credit needs of small business and agricultural tenants, Micro Credit Bank started its operation from March 11, 2002.

- To boost the construction activities in the country, the State Bank of Pakistan advised the commercial banks to float ten-year bonds to mobilize funds for housing loans. This was stated in BSD circular letter issued on July 13, 2001.

Revival of Sick Units

- In order to expand the industrial base and revive the sick units, the CBR exempted special industrial zones from the levy of income tax with effect from February 10, 2002 till December 2002.
- The Central Board of Revenue on April 14, 2002 extended the scope of tax credit/incentive for industrial units executing BMR (Balancing, Modernization & Replacement) so as to speed up the restructuring program. It has been pointed out in the circular that the original provision in the third schedule of the Income Tax Ordinance 1979, allowing tax credit to industrial units for the above purpose, was restricted only to reinvestment of profits in the BMR/expansion project. They have now decided to extend the scope of tax credit/incentives to such investments as would be made through borrowed funds and increase in the paid-up capital of the company through right issue.

Others

- To cater the financial needs of small and medium enterprises, the SME Bank started operations from January 1, 2002. It was established by merging two specialized financial institutions, SBFC and RDFC.
- To provide relief to pharmaceuticals, the federal cabinet on November 28, 2001 approved a 3 percent increase in the prices of essential drugs and a 4 percent jump in those of decontrolled category.

Appendix 5: Fiscal Measures Proposed in FY03 Budget

FY03 budget enumerated numerous measures for broadening the tax base, lowering the number and rate of taxes and for improving the efficiency of tax administration. These policies remained the main concern of the government over the last couple of years. The measures proposed for FY03 are also in agreement with the ongoing taxation reforms. The notable measures announced for major taxes are briefly discussed in the following.

Income Tax

New Income Tax Law

A new Income Tax Ordinance has been promulgated with effect from July 1, 2002, aiming at the simplification of assessment procedure and enabling taxpayers to comply with its provisions. The following are the salient feature of this new law:

- Instead of income tax officer, the taxpayer will determine his taxable income and tax liability.
- Self-assessment procedure will be followed for all classes of taxpayers, irrespective of their status, location or income level.
- Besides, achieving uniformity of tax rates and tax treatment, reducing dependency on withholding taxes, encouraging voluntary compliance, minimizing exemptions and ensuring an effective dispute resolution are some of the objectives of the income tax law.

Rationalization of Personal and Corporate Rates

The government has reduced the corporate tax rates for banking and non-banking companies (see **Table A5.1**). Besides this, the following changes have been made for personal income tax:

- Minimum taxable income limit is revised upward from Rs 60,000 to Rs 80,000.
- To ease the burden of withdrawal of tax exemptions from all cash allowances, the limit of monetised salary was increased from Rs 300,000 to Rs 600,000.
- Withholding tax limit on investment in NSS has been reduced from Rs 300,000 to Rs 150,000.
- Payments on account of utilities allowed to ministers were previously exempted up to Rs 15,000. This exemption has been withdrawn.

Table: A5.1 Tax Rate Comparisons

percent

Category	Previous Rate	New Rate
Income Tax Rates		
Banking Companies	50	47
Private Companies	45	43
Withholding Tax Rates		
Out-station checks		Abolished
Commission on Petroleum Products		Abolished
Processed Poultry meat	1.25	0.75
Commission and brokerage	10	5
Interest on Securities	30	20
Issuance of Bonus Share	10	Withdrawn
Customs		
Stainless steel and alloy steel	10	5
Titanium dioxide	20	10
Waste paper	10	5
Compressors	10	5
Glass Fiber mate	20	10
Ethylene and Propylene	10	5
Electronic Calculators	20	10
CT Scan	10	5
Cars up to 1000 cc	100	75
Cars up to 15000 cc	120	100
Cars up to 1800 cc	150	125
Cars over 1800 cc	250	200
Motorcycles	105	75
Oil seeds	5	10

Central Excise Duty

CED has been withdrawn on: filament yarn, polyester chips, electric batteries, metal containers, optical fiber, kraft paper, ship plates, services provided by travel agents, advertising agents and shipping agents. Furthermore, CED on aerated beverages is being reduced from 15 percent to 12 percent.

Customs

Maximum tariff rate was reduced from 30 percent to 25 percent and slab limits adjusted accordingly, i.e., 25, 20, 10 and 5 percent. This led to changes in tariff rates on hundred of goods, of which changes in important items are reported in **Table A5.1**. Additionally, following measures are also worth mentioning.

- Like previous year, the government plans to lower the number of SROs from 56 to around 30 only.
- To avoid the problem of under invoicing, all dry ports are being linked electronically for sharing of valuation data at customhouse Karachi and to other dry ports.

Sales Tax

Sales tax has emerged as a prime source for the government exchequer over last couple of year. The broadening of tax base and simplification of procedure remained an important part of the government tax policy. The following specific measures were proposed in the federal budget for FY03:

- GST has been extended to ghee and cooking oil.
- Instead of standard 15 percent, GST has been increased to 20 percent on imported edible oils, talc, solvent oil, calcium carbonates, maleic, anhydride and acrylic. This specific measure will not only help the government to generate much needed revenues, but will also promote documentation in the economy.

Appendix 6: Policy Measures for Agriculture Sector During FY02

Following policy measures were taken regarding agriculture sector in FY02:

- To reduce price losses in international market on account of contaminated cotton, the Federal Textile Board (FTB) on July 13, 2001, announced a premium of Rs 200 per maund (37.32 kgs.) for contamination-free cotton and Rs 75 for cotton with low contamination contents. Initially, district of Rahim Yar Khan has been declared as the project area. The buyers will pay the premium to the ginners and they in turn, will share it with the cotton growers.
- On November 1, 2001 the CBR exempted local suppliers of urea fertilizer (other than importers or manufacturers) from general sales tax (GST) with effect from April 1, 2001. GST exemption would also apply on local supplies of 50 different types of fertilizers, other than urea purchased by individuals on or after September 2, 2001.
- On January 19, 2002 the government decided to enhance grain storage capacity for rice and wheat by at least 500,000 tonnes with the help of private sector. Investors from the private sector would be encouraged to develop modern storage facilities near wheat growing areas and ports, particularly in Punjab and at Port Qasim. The Board of Investment invited bids from private sector to build modern storage facility on build-own-operate basis.
- On January 26, 2002 the government decided to impose cess on all crops, including wheat, rice, maize, onion, pulses, potato and tea etc., with a view to generate funds for agriculture-related research projects, besides providing better infrastructure to the farming community. Presently, cess is collected on sugarcane and tobacco crops. The mill-owners and cane growers share equal rate of cess, while in case of tobacco, cess is paid 100 percent by the industry, because there is no mechanism to check production and sale of the crop at growers' end.
- On February 9, 2002 Lahore District Government announced the establishment of an 'Agricultural Machinery Pool' for 11 Union Councils of the district. All kind of agricultural implements and machinery maintained in the Pool would be provided to the interested farmers on rent.
- On February 28, 2002 Pakistan Agricultural Research Council (PARC) demonstrated very encouraging results of the land-tilling machine known as laser land leveler. According to PARC it could increase production by as much as 80 percent through efficient utilization of water, like installation of sprinkling system. The locally manufactured laser land leveler costs US$ 2,500 as compared to US$ 10,000 for imported one.
- On March 17, 2002 the government decided to wind up Sindh Seed Corporation. The corporation, under a special permission was allowed to purchase 15,000 maunds cottonseeds from PASCO, which were to be marketed before the end of the current fiscal year. The seeds multiplication farms would be handed over to PARC or Agriculture Extension while the fate of processing plant was not decided till that time. The Punjab Seed Corporation has been allowed to continue its operations till the private sector seed industry is fully developed and starts meeting the seeds requirement of the growers.

Deep-sea Fishing Policy

To protect the interest of local small fishermen and maintain the source of foreign exchange earning, the government announced changes in the deep-sea fishing policy on July 2, 2001. The main features of the policy entail that:

- The deep-sea fishing trawlers will operate between 35-200 nautical miles subject to monitoring of their performance and conduct on a quarterly basis by the Maritime Security Agency, the National Fisheries Development Board and the Fishermen's Co-operative Society.
- To upgrade the existing local fishing fleet with an aim to reduce/prevent the post-harvest losses, ADBP and SBFC will provide credit facility on priority basis.

- The Food and Agriculture Ministry will ensure the installation of secured satellite tracking system through the Maritime Security Agency on all deep-sea fishing vessels and every vessel will have a Global Positioning System (GPS) onboard with its satellite control at strategic points on the fish harbor, which is mandatory for obtaining a license.
- Minimum Export Pricing (MEP) will be introduced to avoid under-invoicing. The MEP will be based on the recommendations of a committee, which will be set up by the National Fisheries Development Board and the provincial fisheries minister will be the chairman of the Board of Directors of the Fishermen's Co-operative Society.
- The deep-sea fishing vessels, whose licenses were cancelled by the government last year, will have to apply again to the Agriculture Ministry to resume their operations. The government last year cancelled the licenses of deep-sea fishing vessels after finding that those were violating mileage limits, engaged in poaching fish stocks from the area reserved for small fishermen and under-invoicing fish catch.
- The majority of small-scale fishermen cannot operate their boats beyond 12 or 15 nautical miles; consequently the zone between 12-35 nautical miles largely remains under exploited due to small ill-equipped boats/vessels coupled with insufficient capabilities of the local fishermen. To address the problem, the government has decided that medium-sized vessels ranging from 100 to 250 GRT (Gross Registered Tonnage) may be allowed to operate in the above-mentioned zone.

Incentives for the Development of Livestock

To give a boost to the production of livestock and poultry, the government has announced the following measure in the agricultural package:

- Imported plant and equipment not manufactured locally shall be subject to custom duty of 10 percent, with complete exemption from sales tax.
- Capital structure of projects in agro-food industry will be entitled to debt-equity ratio of 70:30.
- Projects will be entitled to financing from all banks and development finance institutions.
- Expatriate personnel of the units will be allowed to import food items and other consumables without any duty/taxes, subject to maximum limit of $2,000 per person per year.
- Import of breeding stock will be allowed subject to the import duty of 10 percent.
- Locally manufactured machinery will be provided credit.
- Parts and components up to 5 percent of initial C&F value of imported plants and equipment shall be imported at 10 percent duty, if imported together with the plant. The export of livestock and livestock products has been allowed.
- Following measures have been taken to meet Sanitary and Phytosanitary (SPS) requirement under WTO for quality assurance and to improve exports of livestock and livestock products:
  - Establishment of laboratories will be encouraged in the private sector.
  - The National Veterinary Laboratory is under construction for drug residue testing in the livestock product. This will ensure quality in exportable surplus.
  - Steps have been taken to improve sanitary and hygiene conditions of animal casing processing units in the country.

Appendix 7: Measures for Islamization of Financial System in Pakistan

Criteria for Setting up a Scheduled Commercial Bank Based on Principles of Shariah in the Private Sector

The State Bank of Pakistan has issued a detailed criterion for setting up a scheduled commercial bank in the private sector for conducting business based on the principles of Shariah.

Those interested in establishing the Scheduled Islamic Commercial Bank have been asked to apply to the Director, Banking Supervision Department, State Bank of Pakistan, Karachi. Applications may be submitted giving details along with supporting documents.

Broad criteria for setting up a scheduled Islamic commercial bank

- The proposed bank will be a public limited company and will be listed on the Stock Exchange. A minimum of 50 percent of shares shall be offered to the general public.
- All financial transactions will be in accordance with the injunctions of "SHARIAH".
- The applicants shall indicate the modes of finance proposed for raising resources and extending financial assistance.
- The applicants will also indicate expertise and other facilities available with them for ensuring compliance of their banking business with Shariah.
- To be able to commence business the bank shall have a minimum paid up capital of Rs 1 billion and also shall at all times maintain minimum capital adequacy ratio of 8 percent based on risk-weighted assets.
- The Sponsor Directors shall subscribe at least 15 percent of the total paid up capital personally. The number of sponsor Directors shall not be less than seven. The amount proposed to be subscribed by each sponsor Director is required to be indicated.
- Sponsor Directors would have to declare personal net worth, which should not be less than the amount to be subscribed by them personally. The net worth of each sponsor Director is required to be indicated and supported by a duly authenticated copy of the latest wealth statement filed with the taxation Department. In the case of sponsor Directors resident in countries where filing of wealth statement is not a requirement of law, a certificate of personal net worth and general reputation issued by an international bank of repute would be acceptable. This facility would also be available to applicants who have recently returned to Pakistan.
- Sponsor Director(s) subscribing more than 5 percent of the total paid up capital shall clearly indicate their request separately. However, such request should commensurate with his net worth.
- Sponsor Directors shall not dispose of their shares in any manner whatsoever for a minimum period of 3 years and thereafter only with the specific written approval of the State Bank.
- Foreign investment by sponsor Directors shall be permissible only on the basis of capital being non-repatriable, but dividends can be remittable abroad.
- An application shall stand disqualified if any of the sponsors and/or Directors, their spouses or firms:
  - Has been convicted by a court of law in Pakistan or abroad for a criminal offence;
  - Has been associated with any illegal activity especially banking business, deposit taking, financial dealings and other business;
  - Has failed to meet his or her obligations to banks and other financial institutions. They shall furnish names of the banks/DFIs along with the names of the branches with which they have had dealings. Bank reports are also required to be submitted;
  - Has defaulted in payment of taxes. They shall indicate their National Tax Numbers;
  - Is or has been associated as Director/Chief Executive with the corporate bodies whose corporate and tax record including customs duties, central excise and sales tax has been

unsatisfactory. Those not so associated with corporate bodies would be required to indicate their occupation/ profession/ trade and highlight their achievements;
  - In the opinion of the sanctioning authority enjoys adverse reputation regarding integrity and performance.
- Neither one person can be a Director in more than one financial institution nor one group should have more than one bank.
- Not more than 25 percent of the sponsor Directors shall be from the same family as defined in Section 5(ff) of the Banking Companies Ordinance.
- The Chief Executive would be a professional with no adverse reputation regarding his integrity and performance and shall require prior clearance of State Bank of Pakistan.

Documents to be Submitted along with the Application

- Feasibility study for setting up of the bank including the organization structure and the name of the proposed Chief Executive.
- Short-term and long-term business plans.
- Risk management guidelines, plans for internal control system and scale of authority.
- Working systems and procedures for business operations.
- List of companies/firms and their bankers in which sponsor Directors and their family members as defined in Section 5(ff) of Banking Companies Ordinance, are interested as Directors, Chief Executive, Partner, Proprietor, or major shareholders holding 5 percent or more shares.
- Constitution and members of Shariah Board along with their brief resume.

Other requirements

- The bank, which may be permitted to be established, shall be subject to the prevalent banking and other laws, rules and directives issued by SBP from time to time.
- The Bank must commence operation within six months of the grant of permission. They must open at least five branches within a period of twelve months from the date of permission.
- The applicant shall deposit Rs 1 million along with the application as processing fee. The fee so deposited shall be non refundable.
- Incomplete application shall be returned and processing fee retained. Re-submission would attract fresh fee.

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STATISTICAL ANNEXURE

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SELECTED ECONOMIC INDICATORS

1. SELECTED ECONOMIC

I T E M	Unit/ Base	1997-98	1998-99	1999-2000	2000-01	2001-02
1. G.N.P. at Current Factor Cost	Million Rupees	2,456,520	2,710,396	2,877,082	3,111,093R	3,454,219P
2. G.N.P. at Constant Factor Cost of 1980-81	,,	594,554	620,031	641,773	657,837R	693,390P
		(3.31)	(4.28)	(3.51)	(2.50)	(5.40)
3. Agricultural Production Index	1980-81=100	170	171	191	174	173
4. Manufacturing Industries Index	,,	262	271	271	297	309
5. Manufacturing Minerals Index	,,	302.5	298.5	307.9	316.8	332.7
6. Currency in Circulation	Million Rupees	272,922	287,716	355,677	375,465	433,816
		(11.79)	(5.42)	(23.62)	(5.56)	(15.54)
7. Monetary Assets #	,,	1,206,320	1,280,546	1,400,632	1,526,044	1,751,876
		(14.53)	(6.15)	(9.38)	(8.95)	(14.80)
8. Government Deposits with SBP	,,	10,321.4	13,589.7	24,807.2	25,350.0	43,106.5
9. Scheduled Banks' Demand and Time Deposits (excluding inter-bank deposits) #	,,	1,071,698	1,162,293	1,185,739	1,293,014	1,473,547
		(11.98)	(8.45)	(2.02)	(9.05)	(13.96)
10. Scheduled Banks' Advances #	,,	644,049	725,852	801,154	866,490	894,524
Ratio of Sch. Banks' Advances to Deposits		16.57	12.70	10.37	8.16	3.24
11. Scheduled Banks' Investments	,,	402,119	390,869	287,049	296,934	471,020
Ratio of Sch. Banks' Investments to Deposits		16.97	-2.80	-26.56	3.44	58.63
12. Call Money Rate	%	14.64	2.83	10.94	9.28	4.83
13. Weighted Average Rates of Return on Scheduled Banks' Deposits	%	6.81	6.49	5.47	5.27	3.60
14. Weighted Average Rates of Return on Scheduled Banks' Advances	%	15.64	14.80	13.52	13.61	13.19
15. Combined Consumer Price Index-General	1990-91=100	203.96	215.66	223.39	233.24	103.54^
16. Wholesale Price Index -General	1990-91=100	213.08	226.60	230.62	244.95	250.17
17. SBP General Index of Share Prices	1990-91=100	99.47	105.25	128.83	118.72	106.74^
18. Exports (*FBS*)	Million US dollar	8,627.7	7,779.3	8,568.6	9,201.6	9,134.6
19. Imports (*FBS*)	,,	10,118.0	9,431.7	10,309.4	10,728.9	10,339.6
20. Federal Government Revenue Receipts (Net)	Million Rupees	319,217	342,518	387,729	371,960R	457,721P
21. Federal Government Revenue Expenditure	,,	466,501	529,025	604,365	612,680R	697,680P
22. Federal Government Development Outlays	,,	102,623	111,326	89,300	83,603R	111,847P

Last working day ^ Base year 2000-01=100
P Provisional R Revised
Note: Figures in parenthesis indicate percentage change over the previous year

INDICATORS

Indicators For External Vulnerability	Unit/ Base	1997-98	1998-99	1999-2000	2000-01	2001-02
1. Exports *fob*	Million US dollar	8,434	7,528	8,190	8,953	9,193
		(4.17)	(- 10.74)	(8.80)	(9.32)	(2.68)
2. Imports *fob*	Million US dollar	10,301	9,613	9,602	10,202	9,493
		(- 8.36)	(- 6.68)	(- 0.11)	(6.25)	(-6.95)
3. Terms of Trade	1990-91=100	123.51	115.71	97.97	90.96	90.83
4. Current Account Balance	Million US dollar	(-) 1,701	(-) 2,235	(-) 217	(+) 326	(+) 2,744
5. Current Account Balance (% of GDP)		(-) 2.74	(-) 3.55	(-) 0.36	(+) 0.56	(+) 4.52
6. Official Liquid Reserves	Million US dollar	927	1,665	989	1,679	4,329
7. Gold and Foreign Exchange Reserves	Million US dollar	1,737	2,922	2,766	3,810	6,997
8. Official Reserves in Weeks of Imports (of goods & Services)		4.69	9.03	5.37	8.58	23.28
9. Ratio of Official Reserves to Broad Money		3.32	6.51	3.66	6.43	15.18
10. Total Short-term External Debt to Official Reserves		14.02	9.13	13.14	15.31	4.23
11. Total External Debt	% of GDP	50.47	49.82	53.06	54.95	55.05
12. Total External Debt to Exports of Goods and Services (XGS)		305.92	350.06	332.82	308.97	299.28
13. External Interest Payments to XGS		24.20	21.29	22.03	21.87	21.70
14. Exchange Rate (Period Average)	Rs. per US dollar	43.1958	46.7094	51.7709	58.4378	61.4258
15. Exchange Rate (End June) *	Rs. per US dollar	46.2300	51.6028	52.1616	64.4010	60.0729
16. Real Effective Exchange Rate (End Period)	Change in Percent	3.69	- 7.94	- 1.03	- 9.14	5.40
17. Capital Account Balance	Million US dollar	961	(-) 2,278	(-) 4,177	(-) 642	(-) 1,050
18. Foreign Direct investment, (net)	"	572	428	473	286	484
19. Portfolio Investment, (net)	"	34	142	(-) 549	(-) 140	(-) 491
20. External assistance, (net)	"	1,099	0	(-) 1,087	(-) 636	(-) 331
21. Commercial Borrowing, (net)	"	390	(-) 863	(-) 220	431	(-) 331
22. Short-term Credit, (net)	"	(-) 25	0	0	55	(-) 55
23. Non-Resident Deposits, (net)	"	(-) 511	(-) 2,407	(-) 2,313	(-) 135	(-) 26
24. Other Capital	"	(-) 598	422	(-) 481	(-)503	(-)300

* Mid-point of spot buying and selling

1. SELECTED ECONOMIC INDICATORS

Indicators of Scheduled Banks Liquidity

(Million Rupees)

	Bank Credit		Deposits(General)				Credit from Central Bank	
	Total	Change from year Earlier	Total	Change from year Earlier	Credit Deposit Ratio	Excess Reserves	SBP 3-days Repo facility	Refinance Scheme
1998								
March	681,087	15.11	1,030,635	17.08	66.08%	39,280	126,486	-
June	707,122	13.47	1,039,437	11.76	68.03%	29,684	301,284	-
September	655,350	9.20	1,030,476	10.24	63.60%	45,373	23,462	-
December	709,448	8.48	1,049,012	6.24	67.63%	35,007	85,799	-
1999								
March	727,651	6.84	1,029,782	(0.08)	70.66%	44,951	208,149	-
June	789,626	11.67	1,115,473	7.32	70.79%	40,514	158,253	-
September	763,428	16.49	1,096,131	6.37	69.65%	63,305	69,540	-
December	810,940	14.31	1,086,730	3.60	74.62%	64,026	119,968	45,403
2000								
March	801,096	10.09	1,096,310	6.46	73.07%	69,341	162,118	56,081
June	870,708	10.27	1,127,560	1.08	77.22%	91,216	386,014	40,866
September	850,036	11.34	1,151,148	5.02	73.84%	80,773	138,734	64,177
December	940,425	15.97	1,156,315	6.40	81.33%	(19,632)	859,765	40,329
2001								
March	919,399	14.77	1,173,103	7.00	78.37%	30,704	359,487	57,776
June	941,994	8.19	1,240,650	10.03	75.93%	54,142	198,705	46,861
September	919,033	8.12	1,232,008	7.02	74.60%	48,177	161,423	41,611
December	968,378	2.97	1,267,494	9.61	76.40%	58,674	336,088	55,618
2002								
March	960,988	4.52	1,327,468	13.16	72.39%	17,165	129,679	102,999
June	970,112	2.98	1,413,406	13.92	68.64%	24,545	201,161	21,776

Excluding inter-bank advances

ECONOMIC GROWTH, SAVINGS AND INVESTMENT

2.1 GROSS NATIONAL PRODUCT

(Million Rupees)

SECTOR	AT CURRENT FACTOR COST				AT CONSTANT FACTOR COST OF 1980-81			
	1998-99	1999-00R	2000-01R	2001-02P	1998-99	1999-00R	2000-01R	2001-02P
1. Agriculture	739,569	779,692	789,021	829,398	158,783	168,459	164,012	166,289
i) Major Crops	279,713	309,121	292,619	300,871	64,426	74,359	67,080	66,722
ii) Minor Crops	123,342	108,927	113,999	118,875	30,300	27,544	27,575	27,847
iii) Livestock	316,292	337,300	355,361	380,817	57,809	58,906	61,768	63,880
iv) Fishing	16,940	17,168	18,787	20,286	5,477	6,008	5,785	6,017
v) Foresury	3,282	7,176	8,255	8,549	771	1,642	1,804	1,823
2. Industrial Sector	649,475	676,369	725,349	769,609	160,417	162,457	167,567	172,308
i) Mining and Quarrying	14,512	17,393	20,856	22,803	2,831	3,006	3,136	3,254
ii) Manufacturing	423,524	447,395	499,085	537,035	106,767	108,405	116,623	121.738
a) Large Scale	307,647	319,616	360,187	386,756	75,710	75,699	82,180	85,466
b) Small Scale	115,877	127,779	138,898	150,279	31,057	32,706	34,443	36,272
iii) Construction	88,395	97,517	100,164	103,157	21,356	22,456	22,374	22,581
iv) Electricity and Gas Distribution	123,044	114,064	105,244	106,614	29,463	28,590	25,434	24,735
Commodity Producing Sector (1+2)	1,389,044	1,456,061	1514,370	1,599,007	319,200	330,916	331,579	338,597
3. Services Sector	1,346,899	1,465,927	1,647,553	1,829,311	306,033	318,740	334,003	351,016
i) Transport, Storage and Communication	277,548	311,630	357,644	393,799	64,085	66,364	69,692	69,782
ii) Wholesale and Retail Trade	410,678	443,934	488,586	511,819	94,891	96,713	101,784	104,064
iii) Finance and Insurance	88,230	60,255	96,467	102,814	15,403	14,771	15,177	15,749
iv) Ownership of Dwellings	123,501	135,518	146,861	162,946	36,682	38,618	40,657	42,804
v) Public Administration and Defense	206,997	249.832	263,505	321,090	38,395	42,003	42,486	50,217
vi) Community, S & P Services	239,945	264.758	294,490	336,843	56,577	60,271	64,207	68,400
4. Gross Domestic Product (FC)	2,735,943	2,921,988	3,161,923	3,428,318	625,233	649,656	665,582	689,613
5. Indirect Taxes	220,697	256,903	288,369	330,851	47,971	54,864	57,983	65,126
6. Subsidies	18,261	31,724	34,040	32,558	3,969	6,775	6,845	6,409
7. Gross Domestic Product (MP)	2,938,379	3,147,167	3,416,252	3,726,611	669,235	697,745	716,415	748,330
8. Net Factor Income from Abroad	(-)25,547	(-)44,906	(-)50,830	25,901	(-)5,202	(-)7,883	(-)7,745	3,777
9. Gross National Product (FC)	2,710,396	2,877,082	3,111,093	3,454,219	620,031	641,773	657,837	693,390
10. Gross National Product (MP)	2,912,832	3,102,261	3,365,5422	3,752,512	664,033	689,862	708,670	752,107
11. Population (in millions)	133.01	136.00	139.08	142.07	133.01	136.00	139.01	142.27
12. Per Capita Income in Rupees (FC)	20,377	21,155	22,369	24,314	4,662	4,719	4,728	4,881
13. Per Capita Income in Rupees (MP)	21,899	22,809	24,198	26,413	4,992	5,072	5,095	5,294

R : Revised
P : Provisional
FC : Factor Cost
MP : Market Price

Source: Federal Bureau of Statistics.

2.2 EXPENDITURE ON GROSS NATIONAL PRODUCT

(Million Rupees)

SECTOR	AT CURRENT PRICES					AT CONSTANT PRICES OF 1980-81				
	1997-98	1998-99	1999-2000	2000-01R	2001-02P	1997-98	1998-99	1999-2000	2000-01R	2001-02P
Total Consumption Expenditure	**2,231,316**	**2,528,417**	**2,694,041**	**2,917,697**	**3,219,310**	**548,618**	**579,469**	**586,285**	**593,508**	**623,252**
Private Consumption Expenditure	1,929,702	2,223,998	2,342,417	2,567,321	2,793,408	478,189	513,917	515,803	526,782	544,372
General Government Consumption Expenditure	301,614	304,419	351,624	350,376	425,902	70,429	65,552	70,482	66,726	78,880
Gross Domestic Fixed Capital Formation	402,845	409,357	452,280	488,180	459,457	96,961	92,599	97,268	98,162	95,109
Changes in Stocks	71,400	48,000	51,700	56,200	58,000	16,499	10,433	11,041	11,300	11,471
Exports of Goods and Non -Factor Services	441,406	451,144	514,389	615,371	661,024	90,832	88,243	102,376	114,494	120,695
Less Imports of Goods and Non - Factor Services	469,311	498,539	565,243	661,196	671,180	107,305	101,509	99,225	100,744	102,143
Expenditure on Gross Domestic Product at Market Prices	2,677,656	2,938,379	3,147,167	3,416,252	3,726,611	645,605	669,235	697,745	716,720	748,330
Plus										
Net Factor Income from/ to Rest of the World	(-)24,364	(-)25,547	(-)44906	(-)50830	25,901	(-)5,571	(-)5,202	(-)7,883	(-)7745	3,777
Expenditure on Gross National Product at Market Prices	2,653,292	2,912,832	3,102,261	3,365,422	3,752,512	640,034	640,034	689,862	708,975	752,107
Less Indirect Taxes	210,346	220,697	256,903	288,369	330,851	48,617	48,617	54,864	57,983	65,126
Plus										
Subsidies	13,574	18,261	31,724	34,040	32,558	3,137	3,137	6,775	6,845	6,409
Gross National Product at Factor Cost	2,456,520	2,710,396	2,877,082	3,111,093	3,454,219	594,554	594,554	641,773	657,837	693,390
Provision for Fixed Capital Consumption	180,747	188,530	173,033	229,752	238,533	45,521	47,231	45,610	48,530	49,921
Net National Product at Factor Cost	2,275,773	2,521,866	2,704,049	2,881,341	3,215,686	549,033	549,033	596,163	609,307	643,469

R : Revised P : Provisional

(1) The series may not be comparable with similar series given in earlier reports due to revisions by the Federal Bureau of Statistics.

(2) The figures of exports and imports used in this table are based on trade statistics which are compiled on the basis of actual entry of imports and actual exit of exports from the country. The deficit on the current account of the balance of payment computed from these data does not equal the estimates of external resource inflow provided by Planning Division (Table -2.4) as the latter is based on Balance of Payment data compiled on the basis of Payments for imports and receipts from exports.

(3) The figure of net factor income from abroad given in the table includes the imputed value of accompanied personal baggage whereas Planning Division's estimates of this variable (Difference of national and domestic savings given in Table-2.4) exclude personal baggage. Hence the two figures are not comparable.

Source: Federal Bureau of Statistics.

2.3 GROSS FIXED CAPITAL FORMATION

(Million Rupees)

SECTOR	AT CURRENT MARKET PRICES					AT CONSTANT PRICES OF 1980-81				
	1997-98	1998-99	1999-2000	2000-01R	2001-02P	1997-98	1998-99	1999-2000	2000-01R	2001-02P
TOTAL (I+II)	**402,845**	**409,357**	**452,280**	**488,180**	**459,457**	**96,961**	**92,599**	**97,268**	**98,161**	**95,109**
I. Private Sector	**261,465**	**231,544**	**264,681**	**273,423**	**282,651**	**61,396**	**52,222**	**55,022**	**54,585**	**55,601**
Agriculture	21,419	26,968	30,885	29,909	25,718	5,377	6,483	7,167	6,708	5,688
Mining and Quarrying	5,247	6,582	5,756	6,293	6,510	1,358	1,685	1,438	1,537	1,561
Manufacturing	65,042	59,896	77,729	84,036	81,378	12,226	10,388	11,883	12,132	11,787
(i) Large Scale	49,897	41,955	59,690	64,240	59,939	8,248	5,741	7,293	7,203	6,493
(ii) Small Scale	15,145	17,941	18,039	19,796	21,439	3,978	4,647	4,590	4,929	5,294
Construction	12,073	9,617	11,886	14,957	19,312	1,476	914	975	1,105	1,360
Electricity and Gas Distribution	40,373	14,349	13,352	10,632	17,083	10,531	3,686	3,355	2,610	4,139
Transport, Storage and Communication	33,187	22,269	28,125	27,977	23,002	8,177	5,396	6,485	6,242	4,904
Wholesale and Retail Trade	5,647	5,665	6,517	7,577	9,221	1,498	1,466	1,639	1,856	2,210
Ownership of Dwellings	49,182	53,200	56,309	59,935	63,419	13,126	13,757	14,125	14,604	15,147
Finance & Insurance	5,625	7,602	6,562	2,907	6,435	1,501	1,966	1,646	708	1,537
Services	23,670	25,396	27,560	29,200	30,573	6,126	6,481	6,309	7,083	7,268
a. Real Estate	70	74	78	82	92	18	19	20	21	22
b. Other services	23,600	25,322	27,482	29,118	30,481	6,108	6,462	6,289	7,062	7,246
II. Public Sector (A+B)	**141,380**	**177,813**	**187,599**	**214,757**	**176,806**	**35,565**	**40,377**	**42,246**	**43,576**	**39,508**
(A) Public Sector (Autonomous and Semi-Autonomous Bodies)	**81,802**	**115,621**	**122,919**	**147,773**	**105,531**	**19,754**	**24,402**	**26,139**	**27,388**	**22,596**
Agriculture	3,482	5,474	2,921	875	3,819	874	1,316	678	196	845
Mining and Quarrying	5,774	3,772	2,649	3,474	3,837	1,494	965	662	849	920
Manufacturing	5,345	34,480	24,998	53,587	5,988	884	4,718	3,054	6,009	649
Construction	4,268	3,298	2,743	4,108	4,199	522	313	225	304	296
(i) Indus Basin	87	77	10	10	10	11	7	1	1	1
(ii) Others	4,181	3,321	2,733	4,098	4,189	511	306	224	303	295
Electricity and Gas Distribution	26,181	26,613	36,963	34,155	30,739	6,829	6,837	9,286	8,384	7,448
Transport, Storage and Communication	30,140	36,385	47,653	44,488	45,052	7,426	8,816	10,988	9,925	9,606
(i) Railways	2,219	3,450	457	3,180	6369	547	836	105	709	1,358
(ii) Post Office and PTC	9,921	13,326	19,761	19,261	16544	2,444	3,229	4,557	4,297	3,528
(iii) Others	18,000	19,609	27,435	22,047	22139	4,435	4,751	6,326	4,919	4,720
Wholesale and Retail Trade	0	2	0	0	0	0	1	0	0	0
Financial Institutions	1,739	2,275	2,123	2,738	2766	464	588	533	667	661
Services	4,873	3,322	2,869	4,348	9131	1,261	848	713	1,054	2,171
(B) General Government	**59,578**	**62,192**	**64,680**	**66,984**	**71275**	**15,811**	**15,975**	**16,107**	**16,188**	**16,912**
(i) Federal	23,773	24,351	24,966	24,029	24210	6,309	6,255	6,217	5,807	5,745
(ii) Provincial	27,824	29,081	30,708	31,369	35084	7,384	7,470	7,647	7,581	8,325
(iii) Local Bodies	7,981	8,760	9,006	11,586	11981	2,118	2,250	2,243	2,800	2,843

R : Revised
P : Provisional

Source: Federal Bureau of Statistics.

