CAPITAL MARKETS

Introduction

Capital markets are key elements of a modern, market-based economic system as they serve as the channel for flow of long term financial resources from the savers of capital to the borrowers of capital. Efficient capital markets are hence essential for economic growth and prosperity. With growing globalization of economies, the international capital markets are also becoming increasingly integrated. While such integration is positive for global economic growth, the downside risk is the contagion effect of financial crisis, especially if its origin lies in the bigger markets. The US sub-prime mortgage crisis, which started in 2007 and continues to persist in 2008, is an example of such contagion which has impacted capital markets all across the globe. With sub-prime mortgage related losses already running into several hundreds of billions of dollars, investors' risk aversion has increased sharply which has adversely impacted the global financial markets.

Pakistan's stock market has shown considerable immunity to the recent global turbulence and has been classified as one of the fastest growing markets in emerging economies. Local and foreign investors' confidence in the investment environment of Pakistan has boosted the index to peak highs in recent years. The Pakistan's benchmarked stock market index-the Karachi Stock Exchange- KSE-100 index has increased from 1,521 points on June 30, 2000 to 12,130.5 points on May 30, 2008 – a rise of over 10,610 points or an increase of 697.6 percent. Similarly Aggregate Market Capitalization (AMC) has increased from Rs 392 billion ($ 7.6 billion) on June 30, 2000 to Rs 3,746 billion ($ 56 billion) on May 30, 2008, showing a rise of over Rs 3,354 billion ($ 48.4 billion) or an increase of 855.6 percent. The listed capital at KSE has increased from Rs 236.4 billion in 2000 to Rs 690.1 billion in 2008 (as on March 31, 2008). Furthermore, Pakistan's debt market has improved in terms of depth, breadth and liquidity significantly as evidenced by regular Pakistan Investment Bond (PIB) auctions in the outgoing fiscal year, increase in the corporate debt issuance, continued focus on floating Sukuks and commitment on the part of the government in further reforming the capital markets, are some of the key steps to mention among many others.

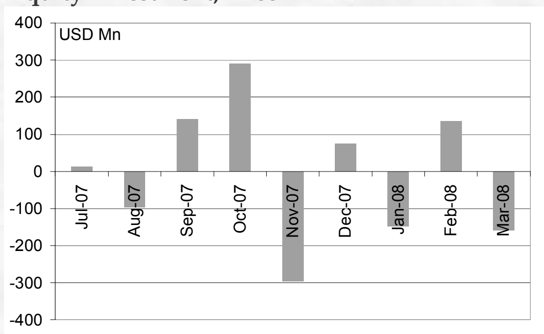
There were several contributing factors leading to booming conditions in the market. These included improvement in the country's economic fundamentals, stability in exchange rate, reduction in interest rates by banks, recovery of outstanding/over due loans, rescheduling of foreign debts and prepayment of the expensive foreign loans, regionally cheap valuation of the scrips, large scale mergers and acquisitions, improving relationship with the neighboring countries, successful GDR offerings and increase in Pakistan's coverage by large international brokerage firms and investment banks. The policies on privatization, liberalization and deregulation had encouraged private investments which also had a profound effect on the activity of the stock market. The biggest push to the market was caused by the interest shown by foreign investors with huge liquidity at their command. Corporate earnings, particularly in the banking and financial sectors, have been excellent, prompting foreign investors to extend their activities particularly in this sector.

Equity Capital Market

Pakistan's stock market showed considerable resilience at the back of robust economic growth. However, key macroeconomic indicators exhibited less than satisfactory performance as a result of rapid changes in the political landscape. A buoyant stock market can be attributed to the continuity of the macroeconomic policies of the government and capital market reforms implemented by the apex regulator, the Securities and Exchange Commission of Pakistan (SECP).

Difficult global and domestic conditions adversely impacted foreign portfolio investment into the local equity market. Foreign portfolio investment showed a net outflow of US$45 million during first nine months of the fiscal year 2007-08.

Fig-6.1: Foreign Inflow/Outflow of Equity Investment, FY08



The outgoing fiscal year 2007-2008 has witnessed large-scale merger and acquisition activity. Several key takeovers have taken place in Pakistan's corporate sector during the outgoing fiscal year. These include: (i) acquisition of 30 percent stake in Warid Telecom by SingTel, (ii) acquisition of 65 percent strategic stake and management control in Worldcall Telecom by OmanTel, (iii) 18 percent strategic stake in Uch Power by Creative Energy Resources Corporation, a Saudi company, (iv) sell-off of 68 percent shares in Saudi Pak Commercial Banks to an international consortium, consisting of Bank Muscat, IFC and Nomura European Investment Limited, for $ 163 million, (v) acquisition of 43 percent equity stake in Shakarganj Food Products Limited by KASB Capital Limited, (vi) acquisition of JS Finance Ltd & Sigma Leasing by BankIslami (BIPL), (vii) acquisition of an immediate 15 percent strategic stake in Muslim Commercial Bank (MCB) by Malaysia's largest financial institution, Maybank, with a right to increase its stake to 20 percent after one year, (viii) acquisition of 95 percent shares of ABN AMRO Bank worldwide by the Royal Bank of Scotland (RBS), (ix) Implementation Agreement between Pakistan and Abu Dhabi's International Petroleum Investment Company for setting up a $ 5 billion Khalifa Coastal Refinery at Gwadar which would double the refining capacity of the country. The Bank of Punjab (BoP) is currently in a process of doing due diligence of Punjab Provincial Cooperative Bank (PPCB) and expects to complete the process by June 2008. This acquisition will add 159 branches to the existing network of 271 branches. This M&A activity, which has taken place at very attractive valuations has provided support to valuation in the stock market. Peer group companies' stock prices have also reacted as a result of these acquisitions. The Initial Public Offerings (IPO's) of Habib Bank Limited (HBL) and Arif Habib Bank Limited both came in 1.5x and 5.8x oversubscribed, which is an encouraging development.

Although no large privatization has taken place in the fiscal year 2007-08, a privately held cement company, Lucky Cement, has raised US$ 109.3 million through selling its 15 million GDR to finance its expansion of 2.5mn tons per annum in the company's southern plant.

Global Stock Markets:

During the fiscal year 2007-08, the leading stock markets of the world observed low growth ranging from 0.4 percent (Singapore) to a negative 17 percent (Philippines). The global liquidity crunch coupled with rising commodity prices can be seen as the prime reasons for this bearish performance. The Karachi stock market showed modest performance as its index increased by a meager 3.7 percent in terms of local currency despite deterioration in domestic macroeconomic conditions and political upheaval, but slumped to 7.1 percent in terms of USD compared to 23.5 percent rise in the same period last year. Chief stock indices including US S&P 500, UK FTSE 100 and Japanese Nikkei 224 also recorded declines of 6.6 percent, 8 percent and 10 percent respectively during FY08. Emerging equities of

Hong Kong witnessed a healthy 15.4 percent return followed by India with 11.1 percent. *Table 6.1* provides a quick snapshot of the returns in terms of both domestic currency and USD for these markets.

Table 6.1: Global Stock Indices during June 30, 2007 to May 12, 2008

Sr. #	Country	Stock Name	Index (Local Currency)		Currency			Market Return	
			30 Jun'07	12 May'08	Exchange Rate	30 Jun'07	12 May'08	Local Currency	USD
1	Pakistan	KSE 100	13,772.46	14,286.61	PKR/USD	60.46	67.51	3.7%	-7.1%
2	India	Sensex 30	14,650.51	16,860.90	INR/USD	40.59	42.04	15.1%	11.1%
3	Indonesia	Jakarta Composite	2,139.28	2,378.00	IDR/USD	9,011.90	9,210.10	11.2%	8.8%
4	Taiwan	Taiwan Weighted	8,883.21	8,830.05	TWD/USD	32.74	30.81	-0.6%	5.6%
5	South Korea	Seoul Composite	1,743.60	1,842.80	KRW/USD	923.89	1,044.64	5.7%	-6.5%
6	Hong Kong	Hang Seng	21,772.73	25,063.17	HKD/USD	7.82	7.80	15.1%	15.4%
7	Malaysia	KLSE Composite	1,354.38	1,293.09	MYR/USD	3.45	3.21	-4.5%	2.5%
8	Japan	Nikkei 224	18,138.36	13,743.36	JPY/USD	123.39	103.84	-24.2%	-10.0%
9	Singapore	STRAIT TIMES	3,548.20	3,180.16	SGD/USD	1.53	1.37	-10.4%	0.4%
10	Sri Lanka	All Shares	2,572.20	2,631.73	LKR/USD	111.35	107.60	2.3%	5.9%
11	China	Shanghai Composite	3,820.70	3,626.98	CNY/USD	7.61	6.99	-5.1%	3.4%
12	Philippines	PSE Composite	3,665.23	2,803.49	PHP/USD	46.24	42.63	-23.5%	-17.0%
13	Australia	All Ordinaries	6,310.60	5,894.10	AUD/USD	1.18	1.06	-6.6%	4.1%
14	US	S & P 500	1,502.97	1,403.58	PKR/USD	1.00	1.00	-6.6%	-6.6%
15	UK	FTSE 100	6,607.90	6,220.60	GBP/USD	0.50	0.51	-5.9%	-8.0%
16	New Zealand	NZSE 50	4,234.29	3,637.83	NZD/USD	1.29	1.30	-14.1%	-14.3%

Source: Invisor Securities

Karachi Stock Exchange:

The Karachi Stock Exchange (KSE) is the biggest and most liquid exchange in Pakistan. The premier equity market is benchmarked through the KSE-100 index. The Karachi stock exchange broke a series of records to become the sixth best performer among the emerging markets in the calendar year 2007. As of March 31, 2008, 652 companies were listed having paid-up capital of Rs. 690.1 billion.

The KSE-100 index closed at 12,130.5 points on May 30, 2008, a decrease of 1,642 points or about 11.9 percent in comparison to end June index position of 13,772.5 points, after touching its all-time high of 15,676 points on April 18, 2008. On the other hand, the Aggregate Market Capitalization (AMC) settled to close at Rs. 3,746 billion ($ 56 billion), about Rs. 273 billion (a decline of $ 10.4 billion in terms of US$ due to currency depreciation) or 6.8 percent below the June month-end figure of Rs. 4,019 billion ($66.4 billion).

Figure 6.2 truly depicts the sharp volatility exhibited by the KSE-100 index during July-May 2007-2008 and identifies major political and economic events that have played an important role in setting the sentiments of investors-both positive and negative-in the local bourses. See *Figure 6.3* for assessing the trendy behavior of AMC during the period under review.

The outgoing fiscal year 2007-08 began with the Red Mosque incident in the early part of July, followed by the restoration of Chief Justice of Pakistan and confusion about imposition of emergency rule in the country. The stock market showed positive sentiments to the announcement of presidential elections and then re-election of President Musharraf on October 6. However, the market reacted against the incident of bomb blasts in the welcome procession of Ms. Benazir Bhutto on October 18.

