

Glossary

Chapter 2

Reserve Money

Reserve Money (M_0) includes currency in circulation, other deposits with SBP, currency in tills of Scheduled Banks and bank deposits with SBP

Narrow Money (M_1)

Narrow money (M_1) includes currency in circulation, other deposits with SBP and Scheduled Banks' demand Deposits.

Broad Money (M_2)

Broad money (M_2) includes Narrow Money (M_1), Scheduled banks' time deposits and resident foreign currency deposits.

Money Multiplier

Money Multiplier is the ratio of stock of broad money (M_2) to the stock of reserve money (M_0).

Liabilities and Assets of the State Bank of Pakistan

The figures relating to assets and liabilities of the State Bank of Pakistan presented in the tables are based on the statutory weekly statements of affairs of the Issue and Banking departments of the State Bank of Pakistan issued in pursuance of section 40 (1) of the State Bank of Pakistan Act, 1956.

Scheduled Banks

Scheduled Banks means all Commercial Banks and Specialized Banks (like IDBP, SME, PPCB and ZTBL) which are included in the list of scheduled banks maintained under sub-section (1) of section 37 of the State Bank of Pakistan Act, 1956. Scheduled Banks operating in Pakistan with paid-up capital and reserves of an aggregate value of not less than Rs. 2 billion from 31st December, 2005.

Non-Banks Financial Institutions (NBFIs)

NBFIs are categorized into eight groups, Development Finance Institutions, Leasing Companies, Investment Banks, Modarba Companies, Housing Finance Companies, Mutual Funds, Venture Capital Companies and Discount Houses.

Chapter 3

Capital

Capital comprises of paid-up capital of Pakistani banks. In case of foreign banks, it is the equivalent rupee amount kept with the State Bank of Pakistan as reserve capital required to be maintained under the rules.

Reserves

All types of reserves maintained by the scheduled banks

Balances with Other Scheduled Banks

Balances with other Scheduled Banks exclude the balances with National Bank of Pakistan as an agent of State Bank of Pakistan. These balances are included in 'Balances with State Bank of Pakistan'.

Deposits

The data on Deposits includes the following types of deposits accounts: -

(1) Current Deposits (2) Call Deposits (3) Other Deposit (4) Saving Deposits (5) Fixed Deposits

Category of Deposit Holders

This describes the main business or profession of the deposit account holder. They are broadly classified as foreign and domestic constituents. The domestic constituent is cascaded down to Government, Non-financial public sector enterprises (NFPSEs), Non-bank financial institutions (NBFIs), Private sector, Trust Fund and Non-profit organizations, Personal, and Others. The Private sector has been further classified in sub-heads such as Agriculture, Fishing, Mining, Manufacturing, Ship breaking, Electricity, Construction, etc. according to the International Standard Industrial Classification, ISIC 3.1.

Rate of interest

It is the rate offered by scheduled banks on various type of deposits like foreign currency accounts scheme, over five years maturity and unclaimed, over due or matured fixed deposits.

Rate of return on PLS deposits

It is the rate of profit given by the scheduled banks on various types of deposits such as call, saving, and fixed deposits maintained under profit and loss sharing basis. The rates are announced after the completion of the period of investment usually on half yearly bases at the end of June and December every year.

Size of accounts for deposits

The deposits accounts are classified under various classes on the basis of the balances in the respective accounts. As the number of accounts is considerably large, for reporting ease, banks have the option to club the accounts and amounts in cases where, the "Nature", "Type of Accounts", the "Category of Deposit Holders" and "Rate of Interest/Return" are the same. For such grouped accounts it is the average size of the group instead of actual size of the component that determines the class to which it belongs. It is believed that the estimates would not differ significantly from the actual position.

Advances

The main attributes on advances are as under: -

Type of securities

In banking business, the security or collateral, consists of assets, property, deposits or valuables held as guarantee against a credit or a loan. Type of security helps in the analysis of the quality of advances of the banking system

Category of borrowers

Borrowers are first classified on the basis of foreign and domestic constituents. The latter is then further classified into government, non-financial public sector enterprises, non-bank financial institutions, private sector (business), trust funds & non-profit organizations, personal and others. Private sector (business) is further classified according to ISIC 3.1.