2.4 INVESTMENT AND SAVINGS AT CURRENT PRICES

(Million Rupees)

	1997-98	1998-99	1999-2000	2000-01 R	2001-02 P
1. Gross Total Investment	474,245	457,357	503,980	544,380	517,859
2. Changes in Stocks	71,400	48,000	51,700	56200	58,402
3. Gross Fixed Investment	402,845	409,357	452,280	488,180	459,457
(a) Public Sector	141,380	177,813	187,599	214,757	176,806
(b) Private Sector	261,465	231,544	264,681	273,423	282,651
4. Net External Resource Inflow	82,979	113,654	59,174	29,744	(2,000)
5. National Savings	391,266	343,703	444,806	514,636	519,859
(a) Public Savings	9,769	28,552	7,828	32,599	47,920
(i) General Government	(40,767)	(1,423)	35,613)	(28429)	(15428)
(ii) Others	50,536	29,975	43,441	61,028	63,348
(b) Private Savings	381,497	315,151	436,978	482,037	471,939
(i) House-hold	336,480	277,963	385,415	425,157	416,250
(ii) Corporate	45,017	37,188	51,563	56,880	55,689
6. Net Factor Income	(36,284)	(34,999)	(53,583)	(62,762)	4,900
7. Domestic Savings	427,550	378,702	498,389	577,398	514,959
8. GDP (at market prices)	2,677,656	2,938,379	3,147,167	3,416,252	3,726,611
9. GNP (at market prices)	2,653,292	2,912,832	3,102,261	3,365,422	3,752,512

P : Provisional
R : Revised

Source: Planning and Development Division
Federal Bureau of Statistics

2.5 AREA, PRODUCTION AND YIELD OF IMPORTANT CROPS

Production: '000' Tonnes
Area: '000' Hectares
Yield: Kilogram per hectares

CROPS	1997-98			1998-99			1999-2000			2000-01R			2001-02 P		
	Area	Produc-tion	Yield	Area	Produc-tion	Yield	Area	Produc-tion	Yield	Area	Produc-tion	Yield	Area	Produc-tion	Yield
Food Crops															
Wheat	8,355	18,694	2,238	8,230	17,858	2,170	8,463	21,079	2,491	8,181	19,024	2,325	8,055	18,338	2,277
Rice	2,317	4,333	1,870	2,424	4,674	1,928	2,515	5,156	2,050	2,377	4,803	2,021	2,114	3,882	1,836
Maize	869	1,251	1,440	962	1,665	1,730	962	1,652	1,718	944	1,643	1,740	942	1,664	1,766
Gram	1,102	767	696	1,077	698	648	972	565	581	905	397	439	929	359	386
Bajra	460	211	459	463	213	460	313	156	497	390	199	510	417	217	520
Jowar	390	231	593	383	228	595	357	220	617	354	218	616	358	222	620
Barley	163	174	1,070	137	137	1,001	124	118	951	113	99	876	106	94	887
Moong	195	89	455	200	91	453	203	95	468	219	105	479	239	115	481
Mash	49	26	526	46	25	547	43	24	547	46	26	565	55	28	509
Masoor	71	40	565	58	38	651	55	36	646	46	27	587	46	27	587
Fibre Crop															
Cotton*	2,960	9,184	528	2,923	8,790	512	2,983	11,240	641	2,928	10,732	3,665	3,116	10,613	579
Other Crops															
Sugarcane	1,056	53,104	50,279	1,155	55,191	47,780	1,010	46,333	45,883	961	43,606	45,376	1,000	48,042	48,042
Rapeseed and Mustard	340	292	859	327	279	855	327	297	908	272	231	849	276	227	822
Sesamum	96	43	442	71	32	452	72	35	494	101	51	505	136	70	515
Tobacco	53	99	1,846	57	109	1,899	56	108	1,907	46	85	1,848	46	86	1,870

* : Production in '000' bales (1 bale = 375 lbs. or 170.09711 Kgs.)
R : Revised
P : Provisional

Source: Ministry of Food, Agriculture & Livestock (Economic Wing)

2.6 PRODUCTION OF SELECTED MANUFACTURED GOODS AND MINERALS

ITEM	UNIT	WEIGHTS	1997-98	1998-99	1999-2000	2000-01 R	2001-02 P
Manufactured Goods							
Cotton Yarn	Million Kilograms	8.850	1,532	1,540	1,670	1,721	1,794
Cotton Cloth	Million Sq. Meters	4.881	340	385	437	490	556
Jute Goods	Thousand Tones	0.932	95	86	86	89	82
Vegetable Ghee	-do-	3.004	719	773	698	835	774
Cooking Oil	-do-	0.448	106	101	92	107	135
Sugar	-do-	8.630	3,555	3,542	2,429	2,956	3,247
Beverages	Million Bottles	0.964	1,798	2,219	2,332	2,542	2,492
Cigarettes	Billion Numbers	2.505	48	52	47	58	55
Cement	Thousand Tones	1.846	9,364	9,635	9,314	9,674	9,935
Pig Iron	-do-	1.477	1,016	989	1,107	1,071	1,043
Coke	-do-	1.319	668	589	663	717	695
Fertilizers	**-do-**		**3,894**	**4,167**	**4,708**	**5,142**	**5,080**
Urea	-do-	4.294	3,284	3,522	3,785	4,005	4,217
Ammonium Sulphate	-do-	0.190	N.A	N.A	N.A	N.A	N.A
Ammonium Nitrate	-do-	0.642	316	339	387	374	329
Nitro-Phosphate	-do-	0.315	293	285	261	283	306
Super-Phosphate	-do-	0.115	N.A	22	146	160	161
Dia Ammonium Phosphate		0.315	0	0	129	320	67
Chemicals	**-do-**		**394**	**398**	**459**	**435**	**441**
Soda Ash	-do-	0.320	240	239	246	218	215
Caustic Soda	-do-	0.621	116	120	141	146	151
Chlorine Gas	-do-	0.227	10	11	14	15	15
Sulphuric Acid	-do-	0.017	28	27	58	57	59
Paper & Board	-do-	1.359	345	360	435	531	548
Cycle Tyres & Tubes	Thousand Numbers	0.171	8,423	9,194	9,703	9,942	11,507
Motor Tyres & Tubes	-do-	0.281	1,432	1,431	1,346	1,404	1,466
Tractors	Numbers	0.593	14,144	26,885	35,038	32,553	24,331
Trucks / Buses	-do-	0.828	2,275	2,351	2,485	2,289	2,240
Motorcycle	Thousand Numbers	0.249	97	93	95	118	133
Bicycle	-do-	0.348	452	504	534	570	546
Electric Transformers	-do-	0.577	7	15	13	10	14
Minerals							
Natural Gas	Billion Cubic Meters	27.10	20	21	23	25	26
Crude Oil	Million U.S. Barrels	16.85	21	20	20	21	23
Coal	Thousand Tones	34.90	3,145	3,378	3,164	3,269	3,476
Rock Salt	-do-	5.47	971	1,190	1,358	1,394	1,359
Gypsum	-do-	0.92	307	242	355	364	328
Limestone	-do-	8.36	11,166	9,467	9,589	10,868	9,805
China Clay	-do-	1.44	68	67	63	47	54
Chromite	-do-	0.56	36	18	26	16	16
Silica Sand	-do-	-	135	158	167	155	157

R : Revised
P : Provisional

Sources : (i) Federal Bureau of Statistics
(ii) Ministry of Industries

PRICES

3.1 COMBINED CONSUMER PRICE INDEX NUMBER BY COMMODITY GROUPS (ALL URBAN)

(1990-91=100)

Year / Month		General	Food Beverages and Tobacco	Apparel Textile and Footwear	House Rent	Fuel & Lighting	Household Furniture & Equipment	Transportation & Communication	Recreation Entertainment & Education	Education	Cleaning Laundry Personal Appearance	Medicare
Weights		**100.00**	49.35	7.56	18.98	6.13	2.00	5.08	3.12	-	5.40	2.38
1997-98		**203.96**	213.02	187.81	195.29	210.59	191.79	180.59	186.84	-	201.81	212.78
1998-99		**215.66**	225.58	200.35	208.31	214.16	198.83	195.64	195.55	-	213.66	216.19
1999-2000		**223.39**	230.61	211.28	217.12	226.95	204.52	212.40	204.59	-	225.10	218.83
2000-2001		**233.24**	238.82	217.13	223.49	255.89	210.24	238.57	212.11	-	230.20	234.94
						(Base : 2000 – 01=100)						
Weights		**100.00**	40.34	6.10	23.43	7.29	3.29	7.32	0.83	3.45	5.88	2.07
2001-2002		**103.54**	102.50	103.23	102.80	109.47	103.99	105.96	106.30	104.97	102.50	102.37
2001	Jul.	**101.99**	99.90	101.91	102.27	107.39	102.80	106.89	105.90	103.63	101.29	100.85
	Aug.	**102.61**	101.24	102.58	102.38	107.33	103.37	106.27	105.99	103.84	101.50	100.89
	Sep.	**102.74**	101.40	102.54	102.50	107.39	103.25	106.53	106.02	103.95	101.71	100.93
	Oct.	**103.14**	102.50	102.71	102.60	107.34	103.47	104.93	106.13	104.42	101.96	101.15
	Nov.	**103.43**	103.44	102.81	102.70	107.16	103.75	103.34	106.27	104.41	101.98	101.17
	Dec.	**102.95**	102.02	103.00	102.83	107.16	103.86	103.74	106.28	104.47	102.17	101.42
2002	Jan.	**103.06**	101.84	103.16	102.95	108.57	104.19	103.92	106.36	104.59	102.27	101.69
	Feb.	**103.39**	102.34	103.39	102.99	108.65	104.34	104.76	106.43	104.65	102.54	102.46
	Mar.	**104.74**	104.81	103.64	103.03	112.57	104.41	106.04	106.49	104.91	102.72	102.88
	Apr.	**105.10**	105.23	104.14	103.07	112.56	104.56	106.10	106.50	105.99	103.01	103.34
	May	**104.40**	102.34	104.37	103.11	113.18	104.83	109.62	106.01	107.14	103.99	105.18
	Jun.	**104.90**	103.09	104.50	103.15	114.28	104.99	109.41	106.66	107.67	104.84	106.51

Source: Federal Bureau of Statistics

3.2 INDEX NUMBER OF WHOLESALE PRICES BY COMMODITY GROUPS

(1990 - 91=100)

Year / Month		General	Food	Raw Materials	Fuel, Lighting & Lubricants	Manufac-tures	Building Materials
Weights		**100.00**	45.79	8.76	15.28	25.53	4.64
1997-98		**213.08**	220.78	232.78	228.65	189.17	181.93
1998-99		**226.60**	235.68	256.10	248.88	195.02	183.78
1999-2000		**230.62**	236.99	229.25	272.98	203.92	179.23
2000-2001		**244.95**	244.09	248.14	328.28	206.48	184.48
2001-2002		**250.17**	248.80	247.11	341.47	210.74	185.46
2001	Jul.	**251.94**	245.28	255.30	356.20	212.20	185.23
	Aug.	**252.69**	248.29	252.82	353.85	212.11	185.32
	Sep.	**253.21**	248.46	248.37	356.82	213.47	185.05
	Oct.	**250.31**	249.32	240.57	346.17	209.94	184.52
	Nov.	**247.87**	250.42	254.12	318.16	210.77	184.20
	Dec.	**246.26**	248.43	253.61	313.44	210.98	184.29
2002	Jan.	**246.67**	248.41	245.32	326.46	207.87	183.14
	Feb.	**247.14**	250.89	237.77	327.99	206.34	186.71
	Mar.	**250.31**	251.65	243.58	337.62	209.54	186.92
	Apr.	**251.18**	251.83	245.28	337.62	212.04	186.82
	May	**250.89**	244.49	241.82	359.74	211.77	186.76
	Jun.	**253.58**	248.11	246.72	363.54	211.90	186.61

Source: Federal Bureau of Statistics

3.3 COMBINED SENSITIVE PRICE INDICATOR (SPI) BY INCOME GROUPS (2000-01=100)

Year / Month		INCOME GROUPS				
		Group-I	Group-II	Group-III	Group-IV	
		Up to Rs.3000	Rs.3001 to Rs.5000	Rs.5001 to Rs.12000	Above Rs.12000	**Combined**
2001-2002		103.37	103.75	103.61	103.62	**103.42**
2001	Jul.	100.49	100.85	100.84	102.00	**101.20**
	Aug.	101.89	102.16	101.89	102.38	**101.97**
	Sep.	102.85	103.13	102.92	103.20	**102.92**
	Oct.	103.50	103.78	103.45	103.27	**103.25**
	Nov.	104.01	104.28	103.98	103.40	**103.64**
	Dec.	103.18	103.51	103.34	102.94	**103.02**
2002	Jan.	103.05	103.42	103.13	102.63	**102.88**
	Feb.	104.46	104.84	104.49	103.74	**104.13**
	Mar.	105.11	105.43	105.00	104.32	**104.71**
	Apr.	104.67	105.23	105.15	105.01	**104.80**
	May	102.90	103.45	103.92	104.65	**103.62**
	Jun.	104.31	104.89	105.21	105.75	**104.94**

Source: Federal Bureau of Statistics

3.4 PROCUREMENT / SUPPORT PRICES OF VARIOUS AGRICULTURAL CROPS

(Rs. per 100 Kilograms)

COMMODITY	1997-98	1998-99	1999-2000	2000-01	2001-02	Percentage Change 2000-01 over 1999-2000	Percentage Change 2001-02 over 2000-01
MAJOR CROPS	600	600	750	750	750	0	0
1. Wheat							
2. Rice							
(a) Basmati-385 (5% broken)	1,141.60	-	-	-	-	-	-
Paddy	775	825	875	962.5	962.5	10.0	0
(b) IRRI-6 (FAQ)	629.1	-	-	-	-	-	-
Paddy	382.5	437.5	462.5	512.5	512.5	10.8	0
(c) KS-282, DR-82 & DR-83 (FAQ)	589.4	-	-	-	-	-	-
Paddy	419.5	475	500	550	-	10.0	-
3. Cotton							
(a) Seed Cotton (Phutti)							
(i) Desi (All types)	1,125.0	-	-	-	-	-	-
(ii) B-557 & 149F Naib 78	1,437.5	-	1,812.5	1,812.5	1,950.0**	0	7.6
(iii) Sarmast, Qallandri, Deltapine and Ms-39 & 40	1,550.0	-	-	-	-	-	-
(b) Cotton Lint							
(i) Desi (All types)	1,987.5	-	-	-	-	-	-
(ii) B-557 & 149 F	2,465.0	-	-	-	-	-	-
(iii) Sarmast, Qallandri, Deltapine and Ms-39 & 40	2,637.5	-	-	-	-	-	-
4. Sugarcane (at mills gate)							
Punjab*	87.5	87.5	87.5	87.5	105.0	0	20
Sindh	90.0	90.0	90.0	90.0	107.5	0	19.4
N.W.F.P.	87.5	87.5	87.5	87.5	105.0	0	20
Balochistan	90.0	90.0	90.0	90.0	107.5	0	19.4
MINOR CROPS							
1. Oilseed Crops							
(a) Soybean	862.5	1,025.0	1,025.0	-	-	-	-
(b) Sunflower	1,125.0	1,250.0	1,250.0	-	-	-	-
(c) Safflower	750	875	875	-	-	-	-
(d) Canola	1,125.0	1,250.0	1,250.0	-	-	-	-
2. Onion 40-50 m.m.	280	350	350	-	-	-	-
3. Potato 40-50 m.m.	362.5	362.5	362.5	362.5	-	0	-
4. Gram (Whole)	1,062.5	1,062.5	-	-	-	-	-

FAQ Fair Average Quality. Source: Ministry of Food, Agriculture & Livestock (Economic Wing)

* Govt of Punjab on Dec. 29th 2001 fixed minimum price of sugarcane in the province at Rs.40 per Kgs.

** An intervention price for the 2001-02 seed cotton (Phutti) for the base grade 3 with staple length 1-1/2 and micro range from 3.8 - 4.9 NCL is fixed at Rs. 780/- per 40 Kgs.

\- Not applicable

PUBLIC FINANCE

4.1 FEDERAL GOVERNMENT REVENUE RECEIPTS

(Million Rupees)

HEAD	1998-99	1999-2000	2000-01 (Prov. Actual)	2001-02 (Budget Estimates)	2001-02 (Revised Estimates)	2002-03 (Budget Estimates)
1. REVENUE RECEIPTS (II+III+IV)	**464,372**	**531,300**	**535,091**	**643,803**	**632,799**	**674,893**
I. Total Taxes and Surcharges (II+III)	386,847	386,016	422,781	504,700	468,102	521,100
II. Total Taxes (i+ii)	308,509	347,104	392,278	457,700	414,200	460,600
(i) Direct Taxes	110,207	112,950	124,585	149,800	146,500	148,400
(a) Taxes on Income	103,212	105,367	117,462	144,198	142,000	143,200
(b) Wealth Tax	3,502	3,927	1,496	200	400	0
(c) Workers Welfare Tax	2,169	2,964	4,989	4,626	3,400	4,300
(d) Capital Value Tax	1,324	692	638	776	700	900
(ii) Indirect Taxes:	198,302	234,154	267,693	307,900	267,700	312,200
(a) Customs	65,292	61,659	65,047	69,600	50,500	56,500
(b) Central Excise	60,905	55,784	49,081	53,100	47,100	50,000
(c) Sales Tax	72,105	116711	153,565	185,200	170,100	205,700
III. Surcharges :	78,338	38,912	30,503	47,000	53,902	60,500
(a) Petroleum	66,395	25,403	17,942	32,000	39,000	45,500
(b) Natural Gas	11,943	13,509	12,561	15,000	14,902	15,000
IV. Non-Tax Revenue :	77,525	145,284	112,310	139,103	164,697	153,793
(a) Property & Enterprises	50,077	91,631	67,625	81,474	81,009	79,493
(b) Civil Administration	11,132	34,941	23,165	28,641	54,615	50,331
(c) Miscellaneous	16,316	18,712	21,520	28,988	29,073	23,969
2. *Less* Transfers to Provinces :	**121,854**	**143,571**	**163,131**	**189,974**	**175,078**	**193,512**
(i) Taxes on Income	37,011	38,441	43,161	50,830	50,055	50,478
(ii) Sales Tax	25,882	41,338	55,551	65,261	57,253	69,601
(iii) Excise Duty & Royalty on Natural Gas	5,837	7,604	8,762	11,568	11,713	13,347
(iv) Royalty on Crude Oil/Ex-Gratia Grants	1,276	2,026	3,154	3,255	2,803	3,183
(v) Surcharges on Gas	7,064	12,883	13,410	14,700	14,604	14,700
(vi) Custom Duties	21,838	22,223	22,648	24,795	17,991	20,128
(vii) Wealth Tax	1,409	0	0	71	143	0
(viii) Capital Value Tax	713	0	0	276	249	321
(ix) Federal Excise (Net of Gas)	20,825	19,057	16,445	17,247	15,157	16,133
(x) G.S.T (Provincial)	0	0	0	1,970	2,774	3,052
(xi) G.S.T (CE Mode)	0	0	0	0	2,337	2,571
REVENUE RECEIPTS (NET) (1-2)	**342,518**	**387,729**	**371,960**	**453,829**	**457,721**	**481,381**

Source: Annual Budget Statement ,Government of Pakistan

4.2 FEDERAL GOVERNMENT EXPENDITURE

(Million Rupees)

HEAD	1998-99	1999-2000	2000-01 (Prov. Actual)	2001-02 (Budget Estimates)	2001-02 (Revised Estimates)	2002-03 (Budget Estimates)
I. REVENUE EXPENDITURE (A+B)	**529,026**	**604,365**	**612,680**	**662,607**	**697,680**	**647,329**
A. CURRENT EXPENDITURE :	**515,372**	**592,536**	**593,604**	**621,696**	**648,589**	**607,959**
(i) Debt Servicing	290,691	330,648	312,721	329,184	320,114	289,695
(ii) Defence	143,471	152,794	131,128	131,637	151,669	146,022
(iii) General Administration	18,501	19,596	50,779	47,557	51,186	54,928
(iv) Grants and Subventions	16,324	33,261	36,940	49,294	66,252	56,311
(v) Social Services	9,607	10,511	9,938	12,313	12,289	13,869
(vi) Law and Order	8,149	9,024	10,058	10,223	10,313	11,642
(vii) Community Services	5,688	5,767	6,495	7,142	7,240	8,158
(viii) Subsidies	9,533	20,390	20,404	20,680	25,580	20,794
(ix) Economic Services	4,961	3,021	5,938	3,376	3,660	4,086
(x) Unallocable	8,447	7,524	9,204	10,291	286	2,453
B. DEVELOPMENT EXPENDITURE	**13,654**	**11,829**	**19,076**	**40,911**	**49,092**	**39,370**
II. CAPITAL DISBURSEMENTS (A+B)	**156,983**	**137,074**	**95,376**	**173,467**	**259,221**	**121,451**
A. CURRENT EXPENDITURE :	**59,312**	**59,603**	**30,849**	**99,789**	**196,466**	**55,503**
i. Economic Services	0	0	0	1	1	1
ii. Debt Servicing, Investible Funds and Grants (1+2+3+4)	59,312	59,603	30,849	99,788	196,466	55,502
1. Debt Servicing Repayment of Short Term Credit	45,549	18,463	12,885	70,400	100,327	24,129
2. Government Investment	3,493	37,955	335	20,734	86,732	9,097
3. Loans and Advances	12,014	3,050	17,049	8,654	9,385	22,257
4. Unallocable	(1,744)	135	579	1	22	20
B. DEVELOPMENT EXPENDITURE :	**97,672**	**77,471**	**64,527**	**73,678**	**62,755**	**65,948**
(i) General Administration	0	0	0	0	0	0
(ii) Community Services	4,457	1,963	3,054	1,179	929	1,215
(iii) Economic Services	628	1,549	644	1,490	712	4,089
(iv) Debt Servicing, Investible Funds &Grants	92,587	73,959	60,829	71,009	61,114	60,644
TOTAL EXPENDITURE (I+II)	**686,009**	**741,439**	**708,057**	**836,074**	**956,902**	**768,780**

Source: Annual Budget Statement,Government of Pakistan

4.3 FINANCING OF THE FEDERAL GOVERNMENT EXPENDITURE

(Million Rupees)

HEAD	1998-99	1999-2000	2000-01 (Prov. Actual)	2001-02 (Budget Estimates)	2001-02 (Revised Estimates)	2002-03 (Budget Estimates)
I. REVENUE RECEIPTS (NET)	**342,518**	**387,729**	**371,960**	**453,829**	**457,721**	**481,381**
II. INTERNAL RESOURCES (i+ii)	**172,543**	**144,168**	**135,029**	**94,480**	**123,184**	**91,441**
(i) Capital Receipts :	41,189	53,044	93,282	57,446	66,866	44,169
(a) Public Debt (Net)	24,029	6,549	50,868	17,753	- 4,463	5,269
(b) Recoveries of Loans & Advances	17,160	46,495	42414	39,693	71,330	38,900
(ii) Public Account :	131,354	91,124	41,747	37,034	56,318	47,272
(a) Deferred Liabilities	135,665	95,443	39,105	33,580	54,922	44,300
(b) Deposits & Reserves (Interest Bearing)	0	0	679	692	47	227
(c) Deposits & Reserves (Non-Interest Bearing)	- 4,311	- 4,319	1,963	2,763	1,349	2,745
III. EXTERNAL RESOURCES (1 + 2+3)	**236,824**	**164,829**	**209,278**	**262,081**	**304,026**	**198,063**
1. Plan Resources	127,040	99,299	170,328	239,253	236,359	188,676
(a) Project Aid :	47,123	43,439	45,603	48,657	44,336	48,980
i) Loans	47,123	38,891	39,366	46,766	40,482	45,993
ii) Grants	0	4,548	6,237	1,891	3,854	2,987
(b) Commodity Aid :	27,333	6,471	39,646	66,834	94,274	74,050
i) Loans	0	0	39,646	66,834	51,883	63,945
ii) Grants	0	0	0	0	42,391	10,105
(c) Food Aid :	12,615	9,867	0	0	1,842	0
i) Loans	0	0	0	0	0	0
ii) Grants	0	0	0	0	1,842	0
(d) Other Aid :	39,969	39,522	85,079	123,762	95,907	65,646
i) Loans	39,969	6,079	44,537	74,613	55,567	25,200
ii) Grants	0	33,443	40,542	49,149	40,340	40,446
2. Debt Rescheduling	93,360	64,284	34,445	21,829	65,655	9,387
3. Non-Plan Resources	16,424	1,246	4,505	1,000	2,013	0
IV. TOTAL RECEIPTS (I+II+III)	**751,885**	**696,726**	**716,267**	**810,390**	**884,931**	**770,885**
V. Change in Provincial Cash Balance	**7,935**	**4,750**	**24,748**	**15,203**	**1,619**	**17,031**
VI. Privatization Proceeds	**0**	**0**	**0**	**0**	**8,352**	**12,000**
VII. Credit From Banking System	**- 73,811**	**39,963**	**- 32,957**	**10,481**	**62,000**	**- 31,137**
TOTAL RESOURCES (IV+V+VI+VII)	**686,009**	**741,439**	**708,057**	**836,074**	**956,902**	**768,780**

Source: Annual Budget Statement,Government of Pakistan

4.4 CONSOLIDATED PROVINCIAL RECEIPTS AND EXPENDITURE

(Million Rupees)

HEAD	2000-01 Revised	2001-02 Budget	2001-02 Revised	2002-03 Budget	PERCENTAGE CHANGE		
					4 over 3	3 over 2	3 over 1
	1	2	3	4			
I. TOTAL REVENUE RECEIPTS (1+2)	**227,399**	**259,049**	**240,810**	**288,669**	**19.9**	**-7.0**	**5.9**
1. Total Tax Revenue (i+ii)	188,524	211,726	198,140	210,882	6.4	-6.4	5.1
(i) Provincial Tax Revenue	20,686	22,102	21,525	23,114	7.4	-2.6	4.1
(ii) Share in Federal Taxes	167,838	189,624	176,615	187,768	6.3	-6.9	5.2
2. Non-Tax Revenue	38,875	47,323	42,670	77,787	82.3	-9.8	9.8
II. CURRENT EXPENDITURE	**205,401**	**233,634**	**224,095**	**260,546**	**16.3**	**-4.1**	**9.1**
Revenue surplus (+)/ deficit (-)	21,998	25,415	16,715	28,123	68.3	-34.2	-24.0
III. TOTAL DEVELOPMENT EXPENDITURE @	**36,900**	**41,013**	**38,337**	**49,933**	**30.2**	**-6.5**	**3.9**
(i) Development Revenue Expenditure	12,752	14,777	16,871	18,463	9.4	14.2	32.3
(ii) Development Capital Expenditure	21,733	23,285	19,052	27,673	45.2	-18.2	-12.3
(iii) Outside ADP/Operational shortfall	2,415	2,951	2,414	3,797	57.3	-18.2	0.0
Development Expenditure Financed by							
1. Revenue surplus(+) / deficit (-)	21,998	25,415	16,715	28,123	68.3	-34.2	-24.0
2. Net Capital Receipts	-13,927	-18,964	-20,530	-15,464	-24.7	8.3	47.4
3. Net Public Account Receipts	2,887	5,417	9,054	4,599	-49.2	67.1	213.6
4. Development Revenue Receipts / Grants	5,579	6,088	20,004	3,744	-81.3	228.6	258.6
5. Federal Government Loan / Public Debt	8,478	10,017	8,729	13,338	52.8	-12.9	3.0
6. Cash Balance Utilization / Improvement	7,361	5,297	7,250	6,355	-12.3	36.9	-1.5
7. Adjustment outside ADP/ other sources	4,524	7,742	-2,885	9,238	-420.2	-137.3	-163.8
IV. TOTAL ADP RESOURCES	**36,900**	**41,012**	**38,337**	**49,933**	**30.2**	**-6.5**	**3.9**

@: Including Foreign Project Assistance

Source: Annual Budget Statements of the Provincial Governments

2. Ministry of Finance ,Government of Pakistan

4.5 PROVINCIAL RECEIPTS

HEAD	PUNJAB				SINDH			
	2000-2001 Revised	2001-2002 Budget	2001-2002 Revised	2002-2003 Budget	2000-2001 Prov. Actual	2001-2002 Budget	2001-2002 Revised	2002-2003 Budget
I. TOTAL REVENUE RECEIPTS (1+2)	**109,356**	**120,313**	**112,286**	**130,725**	**61,894**	**69,419**	**72,121**	**84,901**
1. Total Tax Revenue (i+ii)	96,895	108,557	99,550	102,511	53,296	60,763	59,963	64,468
(i) Provincial Tax Revenue	11,322	11,771	11,641	12,033	7,530	7,981	7,391	8,552
(ii) Share in Federal Taxes	85,573	96,786	87,909	90,478	45,766	52,782	52,572	55,916
2. Non-Tax Revenue *	12,461	11,756	12,736	28,214	8,598	8,656	12,158	20,433
II. CURRENT EXPENDITURE	**98,601**	**108,140**	**101,526**	**117,100**	**62,735**	**71,702**	**77,662**	**84,807**
Revenue surplus (+) / deficit (-)	10,755	12,173	10,760	13,625	-841	-2,283	-5,541	94
III. TOTAL DEVELOPMENT EXPENDITURE @	**17,002**	**19,500**	**16,928**	**20,750**	**4,099**	**5,750**	**4,543**	**7,000**
(i) Development Revenue Expenditure including District Govt. Share	8,093	10,411	11,640	13,790	1,210	1,361	623	1,455
(ii) Development Capital Expenditure	8,909	9,719	5,288	7,803	2,889	4,389	3,920	5,545
(iii) Outside ADP/ Foreign Project Assistance/ Operational Shortfall	0	-630	0	-843	-	-	0	0
Development Expenditure Financed by								
1. Revenue surplus (+)/ deficit (-)	10,755	12,173	10,760	13,625	-841	-2,283	-5,541	94
2. Net Capital Receipts	-2,021	-3,244	-4,033	-650	-1,671	-3,239	-3,970	-1,667
3. Net Public Account Receipts	10	3	34	100	6,735	-742	2,716	2,012
4. Development Revenue Receipts / Grants	2,554	4,193	9,920	502	952	23	3,181	23
5. Federal Government Loans / Public Debt	5,704	6,375	6,557	8,016	1,338	1,875	1,448	2,880
6. Cash Balance Utilization /Improvement**	-	-	-	-	-4,222	6,263	6,795	-439
7. Adjustment outside ADP / other sources	-	-	-6,310	-843	1,808	3,852	-86	4,097
IV. TOTAL ADP RESOURCES	**17,002**	**19,500**	**16,928**	**20,750**	**4,099**	**5,750**	**4,543**	**7,000**

* NWFP's figures under this head also include net profit from generation of hydro electricity paid by WAPDA

** In case of Sindh and NWFP the figures under this head have been calculated as residual

@ Including Foreign Project Assistance

AND EXPENDITURE

(Million Rupees)

HEAD	NWFP				BALOCHISTAN			
	2000-2001 Revised	2001-2002 Budget	2001-2002 Revised	2002-2003 Budget	2000-2001 Revised	2001-2002 Budget	2001-2002 Revised	2002-2003 Budget
I. TOTAL REVENUE RECEIPTS (1+2)	**32,635**	**44,067**	**33,294**	**46,608**	**23,514**	**25,250**	**23,109**	**26,435**
1. Total Tax Revenue (i+ii)	20,600	23,384	21,432	24,716	17,733	19,022	17,195	19,187
(i) Provincial Tax Revenue	1,382	1,862	2,020	1,988	452	488	473	541
(ii) Share in Federal Taxes	19,218	21,522	19,412	22,728	17,281	18,534	16,722	18,646
2. Non-Tax Revenue *	12,035	20,683	11,862	21,892	5,781	6,228	5,914	7,248
II. CURRENT EXPENDITURE	**25,570**	**35,406**	**25,131**	**38,882**	**18,495**	**18,386**	**19,776**	**19,757**
Revenue surplus (+) /deficit (-)	7,065	8,661	8,163	7,726	5,019	6,864	3,333	6,678
III. TOTAL DEVELOPMENT EXPENDITURE @	**7,247**	**7,811**	**8,710**	**13,673**	**8,552**	**7,952**	**8,156**	**8,510**
(i) Development Revenue Expenditure including District Govt. Share	3,309	2,890	4,486	3,132	140	115	122	86
(ii) Development Capital Expenditure	1,523	1,340	1,810	5,901	8,412	7,837	8,034	8,424
(iii) Outside ADP/ Foreign Project Assistance/ Operational Shortfall	2,415	3,581	2,414	4,640	-	-	-	-
Development Expenditure Financed by								
1. Revenue surplus (+)/ deficit (-)	7,065	8,661	8,163	7,726	5,019	6,864	3,333	6,678
2. Net Capital Receipts	-9,302	-10,961	-10,896	-11,395	-933	-1,520	-1,631	-1,752
3. Net Public Account Receipts	-4,231	6,156	5,299	1,432	373	-	1,005	1,055
4. Development Revenue Receipts / Grants	1,254	1,600	3,934	2,788	819	272	2,969	431
5. Federal Government Loan / Public Debt	-	-	-	-	1,436	1,767	724	2,442
6. Cash Balance Utilization /Improvement **	9,745	-1,535	-1,301	7,138	1,838	569	1,756	-344
7. Adjustment outside ADP / other sources	2,716	3,890	3,511	5,984	-	-	-	-
IV. TOTAL ADP RESOURCES	**7,247**	**7,811**	**8,710**	**13,673**	**8,552**	**7,952**	**8,156**	**8,510**

Source : Annual Budget Statements of the Provincial Governments

4.6 ZAKAT RECEIPTS

(Million Rupees)

	1997-98	1998-99	1999-2000	2000-01	2001-02
1. Saving Bank Accounts & Similar Accounts	2,101	2,307	2,291	2,447	2,511
2. Notice Deposit Receipts and Accounts	26	40	53	40	26
3. Fixed Deposit Receipts and Accounts (Periodically)	672	626	792	729	549
4. Fixed Deposit Receipts & Accounts (on Maturity or encashment)	483	348	342	407	356
5. NIT Units	274	33	86	115	68
6. ICP Mutual Funds	10	5	..	9	9
7. Government Securities	2	2	2	1	2
8. Shares and Debentures of Companies	311	346	431	199	167
9. Annuities	..	..	..	..	0
10. Life Insurance Policies	50	28	43	70	42
11. Provident Credit Balances	160	327	269	259	200
Total Deduction of Zakat at Source	**4,088**	**4,061**	**4,309**	**4,276**	**3,929**
Zakat Voluntarily Paid	**11**	**16**	**18**	**11**	**7**
Other Receipts	**19**	**2435**	**85**	**89**	**27**
TOTAL RECEIPTS	**4,119**	**6,512**	**4,411**	**4,376**	**3,962**

.. Negligible

MONEY AND BANKING

5.1 MONETARY STATISTICS

(Million Rupees)

Last Saturday/ Last working day		Currency in Circulation	Other Deposits with SBP*	Currency in tills of Scheduled Banks	Bank's Deposits with SBP	Reserve Money (M0)	Scheduled Banks' Demand Deposits**	Narrow Money (M1)	Scheduled Banks' Time Deposits**	Resident Foreign Currency Deposits	Broad Money (M2)	Money Multi-pilier
		1	2	3	4	5	6	7	8	9	10	11
June	1993	166,864	4,449	11,301	41,243	**223,857**	156,509	**327,822**	206,294	61,274	**595,390**	**2.66**
,,	1994	184,708	5,506	13,958	54,404	**258,576**	168,554	**358,768**	252,497	92,134	**703,399**	**2.72**
,,	1995	215,579	5,055	16,363	45,855	**282,852**	202,505	**423,139**	296,521	105,073	**824,733**	**2.92**
,,	1996	234,110	6,791	19,328	49,852	**310,081**	207,108	**448,009**	344,713	145,958	**938,680**	**3.03**
,,	1997	244,141	7,135	17,821	77,949	**347,046**	192,275	**443,551**	386,801	222,882	**1,053,234**	**3.03**
,,	1998	272,922	6,412	18,769	71,375	**369,478**	200,997	**480,331**	447,433	278,556	**1,206,320**	**3.26**
,,	1999	287,716	6,212	18,870	85,185	**397,983**	349,115	**643,043**	516,586	120,917	**1,280,546**	**3.22**
,,	2000	355,677	7,959	19,468	114,703	**497,807**	375,397	**739,033**	549,124	112,475	**1,400,632**	**2.81**
,,	2001	375,465	11,292	19,178	127,266	**533,201**	374,675	**761,432**	610,458	154,154	**1,526,044**	**2.86**
,,	2002 p	433,816	13,847	26,414	110,522	**584,599**	427,315	**874,977**	727,076	149,823	**1,751,876**	**3.00**
2001	Jul.	380,852	11,321	16,830	115,303	**524,306**	366,928	**759,101**	608,719	156,005	**1,523,825**	**2.91**
	Aug.	378,907	10,685	17,647	115,847	**523,086**	381,558	**771,150**	610,703	159,214	**1,541,067**	**2.95**
	Sep.	381,940	10,913	17,362	120,259	**530,474**	373,301	**766,154**	597,389	154,889	**1,518,432**	**2.86**
	Oct.	403,702	11,294	16,795	114,955	**546,746**	373,328	**788,324**	611,670	148,126	**1,548,120**	**2.83**
	Nov.	434,961	11,060	19,981	110,156	**576,158**	397,601	**843,622**	614,800	146,355	**1,604,777**	**2.79**
	Dec.	429,360	11,132	22,466	125,719	**588,677**	414,793	**855,285**	651,542	143,298	**1,650,125**	**2.80**
2002	Jan.	435,953	11,017	18,477	120,743	**586,190**	388,769	**835,739**	651,494	152,095	**1,639,328**	**2.80**
	Feb.	457,927	11,338	17,599	113,995	**600,859**	400,361	**869,626**	653,710	149,556	**1,672,892**	**2.78**
	Mar.	434,055	11,272	21,528	99,989	**566,844**	401,876	**847,203**	670,673	150,714	**1,668,590**	**2.94**
	Apr.	433,787	11,125	19,019	109,012	**572,943**	415,088	**860,000**	672,713	149,190	**1,681,903**	**2.94**
	May.	444,988	11,107	20,137	108,084	**584,316**	415,225	**871,320**	690,472	147,287	**1,709,079**	**2.92**
	Jun. p	433,816	13,847	26,414	110,522	**584,599**	427,315	**874,977**	727,076	149,823	**1,751,876**	**3.00**

* Excluding IMF A/c Nos. 1 & 2, SAF loan account, counterpart funds, deposits of foreign central banks, foreign governments, international organisations and deposit money banks

** Excluding inter-bank deposits and deposits of central & provincial governments and foreign constituents

Note 1. The quarter end data relate to last working day whereas monthly data relate to last Saturday of the month

P Provisional

5.2 CAUSATIVE FACTORS OF

	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02P
1. Public Sector	**75,003**	**28,266**	**53,086**	**68,527**	**80,932**	**55,898**	**(74,824)**	**78,234**	**(46,732)**	**12,684**
(i) Budgetary support	65,699	23,145	36,418	51,726	72,457	48,018	(75,194) cd	39,963 c	(32,316)c	12,453
(ii) Commodity operations	7,335	6,582	4,733	5,858	5,702	10,585	3,645	40,094	(12,508)	5,331
(iii) Effect of Zakat fund etc.	1,969	(1,461)	(2,195)	(1,057)	(2,871)	(3,126)	(3,275)	(1,823)	(1,908)	2,533
(iv) Use of Privatisation proceeds by Govt. / WAPDA			14,130	12,000	10,304	1,223	0	0	0	0
(v) Use of Privatisation proceeds /NDRP fund for Debt retirement					(4,660)	(1,089)	0	0	0	0
(vi) Payment to HBL on account of HC&EB						287	0	0	0	0
(vii) Privatization commission A/C with NBP										(7,633)
2. Non-Government Sector	**60,573**	**39,866**	**69,537**	**63,429**	**61,879**	**84,237**	**119,214**	**26,042**	**69,194**	**18,994**
(i) Autonomous Bodies	3,933	(850)	3,211	3,166	(242)	(894)	13,049	3,126	11,574	(14,346)
(ii) Net Credit to Private Sector & PSCEs	56,640	40,716	66,326	60,263	62,121	85,131	106,165	22,916	57,620	33,340
(a) Private Sector	58,284	42,768	63,731	57,329 a	59,907 b	75,604	103,038	18,303	48,686	37,685
(b) Public Sector Corporations other than 2 (i)	(1,644)	(2,052)	2,595	2,934	2,214	9,527	6,779	9,862	12,274	(1,403)
(c) PSEs Special Account-Debt Repayment with SBP							(3,652)	(5,249)	(3,340)	(2,942)
3. Counter-part Funds	**(395)**	**158**	**(76)**	**(152)**	**(119)**	**86**	**61**	**(22)**	**49**	**26**
4. Other Items (net)	**(11,346)**	**6,309**	**(28,168)**	**21,136 a**	**5,153 b**	**26,761**	**245 d**	**14,456**	**30,862**	**(12,040)**
5. Domestic Credit Expansion (1 thr.4)	**123,835** (23.77%)	**74,599** (11.57%)	**94,379** (13.12%)	**152,940** (18.80%)	**147,845** (15.29%)	**166,982** (14.98%)	**44,696** (3.49%)	**118,710** (8.95%)	**53,373** (3.69%)	**19,664** (1.31%)
6. Foreign Assets (net)	**(34,013)**	**33,409**	**26,957**	**(38,998)**	**(33,288)**	**(13,897)**	**29,529**	**1,375**	**72,654**	**206,168**
7. Monetary Expansion (5+6)	**89,822** (17.77%)	**108,008** (18.14%)	**121,336** (17.25%)	**113,942** (13.82%)	**114,557** (12.20%)	**153,085** (14.53%)	**74,225** (6.15%)	**120,085** (9.38%)	**126,027** (9.00%)	**225,832** (14.80%)

p Provisional

a Adjusted for Rs.5,278 million being mark-up debited to borrowers account

b Adjusted for Rs.8,207 million being mark- up debited to borrowers account

c Adjusted for funds placed in Special Debt Repayment account

d Adjusted for Rs. 28.5 billion on account of Adhoc Treasury Bills created to offset the govt. losses due to the unification of exchange rate

Note: The composition of autonomous bocies has changed over the years. At present WAPDA,OGDC,KESC,PTCL,PIA and Pak Steel are included in the list of autonomous bodies

FACTORS OF MONETARY ASSETS

(Million Rupees)

		2001						2002					
		Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.p
1.	**Public Sector**	**33,087**	**12,745**	**(20,965)**	**14,077**	**(36,999)**	**(15,031)**	**(780)**	**21,155**	**(30,686)**	**5,899**	**50,358**	**(20,176)**
(i)	Budgetary support (net)	33,117	14,287	(21,184)	14,695	(35,401)	(12,338)	3,608	27,420	(25,202)	6,592	30,200	(23,341)
(ii)	Commodity operations	113	(1,392)	352	(807)	(1,309)	(2,352)	(5,111)	(6,002)	(6,117)	(1,117)	18,811	10,262
(iii)	Effect of Zakat fund etc.	(143)	(150)	(133)	189	(289)	(341)	723	(263)	633	424	1,347	536
(iv)	Use of Privatisation proceeds by Govt. / WAPDA	0	0	0	0	0	0	0	0	0	0	0	0
(v)	Use of Privatisation proceeds for Debt retirement	0	0	0	0	0	0	0	0	0	0	0	0
(vi)	Payment to HBL on A/c of HC&EB	0	0	0	0	0	0	0	0	0	0	0	0
(viii)	Privatization commission A/c with NBP	0	0	0	0	0	0	0	0	0	0	0	(7,633)
2.	**Non-Government Sector**	**(12,962)**	**(3,267)**	**(12,653)**	**5,820**	**19,646**	**56,285**	**631**	**(3,062)**	**(10,957)**	**(12,155)**	**(31,380)**	**23,048**
(i)	Autonomous Bodies	(7,166)	531	346	(1,049)	4,880	8,290	(678)	1,877	(3,706)	(1,416)	(21,350)	5,095
(ii)	Net Credit to Private Sector & PSCEs	(5,796)	(3,798)	(12,999)	6,869	14,766	47,995	1,309	(4,939)	(7,251)	(10,739)	(10,030)	17,953
	(a) Private Sector	(5,930)	(3,894)	(12,433)	7,401	15,273	49,207	23,267	(26,520)	(6,844)	(9,423)	(9,383)	16,964
	(b) Public Sector Corporations other than 2 (i)	0	0	(612)	0	0	(1,029)	0	0	(263)	(993)	40	1,454
	(c) PSEs Special Account – Debt repayment with SBP	134	96	46	(532)	(507)	(183)	(196)	(181)	(144)	(323)	(687)	(465)
3.	**Counter-part Funds**	**0**	**(4)**	**(8)**	**(6)**	**(2)**	**(7)**	**80**	**(4)**	**(8)**	**(6)**	**(2)**	**(7)**
4.	**Other Items (net)**	**(8,367)**	**5,043**	**14,321**	**(6,380)**	**23,300**	**(14,940)**	**(14,063)**	**(5,282)**	**22,052**	**(6,969)**	**(6,175)**	**(14,580)**
5.	**Domestic Credit Expansion (+) / Contraction (-) (1 thr. 4)**	**11,758**	**14,517**	**(19,305)**	**13,509**	**5,947**	**26,307**	**(14,132)**	**12,807**	**(19,599)**	**(13,231)**	**12,801**	**(11,715)**
6.	**Foreign Assets (net)**	**(13,980)**	**2,727**	**(3,330)**	**16,179**	**50,711**	**19,041**	**3,333**	**20,756**	**15,299**	**26,543**	**14,377**	**54,512**
7.	**Monetary Expansion (+) / Contraction (-) (5+6)**	**(2,222)**	**17,244**	**(22,635)**	**29,688**	**56,658**	**45,348**	**(10,799)**	**33,563**	**(4,300)**	**13,312**	**27,178**	**42,797**

Note: Due to non-availibility of PSCEs monthly data , the end quarter data has been repeated in the subsequent months up to end February,2002.