Table 6.2: Leading Stock Market Indicators on KSE ***(KSE-100 Index: November 1991=1000)***

Months	2006-07			2007-08(July-April)		
	KSE Index (end month)	Market Capitalization (Rs billion) (end month)	Turnover of Shares (billion)	KSE Index (end month)	Market Capitalization (Rs billion) (end month)	Turnover of Shares (billion)
July	10,497.6	2,905.1	4.4	13,738.9	4,028.1	7.7
August	10,064.1	2,786.9	4.0	12,214.3	3,555.2	4.5
September	10,512.5	2,874.7	3.0	13,351.8	4,050.0	4.2
October	11,327.7	3,074.3	3.2	14,319.4	4,364.3	6.6
November	10,618.8	2,919.7	3.8	13,998.5	4,328.9	5.2
December	10,040.5	2,738.4	2.6	14,075.8	4,329.9	4.7
January	11,272.3	3,043.3	3.3	14,017.0	4,297.5	5.6
February	11,180.0	3,052.0	5.6	14,934.3	4,618.9	5.1
March	11,271.6	3,065.8	3.6	15,125.3	4,622.9	5.0
April	12,369.7	3,603.0	6.0	15,122.5	4,634.8	6.4
May	12,961.3	3,781.2	6.5	12,130.5	3,746.2	
June	13,772.5	4,019.4	8.1			

Source: KSE

The session on November 5 recorded a single day biggest slump of 636 points due to the imposition of emergency rule in the country. The suspension of Pakistan from the Commonwealth, Moody's downgrading of Pakistan's outlook from stable to negative and the uncertain political environment, led to a sharp fall in index in mid-November. Nevertheless, bulls took control of the Karachi stock market as emergency was lifted on December 16. The Karachi stock market, mourning Benazir Bhutto's assassination, saw its all-time biggest crash. Poor law and order situation together with massive rioting raised the fears of foreign capital flight. Bullish tendency once again returned on the back of improving law and order situation in the country due to announcement of polls date.

Meanwhile, the recovery in the international markets against emergency steps taken by FED of reducing interest rates was a significant factor that affected the stock exchange in a constructive way. Further, positive reports of foreign brokerage houses including Credit Suisse, JP Morgan and Merrill Lynch on Pakistan's capital markets gave an impetus to the market.

Country's stock market joined the jubilations of the winning political parties on their victory in general elections held on February 18, 2008 when it surged heavily on the back of expectations that a stable democratic dispensation will be in place with smooth transfer of power to the elected government. The index registered the heaviest single day gain of 443 points, which was attributed to the holding of free, fair and transparent polls sans major incident of violence and disturbance. Major reason of forward march of the market to post-election rally was witnessed on support of an unabated cycle of buying elation in the wake of strong result announcement session.

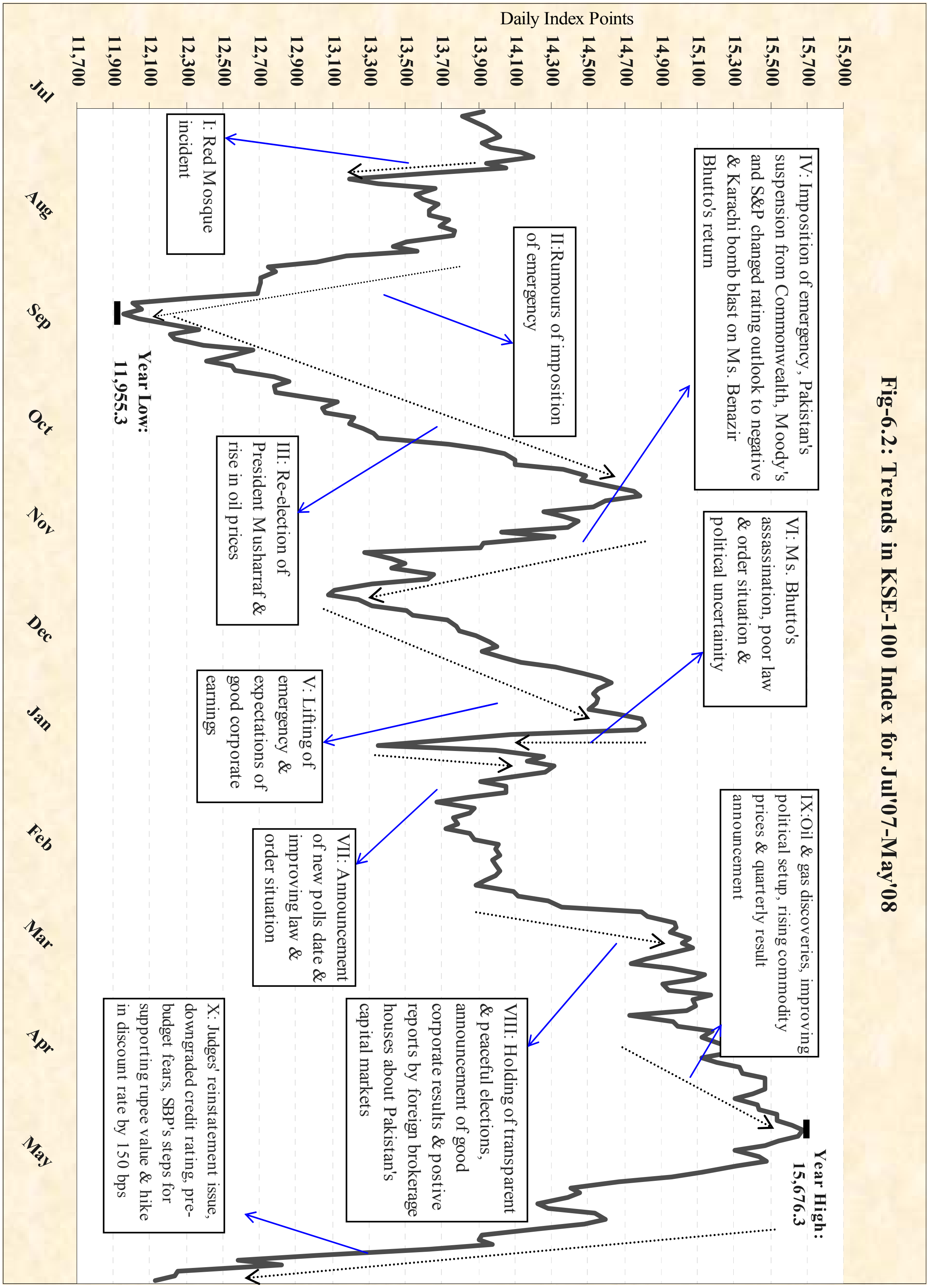
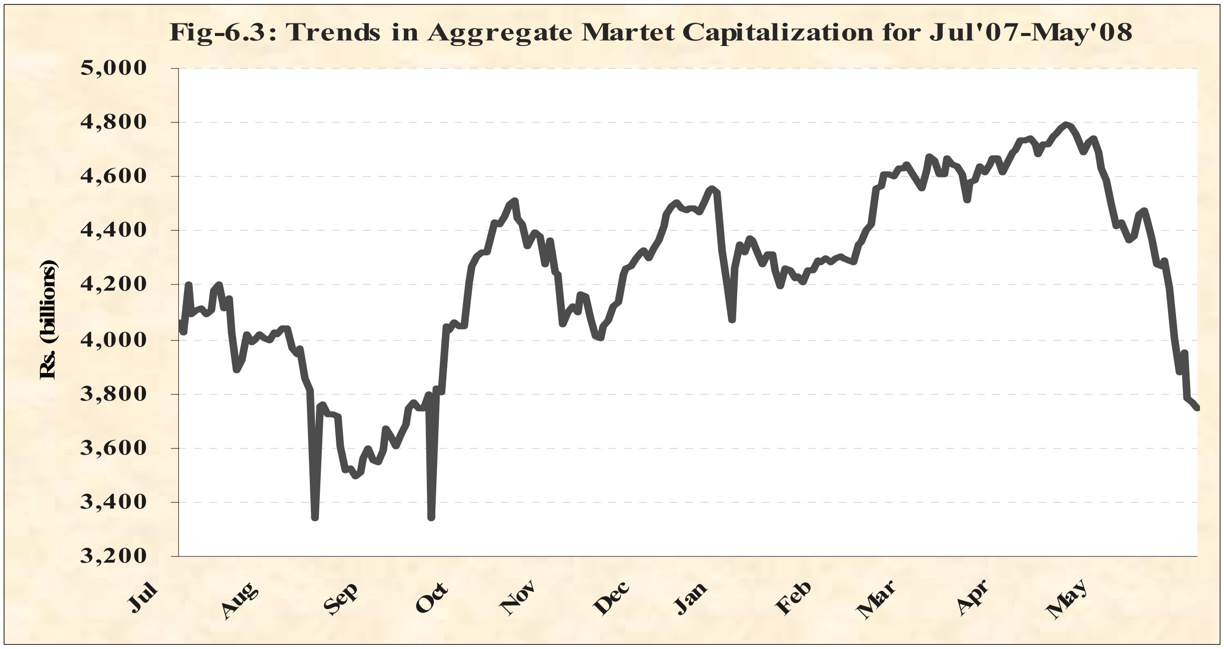


Fig-6.2: Trends in KSE-100 Index for Jul'07-May'08



The news of increase in stake by Pak Oilfields in TAL block and report about oil discovery by OGDCL at Moolan north well no 1 played role of catalysts in trading. International media acknowledged this excellent bullish run as Wall Street Journal reported about Pakistan becoming a cash magnet for investors. This award indicated great reputation earned by the leading stock exchange of the country among the international community. Healthy expectations about the earnings of different companies during quarterly result announcement season contributed a great deal support.

The KSE took a technical breather after undergoing a phase of uninterrupted record-breaking figures on April 21. Uncertainty about the outcome of judges' reinstatement issue and pre-budget reservations were held responsible for this lethargic performance. Additionally, the ending up of result season invited correction. Panic selling was witnessed by investors following the unveiling of SBP's decision to place curb on the flow of capital flight to support sagging rupee value. Moreover, the downgrading of credit rating of Pakistan by S&P's and Moody's dampened investor sentiments. KSE-100 index plunged by 615 points on May 23, the second highest single-day decline in the stock exchange history. Equities fell primarily due to an interest rate hike of 150 bps by SBP as well as a stipulation of minimum return on PLS accounts to 5 percent.