Rate of interest / return

This is the cost of using borrowed money expressed as a rate, or a percentage of the principal amount for a period of time usually a year. In case of Islamic modes of financing it is referred as rate of mark-up. For the ease of reporting banks, they are asked to round off the rate of interest/ mark-up to two decimal places in multiples of 0.25, for example, 3.00% to 3.05% and 4.20% to 4.25% and so on.

Size of accounts for advances

The classification and system for size of accounts for advances is identical to the size of accounts for deposits as explained above

Rate of Margin

Margin for collateral is the excess of the market/assessed value of the collateral over the amount of loan. Banks typically prefer to provide loan amount less than the assessed value of collateral, because in the event of default, there are costs in loan recovery and substantial losses with performing collateral; hence a margin of collateral is maintained.

Bills Purchased & Discounted

Advances extended through discounting or purchasing of trade bills – import/export or inland bills.

Investments

The banks report their investment in domestic and foreign securities/shares with details of holdings of each type of securities/shares and classify them as free or encumbered according to disposability. The holdings are classified by issuing institutions of securities/shares such as Federal and Provincial Governments' securities, foreign securities and other securities/shares (including shares and debentures, NIT units, participation term certificates, mutual funds and modarba certificates, shares of other public and private sector enterprises). The purchase price (book Value), original value (face value) and market value (market price) in case of tradable securities/shares are also reported.

Non-Performing Loans (NPLs)

Non-Performing Loans (NPLs) are loans and advances whose markup/interest or principal is overdue by 90 days or more from the due date.

Net loans

Net Loans are the loans net of provision held for NPLs.

Net Non-Performing Loans (NPLs)

Net Non-Performing Loans (NPLs) is the value of non-performing loans minus provision for loan losses.

Net NPLs to net loans

Net NPLs to net loans means net NPLs as a percent of net loans. It shows the degree of loans infection after making adjustment for the provision held.

NPLs to loans ratio/Infection ratio

NPLs to loans ratio/Infection ratio stands for NPLs as a percent of gross loans. It is another indicator of the assets quality of the banks.

Chapter 4

Exchange rates

Composite rate, two-tier rate structure on foreign exchange was introduced on 22nd July 1998 and subsequently replaced by market based unified exchange rate on 19th May 1999

Balance of Payments

Balance of Payments (BOP) Statistics in Pakistan is compiled by the State Bank of Pakistan on behalf of the Ministry of Finance, Government of Pakistan. The BOP table had been prepared as per underlying principles of 4th Manual of IMF from July 1984 till the adoption of 5th Manual of IMF in

July 2003. The data is collected through International Transactions Reporting System (ITRS) of Authorized Dealers (Banks) Exchange Companies, State Bank of Pakistan, Economic Affairs Division and Finance Division of Ministry of Finance, Customs, Federal Bureau of Statistics, Pakistani Shipping & Air companies, Foreign Shipping & Air Companies operating in Pakistan, and Pakistan's Diplomatic Missions Abroad.

Goods

Recording of goods implies provision or acquisition of real resources of an economy to and from the rest of the world. Goods covers general merchandise, goods for processing, repairs on goods, goods procured in ports by carriers and non monetary gold.

Services

Recording of services implies provision or acquisition of services of an economy to and from the rest of the world. The credit entries shows services provided to and debit entry express acquisition of services from the rest of the world. This includes transportation, travel, communication, construction, insurance, financial, computer and information, royalties and license, other business services, personal, cultural and recreational and government services.

Foreign Direct Investment

10% or more of the capital/Reserves of an enterprise held by non-resident investor is considered as direct investment

Foreign Portfolio investment

Portfolio investment is less than 10% holding by non-resident in equity securities, debt securities (in the form of bonds and notes), money market instruments and financial derivatives of local company.

Income

The Income component of the Balance of Payments is restricted to income earned from the provision of two factors of production viz, labor and capital. Accordingly income earned from the labor is called compensation of employees while income earned from the capital is called investment income.

Direct investment Income

The credit entry covers profit receipts on equity participation and interest receipts on debt by Pakistani direct investors from abroad and debit entry records the profit and interest paid to the foreign direct investors by the reporting economy. Data on direct investment income are derived from banking records and data on reinvested earnings and undistributed branch profits are estimated from annual surveys.