5.3 LIABILITIES AND ASSETS OF THE ISSUE

Last Thursday / Saturday/ Last working day		LIABILITIES			ASSETS			
					Gold and Foreign Assets			
		Notes held in the Banking Department	Notes in Circulation	**Total Liabilities / Assets**	Gold Coins and Bullion (i)	Approved Foreign Exchange	India Notes (ii)	Total
June,	1998	153.4	289,844.4	**289,997.8**	27,833.5	18,718.6	468.2	47,020.4
,,	1999	120.0	305,206.4	**305,326.4**	27,614.7	75,279.2	511.9	103,405.9
,,	2000	99.7	373,639.0	**373,738.7**	31,002.0	60,152.3	498.6	91,652.9
,,	2001	177.6	392,936.5	**393,114.1**	35,617.7	111,027.2	580.7	147,225.5
,,	2002	126.6	458,247.9	**458,374.5**	39,378.2	245,300.3	528.6	285,207.2
2001	Jul.	163.1	395,952.8	**396,115.9**	35,617.7	114,573.4	580.7	150,771.8
	Aug.	231.5	394,796.1	**395,027.7**	35,617.7	121,313.7	580.7	157,512.1
	Sep.	206.8	397,515.2	**397,722.0**	35,617.7	116,173.2	580.7	152,371.5
	Oct.	234.8	418,675.9	**418,910.7**	35,617.7	122,780.0	580.7	158,978.4
	Nov.	103.8	453,099.0	**453,202.8**	35,617.7	133,545.1	580.7	169,743.5
	Dec.	171.5	457,545.7	**457,717.3**	35,617.7	128,576.9	580.7	164,775.3
2002	Jan.	210.2	452,558.7	**452,768.9**	35,617.7	149,866.9	580.7	186,065.2
	Feb.	133.9	473,625.8	**473,759.7**	35,617.7	155,794.3	580.7	191,992.7
	Mar.	199.4	453,645.0	**453,844.4**	35,617.7	179,839.5	580.7	216,037.9
	Apr.	190.6	450,841.5	**451,032.1**	35,617.7	212,648.7	580.7	248,847.0
	May	92.4	463,136.0	**463,228.4**	35,617.7	222,835.9	580.7	259,034.3
	Jun.	126.6	458,247.9	**458,374.5**	39,378.2	245,300.3	528.6	285,207.2

(i) Gold is valued at the end of financial year on the basis of closing London Bullion Market Rate.

(ii) Receivable from Reserve Bank of India.

STATE BANK OF PAKISTAN

DEPARTMENT

(Million Rupees)

ASSETS									
Domestic Assets				With Reserve Bank of India pending transfer to Pakistan					
Rupee Coins/Notes	Govt. of Pakistan Securities	Internal Bills of Exchange & Other Commercial Papers	Total	Gold Coins and Bullion	Sterling Securities	Govt. of India Securities	Rupee Coin	Total	Last Thursday / Saturday / Last working day
1,417.5	225,757.1	15,078.5	242,253.1	457.7	252.3	11.0	3.3	724.3	June, 1998
1,835.5	184,270.0	15,078.5	201,184.0	452.3	268.7	12.0	3.6	736.6	,, 1999
1,751.2	264,472.6	15,078.5	281,302.4	506.1	262.0	11.7	3.5	783.3	,, 2000
1,726.7	243,187.2	78.5	244,992.4	581.5	297.1	13.6	4.0	896.2	,, 2001
1,738.0	170,389.5	78.5	172,206.0	642.1	303.2	12.4	3.7	961.3	,, 2002
1,728.5	242,641.0	78.5	244,447.9	581.5	297.1	13.6	4.0	896.2	Jul. 2001
1,740.2	234,800.7	78.5	236,619.4	581.5	297.1	13.6	4.0	896.2	Aug.
1,734.6	242,641.2	78.5	244,454.3	581.5	297.1	13.6	4.0	896.2	Sep.
1,723.3	257,234.4	78.5	259,036.1	581.5	297.1	13.6	4.0	896.2	Oct.
1,715.4	280,769.3	78.5	282,563.2	581.5	297.1	13.6	4.0	896.2	Nov.
1,729.9	290,237.4	78.5	292,045.8	581.5	297.1	13.6	4.0	896.2	Dec.
1,781.5	263,947.5	78.5	265,807.5	581.5	297.1	13.6	4.0	896.2	Jan. 2002
1,772.3	279,020.1	78.5	280,870.8	581.5	297.1	13.6	4.0	896.2	Feb.
1,757.0	235,074.9	78.5	236,910.3	581.5	297.1	13.6	4.0	896.2	Mar.
1,744.7	199,465.7	78.5	201,288.9	581.5	297.1	13.6	4.0	896.2	Apr.
1,740.9	201,478.4	78.5	203,297.9	581.5	297.1	13.6	4.0	896.2	May
1,738.0	170,389.5	78.5	172,206.0	642.1	303.2	12.4	3.7	961.3	Jun.

5.4 LIABILITIES AND ASSETS OF THE BANKING

Last Thursday / Saturday / Last Working day		LIABILITIES												
									DEPOSITS					
		Capital Paid-up	Reserve Fund	Rural Credit Fund	Industrial Credit Fund	Export Credit Fund	Loans Guarantee Fund	Housing Credit Fund	Federal Govt.	Provincial Govts.	Banks	Other	Total	Allocation of Special Drawing Rights
June,	1998	100.0	4,000.0	2,600.0	1,600.0	1,500.0	500.0	700.0	9,184.7	1,136.7	71,374.9	89,072.9	170,769.2	10,464.0
,,	1999	100.0	9,000.0	2,600.0	1,600.0	1,500.0	900.0	4,700.0	4,587.8	9,001.9	85,184.9	213,851.4	312,626.0	11,718.1
,,	2000	100.0	14,000.0	2,600.0	1,600.0	1,500.0	900.0	4,700.0	4,325.4	20,481.8	114,702.8	299,184.4	438,694.4	11,773.4
,,	2001	100.0	8,400.0	2,600.0	1,600.0	1,500.0	900.0	4,700.0	7,031.4	18,318.6	127,265.6	473,263.1	625,878.7	1,526.0
,,	2002	100.0	5,400.0	2,600.0	1,600.0	1,500.0	900.0	4,700.0	16,032.7	27,073.8	110,522.1	284,048.2	437,676.9	1,526.0
2001	Jul.	100.0	8,400.0	2,600.0	1,600.0	1,500.0	900.0	4,700.0	10,519.7	13,799.5	115,303.0	288,511.3	428,133.5	1,526.0
	Aug.	100.0	8,400.0	2,600.0	1,600.0	1,500.0	900.0	4,700.0	6,904.3	9,693.0	115,847.2	288,217.5	420,662.0	1,526.0
	Sep.	100.0	8,400.0	2,600.0	1,600.0	1,500.0	900.0	4,700.0	3,961.4	8,332.5	120,741.0	284,220.6	417,255.6	1,526.0
	Oct.	100.0	8,400.0	2,600.0	1,600.0	1,500.0	900.0	4,700.0	3,958.6	6,083.8	114,955.4	282,335.0	407,332.8	1,526.0
	Nov.	100.0	8,400.0	2,600.0	1,600.0	1,500.0	900.0	4,700.0	4,678.1	7,595.5	110,156.0	286,426.7	408,856.3	1,526.0
	Dec.	100.0	8,400.0	2,600.0	1,600.0	1,500.0	900.0	4,700.0	8,981.3	12,255.2	141,580.1	290,776.2	453,592.7	1,526.0
2002	Jan.	100.0	8,400.0	2,600.0	1,600.0	1,500.0	900.0	4,700.0	5,713.0	13,682.1	120,743.2	292,248.2	432,386.5	1,526.0
	Feb.	100.0	8,400.0	2,600.0	1,600.0	1,500.0	900.0	4,700.0	8,914.2	18,253.2	113,995.0	287,636.1	428,798.4	1,526.0
	Mar.	100.0	8,400.0	2,600.0	1,600.0	1,500.0	900.0	4,700.0	15,346.0	26,324.4	99,989.1	282,173.0	423,832.4	1,526.0
	Apr.	100.0	8,400.0	2,600.0	1,600.0	1,500.0	900.0	4,700.0	15,100.4	20,145.9	109,012.0	281,835.3	426,093.6	1,526.0
	May	100.0	8,400.0	2,600.0	1,600.0	1,500.0	900.0	4,700.0	9,042.8	21,288.7	108,084.2	285,415.9	423,831.7	1,526.0
	Jun.	100.0	5,400.0	2,600.0	1,600.0	1,500.0	900.0	4,700.0	16,032.7	27,073.8	110,522.1	284,048.2	437,676.9	1,526.0

STATE BANK OF PAKISTAN

DEPARTEMENT

(Million Rupees)

LIABILITIES				ASSETS								
					BILLS PURCHASED AND DISCOUNTED							
					Internal							
Bills Payable	Re-valuation Account	Other Liabilities	**Total Liabilities/ Assets**	Notes and Coins #	Agri-cultural Sector	Indust-rial Sector	Export Sector	Housing Sector	Other	Total	Govt. Treasury Bills	Last Thursday / Saturday / Last Working day
113.8	25,560.6	36,762.7	**254,670.3**	153.7	-	-	3.6	-	33.4	37.0	3,431.7	June, 1998
251.5	25,225.6	89,213.8	**459,435.0**	120.1	-	-	3.6	-	33.4	37.0	3,241.9	,, 1999
412.5	28,570.3	87,864.8	**592,715.4**	99.6	-	-	3.6	-	33.4	37.0	16,921.9	,, 2000
434.2	33,261.2	91,409.5	**772,309.7**	177.6	-	-	3.6	-	33.4	37.0	3,241.9	,, 2001
323.3	37,033.3	57,967.6	**551,327.0**	126.7	-	-	3.6	-	33.4	37.0	10,064.0	,, 2002
80.0	33,261.2	78,029.9	**560,830.6**	163.1	-	-	3.6	-	33.4	37.0	3,241.9	Jul. 2001
100.2	33,261.2	81,637.2	**556,986.5**	231.5	-	-	3.6	-	33.4	37.0	3,491.9	Aug.
70.1	33,261.2	77,214.6	**549,127.5**	206.8	-	-	3.6	-	33.4	37.0	3,241.9	Sep.
38.1	33,261.2	78,393.7	**540,351.8**	234.9	-	-	3.6	-	33.4	37.0	3,241.9	Oct.
30.2	33,261.2	87,682.9	**551,156.6**	103.9	-	-	3.6	-	33.4	37.0	9,371.9	Nov.
105.3	33,261.2	97,486.6	**605,771.8**	171.6	-	-	3.6	-	33.4	37.0	3,241.9	Dec.
143.3	33,261.2	105,109.2	**592,226.2**	210.2	-	-	3.6	-	33.4	37.0	-	Jan. 2002
126.5	33,261.2	102,674.6	**586,186.7**	134.0	-	-	3.6	-	33.4	37.0	-	Feb.
97.3	33,261.2	106,516.7	**585,033.6**	199.4	-	-	3.6	-	33.4	37.0	-	Mar.
35.7	33,261.2	109,203.2	**589,919.7**	190.7	-	-	3.6	-	33.4	37.0	-	Apr.
1,189.3	33,261.2	111,602.6	**591,210.8**	92.5	-	-	3.6	-	33.4	37.0	3,030.0	May
323.3	37,033.3	57,967.6	**551,327.0**	126.7	-	-	3.6	-	33.4	37.0	10,064.0	Jun.

Includes one rupee coins, one rupee notes and subsidiary coins.

(Contd.)

5.4 LIABILITIES AND ASSETS OF THE BANKING

		ASSETS									
					LOANS AND ADVANCES TO SCHEDULED BANKS						
Last Thursday / Saturday / Last working day		Balances held outside Pakistan	S.D.R. held with I.M.F.	Govt. Debtor Balance	Loans and Advances to Govts.	Agri-cultural Sector	Industrial Sector	Export Sector	Housing Sector	Others	Total (a)
June,	1998	23,895.7	114.7	5,930.4	300.0	47,383.1	7,633.6	53,944.0	-	9,594.6	118,555.4
,,	1999	14,015.7	35.6	7,623.7	300.0	49,383.3	6,728.5	81,345.9	-	9,785.6	147,243.3
,,	2000	10,537.4	23.8	24,538.5	-	50,327.2	5,307.1	75,453.6	66.9	22,070.3	153,225.1
,,	2001	21,934.2	281.4	982.4	-	54,607.1	4,242.4	75,472.2	66.9	15,674.5	150,063.0
,,	2002	42,454.3	509.6	953.9	-	55,163.8	3,415.1	59,547.8	66.9	25,408.2	143,601.8
2001	Jul.	17,726.2	1,069.1	2,938.4	-	54,504.1	4,143.3	73,269.7	66.9	15,574.5	147,558.4
	Aug.	16,834.2	204.4	3,560.2	-	54,565.0	4,098.2	64,942.2	66.9	15,931.1	139,603.4
	Sep	19,918.5	180.4	3,528.3	-	54,505.0	4,041.6	59,758.0	66.9	18,257.8	136,629.3
	Oct.	21,152.7	1,039.6	3,014.5	-	54,313.8	3,953.7	56,088.8	66.9	25,582.3	140,005.4
	Nov.	57,729.5	239.9	941.1	-	53,867.4	3,921.4	52,382.4	66.9	26,280.7	136,518.8
	Dec.	90,552.4	237.4	940.3	-	53,777.4	3,828.6	50,212.4	66.9	29,006.9	136,892.2
2002	Jan.	64,344.2	230.9	-	-	55,006.6	3,719.7	52,720.9	66.9	28,813.8	140,327.9
	Feb.	71,486.9	271.9	1,016.2	-	54,397.4	3,673.2	51,885.6	66.9	33,013.8	143,036.9
	Mar.	56,589.0	271.8	-	-	54,039.4	3,600.0	57,034.0	66.9	33,013.8	147,754.2
	Apr.	25,036.8	275.5	1,889.5	-	53,899.4	3,628.1	57,432.6	66.9	33,013.8	148,040.8
	May	23,392.8	466.3	1,309.5	-	54,195.9	3,566.0	58,194.5	66.9	33,013.8	149,037.2
	Jun.	42,454.3	509.6	953.9	-	55,163.8	3,415.1	59,547.8	66.9	25,408.2	143,601.8

STATE BANK OF PAKISTAN

(Concld.)

DEPARTMENT

(Million Rupees)

ASSETS												
LOANS AND ADVANCES TO NON-BANK FINANCIAL INSTITUTIONS				INVESTMENTS								
Industrial Sector	Housing Sector	Others	Total (b)	Other Loans and Advances (a+b)	Scheduled Banks	Non-Bank Financial Institutions	Govt. Securities	Others	Total	Other Assets	Last Thursday / Saturday / Last working day	
4,640.2	6,496.3	12,630.6	23,767.0	142,322.4	39,802.8	2,067.6	8,922.6	-	50,793.0	27,693.8	June,	1998
4,106.5	6,496.3	32,059.0	42,661.8	189,905.1	39,829.2	2,067.6	179,323.1	-	221,219.9	22,936.0	,,	1999
3,414.2	6,496.3	32,955.4	42,865.9	196,091.0	40,001.4	2,067.6	276,898.2	386.5	319,353.7	25,112.4	,,	2000
7,897.1	16,496.3	25,816.8	50,210.2	200,273.2	47,727.7	1,989.5	372,382.9	361.5	422,461.6	122,920.4	,,	2001
6,268.2	15,257.3	13,455.0	34,980.5	178,582.3	52,086.6	2,739.5	148,060.8	768.5	203,655.3	114,943.9	,,	2002
7,858.2	16,496.3	25,875.7	50,230.2	197,788.6	47,727.7	1,989.5	177,097.1	361.5	227,175.8	110,690.6	Jul.	2001
7,840.7	16,496.3	26,201.3	50,538.4	190,141.7	47,727.7	2,739.5	177,822.1	361.5	228,650.8	113,834.7	Aug.	
7,787.7	16,496.3	14,096.6	38,380.6	175,009.9	47,727.7	2,739.5	170,276.7	301.5	221,045.3	125,959.5	Sep.	
7,755.0	16,496.3	13,896.6	38,147.9	178,153.3	47,727.7	2,739.5	150,794.3	301.5	201,563.0	131,915.0	Oct.	
7,711.3	16,496.3	14,040.5	38,248.1	174,766.9	47,727.7	2,739.5	108,211.2	248.3	158,926.7	149,039.8	Nov.	
7,702.3	16,496.6	13,896.6	38,095.2	174,987.4	47,727.7	2,739.5	134,783.5	242.1	185,492.8	150,111.1	Dec.	
7,688.2	16,496.3	13,646.6	37,831.2	178,159.2	47,727.7	2,739.5	146,810.9	202.1	197,480.2	151,764.7	Jan.	2002
6,364.8	16,496.3	13,555.0	36,416.1	179,453.0	47,727.7	2,739.5	135,675.5	202.1	186,344.8	147,443.0	Feb.	
6,312.2	15,257.3	13,455.0	35,024.5	182,778.6	47,727.7	2,739.5	131,704.4	711.1	182,882.7	162,275.1	Mar.	
6,280.0	15,257.3	13,455.0	34,992.2	183,033.1	47,331.2	2,739.5	173,365.3	711.1	224,147.1	155,309.9	Apr.	
6,278.5	15,257.3	13,455.0	34,990.8	184,027.9	55,231.2	2,739.5	155,928.8	711.1	214,610.6	164,244.2	May	
6,268.2	15,257.3	13,455.0	34,980.5	178,582.3	52,086.6	2,739.5	148,060.8	768.5	203,655.3	114,943.9	Jun.	

5.5 SCHEDULED BANKS' POSITION

LIABI

Last Thursday/ Saturday / Last working day		Capital (Paid-up) and Reserves	DEMAND LIABILITIES IN PAKISTAN					TIME LIABILITIES IN			
			Inter-Bank		Others			Inter-Bank		Others	
			Borrow-ings	Deposits	Deposits (General)	Others	Total	Borrow-ings	Deposits	Deposits (General)	Others
June,	1998	91,060	78	10,913	411,361	25,120	447,472	7,744	2,914	628,076	7,141
,,	1999	75,632	61	7,907	454,072	38,491	500,531	5,845	2,788	661,401	8,329
,,	2000	79,648	43	8,537	475,281	47,420	531,281	5,674	626	652,279	10,759
,,	2001	88,581	34	12,248	527,672	42,870	582,824	3,668	1,037	712,978	9,494
,,	2002	85,886	10	13,251	609,657	47,333	670,851	659	1,445	803,749	12,808
2001	Jul.	88,850	24	7,766	515,852	43,254	566,896	3,668	1,274	713,049	8,892
	Aug.	89,382	24	7,932	526,180	40,907	575,043	3,822	1,106	722,702	9,174
	Sep.	88,907	25	6,709	521,042	42,169	569,945	3,922	1,003	710,966	9,724
	Oct.	93,328	26	6,758	514,494	42,246	563,524	3,730	1,051	718,104	9,994
	Nov.	93,982	31	7,489	538,287	45,842	591,649	3,182	1,732	714,909	9,920
	Dec.	93,969	21	9,781	549,393	44,731	603,926	2,979	1,591	748,101	9,740
2002	Jan.	96,419	18	7,737	551,942	42,549	602,246	2,139	2,374	753,175	9,749
	Feb.	109,223	19	5,690	558,814	45,123	609,646	1,143	1,746	751,509	10,501
	Mar.	112,112	19	6,998	556,005	44,737	617,759	884	1,858	761,463	10,665
	Apr.	112,148	18	6,637	575,451	44,840	626,946	769	1,979	761,539	10,736
	May	104,770	18	8,307	581,406	43,340	633,071	767	1,969	774,790	11,224
	Jun.	85,886	10	13,251	609,657	47,333	670,851	659	1,445	803,749	12,808

BASED ON WEEKLY RETURNS

LITIES

(Million Rupees)

PAKISTAN							STATUTORY RESERVES*				
Total	**Total Demand and Time Liabilities (a)**	Borrowings from State Bank of Pakistan	Borrowings From Banks Abroad	Money at Call and Short Notice in Pakistan	** Other Liabilities	**Total Liabilities**	On Demand Liabilities	On Time Liabilities	Total (b)	Last Thursday/ Saturday / Last working day	
645875	**1,093,347**	113,919	16,518	7,768	264,981	**1,587,593**	22,762	32,294	55,056	June,	1998
678,363	**1,178,894**	142,147	22,089	17528	289,019	**1,734,309**	25,903	33,918	59,821	,,	1999
669,338	**1,200,619**	141,016	22,907	42,469	319,914	**1,806,573**	28,688	33,467	62,155	,,	2000
727,177	**1,310,001**	139,367	15,169	30,293	400,517	**1,983,928**	42,918	50,902	93,820	,,	2001
818,661	**1,488,912**	136,556	12,642	31,877	546,159	**2,301,032**	49,149	57,306	106,455	,,	2002
726,883	**1,293,779**	137,304	15,237	30,495	406,291	**1,971,956**	41,817	50,882	92,699	Jul.	2001
736,804	**1,311,847**	129,236	14,887	32,859	428,847	**2,007,058**	42,553	51,576	94,129	Aug.	
725,615	**1,295,560**	125,033	14,944	41,718	417,908	**1,984,070**	42,816	50,793	93,609	Sep.	
732,879	**1,296,403**	126,901	14,898	45,108	433,255	**2,010,393**	42,604	51,302	93,906	Oct.	
729,743	**1,321,392**	122,652	15,360	49,406	443,150	**2,045,942**	44,874	51,082	95,956	Nov.	
762,411	**1,366,337**	119,490	16,387	40,202	499,795	**2,136,180**	45,089	53,369	98,458	Dec.	
767,377	**1,369,623**	123,330	14,796	48,222	424,954	**2,077,344**	45,533	53,716	99,249	Jan.	2002
764,899	**1,374,545**	121,620	14,904	48,739	434,673	**2,103,704**	46,087	53,513	99,360	Feb.	
774,870	**1,392,629**	128,230	15,236	44,085	467,176	**2,159,468**	46,329	54,241	100,570	Mar.	
775,023	**1,401,969**	133,287	14,852	38,373	473,145	**2,173,774**	46,572	54,252	100,824	Apr.	
788,750	**1,421,821**	134,199	13,451	36,654	496,002	**2,206,897**	46,881	55,213	102,094	May	
818,661	**1,488,912**	136,556	12,642	31,877	546,159	**2,301,032**	49,149	57,306	106,455	Jun.	

* The Statutory Reserves requirements w.e.f 7th Oct.2000 stood as 7% of the Demand and Time Liabilities

** Other Liabilities (Excluding contra items introduced w.e.f. 20-06-1998)

(Contd.)

5.5 SCHEDULED BANKS' POSITION

ASS

Last Thursday/ Saturday / Last working day		BALANCES					FOREIGN CURRENCY			ADVANCES		
		Cash in Pakistan (c)	With State Bank of Pakistan (d)	Others (e)	Money at Call and Short Notice in Pakistan(f)	(c+d+e+f) as % of (a)	Held in Pakistan	Balances with Banks Abroad	Total	To Banks	To Others	Total (i)
June,	1998	18,769	84,740	18,218	8,903	12.0	2,706	21,798	24,504	5,687	644,049	649,736
,,	1999	18,870	100,335	19,116	18,095	13.3	2,981	39,019	42,000	4,402	725,852	730,254
,,	2000	19,468	153,371	18,250	43,509	19.5	2,222	46,619	48,841	5,788	801,154	806,942
,,	2001	19,178	147,962	18,033	31,179	16.5	4,788	70,856	75,644	3,657	866,490	870,147
,,	2002	26,414	124,883	27,268	32,831	14.2	5,003	89,416	94,419	1,626	894,524	896,150
2001	Jul.	16,830	134,550	11,238	31,036	15.0	4,020	70,333	44,353	3,654	856,100	859,754
	Aug.	17,647	136,765	11,523	33,927	15.2	3,817	68,762	72,579	3,802	850,098	853,900
	Sep.	17,362	141,786	10,789	43,866	16.5	3,823	71,942	75,765	3,784	846,961	850,745
	Oct.	16,795	133,250	11,464	47,622	16.1	5,754	69,767	75,521	3,591	855,924	859,515
	Nov.	19,981	128,017	11,048	51,688	16.0	7,068	66,488	73,556	3,145	875,363	878,508
	Dec.	21,225	157,132	19,301	42,659	17.6	4,200	76,184	80,384	3,490	894,602	898,092
2002	Jan.	18,477	142,640	21,273	49,569	16.9	4,390	67,743	72,133	2,694	916,211	918,905
	Feb.	17,599	134,194	15,481	49,864	15.8	7,705	63,838	71,543	1,699	904,523	906,222
	Mar.	21,523	117,735	18,074	45,246	14.6	5,524	72,003	77,527	1,434	892,996	894,430
	Apr.	19,019	132,596	18,811	39,627	15.0	4,064	92,702	96,766	1,199	882,748	883,947
	May	20,137	130,293	19,687	38,008	14.6	3,693	90,340	94,033	1,641	871,487	873,128
	Jun.	26,414	124,883	27,268	32,831	14.2	5,003	89,416	94,419	1,626	894,524	896,150

BASED ON WEEKLY RETURNS

(Concld.)

ETS

(Million Rupees)

BANK CREDIT			INVESTMENTS IN SECURITIES AND SHARES										
Bills Purchased and discounted(ii)	Total i+ii (g)	(g) as % of(a)	Federal Govt. Securities	Provincial Govts. Securities	Treasury Bills	Others	Total (b)	(b) as % of (a)	Other * Assets	Advance @ Taxpaid	Fixed @ Assets	**Total Assets**	Excess Reserves (d-b)
63,073	712,809	65.2	123,647	2,184	235,388	40,900	402,119	36.8	254,970*	49,332	13,237	**1,587,593**	29,684
63,774	794,028	67.4	115,671	1,969	204,160	69,069	390,869	33.2	255,378	69,564	26,054	**1,734,309**	40,514
69,554	876,496	73.0	115,536	1,730	103,790	65,993	287,049	23.9	257,054	72,941	29,594	**1,806,573**	91,216
75,504	945,651	72.2	101,161	1,836	123,889	70,048	296,934	22.7	340,220	78,205	30,922	**1,983,928**	54,142
75,588	971,738	65.3	154,292	1,728	231,507	83,493	471,020	31.6	456,377	64,270	31,812	**2,301,032**	18,428
72,364	932,118	72.1	105,697	1,836	145,174	69,074	321,781	24.9	340,510	78,316	31,224	**1,971,956**	41,851
69,403	923,303	70.4	108,175	1,836	156,438	68,911	335,360	25.6	366,391	78,246	31,317	**2,007,058**	42,636
72,072	922,817	71.2	106,289	1,728	133,630	69,824	311,471	24.0	350,310	78,830	31,074	**1,984,070**	48,177
73,152	932,667	71.9	98,744	1,774	156,900	67,638	325,056	25.1	357,612	79,240	31,166	**2,010,393**	39,344
73,668	952,176	72.1	109,737	1,728	136,240	66,677	314,382	23.8	383,922	79,802	31,370	**2,045,942**	32,061
73,776	971,868	71.1	118,446	1,728	118,446	74,264	313,431	22.9	418,091	81,070	31,019	**2,136,180**	58,674
71,893	990,798	72.3	117,441	1,728	133,949	75,763	328,881	24.0	341,816	81,093	30,664	**2,077,344**	43,391
72,794	979,016	71.2	127,623	1,728	153,326	80,165	362,842	26.4	362,012	80,461	30,692	**2,103,704**	34,834
67,992	962,422	69.1	135,490	1,728	185,890	76,549	399,657	28.7	405,988	80,467	30,824	**2,159,468**	17,165
67,913	951,860	67.9	132,339	1,728	181,085	75,661	390,813	27.9	412,317	81,004	30,961	**2,173,774**	31,772
70,642	943,770	66.4	131,371	1,728	225,874	73,537	432,510	30.4	417,919	79,257	31,283	**2,206,897**	28,199
75,588	971,738	65.3	154,292	1,728	231,507	83,493	471,020	31.6	456,377	64,270	31,812	**2,301,032**	18,428

* Other Assets (Excluding contra items introduced w.e.f. 20-06-1998)

@ Introduced w.e.f. 20-06-1998

5.6 CALL MONEY RATE

(Percent per annum)

MONTH	1997-98	1998-99	1999-00	2000-01	2001-02
July	11.03	9.21	9.21	5.63	6.94
August	10.45	3.90	8.23	7.63	8.30
September	7.30	2.56	7.93	6.82	9.19
October	9.61	12.71	10.64	12.30	10.41
November	7.50	4.93	9.16	12.93	9.36
December	13.19	7.60	10.06	10.54	6.09
January	15.84	14.14	8.15	9.12	3.61
February	13.23	8.19	6.31	6.63	5.48
March	13.29	5.77	6.66	6.71	4.75
April	17.41	13.40	5.61	10.53	5.66
May	13.25	8.89	9.33	9.36	6.31
June	14.64	2.83	10.94	9.28	4.83
Average of the period	12.23	7.84	8.52	8.96	6.74

5.7 CURRENCY IN CIRCULATION

(Million Rupees)

END OF PERIOD		Five-Rupee Bills and above	One-Rupee Coins and above	Subsidiary Coins	Total (1+2+3)	Held by Banking Department of SBP	Held by Issue Department of SBP	Currency in tills of Scheduled Banks	Currency in Circulation (4-5-6-7)
		1	2	3	4	5	6	7	8
June,	1993	175,719	2,587	627	178,933	424	344	1,1301	**166,864**
"	1994	195,809	2,827	654	199,290	170	454	1,3958	**184,708**
"	1995	229,313	2,604	672	232,589	234	413	1,6363	**215,579**
"	1996	250,620	2,604	684	253,908	165	305	1,9328	**234,110**
"	1997	259,364	2,528	697	262,589	219	408	1,7821	**244,141**
"	1998	289,998	2,564	701	293,263	154	1,418	1,8769	**272,922**
"	1999	305,326	2,514	702	308,542	120	1,835	1,8870	**287,716**
"	2000	373,739	2,558	700	376,997	100	1,751	1,9468	**355,677**
"	2001	393,114	2,726	708	396,548	178	1,727	1,9178	**375,465**
"	2002 p	458,375	3,055	665	462,095	127	1,738	2,6414	**433,816**
2001	Jul.	396,116	2,749	708	399,573	163	1,728	16,830	**380,852**
	Aug.	395,028	2,790	708	398,526	232	1,740	17,647	**378,907**
	Sep.	397,722	2,814	708	401,244	208	1,734	17,362	**381,940**
	Oct.	418,911	2,837	707	422,455	235	1,723	16,795	**403,701**
	Nov.	453,203	2,851	707	456,761	104	1,715	19,981	**434,961**
	Dec.	450,105	2,916	710	453,731	187	1,718	22,466	**429,359**
2002	Jan.	452,769	2,943	710	456,422	210	1,782	18,477	**435,953**
	Feb.	473,760	2,962	710	477,432	134	1,772	17,599	**457,927**
	Mar.	453,844	2,985	710	457,539	199	1,757	21,528	**434,055**
	Apr.	451,032	2,999	710	454,741	190	1,745	19,019	**433,787**
	May s.	463,228	3,020	710	466,958	92	1,741	20,137	**444,988**
	Jun. p	458,375	3,055	665	462,095	127	1,738	26,414	**433,816**

Note 1. The quarter end data relate to last working day whereas monthly data relate to last Saturday of the month
2. Totals may not tally due to separate rounding off
P Provisional

BANKING SYSTEM

6.1 SCHEDULED BANKS'

ITEM	End June				
	1993	1994	1995	1996	1997
LIABILITIES					
Capital	**20,601.4**	**23,170.7**	**29,115.5**	**32,131.0**	**35,741.7**
Reserves	**15,724.7**	**18,965.3**	**21,509.1**	**24,312.5**	**28,047.0**
Demand Deposits:	**233,809.4**	**272,512.3**	**321,172.3**	**363,301.7**	**373,820.3**
(a) Scheduled Banks	9,664.6	10,032.9	6,677.2	5,676.8	4,915.7
(b) Others	224,144.8	262,479.4	314,495.1	357,624.9	368,904.6
Time Deposits:	**267,842.9**	**336,260.8**	**401,210.8**	**471,527.3**	**573,397.4**
(a) Scheduled Banks	1,189.8	5,618.3	3,052.0	2,299.0	2,793.5
(b) Others	266,653.1	330,642.5	398,158.9	469,228.3	570,603.9
Borrowings from:	**77,705.6**	**101,415.7**	**109,492.7**	**93,267.6**	**96,242.8**
(a) State Bank of Pakistan	65,200.6	70,544.5	82,697.6	70,354.7	80,956.9
(b) Banks Abroad	3,274.1	14,217.3	3,502.4	2,300.8	3,711.6
(c) Other Scheduled Banks	9,230.9	16,653.9	23,292.7	20,612.1	11,574.3
Head Office and Inter-Bank Adjustment	**35,020.3**	**43,263.4**	**38,498.8**	**47,772.8**	**14,326.0**
Contingent Liabilities as per contra	**426,888.2**	**526,192.6**	**586,676.0**	**725,212.1**	**774,080.8**
Other Liabilities	**235,580.2**	**282,661.7**	**342,897.0**	**344,837.8**	**407,193.0**
TOTAL LIABILITIES / ASSETS	**1,313,172.7**	**1,604,442.5**	**1,850,572.4**	**2,102,362.8**	**2,302,848.9**
ASSETS					
Cash:	**80,599.6**	**95,699.7**	**103,270.9**	**111,722.9**	**134,462.9**
(a) Notes, Coins and Silver	14,621.7	15,014.0	25,936.2	22,850.2	21,404.1
(b) Balances with State Bank of Pakistan	50,654.6	63,766.1	61,861.5	67,578.5	94,947.6
(c) Balances with Other Scheduled Banks	15,323.2	16,919.6	15,473.2	21,294.2	18,111.2
Balances held Abroad	**7,701.8**	**7,900.4**	**8,785.4**	**19,233.7**	**11,196.9**
Bills Purchased and Discounted	**36,336.7**	**41,622.5**	**46,067.3**	**47,154.2**	**55,950.9**
Advances to:	**348,566.4**	**399,433.0**	**462,970.8**	**508,097.8**	**581,926.5**
(a) Scheduled Banks	4,524.7	3,874.9	9,057.8	5,452.7	4,008.9
(b) Others	344,041.6	395,558.1	453,913.0	502,645.1	577,917.6
Investment in Securities and Shares:	**184,641.1**	**231,087.2**	**246,122.5**	**297,936.1**	**331,222.1**
(a) Federal Government Securities	119,565.6	117,628.3	122,376.0	126,625.2	118,777.0
(b) Treasury Bills	36,145.1	83,028.2	86,729.8	126,177.1	167,087.7
(c) Provincial Governments Securities	3,678.9	3,233.7	3,257.2	3,420.7	2,506.2
(d) Foreign Securities	2.6	2.6	2.6	2.6	2.6
(e) Others	25,248.9	27,194.4	33,756.9	41,710.5	42,848.6
Bank Premises	**3,908.2**	**2,633.8**	**4,661.7**	**5,224.6**	**5,919.2**
Head Office and Inter-Bank Adjustment	**54,659.5**	**75,104.7**	**83,686.2**	**104,030.9**	**56,856.0**
Contingent Assets as per contra	**426,888.2**	**526,192.6**	**586,676.0**	**725,212.1**	**774,080.8**
Other Assets	**169,871.4**	**224,768.7**	**308,331.6**	**283,750.5**	**351,233.6**