Table 6.3: Profile of Karachi Stock Exchange

	2004-05	2005-06	2006-07	2007-08 (Jul-Mar)
Number of Listed Companies	659	658	658	652
New Companies Listed	15	14	12	5
Fund Mobilized (Rs billion)	54.0	41.4	49.7	49.2
Listed Capital (Rs billion)	438.5	496.0	631.1	690.1
Turnover of Shares (billion)	88.3	104.7	68.8	56.9
Average Daily Turnover of Shares (million)	351.9	319.6	211	265.7
Aggregate Market Capitalization (Rs billion)	2068.2	2801.2	4019.4	4622.9

Source: KSE

Sector-wise Performance:

Extraordinary performance in the stock markets during the outgoing fiscal year was driven by some major sectors of the economy including fuel & energy, banks and other financial institutions, chemicals and pharmaceuticals and engineering. Performances of some of the major trading groups are discussed below:

Banks & Other Financial Institutions In 2007, a total of 168 companies were listed with the KSE, 67.86 percent (114 companies) of which showed reasonable profits amounting to Rs. 157 billion. There are six sub groups in this group namely: commercial banks, investment companies, leasing companies, modarabas, mutual funds and insurance. During the year, this group experienced modest growth. Its market capitalization increased by 26.5 percent but share index declined by 10.6 percent. The aggregate market capitalization stood at Rs. 1965 billion at the end of April 2008. A decline in the credit cycle, higher interest rates, and cautious lending stance given the experience with loan defaults in some sectors are primary reasons for the slowdown. However, even though non-performing loans may have increased, the credit quality is still much better than other regional countries with lower NPL ratio. Also, SBP's regulation relating to withdrawal of forced sales value and decreasing the time period for classifying personal loans and consumer loans as 'Loss' is likely to compel banks to be careful about loan extensions in the future and is going to help improve credit quality.

Fuel & Energy A total of 27 companies were listed with the KSE. It is one of the most dominant groups in the stock market due to rising demand from improved economic activity and increasing production due to higher exploration and development activity. Accordingly, its share index grew by 38.6 percent and its market capitalization increased by 15.6 percent or by Rs. 169.2 billion over the period of end June'07-end April'08. Its earnings are led largely due to inventory gains resulting from high international oil prices and hence, the sector registered strong rebounds. Fuel and energy sector continued to be one of the major market players along with engineering, chemicals and pharmaceuticals.

Transport & Communication At the end of 2007, there were 14 companies in this group listed with the KSE. Its share index and market capitalization decreased by 2 percent and 15 percent respectively during July-April 2007-08. Telecom remains a strong contender for investment in 2008. Sector deregulation and liberal policies have been successful in stimulating much foreign interest in telecom in the past four years and this trend is expected to continue moving forward. On the FDI side, telecom represented 35.6% share in FY07, the largest by far. However, negative sentiments prevailed in the sector primarily due to a large one off expense from a retirement scheme currently being pursued by PTCL.

Table 6.4: Sectoral Performance on Karachi Stock Exchange

Sr. No.	Sector	General Index (%)			Market Capitalization (%)			AMC (Rs billion)	
		2006-07	Jul-Apr		2006-07	Jul-Apr			
			2006-07	2007-08		2006-07	2007-08	2007*	2008*
1	Cotton and other Textiles	-3.2	-17.4	11.6	38.0	4.7	13.0	103.3	153.9
2	Chemicals & Pharmaceuticals	18.9	5.9	27.0	23.4	8.8	35.1	241.4	369.9
3	Engineering	49.8	16.3	48.4	65.9	32.6	52.1	15.0	28.6
4	Auto & Allied	29.7	13.3	-8.1	45.2	30.4	-2.0	92.0	100.5
5	Cables and Electrical Goods	18.2	-2.7	3.3	35.9	7.2	4.7	20.0	26.5
6	Sugar & Allied	3.0	-6.8	-11.4	12.3	-1.4	6.2	17.1	20.6
7	Paper & Board	27.7	2.7	14.9	48.3	10.3	19.5	24.0	38.6
8	Cement	11.0	-4.1	-17.8	24.4	-2.4	-0.2	129.9	156.6
9	Fuel & Energy	9.2	0.1	38.6	1.4	1.5	15.6	1098.2	1267.4
10	Transport & Communication	44.0	7.9	-2.0	35.8	16.9	-14.9	244.9	241.9
11	Banks & Financial Institutions	40.9	22.3	-10.6	117.3	87.7	26.5	1341.8	1965.1
12	Miscellaneous	7.5	-7.5	22.1	62.7	44.2	5.3	241.3	286.5
Change		**28.2**	**8.5**	**2.6**	**43.9**	**29.0**	**17.0**	**---**	**---**

**End April* *Source: SBP*

Cotton & Other Textiles In this group there are three sub-groups: (a) textile spinning, (b) textile weaving & composite, and (c) other textiles. There were 209 companies listed with the KSE under this group in December 2007. The share index of cotton and other textiles was up by 11.6 percent and its market capitalization by 13 percent during July-April 2007-08. The profit before taxes of this sector was also reduced to Rs. 8.2 billion in 2007 when compared to Rs. 9.3 billion in 2006.

Chemicals & Pharmaceuticals A total of 36 companies were listed with the KSE under this group at the end of December 2007. During July-April 2007-08 its share index has increased by 27 percent. Its market capitalization improved by Rs 128.5 billion during July-April 2007-08 and stood at Rs 370 billion on April 29, 2008. Its net income before taxes in 2007 has increased by almost half of the amount in 2006 due to tight-demand supply situation and rising fertilizer prices, boosting up margins.

Auto & Allied A total of 24 companies were listed with the KSE under this group at the end of December 2007. Its share index decreased by 8.1 percent, while its market capitalization decreased by 2 percent during the first ten months of the fiscal year 2007-08. Rising per capita income and easy financing facilities resulted in a boom in auto demand. However, recent sales statistics shows that the demand is gradually tapering off. Increase in the price of cars, rising interest rates and stringent credit policies adopted by banks in the wake of growing non-performing loans in this segment have all contributed to this slow down. However, the demand for cars has not tapered permanently since some of the slack has been picked up by higher sales of imported and used cars. However, this current slowdown is largely attributable to higher lending rates and a delay in investment decisions over FY08 due to an uncertain political climate.

Sugar & Allied A total of 37 companies of sugar and allied were listed with the KSE. During July-April 2007-08 share index of sugar and allied declined by 11.4 percent. Its market capitalization, however, showed a positive 6.2 percent during the period under review.

Cement At the end of 2007, there were 21 cement companies listed with the KSE. During the period under review, the performance of cement sector remained lackluster. Share index of cement declined by 17.8 percent during July-April 2007-08. Its market capitalization also declined by 0.2 percent in the outgoing fiscal year. 2007 was a year of cement industry expansions. As a result, supply has been enhanced, but depreciation and financial charges have increased. A high interest rate scenario has made the situation challenging for this highly leveraged sector.

Table 6.5: Companies Listed on KSE and their Before Tax Profits

Sr. #	Sector	No. of Companies		Profit Before Taxation (Rs billion)		Dividend Paying Companies		Profit Making Companies		Loss Making Companies	
		2006	2007	2006	2007	2006	2007	2006	2007	2006	2007
1	Cotton & other Textiles	212	209	9.3	8.2	60	51	114	90	59	81
2	Chemical & Pharmaceuticals	35	36	27.3	38.7	22	24	26	28	07	05
3	Engineering	13	14	1.6	2.3	09	09	10	09	00	01
4	Auto & Allied	25	24	17.2	13.7	16	10	20	17	02	04
5	Cables & Electric Goods	09	09	2.3	4.6	04	04	06	06	01	01
6	Sugar & Allied	37	37	1.6	-0.5	17	08	25	11	11	25
7	Paper & Board	10	10	7.2	5.4	05	06	08	08	01	01
8	Cement	21	21	17.1	4.6	12	06	16	12	05	09
9	Fuel & Energy	28	27	133.0	116.0	16	16	19	16	08	10
10	Transport & Comm.	14	14	21.5	13.2	05	05	08	07	03	05
11	Bank & Financial Institutions	162	168	122.5	156.9	91	91	111	114	28	29
12	Miscellaneous	85	84	15.9	19.6	37	37	44	45	25	23
	Total	**651**	**655**	**376.7**	**382.7**	**294**	**267**	**407**	**363**	**150**	**194**

Source: KSE

In December 2007, a total of 655 companies were listed on the Karachi Stock Exchange, including 209 companies in cotton and other textile, 168 in banks and financial institutions and 84 in miscellaneous group. As per the annual report of the KSE 2007, a total of 78 companies were de-listed and 83 companies were merged in the period of 2002-07. In the calendar year 2007, the number of dividend paying companies was 267 compared to 294 companies in 2006. In 2007, 363 companies were making profit and 194 companies were shown as loss making. The numbers were 407 and 150 respectively in 2006. All trading groups except banking, pharmaceuticals, engineering, cables and electrical goods showed a downward trend during the period under review. The total before taxation profit of the 12 trading groups, listed with the KSE, amounted to Rs 376.7 billion in 2006, which increased to Rs 382.7 billion in 2007, showing a modest gain of 1.6 percent. In the year 2007, the 12 trading groups were shown as profit making except sugar and allied industries ranging from Rs 2.3 billion (engineering) to Rs 157.0 billion, (banks & financial institutions). Banks and other financial institutions, fuel & energy, and chemicals & pharmaceutical group were among the most important players in the stock market. However, the results were not as healthy as compared to the previous year announcements. Fuel and energy earned a pre-taxation profit of Rs 116.0 billion in 2007 as compared to Rs 133.0 billion earned in 2006. Banks and other financial institutions with a pre-taxation profit of Rs 157 billion was the second largest profit-earning group in 2007 as compared to Rs 122.5 billion earned in 2006. The group-wise number of companies and their performance is given in *Table 6.5*.

Performance of Selected Blue Chips:

During the first three quarters of the fiscal year 2007-08, the combined paid-up capital of ten big companies (Oil & Gas Development Company Limited, Arif Habib Securities Ltd, Fauji Fertilizer Bin Qasim, National Bank of Pakistan, DG Khan Cement, Pakistan Petroleum Ltd, Bank of Punjab, Lucky Cement, Bosicor Pakistan Ltd and Bank Alfalah Ltd) was Rs. 91 billion, which constituted 13.17 percent of the total listed capital at KSE.