Portfolio investment Income

The credit entry covers dividend accrued on equity securities (shares) and interest received from holding of foreign bonds, notes, and money market instruments and associated financial derivatives, and the debit entry includes the payments on account of the same instruments to the foreign investors. Data on portfolio investment income are collected from the exchange records provided by authorized dealers and State Bank of Pakistan.

Capital Account

Capital account consists of two categories (i) capital transfers and (ii) acquisition or disposal of non-produced, non-financial assets.

(i) Capital transfer

Capital transfer consists of transfer of ownership of fixed assets or forgiveness of financial liabilities between residents and nonresidents without quid pro quo. It includes mainly official project grants data which are collected from the Economic Affairs Division, Government of Pakistan. Capital transfers are classified into two sectoral components (i) general government and (ii) other sectors.

(ii) Acquisition or disposal of non-produced, non-financial assets

This consists of transactions associated with tangible assets that may be used or necessary for production of goods & services but are not actually produced e.g. land and subsoil assets & transactions associated with non-produced intangible assets.

Financial Account

Financial account records all transactions associated with changes of ownership in foreign financial assets and liabilities. The Financial account is, firstly, classified by four functional types of investment: 1) Direct investment, 2) Portfolio investment, 3) Other investment and 4) Reserve assets; secondly, by direction of investment (assets and liabilities) and thirdly, by instrument of investment (equity, bonds and notes, loans etc.)

Errors & Omissions

The entries under this head relate mainly to leads and lags in reporting of transactions. This entry is used to offset the overstatement/understatement of the recorded components. It also includes 'Multilateral Settlements' in geographical distribution. Multilateral Settlements relate to transactions settled in currencies of other countries/territories. Thus if payments are made in sterling to (say) USA, the credit entry will appear in the financial account with UK, while the debit entry in the merchandise account with USA. The country statements of both will be balanced through debit and credit entries respectively of equal magnitudes in the multilateral settlements which are not only self-balancing but also balance total figures.

Foreign investments

The data on direct and portfolio investment in Pakistan are the net flows captured through the banking system and exchange companies operating in Pakistan. The data of direct investment in terms of capital equipment and reinvested earnings is collected through annual enterprises' survey of foreign investments. Compilation of foreign direct investment data by economic group commenced from July 2001 onwards.

Foreign Trade Statistics

Foreign trade statistics compiled by Federal Bureau of Statistics is based on physical movements of merchandise goods into and out of the custom territory of Pakistan recorded by the customs authorities. Foreign trade includes exports, re exports, imports and re imports carried through sea land and air routes. For trade through parcels post monthly returns are received from General Post Offices.

The trade data of SBP is, on the other hand, based on realization of export proceeds and import payments made through banking channel for goods exported and imported. The trade transactions such as land born trade, imports through foreign economic assistance, exports & imports by Export Processing Zones, personal baggage etc. are not covered in the reporting by the banks. Data on these transactions are collected from the relevant sources and included in the exports receipts and import payments reported by the banks to arrive at the overall trade data. Therefore discrepancies may exist in the two sets of trade data due to valuation, timing and coverage of transactions. Data through custom records are on *fob* basis for exports while exchange records data is on *cif* basis. The data is converted to *fob* after the some adjustments. SBP data on imports are a mixed *fob* & *cif* basis

Re-Export

Goods imported and returned to the exporting country for any reason without any modification or change in its original shape or form, is termed as re-export.

Re-Import

Goods exported and returned to the consignor country without any modification or change in the original shape or form is termed as re-import.

Foreign Trade Indices: Laspey's formula in its original form is used in the computation of trade indices that is as under.

$$\text{Unit Value Index} = \frac{\sum P_n \times Q_0}{\sum P_0 \times Q_0} \times 100$$

$$\text{Quantum Index} = \frac{\sum Q_n \times P_0}{\sum Q_0 \times P_0} \times 100$$

Where:

P_n = Price (Unit Value) of each item during the current period

P_0 = Price (Unit Value) of each item during the base period

Q_n = Quantity data (Volume) of each item during the current period

Q_0 = Quantity data (Volume) of each item during the base period.

Terms of Trade: It shows the average price of a country's aggregate exports in relation to the average price of its imports.

$$\text{Terms of Trade} = \frac{\text{Index of Unit Values of Exports}}{\text{Index of Unit Value of Imports}} \times 100$$

Chapter 5**National Saving Schemes**

There have been different saving schemes in Pakistan since independence. The data reflects outstanding position as on end Month. Followings are the definition of existing schemes.