LIABILITIES AND ASSETS

(Million Rupees)

End June					ITEM
1998	1999	2000	2001	2002	
					LIABILITIES
68,115.8	**72,118.3**	**81,909.5**	**83,949.5**	**97,644.4**	**Capital**
31,152.7	**32,949.1**	**42,494.1**	**45,281.8**	**43,584.1**	**Reserves**
399,980.1	**439,530.1**	**436,591.7**	**501,378.2**	**583,390.8**	**Demand Deposits:**
9,143.4	6,255.4	8,590.5	6,260.2	4,210.4	(a) Scheduled Banks
390,836.7	433,274.7	428,001.2	495,118.0	579,180.4	(b) Others
665,990.1	**682,191.6**	**715,416.6**	**781,649.7**	**842,094.7**	**Time Deposits:**
5,907.0	2,336.9	3,113.6	671.3	54.8	(a) Scheduled Banks
660,083.1	679,854.8	712,303.0	780,978.4	842,039.9	(b) Others
111,526.3	**140,666.2**	**160,586.1**	**193,870.7**	**190,343.5**	**Borrowings from:**
93,344.5	120,790.7	141,615.0	141,058.9	138,483.6	(a) State Bank of Pakistan
5,136.3	6,495.8	12,270.8	15,735.6	16,972.5	(b) Banks Abroad
13,045.5	13,379.7	6,700.3	37,076.2	34,887.4	(c) Other Scheduled Banks
33,476.0	**63,588.7**	**4,775.2**	**9,186.1**	**25,598.8**	**Head Office and Inter-Bank Adjustment**
872,240.8	**729,223.4**	**747,356.5**	**848,985.7**	**991,492.4**	**Contingent Liabilities as per contra**
488,966.9	**404,903.6**	**484,038.8**	**621,181.9**	**1,178,856.5**	**Other Liabilities**
2,671,448.7	**2,565,171.0**	**2,673,168.4**	**3,085,483.6**	**3,953,005.1**	**TOTAL LIABILITIES / ASSETS**
					ASSETS
120,484.9	**140,332.5**	**203,646.6**	**215,013.8**	**201,068.9**	**Cash:**
23,532.1	21,368.2	39,287.5	32,220.5	28,789.9	(a) Notes, Coins and Silver
81,965.3	97,182.1	146,013.0	147,330.0	124,436.9	(b) Balances with State Bank of Pakistan
14,987.5	21,782.2	18,346.1	35,463.	47,842.1	(c) Balances with Other Scheduled Banks
17,921.7	**20,715.4**	**51,960.0**	**74,669.9**	**97,309.5**	**Balances held Abroad**
49,654.9	**50,138.1**	**56,228.6**	**64,582.8**	**63,278.1**	**Bills Purchased and Discounted**
674,985.7	**726,540.3**	**810,157.5**	**873,305.3**	**899,846.8**	**Advances to:**
5,991.7	5,615.9	12,683.4	9,044.1	14,839.3	(a) Scheduled Banks
668,994.0	720,924.4	797,474.1	864,261.2	885,007.5	(b) Others
408,616.1	**410,138.0**	**310,744.3**	**314,463.1**	**438,659.8**	**Investment in Securities and Shares:**
123,160.4	144,908.7	147,799.3	126,147.9	152,431.3	(a) Federal Government Securities
237,265.4	207,313.0	105,761.3	125,604.9	221,674.3	(b) Treasury Bills
2,291.2	2,110.2	1,869.1	1,869.1	1,796.0	(c) Provincial Governments Securities
2.6	2.6	2.6	1.5	1.5	(d) Foreign Securities
45,896.5	55,803.5	55,312.0	60,839.7	62,756.7	(e) Others
6,359.4	**7,264.4**	**28,234.5**	**33,432.1**	**28,211.7**	**Bank Premises**
146,806.0	**71,263.0**	**46,317.7**	**82,419.3**	**149,501.5**	**Head Office and Inter-Bank Adjustment**
872,240.8	**729,223.4**	**747,356.5**	**848,985.7**	**991,492.4**	**Contingent Assets as per contra**
374,379.2	**409,555.9**	**418,522.6**	**578,611.7**	**1,083,636.5**	**Other Assets**

6.2 CLASSIFICATION OF

By

BORROWER	All Banks			Commercial Banks		
	End June			End June		
	1999	2000	2001	1999	2000	2001
A. FOREIGN CONSTITUENTS:	-	-	-	-	-	-
I. Official	-	-	-	-	-	-
II. Business	-	-	-	-	-	-
III. Personal	-	-	-	-	-	-
B. DOMESTIC CONSTITUENTS:	**720,924.4**	**797,474.1**	**864,261.2**	**607,950.7**	**6,999,81.3**	**746,640.0**
I. Government:	**43,171.9**	**85,812.5**	**75,849.9**	**43,171.9**	**858.12.5**	**75,849.9**
(a) Federal Government	18,212.6	29,416.7	31,108.8	18,212.6	29,416.7	31,108.8
(i) Commodity Operations	18,212.6	29,416.7	30,431.6	18,212.6	29,416.7	30,431.6
(ii) Others	-	-	677.2	-	-	677.2
(b) Provincial Governments:	24,959.4	56,302.2	44,674.8	24,959.4	56,302.2	44,674.8
(i) Commodity Operations	22,757.3	56,302.2	42,401.0	22,757.3	56,302.2	42,401.0
(ii) Others	2,202.1	-	2,273.8	2,202.1	-	2,273.8
(c) Local Bodies	-	93.6	66.3	-	93.6	66.3
II. Public Sector Enterprises:	**59,771.7**	**72,032.9**	**88,089.3**	**57,895.2**	**70,324.6**	**86,526.4**
(a) Agriculture, Forestry, Hunting and Fishing	859.7	1,195.1	757.5	821.1	1,195.1	757.5
(b) Mining and Quarrying	3,606.7	6,600.0	11,145.3	3,606.7	6,597.9	11,145.3
(c) Manufacturing	22,921.9	21,136.3	28,046.4	22,572.5	20,932.7	27,758.5
(d) Construction	2,880.5	3,832.8	834.9	2,880.5	3,832.8	833.7
(e) Electricity, Gas ,Water & Sanitary Services	6,410.4	10,023.1	15,536.9	6,410.4	10,023.1	15,536.9
(f) Commerce:	8,085.3	8,486.1	11,236.9	6,596.9	7,120.7	9,963.1
(i) Wholesale and Retail Trade	1,801.2	1,228.1	1,859.5	1,801.2	1,228.1	1,.859.5
(ii) Exports/Imports	3,213.7	3,890.9	6,728.6	3,213.7	3,890.9	6,728.6
(iii) Co-operative Banks (Excl. P.P.C.B.)	1,536.1	1,369.2	1,276.3	47.7	3.7	2.5
(iv) Insurance	-	0.5	0.7	-	0.5	0.7
(v) Non-Bank Financial Institutions	1,534.3	1,997.5	1,371.8	1,534.3	1,997.5	1,371.8
(g) Transport, Storage and Communication	12,197.6	16,736.8	14,769.0	12,197.6	16,736.8	14,769.0
(h) Services	733.2	386.7	432.1	733.2	249.7	432.1
(i) Other Public Sector Enterprises	2,076.3	3,635.9	5,330.2	2,076.3	3,635.9	5,330.2
III. Private Sector (Business):	**551,776.3**	**556,690.6**	**611,508.1**	**443,931.8**	**463,927.1**	**498,269.6**
(a) Agriculture, Forestry, Hunting and Fishing	91,643.4	97,444.6	96,497.6	11,347.1	13,049.4	12,177.1
(b) Mining and Quarrying	7,026.3	9,694.3	8,104.4	6,684.2	9,668.0	7,599.1
(c) Manufacturing:	311,759.9	304,721.8	354,847.0	287,875.9	299,341.1	329,611.2
(i) Food Industries	31,390.9	28,133.2	36,551.4	26,498.2	24,506.9	30,275.9
(ii) Beverage Industries	4,062.0	3,456.8	3,375.2	4,005.3	2,970.4	3,313.8

SCHEDULED BANKS' ADVANCES

Borrower

(Million Rupees)

BORROWER	All Banks			Commercial Banks		
	End June			End June		
	1999	2000	2001	1999	2000	2001
(iii) Tobacco	3,259.1	2,555.1	3,514.5	3,257.0	2,547.2	3,504.4
(iv) Textiles	141,866.4	143,266.5	169,496.9	132,300.8	142,848.8	159,547.7
(v) Footwear, Other Wearing Apparel and made-up Textile Goods	16,441.8	18,298.7	17,199.3	16,223.1	18,253.1	17,017.0
(vi) Wood and Cork except Furniture	375.6	271.5	287.5	270.2	271.5	188.5
(vii) Furniture and Fixtures	386.4	1,346.4	540.3	380.2	1,340.5	534.4
(viii) Paper and Paper Products	4,041.0	3,803.9	3,589.5	3,351.8	3,781.1	2,857.9
(ix) Printing, Publishing and Allied Industries	4,988.0	3,801.3	3,620.4	4,748.9	3,766.6	3,373.3
(x) Leather and Leather Products except Footwear	7,219.4	6,138.8	8,243.5	6,991.3	6,111.0	8,038.9
(xi) Rubber Products	2,585.3	935.1	1,270.3	2,348.5	887.6	976.6
(xii) Chemicals and Chemical Products	26,753.7	27,788.0	32,465.5	25,159.0	27,774.5	30,472.9
(xiii) Products of Petroleum and Coal	6,868.0	6,593.5	9,212.4	6,194.5	6,593.5	8,772.3
(xiv) Non-metallic Mineral Products except Product of Petroleum and Coal	12,253.8	9,842.2	15,122.2	10,621.9	9,812.9	13,804.8
(xv) Basic Metal Industries	6,083.3	5,883.9	6,291.9	5,295.1	5,833.8	5,539.9
(xvi) Metal Products except Machinery and Transport Equipments	2,222.9	2,227.9	2,355.2	2,211.9	2,223.4	2,354.1
(xvii) Machinery except Electrical Machinery	1,044.8	1,119.9	833.3	1,012.3	1,119.9	841.9
(xviii) Electrical Machinery, Apparatus, Appliances and Supplies	8,624.9	8,798.5	11,112.2	7,825.2	8,751.0	10,258.8
(xix) Transport Equipments	5,100.8	3,756.5	3,173.5	4,830.2	3,740.9	2,906.4
(xx) Miscellaneous Industries	26,192.0	26,703.9	26,542.0	24,350.6	26,206.5	25,031.7
(d) Construction	6,905.7	5,934.3	6,398.7	6,883.9	5,923.4	6,398.7
(e) Electricity, Gas, Water & Sanitary Services	3,741.0	3,749.2	4,429.9	3,736.0	3,738.8	4,429.9
(f) Commerce	70,793.7	78,169.5	76,831.8	68,223.5	75,248.6	73,842.2
(i) Wholesale and Retail Trade	25,103.8	31,380.4	31,718.2	25,100.2	31,346.1	31,691.4
(ii) Exports/Imports	35,990.9	33,418.1	30,960.1	35,989.5	33,417.3	30,960.1
(iii) Non-Scheduled Banks and Other Financial Institutions	6,267.3	7,353.1	8,199.7	6,267.3	7,353.1	8,199.7
(iv) Co-operative Societies	2,562.6	3,037.0	3,031.9	20.2	151.6	69.7
(v) Insurance	72.1	435.2	547.1	72.1	435.2	546.5
(vi) Real Estate Dealers [Excl. item(d)]	797.0	2,545.7	2,374.8	774.2	2,545.3	2,374.8
(g) Transport, Storage and Communication	12,905.4	11,614.6	10,653.7	12,386.1	11,599.1	10,637.6
(h) Services	6,348.4	6,645.0	6,869.4	6,144.7	6,643.6	6,718.2
(i) Other Private Business	40,652.5	38,717.3	46,875.6	40,650.3	38,715.2	46,855.6
IV. Trust Funds and Non-Profit Organisations	**9,250.2**	**9,370.5**	**8,249.3**	**9,250.2**	**9,370.5**	**8,240.3**
V. Personal	**55,573.9**	**69,215.2**	**73,752.5**	**52,324.6**	**66,207.0**	**70,969.5**
VI. Other activities not adequately described	1,380.4	4,352.4	6,812.2	1,376.9	4,339.5	6,784.2
TOTAL	**720,924.4**	**797,474.1**	**864,261.2**	**607,950.7**	**699,981.3**	**746,640.0**

6.2 SCHEDULED BANKS

By

BORROWER	2002 Jun. All Banks	Commercial Banks	Specialised Banks
A. FOREIGN CONSTITUENTS :			
I. Official	-	-	-
II. Business	-	-	-
III. Personal	-	-	-
B. DOMESTIC CONSTITUENTS :	**885,007.5**	**761,550.0**	**123,457.5**
I. Government :	95,077.6	95,077.6	-
1. Federal Government :	45,028.2	45,028.2	-
(i) Commodity Operations	44,184.5	44,184.5	-
(ii) Others	843.7	843.7	-
2. Provincial Governments :	50,049.3	50,049.3	-
(i) Commodity Operations	47,987.6	47,987.6	-
(ii) Others	2,061.7	2,061.7	-
3. Local Bodies (City Governments)	0.1	0.1	-
II. Non-Financial Public Sector Enterprises :	**73,259.8**	**73,109.4**	**150.4**
1. Agriculture, Forestry, Hunting & Fishing	914.2	763.8	150.4
2. Mining & Quarrying	3,654.0	3,654.0	-
3. Manufacturing	34,235.7	34,235.7	-
4. Construction	99.1	99.1	-
5. Utilities	14,875.9	14,875.9	-
6. Commerce	4,832.8	4,832.8	-
7. Transport, Storage & Communication	14,295.3	14,295.3	-
8. Services	72.1	72.1	-
9. Others	280.6	280.6	-
III. Non-Bank Financial Institutions :	**10,960.7**	**10,141.3**	819.4
1. Co-operative Banks	819.4	-	819.4
2. Development Financial Institutions	320.0	320.0	-
3. Other NBFI's	9,821.3	9,821.3	-
IV. Private Sector Enterprises :	**613,499.0**	**494,943.4**	**118,555.6**
1. Agriculture, Forestry, Hunting & Fishing :	102,044.2	14,652.1	87,392.1
2. Mining & Quarrying :	3,532.5	3,193.4	339.2
3. Manufacturing :	359,728.6	332,883.4	26,845.2
(i) Food	41,042.6	33,542.7	7,499.8
(ii) Beverages & Tobacco	6,454.8	6,352.8	102.0
(iii) Rice Processing	7,505.4	7,424.2	81.2
(iv) Textiles :	126,718.1	116,741.0	9,977.2
a) Cotton & Woollen	109,311.0	99,610.7	9,700.4
b) Others	17,407.1	17,130.3	276.8
(v) Textile Products	41,402.9	41,340.3	62.5
(vi) Footwear	5,526.9	5,248.9	278.0
(vii) Leather, Leather & Fur Products	7,127.8	7,002.1	125.7

Note : New format adopted from Dec.2001

IN PAKISTAN

Borrower

(Concld.)

(End of period : Million Rupees)

BORROWER	2002 Jun. All Banks	Commercial Banks	Specialised Banks
(viii) Rubber & Plastic Products	3,415.3	3,085.5	329.8
(ix) Cork & Wood	548.4	421.3	127.1
(x) Furniture & Fixture	412.4	412.4	-
xi) Paper, Paperboard & Products	4,523.9	3,704.0	819.9
(xii) Non-Metalic Minerals :	12,757.8	11,591.0	1,166.8
a) Cement & Cement Products	11,323.3	10,160.9	1,162.5
b) Clay,Marbles,Stone Products & Precious Metals	1,434.5	1,430.1	4.3
(xiii) Petroleum Refining	7,057.2	7,057.2	-
(xiv) Petroleum & Coal Products	1,890.6	1,384.5	506.0
(xv) Chemicals, Chemical Materials & Products	26,201.9	24,038.6	2,163.3
(xvi) Fertilizer	7,582.7	7,574.4	8.3
(xvii) Printing, Publishing & Allied Industries	1,328.2	1,283.8	44.4
(xviii) Medicinal & Pharmaceutical Products	6,910.3	6,910.3	-
(xix) Surgical Goods & Dental Appliances	781.6	779.9	1.7
(xx) Cosmetics & Detergents	2,060.1	2,060.1	-
(xxi) Photographic Apparatus, Equipments & Optical Goods	700.7	700.7	-
(xxii) Basic Metal Industries	8,299.7	7,559.3	740.4
(xxiii) Electronic Equipments, Apparatus & Appliances	3,457.0	3,426.8	30.2
(xxiv) Electrical Goods (household/industrial)	2,217.5	2,217.5	-
(xxv) Scientific Equipments (excluding surgical instruments)	28.8	28.8	-
(xxvi) Sports Goods	884.0	884.0	-
(xxvii) Machinery	10,498.5	9,030.2	1,468.4
(xxviii) Automobiles, Transport Machinery & Equipments	8,600.9	8,274.3	326.6
(xxix) Miscellaneous Industries	13,792.5	12,806.7	985.8
4. Ship Breaking & Waste etc.	1,329.3	1,329.3	-
5. Construction	4,988.9	4,978.0	10.9
6. Power (electricity), Gas, Water & Sanitary	15,613.2	15,607.3	5.9
7. Commerce :	59,336.4	55,655.5	3,680.9
(i) Wholesale & Retail Trade	26,221.5	26,221.0	0.6
(ii) Exports / Imports	28,110.5	28,110.5	-
(iii) Insurance	257.9	257.9	-
(iv) Co-operative Societies	4,032.4	352.0	3,680.3
(v) Real Estate	714.1	714.1	-
8. Transport, Storage & Communication :	13,387.2	13,323.6	63.6
9. Services	6,474.8	6,264.1	210.7
10. Other Private Business	47,064.0	47,056.7	7.3
V. Trust Funds & Non-Profit Organizations	**8,499.3**	**8,483.2**	**16.1**
VI. Personal	**76,017.9**	**72,963.9**	**3,054.0**
VII. Others	**7,693.1**	**6,831.2**	**861.9**
TOTAL	**885,007.5**	**761,550.0**	**123,457.5**

6.3 CLASSIFICATION OF

By Securities

SECURITY	All Banks End June 2000	All Banks End June 2001	All Banks End June 2002	Commercial Banks End June 2000	Commercial Banks End June 2001	Commercial Banks End June 2002
I. GOLD, BULLION, GOLD & SILVER ORNAMENTS AND PRECIOUS METALS	**659.7**	**896.6**	**1,380.8**	**659.7**	**896.6**	**1,380.8**
II. SECURITIES, SHARES AND OTHER FINANCIAL INSTRUMENTS:	**30,822.8**	**41,974.3**	**37,252.7**	**30,819.4**	**41,955.2**	**37,248.0**
A. Quoted on the Stock Exchange:	**15,645.5**	**26,258.5**	**25,390.9**	15,645.5	**26,258.5**	**25,386.1**
1. To Stock Brokers and Dealers:	4,472.4	6,892.3	5,499.9	4,472.4	6,892.3	5,495.2
(a) Govt. and Other Trustee Securities	1,600.2	2,930.1	3,647.5	1,600.2	2,930.1	3,647.5
(b) Shares and Debentures	1,942.8	3,793.5	1,489.9	1,942.8	3,793.5	1,489.9
(c) Participation Term Certificates	15.0	13.9	23.9	15.0	13.9	23.9
(d) Others	914.5	154.8	338.6	914.5	154.8	333.9
2. To Others:	11,173.1	19,366.2	19,891.0	11,173.1	19,366.2	19,891.0
(a) Govt. and Other Trustee Securities	7,724.6	14,238.0	13,088.9	7,724.6	14,238.0	13,088.9
(b) Shares and Debentures	3,039.2	3,188.3	3,208.3	3,039.2	3,188.3	3,208.3
(c) Participation Term Certificates	4.5	13.5	155.6	4.5	13.5	155.6
(d) Others	404.8	1,926.3	3,438.1	404.8	1,926.3	3,438.1
B. Unquoted on the Stock Exchange:	**15,177.3**	**15,715.8**	**11,861.8**	**15,173.9**	**15,696.8**	**11,861.8**
1. To Stock Brokers and Dealers:	2,555.3	1,491.5	1,906.7	2,555.3	1,491.5	1,906.7
(a) Govt. and Other Trustee Securities	2,464.9	604.7	407.8	2,464.9	604.7	407.8
(b) Shares and Debentures	-	83.2	174.7	-	83.2	174.7
(c) Participation Term Certificates	57.6	0.4	5.8	57.6	0.4	5.8
(d) Others	32.8	803.1	1,318.5	32.8	803.1	1,318.5
2. To Others:	12,622.0	14,224.3	9,955.1	12,618.6	14,205.3	9,955.1
(a) Govt. and Other Trustee Securities	10,145.1	12,434.5	9,084.4	10,145.1	12,434.5	9,084.4
(b) Shares and Debentures	203.3	84.1	123.1	203.3	84.1	123.1
(c) Participation Term Certificates	71.8	214.3	71.4	68.4	195.3	71.4
(d) Others	2,201.9	1,491.3	676.2	2,201.9	1,491.3	676.2
III. MERCHANDISE:	**303,563.9**	**323,913.6**	**327,818.6**	**302,587.8**	**321,247.8**	**325,676.6**
A. Food Items:	**110,917.6**	**127,562.9**	**147,990.2**	**110,903.1**	**125,433.2**	**147,720.3**
1. Wheat	79,048.3	95,213.9	109,272.2	79,048.3	93,188.7	109257.7
2. Rice and Paddy	5,251.7	6,321.2	13,201.5	5,251.7	6,321.2	13,149.0
3. Other Grain and Pulses:	2,186.8	788.4	1,506.5	2,186.8	788.4	1,503.5
(a) Indigenous	1,990.3	424.2	1,295.5	1,990.3	424.2	1,292.4
(b) Imported	196.5	364.2	211.0	196.5	364.2	211.0
4. Edible Oil:	4,963.0	6,463.4	7,803.2	4,963.0	6,463.4	7,769.6
(a) Indigenous	2,835.3	4,635.0	5,915.5	2,835.3	4,635.0	5,891.9
(b) Imported	2,127.7	1,828.4	1,887.7	2,127.7	1,828.4	1,877.7
5. Sugar:	11,877.6	11,737.3	11,748.2	11,863.1	11,632.8	11,638.4
(a) Indigenous	11,120.0	10,868.1	10,719.8	11,105.5	10,763.6	10,610.0
(b) Imported	757.6	869.2	1,028.4	757.6	869.2	1,028.4
6. Kariana and Spices	2,183.9	1,186.9	625.8	2,183.9	1,186.9	625.8
7. Fish and Fish Preparation	1,041.2	1,200.6	851.4	1,041.2	1,200.6	851.4
8. Other Food Items:	4,365.0	4,651.1	2,981.9	4,365.0	4,651.1	2,925.1
(a) Indigenous	2,947.8	3,411.3	2,025.1	2,947.8	3,411.3	1,968.6
(b) Imported	1,417.1	1,239.7	956.5	1,417.1	1,239.7	956.5
B. Raw Materials:	**57,598.5**	**62,366.7**	**63,371.7**	**56,789.5**	**62,185.1**	**61,944.4**
1. Cotton Raw:	21,923.4	21,919.3	30,024.2	21,168.6	21,791.2	28,721.5
(a) Indigenous	19,928.7	19,438.0	27,649.2	19,174.2	19,310.2	26,348.3
(b) Imported	1,994.7	2,481.2	2,375.0	1,994.4	2,481.0	2,373.2
2. Synthetic Fibres:	3,807.0	3,965.2	3,150.9	3,801.7	3,964.0	3,147.0
(a) Indigenous	3,063.7	3,099.8	2,151.3	3,063.7	3,099.8	2,147.4
(b) Imported	743.4	865.4	999.6	738.0	864.3	999.6
3. Fertilizers:	4,221.9	3,127.5	1,241.7	4,221.9	3,127.5	1,233.4
(a) Indigenous	3,655.8	1,225.8	- 876.7	3,655.8	1,225.8	868.4
(b) Imported	566.1	1,901.8	364.9	566.1	1,901.8	364.9

SCHEDULED BANKS' ADVANCES

Pledged

(Million Rupees)

SECURITY	All Banks End June 2000	All Banks End June 2001	All Banks End June 2002	Commercial Banks End June 2000	Commercial Banks End June 2001	Commercial Banks End June 2002
4. Petroleum Crude:	6,221.9	10,514.5	9,541.9	6,221.9	10,514.5	9,541.9
(a) Indigenous	3,036.0	7,104.6	5,816.3	3,036.0	7,104.6	5,816.3
(b) Imported	3,186.0	3,409.9	3,725.6	3,186.0	3,409.9	3,725.6
5. Iron and Steel	5,899.6	3,973.2	5,310.5	5,859.4	3,921.7	5,294.5
(a) Indigenous	3,546.3	2,670.4	3,321.1	3,506.1	2,618.9	3,305.2
(b) Imported	2,353.2	1,302.8	1,989.4	2,353.2	1,302.8	1,989.4
6. Wool and Goat Hair	1,002.1	427.2	380.8	1,002.1	427.2	380.8
7. Hides and Skins	3,123.8	4,042.1	2,095.3	3,116.2	4,042.1	2,095.3
8. Oil Seeds	835.5	741.3	338.0	835.5	741.3	338.0
9. Pesticides and Insecticides	729.3	1,071.8	442.0	729.3	1,071.8	442.0
(a) Indigenous	411.9	858.4	87.5	411.9	858.4	87.5
(b) Imported	317.4	213.4	354.6	317.4	213.4	354.6
10. Other Raw Materials:	9,833.9	12,584.6	10,846.4	9,832.9	12,583.6	10,750.0
(a) Indigenous	5,137.9	6,483.4	6,512.1	5,136.9	6,482.4	6,415.7
(b) Imported	4,696.0	6,101.2	4,334.2	4,696.0	6,101.2	4,334.2
C. Finished/Manufactured Goods:	**135,047.9**	**133,984.0**	**116,456.6**	**134,895.3**	**133,629.5**	**116,011.8**
1. Cotton Textiles	37,464.5	38,963.7	40,780.3	37,464.5	38,963.7	40,607.9
(a) Indigenous	29,194.2	34,196.3	39,515.3	29,194.2	34,196.3	39,342.9
(b) Imported	8,270.2	4,767.4	1,265.0	8,270.2	4,767.4	1,265.0
2. Cotton Yarn:	6,528.1	11,103.4	9,216.5	6,526.1	11,103.4	9,216.5
(a) Indigenous	5,081.0	7,332.6	7,726.5	5,079.0	7,332.6	7,726.5
(b) Imported	1,447.1	3,770.7	1,490.0	1,447.1	3,770.7	1,490.0
3. Other Textiles:	16,296.0	16,323.3	12,958.5	16,280.4	16,116.1	12,864.3
(a) Indigenous	15,226.7	14,979.9	12,670.5	15,211.1	14,772.6	12,576.3
(b) Imported	1,069.3	1,343.4	288.0	1,069.3	1,343.4	288.0
4. Machinery:	14,860.0	10,091.1	11,178.6	14,771.2	9,987.5	11,150.0
(a) Indigenous	8,424.8	4,257.4	5,091.4	8,381.3	4,228.5	5,084.3
(b) Imported	6,435.2	5,833.7	6,087.2	6,389.8	5,758.9	6,065.7
5. Handloom Products	85.7	301.5	217.1	84.7	301.5	217.1
6. Carpets and Rugs	1,127.0	1,201.5	759.1	1,127.0	1,201.5	719.8
7. Readymade Garments	8,579.8	8,339.3	7,079.0	8,579.8	8,339.3	7,079.0
8. Cement and Cement Products:	4,478.2	2,873.1	3,735.1	4,477.7	2,872.7	3,735.1
(a) Indigenous	4,120.4	2,778.8	3,734.8	4,119.9	2,778.4	3,734.8
(b) Imported	357.8	94.3	0.3	357.8	94.3	0.3
9. Sports Goods	1,291.9	1,538.2	1,289.9	1,291.9	1,538.2	1,289.9
10. Surgical Instruments	485.0	653.2	694.8	485.0	653.2	693.1
11. Chemicals and Dyes	14,936.7	12,114.3	5,956.9	14,936.7	12,114.3	5,951.7
12. Other finished goods:	28,915.0	30,481.3	22,590.8	28,870.3	30,438.2	22,487.5
(a) Indigenous	19,985.7	20,182.4	13,650.0	19,941.0	20,139.3	13,546.7
(b) Imported	8,929.3	10,298.9	8,940.8	8,929.3	10,298.9	8,940.8
IV. FIXED ASSETS INCLUDING MACHINERY	**97,701.4**	**120,135.6**	**120,140.5**	**93,423.4**	**99,798.7**	**101,110.4**
V. REAL ESTATE:	**172,235.4**	**186,951.5**	**196,847.0**	**88,990.6**	**99,140.9**	**102,062.7**
(a) Land	99,091.7	104,655.7	113,710.3	18,095.6	22,120.2	24,619.6
(b) Buildings:	73,143.7	82,295.8	83,136.7	70,894.9	77,020.7	77,443.2
1. Residential	46,603.2	50,572.3	54,334.4	44,480.7	48,879.4	52,251.2
2. Non-Residential	26,540.5	31,723.5	28,802.3	26,414.3	28,141.4	25,191.9
VI FIXED DEPOSITS & INSURANCE POLICIES:	**45,121.3**	**38,808.6**	**32,307.6**	**45,106.5**	**38,562.7**	**32,197.5**
(a) Bank Deposits	42,502.1	38,366.7	31,349.5	42,489.3	38,120.8	31,239.4
(b) Insurance Policies	2,619.2	441.9	958.1	2,617.2	441.9	958.1
VII. OTHERS:	**147,369.6**	**151,581.1**	**169,260.4**	**138,393.9**	**145,038.1**	**161,874.1**
(a) Other Secured Advances	100,568.1	97,722.4	108,663.7	96,240.9	96,675.4	106,065.6
(b) Advances Secured by Guarantee(s)	39,392.4	46,793.3	52,456.1	37,124.5	43,611.0	50,416.1
(c) Unsecured Advances	7,409.2	7,065.4	8,140.6	5,028.5	4,751.7	5,392.4
TOTAL	**797,474.1**	**864,261.2**	**885,007.5**	**699,981.3**	**746,640.0**	**761,550.0**

6.4 CLASSIFICATION OF SCHEDULED

SIZE OF ACCOUNT	All Banks					
	End June					
	2000		2001		2002	
	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
Less than Rs. 1,000	20,690	8.2	17,926	6.1	22,083	2.1
Rs. 1,000 to Rs. 1,500	4,701	5.3	4,434	5.2	779	0.9
Rs. 1,500 to Rs. 2,000	3,731	6.6	2,491	4.2	11,247	20.9
Rs. 2,000 to Rs. 3,000	9,211	22.1	4,453	10.7	5,092	12.9
Rs. 3,000 to Rs. 4,000	5,391	18.7	10,551	36.6	3,455	11.9
Rs. 4,000 to Rs. 5,000	13,999	64.8	6,232	27.2	2,816	12.3
Rs. 5,000 to Rs. 6,000	5,610	31.3	4,923	27.2	9,440	53.0
Rs. 6,000 to Rs. 7,000	19,193	126.2	8,253	54.0	3,413	21.8
Rs. 7,000 to Rs. 8,000	15,643	117.5	10,549	78.2	31,284	227.8
Rs. 8,000 to Rs. 9,000	12,652	108.1	7,125	60.4	13,854	118.5
Rs. 9,000 to Rs. 10,000	12,794	120.8	24,644	228.5	4,004	37.5
Rs. 10,000 to Rs. 20,000	256,230	4,033.5	243,024	3966.8	126,322	1,896.6
Rs. 20,000 to Rs. 25,000	171,047	3,794.3	105,240	2,413.2	137,027	3,131.8
Rs. 25,000 to Rs. 30,000	226,071	6,075.1	246,271	6,628.1	208,491	5,796.3
Rs. 30,000 to Rs. 40,000	241,216	8,533.6	239,871	8,294.6	275,138	9,778.8
Rs. 40,000 to Rs. 50,000	242,171	10,881.3	271,439	12,238.8	230,842	10,343.6
Rs. 50,000 to Rs. 60,000	208,512	11,462.9	185,028	10,057.1	245,280	13,479.7
Rs. 60,000 to Rs. 70,000	179,657	11,569.7	175,315	11,275.2	139,210	8,979.7
Rs. 70,000 to Rs. 80,000	90,110	6,713.4	135,020	10,087.3	154,361	11,528.6
Rs. 80,000 to Rs. 90,000	118,408	10,043.0	113,156	9,566.3	116,107	9,854.2
Rs. 90,000 to Rs. 100,000	66,819	6,334.9	65,277	6,158.9	105,769	10,029.1
Rs. 100,000 to Rs. 200,000	147,088	20,270.6	185,608	25,274.5	199,801	26,330.6
Rs. 200,000 to Rs. 300,000	88,412	21,833.0	88,576	22,235.6	86,922	20,877.6
Rs. 300,000 to Rs. 400,000	30,986	10,603.5	41,937	14,430.2	48,712	16,699.2
Rs. 400,000 to Rs. 500,000	22,969	10,228.3	21,012	9,447.8	24,239	10,969.1
Rs. 500,000 to Rs. 600,000	10,867	5,904.8	14,829	8,078.7	16,663	9,217.8
Rs. 600,000 to Rs. 700,000	8,694	5,610.6	6,091	3,907.5	8,928	5,783.5
Rs. 700,000 to Rs. 800,000	4,113	3,053.7	4,620	3,394.6	4,330	3,239.5
Rs. 800,000 to Rs. 900,000	2,314	1,979.9	4,096	3,468.2	4,790	4,093.2
Rs. 900,000 to Rs. 1,000,000	3,215	3,010.1	2,863	2,749.6	4,963	4,747.6
Rs. 1,000,000 to Rs. 2,000,000	13,070	18,568.5	16,736	23,341.7	27,522	37,949.3
Rs. 2,000,000 to Rs. 3,000,000	6,176	15,184.3	7,419	17,659.0	8174	19,216.9
Rs. 3,000,000 to Rs. 4,000,000	3,521	12,142.9	3,271	11,359.8	3091	10,751.6
Rs. 4,000,000 to Rs. 5,000,000	2,098	9,386.5	2,404	10,867.2	1761	7,937.3
Rs. 5,000,000 to Rs. 6,000,000	1,432	7,838.8	1,511	8,197.6	1666	9,082.9
Rs. 6,000,000 to Rs. 7,000,000	1,032	6,634.9	1,272	8,275.4	987	6,471.8
Rs. 7,000,000 to Rs. 8,000,000	1,567	11,728.0	1,676	12,553.9	865	6,478.2
Rs. 8,000,000 to Rs. 9,000,000	586	4,964.9	721	6,128.1	648	5,492.8
Rs. 9,000,000 to Rs. 10,000,000	660	6,237.3	545	5,163.9	677	6,451.9
Rs. 10,000,000 and over	8,732	542,222.3	9511	586,503.2	8,877	587,879.1
TOTAL	**2,281,388**	**797,474.1**	**2,295,920**	**864,261.2**	**2,299,630**	**885,007.5**

BANKS' ADVANCES BY SIZE OF ACCOUNT

(Million Rupees)

Commercial Banks End June						SIZE OF ACCOUNT			
2000		2001		2002					
No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount				
13,672	5.2	15,802	5.9	21,924	2.0	Less than		Rs.	1,000
4,249	4.8	3,825	4.6	632	0.7	Rs.	1,000 to	Rs.	1,500
2,772	4.8	2,417	4.1	10,778	20.1	Rs.	1,500 to	Rs.	2,000
6,393	14.9	3,390	7.8	1,371	3.2	Rs.	2,000 to	Rs.	3,000
3,153	10.6	1,643	5.7	2,463	8.7	Rs.	3,000 to	Rs.	4,000
6,612	29.4	3,523	15.4	1,826	8.0	Rs.	4,000 to	Rs.	5,000
5,015	28.0	3,656	20.0	8,509	47.7	Rs.	5,000 to	Rs.	6,000
9,901	64.7	7,380	48.0	2,654	16.9	Rs.	6,000 to	Rs.	7,000
13,059	97.6	6,805	50.5	31,153	226.8	Rs.	7,000 to	Rs.	8,000
8,706	74.0	4,111	34.8	5,505	47.6	Rs.	8,000 to	Rs.	9,000
11,582	109.4	20,092	185.8	3,921	36.7	Rs.	9,000 to	Rs.	10,000
203,723	3,163.9	191,645	3,152.0	100,773	1,504.8	Rs.	10,000 to	Rs.	20,000
67,986	1,534.1	53,889	1,240.4	106,502	2,450.9	Rs.	20,000 to	Rs.	25,000
133,702	3,469.6	151,586	3,969.1	167,710	4,688.4	Rs.	25,000 to	Rs.	30,000
50,115	1,753.6	69,295	2,409.0	82,718	2,879.8	Rs.	30,000 to	Rs.	40,000
33,414	1,491.3	45,616	2,030.7	58,874	2,608.2	Rs.	40,000 to	Rs.	50,000
31,225	1,656.3	29,327	1,563.2	45,882	2,485.3	Rs.	50,000 to	Rs.	60,000
21,183	1,366.6	28,629	1,842.6	39,887	2,573.6	Rs.	60,000 to	Rs.	70,000
11,925	892.0	17,143	1,279.9	24,294	1,820.8	Rs.	70,000 to	Rs.	80,000
10,278	872.6	10,045	866.6	33,112	2,836.2	Rs.	80,000 to	Rs.	90,000
8,236	776.7	9,428	889.8	19,319	1,854.4	Rs.	90,000 to	Rs.	100,000
66,096	9,555.1	86,279	12,404.2	62,323	8,808.6	Rs.	100,000 to	Rs.	200,000
58,582	14,655.4	63,683	16,281.6	61,000	14,770.4	Rs.	200,000 to	Rs.	300,000
28,363	9,722.4	37,565	12,903.9	36,891	12,700.1	Rs.	300,000 to	Rs.	400,000
21,224	9,482.2	20,613	9,271.8	21,465	9,742.4	Rs.	400,000 to	Rs.	500,000
10,165	5,525.0	13,292	7,240.6	14,794	8,193.5	Rs.	500,000 to	Rs.	600,000
6,995	4,519.1	5,847	3,750.0	8,760	5,673.8	Rs.	600,000 to	Rs.	700,000
4,074	3,025.6	4,167	3,066.3	3,979	2,967.9	Rs.	700,000 to	Rs.	800,000
2,285	1,955.0	3,960	3,353.3	4,772	4,078.1	Rs.	800,000 to	Rs.	900,000
3,183	2,978.5	2,756	2,647.6	4,473	4,270.0	Rs.	900,000 to	Rs.	1,000,000
12,894	18,299.5	15,632	21,80.0	26,908	37,103.2	Rs.	1,000,000 to	Rs.	2,000,000
6,008	14,832.7	7,111	16,901.6	7,619	18,027.3	Rs.	2,000,000 to	Rs.	3,000,000
3,502	12,076.9	3,106	10,779.3	2,916	10,160.8	Rs.	3,000,000 to	Rs.	4,000,000
2,072	9,265.9	2,287	10,342.1	1,677	7,557.1	Rs.	4,000,000 to	Rs.	5,000,000
1,410	7,716.5	1,404	7,616.6	1,614	8,799.0	Rs.	5,000,000 to	Rs.	6,000,000
1,007	6,472.6	1,103	7,132.1	927	6,082.2	Rs.	6,000,000 to	Rs.	7,000,000
1,405	10,537.9	1,593	11,919.3	805	6,028.2	Rs.	7,000,000 to	Rs.	8,000,000
579	4,904.1	677	5,757.4	617	5,229.7	Rs.	8,000,000 to	Rs.	9,000,000
652	6,160.6	503	4,767.2	658	6,271.2	Rs.	9,000,000 to	Rs.	10,000,000
8,441	530,876.0	8,870	559,079.0	8,311	558,965.9	Rs.	10,000,000 and over		
895,838	**699,981.3**	**959,695**	**746,640.0**	**1,040,326**	**761,550.0**		**TOTAL**		