Table 6.6: Price Earning Ratio, July 2007 – March 2008

Company	Paid-up Capital (Rs billion)	Profit after Tax (Rs billion)	EPS	Price (Rs)	P/E Ratio
OGDCL	43.01	45.63	10.61	133.90	12.62
Arif Habib Securities Ltd	3.00	3.68	12.27	176.45	14.38
Fauji Fertilizer Ltd.	9.34	2.54	2.72	45.35	16.68
NBP	8.15	19.03	23.34	233.00	9.98
DG Khan Cement Co Ltd	2.54	1.62	6.40	113.00	17.66
PPL	7.54	16.77	22.23	261.05	11.74
Bank of Punjab Ltd.	4.23	4.45	10.51	66.35	6.31
Lucky Cement	2.63	2.55	9.67	139.75	14.45
Bosicor Pakistan Limited	3.92	(0.68)	(1.74)	18.15	-
Bank Alfalah Limited	6.50	3.13	4.82	54.05	11.22
Total/Average	**90.86**	**98.72**	**10.08**	**124.11**	**-**

Source: KSE

These ten companies earned a profit after taxation of Rs. 98.7 billion in the fiscal year up to March 2008. Out of total profit after tax, the share of OGDCL and NBP was Rs. 64.66 billion representing 65.5 percent of the ten big companies. For the period ending March 31, 2008, PPL's after-tax profit was Rs. 16.77 billion. Earnings per share of the top rated companies ranged from a negative 1.74 in the case of Bosicor to 23.34 in respect of NBP. This indicates that the business environment in the fiscal year 2007-08 has improved appreciably for the blue chip companies. (See *Table 6.6*)

Lahore Stock Exchange:

The leading market indicators witnessed mixed trends in Lahore Stock Exchange. The turnover of shares on the exchange during July-March 2007-08 was 5.4 billion. Total paid up capital with the LSE increased from Rs 491.4 billion in June 2007 to Rs. 645 billion in March 2008. The LSE index, which was 4,249.3 points in June 2007, increased to 4,695.8 points in March 2008. The market capitalization of the LSE has increased from Rs. 2,948.2 billion in June 2007 to Rs 4,129.8 billion in March 2008. Two new companies and nine open-ended funds were listed with the LSE during July-March 2007-08, as compared to eight companies in the fiscal year 2006-07. A profile of LSE is given in *Table 6.7*. Also see *Figure 6.4* for a graphical representation of the index performance.

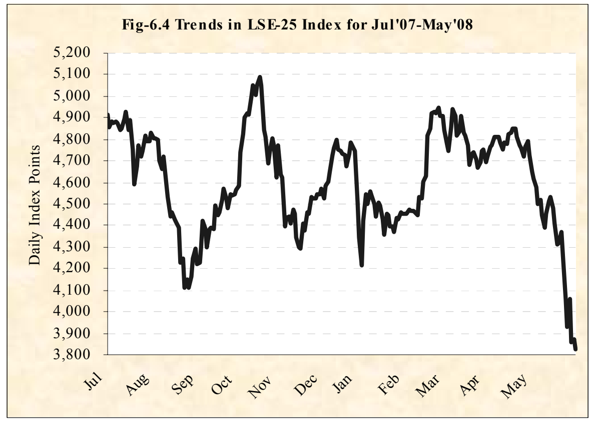


Fig-6.4 Trends in LSE-25 Index for Jul'07-May'08

Table 6.7: Profile of Lahore Stock Exchange

	2004-05	2005-06	2006-07	2007-08 (Jul-Mar)
Number of Listed Companies	524	518	520	514
New Companies Listed	5	6	8	2
Fund Mobilized (Rs billion)	42.1	24.5	38.8	28.1
Listed Capital (Rs billion)	403.0	469.5	491.4	644.6
Turnover of Shares (billion)	17.5	15.0	8.3	5.4
LSE Index*	3762.3	4379.3	4249.3	4695.8
Aggregate Market Capitalization (Rs billion)	1995.3	2693.3	2948.2	4129.8

**LSE launched the new LSE-25 index in December 2002* Source: LSE*

Islamabad Stock Exchange:

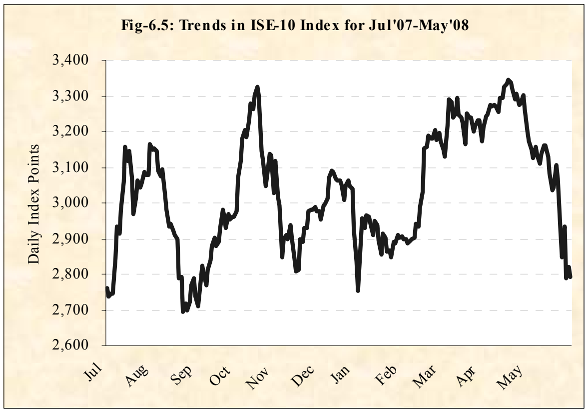
The Islamabad Stock Exchange also witnessed mixed trend during the first nine months of 2007-08. The ISE 10 index started at 2,568.8 points and ended at 3172.1 points depicting a healthy increase of 23.49 percent.

Table 6.8: Profile of Islamabad Stock Exchange

	2004-05	2005-06	2006-07	2007-08 (Jul-Mar)
Number of Listed Companies	232	240	246	247
New Companies Listed	5	2	7	3
Fund Mobilized (Rs billion)	27.6	5.2	30.7	28.1
Listed Capital (Rs billion)	337.3	374.5	389.7	526.3
Turnover of Shares (billion)	0.7	0.4	0.3	0.9
ISE Index	2432.6	2522.6	2568.8	3172.1
Aggregate Market Capitalization (Rs billion)	1558.4	2101.6	2247.6	3536.8

Source: ISE

The highest level of index was recorded at 3,344.8 as on April 17, 2008 compared to the lowest level of 2,693.2 as on August 23, 2007. The total turnover during this period was 0.9 billion shares. A profile of the ISE is given in *Table 6.8*. Also see *Figure 6.5* for analyzing the trend exhibited by the index during the period under review.



The total funds mobilized during July-March 2007-08 in the three stock exchanges (KSE, LSE & ISE) amounted to Rs 105.4 billion, as compared to Rs 119.2 billion in the last fiscal year. The total turnover of shares in the three stock exchanges during the same period was 63.2 billion, compared to 77.4 billion shares in the last fiscal year.

National Commodity Exchange Limited:

National Commodity Exchange Limited (NCEL) is the Pakistan's first electronic commodities futures exchange which commenced its operations in 2007. NCEL is a technology driven demutualized on-line commodity futures exchange which employs modern risk management techniques based on Value-at-Risk. NCEL plans to provide platform for market participants to trade commodity futures and in the first phase has started trades for three month gold future contracts. In addition to this, NCEL has formally started rice trading based on three-month future contracts. The Commission has also asked it to broaden its shareholder base by 46.82 percent as part of the Demutualization process being conducted by SECP.

Debt Capital Market

As compared to other emerging markets in Asia, Pakistan's debt market remains at infancy, in both relative and absolute terms. The slow growth of the domestic debt market can partially be attributed to its late start. The government established an auction-based market for T-bills in 1991, and long-term securities did not appear until 1992. The corporate debt market followed a few years later in 1995.

Government Securities:

Pakistan Investment Bonds (PIBs) are fixed rate government securities and provide a benchmark for debt capital market. The government is committed to provide sufficient supply of long term papers in the market to develop the longer end of the government debt yield curve. In this regard Debt Policy Coordination Office (Ministry of Finance) has put its efforts to educate the investor base especially the institutional investors to manage their balance sheets in a more innovative way by diverting resources from working capital needs towards investment.

In order to catalyze a vibrant market and develop secondary markets, the government conducted five PIBs auctions in FY07 and issued long term securities amounting to Rs.87 billion (including short-selling and non-competitive bids) while Rs.39 billion was matured, therefore a surplus issuance of Rs.48 billion. The government had also launched 30 years maturity PIB in December'06, the total outstanding stock till end of June'07 stood at Rs.16.10 billion.

For the fiscal year 2007-08, the government opted to remain close to its pre-set volumes and consistent supply of government securities was considered as an investment needed to develop the government bond market. This in turn, provided the benchmark yield curve that will form the foundation of the corporate bond market. The government has conducted six PIB auctions till March'08 and raised more than Rs.68.8 billion (including short-selling and non-competitive bids). Bids amounting to Rs.128 billion were received from the major market players. *Table 6.9* shows the acceptance against offers in FY 08.

A cursory look at *Table 6.9* depicts that first three auctions of the fiscal year 2007-08 were volume driven and market participated with huge amounts, showing the availability of ample liquidity in the financial system and investors preferred government avenues for risk free investment. However, the auction of November'07 was scrapped due to the higher rates demanded by the market and participation was also low due to cash flow management at year-end by banks. In addition, the 29th January'08 and 29th March'08 auctions were not close to the targets. Government is continuously conducting PIB auctions to ensure its commitment of developing capital market by providing supply of long term securities but banks are showing little interest in government securities since the second quarter of FY08. This probably reflected the expectations of further monetary tightening and consequent interest rate hike, strong seasonal demand from private sector credit (as well as attractive returns on private sector loans) and lower growth of non-government deposits.

In the first quarter, only one auction was conducted in the month of August in which Rs.15 billion was raised against the target of Rs.15 billion. While in the second quarter, three auctions were held in which Rs.32 billion was mopped up from market against the target of Rs.45 billion. In the third quarter, only Rs.16.31 billion was raised in two auctions (held in the months of January and March) for a target of Rs.40 billion (See *Fig 6.6*).

Table 6.9: PIB Auction Results, July-March 2007-08

Month	(1) Tenor	(Rs. billion)				(percent)	
		(2) Target	(3) Offered Amount	(4) Accepted Amount	Variance 4-2	Cut-off Yields	W. Avg Yields
21st Aug'07	3-Years	3.00	2.75	1.05		9.6881	9.6725
	5-Years	4.00	5.84	4.19		9.8916	9.8571
	10-Years	3.50	10.15	3.80		10.3509	10.3371
	15-Years	1.50	0.90	0.50		11.1494	11.1080
	20-Years	1.50	3.00	1.80		11.4016	11.3730
	30- Years	1.50	4.80	4.20		11.6802	11.6184
Total		**15.00**	**27.44**	**15.54**	**0.54**		
9th Oct'07	3-Years	3.00	3.18	0.86		9.6211	9.6185
	5-Years	3.00	7.48	3.03		9.8024	9.7958
	10-Years	3.00	18.10	5.68		10.1897	10.1791
	15-Years	2.00	2.52	2.02		11.1494	11.1026
	20-Years	2.00	2.00	2.00		11.4103	11.3753
	30- Years	2.00	4.00	2.00		11.6142	11.5880
Total		**15.00**	**37.28**	**15.58**	**0.58**		
30th Oct'07	3-Years	1.50	2.43	1.83		9.6495	9.6344
	5-Years	1.50	3.20	1.60		9.8221	9.8140
	10-Years	4.00	11.52	7.22		10.2195	10.1961
	15-Years	4.00	3.63	2.93		11.1597	11.1428
	20-Years	2.00	0.55	0.50		11.4132	11.4057
	30- Years	2.00	1.00	1.00		11.6151	11.6132
Total		**15.00**	**22.32**	**15.07**	**0.07**		
29th Nov'07	3-Years	1.50	0.78	Scrapped			
	5-Years	1.50	1.32	Scrapped			
	10-Years	4.00	5.70	Scrapped			
	15-Years	4.00	1.28	Scrapped			
	20-Years	2.00	No Bids	Scrapped			
	30- Years	2.00	2.00	2.00		11.6198	11.6176
Total		**15.00**	**11.07**	**2.00**	**-13.00**		
29th Jan'08	3 Years	2.50	0.20	0.05		10.0499	10.0499
	5 Years	2.50	0.81	0.45		10.2486	10.2346
	10 Years	5.00	5.40	4.05		10.8503	10.7763
	15 Years	5.00	2.45	1.70		11.7452	11.6115
	20 Years	2.50	3.00	2.60		11.9493	11.8355
	30 Years	2.50	4.80	2.60		12.1105	12.05
Total		**20.00**	**16.66**	**11.45**	**-8.55**		
29th Mar'08	3 Years	2.50	0.50	0.05		10.6044	10.6044
	5 Years	2.50	1.00	0.05		10.7995	10.7995
	10 Years	5.00	6.10	0.55		11.4494	11.4339
	15 Years	5.00	1.14	0.46		11.9893	11.8681
	20 Years	2.50	1.00	0.95		12.1296	11.9983
	30 Years	2.50	3.00	2.80		12.4938	12.2392
Total		**20.00**	**12.74**	**4.86**	**-15.14**		
Grand total		**100.00**	**127.51**	**64.50**	**-35.50**		