Defence Savings Certificates

The Government of Pakistan introduced Defence Savings Certificate scheme in the year 1966. The scheme has specifically been designed to meet the future requirements of the depositors. This is the only scheme having 10 years' maturity with built in feature of automatic reinvestment after the maturity.

Special Savings Certificates (Registered)

Keeping in view the periodic needs of depositors, this three years' maturity scheme was introduced in February, 1990. Profit is paid on the completion of each period of six months.

Regular Income Certificates

Keeping in view the monthly requirements of the general public, this five years' maturity scheme was launched on 2nd February, 1993. Profit is paid on monthly basis reckoned from the date of issue of certificates.

Bahbood Savings Certificates

Keeping in view the hardships faced by the widows and senior citizens and to guard them against the declining rate of return on National Savings Schemes, this ten years' maturity scheme was launched by the Government on 1st July, 2003. Initially the scheme was meant for widows only, however, the Govt. later decided to extend the facility for senior citizens aged 60 years and above with effect from 1st January, 2004. Profit is paid on monthly basis reckoned from the date of purchase of the certificates.

Savings Account

This is the oldest scheme among the National Savings instruments. The scheme has been designed to encourage the small savers and to meet their day to day needs. This is an ordinary account and frequent withdrawals (twice a week) can be made through this account. .

Special Savings Account

A three years maturity scheme introduced in February, 1990. The deposits are maintained in form of an account. Profit is paid on the completion of each period of six months.

Pensioners' Benefit Account

Keeping in view the hardships faced by the pensioners and to guard them against the declining rate of return on National Savings Schemes, this ten years' maturity scheme was launched by the Government on 19th January, 2003. The deposits are maintained in the form of accounts and the profit is paid on monthly basis reckoned from the date of opening of the account.

Prize Bonds

A bearer type security available in the denomination of Rs. 200, Rs. 750, Rs. 1,500, Rs. 7,500, Rs. 15,000 and Rs. 40,000. No fixed return is paid but prize draws are held on quarterly basis. The numbers and amount of prizes on various denominations of prize bonds are different

External Debt

Gross external debt, at any given time, is the outstanding amount of those actual current and not contingent liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to nonresidents by the residents of an economy.

Public and Publicly guaranteed debt

External obligations of a public debtor including national government and autonomous bodies and external obligations of a private debtor that are guaranteed for repayment by a public entity.

Private un-guaranteed external debt

Private un-guaranteed external debt is defined as the external liabilities of the private sector, the servicing of which is not contractually guaranteed by a public entity resident in the same economy as the debtor.

Chapter 6**Discount rate**

Discount is the rate at which SBP provides three-day repo facility to banks, acting as the lender of last resort.

Call Money Rate

Interbank clean (without collateral) lending/borrowing rates are called Call Money Rates.

KIBOR

Interbank clean (without collateral) lending/borrowing rates quoted by the banks on Reuters are called Kibor Rates. The banks under this arrangement quote these rates at specified time i.e. 11.30 AM at Reuters. Currently 20 banks are member of Kibor club and by excluding 4 upper and 4 lower extremes, rates are averaged out that are quoted for both ends viz: offer as well bid. The tenors available in Kibor are one week to 3 years. KIBOR is used as a benchmark for corporate lending rates.

Pakistan Investment Bonds (PIBs)

They are the long term instruments of the Government of Pakistan with tenors available in 3, 5, 10, 15 and 20 years. They are sold through Primary Dealers (Institutions appointed by the SBP to participate in Government Securities Auctions) in auctions as and when announced (on quarterly basis). They are coupon bearing instruments and issued in scripless form with interest payment on biannual basis.

Market Treasury Bills (MTBs)

They are the short term instruments of the Government of Pakistan with tenors available in 3, 6 and 12 months. They are also sold through Primary Dealers in auctions held on fortnightly basis. They are zero-coupon securities and are sold at discount to the face value

Open Market Operation

They are the operation carried out by the SBP for liquidity Management to keep interest rates in line with its monetary policy objectives. Through these operations either the liquidity is mopped up from or injected in the market by Repo/Out right basis. They are normally short term operations and are done as and when market condition desires.