6.5 SCHEDULED BANKS' DEPOSITS

END OF PERIOD	Current Deposits	Call Deposits	Other Deposit Accounts	Saving Deposits	FIXED		
					Less than 6 months	For 6 months and over but less than 1year	For 1 year and over but less than 2 years
June, 1997							
No. of Accounts	5,206,549	338,868	503,061	25,399,945	475,862	99,840	135,856
Amount	155,507.8	11,782.8	32,657.5	402,818.9	119,068.1	42,476.7	55,213.7
June, 1998							
No. of Accounts	5,023,713	284,450	555,713	22,510,795	391,105	91,915	154,295
Amount	165,572.1	13,736.4	32,802.0	479,165.6	130,213.7	41,403.3	56,260.5
June, 1999							
No. of Accounts	4,925,950	796,128	448,773	2,2480,384	804,009	229,544	306,786
Amount	172,481.9	21,501.6	35,006.0	524,147.8	114,902.6	36,911.7	51,709.4
June,2000							
No. of Accounts	4,488,419	273,248	814,697	21,430,495	40,0844	133,611	225,985
Amount	167,990.5	17,251.5	48,068.8	583,492.0	109,035.7	37,708.9	40,865.5
June,2001							
No. of Accounts	4,084,364	238,340	894,950	21,375,345	276,022	104,502	106,810
Amount	232,902.1	18,796.4	38,335.2	644,810.8	124,817.8	33,222.5	37,771.6
June.2002							
No. of Accounts	4,716,798	230,667	430,232	21,991,819	248,191	75,352	80,545
Amount	288,695.5	23,301.8	27,518.2	747,021.3	115,915.2	32,710.1	43,398.0

DISTRIBUTED BY TYPES OF ACCOUNT

(Million Rupees)

DEPOSITS						
For 2 years and over but less than 3 years	For 3 years and over but less than 4 years	For 4 years and over but less than 5 years	For 5 years and over	Total	**ALL DEPOSITS**	END OF PERIOD
						June, 1997
128,135	185,971	64,452	612,321	1,702,437	**33,150,860**	No. of Accounts
13,769.9	23,729.2	10,083.5	72,400.5	336,741.5	**939,508.5**	Amount
						June, 1998
126,899	183,673	94,944	553,779	1,596,610	**29,971,281**	No. of Accounts
17,294.8	26,387.4	14,342.3	73,741.8	359,643.7	**1,050,919.8**	Amount
						June, 1999
102,883	161,040	94,998	724,951	2,424,211	**31,075,446**	No. of Accounts
15,284.6	32,362.8	17,046.6	91,774.4	359,992.1	**1,113,129.4**	Amount
						June, 2000
109,257	199,720	127,988	596,267	1,793,672	**28,800,531**	No. of Accounts
15,751.9	25,635.9	14,050.1	80,463.7	323,501.6	**1,140,304.1**	Amount
						June, 2001
73,119	97,577	50,928	449,330	1,158,288	**27,751,287**	No. of Accounts
21,784.1	27,214.2	11,204.8	85,237.1	341,252.1	**1,276,096.4**	Amount
						June, 2002
59,275	78,886	38,515	324,222	904,986	**28,274,502**	No. of Accounts
16,597.9	22,656.4	15,682.1	87,723.7	334,683.5	**1,421,220.3**	Amount

6.6 SCHEDULED BANKS' DEPOSITS DISTRIBUTED

CATEGORY OF DEPOSIT HOLDER	End June 1997	1998	1999	2000	2001
A. FOREIGN CONSTITUENTS:	**193,610.2**	**158,617.6**	**96,613.8**	**50,749.8**	**55,093.0**
I. Official	**11,472.6**	**12,391.1**	**15,624.8**	**6,575.1**	**9,226.4**
II. Business	**100,799.6**	**79,809.8**	**42,036.3**	**23,996.4**	**28,665.9**
III. Personal	**81,338.0**	**66,416.8**	**38,952.7**	**19,908.3**	**17,200.7**
B. DOMESTIC CONSTITUENTS:	**745,898.3**	**892,302.2**	**1,016,515.6**	**1,089,824.3**	**1,221,033.4**
I. Government:	**42,771.7**	**49,732.9**	**64,746.2**	**70,184.1**	**95,225.3**
1. Federal Government	23,681.7	28,268.7	39,437.7	45,810.7	59,073.9
2. Provincial Governments	14,009.8	16,154.4	20,327.6	18,385.0	32,095.5
3. Local Bodies	5,080.3	5,309.8	4,980.8	5,988.5	4,055.9
II. Public Sector Enterprises:	**39,304.3**	**49,844.8**	**48,683.0**	**75,721.9**	**79,358.0**
1. Agriculture, Forestry, Hunting and Fishing	1,283.3	4,864.9	219.8	472.3	686.8
2. Mining and Quarrying	4,621.4	1,967.0	123.2	882.9	949.5
3. Manufacturing :	6,893.8	10,803.2	15,997.4	19,793.4	22,513.4
(i) Food Industries	366.7	317.1	1,203.2	117.7	332.3
(ii) Textiles	537.1	140.7	543.5	578.1	341.0
(iii) Printing, Publishing & Allied Industries	255.6	164.8	244.2	413.6	165.8
(iv) Chemicals & Chemical Products	924.1	1,297.3	1,119.5	1,287.9	1,275.2
(v) Products of Petroleum & Coal	2,801.2	4,297.8	6,747.1	13,911.5	15,850.8
(vi) Cement	293.4	103.2	488.6	336.4	284.9
(vii) Basic Metal Industries & Manufacture of Metal Products	513.4	1,756.5	1,193.3	2,440.3	3,608.8
(viii) Machinery & Transport Equipments	608.5	749.3	644.1	165.7	186.9
(ix) Miscellaneous Industries	593.9	1,976.5	3,814.0	542.3	467.7
4. Construction	498.0	489.9	415.6	3,662.6	470.1
5. Electricity, Gas and Sanitary Services	6,623.6	10,538.1	8,526.8	7,850.8	17,599.1
6. Commerce:	8,472.9	7,824.1	7,472.9	16,093.5	14,570.3
(i) Wholesale and Retail Trade	1,100.6	895.0	1,118.0	415.0	542.5
(ii) Exports/Imports	762.1	568.4	1,135.0	524.3	1,192.6
(iii) Co-operative Banks (Excl. P.P.C.B.)	144.0	663.1	395.0	518.4	580.8
(iv) Insurance	1,161.9	706.3	546.8	10,311.0	1,183.9
(v) Non-Bank Financial Institutions	5,304.3	4,991.4	4,278.2	4,324.9	11,070.5
7. Transport, Storage and Communication	3,130.4	3,127.9	3,886.3	6,488.2	5,552.6
8. Services	1,860.5	2,285.9	1,439.2	3,590.0	2,183.3
9. Other Public Sector Enterprises	5,920.4	7,943.8	10,601.8	16,888.2	14,832.9

BY CATEGORY OF DEPOSIT HOLDERS

(Million Rupees)

CATEGORY OF DEPOSIT HOLDER	End June 1997	1998	1999	2000	2001
III. Private Sector (Business):	**280,091.5**	**336,560.0**	**482,433.5**	**504,167.5**	**534,806.4**
1. Agriculture, Forestry, Hunting and Fishing	38,583.3	37,936.5	52,170.5	61,238.5	60,965.8
2. Mining and Quarrying	4,260.3	9,931.0	13,669.2	5,772.0	7,449.4
3. Manufacturing:	26,024.1	30,504.1	79,296.2	65,384.1	61,211.1
(i) Food Industries	5,241.7	6,539.1	13,395.0	9,801.4	9,830.1
(ii) Textile--Cotton	6,422.8	5,552.9	24,448.8	11,021.0	7,045.4
(iii) Textile--Woollen	655.9	212.9	9,336.2	3,478.4	1,207.4
(iv) Textile--Art Silk	833.5	981.2	2,678.7	542.2	650.0
(v) Textile--Others	1,692.7	3,631.3	6,397.3	10,009.7	5,338.6
(vi) Chemicals & Chemiral Products	1,638.5	3,382.7	5,145.2	8,323.1	7,998.7
(vii) Cement	1,507.8	962.9	2,162.2	1,048.8	1,017.7
(viii) Machinery & Transport Equipments	1,535.0	1,554.4	2,832.6	3,196.2	3,264.8
(ix) Miscellaneous Industries	6,496.2	7,686.7	12,900.3	17,963.3	24,858.5
4. Construction	5,186.4	6,492.4	6,233.0	6,897.8	9,597.1
5. Electricity, Gas, Water and Sanitary Services	7,090.9	9,612.4	15,746.5	19,168.6	29,366.4
6. Commerce:	50,203.6	79,138.9	90,040.5	102,106.2	104,813.2
(i) Wholesale and Retail Trade	32,930.1	53,591.3	60,931.7	61,486.2	66,384.3
(ii) Exports/Imports	8,047.5	13,562.6	14,995.1	15,925.5	16,025.2
(iii) Non-Scheduled Banks and Other Financial Institutions	4,514.1	5,684.7	8,350.6	17,221.6	13,127.4
(iv) Co-operative Societies	1,935.0	3,297.1	2,451.3	2,901.3	3,765.4
(v) Insurance	1,645.3	1,838.7	1,653.3	2,380.2	3,531.9
(vi) Real Estate Dealers [Excl. item 4]	1,131.6	1,164.4	1,658.6	1,831.4	1,979.1
7. Transport, Storage and Communication	7,293.1	5,561.7	7,334.4	13,111.3	19,659.4
8. Services	8,726.1	13,415.5	12,191.9	17,096.7	36,160.6
9. Other Private Business	132,723.7	143,967.4	205,751.3	213,392.2	205,583.4
IV. Trust Funds and Non-Profit Organisations	**16,147.0**	**14,937.8**	**12,330.6**	**16,325.1**	**19,641.3**
V. Personal	**348,920.5**	**425,453.8**	**389,793.6**	**404,812.8**	**471,090.8**
VI. Other activities not adequately described	**18,663.3**	**15,772.9**	**18,528.7**	**18,512.9**	**20,881.5**
TOTAL	**939,508.5**	**1,050,919.8**	**1,113,129.4**	**1,140,304.1**	**1,276,096.4**

(Contd.)

6.6 SCHEDULED BANKS' DEPOSITS DISTRIBUTED

CATEGORY OF DEPOSIT HOLDERS	Jun.2002					
	All Deposits	Current Deposits	Call Deposits	Other Deposit Accounts	Saving Deposits	Fixed Deposits
A. FOREIGN CONSTITUENTS :	**54,947.0**	**6,492.8**	**317.9**	**106.7**	**24,734.2**	**23,295.3**
I. Official	4,689.3	285.3	53.2	13.2	447.3	3,890.3
II. Business	25,458.6	2,045.1	102.7	7.8	8,285.9	15,017.2
III. Personal	24,799.0	4,162.4	162.0	85.7	16,001.1	4,387.8
B. DOMESTIC CONSTITUENTS :	**1,366,273.4**	**282,202.7**	**22,984.0**	**27,411.6**	**722,287.0**	**311,388.1**
I. Government :	114,892.6	32,502.5	5,479.5	496.3	43,464.7	32,949.7
1. Federal Government	67,256.1	25,152.5	4,453.5	122.1	22,699.8	14,828.3
2. Provincial Governments	34,789.9	5,451.4	1,025.7	368.5	16,546.8	11,397.5
3. Local Bodies (City Governments)	12,846.5	1,898.6	0.3	5.7	4,218.1	6,723.9
II. Non-Financial Public Sector Enterprises :	**68,306.0**	**10,527.3**	**492.0**	**1,186.0**	**37,105.5**	**18,995.2**
(i) Agriculture, Forestry, Hunting & Fishing	93.3	0.0	0.0	0.0	0.9	92.3
ii) Mining & Quarrying	11,585.0	273.3	0.6	0.0	10,149.7	1,161.4
(iii) Manufacturing	18,513.7	2,543.4	376.5	220.3	5,824.1	9,549.4
(iv) Construction	15.2	13.0	0.0	1.2	0.1	1.0
(v) Utilities	17,090.6	3,448.8	19.4	741.2	9,907.1	2,974.2
(vi) Commerce	2,458.0	755.6	3.6	0.0	1,455.5	243.3
(vii) Transport, Storage & Communication	15,557.2	3,220.8	49.7	218.6	8,035.8	4,032.2
(viii) Services	2,950.9	272.5	0.0	4.7	1,732.3	941.4
(ix) Others	42.2	0.0	42.2	0.0	0.0	0.0
III. Non-Bank Financial Institutions :	**9,739.5**	**4,053.6**	**342.8**	**54.2**	**4,332.9**	**956.0**
(i) Co-operative Banks	336.3	41.9	6.0	30.8	165.5	92.2
(ii) Development Financial Institutions	1,400.4	535.2	130.7	0.0	627.6	107.0
(iii) Other NBFI's	8,002.7	3,476.6	206.2	23.3	3,539.8	756.9
IV. Private Sector Enterprises :	**537,357.8**	**156,846.2**	**11,896.0**	**14,633.5**	**245,072.7**	**108,909.3**
1. Agriculture, Forestry, Hunting & Fishing :	64,182.6	9,749.1	612.5	689.9	43,208.3	9,922.8
2. Mining & Quarrying :	5,279.8	618.4	2.3	6.7	3,340.6	1,311.9
(i) Coal, Stone, Sand & Gravel	1,505.5	294.1	2.3	0.0	390.6	418.4
(ii) Metal Mining	507.6	7.4	0.0	0.0	482.4	17.9
(iii) Non-Metal Mining	76.5	19.7	0.0	0.1	34.9	21.9
(iv) Crude Petroleum, Petroleum Products & Gas	3,190.2	297.2	0.0	6.6	2,032.7	853.7
3. Manufacturing :	67,142.8	18,797.0	2,478.9	1,125.2	25,631.2	19,110.5
(i) Food	6,383.3	2,326.3	162.5	126.9	2,261.2	1,506.3
(ii) Beverages & Tobacco	2,311.3	193.2	0.0	10.6	976.9	1,130.6
(iii) Rice Processing	900.5	460.4	0.2	6.5	276.1	157.3
(iv) Textiles :	10,709.6	4,710.1	424.4	274.8	3,416.6	1,883.7
a) Cotton & Woolen	7,800.1	3,270.2	148.1	225.4	2,765.1	1,391.2
b) Others	2,909.5	1,439.9	276.3	49.4	651.5	492.5
(v) Textile Products	4,046.1	1,458.9	62.7	110.5	1,967.8	446.2
(vi) Footwear	1,019.9	322.8	42.8	69.7	396.5	188.1
(vii) Leather, Leather & Fur Products	790.1	222.4	0.0	74.2	325.5	168.0
(viii) Rubber & Plastic Products	524.8	401.5	40.2	3.9	55.7	23.4
(ix) Cork & Wood	64.2	18.5	0.0	0.0	40.7	5.0

Note : New format adopted from Dec.,2001

BY CATEGORY OF DEPOSIT HOLDERS

(Concld.)

(End of Period: Million Rupees)

CATEGORY OF DEPOSIT HOLDERS	Jun.2002					
	All Deposits	Current Deposits	Call Deposits	Other Deposit Accounts	Saving Deposits	Fixed Deposits
(x) Furniture & Fixture	128.6	75.5	3.8	0.0	46.2	3.1
(xi) Paper, Paperboard & Products	883.4	79.2	13.6	47.8	277.5	465.2
(xii) Non-Metalic Minerals :	2,080.4	469.2	67.9	25.0	1,320.3	198.1
a) Cement & Cement Products	685.6	174.1	65.9	21.1	356.3	68.2
b) Clay, Marbles, Stone Products and Precious Metals	1,394.8	322.1	2.0	3.9	964.0	129.9
(xiii) Petroleum Refining	2,007.9	477.1	0.0	2.2	1,146.9	381.7
(xiv) Petroleum & Coal Products	2,070.1	198.1	51.0	0.1	491.6	1,329.2
(xv) Chemicals, Chemical Materials & Products	4,935.8	978.1	540.2	50.3	2,129.3	1,237.9
(xvi) Fertilizer	5,140.7	570.0	24.4	5.3	2,576.7	1,964.2
(xvii) Printing, Publishing & Allied Industries	745.0	342.9	3.5	4.3	169.8	224.4
(xviii) Medicinal & Pharmaceutical Products	2,650.9	630.4	12.7	41.2	798.9	1,167.7
(xix) Surgical Goods & Dental Appliances	319.9	148.0	0.8	0.2	122.4	48.5
(xx) Cosmetics & Detergents	602.7	91.9	0.0	1.2	108.7	400.8
(xxi) Photographic Apparatus, Equipments & Optical Goods	49.6	34.9	0.0	4.6	9.9	0.2
(xxii) Basic Metal Industries	2,518.4	367.8	37.1	51.4	345.6	1,716.5
(xxiii) Electrical Equipments, Apparatus & Equipment optional	648.6	427.6	0.8	19.2	161.8	39.2
(xxiv) Electrical Goods (household/industrial)	469.4	138.0	0.3	4.4	293.5	33.2
(xxv) Scientific Equipments (excluding surgical instruments)	209.5	16.7	0.0	0.0	4.6	188.2
(xxvi) Sports Goods	101.6	46.7	0.4	0.0	52.7	1.8
(xxvii) Machinery	3,231.7	1,051.8	176.8	127.9	1,339.2	536.1
(xxviii) Automobiles, Transport Machinery & Equipments	5,677.9	772.9	155.5	0.4	2,180.7	2,568.4
(xxix) Miscellaneous Industries	5,921.1	1,766.2	657.3	62.2	2,337.9	1,097.4
4. Ship Breaking & Waste etc.	260.1	133.5	0.0	0.0	49.9	76.7
5. Construction	8,257.6	2,604.4	566.0	130.7	3,669.7	1,286.8
6. Power (electricity), Gas, Water & Sanitary	26,550.6	3,085.0	407.4	33.2	10,681.4	12,343.6
7. Commerce :	113,112.8	45,525.6	1,497.8	8,449.4	37,702.5	19,937.6
(i) Wholesale & Retail Trade	80,332.0	36,867.7	662.9	7,858.7	24,201.4	10,741.2
(ii) Exports / Imports	17,559.7	4,706.6	432.0	127.2	7,063.9	5,230.1
(iii) Insurance	2,174.5	438.0	152.0	50.5	552.5	981.5
(iv) Co-operative Societies	2,964.4	148.4	58.2	6.9	2,177.8	573.1
(v) Real Estate	1,587.5	475.8	12.5	75.7	579.8	443.7
8. Transport, Storage & Communication :	11,600.2	6,075.7	59.5	77.7	3,747.5	1,639.8
9. Services	20,616.6	3,690.5	253.7	433.3	11,592.1	4,646.9
10. Other Private Business	220,354.6	66,567.0	6,017.8	1,687.5	105,449.4	38,632.8
V. Trust Funds & Non-Profit Organizations	20,317.6	5,628.1	733.8	146.6	7,775.0	6,034.2
VI. Personal	571,599.7	62,290.8	3,660.2	5,607.7	367,775.9	132,265.2
VII. Others	35,773.3	9,001.6	364.4	5,277.1	11,745.1	9,385.1
TOTAL	**1,421,220.3**	**288,695.5**	**23,301.8**	**27,518.2**	**747,021.3**	**334,683.5**

6.7 SCHEDULED BANKS' DEPOSITS

SIZE OF ACCOUNT	End June					
	1997		1998		1999	
	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
Less than Rs. 1,000	1,004,219	586.8	804,003	451.2	769,597	466.9
Rs. 1,000 to Rs. 1,500	599,292	735.0	600,620	742.1	565,434	698.7
Rs. 1,500 to Rs. 2,000	720,137	1,271.7	501,180	885.6	428,576	752.7
Rs. 2,000 to Rs. 3,000	1,913,284	4,839.7	1,048,782	2,609.2	934,108	2,350.1
Rs. 3,000 to Rs. 4,000	2,558,176	9,047.7	1,248,557	4,390.0	1,215,632	4,259.2
Rs. 4,000 to Rs. 5,000	2,930,666	13,241.1	1,797,538	8,117.0	1,260,822	5,707.4
Rs. 5,000 to Rs. 6,000	2,926,561	16,118.4	2,019,422	11,199.3	1,695,252	9,343.9
Rs. 6,000 to Rs. 7,000	2,727,890	17,691.4	2,071,285	13,473.2	1,971,237	12,825.3
Rs. 7,000 to Rs. 8,000	2,425,850	18,214.9	2,011,637	15,112.2	1,939,921	14,539.5
Rs. 8,000 to Rs. 9,000	2,254,999	19,090.2	2,088,366	17,754.2	1,754,104	14,880.3
Rs. 9,000 to Rs. 10,000	1,697,541	16,097.6	1,977,365	18,738.2	1,880,741	17,839.9
Rs. 10,000 to Rs. 20,000	6,651,576	90,138.7	8,234,832	111,865.2	9,589,269	130,126.8
Rs. 20,000 to Rs. 25,000	990,000	22,033.0	1,208,747	26,918.6	1,535,182	34,178.9
Rs. 25,000 to Rs. 30,000	583,716	15,984.7	753,695	20,678.2	1,174,537	31,530.2
Rs. 30,000 to Rs. 40,000	687,693	23,861.2	829,286	28,628.8	1,021,065	34,969.5
Rs. 40,000 to Rs. 50,000	412,658	18,341.7	485,372	21,666.0	579,301	25,961.8
Rs. 50,000 to Rs. 60,000	282,294	15,431.1	274,956	15,102.8	652,851	34,463.0
Rs. 60,000 to Rs. 70,000	179,578	11,624.2	206,293	13,372.4	282,257	18,211.3
Rs. 70,000 to Rs. 80,000	175,362	13,075.6	177,724	13,234.6	210,085	15,656.4
Rs. 80,000 to Rs. 90,000	118,579	10,041.5	125,734	10,642.7	178,544	15,146.4
Rs. 90,000 to Rs. 100,000	112,066	10,684.1	138,000	13,082.8	151,637	14,438.2
Rs. 100,000 to Rs. 200,000	660,448	92,216.4	754,981	106,306.2	728,668	101,169.3
Rs. 200,000 to Rs. 300,000	213,569	51,491.9	249,355	60,736.7	247,315	60,506.5
Rs. 300,000 to Rs. 400,000	97,733	33,897.8	98,344	34,054.1	105,194	35,806.5
Rs. 400,000 to Rs. 500,000	52,065	23,470.3	65,474	29,271.9	48,200	21,591.4
Rs. 500,000 to Rs. 600,000	26,086	14,213.8	35,781	19,447.4	26,551	14,574.5
Rs. 600,000 to Rs. 700,000	29,079	18,800.0	26,525	17,278.7	20,919	13,427.0
Rs. 700,000 to Rs. 800,000	15,258	11,404.2	14,711	11,012.8	15,927	11,873.9
Rs. 800,000 to Rs. 900,000	12,219	10,323.6	15,536	13,083.5	11,991	10,185.0
Rs. 900,000 to Rs. 1,000,000	9,821	9,296.1	13,329	12,621.7	8,625	8,154.3
Rs. 1,000,000 to Rs. 2,000,000	53,447	73,389.7	55,431	76,862.3	39,939	55,320.1
Rs. 2,000,000 to Rs. 3,000,000	14,535	33,751.6	18,458	44,511.9	14,448	34,895.3
Rs. 3,000,000 to Rs. 4,000,000	4,366	15,111.0	7,358	25,354.3	4,453	15,452.9
Rs. 4,000,000 to Rs. 5,000,000	2,197	9,684.7	3,377	15,134.9	3,149	14,017.2
Rs. 5,000,000 to Rs. 6,000,000	1,328	7,177.4	2,119	11,592.3	2,162	11,747.7
Rs. 6,000,000 to Rs. 7,000,000	1,822	11,777.3	823	5,312.8	1,317	8,569.4
Rs. 7,000,000 to Rs. 8,000,000	630	4,805.2	788	5,894.3	766	5,726.2
Rs. 8,000,000 to Rs. 9,000,000	591	5,019.5	587	5,002.0	672	5,710.9
Rs. 9,000,000 to Rs. 10,000,000	260	2,463.7	460	4,338.7	655	6,328.5
Rs. 10,000,000 and over	3,269	163,064.2	4,450	184,439.1	4,343	239,726.7
TOTAL	**33,150,860**	**939,508.5**	**29,971,281**	**1,050,919.8**	**31,075,446**	**1,113,129.4**

DISTRIBUTED BY SIZE OF ACCOUNT

(Million Rupees)

End June										
2000		2001		2002						
No of Accounts	Amount	No.of Accounts	Amount	No.of Accounts	Amount	SIZE OF ACCOUNT				
909,562	547.4	869,244	510.5	806,648	487.0	Less than			Rs.	1,000
529,664	648.1	476,719	584.4	545,341	669.3	Rs.	1,000	to	Rs.	1,500
411,157	714.9	317,750	552.2	288,081	497.3	Rs.	1,500	to	Rs.	2,000
708,537	1,792.2	639,909	1,635.2	603,444	1,517.3	Rs.	2,000	to	Rs.	3,000
907,611	3,181.6	758,370	2,663.8	650,778	2,268.8	Rs.	3,000	to	Rs.	4,000
1,194,839	5,409.3	877,618	3,933.5	824,841	3,705.0	Rs.	4,000	to	Rs.	5,000
1,312,603	7,234.8	1,077,417	5,935.4	926,155	5,092.1	Rs.	5,000	to	Rs.	6,000
1,297,099	8,435.8	1,098,367	7,151.8	921,604	5,970.6	Rs.	6,000	to	Rs.	7,000
1,489,059	11,194.0	1,166,886	8,743.5	1,126,995	8,477.0	Rs.	7,000	to	Rs.	8,000
1,588,754	13,487.9	1,372,528	11,647.1	1,235,632	10,506.6	Rs.	8,000	to	Rs.	9,000
1,529,834	14,560.6	1361,523	12,940.5	1,063,552	10,078.9	Rs.	9,000	to	Rs.	10,000
9,332,460	130,641.1	8,842,127	127,085.4	8,703,361	126,008.6	Rs.	10,000	to	Rs.	20,000
1,930,499	43,140.1	2,303,767	51,336.3	2,645,015	58,953.7	Rs.	20,000	to	Rs.	25,000
1,159,898	31,686.3	1,364,194	37,321.1	1,787,910	48,817.0	Rs.	25,000	to	Rs.	30,000
1,215,050	41,843.9	1,562,044	53,672.2	1,824,953	62,754.1	Rs.	30,000	to	Rs.	40,000
653,930	29,192.6	746,297	33,394.1	944,521	42,049.5	Rs.	40,000	to	Rs.	50,000
447,409	24,369.5	497,115	27,098.0	603,856	33,048.3	Rs.	50,000	to	Rs.	60,000
307,174	19,870.9	374,946	24,323.7	410,803	26,453.1	Rs.	60,000	to	Rs.	70,000
211,955	15,884.6	244,934	18,204.1	275,378	20,564.7	Rs.	70,000	to	Rs.	80,000
176,410	14,926.9	196,547	16,770.8	227,513	19,262.4	Rs.	80,000	to	Rs.	90,000
147,271	13,980.3	178,228	16,934.8	156,873	14,854.7	Rs.	90,000	to	Rs.	100,000
788,321	109,006.5	798,767	111,595.5	939,115	132,793.8	Rs.	100,000	to	Rs.	200,000
259,305	62,805.4	274,984	66,636.0	325,692	78,684.5	Rs.	200,000	to	Rs.	300,000
102,038	35,193.4	112,619	38,703.8	136,316	47,113.4	Rs.	300,000	to	Rs.	400,000
41,064	18,121.4	55,688	24,605.8	81,443	36,360.7	Rs.	400,000	to	Rs.	500,000
29,344	15,965.1	40,256	21,868.8	49,235	26,777.0	Rs.	500,000	to	Rs.	600,000
16,768	10,861.6	24,720	15,976.3	27,764	17,876.1	Rs.	600,000	to	Rs.	700,000
17,999	13,489.1	22,981	17,157.1	24,618	18,446.8	Rs.	700,000	to	Rs.	800,000
8,772	7,496.6	12,526	10,606.7	18,505	15,770.5	Rs.	800,000	to	Rs.	900,000
8,663	8,262.3	10,501	9,945.0	10,872	10,314.2	Rs.	900,000	to	Rs.	1,000,000
39,119	54,504.5	37,201	50,443.0	50,363	67,232.7	Rs.	1,000,000	to	Rs.	2,000,000
11,658	27,931.5	12,401	30,701.1	14,182	34,239.7	Rs.	2,000,000	to	Rs.	3,000,000
4,023	14,064.9	6,342	21,718.5	5,595	19,000.3	Rs.	3,000,000	to	Rs.	4,000,000
2,427	10,770.6	2,842	12,605.1	3,332	14,729.8	Rs.	4,000,000	to	Rs.	5,000,000
2,023	10,809.0	3,010	16,127.5	1,995	10,844.6	Rs.	5,000,000	to	Rs.	6,000,000
1,179	7,677.3	1,391	8,907.1	2,827	18,670.7	Rs.	6,000,000	to	Rs.	7,000,000
785	5,898.0	1,043	7,886.8	1,260	9,410.1	Rs.	7,000,000	to	Rs.	8,000,000
809	6,909.0	660	5,559.2	807	6,807.6	Rs.	8,000,000	to	Rs.	9,000,000
645	6,148.0	885	8,449.8	594	5,629.6	Rs.	9,000,000	to	Rs.	10,000,000
4,815	281,647.1	5,940	334,165.3	6,733	348,482.6	Rs.	10,000,000	and over		
28,800,531	**1,140,304.1**	**27,751,287**	**1,276,096.4**	**28,274,502**	**1,421,220.3**			**TOTAL**		

6.8 SCHEDULED BANKS' DEPOSITS DISTRIBUTED

ALL

As on

SIZE OF ACCOUNT	FOREIGN CONSTITUENTS		DOMESTIC							
			Government		Public Sector Enterprises		NBFI's		Private Sector (Business)	
	No of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount	No of Accounts	Amount
Less than Rs. 1,000	245	0.1	1,321	0.9	27	0.0	716	0.4	347,020	220.0
Rs. 1,000 to Rs. 1,500	54	0.1	3,935	4.6	21	0.0	46	0.0	217,232	263.3
Rs. 1,500 to Rs. 2,000	57	0.1	1,478	2.5	19	0.0	9	0.0	97,170	168.8
Rs. 2,000 to Rs. 3,000	1,144	2.8	4,425	11.0	5,143	13.9	37	0.1	227,656	572.6
Rs. 3,000 to Rs. 4,000	388	1.3	5,731	20.3	13	0.0	14	0.0	252,414	880.1
Rs. 4,000 to Rs. 5,000	114	0.5	3,378	15.3	13	0.1	37	0.1	275,870	1,229.1
Rs. 5,000 to Rs. 6,000	904	5.1	5,660	30.6	40	0.2	32	0.2	331,261	1,829.5
Rs. 6,000 to Rs. 7,000	460	3.1	3,443	22.9	9	0.1	138	0.9	380,897	2,473.4
Rs. 7,000 to Rs. 8,000	169	1.2	5,112	37.6	4	0.0	10	0.1	458,584	3,457.4
Rs. 8,000 to Rs. 9,000	166	1.4	5,182	43.2	110	0.9	10	0.1	540,316	4,629.8
Rs. 9,000 to Rs. 10,000	74	0.7	1,943	18.2	4	0.0	9	0.1	456,628	4,328.6
Rs. 10,000 to Rs. 20,000	5,131	79.9	16,531	225.9	553	6.4	65	0.9	3,846,878	55,661.2
Rs. 20,000 to Rs. 25,000	1,392	30.9	4,687	100.4	178	3.6	37	0.8	1,062,188	23,644.3
Rs. 25,000 to Rs. 30,000	2,560	71.4	3,751	103.8	23	0.6	209	5.8	725,152	19,745.9
Rs. 30,000 to Rs. 40,000	3,444	122.6	5,493	188.3	32	1.1	24	0.8	760,401	26,158.0
Rs. 40,000 to Rs. 50,000	2,613	115.1	2,207	99.0	427	19.7	31	1.4	415,297	18,636.7
Rs. 50,000 to Rs. 60,000	4,161	221.1	1,781	97.9	113	6.2	25	1.3	278,475	15,290.8
Rs. 60,000 to Rs. 70,000	3,660	242.2	4,674	304.2	315	20.1	28	1.8	184,130	11,898.1
Rs. 70,000 to Rs. 80,000	913	70.1	1,471	112.1	45	3.3	67	4.9	132,484	9,878.2
Rs. 80,000 to Rs. 90,000	2,541	214.2	4,830	411.3	82	6.8	6	0.5	99,042	8,356.9
Rs. 90,000 to Rs. 100,000	3,057	288.3	1,841	173.4	17	1.6	20	1.9	68,251	6,480.3
Rs. 100,000 to Rs. 200,000	28,559	4,355.0	7,774	1,097.7	402	59.8	80	11.3	362,681	50,431.8
Rs. 200,000 to Rs. 300,000	14,711	3,628.2	3,142	764.8	208	52.8	46	11.9	102,331	24,825.8
Rs. 300,000 to Rs. 400,000	7,160	2,428.8	1,609	546.8	138	47.4	46	14.9	43,957	15,393.3
Rs. 400,000 to Rs. 500,000	7,758	3,454.5	1,392	613.9	134	59.5	20	8.7	27,328	12,369.3
Rs. 500,000 to Rs. 600,000	4,585	2,471.6	1,505	823.6	174	89.2	19	10.3	17,698	9,644.6
Rs. 600,000 to Rs. 700,000	1,839	1,191.6	785	513.3	96	63.7	28	17.7	8,604	5,519.4
Rs. 700,000 to Rs. 800,000	1,081	814.0	688	513.9	103	75.4	20	14.6	6,908	5,201.9
Rs. 800,000 to Rs. 900,000	928	802.2	573	483.5	35	29.7	4	3.4	5,135	4,371.4
Rs. 900,000 to Rs. 1,000,000	423	402.0	683	653.3	40	36.7	27	24.7	3,921	3,728.5
Rs. 1,000,000 to Rs. 2,000,000	2,693	3,706.8	2,679	3,562.4	367	442.7	86	126.3	16,729	22,759.4
Rs. 2,000,000 to Rs. 3,000,000	1,324	3,077.3	1,561	3,829.4	69	175.7	40	100.2	4,723	11,403.5
Rs. 3,000,000 to Rs. 4,000,000	545	1,865.0	739	2,580.5	73	259.9	17	61.3	1,951	6,654.5
Rs. 4,000,000 to Rs. 5,000,000	133	585.0	608	2,661.2	148	651.6	19	87.6	1,363	6,058.6
Rs. 5,000,000 to Rs. 6,000,000	110	595.7	377	2,021.0	32	175.2	15	81.6	627	3,397.0
Rs. 6,000,000 to Rs. 7,000,000	191	1,267.6	401	2,541.7	109	723.5	8	52.2	1,691	11,278.6
Rs. 7,000,000 to Rs. 8,000,000	45	319.8	439	3,319.1	49	363.8	6	44.9	460	3,439.3
Rs. 8,000,000 to Rs. 9,000,000	11	94.5	187	1,570.4	66	552.6	6	50.6	224	1,868.8
Rs. 9,000,000 to Rs. 10,000,000	13	119.4	79	753.1	62	599.2	6	56.6	213	2,018.4
Rs. 10,000,000 and over	372	22,295.7	1,568	84,019.6	683	63,762.9	134	8,938.4	2,841	121,190.5
TOTAL	**105,728**	**54,947.0**	**115,663**	**114,892.6**	**10,176**	**68,306.0**	**2,197**	**9,739.5**	**11,766,731**	**537,357.8**

BY CATEGORY OF DEPOSIT HOLDERS AND SIZE OF ACCOUNT
BANKS
30th June, 2002

(Million Rupees)