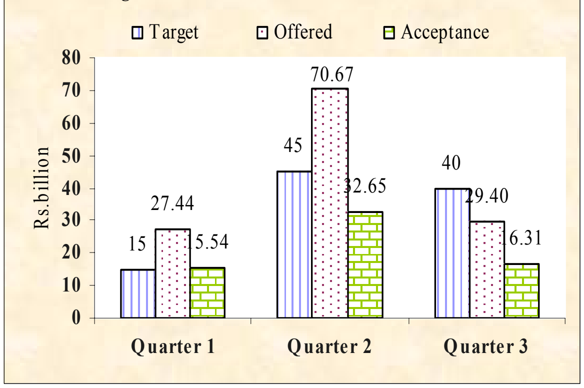


Fig-6.6: Quarter-wise PIB Auction Overview

A cursory look at the maturity profile of PIBs depicts that approximately Rs.14.5 billion is owed to be paid in the fiscal year 2007-08.The major portion of this amount had matured in first quarter while Rs. 3 billion would be matured in the last quarter of FY 08. It is worth mentioning here that the government had started the issuance of PIBs in December 2000 that is why only 3 & 5 years PIBs are seen on the repayment schedule. *Table 6.10* provides the break-up of maturities in each quarter.

The discount rate increase is a regulatory move and is a signal to the market that the economy is in an interest rate hike cycle. The SBP had raised the discount rate by 50 bps in the H1-Monetary Policy Statement 2007-08. As a result of this hike, cut off rates of government securities increased in the range of 9 to 37 bps in the first quarter while in the second quarter, there was a mixed trend of increase and decrease in the rates of different government securities.

Table 6.10: Maturity Profile of PIBs 2007-08 (Rs million)

	3-Years	5-Years	Total
July		3,894.20	
August	50.00	-	
September		4,279.60	
Quarter 1 Total	**50.00**	**8,173.80**	**8,223.80**
October	-		
November		-	
December		1,977.00	
Quarter 2 Total	**-**	**1,977.00**	**1,977.00**
January		-	
February		-	
March	50.00	1,100.00	
Quarter 3 Total	**50.00**	**1,100.00**	**1,150.00**
April	-	-	
May		-	
June		3,118.50	
Quarter 4 Total	**-**	**3,118.50**	**3,118.50**
Grand Total	**100.00**	**14,369.30**	**14,469.30**

Source: SBP

Table 6.11: Interest Rate Structure, FY 2007-08

	1st Jul'07 (%)	30th Sep'07 (%)	Variance (Sep-Jul) bps	31st Dec'07 (%)	Variance (Dec-Sep) bps	31st Mar'08 (%)	Variance (Mar-Dec) bps	Variance (Mar-Jul) bps
3-Years	9.32	9.69	**37**	9.65	**-4**	10.60	**95**	**128**
5-Years	9.55	9.89	**34**	9.82	**-7**	10.80	**98**	**125**
10-Years	10.12	10.35	**23**	10.22	**-13**	11.45	**123**	**133**
15-Years	10.99	11.15	**16**	11.16	**1**	11.99	**83**	**100**
20-Years	11.20	11.40	**20**	11.41	**1**	12.13	**72**	**93**
30-Years	11.59	11.68	**9**	11.62	**-6**	12.49	**87**	**90**

Rates of 3,5,10 and 30 years papers had decreased in the range of 1 to 13 bps while 15 and 20 years papers recorded an increasing trend in rates by 1 bps. In the third quarter, SBP raised the discount rate by another 50 bps increase, and this hike shifted the yield curve in upward direction by 72 to 123 bps in various maturities. The last column of *Table 6.11* clearly indicates the perception of shorter-end interest rate volatility as the yields on 3, 5 & 10 years PIBs have shown a jump in the range of 125-133 bps when compared to July yields of same tenors. On the other hand, the range oscillated between 90-100 bps for the rest of the maturities.

Distribution of government securities takes place through a network of nine Primary Dealers (PDs), including eight commercial banks and an investment company, who enjoy exclusive access to auctions of government securities. PD has to be a "PRICE MAKER", quoting two-way price reflective of market sentiment and keeping trading window open throughout the day with active trading in all marketable government securities. However, the PD system is largely skewed towards the banking sector, thus hindering the development of longer-term benchmark yield curve. This, in turn, results in recognizing the need to add more PDs by including the non-bank market.

National Savings Schemes:

The National Savings Schemes (NSS) is run by the Central Directorate of National Savings (CDNS), an attached department of the Finance Division, which is responsible for the sale of NSS products to the public through a network of 368 branches across the country. The instruments that fall under the general umbrella of the NSS are long-term government papers, which benefit from both high yields and an implicit put option, whereby the investor is able to resell before maturity without incurring penalties. As of March 31, 2008, the total outstanding balance of NSS instruments was Rs. 1139 billion, equivalent to 37 percent of total domestic debt, a number that exhibited a rising trend, attributable to the government's decision to re-allow institutional investors to invest in these instruments, from which they had been barred in the year 2000. During the fiscal year 2006-07, net deposits with NSS increased by Rs 67.6 billion as compared to a minute net increase of Rs 8.8 billion in 2005-06. In 2006-07 modest retirements were made in the case of Regular Income Certificates (Rs 17 billion) and Defence Savings Certificates (Rs 5.8 billion). Net accruals on the other hand increased in respect of Bahbood Savings Certificates (Rs 47.2 billion), Pensioners' Benefit Accounts (Rs 11.5 billion), Savings Accounts (Rs 9.2 billion) and National Prize Bonds (Rs 9 billion). (See *Table 6.12*)

Table 6.12: Net Accruals by National Savings Schemes (Rs billion)

	2003-04	2004-05	2005-06	2006-07	July-March	
					2006-07	2007-08
1. Defence Savings Certificates	3.2	-8.7	-7.6	-5.8	-4.5	0.4
2. Special Savings Certificates (Registered)	-13.2	-83.3	-57.7	7.0	3.7	12.1
3. Savings Accounts	-0.7	-2.9	0.2	9.2	1.8	-4.2
4. Special Savings Accounts	2.9	-1.9	-0.7	6.5	3.2	3.5
5. Regular Income Certificates	-49.1	-40.7	-15.6	-17.0	-12.4	-0.9
6. Pensioner's Benefit Accounts	13.2	17.7	16.4	11.5	9.4	15.0
7. Bahbood Savings Certificates	22.7	60.7	59.6	47.2	38.8	32.8
8. National Prize Bonds	22.8	9.4	3.3	9.0	4.6	8.7
9. Postal Life Insurance	8.7	10.3	10.8	-	-	-
Grand Total	**10.6**	**-39.4**	**8.8**	**67.6**	**44.6**	**67.4**

Source: CDNS

Retail investors are showing a bulk of interest in the three schemes currently pursued by the Directorate namely Special Savings Certificates, Pensioners' Benefit Account and Bahbood Savings Certificates mainly due to the bi-annual nature of coupon payments on these instruments, hence making them a short term facility as well. Net accruals of Special Savings Certificates increased substantially by Rs 12.1 billion during July-March 2007-08 as against a minute rise of Rs 3.7 billion in the same period last year. Similarly, Pensioners' Benefit Accounts and Bahbood Savings Certificates attracted Rs. 15 billion and Rs. 32.8 billion respectively on net accrual basis during the same period. These three instruments attracted almost Rs. 60 billion during July-March 2007-08, constituting about 89 percent of the total investment of Rs. 67.4 billion.

Table 6.13: Nominal and Real Deposit Rates on Savings Schemes during 2004-2008 (percent)

Scheme (Maturity)	2004-05		2005-06		2006-07		2007-08	
	Nominal Rate (p.a.)	Real Rate	Nominal Rate (p.a.)	Real Rate	Nominal Rate (p.a.)	Real Rate	Nominal Rate (p.a.)	Real Rate
1. Defence Savings Certificates	8.15	-1.15	9.46	1.56	10.03	2.23	10.15	0.65
2. Special Savings Certificate (R)	6.95	-2.35	8.6	0.7	9.34	1.54	9.25	-0.25
3. Regular Income Certificates	6.84	-2.46	8.88	0.98	9.24	1.44	9.54	0.04
4. Mahana Amdani Accounts	10.41	1.11	10.41	2.51	10.41	2.61	10.41	0.91
5. Savings Accounts	4	-5.3	5	-2.9	6	-1.8	6.5	-3
6. Pensioners' Benefit Accounts	10.08	0.78	11.04	3.14	11.52	3.72	11.64	2.14
7. Bahbood Savings Certificates	10.08	0.78	11.04	3.14	11.52	3.72	11.64	2.14
8. National Prize Bonds	5	-4.3	5	-2.9	6.5	-1.3	6.5	-3
Weighted Average	**7.29**	**-2.01**	**8.69**	**0.79**	**9.55**	**1.75**	**9.71**	**0.21**

Source: CDNS

**Average inflation was 9.3% during 2004-05; 7.9% during 2005-06 and 7.8% during 2006-07, 9.5% during Jul-Mar 2007-08*

Keeping in view the trend of rising interest rates, the Government of Pakistan has raised the nominal rates of return on most of the savings schemes during the outgoing fiscal year. In case of Special Savings Certificates, it has been decreased from 9.34 percent last year to 9.25 percent this year. Nominal rate on Defence Savings Certificates has been increased from 10.03 percent last year to 10.15 percent this year while nominal returns on Bahbood Savings Certificates and Pensioners' Benefit Accounts are raised from 11.52 percent to 11.64 percent. As a result of these increases, real deposit rates became positive for all schemes except Special Savings Certificates, Savings Accounts and Prize Bonds (See *Table 6.13*). During 2006-07 and 2007-08 weighted average real deposit rate remained positive indicating that investors in the NSS are getting modest returns on their investment. The presence of NSS instruments, while useful for accessing retail sources of funding, goes to the detriment of government debt management, as it provides an on tap source of financing over which the government has no effective control.