Government of Pakistan Market related Treasury Bills

They are the instruments created when Government borrows from the State Bank. They are six month T.bills and their rates are determined on the basis of weighted average arrived in last six month Market Treasury Bill auction. They are called as 'Market Replenishment Treasury Bills'.

Repo Facility MTBs/FIBs/PIBs (Outstanding)

They are the short term funding arrangement by getting funds on selling the security as collateral and to buy back the same on maturity of the funding arrangement. The funds can be arranged under this by using MTB/FIB's/PIBs. The reverse is called Reverse-repo.

Chapter 7**Stock Market**

The market place where shares of publicly listed companies are bought and sold.

State Bank General Index

It is weighted index of share prices of all joint stock companies listed at Karachi Stock Exchange. The weights used are the proportion of paid-up capital of sectors to the total paid-up capital of all companies.

State Bank Sensitive Index of Share Prices

The State Bank Sensitive Index is a very valuable day-to-day indicator of market conditions. It is a sample study of the shares comprising the General Index and the sample list of shares is revised once a

year. The selection criterion employed for the Sensitive Index has been predominantly the number of fluctuations occurring in the quotation of each share over the past twelve months and a suitably chosen cut-off for the most active shares in the market. The statistical methodology of the Sensitive Index is analogous to that of the General Index. On 30th June, 2005 number of companies used for the Sensitive Index were 130.

Market Capitalization of Ordinary Shares

The Market Capitalization is the total market value of ordinary shares comprising the General Index. The market value is worked out by multiplying the market price by the total number of shares outstanding and added together for the component groups as also for the entire list to compile the series.

Ordinary Shares

The most common term of shares, which entitle the owners to jointly own the company. Holders may receive dividends depending on profitability of the company and recommendation of the directors.

Base period

This is starting point for the index used as base for future calculation of indices. At this point a fixed value is allocated to the index that is called base index value.

Balance Sheet Analysis: The analysis is based on published balance sheets of non-financial companies listed at Karachi Stock Exchange. All shares have been standardized at Rs.10 each to calculate the break up value and earning per ordinary share for the preparation of consolidated statements.

Chapter 8

Consumer Price Index

Consumer Price Index (CPI) is main measure of price changes at retail level. It measures the changes in the cost of buying representative fixed basket of goods and services.

Laspeyer's formula used to compute CPI is:-

$$CPI = \frac{\sum (P_n / P_0) W_i}{\sum W_i} \times 100$$

Where

P_n = Price of an item in the current period

P_0 = price of an item in base period

W_i = Weight of the i^{th} item in the base period.

Wholesale Price Index

Wholesale Price Index (WPI) is designed to measure the directional movements of prices for a set of selected items in the primary and wholesale markets. Items covered in the series are those, which could be precisely defined and are offered in lots by producers/manufacturers. Prices used are generally those, which conform to the primary sellers realization at *ex-mandi* (market), ex-factory or at an organized wholesale level.

Sensitive Price Indicator

The Sensitive Price Indicator (SPI) is computed on weekly basis to assess the price movements of essential commodities at short intervals so as to review the price situation in the country.

Chapter 11

Gross National Product

Estimates of Gross National Product are prepared by Federal Bureau of Statistics. They are based on the concept and classification of United Nations' System of National Accounts (UN-SNA). GNP estimates are computed by a combination of product, income and expenditure methods. The product method is applied to compute value added in agriculture, mining & quarrying, manufacturing, electricity & gas distribution, services, wholesale & retail trade, and ownership of dwellings. Income method is used to work out income accruing from transport, storage & communication, banking and insurance, public administration and defence and services sectors. Expenditure method is used to estimate value added in construction on the basis of investment made and the co-efficient of value added.

Gross Fixed Capital Formation

Estimates of Gross Fixed Capital Formation in Pakistan are prepared separately, for private and public sector, by economic activity as well as by capital assets. Estimates of private sector are computed by commodity flow, expenditure (Survey Method) and financial approaches. Public sector investment comprises of investment made by public sector enterprises, autonomous and semi autonomous bodies, and general government. Data in respect of public enterprises are collected from respective agencies whereas the estimates of general government are derived from the classification of demand of grants of the development and non development budgets of federal and provincial governments and local bodies.