CONSTITUENTS									
Trust Funds		Personal		Others		Sub Total		TOTAL	
No. of Accounts	Amount	No of Accounts	Amount	No.of Accounts	Amount	No. of Accounts	Amount	No. of Accounts	Amount
689	0.5	279,333	141.0	177,297	124.2	806,648	487.0	806,893	487.1
4,792	5.5	212,881	267.1	106,380	128.7	545,341	669.3	545,395	669.4
381	0.7	148,845	256.5	40,122	68.7	288,081	497.3	288,138	497.4
1,206	3.1	322,924	819.0	40,909	94.8	603,444	1,517.3	604,588	1520.1
321	1.1	364,824	1,274.4	27,073	91.4	650,778	2,268.8	651,166	2270.1
1,081	4.9	502,297	2,264.8	42,051	190.1	824,841	3,705.0	824,955	3705.5
624	3.4	551,526	3,026.4	36,108	196.7	926,155	5,092.1	927,059	5097.2
1,231	7.7	500,860	3,241.1	34,566	221.6	921,604	5,970.6	922,064	5973.7
862	6.4	595,377	4,483.6	66,877	490.7	1,126,995	8,477.0	1,127,164	8478.2
1,281	10.8	644,660	5,450.2	43,907	370.1	1,235,632	10,506.6	1,235,798	10508
683	6.4	557,773	5,289.0	46,438	435.8	1,063,552	10,078.9	1,063,626	10079.6
6,777	95.1	4,589,387	66,508.5	238,039	3,430.7	8,703,361	126,008.6	8,708,492	126088.5
1,393	30.7	1,527,905	34,110.4	47,235	1,032.6	2,645,015	58,953.7	2,646,407	58984.6
1,425	38.8	1,029,325	28,153.1	25,465	697.7	1,787,910	48,817.0	1,790,470	48888.4
1,812	61.8	1,024,405	35,228.9	29,342	992.6	1,824,953	62,754.1	1,828,397	62876.7
1,084	49.4	496,634	21,974.4	26,228	1,153.8	944,521	42,049.5	947,134	42164.6
2,047	110.5	293,861	16,047.3	23,393	1,273.2	603,856	33,048.3	608,017	33269.4
978	65.8	208,479	13,381.1	8,539	539.9	410,803	26,453.1	414,463	26695.3
579	43.7	131,562	9,824.6	8,257	627.8	275,378	20,564.7	276,291	20634.8
1,730	145.9	109,784	9,323.1	9,498	803.6	227,513	19,262.4	230,054	19476.6
410	38.5	78,927	7,462.0	4,350	408.7	156,873	14,854.7	159,930	15143
5,597	890.1	495,341	70,478.2	38,681	5,470.0	939,115	132,793.8	967,674	137148.8
2,841	758.6	191,623	46,003.1	10,790	2,639.2	325,692	78,684.5	340,403	82312.7
625	215.7	76,697	26,385.5	6,084	2,080.9	136,316	47,113.4	143,476	49542.2
466	206.7	41,585	18,415.6	2,760	1,232.5	81,443	36,360.7	89,201	39815.2
1,907	1,106.0	21,726	11,743.4	1,621	888.3	49,235	26,777.0	53,820	29248.6
183	116.7	15,205	9,790.7	1,024	662.9	27,764	17,876.1	29,603	19067.7
296	221.0	14,830	11,076.2	692	529.8	24,618	18,446.8	25,699	19260.8
300	251.5	11,340	9,670.1	190	158.8	18,505	15,770.5	19,433	16572.7
173	165.5	5,150	4,868.3	455	435.1	10,872	10,314.2	11,295	10716.2
1,448	1,920.0	24,460	32,172.4	1,901	2,542.6	50,363	67,232.7	53,056	70939.5
468	1,189.2	5,539	13,380.6	458	1,083.7	14,182	34,239.7	15,506	37317
345	1,093.8	1,788	6,005.8	137	479.5	5,595	19,000.3	6,140	20865.3
98	448.3	826	3,631.0	137	606.5	3,332	14,729.8	3,465	15314.8
122	667.0	645	3,547.3	67	359.9	1,995	10,844.6	2,105	11440.3
100	673.8	305	1,991.4	22	141.8	2,827	18,670.7	3,018	19938.3
24	180.8	225	1,652.1	12	90.3	1,260	9,410.1	1,305	9729.9
50	431.2	260	2,214.1	3	25.3	807	6,807.6	818	6902.1
26	249.9	172	1,619.3	23	213.8	594	5,629.6	607	5749
351	17,088.4	659	28,428.1	125	2,759.0	6,733	348,482.6	7,105	370778.3
46,806	**28,604.6**	**15,079,945**	**571,599.7**	**1,147,256**	**35,773.3**	**28,168,774**	**1,366,273.4**	**28,274,502**	**1,421,220.3**

6.9 WEIGHTED AVERAGE RATES OF RETURN ON DEPOSITS

(i) PLS & Interest Bearing – All Banks

(Percent per annum)

	Type of Deposit	1998 Jun.	1998 Dec.	1999 Jun.	1999 Dec.	2000 Jun.	2000 Dec.	2001 Jun.	2001 Dec.	2002 Jun.
I.	Call Deposits	6.46	6.29	6.00	5.47	5.34	4.92	5.19	514	4.84
		(1.61)	(1.61)	(2.37)	(2.05)	(1.87)	(1.70)	(1.87)	(2.56)	(2.11)
II.	Saving Deposits	7.42	7.36	6.90	6.25	5.75	5.56	5.71	4.55	3.49
		(56.20)	(56.07)	(57.87)	(58.47)	(63.13)	(62.42)	(64.17)	(65.08)	(67.60)
III.	Term or Fixed Deposits									
	(a) Less than 3 months	7.02	7.93	7.28	6.95	6.62	6.96	7.06	5.56	4.92
		(6.94)	(7.97)	(5.91)	(6.31)	(6.65)	(7.92)	(7.80)	(7.36)	(6.33)
	(b) 3 months and over but less than 6 months	7.27	7.34	7.29	7.19	7.17	7.37	7.37	6.99	6.26
		(8.34)	(7.66)	(6.79)	(7.01)	(5.15)	(4.40)	(4.62)	(4.36)	(4.16)
	(c) 6 months and over but less than 1 year	8.50	9.15	8.80	8.73	7.37	7.55	8.12	7.44	6.65
		(4.86)	(4.50)	(4.08)	(3.78)	(4.08)	(4.37)	(3.31)	(3.15)	(2.96)
	(d) 1 year and over but less than 2 years	8.79	9.03	9.37	8.45	7.76	8.24	8.19	8.26	7.19
		(6.60)	(5.88)	(5.71)	(5.60)	(4.42)	(3.91)	(3.76)	(4.36)	(3.93)
	(e) 2 years and over but less than 3 years	10.12	10.55	9.92	9.33	9.01	7.79	7.99	8.65	7.61
		(2.03)	(2.38)	(1.69)	(1.58)	(1.70)	(2.28)	(2.17)	(1.55)	(1.50)
	(f) 3 years and over but less than 4 years	12.14	11.79	10.06	9.28	8.73	8.94	8.35	8.98	8.15
		(3.09)	(2.66)	(3.57)	(2.99)	(2.77)	(2.64)	(2.71)	(2.06)	(2.05)
	(g) 4 years and over but less than 5 years	13.12	12.08	12.30	11.01	9.49	9.27	9.12	9.11	8.46
		(1.68)	(2.01)	(1.88)	(1.64)	(1.52)	(1.40)	(1.11)	(1.05)	(1.42)
	(h) 5 years and over	14.02	13.80	12.31	11.21	10.35	10.03	9.99	9.43	8.65
		(8.65)	(9.26)	(10.13)	(10.58)	(8.71)	(8.96)	(8.48)	(8.48)	(7.94)
IV.	Overall									
	(i) Excluding current & other deposits	8.38	8.45	7.96	7.30	6.62	6.52	6.58	5.62	4.60
	(ii) Including current & other deposits	6.81	6.69	6.49	5.83	5.47	5.39	5.27	4.33	3.60

Note : Figures in parentheses represent as percentage of total deposits(excluding current & other deposits)

PLS : Profit and Loss Sharing

(Contd.)

6.9 WEIGHTED AVERAGE RATES OF RETURN ON DEPOSITS

(ii) Profit & Loss Sharing – All Banks

(Percent per annum)

	Type of Deposit	1998 Jun.	1998 Dec.	1999 Jun.	1999 Dec.	2000 Jun.	2000 Dec.	2001 Jun.	2001 Dec.	2002 Jun.
I.	Call Deposits	6..90	6.97	6.36	5.89	5.60	5.18	5.47	5.27	497
		(1.76)	(1.62)	(2.18)	(1.84)	(1.84)	(1.59)	(1.72)	(2.67)	(2.10)
II.	Saving Deposits	8.14	8.17	7.56	6.77	6.11	5.93	6.13	4.98	3.69
		(61.08)	(59.83)	(59.18)	(59.46)	(63.64)	(63.06)	(65.77)	(66.16)	(68.48)
III.	Term or Fixed Deposits									
	(a) Less than 3 months	8.38	9.65	8.32	7.95	7.11	7.80	8.12	6.40	5.38
		(4.98)	(6.81)	(5.80)	(5.50)	(6.52)	(7.08)	(6.78)	(6.23)	(5.61)
	(b) 3 months and over but less than 6 months	10.55	10.67	9.50	8.57	8.04	8.35	8.39	8.18	6.98
		(3.83)	(4.05)	(4.63)	(5.80)	(4.65)	(3.78)	(4.09)	(3.86)	(3.77)
	(c) 6 months and over but less than 1 year	11.34	11.49	10.02	9.40	8.27	8.39	8.80	8.29	7.24
		(3.47)	(3.88)	(4.01)	(4.13)	(3.51)	(3.94)	(3.25)	(2.96)	(2.78)
	(d) 1 year and over but less than 2 years	11.69	12.14	10.85	9.78	8.70	8.56	8.88	8.96	7.65
		(4.53)	(4.16)	(5.45)	(4.97)	(3.99)	(4.33)	(3.69)	(4.20)	(3.81)
	(e) 2 years and over but less than 3 years	11.82	12.10	11.06	10.09	9.31	8.75	8.99	9.15	7.84
		(1.96)	(2.45)	(1.69)	(1.68)	(1.96)	(2.02)	(1.83)	(1.58)	(1.58)
	(f) 3 years and over but less than 4 years	12.98	12.96	11.39	10.22	9.35	9.08	9.04	9.26	8.40
		(4.12)	(3.08)	(3.44)	(2.95)	(2.78)	(3.08)	(2.54)	(2.16)	(2.15)
	(g) 4 years and over but less than 5 years	13.67	13.44	13.05	11.15	9.69	9.37	9.44	9.38	8.63
		(2.41)	(2.29)	(2.15)	(2.03)	(1.71)	(1.64)	(1.17)	(1.10)	(1.52)
	(h) 5 years and over	14.79	14.57	12.93	11.61	10.59	10.07	10.04	9.56	8.72
		(11.86)	(11.83)	(11.47)	(11.64)	(9.40)	(9.48)	(9.16)	(9.09)	(8.19)
IV.	Overall									
	(i) Excluding current & other deposits	9.69	9.77	8.87	7.99	7.07	6.95	7.06	6.09	4.84
	(ii) Including current & other deposits	7.54	7.48	7.16	6.43	5.92	5.84	5.74	4.76	3.85

Note : Figures in parentheses represent as percentage of total deposits(excluding current & other deposits)

(Contd.)

6.9 WEIGHTED AVERAGE RATES OF RETURN ON DEPOSITS

(iii) Interest Bearing – All Banks

(Concld.)

(Percent per annum)

	Type of Deposit	1998 Jun.	1998 Dec.	1999 Jun.	1999 Dec.	2000 Jun.	2000 Dec.	2001 Jun.	2001 Dec.	2002 Jun.
I.	Call Deposits	5.47	4.84	5.21	4.52	4.42	4.07	4.35	4.24	4.01
		(1.35)	(1.58)	(2.93)	(2.75)	(1.98)	(2.17)	(2.52)	(2.00)	(2.14)
II.	Saving Deposits	5.84	5.28	4.78	4.34	4.30	3.89	3.62	2.13	2.06
		(47.83)	(48.26)	(54.03)	(55.13)	(61.21)	(59.63)	(57.12)	(59.52)	(62.04)
III.	Term or Fixed Deposits									
	(a) Less than 3 months	5.89	5.58	4.42	4.92	4.89	4.74	4.47	3.51	3.45
		(10.32)	(10.38)	(6.21)	(9.05)	(7.15)	(11.57)	(12.30)	(13.15)	(10.91)
	(b) 3 months and over but less than 6 months	5.94	5.50	5.00	4.74	4.99	5.10	4.70	3.55	3.64
		(16.08)	(15.15)	(13.16)	(11.07)	(7.05)	(7.09)	(6.93)	(6.88)	(6.63)
	(c) 6 months and over but less than 1 year	6.16	5.89	5.40	5.12	5.44	5.29	5.39	4.31	4.01
		(7.23)	(5.79)	(4.26)	(2.59)	(6.24)	(6.26)	(3.57)	(4.15)	(4.09)
	(d) 1 year and over but less than 2 years	6.56	6.19	5.68	5.55	5.43	5.38	5.45	5.37	4.82
		(10.15)	(9.44)	(6.48)	(7.73)	(6.04)	(2.07)	(4.07)	(5.21)	(4.66)
	(e) 2 years and over but less than 3 years	7.43	7.02	6.56	5.97	5.94	5.41	5.79	5.74	5.34
		(2.14)	(2.24)	(1.69)	(1.26)	(0.73)	(3.47)	(3.65)	(1.40)	(0.99)
	(f) 3 years and over but less than 4 years	7.67	7.64	6.66	6.31	6.35	6.28	6.10	6.99	5.69
		(1.33)	(1.80)	(3.97)	(3.13)	(2.75)	(0.69)	(3.44)	(1.57)	(1.41)
	(g) 4 years and over but less than 5 years	7.88	7.58	7.94	7.84	7.86	7.29	7.27	7.17	6.33
		(0.44)	(1.43)	(1.09)	(0.30)	(0.81)	(0.38)	(0.90)	(0.70)	(0.76)
	(h) 5 years and over	9.01	8.96	8.92	8.96	8.91	9.79	9.55	8.26	8.08
		(3.13)	(3.93)	(6.18)	(7.00)	(6.04)	(6.67)	(5.50)	(5.33)	(6.36)
IV.	Overall									
	(i) Excluding current & other deposits	6.12	5.72	5.28	4.97	4.91	4.67	4.48	3.20	3.07
	(ii) Including current & other deposits	5.41	4.89	4.45	4.03	4.00	3.76	3.49	2.42	2.30

Note : Figures in parentheses represent as percentage of total deposits(excluding current & other deposits)

6.10 WEIGHTED AVERAGE RATES OF RETURN ON ADVANCES

(Percent per annum)

END OF PERIOD		Precious Metals	Stock Exchange Securities	Merchandise	Machinery	Real Estate	Financial Obligations	Others	TOTAL ADVANCES
I.	INTEREST BEARING & ISLAMIC MODES OF FINANCING - ALL BANKS								
1998	Jun.	15.43	16.58	15.94	16.32	14.69	15.31	15.59	15.64
	Dec.	14.51	16.24	15.88	15.78	14.09	15.24	15.72	15.42
1999	Jun.	11.35	15.65	15.08	15.63	13.79	14.50	14.95	14.80
	Dec.	11.14	14.40	14.81	15.20	13.58	13.85	14.68	14.46
2000	Jun.	10.68	13.15	13.49	14.24	13.04	13.44	13.79	13.52
	Dec.	11.29	13.51	13.50	14.43	12.97	13.18	13.88	13.55
2001	Jun.	11.14	13.48	13.40	14.42	13.28	13.73	13.87	13.61
	Dec.	8.10	13.45	13.18	14.07	13.37	13.58	13.67	13.45
2002	Jun.	9.15	13.02	12.86	13.68	13.42	13.34	13.26	13.19
II.	INTEREST BEARING - ALL BANKS								
1998	Jun.	14.47	16.38	14.84	16.12	16.23	16.32	16.49	16.09
	Dec.	13.75	15.17	14.52	15.48	14.19	15.76	15.53	15.00
1999	Jun.	13.39	14.15	13.89	15.19	14.08	14.95	14.29	14.47
	Dec.	11.41	13.79	14.56	14.17	13.75	13.14	14.07	14.09
2000	Jun.	11.10	13.76	13.67	13.15	12.23	13.65	13.34	13.25
	Dec.	11.53	13.57	12.88	13.82	12.90	13.49	12.93	13.08
2001	Jun.	11.75	13.54	13.69	13.50	12.84	13.07	12.05	13.07
	Dec.	11.00	11.35	13.28	13.81	12.50	14.72	12.42	13.00
2002	Jun.	8.10	11.27	13.12	13.56	12.72	13.88	12.47	13.00
III.	ISLAMIC MODES OF FINANCING-ALL BANKS								
1998	Jun.	15.87	16.61	15.97	16.39	14.50	15.21	15.45	15.59
	Dec.	15.05	16.32	15.94	15.85	14.08	15.20	15.76	15.47
1999	Jun.	11.27	15.69	15.12	15.75	13.76	14.49	15.00	14.82
	Dec.	10.91	14.42	14.82	15.41	13.57	13.89	14.74	14.49
2000	Jun.	10.61	13.12	13.48	14.31	13.08	13.42	13.83	13.54
	Dec.	11.24	13.51	13.54	14.48	12.97	13.15	14.01	13.59
2001	Jun.	11.02	13.47	13.39	14.53	13.31	13.84	14.03	13.65
	Dec.	8.05	13.54	13.18	14.09	13.45	13.50	13.74	13.48
2002	Jun.	9.30	13.09	12.85	13.70	13.47	13.32	13.32	13.20

6.11 DISTRIBUTION OF OFFICES OF SEVERAL CLASSES OF SCHEDULED BANKS BY POPULATION

(End June)

POPULATION	2001					2002				
	No of Places	Pakistani Banks	Foreign Banks	Total Scheduled Banks	Average Population per office	No. of Places	Pakistani Banks	Foreign Banks	Total Scheduled Banks	Average Population per office
Over 5,000,000	2	1,207	57	1,264	11,394	2	1,198	61	1,259	11,440
1,000,000 to 5,000,000	5	679	9	688	10,051	5	656	11	667	10,368
500,000 to 1,000,000	3	378	11	389	5,327	3	384	10	394	5,260
200,000 to 500,000	13	569	3	572	6,722	13	568	3	571	6,734
100,000 to 200,000	28	382	-	382	9,935	28	363	-	363	10,456
75,000 to 100,000	16	227	-	227	7,056	16	216	-	216	7,416
50,000 to 75,000	44	340	-	340	5,905	44	344	-	344	5,836
25,000 to 50,000	119	647	-	647	6,529	119	633	-	633	6,673
15,000 to 25,000	102	340	-	340	6,111	102	338	-	338	6,147
10,000 to 15,000	84	114	-	114	9,489	84	93	-	93	11,632
Less than 10,000	47,655	2,389	-	2,389	37,189	47,655	2,300	-	2,300	38,628
TOTAL	**48,071**	**7,272**	**80***	**7,352**		**48,071**	**7,093**	**85***	**7,178**	

Note :- Distribution is based in accordance with population census of 1998
Data pertaining to groups having population less than 10,000 are not available

* Excluding Indian Banks branches vested in custodian of enemy property since September 1965

6.12 LIST OF SCHEDULED BANKS OPERATING IN PAKISTAN
AS ON 30TH JUNE, 2001

PAKISTANI BANKS	FOREIGN BANKS

Public Sector Banks

Nationalized Banks

1. National Bank of Pakistan
2. Habib Bank of Pakistan
3. United Bank Limited
4. First Women Bank Limited

Specialized Banks

1. Agricultural Development Bank of Pakistan (ADBP)
2. Industrial Development Bank of Pakistan (IDBP)
3. Federal Bank for Co-operatives
4. Punjab Provincial Co-operative Bank Limited (PPCB)

Provincial Banks

1. The Bank of Khyber
2. The Bank of Punjab

Private Domestic Banks

Privatized Banks

1. Allied Bank of Pakistan Limited
2. Muslim Commercial Bank Limited

Private Banks

1. Askari Commercial Bank Ltd.
2. Bank Al-Falah Ltd.
3. Bank Al-Habib Ltd.
4. Bolan Bank Ltd.
5. Faysal Bank Ltd.
6. Meezan Bank Ltd.
7. Metropolitan Bank Ltd
8. Platinum Commercial Bank Ltd.
9. Prime Commercial Bank Ltd.
10. PICIC Commercial Bank Ltd.
11. Saudi-Pak Commercial Bank Limited
12. Soneri Bank Ltd.
13. Union Bank Ltd.

1. ABN AMRO Bank NV
2. Al- Baraka Islamic Bank BSC (EC)
3. American Express Bank Ltd.
4. Bank of Ceylon
5. Citi Bank NA
6. Credit Agricole Indosuez
7. Deutsche Bank AG
8. Doha Bank
9. Emirates Bank International Ltd. PJSC *
10. Habib Bank AG Zurich
11. International Finance Investment and Commerce Bank Ltd
12. Mashreq Bank PSC
13. Oman International Bank SAOG
14. Rupali Bank Ltd.
15. Standard Chartered Bank
16. Standard Chartered Grindlays Bank Ltd.
17. The Bank of Tokyo-Mitsubishi Ltd.
18. The Hong Kong & Shanghai Banking Corporation Ltd.

* De scheduled w.e.f 10-09-02 on account of its merger with Union Bank Ltd. vide SBP notification dated 10-09-02.

CAPITAL MARKET

7.1 STATE BANK GENERAL INDEX OF SHARE PRICES

(1990-91=100)

SECTOR / SUB – SECTOR	End Jun. 1998	1999	2000	2001	2002	2002*
1. Cotton and Other Textiles	74.39	72.80	93.62	89.31	102.69	113.45
(i) Textile Spinning	73.66	67.12	90.79	102.60	108.76	107.81
(ii) Textile Weaving & Composite	56.18	59.03	91.25	66.71	75.19	97.89
(iii) Other Textiles	92.38	92.83	98.70	98.12	124.94	136.48
2. Chemicals and Pharmaceuticals	208.94	189.68	213.23	203.68	243.99	129.59
3. Engineering	101.99	94.70	116.99	113.34	164.72	130.31
4. Auto and Allied	101.38	99.62	128.25	123.63	144.30	140.52
5. Cables and Electrical Goods	126.13	112.13	123.42	116.96	173.15	118.22
6. Sugar and Allied	69.13	70.79	69.50	84.45	92.86	103.62
7. Paper and Board	108.79	92.77	125.40	114.27	152.21	126.99
8. Cement	67.27	68.41	106.22	87.17	102.31	110.05
9. Fuel and Energy	146.37	156.01	217.55	190.75	218.44	100.23
10. Transport and Communication	53.46	72.59	68.59	53.04	58.80	94.17
11. Banks and Other Financial Institutions	78.10	76.60	84.51	77.56	88.23	102.72
(i) Banks and Investment Companies	87.05	82.91	93.53	82.53	98.28	103.16
(ii) Modarabas	29.75	30.17	33.64	29.73	29.74	105.72
(iii) Leasing Companies	83.58	72.94	77.37	71.24	72.29	99.06
(iv) Insurance	185.31	184.67	187.00	178.65	186.06	97.49
12. Miscellaneous	190.31	191.66	217.88	243.08	276.72	122.19
(i) Jute	51.02	62.76	65.68	58.61	63.11	137.99
(ii) Food and Allied	168.18	167.19	225.83	215.47	259.89	118.60
(iii) Glass and Ceramics	120.71	118.46	151.73	209.75	269.09	114.82
(iv) Vanaspati and Allied	54.67	55.41	52.15	45.33	48.04	99.78
(v) Others	249.71	255.70	271.61	287.76	317.95	125.09
General Index Number	**99.47**	**105.25**	**128.83**	**118.72**	**138.56**	**106.74**

* Base year (2000-01=100)

7.2 MARKET CAPITALISATION OF ORDINARY SHARES

(Million Rupees)

SECTOR / SUB – SECTOR	End Jun. 1998	1999	2000	2001	2002
1. Cotton and Other Textiles	25,133.9	27,432.9	43,777.6	38,400.2	41,091.6
(i) Textile Spinning	9,966.2	9,320.9	12,245.0	13,115.8	12,479.4
(ii) Textile Weaving & Composite	6,840.0	7,343.0	13,281.7	11,116.3	13,,267.5
(iii) Other Textiles	8,327.7	10,769.0	18,250.9	14,168.1	15,344.7
2. Chemicals and Pharmaceuticals	47,332.0	48,059.4	56,046.5	47,974.4	50,751.6
3. Engineering	1,476.7	1,340.2	1,527.5	1,516.7	2,062.3
4. Auto and Allied	6,231.8	6,522.3	8,025.0	7,932.8	10,194.6
5. Cables and Electrical Goods	2,020.9	1,615.1	2,098.7	2,119.3	2,355.3
6. Sugar and Allied	4,189.6	4,133.3	3,827.3	4,526.2	4,523.2
7. Paper and Board	2,489.9	2,816.2	3,936.3	4,538.0	6,536.1
8. Cement	6,513.3	6,115.8	10,206.2	10,209.6	15,758.5
9. Fuel and Energy	46,521.7	51,955.7	87,452.3	79,676.6	104,477.1
10. Transport and Communication	63,969.6	80,273.3	106,174.4	70,772.3	70,,092.3
11. Banks and Other Financial Institutions	28,666.1	29,257.1	36,097.5	38,382.9	55,007.6
(i) Banks and Investment Companies	15,443.0	16,229.2	20,098.8	21,411.0	36,327.6
(ii) Modarabas	3,061.8	2,954.6	3,425.7	3,497.0	4,655.4
(iii) Leasing Companies	3,690.4	3,253.2	3,631.3	3,558.4	3,692.9
(iv) Insurance	6,470.9	6,820.1	8,941.7	9,916.5	10,331.7
12. Miscellaneous	24,739.2	26,699.0	32,691.0	33,200.5	44,787.5
(i) Jute	259.9	296.6	366.2	348.7	376.9
(ii) Food and Allied	16,993.3	18,773.7	24,179.6	21,407.0	26,363.0
(iii) Glass and Ceramics	740.7	680.1	740.3	924.2	1,273.1
(iv) Vanaspati and Allied	320.5	345.0	393.1	248.2	226.8
(v) Others	6,424.8	6,603.6	7,011.8	10,272.4	16,547.7
Aggregate Market Capitalisatinn	**259,284.7**	**286,220.3**	**391,860.3**	**339,249.5**	**407,637.7**

7.3 TOTAL TURNOVER AT KARACHI STOCK EXCHANGE

(Million Nos.)

MONTH	1997-98	1998-99	1999-2000	2000-01	2001-02
July	2,562.62	2,195.97	3,438.44	2,690.81	1,197.23
August	1,271.11	2,094.86	3,946.26	2,394.89	1,509.09
September	1,028.84	2,045.75	2,962.48	2,676.02	724.72
October	1,771.29	2,076.46	2,755.88	2,777.60	3,579.14
November	1,013.83	1,796.10	1,819.36	2,569.02	1,837.42
December	849.0	1,780.45	2,878.64	2,741.68	906.80
January	696.10	940.56	5,257.89	3,645.84	3,740.47
February	1,241.35	1,564.84	5,534.93	2,928.87	4,060.14
March	1,010.09	2,626.02	6,104.66	1,679.04	3,925.57
April	849.62	2,282.32	4,917.47	2,006.19	3,004.30
May	1,381.11	3,768.73	5,479.03	1,416.44	2,637.56
June	1,329.21	2,360.76	3,013.60	1,638.93	2,018.22
TOTAL	**15,004.19**	**25,532.82**	**48,108.64**	**29,165.33**	**29,140.66**

Source: Karachi Stock Exchange.

INTERNAL AND EXTERNAL PUBLIC DEBT

8.1 NATIONAL SAVING SCHEMES

(Outstanding Amount)

(End June: Million Rupees)

	SCHEME	1998	1999	2000	2001 R	2002 P
A.	**Accounts (i,ii / 1 to 4)**	**37,821.9**	**45,964.4**	**51,193.7**	**52,731.2**	**55,537.4**
	(i) National Saving Centres	23,783.2	28,647.8	30,841.8	26,738.5	23,539.6
	(ii) Post Offices	14,038.6	17,316.6	20,351.9	25,992.7	31,997.8
	1. Saving Accounts	8,024.7	10,321.3	10,124.6	8,019.6	7,752.8
	2. Khas Deposit Accounts	486.7	436.2	397.5	360.7	354.1
	3. Mahana Amdani Accounts	1,869.3	1,885.8	1,899.7	1,952.5	2,371.1
	4. Special Saving Accounts	27,441.2	33,321.05	38,771.9	42,398.4	45,054.4
B.	**Certificates (i,ii,iii /5 to 11)**	**374,981.2**	**496,435.2**	**582,608.2**	**617,430.2**	**685,642.2**
	(i) National Saving Centres	270,177.1	353,890.9	410,132.2	438,320.2	484,331.2
	(ii) Post Offices	27,918.2	36,005.5	43,679.1	48,198.3	53,378.7
	(iii) Banks	76,886.0	106,538.8	128,796.9	130,911.7	147,932.3
	5. Defence Saving Certificates	168,840.2	207,190.0	248,401.8	264,982.1	286,199.4
	6. National Deposit Certificates	132.1	83.4	57.2	40.7	33.7
	7. Khas Deposit Certificates	340.35	320.0	307.1	294.8	290.4
	8. Premium Saving Certificates	0.5	0.5	0.5	0.5	0.5
	9. Special Saving Certificates (Registered)	118,965.9	143,922.6	163,318.4	172,749.6	209,049.7
	10. Special Saving Certificates (Bearer)	1,702.3	819.3	312.0	508.3	304.8
	11. Regular Income Certificates	85,000.1	144,099.5	170,211.1	178,854.3	189,763.7
C.	**Prize Bonds (12 to 26) ***	**71,058.0**	**81,183.7**	**81,151.4**	**91,542.4**	**103,130.1**
	12. Rs. 5/=	14.9	14.9	14.9	14.9	14.9
	13. Rs. 10/=	25.3	25.3	25.3	25.3	25.3
	14. Rs. 50/=	3,141.1	49.4	41.2	23.8	23.7
	15. Rs. 100/=	4,917.2	5,605.4	121.0	80.1	80.0
	16. Rs. 500/=	17,033.3	18,013.1	(190.5)	(160.4)	96.9
	17. Rs. 1,000/=	26,979.7	24,922.7	3.4	91.5	311.0
	18. Rs. 5,000/=			32.9	14.0	14.0
	19. Rs. 10,000/=			(520.2)	262.5	262.4
	20. Rs. 25,000/=	9,711.3	10,773.5	(1,276.1)	16.3	16.3
	21. Rs. 200/=	9,235.2	12,577.6	7,013.6	8,517.2	9,314.3
	22. Rs. 750/=		9,201.8	13,695.3	16,468.0	18,580.7
	23. Rs. 1,500/=			18,021.3	19,737.6	21,255.3
	24. Rs. 7,500/=			13,187.0	14,284.8	16,200.8
	25. Rs. 15,000/=			15,637.9	16,522.2	18,105.5
	26. Rs. 40,000/=			15,344.4	15,644.6	18,829.6
	TOTAL (A+B+C)	**483,861.1**	**623,583.3**	**714,753.3**	**761,703.2**	**844,309.7**

Notes :
1. National Saving Centres stopped sales of Savings Certificates from 1971-72
2. Khas Deposit Certificates and National Deposit Certificates were introduced in 1972-73 and discontinued w.e.f. 4-2-1990
3. Khas Deposit Accounts were introduced in 1974-75 and discontinued w.e.f. 4-2-1990
4. National Saving Centres started receiving Saving Deposit Accounts in 1974-75
5. Premium Saving Certificates were introduced from 1979-80 and discontinued from 1-7-1983
6. Mahana Saving Accounts and Special Saving Accounts were introduced from March 1983
7. Special Saving Certificates (Registered and Bearer) and Special Saving Accounts were introduced w.e.f. 4-2-1990
8. Regular Income Certificates were introduced w.e.f. 2-2-1993
9. Prize Bonds of Rs. 25,000 , Rs. 10,000 and Rs.5000 were introduced w.e.f. 15-11-1995 ,15-12-1995 and 1-8-1998 respectively
10. Date of introduction of new denominations : Rs.15,000 (1-10-1999), Rs. 750 (15-10-1999), Rs.7,500 (1-11-1999) Rs. 1,500 (15-11-1999), Rs.40,000 (1-12-1999), Rs.200 (15-12-1999)
11. Totals may not tally due to separate rounding off

8.2 RATES OF PROFIT ON NATIONAL SAVING SCHEMES

(End June : Percent per annum)

SCHEME	1998	1999	2000		2001		2002	
			1st Jan.	1st Jul.	1st Jan.	1st Jul.	1st Jan.	1st Jul.
1. Saving Accounts								
(i) With chequing facilities	12.50	10.50	8.25	6.50	6.50	7.30	7.30	6.50
(ii) Without chequing facilities	13.00	11.00	8.75	7.00	7.00	7.80	7.80	7.00
2. Khas Deposit Accounts or Certificates								
3 Years (Rollover)								
(i) First 5 periods of complete 6 months	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
(ii) Last period of complete 6 months	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
(iii) Three Years (Compound rate)	13.42	13.42	13.42	13.42	13.42	13.42	13.42	13.42
3. Mahana Amdani Accounts								
(i) 1st year	12.00	12.00	12.00	9.00	9.00	9.00	9.00	7.00
(ii) 2nd year	11.80	11.80	11.80	9.54	9.54	9.54	9.54	7.24
(iii) 3rd year	11.87	11.87	11.87	10.52	10.52	10.52	10.52	7.43
(iv) 4th year	14.19	14.19	14.19	11.58	11.58	11.58	11.58	7.79
(v) 5th year	14.87	14.87	14.87	11.84	11.84	11.84	11.84	8.45
(vi) 6th year				12.25	12.25	12.25	12.25	9.25
(vii) 7th year								10.41
(viii) Compound rate on maturity	14.87	14.87	14.87	12.25	12.25	12.25	12.25	10.41
4. Defence Saving Certificates @								
(i) 1st year	14.50	12.00	11.00	9.00	9.00	10.00	9.00	7.00
(ii) 10 years(Compound rate)	18.04	15.97	15.01	14.01	14.01	15.01	14.13	11.61
5. National Deposit Certificates / Accounts								
(i) 1 year (Rollover)	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00
6. (a) Special Saving Certificates (Registered) *								
or Special Saving Accounts @								
(i) First 5 periods of complete 6 months	16.00	14.00	12.00	11.00	11.00	12.20	12.20	10.30
(ii) Last period of complete 6 months	18.00	16.00	14.00	12.00	12.00	13.20	13.20	11.30
(b) Special Saving Certificates (Bearer) *								
(i) First 4 periods of complete 6 months	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00
(ii) Last 2 periods of complete 6 months	14.00	14.00	14.00	14.00	14.00	14.00	14.00	14.00
7. Regular Income Certificates	18.00	16.00	14.00	12.48	12.48	12.48	12.48	10.56

Source: Central Directorate of National Savings

Notes: (i) Defence Saving Certificates introduced w.e.f. 08-11-1966

(ii) Khas Deposit Accounts or Certificates introduced w.e.f. 15-03-1973 and Discontinued w.e.f. 04-02-1990. However rollover facility has been provided to the existing deposits in Khas Deposit Scheme,subject to 10% withholding tax at source.

(iii) National Deposit Certificates introduced w.e.f. 27-10-1976 and discontinued w.e.f. 04-02-1990. Rollover facility have been provided to the existing deposits in NDC scheme @ 13% per annum subject to 10% withholding tax

(iv) Mahana Amdani Accounts and Special Saving Accounts were introduced w.e.f. 02-03-1983

(v) In terms of Government of Pakistan ,Finance Division, Islamabad Notification No. SRO No. (1)-90 bearing No F.4 (81 Bkg-II / 89 dated 04-02-1990 Special Saving Certificate (Registered / Bearer) Scheme has been introduced forthwith

* Special Saving Certificates (Registered / Bearer) have been introduced in place of Khas Deposit Accounts or Certificates

(vi) Regular Income certificates introduced w.e.f 02-02-1993

@ 10 % withholding tax on profit exceeding Rs.300,000 earned on investment made from 01-07-2001 to 30-06-2002 and 10% withholding tax on profit exceeding Rs.150,000 earned on investment made on or after 01-07-2002.

8.3 OWNERSHIP CLASSIFICATION OF THE FEDERAL GOVERNMENT DEBT

(Million Rupees)

AS ON 30TH JUNE	DEBT	HELD BY						
		State Bank of Pakistan	Deposit Money Banks	Other Financial Institutions	Inter-national Institutions	Foreign Governments & Banks	Others	Intera-Governmental Debt
1981	134,012	25,740	19,457	2,514	13,800	60,124	12,377	2,456
1982	177,828	34,756	20,812	3,162	19,407	81,765	17,926	2,662
1983	198,582	27,127	25,928	4,007	28,100	82,626	30,794	2,921
1984	227,792	35,598	23,152	4,327	33,529	87,711	43,475	2,935
1985	284,085	54,704	30,292	4,103	41,555	98,600	54,831	3,897
1986	360,388	59,827	38,979	5,055	49,647	117,354	89,526	4,125
1987	412,276	55,694	45,597	8,630	57,326	129,704	115,325	5,298
1988	492,236	81,957	63,281	9,194	69,786	137,958	130,060	3,130
1989	581,192	90,038	61,037	10,527	92,533	161,125	165,932	3,647
1990	674,248	110,774	51,177	10,593	108,635	189,017	204,052	4,243
1991	776,582	119,846	83,354	14,810	137,985	197,018	223,569	4,994
1992	902,827	158,354	134,375	14,067	158,382	216,851	220,798	10,630
1993	1,058,682	183,054	170,871	18,996	199,434	246,606	239,721	13,976
1994	1,219,863	173,256	233,912	39,466	241,135	282,756	249,338	10,316
1995	14,005.47	197,097	239,046	42,922	249,938	350,145	321,399	15,882
1996	1,573,338	217,060	277,146	44,853	295,800	362,358	376,121	19,180
1997	1,863,329	272,265	310,632	51,643	435,030	378,078	415,681	22,369
1998	2,094,051	236,909	351,173	54,974	536,930	397,454	516,611	23,565
1999	2,463,031	358,320	321,688	56,272	630,551	471,486	624,714	29,539
2000	2,790,632	540,169	242,548	48,461	656,157	517,293	786,004	41,939
2001	3,127,300	614,689	249,761	63,335	772,558	592,503	834,454	45,988

8.4 FEDERAL GOVERNMENT'S PERMANENT DEBT OUTSTANDING

(End June: Million Rupees)

SECURITY	1998	1999	2000	2001	2002
3.00 % 1971 (Permanent)	2,740.0	2,740.0	2,740.0	2,740.0	2,740.0
11.25 % 1998	9.2	0.7	0.7	0.7	-
11.50 % 1999	1,193.3	-	-	-	-
11.50 % 2000	790.9	790.9	3.9	1.3	-
11.75 % 2001	8,208.7	8,208.7	8,208.7	10.5	10.5
11.75 % 2002	1,078.5	1,078.5	1,078.5	1,078.5	5.4
5.00 % Income Tax Bonds	22.3	22.3	22.3	22.3	22.3
Govt. Bonds (Public Sector)	7,826.7	3,131.0	3,131.0	3,131.0	3,131.0
Govt. Bonds (under E.R.O. 1972)	1.4	1.4	1.4	1.4	1.4
Govt. Bonds (under Land Reforms 1977)	52.9	52.9	52.9	52.9	52.9
Compensation Bonds (Nationalised Banks, Petroleum, Shipping, Veg.Oil)	21.8	20.0	20.0	20.0	20.0
Govt. Bonds (Shah Nawaz Bhutto Sugar Mills)	73.1	73.1	73.1	73.1	73.1
Govt. Bonds (Heavy Mechanical Complex)	638.3	510.2	510.2	510.2	510.2
Govt. Bonds (Pakistan Engineering Company)	787.4	692.3	692.3	692.3	589.6
Govt. Bonds issued at Low Yield Bonds	-	4,957.4	4,957.4	4,957.4	4,957.4
Govt. Bonds (Gem Stone Corporation of Pakistan)	-	24.8	16.5	8.3	-
Govt. Bonds (Shahdad Kot Textile)	116.2	77.8	77.8	77.8	77.8
Special Govt. Bonds issued to SLIC (original)	6,469.3	6,320.3	4,594.2	2,505.2	1,691.5
Govt. Bonds issued to SLIC (Capitalisation)	3,876.9	4,666.3	12,317.9	11,169.1	12,635.7
Reinvestment of Face value of SLIC Bond (original)	-	149.0	631.4	0.0	0.0
Special National Fund Bonds	1.0	1.0	1.0	1.0	1.0
Govt. Bonds issued to DFIs	365.7	311.5	243.8	213.3	183.0
Govt. Bonds issued to ADBP	400.0	300.0	200.0	100.0	-
Bearer National Fund Bonds	9.4	8.6	7.2	7.2	7.2
Federal Investment Bonds	146,295.9	138,353.8	135,869.8	113,042.9	81,492.2
Bearer National Fund Bonds Rollover (I, II & III)	21,670.1	0.2	0.2	0.2	0.2
Pakistan Investment Bonds				46,122.9	153,817.5
TOTAL OUTSTANDING DEBT *	**202,649.0**	**172,492.7**	**175,452.2**	**186,539.8**	**262,019.9**

* This does not include amount of loans already discharged and outstanding after one year from the date of notice of discharge .