Corporate Bonds:

The size of the corporate debt market in a country can signify the extent of debt market development. In addition to being indicative of the general debt market development of a country, corporate debt markets are vital for a strong financial system of an economy as they strengthen and diversify the funding channels for economic growth. This market could act as a buffer in the face of sudden interruptions in bank credit or international capital flows. Accordingly, the meager size of Pakistan's corporate debt issues reflects the underdevelopment of the country's corporate bond markets.

The key obstacle to the development of the corporate debt market was the competition for long term funds from the government's NSS instruments. TFC issuance was further discouraged by the relatively high issuance and taxation costs. Not surprisingly therefore, the interest in the corporate debt market revived only in the wake of reforms aimed at removing these anomalies. Specifically, the yields on NSS instruments were first reduced, and then pegged (loosely) to the yields on the government's market-based long term bonds. Moreover, from March 2000, institutional investors were barred from incremental investment in NSS. Similarly, the TFC issuance and listing costs were reduced through efforts of SECP and KSE, as well as a reduction in withholding tax rates and stamp duties on these instruments. These developments provided an enabling environment for the accelerated growth of domestic debt market in subsequent years.

Table 6.14: Overall Composition of Listed TFCs, FY01-FY08

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08
Total Issued	**11**	**17**	**21**	**6**	**10**	**8**	**9**	**5**
Fixed	7	4	0	0	3	0	0	0
Floating	4	13	21	6	7	8	9	5
Anchored to Disc. rate	3	8	13	3	0	0	0	0
Anchored to PIBs	1	5	8	2	0	0	0	0
Anchored to KIBOR	0	0	0	0	7	8	9	5
Anchored to Profits	0	0	0	1	0	0	0	0

Source: SBP & KSE

The growth of corporate debt market is clearly evident in FY01 and onwards, especially during FY01-FY03, when 49 new issues were launched in the market. As a result, the outstanding listed TFCs reached to Rs 29.6 billion by the end of FY03, up from only Rs 3.8 billion in FY00. In FY04, only 6 TFCs of total worth Rs 3.3 billion were issued. This is due to the availability of easier and cheaper finance from commercial banks, increasing the opportunity cost of fund raised through corporate debt securities. While the corporate debt market saw a small revival in FY05, this was principally caused by the SBP's regulation that enabled commercial banks to enhance their paid-up capital by issuing TFCs as well as rising expectation of a monetary tightening. Indeed, of the twelve new listings in FY05, seven were launched by commercial banks. During FY06, while eight new issuances were made, commercial banks issued another three TFCs. The corporate debt market has also seen new floatation in FY07 amounting to Rs 14.2 billion. Both, the number of issues and the amount mobilized during FY07 were higher compared to the preceding year. Further, most of the floatations during FY07 were related to the financial sector. By far, five TFCs of Orix Leasing, Engro Chemical, Faysal Bank, Pakarab Fertilizers and NIB Bank have been listed on KSE in 2007-08.

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. 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.

Table 6.15: Sukuk Issuances in Pakistan (Rs billion)

Name of Issuer	Issue
WAPDA Sukuk - I	8
WAPDA Sukuk - II	8
Sitara Chemical Industry	1.7
Sui Southern Gas Company	1
Karachi Shipyard & Eng, Works	3.5

Source: Islamic Banking Department, SBP

In line with the Islamic financial practices, corporates have shown considerable interest in issuing Sukuks as a tool to diversify their balance sheets and to tap the huge potential lying within the Islamic financial institutions. WAPDA issued its Sukuk bond on November 28, 2005, the first in the corporate sector. The WAPDA bonds were issued for a tenor of 7 years and were allowed to trade in the secondary markets. The six month KIBOR with a positive spread of 35 basis points has been used as the reference rate to compute the return. By far, Sukuks amounting to Rs. 22.2 billion have been issued in the market.

Nevertheless, the TFC market is growing at a steady pace with yet more corporate issues to emerge preferably by banks & financial institutions. However, a strong need is still felt on the part of non-bank issuers to join the corporate debt market.

Derivative Market:

Derivative products help corporates hedge against future interest rate moves, and allow for the opportunistic issuance and rebalancing of debt requirement. Derivative market, which is an important pillar for effective risk management, though still in its immaturity, has taken off. At present, interest rate swaps and forward rate agreements are allowed in Pak rupee and other currencies after SBP's approval. Currently five banks have been given the status of authorized derivative dealers by SBP. These new products will add sophistication to the markets and attract new investors in addition to providing hedging tools for existing investors.

Investor Base:

One of the major risks to financial stability is the overall lack of financial sector diversification in the country. Of the total financial sector assets, insurance companies and mutual funds account for three percent and are largely sponsored by banks, while other non-bank financial companies accounted for two percent of the system.

Non-Banking Finance Companies, an integral part of the financial markets, serve as an important source of resource mobilization in Pakistan's economy through their intermediary role which provides stability to the financial system. SECP has enhanced the capital requirement for NBFCs and categorized the sector into two clusters where the first group would cover Asset Management Companies (Mutual Funds), and second Leasing, Investment Banking and Housing Finance Units.

Mutual Funds recorded the highest growth in terms of assets and numbers. The total number of mutual funds was 82 as of March 31, 2008 and net assets of mutual funds have increased from Rs. 295 billion to Rs. 389 billion during nine months, depicting a growth of 31.86%. Major growth was observed in the category of income fund and equity fund. Moreover, SBP now allows mutual funds to invest 30 percent of their assets abroad or US$ 15 million (whichever is lower). This initiative allows fund managers to diversify their portfolios, ultimately mitigating risk and enhancing investor confidence in mutual funds. SECP's stringent standards in terms of mandatory rating, weekly reporting of assets and liabilities, and independent safeguard for investors in the form of a trustee structure, are proved to be an added advantage. Flexibility available to asset managers to establish their trusts or companies as well as to float equity, debt or hybrid funds and continuous strong growth in the country's stock markets is likely to help mutual funds industry further grow and it is expected to see the industry growing by upto 200 percent in the next four to five years.

Insurance sector is reaping the benefits of a growing economy coupled with sectoral reforms, soaring trade activities, improving per capita income and competition among insurance sector companies, which are driving the current growth in the insurance sector. Moreover, higher interest rates and tax exemption on capital gains also supported the investment income of the companies, which provided further impetus to the insurance bottom-line.

Leasing As of March 31, 2008, there were 15 active licensed leasing companies. The leasing industry contributed significantly in the economy over the years despite several impeding factors such as increasing oil prices, growing competition from commercial banks and shrinking profit margins. This sector played a significant role in the development of small and medium enterprises (SMEs).

Investment Banks At the end of March 2008, there were 11 active licensed investment banks.

Major financial indicators of leasing and investment banks are summarized in *Table 6.16*.

Table 6.16: Key Financials of NBFCs, 31 March 2008 (Rs. billion)

	Leasing	Inv. Banks
Total Assets	65.86	59.67
Total Liabilities	57.73	46.61
Total Equity	7.20	13.11
Total Deposits	11.47	14.10

Source: SECP

Modaraba sector constitutes of 27 Modarabas having total assets of Rs. 28.4 billion, while the total equity amounts to Rs. 12.2 billion. With a view to assisting the Modaraba sector in resource mobilization, they are allowed to issue Musharaka based TFCs on the basis of profit and loss sharing principles. It is expected that this will open a useful avenue of resource mobilization for the sector and will also add to the growth of the corporate debt market under Islamic financial principles. In addition, SECP has approved the launching of 12 different forms of Shariah-Compliant modes of Modaraba financing approved by the religious board of Modarabas. This would provide the sector a level playing field with other financial institutions in addition to providing new products for the Islamic financial markets.

Real Estate Investment Trusts (REITs) are transparent, tax efficient, income producing, professionally managed collective investment schemes that invest money in real estate ventures. It is for the first time that an emerging market has launched a modern product in a sector which so far was the undiluted domain of the developed countries. REITs structure would help in regulating the existing fragmented property development mechanism and bring forth efficiency in price discovery mechanism of real estate. It will also yield improved market valuation of property prices, besides enhancing the liquidity of the real estate market.

Private Equity and Venture Capital Fund (PE&VCF) is an unlisted closed-end unit-trust fund open only to high net-worth individuals and institutions, due to its intrinsic nature of being a high-risk asset class. The fund will provide equity for seed/start-up capital, expansion and buyout as well as turn around primarily to private & sick/badly managed companies and would also help in attracting foreign direct investment.

Voluntary Pension System (VPS) Six pension funds have been launched under the VPS that managed to attract a total amount to the tune of Rs. 20 million.

While lack of suitable assets has clearly hampered the development of institutional investors, the relative underdevelopment of contractual savings in turn, inhibits the development of capital markets. Instead of competing with the commercial banks, NBFCs should enhance their own specific areas of business and co-exit with the commercial banks so that a comprehensive and healthy financial sector could further evolve.

Credit Rating Agencies:

Credit rating agencies are an essential element of an efficient debt market infrastructure and play a crucial role in providing investors with the tools to make informed investment decisions and also achieve price discovery. There are two credit rating agencies in Pakistan: Pakistan Credit Rating Company (PACRA) and JCR-VIS Credit Rating Co. Ltd (JCR-VIS). PACRA has completed well over a hundred ratings, including major industrial corporates, financial institutions and debt instruments. In addition to local ratings, PACRA has also successfully completed two international rating assignments in collaboration with Fitch.

Settlement System:

The absence of a Real Time Gross Settlement System (RTGS) is a significant hindrance to the efficiency of debt capital market. However its planned implementation as PRISM (Pakistan Real Time Inter-bank Settlement Mechanism) in June 2008 is a welcome development. This step will allow shift from traditional paper-based, end-of-the-day settlement system to electronic payment system for large value, low volume inter-bank funds' transfers and settlements.

Capital Market Reforms

Capital market reforms are aimed at a balanced development of the Pakistan's capital markets and financial sector. These reforms assist in reducing systemic vulnerabilities in a bank-dominated financial system. Special emphasis is devoted to strengthen pension funds and other institutional investors, such as insurance, mutual funds, and non banking finance companies, given the strong causal relationship between the level of development of institutional investors and the deepening of capital markets. One of the major thrusts of reforms during the period remained on strengthening the governance of securities markets and market intermediaries to increase investors' protection and confidence. New checks and balances have been introduced and systems have been put in place to control un-necessary speculation and systemic risk. These reforms have yielded dividends in the form of improvement in key financial performance and soundness indicators.

Various capital market reform initiatives introduced by the SECP during the period under review are documented below:

Regulatory Reforms:

The reforms on the regulatory side include regulations governing Cash-Settled Futures (CSF) contracts, amendments in stock exchange listing, streamlining of the arbitration procedure and avoiding of any possible conflict of interest during the proceedings. New Risk Management Regulations for ISE have been approved. These regulations encompass VAR based margining system, new netting regime, imposition of position limits, mark-to-market loss collection regime, imposition of special margins and valuation of securities (haircuts regime).

Developmental Activities:

CFS Mk II, launched in April 2008, allow direct provision of finance in the equity market by institutions in the capacity of authorized financiers by committing a minimum amount for a period of at least 90 days. The Commission actively developed a Financial Institutions Margining System, which is a mechanism enabling collection of margins directly with National Clearing Company of Pakistan Limited (NCCPL) from non-member institutions dealing through a member of the exchange. A shorter T+2 settlement cycle for trades on stock exchange, introduced in August 2007, facilitated to reduce the overall settlement risk in the market and brought the domestic markets at par with various international jurisdictions. To enhance transparency and effective monitoring of capital markets, the Commission initiated measures for compulsory reporting of all off-market transactions at the stock exchanges and automated the process of handling corporate actions in CFS transactions. The Commission has taken steps to enhance NCCPL's paid-up capital to Rs. 300 million and reduce stock exchange's share holding to 30% of the overall paid-up capital. SECP has acquired a surveillance system from a local IT solution provider to strengthen its stock market monitoring capacity. The system enables alerting on real time basis and facilitates detection of market manipulative activities.

Corporate Debt Market Reforms:

The maximum initial listing fee for debt instruments has been reduced by KSE from Rs. 500,000 to Rs. 100,000 and the stamp duty on debentures and commercial papers has been reduced by Government of Punjab. The later is also under consideration of provincial governments and administration of Islamabad Capital Territory.

Work-in-Progress:

(i) Demutualization of Stock Exchanges, (ii) Futures Trading Act, (iii) Introduction of Islamic Index, (iv) New Derivative Products Development, and (v) Setting up of Pakistan Institute of Capital Markets.

Key Recommended Reforms

The Government of Pakistan is eager to continue its reform path, on all aspects of capital market development. Towards this end, some action plans have been put forward that aim at enhancing the financial markets of the country as a whole, among which are the followings:

- Strengthen the government securities market development by improving the efficiency and transparency of primary market, gradually increasing the marketable government securities and reducing the issuance of non-marketable securities and strengthening the liquidity of secondary market.
- Consider shifting to a price discovery mechanism from the current policy of volume based PIB auctions, once the spillover effects of the ensuing international financial crisis are over or reduced to a minimum. This will, in turn, facilitate the development of credible sovereign benchmark as well as interest rate markets over the long run.
- Publish a quarterly PIBs issuance calendar, subject to a tight compliance with the timings stipulated in the calendar.

- Promote corporate bond market development by streamlining the issuance procedure and increasing the supply of instruments by tapping potential new issuers.
- Adopt high standards of transparency, public disclosure of financial information and corporate governance on the part of corporations to strengthen their credit ratings and facilitate market access.
- Set up a corporate bond database, with details of issuances, convergence in rating and transactions undertaken, to facilitate investors having complete information.
- Set up trading platforms for undertaking bond transactions.
- Encourage corporations to publicly issue debt rather than resorting to private placements by easing regulatory interface.
- Eliminate restrictions on investment in domestic bonds by foreign investors.
- Encourage secondary bond market activities.
- Permit issuance of unsecured bonds and develop a market for sub-investment-grade debt.
- Broaden the investor base by promoting pension reform and strengthening the insurance and mutual fund sectors development.
- Modify the investment guidelines for NBFCs.
- Reform the NSS to align their returns to those available in the market and target small savers by transforming NSS into a modern retail program.
- Promote the relevant market infrastructure development and create an enabling environment for bond market development by upgrading clearing & settlement arrangement, strengthening government cash/debt management capacity, facilitating money market development and strengthening the credit rating industry.
- Improve the effectiveness of monetary policy implementation.
- Clarify oversight responsibilities among various regulatory agencies including MoF, SECP and SBP.

In all, with competitive pressures facing Pakistan's financial players, and with the widely acknowledged need to consolidate and build upon the impressive achievements of the past, the path towards a progressive growth of domestic capital markets is appealing. Strong dedication by the government in enhancing its role in the financial system of the country is worth mentioning, since reform is a process that demands a strong and sustained commitment to yield substantial and durable results. Regulatory authorities are acting like a watch-dog, overseeing the performance of the market and immediately rectifying hiccups, if any. This behavior is expected to persist in order to make Pakistan's capital markets the best yielding markets of the region.

TABLE 6.1

SECTORAL INDICES OF SHARE PRICES (2000-01 = 100)

(Indices)

	End June	2000	2001	2002		2003	2004	2005	2006	2007	End April 2007	End April 2008
1	Cotton and Other Textiles	93.62	89.31	113.45		163.80	260.06	252.29	234.82	227.40	194.04	253.70
2	Pharmaceuticals & Chemicals	213.23	203.68	129.59		207.31	343.30	282.59	342.30	407.14	362.48	517.18
3	Engineering	116.99	113.34	130.31		248.91	440.56	573.67	783.61	1173.47	911.62	1740.99
4	Auto & Allied	128.25	123.63	140.52		362.53	580.95	570.24	783.94	1016.55	888.32	934.04
5	Cables and Electric Goods	123.42	116.96	118.22		209.60	369.92	319.95	541.62	640.04	527.12	661.34
6	Sugar and Allied	69.50	84.45	103.62		181.84	381.81	336.12	459.64	473.36	428.55	419.19
7	Paper and Board	125.40	114.27	126.99		229.46	286.56	276.72	288.93	369.00	296.67	423.89
8	Cement	106.22	87.17	110.05		217.65	468.26	393.74	708.89	787.00	680.12	646.61
9	Fuel and Energy	217.55	190.75	100.23		194.84	242.71	341.42	343.08	374.69	343.31	519.32
10	Transport and Communications	68.59	53.04	94.17		199.99	355.96	520.61	513.83	739.98	554.27	725.04
11	Banks and Other Financial Institutions	84.51	77.56	102.72		217.29	364.95	321.59	445.90	628.21	545.42	561.47
12	Miscellaneous Sectors	217.88	243.08	122.19		223.20	333.29	349.59	410.68	441.36	380.05	538.89
	General Index of Share Prices	128.83	118.72	106.74	*	204.10	323.30	362.76	427.01	547.47	463.25	561.92
	Change (%)	22.40	(7.85)	6.74	*	91.20	58.40	12.21	17.71	28.21	8.49	2.64

Source: State Bank of Pakistan

Figures in the parentheses represent negative sign.

* Base of share index has been changed from 1990-91 to 2000-01 - and as per old base (90-91) the general index of share price has increased by 6.74% during 2001-02.

TABLE 6.2

MARKET CAPITALIZATION OF ORDINARY SHARES

(Rs billion)

	End June	2000	2001	2002	2003	2004	2005	2006	2007	End April 2007	End April 2008
1	Cotton and Other Textiles	43.78	38.40	41.09	65.68	90.85	103.09	98.72	136.24	103.32	153.94
2	Pharmaceuticals	56.05	47.97	50.75	108.20	162.58	171.73	221.90	273.77	241.41	369.92
3	Engineering	1.53	1.52	2.06	4.30	6.93	9.29	11.32	18.78	15.01	28.59
4	Auto & Allied	8.02	7.93	10.19	30.55	39.17	40.68	70.58	102.50	92.02	100.51
5	Cables and Electric Goods	2.10	2.12	2.36	4.45	7.08	9.05	18.62	25.31	19.96	26.46
6	Sugar and Allied	3.83	4.53	4.52	7.22	11.41	12.63	17.30	19.42	17.05	20.60
7	Paper and Board	3.94	4.54	6.54	12.00	16.52	16.80	21.78	32.31	24.03	38.61
8	Cement	10.21	10.21	15.76	33.54	68.82	68.58	133.12	165.63	129.93	156.55
9	Fuel and Energy	87.45	79.68	104.48	191.54	505.87	900.63	1081.48	1096.78	1098.18	1267.37
10	Transport and Communications	106.17	70.77	70.09	123.29	196.97	291.39	209.46	284.45	244.89	241.86
11	Banks and Other Financial Institutions	36.10	38.38	55.01	99.67	195.98	301.64	714.83	1553.48	1341.80	1965.12
12	Miscellaneous Sectors	32.69	33.20	44.79	65.99	100.58	111.14	167.29	272.13	241.31	286.54
	Aggregate Market Capitalization	391.86	339.25	407.64	746.43	1402.75	2036.65	2766.41	3980.78	3568.90	4656.07
	Change (%)	36.91	(13.42)	20.16	83.10	87.93	45.19	35.83	43.90	29.01	16.96

\- Figure in the parentheses represent negative signs

Source: State Bank of Pakistan

TABLE 6.1

SECTORAL INDICES OF SHARE PRICES (2000-01 = 100)

(Indices)

	End June	2000	2001	2002		2003	2004	2005	2006	2007	End April 2007	End April 2008
1	Cotton and Other Textiles	93.62	89.31	113.45		163.80	260.06	252.29	234.82	227.40	194.04	253.70
2	Pharmaceuticals & Chemicals	213.23	203.68	129.59		207.31	343.30	282.59	342.30	407.14	362.48	517.18
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4	Auto & Allied	128.25	123.63	140.52		362.53	580.95	570.24	783.94	1016.55	888.32	934.04
5	Cables and Electric Goods	123.42	116.96	118.22		209.60	369.92	319.95	541.62	640.04	527.12	661.34
6	Sugar and Allied	69.50	84.45	103.62		181.84	381.81	336.12	459.64	473.36	428.55	419.19
7	Paper and Board	125.40	114.27	126.99		229.46	286.56	276.72	288.93	369.00	296.67	423.89
8	Cement	106.22	87.17	110.05		217.65	468.26	393.74	708.89	787.00	680.12	646.61
9	Fuel and Energy	217.55	190.75	100.23		194.84	242.71	341.42	343.08	374.69	343.31	519.32
10	Transport and Communications	68.59	53.04	94.17		199.99	355.96	520.61	513.83	739.98	554.27	725.04
11	Banks and Other Financial Institutions	84.51	77.56	102.72		217.29	364.95	321.59	445.90	628.21	545.42	561.47
12	Miscellaneous Sectors	217.88	243.08	122.19		223.20	333.29	349.59	410.68	441.36	380.05	538.89
	General Index of Share Prices	128.83	118.72	106.74	*	204.10	323.30	362.76	427.01	547.47	463.25	561.92
	Change (%)	22.40	(7.85)	6.74	*	91.20	58.40	12.21	17.71	28.21	8.49	2.64

Source: State Bank of Pakistan

Figures in the parentheses represent negative sign.

* Base of share index has been changed from 1990-91 to 2000-01 - and as per old base (90-91) the general index of share price has increased by 6.74% during 2001-02.