Note Special US $ Bonds have been reclassified into external liabilities , while FEBC , FCBC and DBC have been classified to external liabilities payable in Rupees. Based on these changes, the numbers reported in the above table will not match with pervious Annual Reports.

8.5 PROVINCIAL GOVERNMENTS' PERMANENT DEBT OUTSTANDING

(End June: Million Rupees)

SECURITY	1998	1999	2000	2001	2002
Punjab Government Loans	**355.5**	**335.4**	**256.9**	**256.9**	**181.7**
10.50 % 1998	75.7	-	-	-	-
10.50 % 1999	78.5	78.5	-	-	-
15.00 % 2001	75.2	75.2	75.2	75.2	106.0
16.00 % 2004	106.0	106.0	106.0	106.0	75.7
17.50 % 2008	-	75.7	75.7	75.7	-
Sindh Government Loans	**1,708.1**	**1,708.1**	**1,653.8**	**1,653.8**	**1,609.5**
10.50 % 1999	54.3	54.3	-	-	-
15.00 % 2001	44.3	44.3	44.3	44.3	-
15.50 % 2002	185.8	185.8	185.8	185.8	185.8
16.00 % 2003	443.6	443.6	443.6	443.6	443.6
15.50 % 2006	969.5	969.5	969.5	969.5	969.5
17.00 % 2007	10.6	10.6	10.6	10.6	10.6
N.W.F.P. Government Loans	**187.6**	**67.6**	**-**	**-**	**-**
10.50 % 1998	120.0	-	-	-	-
10.50 % 1999	67.6	67.6	-	-	-
Balochistan Government Loans	**1,005.2**	**944.2**	**889.5**	**889.5**	**851.0**
10.50 % 1998	61.5	0.5	-	-	-
10.50 % 1999	54.2	54.2	-	-	-
15.00 % 2001	38.5	38.5	38.5	38.5	-
15.50 % 2002	40.3	40.3	40.3	40.3	40.3
16.00 % 2003	325.3	325.3	325.3	325.3	325.3
15.50 % 2006	481.1	481.1	481.1	481.1	481.1
17.0 % 2007	4.3	4.3	4.3	4.3	4.3

Note : Total may not tally due to separate rounding off

8.6 DOMESTIC DEBT OUTSTANDING

(Million Rupees)

DEBT INSTRUMENT	30-06-1999	30-06-2000	30-06-2001	30-06-2002 p	Change during 2001-02
A. PERMANENT DEBT	**256,928**	**259,598**	**281,077**	**367,989**	**86,912**
1. Market Loans *	16,071	15,028	6,827	5,596	(1,231)
2. Federal Government Bonds	10,099	9,923	9,785	9,543	(242)
3. Income Tax Bonds	22	22	22	22	0
4. Government Bonds (L.R.-1977)	53	53	53	53	0
5. Special Government Bonds For SLIC (Original)	6,320	4,594	2,505	1,691	(814)
6. Special Government Bonds For SLIC (Capitalisation)	4,815	12,949	11,169	12,636	1,468
7. Bearer National Fund Bonds (BNFB)	9	7	7	7	0
8. Special National Fund Bonds	1	1	1	1	0
9. Federal Investment Bonds (Auction)	135,596	133,112	113,013	81,489	(31,524)
10. Federal Investment Bonds (TAP)	2,758	2,758	30	3	(27)
11. Pakistan Investment Bonds (PIBs)	0	0	46,123	153,818	107,695
12. Prize Bonds	81,184	81,152	91,542	103,130	11,588
B. FLOATING DEBT	**561,590**	**647,428**	**737,776**	**557,807**	**(179,969)**
1 Adhoc Treasury Bills	90,048	90,074	125,302	122,830	(2,472)
2 Treasury Bills (3 Months)	13	13	13	13	0
3 Market Treasury Bills	141,841	90,009	104,097	208,133	104,036
4 MTBs for Replenishment	329,688	467,332	508,364	226,831	(281,533)
C. UNFUNDED DEBT	**557,388**	**652,922**	**693,659**	**769,681**	**76,022**
1. Defence Savings Certificates	207,190	248,402	264,982	286,199	21,217
2. National Deposit Certificates	83	57	41	33	(8)
3. Khas Deposit Certificates	756	307	295	290	(5)
4. Special Savings Certificates (Reg)	178,063	163,318	172,750	209,050	36,300
5. Special Savings Certificates (Bearer)		312	508	305	(203)
6. Regular Income Certificates	144,100	170,211	178,854	189,764	10,909
7. Khas Deposit Accounts		398	361	354	(7)
8. Savings Accounts	10,321	10,125	8,020	7,753	(267)
9. Special Savings Accounts		38,772	42,398	45,054	2,656
10. Mahana Amdani Accounts	1,886	1,900	1,952	2,376	424
11. Postal Life Insurance	14,989	19,120	23,498	28,503	5,006
TOTAL (A+B+C)	**1,375,906**	**1,559,947**	**1,712,512**	**1,695,477**	**(17,035)**

P Provisional

* Including Provincial Government Loans

Note Special US $ Bonds have been reclassified into external liabilities , while FEBC , FCBC and DBC have been classified to external liabilities payable in Rupees. Based on these changes, the numbers reported in the above table will not match with pervious Annual Reports.

BALANCE OF PAYMENTS AND FOREIGN TRADE

9.1 AVERAGE EXCHANGE RATES

Pak Rupees per

CURRENCY	1998-99	1998-99@	1999-2000	2000-01	2001-02	2001 Jul.	2001 Aug.	2001 Sep.
Australian dollar	29.3962	31.4526	32.5665	31.3747	32.1607	32.6745	33.6510	32.5365
Austrian schilling	3.8557	4.1260	3.7715	3.7942	3.9960	4.0107	4.1973	4.2534
Belgian franc	1.2952	1.3882	1.2866	1.2934	1.3633	1.3677	1.4310	1.4502
Canadian dollar	31.0445	33.2065	35.1611	38.4434	39.1719	41.9096	41.6943	40.9984
Chinese yuan	5.6548	6.0527	6.2470	7.0601	7.4149	7.7381	7.7442	7.7503
Danish krone	7.0348	7.5339	6.9724	6.9916	7.3987	7.4122	7.7560	7.8583
Deutsche mark	26.7081	28.6103	26.5372	26.6543	8.3867	28.1941	29.5068	29.9049
French franc	7.9685	8.5348	7.9156	7.9536	28.1084	8.4097	8.7965	8.9106
Hongkong dollar	6.0440	6.4674	6.6573	7.4906	7.8720	8.2144	8.2174	8.2243
Italian lira	0.0271	0.0290	0.0268	0.0269	0.0284	0.0285	0.0298	0.0302
Japanese yen	0.3797	0.4071	0.4809	0.5109	0.4884	0.5150	0.5273	0.5407
Kuwaiti dinar	153.8993	164.7667	169.4791	190.4592	200.7861	208.4764	210.3368	210.5700
Malaysian ringgit	12.1327	12.9971	13.6289	15.3871	16.1621	16.8652	16.8717	16.8820
Netherlands guilder	23.7008	25.3830	23.5571	23.6655	24.9556	25.0318	26.1900	26.5430
New Zealand dollar	24.7188	26.4551	26.0787	24.8125	26.4673	26.1984	27.6357	26.9341
Norwegian krone	6.1371	6.5719	6.3421	6.4483	8.7345	6.9177	7.1670	7.3181
Qatar riyal	12.8802	13.7741	14.2165	16.0567	16.8754	17.6132	17.6213	17.6327
Saudi Arabian riyal	12.4882	13.3630	13.8125	15.5868	18.1306	17.0928	17.1016	17.1162
Singapore dollar	27.6043	29.5385	30.5305	33.1605	33.9503	35.1397	36.3044	36.6938
Spanish peseta	0.3139	0.3367	0.3119	0.3136	0.3306	0.3316	0.3470	0.3516
Swedish krone	5.8006	6.2094	6.0786	5.9379	5.4538	5.9601	6.2091	6.0599
Swiss franc	32.5174	34.8365	32.5626	34.1098	34.5234	36.4452	38.1178	39.2107
UAE dirham	12.7583	13.6612	14.0979	15.9133	16.7231	17.4323	17.4620	17.4728
UK pound sterling	76.8085	82.2135	82.4937	84.7395	88.5691	90.6347	92.0654	93.8322
US dollar	46.7904	50.0546	51.7709	58.4378	61.4258	64.0905	64.1157	64.1472
EMU Euro	-	-	51.8856	52.1546	54.9991	55.1713	57.7406	58.4914

Note :- The Exchange rates are mid points of T.T. buying and selling.

@ Composite Rate (two-tier rate structure on foreign exchange was introduced w.e.f. 22nd July,1998 and subsequently replaced by market based unified exchange rate w.e.f. 19th May,1999)

OF AUTHORISED DEALERS
Currency Unit

2001			2002						
Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	CURRENCY
31.4244	31.5707	31.1597	31.1322	30.8522	31.5281	32.1676	33.0248	34.2065	Australian dollar
4.0957	3.9482	3.9251	3.8741	3.8057	3.8291	3.8625	4.0074	4.1429	Austrian schilling
1.3986	1.3472	1.3389	1.3212	1.2965	1.3060	1.3182	1.3669	1.4166	Belgian franc
39.6151	38.3517	38.3764	37.6298	37.6904	37.8220	37.9774	38.7454	39.2522	Canadian dollar
7.4986	7.3800	7.3171	7.2683	7.2614	7.2548	7.2528	7.2561	7.2567	Chinese yuan
7.5861	7.3112	7.2679	7.1562	7.0538	7.1021	7.1652	7.4128	7.7021	Danish krone
28.8498	27.7849	27.6087	27.2456	26.7450	26.9271	27.1858	28.0913	29.2569	Deutsche mark
8.6028	8.2869	8.2368	8.1278	7.9748	8.0366	8.1071	8.4151	8.7362	French franc
7.9750	7.8362	7.7673	7.7169	7.7012	7.7042	7.7015	7.7026	7.7024	Hongkong dollar
0.0291	0.0281	0.0279	0.0275	0.0270	0.0272	0.0275	0.0285	0.0295	Italian lira
0.5136	0.5000	0.4770	0.4545	0.4505	0.4587	0.4596	0.4757	0.4877	Japanese yen
204.2467	199.8437	198.2944	195.7703	195.4095	195.4972	196.1025	196.9391	197.9469	Kuwaiti dinnar
16.3694	16.0887	15.9447	15.8392	15.8269	15.8122	15.8137	15.8163	15.8146	Malaysian ringgit
25.6067	24.6637	24.5137	24.1863	23.7318	23.8966	24.1296	25.0200	25.9537	Nederlands guilder
25.7948	25.4334	25.2038	25.5489	25.2092	25.9746	26.5895	27.6803	29.4049	New Zealand dollar
7.0521	6.8633	6.7676	6.7254	6.7195	6.8198	6.9436	7.3188	7.7327	Norwegian krone
17.0995	16.7918	16.6467	16.5408	16.5206	16.5060	16.5067	16.5133	16.5119	Qatar riyal
16.5911	16.3039	16.1593	16.0531	16.0356	16.0217	16.0251	16.0255	16.0248	Saudi Arabian riyal
34.4318	33.4604	33.0051	32.7310	32.8352	32.8512	32.8668	33.3788	33.7059	Singapore dollar
0.3385	0.3265	0.3246	0.3203	0.3147	0.3167	0.3190	0.3316	0.3449	Spanish peseta
5.8886	5.7631	5.7185	5.7613	5.6923	5.7991	5.8277	5.9628	6.2981	Swedish krone
38.1273	37.0867	36.6256	36.1394	35.4256	35.8276	36.3058	37.8644	39.0131	Swiss franc
16.9407	16.6458	16.4975	16.3919	16.3749	16.3626	16.3660	16.3657	16.3645	UAE dirham
90.3758	87.8993	87.1140	86.3872	85.5503	85.4925	86.6284	87.7846	89.0645	UK pound sterling
62.2097	61.1255	60.5836	60.2011	60.1611	60.1020	60.1232	60.1253	60.1246	US dollar
56.3951	54.3051	53.9838	53.2444	52.3240	52.6262	53.2157	55.1108	57.3807	EMU Euro

9.2 PAKISTAN'S BALANCE

	ITEM	1998-99			1999-2000		
		Credit	Debit	Net Credit	Credit	Debit	Net Credit
A.	**GOODS, SERVICES AND INCOME**	**8,937**	**13,640**	**-4,703**	**9,691**	**13,897**	**-4,206**
	1. Merchandise f.o.b.	7,528	9,613	-2,085	8,190	9,602	-1,412
	2. Shipment	41	844	-803	51	802	-751
	3. Other transportation	640	530	110	735	664	71
	4. Travel	69	191	-122	76	218	-142
	5. Investment income	95	1,903	-1,808	117	2,135	-2,018
	5.1 IMF charges	-	44	-44	-	60	-60
	5.2 Interest-official external debt	-	905	-905	-	987	-987
	5.3 Other	95	954	-859	117	1,088	-971
	6. Other goods, services & income	564	559	5	522	476	46
	6.1 Official	102	270	-168	110	166	-56
	6.2 Other	462	289	173	412	310	102
B.	**UNREQUITED TRANSFERS**	**2,884**	**37**	**2,847**	**4,034**	**45**	**3,989**
	7. Private	2,307	33	2,274	3,094	31	3,063
	8. Official	577	4	573	940	14	926
C.	**CAPITAL ACCOUNT**	**4,175**	**6,453**	**-2,278**	**2,220**	**6,397**	**-4,177**
	9. Direct Investment abroad	-	44	-44	1	-	1
	10. Direct Investment in Pakistan	472	-	472	472	-	472
	11. Portfolio Investment	142	-	142	-	549	-549
	12. Other Long-term Capital-Official Sector	2,858	2,061	797	1,305	1,982	-677
	12.1 Assets	-	23	-23	-	-	-
	12.2 Loans drawn	2,279	2,038	241	1,305	1,967	-662
	12.3 Loans extended	-	-	-	-	-	-
	12.4 Other Liabilities	579	-	579	-	15	-15
	13. Other Long-term Capital-Deposit Money Banks	-	-	-	-	2	-2
	13.1 Assets	-	-	-	-	-	-
	13.2 Loans	-	-	-	-	-	-
	13.3 Other Liabilities	-	-	-	-	2	-2
	14. Other Long-term Capital-Other Sectors	446	436	10	324	592	-268
	14.1 Assets	-	-	-	-	-	-
	14.2 Loans	195	436	-241	167	592	-425
	14.3 Other Liabilities	251	-	251	157	-	157
	15. Other Short-term Capital-Official Sector	211	1,499	-1,288	118	489	-371
	15.1 Assets	-	51	-51	-	17	-17
	15.2 Loans	211	1,074	-863	118	338	-220
	15.3 Other Liabilities	-	374	-374	-	134	-134

(Million U.S. Dollar)

I T E M	1998-99			1999-2000		
	Credit	Debit	Net Credit	Credit	Debit	Net Credit
16. Other Short-term Capital--Deposit Money Banks	46	1,361	-1,315	-	1,830	-1,830
16.1 Assets	46	-	46	-	127	-127
16.2 Bilateral Balances--Assets	-	-	-	-	-	-
16.3 Bilateral Balances--Liabilities	-	-	-	-	-	-
16.4 Liabilities under Non-Resident Accounts	-	-	-	-	38	-38
16.5 Other Liabilities	-	1,361	-1,361	-	1,665	-1,665
17. Other Short-term Capital--Other Sectors	-	1,052	-1,052	-	953	-953
17.1 Assets	-	6	-6	-	305	-305
17.2 Loans	-	-	-	-	-	-
17.3 Other Liabilities	-	1,046	-1,046	-	648	-648
D. RESERVES	**493**	**1,317**	**-824**	**448**	**520**	**-72**
I. ASSETS	**8**	**1,262**	**-1,254**	**448**	**240**	**208**
18. Monetary Gold	6	6	-	66	66	-
18.1 Total changes in holdings	3	-	3	-	66	-66
18.2 Counterpart to monetization	3	-	3	1	-	1
18.3 Counterpart to valuation changes	-	6	-6	65	-	65
19. Special Drawing Rights	2	-	2	-	1	-1
19.1 Total changes in holdings	2	-	2	-	1	-1
19.2 Counterpart to allocation	-	-	-	-	-	-
19.3 Counterpart to valuation changes	-	-	-	-	-	-
20. Reserve position in the Fund	-	-	-	-	-	-
20.1 Total changes in holding	-	-	-	-	-	-
20.2 Counterpart to valuation changes	-	-	-	-	-	-
21. Foreign Exchange (Central Bank)	-	809	-809	382	2	380
21.1 Total changes in holdings	-	808	-808	382	-	382
21.2 Counterpart to valuation changes	-	1	-1	-	2	-2
22. Foreign Exchange (Deposit Money Banks)	-	447	-447	-	171	-171
22.1 Total changes in holdings	-	447	-447	-	171	-171
22.2 Counterpart to valuation changes	-	-	-	-	-	-
II. LIABILITIES	**485**	**55**	**430**	**-**	**280**	**-280**
23. Use of Fund Credit	485	55	430	-	280	-280
23.1 Total changes in holdings	485	-	485	-	195	-195
23.2 Counterpart to valuation changes	-	55	-55	-	85	-85
E. ERRORS AND OMISSIONS (NET)	**992**	**-**	**992**	**500**	**-**	**500**
F. EXCEPTIONAL FINANCING / GAP	**3,966**	**-**	**3,966**	**3,966**	**-**	**3,966**

(Contd.)

9.2 PAKISTAN'S BALANCE

	ITEM	2000-01 R			2001-02 P		
		Credit	Debit	Net Credit	Credit	Debit	Net Credit
A.	**GOODS, SERVICES AND INCOME**	**10,397**	**14,808**	**-4,411**	**11,160**	**14,140**	**-2,980**
	1. Merchandise f.o.b.	8,933	10,202	-1,269	9,133	9,493	-360
	2. Shipment	57	877	-820	70	816	-746
	3. Other transportation	771	710	61	754	651	103
	4. Travel	85	265	-180	101	246	-145
	5. Investment income	113	2,274	-2,161	111	2,422	-2,311
	5.1 IMF charges	-	60	-60	-	53	-53
	5.2 Interest-official external debt	-	969	-969	-	997	-997
	5.3 Other	113	1,245	-1,132	111	1,372	-1,261
	6. Other goods, services & income	438	480	-42	991	512	479
	6.1 Official	94	130	-36	562	120	442
	6.2 Other	344	350	-6	429	392	37
B.	**UNREQUITED TRANSFERS**	**4,782**	**45**	**4,737**	**5,768**	**44**	**5,724**
	7. Private	3,940	42	3,898	4,295	40	4,255
	8. Official	842	3	839	1,473	4	1,469
C.	CAPITAL ACCOUNT	**2,938**	**3,580**	**-642**	**3,343**	**4,393**	**-1,050**
	9. Direct Investment abroad	-	37	-37	-	2	-2
	10. Direct Investment in Pakistan	323	-	323	486	-	486
	11. Portfolio Investment	-	140	-140	-	491	-491
	12. Other Long-term Capital-Official Sector	1,469	2,069	-600	1,608	1,533	75
	12.1 Assets	-	-	-	80	-	80
	12.2 Loans drawn	1,463	1,795	-332	1,528	1,512	16
	12.3 Loans extended	6	-	6	-	-	-
	12.4 Other Liabilities	-	274	-274	-	21	-21
	13. Other Long-term Capital-Deposit Money Banks	-	2	-2		1	-1
	13.1 Assets	-	-	-	-	-	-
	13.2 Loans	-	-	-	-	-	-
	13.3 Other Liabilities	-	2	-2	-	1	-1
	14. Other Long-term Capital-Other Sectors	283	495	-212	184	851	-667
	14.1 Assets	-	-	-	-	-	-
	14.2 Loans	191	495	-304	184	531	-347
	14.3 Other Liabilities	92	-	92	-	320	-320
	15. Other Short-term Capital-Official Sector	762	424	338	875	1,313	-438
	15.1 Assets	-	59	-59	49	-	49
	15.2 Loans	762	331	431	826	1,157	-331
	15.3 Other Liabilities	-	34	-34	-	156	-156

P: Provisional
R: Revised

(Concld.)

(Million U.S. Dollar)

ITEM	2000-01 R			2001-02 P		
	Credit	Debit	Net Credit	Credit	Debit	Net Credit
16. Other Short-term Capital--Deposit Money Banks	29	48	-19	3	147	-144
16.1 Assets	29	-	29	-	54	-54
16.2 Bilateral Balances--Assets	-	-	-	-	-	-
16.3 Bilateral Balances--Liabilities	-	-	-	-	-	-
16.4 Liabilities under Non-Resident Accounts	-	-	-	3	-	3
16.5 Other Liabilities	-	48	-48	-	93	-93
17. Other Short-term Capital--Other Sectors	72	365	-293	187	55	132
17.1 Assets	-	261	-261	120	-	120
17.2 Loans	72	17	55	-	55	-55
17.3 Other Liabilities	-	87	-87	67	-	67
D. RESERVES	**284**	**1,285**	**-1,001**	**360**	**3,150**	**-2,790**
I. ASSETS	-	**1,085**	**-1,085**	-	**3,080**	**-3,080**
18. Monetary Gold	74	74	-	64	64	-
18.1 Total changes in holdings	-	74	-74	-	64	-64
18.2 Counterpart to monetization	-	-	-	1	-	1
18.3 Counterpart to valuation changes	74	-	74	63	-	63
19. Special Drawing Rights	4	3	1	-	9	-9
19.1 Total changes in holdings	-	3	-3	-	9	-9
19.2 Counterpart to allocation	-	-	-	-	-	-
19.3 Counterpart to valuation changes	4	-	4	-	-	-
20. Reserve position in the Fund	-	-	-	-	-	-
20.1 Total changes in holding	-	-	-	-	-	-
20.2 Counterpart to valuation changes	-	-	-	-	-	-
21. Foreign Exchange (Central Bank)	-	727	-727	5	2,712	-2,707
21.1 Total changes in holdings	-	726	-726	-	2,712	-2,712
21.2 Counterpart to valuation changes	-	1	-1	5	-	5
22. Foreign Exchange (Deposit Money Banks)	1	360	-359	1	365	-364
22.1 Total changes in holdings	-	360	-360	-	365	-365
22.2 Counterpart to valuation changes	1	-	1	1	-	1
II. LIABILITIES	**84**	-	**84**	**290**	-	**290**
23. Use of Fund Credit	205	121	84	290	-	290
23.1 Total changes in holdings	205	-	205	270	-	270
23.2 Counterpart to valuation changes	-	121	-121	20	-	20
E. ERRORS AND OMISSIONS (NET)	**625**	-	**625**	**961**	-	**961**
F. EXCEPTIONAL FINANCING / GAP	**692**	-	**692**	**135**	-	**135**

9.3 BALANCES UNDER FOREIGN CURRENCY ACCOUNTS SCHEME

(Million US Dollar)

END PERIOD		Old FCA					New FCA	TOTAL
		Non-Resident		Resident	Incremental	Total		
		Institutional (FE-45)	Others		(FE-31)		(FE-25)	
1997-98		1,507.1	2,147.3	6,024.6	-	9,679.0	-	**9,679.0**
1998-99		1,380.0	974.0	2,493.5	-	4,847.5	616.5	**5,464.0**
1999-2000		1,071.9	498.5	1,073.3	300.4	2,944.1	976.7	**3,920.8**
2000-2001		774.1	345.5	807.8	326.0	2,253.4	1,542.6	**3,796.0**
2001-2002		234.3	172.2	615.2	171.9	1,193.6	2,098.2	**3,291.7**
2001	Jul.	774.2	337.0	796.6	336.1	2,243.9	1,595.6	**3,839.5**
	Aug.	777.6	330.6	780.1	332.9	2,221.2	1,631.5	**3,852.7**
	Sep.	779.4	324.0	763.7	312.8	2,179.9	1,574.9	**3,754.8**
	Oct.	774.9	312.4	734.6	313.1	2,135.0	1,595.7	**3,730.7**
	Nov.	728.3	307.2	719.5	317.9	2,072.9	1,598.8	**3,671.6**
	Dec.	617.9	283.4	693.2	310.3	1,904.8	1,705.0	**3,609.8**
2002	Jan.	527.8	236.2	735.7	329.0	1,828.7	1,728.7	**3,557.4**
	Feb.	465.2	228.6	726.1	323.7	1,743.6	1,700.8	**3,445.2**
	Mar.	367.7	216.0	710.8	318.5	1,613.0	1,745.9	**3,358.8**
	Apr.	317.8	176.9	654.6	205.8	1,355.1	1,891.6	**3,246.6**
	May	241.4	179.8	641.3	181.7	1,244.2	1,923.1	**3,167.3**
	Jun.	234.3	172.2	615.2	171.9	1,193.6	2,098.2	**3,291.7**

9.4 COUNTRY-WISE WORKERS' REMITTANCES

(Million U.S Dollar)

ITEM	1997-98	1998-99	1999-2000	2000-01	2001-02
I. Cash Flow	**1,237.68**	**875.55**	**913.49**	**1,021.59**	**2,340.79**
Bahrain	34.31	33.31	29.36	23.87	39.58
Canada	4.14	3.46	3.86	4.90	20.52
Germany	16.62	11.93	10.47	9.20	13.44
Japan	2.65	3.09	1.58	3.93	5.97
Kuwait	52.40	106.36	135.25	123.39	89.66
Norway	7.16	5.26	5.60	5.74	6.55
Qatar	12.17	12.94	13.29	13.38	31.87
Saudi Arabia	474.86	318.49	309.85	304.43	376.34
Sultanat-e-Oman	61.97	44.67	46.42	38.11	63.18
U A E :	207.70	125.09	147.79	190.04	469.49
Abu Dhabi	75.13	38.07	47.30	48.11	103.72
Dubai	101.01	70.57	87.04	129.69	331.47
Sharjah	28.54	14.69	12.80	12.21	34.05
Others	3.02	1.76	0.65	0.03	0.25
U.K.	98.83	73.59	73.27	81.39	151.93
U.S.A.	166.29	81.95	79.96	134.81	778.98
Other Countries	98.58	55.41	56.79	88.40	293.28
II. Encashment and Profit in Pak.Rs. of Foreign Exchange Bearer Certificates (FEBCs) & Foreign Currency Bearer Certificates (FCBCs)	**251.87**	**184.64**	**70.24**	**64.98**	**48.26**
TOTAL (I+II)	**1,489.55**	**1,060.19**	**983.73**	**1,086.57**	**2,389.05**

Source: Statistics Department

9.5 GOLD AND FOREIGN EXCHANGE RESERVES

(Million U.S. Dollar)

PERIOD		Gold	Foreign Exchange			TOTAL
			With SBP		With Banks**	
			SDRs	Nostro*		
1997-98		612	3	932	190	**1,737**
1998-99		543	1	1,672	705	**2,922**
1999-2000		603	1	996	1,166	**2,766**
2000-2001		566	4	1,685	1,555	**3,810**
2001-2002		667	8	4,329	1,993	**6,997**
2001	Jul.	566	17	1,695	1,553	**3,831**
	Aug.	566	3	1,752	1,655	**3,976**
	Sep.	566	3	1,721	1,666	**3,956**
	Oct.	566	17	1,978	1,673	**4,234**
	Nov.	566	4	2,820	1,692	**5,082**
	Dec.	566	4	3,109	1,754	**5,433**
2002	Jan.	566	4	3,155	1,827	**5,552**
	Feb.	566	4	3,375	1,896	**5,841**
	Mar.	566	4	3,490	1,749	**5,809**
	Apr.	566	5	3,512	1,927	**6,010**
	May	566	8	3,669	1,922	**6,165**
	Jun.	667	8	4,329	1,993	**6,997**

* Excluding FE.13/CRR and Includes Indian Pending Transfers.

** Including new FCA and Trade Nostro

9.6 BALANCE OF TRADE

(Million US Dollar)

PERIOD		Exports	Re-exports	Imports	Re-imports	**Balance of Trade**
1997 - 98		8,627.7	76.3	10,118.0	4.6	(-) **1,418.6**
1998 - 99		7,779.3	70.1	9,431.7	14.2	(-) **1,596.5**
1999 - 2000		8,568.6	67.1	10,309.4	18.1	(-) **1,691.8**
2000 - 2001		9,201.6	63.5	10,728.9	12.2	(-) **1,476.0**
2001 - 2002		9,134.6	70.1	10,339.6	11.1	(-) **1,146.0**
2001	Jul.	683.9	2.9	791.6	0.3	(-) **105.1**
	Aug.	780.5	9.5	938.0	1.3	(-) **149.3**
	Sep.	800.2	4.3	774.5	0.9	(+) **29.1**
	Oct.	760.0	11.3	838.3	4.2	(-) **71.2**
	Nov.	711.1	5.1	825.3	0.8	(-) **109.9**
	Dec.	722.3	4.8	707.7	0.2	(+) **19.2**
2002	Jan.	699.6	11.2	854.8	0.3	(-) **144.3**
	Feb.	654.9	2.6	738.1	0.5	(-) **81.1**
	Mar.	725.8	2.1	886.6	0.6	(-) **159.3**
	Apr.	785.9	9.3	890.1	0.4	(-) **95.3**
	May	846.1	2.4	1,119.3	1.2	(-) **272.0**
	Jun.	964.4	4.6	975.3	0.5	(-) **6.8**

* Balance of Trade = Exports + Re-exports - Imports - Re-imports

Source : Federal Bureau of Statistics

9.7 EXPORTS AND IMPORTS BY

COMMODITY	1998-99		1999-2000	
	Exports	Imports	Exports	Imports
GRAND TOTAL	**7,779.3**	**9,431.7**	**8,568.6**	**10,309.4**
Food and Live Animals Chiefly for Food	**1,076.0**	**897.7**	**919.8**	**804.4**
Live animals chiefly for Food	2.2	1.8	2.4	1.7
Milk and cream	1.1	27.1	1.1	22.5
Fish fresh, chilled, frozen	122.6	0.1	138.9	0.1
Wheat (including spelt) and meslin unmilled	1.4	384.6	-	283.5
Rice	533.6	-	539.7	-
Vegetables and fruit	107.7	153.2	127.1	185.6
Sugar and honey	276.1	7.7	61.0	19.9
Tea and mate	-	226.9	-	210.5
Spices	10.5	37.4	16.2	23.3
Feeding stuff for animals (not including unmilled cereals)	0.2	27.1	1.0	24.3
Others n.e.s.	20.6	31.9	32.4	33.0
Beverages and Tobacco	**4.8**	**5.2**	**5.5**	**4.2**
Beverages	0.1	4.8	0.1	3.9
Tobacco and tobacco manufactures	4.7	0.4	5.4	0.3
Others n.c.s.	-	-	-	-
Crude Materials, Inedible, Except Fuels	**126.6**	**655.7**	**210.9**	**719.0**
Hides, skins and furskins, raw	-	10.7	0.1	9.7
Oil seeds and oleaginous fruit	10.9	39.4	5.5	139.5
Crude rubber (including synthetic and reclaimed)	0.2	39.2	0.1	37.0
Cork and wood	-	24.4	-	24.0
Cotton	31.5	230.9	110.1	182.3
Synthetic fibres suitable for spinning	1.8	48.2	2.1	37.4
Wool and other animal hair (excluding wool tops)	3.6	6.4	2.1	10.2
Crude fertilizers and crude minerals (excluding coal, petroleum and precinus stones)	7.6	21.7	9.4	30.6
Metalliferous ores and metal scrap	6.9	81.4	14.9	92.4
Crude animals and vegetable materials, n.s.	57.1	33.7	60.4	40.8
Others n.e.s.	7.0	119.7	6.2	115.1
Mineral Fuels, Lubricants and Related Materials	**47.4**	**1,500.8**	**82.0**	**2,873.1**
Coal coke and briquettes	-	51.9	0.1	46.6
Petroleum, petroleum products and related materials	47.4	1,393.1	81.9	2,804.4
Others n.e.s.	-	55.8	-	22.1
Animal and Vegetable Oils, Fats and Waxes	**15.6**	**912.9**	**22.6**	**503.2**
Animal oils and fats	-	46.7	-	35.3
Fixed vegetable oil and fats	-	837.4	-	436.1
Veg.fat,oil,wax etc.	15.6	28.8	22.6	31.8
Others n.e.s.	-	-		

COMMODITY GROUP/ PRINCIPAL COMMODITY

(Million US Dollar)

COMMODITY	1998-99 Exports	1998-99 Imports	1999-2000 Exports	1999-2000 Imports
Chemicals and Related Products n.s.	**49.3**	**1,832.7**	**106.7**	**1,997.2**
Organic Chemicals	3.4	468.5	16.6	593.9
Inorganic Chemicals	0.2	84.8	1.6	107.9
Dyeing, tanning and colouring materials	1.3	132.5	0.9	134.2
Medicinal and pharmaceutical products	31.5	263.9	40.6	259.4
Essential oils and perfume materials toilet, polishing and cleansing preparations	5.3	49.8	5.5	60.1
Fertilizers, manufactured	0.9	267.4	17.3	197.6
Chemical materials and products n.s.	4.7	250.2	4.8	311.1
Others n.e.s.	2.0	315.6	19.4	333.0
Manufactured Goods Classified Chiefly by Materials	**4,172.2**	**844.0**	**4,628.5**	**855.7**
Leather, leather manufactures, n.s. and dressed furskins	181.9	7.5	183.8	6.2
Rubber manufactures, n.s.	0.8	89.6	1.0	82.9
Cork and wood manufactures (excluding furniture)	1.8	9.0	2.3	10.0
Paper, paperboard, and articles of paper pulp of paper or of paperboard	0.7	114.9	1.0	117.5
Textile yarn, fabrics, made up articles n.s. and related products	3,944.7	101.8	4,383.7	114.3
Lime, cement and fabricated construction materials (except glass and clay materials)	0.7	2.5	1.5	3.1
Iron and steel	2.2	297.6	7.9	304.5
Non-ferrous metals	0.4	91.2	0.4	96.9
Manufactures of metals n.s.	27.4	82.2	31.0	65.2
Others n.e.s.	11.6	47.7	15.9	55.1
Machinery and Transport Equipment	**44.5**	**2,232.2**	**26.9**	**1,997.7**
Power generating machinery and equipment	0.3	239.1	0.4	141.7
Machinery specialized for particular industries	23.3	651.2	7.5	595.3
Metal working machinery	0.4	14.1	0.2	17.4
General industrial machinery and equipment n.s. and machine parts	4.4	346.8	7.0	224.7
Office machines and automatic data processing equipment	0.1	127.6	0.1	158.0
Telecommunications and sound recording and reproducing apparatus and equipment	0.1	153.4	0.1	141.5
Electrical machinery, apparatus and appliance, n.s. and electrical parts thereof (including non-electrical counter-part n.s. of electrical house hold type equipment)	8.3	150.3	6.5	155.0
Road vehicles (including air cushion vehicles)	4.3	317.3	4.1	345.5
Others n.e.s.	3.4	232.3	1.0	218.6
Miscellaneous Manufactured Articles	**2,230.8**	**238.8**	**2,550.7**	**263.1**
Furniture and parts thereof	3.8	1.7	5.3	1.5
Articles of apparel and clothing accessories	1,723.1	4.2	1,988.4	4.0
Footwear	35.0	2.4	37.2	2.7
Professional scientific and controlling instruments and apparatus n.s.	127.9	84.8	121.2	100.3
Photographic apparatus, equipment and supplies and optical goods, n.s., watches and clocks	0.6	41.1	0.6	43.9
Others n.e.s.	340.3	104.6	398.0	110.7
Commodities and Transactions not classified elsewhere	**12.1**	**311.7**	**15.0**	**291.8**

(Contd.)