TABLE 6.2

MARKET CAPITALIZATION OF ORDINARY SHARES

(Rs billion)

	End June	2000	2001	2002	2003	2004	2005	2006	2007	End April 2007	End April 2008
1	Cotton and Other Textiles	43.78	38.40	41.09	65.68	90.85	103.09	98.72	136.24	103.32	153.94
2	Pharmaceuticals	56.05	47.97	50.75	108.20	162.58	171.73	221.90	273.77	241.41	369.92
3	Engineering	1.53	1.52	2.06	4.30	6.93	9.29	11.32	18.78	15.01	28.59
4	Auto & Allied	8.02	7.93	10.19	30.55	39.17	40.68	70.58	102.50	92.02	100.51
5	Cables and Electric Goods	2.10	2.12	2.36	4.45	7.08	9.05	18.62	25.31	19.96	26.46
6	Sugar and Allied	3.83	4.53	4.52	7.22	11.41	12.63	17.30	19.42	17.05	20.60
7	Paper and Board	3.94	4.54	6.54	12.00	16.52	16.80	21.78	32.31	24.03	38.61
8	Cement	10.21	10.21	15.76	33.54	68.82	68.58	133.12	165.63	129.93	156.55
9	Fuel and Energy	87.45	79.68	104.48	191.54	505.87	900.63	1081.48	1096.78	1098.18	1267.37
10	Transport and Communications	106.17	70.77	70.09	123.29	196.97	291.39	209.46	284.45	244.89	241.86
11	Banks and Other Financial Institutions	36.10	38.38	55.01	99.67	195.98	301.64	714.83	1553.48	1341.80	1965.12
12	Miscellaneous Sectors	32.69	33.20	44.79	65.99	100.58	111.14	167.29	272.13	241.31	286.54
	Aggregate Market Capitalization	391.86	339.25	407.64	746.43	1402.75	2036.65	2766.41	3980.78	3568.90	4656.07
	Change (%)	36.91	(13.42)	20.16	83.10	87.93	45.19	35.83	43.90	29.01	16.96

\- Figure in the parentheses represent negative signs

Source: State Bank of Pakistan

TABLE 6.3

NUMBER OF LISTED COMPANIES, FUND MOBILISED AND TOTAL TURNOVER OF SHARES IN VARIOUS STOCK EXCHANGES

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	July-March 2007-08
KARACHI STOCK EXCHANGE										
i) Total Listed Companies	765	762	747	712	702	668	659	658	658	652
ii) New Companies Listed	-	1	4	4	2	16	15	14	12	5
iii) Fund Mobilized										
(Rs billion)	1.6	0.4	3.6	15.2	23.8	4.2	54.0	41.4	49.7	49.2
iv) Total Turnover of Shares										
(In billion)	25.5	48.1	29.2	29.1	53.1	97.0	88.3	104.7	68.8	56.9
LAHORE STOCK EXCHANGE										
i) Total Listed Companies	-	-	614	581	561	647	524	518	520	514
ii) New Companies Listed	1	2	3	3	2	18	5	6	8	2
ii) Fund Mobilized										
(Rs billion)	-	0.4	2.5	14.2	4.1	3.1	42.1	24.5	38.8	28.1
iv) Total Turnover of Shares										
(In billion)	9.8	1.6	7.8	18.3	28.2	19.9	17.5	15.0	8.3	5.4
ISLAMABAD STOCK EXCHANGE										
i) Total Listed Companies	-	-	281	267	260	251	232	240	246	247
ii) New Companies Listed	1	0	5	3	1	8	5	2	7	3
ii) Fund Mobilized										
(Rs billion)	5.0	0	0.8	3.7	11.5	2.6	27.6	5.2	30.7	28.1
iv) Total Turnover of Shares										
(In billion)	3.3	3.1	1.4	2.7	2.1	1.4	0.7	0.4	0.3	0.9

Source: SECP, KSE, LSE, ISE.

\- Nil

TABLE 6.4

NATIONAL SAVING SCHEMES (NET INVESTMENT)

(Rs. Million)

	Name of Scheme	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	July-March 2006-07	July-March 2007-08
1	Defence Savings Certificates	41,212.3	16,580.3	22,037.3	21,990.5	3,238.3	(8,759.1)	(7,551.0)	(5,800.4)	(4,528.1)	401.4
2	National Deposit Scheme	(17.2)	(21.5)	(6.3)	(5.7)	(6.8)	(1.3)	(2.5)	(1.0)	(0.6)	(0.7)
3	Khaas Deposit Scheme	(52.9)	(51.1)	(12.1)	(13.5)	(23.4)	(5.4)	(2.8)	(5.4)	(4.4)	(6.9)
4	Premium Savings Scheme	-	-	-	-	-	-	-	-	-	-
5	Special Savings Certificates	19,395.8	9,431.1	36,443.2	84,899.1	(13,199.3)	(83,311.9)	(57,737.1)	6,965.8	(3,738.3)	12,092.1
6	Special Savings Certificates	(507.3)	196.3	(203.3)	(11.1)	(2.6)	(4.6)	(0.6)	(0.1)	0.0	(0.20)
7	Regular Income Certificates	26,111.6	8,643.2	11,046.3	(14,923.9)	(49,090.5)	(40,663.0)	(15,563.9)	(16,991.8)	(12,435.7)	(935.5)
8	Pensioners' Benefit Account	-	-	-	10,170.0	13,209.3	17,737.2	16,382.9	11,468.6	9,403.5	15,033.2
9	Savings Accounts	(196.7)	(2,105.0)	(329.8)	1,638.1	(729.6)	(2,891.4)	(202.7)	9,233.0	1,795.3	(4,214.3)
10	Special Savings Accounts	5,450.9	3,626.5	4,266.9	5,135.0	2,894.1	(19,048.0)	(709.6)	6,508.3	3,191.8	3,524.9
11	Bahbood Saving Certificates	-	-	-	-	22,691.0	60,654.6	59,636.6	47,214.5	38,793.7	32,767.4
12	Mahana Amdani Accounts	13.8	52.8	92.8	129.5	120.9	85.9	45.7	42.6	51.3	(13.8)
13	Prize Bonds	(32.3)	10,390.6	11,588.0	26,840.1	22,841.9	9,357.0	3,325.8	9,007.3	4,620.4	8,727.5
14	Postal Life Insurance	4,131.0	4,377.4	6,448.3	7,367.7	8,668.7	10,335.2	10,804.5	-	-	-
	Grand Total	95,508.9	51,120.5	91,371.3	143,215.8	10,612.0	(39,371.6)	8,830.7	67,651.4	44,625.5	67,375.2

Figures in Parenthesis represent negative signs

Source : Directorate of NSS

Table 6.5

LOANS DISBURSED BY DFIs AND OTHER FINANCIAL INSTITUTIONS

(Rs. Billion)

	Name of Institutions	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 Jul-Mar
1.	DFIs	2.9	8.7	13.1	24.7	10.6*	-	-
2.	Special Banks	11.3	25.2	38.8	47.0	23.1*	-	-
3.	Islamic Banks	2.5	11.1	17.9	43.4	24.4*	-	-
4.	Khushadi Bank	0.2	1.6	1.3	2.3	2.92	3.61	2.59
5.	Micro Credit Bank	0.0	0.1	0.3	0.5	0.94	2.50	2.30
6.	Leasing Companies	15.9	16.0	18.6	16.5	29.1	22.85	14.99
7.	Investment Banks	4.4	7.6	7.5	7.4	10.4	5.90	6.13
8.	Modarabas	4.8	6.1	6.5	7.3	9.6	9.75	5.97
9.	Housing Finance	0.1	0.8	2.4	0.3	0.4	0.10	0.004
10.	Discount Houses	0.1	0.2	2.7	2.6	1.3	1.00	0.13

* July-December 2005-06

Source: SBP & SECP.

TABLE 6.6

MARK UP RATE/PROFIT RATE ON DEBT INSTRUMENTS CURRENTLY AVAILABLE IN THE MARKET

S.No.	Schemes	Markup/Profit Rate	Maturity Period	Tax Status
1.	Foreign Exchange Bearer Certificate (FEBC)			
	a. If Certificate of Rs 1000 encashed before 1 year investor will get Rs 1000 (face value)			
	b. If Certificate of Rs 1000 encashed after 1 year investor will get Rs 1145			
	c. If Certificate of Rs 1000 encashed after 2 year investor will get Rs 1310			Sale under this scheme has already been discontinued, from December 1999 however, on outstanding balance till maturity, rate will be applicable
	d. If Certificate of Rs 1000 encashed after 3 year investor will get Rs 1520			
	e. If Certificate of Rs 1000 encashed after 4 year investor will get Rs 1740			
	f. If Certificate of Rs 1000 encashed after 5 year investor will get Rs 1990			
	g. If Certificate of Rs 1000 encashed after 6 year investor will get Rs 2310			
2.	Foreign Currency Bearer Certificate (FCBC), 5 years	Scheme has already been discontinued w.e.f. February 1999. Only repayment is made		
3.	Special US$ Bonds		The rates are effective form Sept. 1999. If bonds are encashed before one year no profit will be paid. Profit is payable @ LIBOR + 2 on bonds reinvested for 3 years on Special US$ Bonds redeemed against 3 and 7 years maturity. However, the facility of reinvestment has been discontinued since October 2002.	
	a) 3 year maturity	LIBOR+1.00%		
	b) 5 year maturity	LIBOR+1.50%		
	c) 7 year maturity	LIBOR+2.00%		
4.	Pakistan Investment Bonds			
	Tenor	Rate of Profit		
	3-Year Maturity	9.10% p.a	These coupon rates will effective from March 31, 2008 for PIBs of 3, 5 & 10 years maturity while for PIBs of 15 and 20 years maturity launched on Jan 20,2004 the respective coupon rates will effective since then. PIBs of 30 years maturity were launched on Dec 12, 2006.	
	5-Year Maturity	9.30% p.a		
	10-Year Maturity	9.60% p.a		
	15-Year Maturity	10.00% p.a		
	20-Year Maturity	10.50% p.a		
	30-Year Maturity	11.00 % p.a		
5.	Unfunded Debt			
	Defence Saving Certificates	10.00% p.a (m)	10 Years	Taxable for deposits exceeding Rs.150,000 made on or after 01-07-2002
	National Deposits Schemes	13.00% p.a.	7 Years	Taxable and discontinued
	Special Saving Certificates (R)		3 Years	Taxable for deposits exceeding Rs.150,000 made on or after 01-07-2002
	for each of 1st five profit	9.00% p.a.		
	for the last one porfit	10.50% p.a.		
	Special Saving Certificates (B)	12.36% p.a.(m)	3 Years	Taxable and discontinued
	Regular Income Certificates	9.54% p.a	5 Years	Taxable
	Khas Deposit Scheme	13.42% p.a.	3 Years	Taxable and discontinued
	Mahana Amdani Accounts	10.41% p.a.(m)	7 Years	Taxable and discontinued
	Saving Accounts	6.50% p.a.	Running Account	Taxable for deposits exceeding Rs 150,000
	Bahbood Savings Certificate	11.64% p.a.		
	Pensioners' Benefit Account	11.64% p.a.	10 Years	
	Prize Bonds	6.50% p.a.		

p.a. Per annum

B Bearer

R Registered

m on maturity

Source: SBP and Directorate of National Savings