9.7 EXPORTS AND IMPORTS BY

COMMODITY	2000-2001 Exports	2000-2001 Imports	2001-02 Exports	2001-02 Imports
GRAND TOTAL	**9,201.6**	**10,728.9**	**9,134.6**	**10,339.6**
Food and Live Animals Chiefly for Food	**913.5**	**901.3**	**947.3**	**525.2**
Live animals chiefly for Food	5.0	1.7	6.9	1.3
Milk and cream	3.1	10.8	0.6	7.1
Fish fresh, chilled, frozen	136.8	-	126.1	0.1
Wheat (including spelt) and meslin unmilled	11.5	15.0	71.0	49.7
Rice	527.9	-	447.8	0.6
Vegetables and fruit	118.7	194.0	116.0	220.1
Sugar and honey	48.2	393.5	75.6	28.5
Tea and mate	0.1	205.9	-	156.5
Spices	13.0	18.8	12.2	16.9
Feeding stuff for animals (not including unmilled cereals)	1.9	22.4	1.6	8.3
Others n.e.s.	47.3	39.3	89.5	36.2
Beverages and Tobacco	**10.1**	**3.0**	**5.8**	**2.8**
Beverages	-	2.9	1.1	2.2
Tobacco and tobacco manufactures	10.0	0.1	4.7	0.6
Others n.e.s.	-	-	-	-
Crude Materials, Inedible, Except Fuels	**283.7**	**635.9**	**152.1**	**847.8**
Hides, skins and furskins, raw	0.2	13.8	0.4	20.5
Oil seeds and oleaginous fruit	16.5	88.7	21.7	181.7
Crude rubber (including synthetic and reclaimed)	0.4	39.2	0.1	41.1
Cork and wood	-	15.7	-	14.7
Cotton	193.5	123.6	62.0	221.3
Synthetic fibres suitable for spinning	1.5	32.4	1.9	23.8
Wool and other animal hair (excluding wool tops)	1.3	11.9	1.4	10.2
Crude fertilizers and crude minerals (excluding coal, petroleum and precious stones)	8.8	30.6	7.7	28.7
Metalliferous ores and metal scrap	8.2	122.1	10.0	133.5
Crude animals and vegetable materials, n.s.	46.7	33.9	39.5	33.2
Others n.e.s.	6.5	124.1	7.5	139.3
Mineral Fuels, Lubricants and Related Materials	**185.5**	**3,395.3**	**191.6**	**2,869.0**
Coal coke and briquettes	0.2	44.1	0.1	57.5
Petroleum, petroleum products and related materials	185.4	3,347.3	191.5	2,809.5
Others n.e.s.	-	3.8	-	2.0
Animal and Vegetable Oils, Fats and Waxes	**19.3**	**432.3**	**12.2**	**474.1**
Animal oils and fats	-	25.3	-	26.9
Fixed vegetable oil and fats	0.1	377.3	-	411.1
Veg.fat,oil,wax etc.	19.3	29.7	12.2	36.1
Others n.e.s.	-	-	-	-

COMMODITY GROUP/ PRINCIPAL COMMODITY

(Concld.)

(Million US Dollar)

COMMODITY	2000-2001 Exports	2000-2001 Imports	2001-02 Exports	2001-02 Imports
Chemicals and Related Products n.s.	**159.6**	**1,903.9**	**152.4**	**1,871.0**
Organic Chemicals	64.1	652.8	60.3	600.5
Inorganic Chemicals	1.0	91.8	1.4	82.8
Dyeing, tanning and colouring materials	1.1	125.7	1.6	126.6
Medicinal and pharmaceutical products	38.8	239.0	38.8	227.7
Essential oils and perfume materials toilet, polishing and cleansing preparations	6.2	75.3	9.6	69.4
Fertilizers, manufactured	7.5	168.4	6.1	177.5
Chemical materials and products n.s.	7.8	195.9	7.3	234.6
Others n.e.s.	33.0	354.9	27.2	352.0
Manufactured Goods Classified Chiefly by Materials	**4,852.4**	**883.5**	**4,832.4**	**993.1**
Leather, leather manufactures, n.s. and dressed furskins	247.5	14.9	250.5	18.4
Rubber manufactures, n.s.	1.2	76.6	2.1	83.5
Cork and wood manufactures (excluding furniture)	3.2	9.3	3.4	8.9
Paper, paperboard, and articles of paper pulp of paper or of paperboard	1.8	126.4	2.1	136.7
Textile yam, fabrics, made up articles n.s. and related products	4,532.2	145.3	4,502.7	168.3
Lime, cement and fabricated construction materials (except glass and clay materials)	1.9	3.7	6.2	2.2
Iron and steel	8.3	279.0	9.8	336.7
Non-ferrous metals	0.4	102.1	0.9	110.0
Manufactures of metals n.s.	39.3	72.5	38.6	69.4
Others n.e.s.	16.5	53.8	16.2	59.0
Machinery and Transport Equipment	**44.2**	**2,073.4**	**51.0**	**2,201.9**
Power generating machinery and equipment	0.9	198.8	0.7	202.6
Machinery specialized for particular industries	14.7	689.6	12.2	707.7
Metal working machinery	0.5	19.6	0.7	15.3
General industrial machinery and equipment n.s. and machine parts	9.0	203.3	11.4	244.8
Office machines and automatic data processing equipment	0.3	233.1	0.8	224.3
Telecommunications and sound recording and reproducing apparatus and equipment	0.2	170.9	0.6	181.6
Electrical machinery, apparatus and appliance, n.s. and electrical parts thereof (including non-electrical counter-part n.s. of electrical house hold type equipment)	9.7	131.7	15.2	127.5
Road vehicles (including air cushion vehicles)	7.4	320.6	7.8	329.2
Others n.e.s.	1.5	105.8	1.6	168.7
Miscellaneous Manufactured Articles	**2,720.5**	**260.2**	**2,770.3**	**286.6**
Furniture and parts thereof	6.1	1.6	20.7	1.3
Articles of apparel and clothing accessories	2,150.1	5.3	2,097.9	5.6
Footwear	42.6	3.3	55.9	3.9
Professional scientific and controlling instruments and apparatus n.s.	130.6	84.9	146.0	83.1
Photographic apparatus, equipment and supplies and optical goods, n.s., watches and clocks	0.5	50.0	0.6	46.4
Others n.e.s.	390.7	115.3	449.2	146.3
Commodities and Transactions not classified elsewhere	**12.8**	**239.8**	**19.5**	**268.0**

Source: Federal Bureau of Statistics

9.8 EXPORTS AND IMPORTS BY

COUNTRY / TERRITORY	1998-99		1999-2000		2000-01		2001-02	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
GRAND TOTAL	**7,779.3**	**9,431.7**	**8,568.6**	**10,309.4**	**9,201.6**	**10,728.9**	**9,134.6**	**10,339.6**
A. North America	**1,855.8**	**793.3**	**2,306.8**	**724.8**	**2,428.7**	**646.9**	**2,432.6**	**763.5**
Canada	158.5	66.2	183.4	77.8	182.1	81.0	174.6	75.4
U.S.A.	1,696.8	726.9	2,123.1	646.5	2,245.6	565.5	2,257.5	687.9
North American, n.s.	0.6	0.2	0.3	0.5	1.1	0.4	0.5	0.3
B. Central America	**62.5**	**26.3**	**73.1**	**21.3**	**78.3**	**23.0**	**92.1**	**14.4**
C. South America	**97.4**	**199.6**	**99.1**	**106.6**	**112.9**	**170.4**	**78.2**	**68.9**
D. Western Europe	**2,391.7**	**2,076.9**	**2,502.0**	**2,004.2**	**2,474.0**	**1,827.2**	**2,555.2**	**1,934.4**
I. E.E.C.	**2,231.1**	**1,641.3**	**2,341.0**	**1,559.8**	**2,326.0**	**1,513.7**	**2,398.1**	**1,681.3**
Belgium	186.9	136.9	202.2	121.4	174.5	181.2	178.4	257.7
Denmark	42.5	15.5	40.3	17.3	37.0	21.8	35.0	21.1
France	248.0	179.7	282.7	224.8	265.8	146.7	246.7	132.6
Irish Republic	11.6	32.4	13.9	31.9	17.3	20.0	19.6	13.7
Italy	206.5	260.1	209.3	171.2	230.3	178.3	253.0	214.7
Spain	146.6	47.1	150.3	48.1	162.3	46.5	174.0	58.5
Netherlands	243.0	150.0	229.1	152.9	233.2	177.2	257.8	174.6
U.K.	516.0	410.8	579.5	355.7	576.1	350.2	659.1	356.8
Germany	513.6	390.2	512.7	423.3	495.0	382.4	452.1	439.7
E.E.C. , n.s.	116.4	18.6	121.0	13.2	134.5	9.3	122.4	12.0

(Contd.)

SELECTED COUNTRY/TERRITORY

(Million US Dollars)

COUNTRY / TERRITORY	1998-99		1999-2000		2000-01		2001-02	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
II. E.F.T.A. (Excluding U.K.)	**157.7**	**433.4**	**157.7**	**444.0**	**144.9**	**312.7**	**154.2**	**244.2**
Austria	17.9	12.8	17.5	19.5	18.2	13.1	27.3	16.9
Finland	16.0	13.0	15.7	13.6	15.0	14.6	17.6	20.1
Norway	30.3	4.8	27.4	10.7	25.5	3.8	26.6	4.1
Sweden	64.4	40.0	61.3	49.5	61.3	47.7	60.0	33.9
Switzerland	28.8	362.8	35.6	350.6	24.3	233.2	22.4	169.1
Others	0.2	-	0.2	0.1	0.6	0.3	0.3	0.1
III. Others (Excluding Turkey)	**2.9**	**2.1**	**3.3**	**0.4**	**3.1**	**0.8**	**2.8**	**9.0**
E. Eastern Europe	**81.4**	**184.9**	**74.4**	**186.2**	**79.1**	**138.9**	**87.5**	**155.8**
Czeck Republic	8.0	3.9	6.7	2.9	6.6	2.5	7.8	1.9
Hungary	9.4	8.3	8.3	6.9	8.0	6.0	10.9	5.8
Poland	7.0	16.4	8.4	15.1	7.6	11.8	18.9	9.7
Romania	2.7	5.4	2.5	7.8	3.2	6.9	3.0	16.5
Rep. of Azerbaijan	1.9	0.5	1.6	0.8	0.9	0.8	0.8	0.0
Rep. of Kazakhstan	12.7	0.3	7.9	0.6	9.7	0.5	8.6	0.3
Rep. of Tajikistan	4.3	1.2	1.8	0.5	2.0	0.6	1.6	0.0
Rep. of Turkmenistan	2.2	0.8	1.9	4.1	0.7	1.3	3.8	0.6
Rep. of Uzbikistan	12.0	63.9	10.0	25.2	10.0	5.3	5.2	5.4
Russian Federation	5.2	57.6	3.4	89.9	8.0	61.7	5.9	77.6
Eastern Europe, n.s.	16.0	26.4	21.9	32.4	22.4	41.5	21.1	38.1

(Contd.)

9.8 EXPORTS AND IMPORTS BY

COUNTRY / TERRITORY	1998-99		1999-2000		2000-01		2001-02	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
F. Middle East	**906.9**	**2,252.3**	**1,054.5**	**3,567.5**	**1,331.8**	**4,183.4**	**1,549.2**	**3,687.8**
I. Asian Countries	**854.1**	**2,214.4**	**1,006.8**	**3,528.8**	**1,277.2**	**4,144.4**	**1,486.3**	**3,635.5**
Bahrein	34.8	78.4	43.0	114.6	43.8	80.0	43.1	59.6
Cyprus	7.3	3.0	5.2	0.8	8.1	1.0	8.3	0.9
Iran	11.3	77.8	11.5	130.2	23.9	374.4	29.2	158.2
Iraq	9.6	-	2.3	-	16.3	0.2	30.3	0.2
Jordan	4.7	21.5	6.1	53.7	15.9	30.6	28.4	27.7
Kuwait	36.8	558.3	40.6	1,236.8	45.8	964.6	58.4	731.9
Lebanon	7.5	0.3	10.0	0.2	10.4	0.3	10.8	0.5
Sultanat-e-Oman	48.3	38.0	53.0	31.0	43.7	26.3	47.3	6.9
Turkey	35.1	131.9	61	106.6	100.5	47.6	98.3	34.8
Qatar	31.9	12.9	41.8	12.5	36.4	27.3	32.5	39.1
Republic of Yemen	16.3	2.7	18.9	1.9	27.3	2.8	35.3	6.5
Saudi Arabia	184.7	643.0	214.8	923.0	273.0	1259.2	330.4	1,200.7
Syria	2.9	8.8	5.6	10.0	5.9	1.8	5.4	13.4
U.A.E	422.8	634.6	493.0	907.6	626.1	1,328.1	727.3	1,354.6
Middle East, n.s.	-	3.3	-	-	0.3	0.1	1.4	0.3

(Contd.)

SELECTED COUNTRY/TERRITORY

(Concld.)

(Million US Dollars)

COUNTRY / TERRITORY	1998-99		1999-2000		2000-01		2001-02	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
II. African Countries	**52.8**	**38.0**	**47.7**	**38.7**	**54.5**	**39.0**	**62.9**	**52.3**
Libya	6.2	-	3.9	-	2.0	-	2.9	0.1
Somalia	3.4	3.2	2.4	0.3	2.7	0.8	2.8	0.8
Sudan	4.5	0.4	2.4	0.6	6.2	2.8	11.6	4.6
Egypt (U.A.R.)	35.3	30.5	35.4	36.9	40.9	29.9	38.7	33.2
African Countries, n.s.	3.4	3.8	3.6	0.9	2.8	5.4	6.9	13.6
G. Other Africa	**307.9**	**264.2**	**367.5**	**324.1**	**436.7**	**319.5**	**363.7**	**297.3**
H. Other Asia	**1,938.5**	**3,330.5**	**1,945.2**	**2,992.0**	**2,113.6**	**3,179.9**	**1,841.2**	**3,118.5**
Afghanistan	48.2	37.0	115.2	40.8	140.4	29.5	169.3	22.9
Bangladesh	119.4	32.3	120.4	29.5	133.4	33.5	101.1	27.7
China	148.9	395.3	180.3	471.6	303.2	528.9	228.6	575.2
Hong Kong	549.6	54.7	524.9	49.8	504.5	66.7	442.2	68.4
India	174.7	145.6	53.6	127.4	55.4	235.1	49.2	186.5
Indonesia	125.3	213.8	52.9	175.6	136.4	161.7	76.8	243.2
Japan	271.3	784.5	267.5	650.5	193.6	576.2	166.5	519.4
Malaysia	33.4	634.5	45.7	439.3	50.9	428.1	51.8	456.3
Singapore	41.7	325.5	48.9	267.1	48.2	325.3	45.0	322.5
South Korea	192.3	342.6	245.4	354.2	278.4	354.6	261.9	298.6
Sri Lanka (Ceylone)	91.9	32.3	96.6	34.6	75.3	35.4	72.1	28.5
Thailand	28.0	155.5	61.5	159.4	63.9	209.8	55.5	178.1
Asian countries, n.s.	113.1	176.9	132.3	192.2	129.3	195.1	121.2	191.1
I. Oceania	**137.1**	**303.7**	**146.0**	**382.7**	**146.5**	**239.8**	**134.7**	**298.9**
Australia	106.5	285.8	111.9	366.7	113.1	226.2	101.3	288.6
Newzealand	22.9	16.5	26.2	15.2	25.0	12.8	25.8	9.5
Pacific Islands, n.s.	7.7	1.4	7.9	0.8	8.4	0.8	7.5	0.8

Source: Federal Bureau of Statistics

9.9 TERMS OF TRADE AND

Exports and Imports

(1990-91

PERIOD	Terms of Trade	EXPORTS								
		All Groups	Food and live Animals	Beverages and Tobacco	Crude Materials inedible except Fuels	Mineral Fuels and Lubricants	Chemicals	Manu-factured Goods	Machinery and Trans-port Equipments	Misc. Manu-factured Articles
1997-98	**123.51**	**245.62**	203.20	143.35	186.45	176.62	257.86	267.89	227.85	246.64
1998-99	**115.71**	**258.40**	221.84	106.30	214.68	166.47	263.37	275.59	291.08	259.80
1999-2000	**97.97**	**253.77**	234.95	143.34	169.85	283.63	276.51	266.96	396.34	263.04
2000-01	**90.96**	**271.47**	249.32	171.44	192.12	373.65	282.36	279.04	453.20	292.47
2001-02 *	**90.83**	**271.18**	260.55	169.82	158.90	314.40	281.54	281.83	579.13	298.40
1998-99										
Jul.-Sep.	**126.44**	**257.17**	204.83	92.73	196.86	185.89	236.24	279.12	264.27	261.48
Oct.-Dec.	**114.01**	**258.61**	219.65	161.11	207.86	157.55	289.07	279.40	260.83	259.68
Jan.-Mar.	**111.62**	**254.31**	227.60	80.20	214.06	133.75	280.44	270.93	378.41	254.37
Apr.-Jun.	**112.05**	**263.52**	235.28	91.17	239.94	188.69	247.73	272.89	260.79	263.66
1999-2000										
Jul.-Sep.	**108.81**	**266.84**	241.41	85.33	221.25	235.46	272.29	275.43	177.52	267.15
Oct.-Dec.	**99.27**	**250.90**	233.39	173.93	145.83	282.17	300.19	270.39	505.98	257.83
Jan.-Mar.	**93.36**	**249.24**	228.64	150.53	148.86	309.99	262.99	265.44	526.06	259.84
Apr.-Jun.	**91.49**	**248.09**	236.34	163.58	163.46	306.88	270.56	256.57	375.79	267.34
2000-01										
Jul.-Sep.	**90.45**	**260.40**	247.97	190.00	167.62	392.29	258.43	266.08	424.52	286.03
Oct.-Dec.	**89.83**	**267.88**	249.97	138.33	193.25	370.00	278.88	273.14	352.81	291.14
Jan.-Mar.	**91.02**	**274.55**	239.75	142.65	204.73	350.76	277.80	284.00	472.19	293.97
Apr.-Jun.	**92.49**	**283.04**	259.60	214.77	202.87	381.55	314.35	292.92	563.26	298.75
2001-02										
Jul.-Sep.	**87.44**	**284.15**	274.29	160.80	191.48	370.40	284.07	295.48	578.84	298.47
Oct.-Dec.	**93.81**	**269.67**	252.08	187.56	157.76	280.98	284.90	281.56	383.22	300.57
Jan.-Mar.	**94.83**	**264.26**	256.79	173.25	142.93	276.65	271.82	275.27	661.58	295.39
Apr.-Jun*.	**87.95**	**266.62**	259.04	157.65	143.43	329.56	285.35	275.00	692.88	299.16

* Provisional

INDICES OF UNIT VALUE

By Groups

= 100)

IMPORTS										
All Groups	Food and live Animals	Beverages and Tobacco	Crude Materials inedible except Fuels	Mineral Fuels and Lubricants	Veg./ Animal Oils and Fats	Chemicals	Manu-factured Goods	Machinery and Trans-port Equipments	Misc. Manu-factured Articles	PERIOD
198.87	217.54	399.60	186.22	121.46	303.07	185.97	220.74	250.35	230.03	1997-98
223.32	225.64	561.35	198.56	108.55	326.86	196.20	226.26	355.79	240.08	1998-99
259.03	248.38	532.21	198.06	206.30	229.68	208.54	224.61	417.87	278.99	1999-00
298.44	278.82	698.92	218.95	276.87	195.10	228.06	251.50	470.20	323.03	2000-01
298.56	277.41	790.14	228.14	249.66	224.82	239.29	224.97	481.18	320.35	2001-02 *
										1998-99
203.39	212.96	578.75	204.16	106.02	325.99	193.09	222.33	263.61	230.27	Jul.-Sep.
226.84	226.09	681.31	202.23	99.13	348.67	194.83	242.00	375.60	198.07	Oct.-Dec.
227.84	227.72	571.80	197.65	97.29	345.85	194.09	220.83	392.36	243.15	Jan.-Mar.
235.19	235.77	413.54	190.21	131.76	286.94	202.77	219.89	391.57	288.82	Apr.-Jun.
										1999-2000
245.24	239.74	577.49	197.25	170.21	245.65	211.73	228.12	396.77	254.20	Jul.-Sep.
252.75	251.06	477.91	196.76	201.51	233.86	211.46	229.87	390.98	233.74	Oct.-Dec.
266.98	245.29	556.27	197.28	227.45	222.78	205.88	218.93	431.14	351.76	Jan.-Mar.
271.16	257.41	517.15	200.96	226.01	216.43	205.10	221.51	452.57	276.25	Apr.-Jun.
										2000-01
287.90	266.88	654.88	206.20	277.75	202.92	224.02	229.63	440.34	334.58	Jul.-Sep.
298.21	263.46	689.37	220.22	294.68	197.44	228.94	250.98	446.22	338.82	Oct.-Dec.
301.65	309.07	737.78	221.27	248.38	182.80	232.12	247.26	508.12	335.79	Jan.-Mar.
306.01	275.85	704.64	228.11	286.66	197.25	227.14	278.11	486.13	282.91	Apr.-Jun.
										2001-02
324.97	283.15	899.35	235.36	287.41	216.67	240.28	258.78	554.66	256.70	Jul.-Sep.
287.45	266.29	844.75	224.77	222.72	199.43	239.18	240.47	471.43	402.94	Oct.-Dec.
278.67	275.92	776.71	228.80	220.27	237.78	233.66	241.63	432.22	267.34	Jan.-Mar.
303.15	284.28	639.74	223.64	268.24	245.41	244.08	239.01	466.42	354.40	Apr.-Jun.*

9.10 QUANTUM INDEX NUMBER OF
(1990-91

PERIOD	EXPORTS								
	All Groups	Food and live Animals	Beverages and Tobacco	Crude Materials inedible except Fuels	Mineral Fuels and Lubricants	Chemicals	Manu-factured Goods	Machinery and Trans-port Equipments	Misc. Manu-factured Articles
1997-98	**118.91**	153.06	132.28	51.40	38.73	239.36	122.75	87.02	130.70
1998-99	**114.54**	146.74	28.89	40.37	71.15	230.62	117.84	107.51	124.52
1999-2000	**141.75**	156.08	33.94	67.14	68.97	364.06	151.96	292.69	144.38
2000-01	**152.15**	161.17	19.95	68.42	126.03	513.70	161.88	373.46	160.80
2001-02 *	**145.17**	144.73	42.41	48.49	142.30	396.66	160.01	880.78	150.78
1998-99									
Jul.-Sep.	**104.04**	105.36	20.09	26.61	70.34	239.31	107.50	70.46	132.00
Oct.-Dec.	**115.27**	150.43	23.84	23.27	35.04	223.21	120.77	97.22	134.42
Jan.-Mar.	**105.04**	176.64	28.88	24.00	97.91	247.90	160.13	86.96	106.33
Apr.-Jun.	**133.79**	154.52	42.75	87.48	81.30	212.00	136.94	175.39	125.21
1999-2000									
Jul.-Sep.	**133.24**	121.91	15.88	96.75	62.59	203.97	139.94	197.12	131.69
Oct.-Dec.	**141.38**	176.54	30.85	41.83	85.83	248.15	151.34	404.15	150.45
Jan.-Mar.	**139.49**	175.91	42.59	64.04	77.00	434.89	147.16	216.65	138.43
Apr.-Jun.	**152.89**	149.96	46.44	65.94	50.46	569.24	169.39	352.82	156.93
2000-01									
Jul.-Sep.	**142.92**	135.32	19.19	59.50	106.54	511.84	150.71	257.02	165.82
Oct.-Dec.	**150.75**	143.85	18.09	94.37	128.18	600.06	156.59	212.27	161.68
Jan.-Mar.	**152.88**	212.35	23.11	74.15	122.54	587.94	157.77	259.17	146.86
Apr.-Jun.	**162.05**	153.14	19.41	45.67	146.85	354.95	182.45	765.37	168.83
2001-02									
Jul.-Sep.	**125.87**	147.07	35.26	37.96	165.35	339.67	136.68	2,300.19	124.27
Oct.-Dec.	**146.13**	152.85	38.47	36.66	115.23	409.46	164.42	276.54	149.88
Jan.-Mar.	**141.59**	136.94	36.83	67.32	119.44	386.04	152.42	359.55	150.19
Apr.-Jun.*	**167.10**	142.07	59.08	52.01	169.16	451.47	186.51	586.85	178.79

* Provisional

EXPORTS AND IMPORTS BY GROUPS

= 100)

IMPORTS										
All Groups	Food and live Animals	Beverages and Tobacco	Crude Materials inedible except Fuels	Mineral Fuels and Lubricants	Veg / Animal Oils and Fats	Chemicals	Manu-factured Goods	Machinery and Trans-port Equipments	Misc. Manu-factured Articles	PERIOD
139.67	174.73	129.18	140.44	148.99	103.56	175.54	112.82	112.63	121.95	1997-98
154.85	156.55	141.74	207.84	172.01	131.00	194.49	110.71	149.53	121.45	1998-99
151.53	132.45	111.16	197.60	182.26	103.31	196.16	110.78	110.12	125.81	1999-00
172.72	191.30	60.58	211.03	194.43	113.69	197.42	123.63	156.86	134.52	2000-01
176.59	106.79	72.13	272.18	192.28	109.64	236.19	164.50	148.00	132.86	2001-02 *
										1998-99
147.03	135.48	111.05	168.84	164.98	119.49	189.61	103.51	252.27	113.35	Jul.-Sep.
146.01	149.62	92.30	130.59	170.97	141.81	200.40	103.19	98.65	127.98	Oct.-Dec.
143.59	169.62	241.74	178.10	152.87	127.21	161.01	107.69	122.73	106.08	Jan.-Mar.
182.75	171.48	121.87	353.82	199.21	135.48	226.95	128.45	124.47	138.40	Apr.-Jun.
										1998-99
159.20	93.49	64.67	346.85	169.11	108.50	213.23	115.61	115.96	120.72	Jul.-Sep.
148.77	147.35	63.21	168.60	179.92	94.22	194.53	102.77	110.91	115.44	Oct.-Dec.
142.89	180.50	107.92	122.37	175.60	105.94	170.03	105.48	101.37	120.44	Jan.-Mar.
155.24	108.44	208.83	152.57	204.40	104.57	202.84	119.25	112.22	146.64	Apr.-Jun.
										2000-01
157.77	175.39	62.66	186.66	195.49	107.80	196.40	111.52	106.25	117.74	Jul.-Sep.
173.68	241.23	48.54	247.02	187.90	105.00	197.02	110.83	149.49	157.97	Oct.-Dec.
183.81	192.09	53.36	222.97	190.05	121.59	188.33	135.54	207.68	136.00	Jan.-Mar.
175.60	156.49	77.74	187.48	204.27	120.37	207.94	136.63	164.03	126.35	Apr.-Jun.
										2001-02
177.38	87.78	68.48	270.05	189.33	101.04	269.34	151.18	152.94	121.16	Jul.-Sep.
164.70	146.37	67.55	233.43	174.70	113.37	212.99	144.78	131.74	134.90	Oct.-Dec.
171.24	102.45	45.30	289.24	187.82	112.94	195.94	183.03	142.53	140.08	Jan.-Mar.
193.05	90.56	107.18	295.98	217.26	111.20	266.50	179.01	164.78	135.31	Apr.-Jun.*

Source : Federal Bureau of Statistics

9.11 FOREIGN PRIVATE (UN-GUARANTEED) LOANS/CREDITS*
ECONOMIC GROUPWISE STOCK P OSITION

(Million US Dollar)

ECONOMIC GROUP	End Jun.	
	2001	2002 P
Power:	1,378.1	1,487.3
i) *IPP*	*1,348.3*	*1,460.9*
ii) *Others*	*29.8*	*26.2*
Cement	259.5	204.2
Fertilizers	199.0	176.8
Chemicals	172.1	112.5
Textiles	75.9	59.4
Communications*	53.2	27.6
Financial Business	46.6	33.3
Storage Facilities	23.7	20.7
Oil & Gas Explorations	14.4	6.9
Paper & Pulp	9.4	3.0
Petroleum Refining	8.7	5.8
Personal Services	6.1	3.6
Transport	5.8	-
Sugar	5.1	0.8
Construction	3.0	1.1
Others	54.1	31.4
TOTAL	**2,314.4**	**2,174.4**

* Excluding PIA (Hire/ Purchase)

9.12 NET INFLOW OF FOREIGN PRIVATE INVESTMENT

(Million US Dollar)

COUNTRY	1999-2000			2000-2001			2001-2002		
	Direct	Portfolio	Total	Direct	Portfolio	Total	Direct	Portfolio	Total
U.S.A.	166.9	- 20.0	146.9	92.7	- 37.8	54.9	326.4	- 1.7	324.7
U.K.	169.0	28.7	197.7	90.5	- 33.8	56.7	30.3	- 32.4	- 2.1
U.A.E.	5.7	25.2	30.9	5.2	- 10.9	- 5.7	21.5	- 4.2	17.3
Germany	10.5	-	10.5	15.5	-	15.5	11.2	-	11.2
France	1.6	0.2	1.8	0.7	-	0.7	- 6.9	0.3	- 6.6
Hong Kong	0.8	9.7	10.5	3.6	- 16.3	- 12.7	2.8	20.6	23.4
Italy	0.5	-	0.5	1.3	-	1.3	0.1	-	0.1
Japan	17.7	0.2	17.9	9.1	-	9.1	6.4	0.2	6.6
Saudi Arabia	28.6	- 5.9	22.7	56.6	- 1.7	54.9	1.3	0.1	1.4
Canada	0.2	-	0.2	0.1	0.5	0.6	3.5	2.7	6.2
Netherlands	10.7	9.4	20.1	4.8	- 1.3	3.5	- 5.1	- 0.8	- 5.9
Korea	9.3	-	9.3	3.7	-	3.7	0.4	-	0.4
Singapore	3.4	- 6.2	- 2.8	3.7	1.2	4.9	3.9	- 17.2	- 13.3
China	-	0.5	0.5	0.1	-	0.1	0.3	-	0.3
Australia	1.7	- 1.0	0.7	1.5	-	1.5	0.4	0.1	0.5
Switzerland	3.2	27.9	31.1	3.6	- 36.9	- 33.3	7.4	23.2	30.6
Others	40.1	4.8	44.9	29.7	- 3.4	26.3	80.8	- 1.0	79.8
TOTAL	**469.9**	**73.5**	**543.4**	**322.4**	**- 140.4**	**182.0**	**484.7**	**- 10.1**	**474.6**

Acronyms

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ACU	Asian Clearing Union
ADs	Authorized Dealers
ADB	Asian Development Bank
ADBP	Agricultural Development Bank of Pakistan
AED	Emirates Dhirum
ASEAN	Association of South East Asian Nations
BCO	Banking Companies' Ordinance
BMR	Balancing Modernization & Replacement
BMA	Bahrain Monetary Agency
BOC	Bank of China
BOD	Board Of Director
BPRD	Banking Policy Regulation Department
BSD	Banking and Supervision Department
C&F	Cost and Freight
CAA	Civil Aviation Authority
CBD	Central Bank Deposit
CBR	Central Board of Revenue
CBU	Completely Built Down Unit
CC	Currency in Circulation
CDNS	Central Directorate of National Saving
CDR	Currency Deposit Ratio
CED	Central Excise Duty
CEO	Chief Executive Officer
CIRC	Corporate and Industrial Restructuring Corporation
CIRR	Commercial Interest Reference Rate
CKD	Completely Knocked Down
CMC	Change Management Conference
CNG	Compressed Natural Gas
COT	Currency Over turn
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CRSU	Committee on Revival of Sick Units
CRWA	Currency to Risk Weighted Asset
CTFS	Commission for Transformation of Financial System
DAP	Di-Ammonium Phosphate
DBC	Dollar Bearer Certificate
DD	Demand Deposit
DFI	Development Finance Institution
DMB	Deposit Money Banks
DRMS	Debt Reduction and Management Strategy
DSCs	Defense Saving Certificates
DTL	Demand and Time Liabilities
EAD	Economic Affairs Division
EDL	External Debt and Liability
EFS	Export Finance Scheme
EOI	Expressions of Interest
EU	European Union
FAO	Food and Agriculture Organization
FBC	Federal Bank for Co-Operatives
FBS	Federal Bureau of Statistics
FCAs	Foreign Currency Accounts
FCBCs	Foreign Currency Bearer Certificates
FDI	Foreign Direct Investment
FE-13	Foreign Exchange Circular No. 13 dated 2nd June 1998
FE-25	Foreign Exchange Circular No. 25 dated 20th June 1998
FE-45	Foreign Exchange Circular No. 45 dated 11th August 1985
FEBC	Foreign Exchange Bearer Certificate
ECs	Exchange Companies
FEE	Foreign Exchange Earnings
FJFC	Fauji Jordan Fertilizer Company
FOB	Free on Board
FSC	Federal Shariat Court
FY	Financial/Fiscal Year
GDP	Gross Domestic Product
GER	Gross Enrollment Ratio
GNP	Gross National Product
GST	General Sales Tax
GW	Giga Watt
H1	First half of the Fiscal Year
H2	Second Half of the Fiscal Year
HBFC	House Building Finance Corporation
HIES	Household Income and Expenditure Survey
HIPC	Highly Indebted Poor Countries
HSS	Hajj Sponsorship Scheme
IBRD	International Bank for Reconstruction and Development
ICAP	Institute of Chartered Accountants, Pakistan
ICP	Investment Corporation of Pakistan
IDA	International Development Assisstance
IDB	Islamic Development Bank
IDBP	Industrial Development Bank Of Pakistan
IFIs	International financial Institutions
IFSB	Islamic Financial Services Board
IIFM	International Islamic Financial Market
IMF	International Monetary Fund

IMR	Infant Mortality Rate
IPO	Initial Public Offer
IPPs	Independent Power Producers
ISE	Islamabad Stock Exchange
JBIC	Japan Bank for International Cooperation
KESC	Karachi Electric Supply Corporation
KPT	Karachi Port Trust
KSE	Karachi Stock Exchange
KWA	Kuwait War Affectees
LCVs	Light Commercial Vehicles
ADBP	Agriculture Development Bank of Pakistan
LFS	Labor Force Survey
LIBOR	London Inter bank Offer Rate
LMC	Liquidity Management Center
LSE	Lahore Stock Exchange
LSM	Large Scale Manufacturing
MCB	Muslim Commercial Bank
MHCHD	Mahboob-ul-Haq Center for Human Development
MOF	Ministry of Finance
MOIP	Ministry of Industries & Production
MSCI	Morgan Stanley Capital International
NAB	National Accountability Bureau
NBP	National Bank of Pakistan
NCBs	Nationalized Commercial Bank
NDA	Net Domestic Asset
NDFC	National Development Finance Corporation
NDRP	National Debt Retirement Program
NFA	Net Foreign Asset
NFC	National Fertilizer Corporation
NFC	National Finance Commission
NHA	National Highway Authority
NIBAF	National Institute of Banking and Finance
NIM	Net Interest Margins
NIT	National Investment Trust
NPLs	Non Performing Loans
NPV	Net Present Value
NRPs	Non-Resident Pakistanis
NSE	National Stock Exchange (India)
NSS	National Savings Scheme
OCAC	Oil Companies Advisory Committee
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OECF	Overseas Economic Cooperation Fund
OGDCL	Oil and Gas Development Company Ltd
OMC	Oil Marketing Company
OMO	Open Market Operation
OPEC	Organization of Petroleum Exporting Countries
PARCO	Pak-Arab Oil Refinery Company
PAYE	Pay As You Earn
PC	Privatization Commission
PD	Primary Dealer
PIA	Pakistan International Airline
PIB	Pakistan Investment Bond
PICIC	Pakistan Industrial Credit and Investment Corporation
PKIC	Pak-Kuwait Investment Company
PLHC	Pak-Libya Holding Company
POL	Petroleum, Oil and Lubricants
POPI	Poverty of Opportunity Index
PPG	Public and Publicly Guaranteed
PR	Pakistan Railway
PRD	Previously Restructured Debt
PRGF	Poverty Reduction and Growth Facility
PS	Pakistan Steel
PSCEs	Public Sector Commercial Enterprises
PSEs	Public sector enterprises
PSO	Pakistan State Oil
PTC	Participation Term Certificate
PTCL	Pakistan Telecommunication Corporation Limited
PTMA	Pakistan Trade Maintenance Arrangement
QIM	Quantum Index of Manufacturing
REER	Real Effective Exchange Rate
RFCD	Residence Foreign Currency Deposit
RM	Reserve Money
ROA	Return on Asset
SAB	Shariat Appellate Bench
SBA	Stand-by Arrangement
SCS	Suppliers' Credit Scheme
SDR	Special Drawing Rights
SECP	Securities and Exchange Commission of Pakistan
SHMI	Survey of Small and Household Manufacturing Industries
SLR	Statutory Liquidity Requirement
SMEs	Small and Medium Enterprises
SNGPL	Sui Northern Gas Pipelines Limited
SOF	Saudi Oil Facility
SPI	Sensitive Price Indicator
SPIAIC	Saudi Pak Industrial and Agricultural Investment Company
SPS	Sanitary and Phytosanitary
SSGC	Sui Southern Gas Company

TEUS	Twenty Feet Equivalent Units
TCP	Trading Corporation of Pakistan
TCs	Travelers Cheques
TD	Time Deposit
TED	Total External Debt
TFC	Term Finance Certificate
TFR	Total Fertility Rate
TT	Telegraphic Transfers
UAE	United Arab Emirates
UBL	United Bank Limited
UAT	User Acceptance Test
WAN	Wide Area Network
WAPDA	Water and Power Development Authority
WPI	Wholesale Price Index
WTO	World Trade Organization

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The Research Team

Abdul Faheem	abdul.faheem@sbp.org.pk
Abid Qamar	abid.qamar@sbp.org.pk
Adil Mahboob	adil.mahboob@sbp.org.pk
Asma Khalid	asma.khalid@sbp.org.pk
Fida Hussain	fida.hussain@sbp.org.pk
Ghazi Rahman	ghazi.rahman@sbp.org.pk
Iffat Mustafa	iffat.mustafa@sbp.org.pk
Mahmood-ul-Hasan Khan	mahmood.khan@sbp.org.pk
Mansoor Ali	mansoor.ali@sbp.org.pk
Mazhar Hussain	mazhar.hussain@sbp.org.pk
Misbah Manzoor	misbah.manzoor@sbp.org.pk
Mohib Kamal Azmi	mohib.kamal@sbp.org.pk
Moinuddin	moinuddin@sbp.org.pk
Muhammad Amin Khan Lodhi	amin.lodhi@sbp.org.pk
Muhammad Ayub	ayub.chouhedry@sbp.org.pk
Muhammad Mazhar Khan	mazhar.khan@sbp.org.pk
Muhammad Mazherul-Haq	mazharul.haq@sbp.org.pk
Muhammad Waheed	muhammad.waheed@sbp.org.pk
Munir Ahmed	munir.ahmed@sbp.org.pk
Riaz Riazuddin	riaz.riazuddin@sbp.org.pk
Sadia Badar	sadia.badar@sbp.org.pk
Sadia Hafeez	sadia.hafeez@sbp.org.pk
Salman Ahmed	salman.ahmed@sbp.org.pk
Sardar Shah	sardar.shah@sbp.org.pk
Shahbaz Nasir	shahbaz.nasir@sbp.org.pk
Syed Muhammad Tariq	syed.tariq@sbp.org.pk
Syed Sajid Ali	sajid.ali@sbp.org.pk
Syeda Sabeena Batool Kazmi	sabina.kazmi@sbp.org.pk
Tasneem Alam	tasneem.alam@sbp.org.pk
Waheed Akram	waheed.akram@sbp.org.pk
Zulfiqar Hyder	zulfiqar.hyder@sbp.org.pk