Glossary

Chapter 2- *Money and Credit*

Broad Money (M2)
It is an indicator used to measure liquidity in the economy and includes currency in circulation, other deposits with State Bank of Pakistan, demand & time deposits (including resident foreign currency deposits) with scheduled banks.

Commodity Operations
Commodity operation means advances provided either to government, public sector corporations or private sector for the procurement of commodities such as cotton, rice, wheat, sugar, fertilizer etc. Advances to government provided for other purposes are not the part of commodity operation.

Currency in Circulation
Currency in circulation refers to currency held by public i.e currency outside the banking system.

Deferred Tax Assets
The amount of income taxes recoverable in foreseeable future periods in respect of: i) Deductible temporary differences ii) The carry forward of unused tax losses; and iii) The carry forward of unused tax credits. Deferred tax assets should be recorded on the basis of reasonable realizable value of such assets in foreseeable future.

Deferred Tax Liabilities
The amount of income taxes payable in future periods in respect of taxable temporary differences.

Financial Auxiliaries
These include financial corporations such as securities brokers, loan brokers, floatation corporations, insurance brokers etc. They also include corporations whose principal function is to guarantee, by endorsement, bills or similar instruments intended for discounting or refinancing by financial corporations, and also corporations which arrange hedging instruments such as swaps, options, and futures or other instruments which are continually being developed as a result of wide-ranging financial innovation.

Financial Derivatives
These are financial instruments that have no intrinsic value, and are linked to another specific financial instrument or indicator (foreign currencies, government bonds, share price indices, interest rates, etc.), or to a commodity (gold, coffee, sugar, etc.) through which specific financial risks can be traded in financial markets in their own right.

Households
Households include employers, own account workers, employees and recipient of property & transfer income.

Money Multiplier
Money Multiplier is the ratio of stock of broad money ($M_{2)}$ to the stock of reserve money (M_0). It is used to measure the increase in money supply.

Narrow Money (M_1)
It is an indicator used to measure liquidity in the economy and includes currency in circulation, other deposits with State Bank of Pakistan and demand deposits (including resident foreign currency deposits) with scheduled banks.

NFPSE
These are the non-financial Public Sector Enterprises which are controlled by government, which may be exercised through ownership of more than half the voting shares, legislation, decree, or regulations that establish specific corporate policy or allow the government to appoint the directors.

Non-Banks Financial Companies (NBFCs)
NBFCs 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.

Other Financial Intermediaries
The financial corporations engaged in financial intermediation, which raise funds on financial markets, but not in the form of deposits, and use them to acquire other kind of financial assets. These include discount houses, venture capital companies, mutual funds, housing finance companies and cooperative banks except Punjab provincial cooperative bank.

P.R.G.F (Poverty Reduction and Growth Facility)
The Poverty Reduction and Growth Facility (PRGF) is the IMF's low-interest lending facility for low-income countries. PRGF-supported programs are underpinned by comprehensive country-owned poverty reduction strategies.

Quasi Money
These are deposits having a fixed maturity date and their rate of returns are either fixed or determined on the basis of a bank performance during the year.

Reserve Deposits (Banker Deposits)
Banker deposits refers to the balances maintained by the scheduled banks with the State Bank of Pakistan to fulfill the statutory obligations of maintaining certain minimum reserves at SBP

Restricted/Compulsory Deposits
Deposits for which withdrawals are restricted on the basis of legal, regulatory or commercial requirements are restricted deposits. These include compulsory saving deposits like employees provident fund accounts, staff pension funds, employees security deposits, staff guarantee funds, import deposits and similar type of deposits related to international trade, security deposits, margin deposits and sundry deposits etc.

Retained Earnings
Retained earnings show undistributed after tax profit from the overall operations less any amount allocated to general and special reserves, which is established as a capital cushion to cover operational and financial risks.

Reserve Money (M0)
It is an indicator used to measure liquidity in the economy and includes currency in circulation, other deposits with State Bank of Pakistan; currency in tills of scheduled bank’s and bank deposits with SBP.

Shares Quoted
The shares that are traded on stock exchanges are called quoted shares.

Shares Unquoted
Unquoted or non-quoted shares are those which are not traded on stock exchanges.

Chapter 3-*Banking System*

Scheduled Banks

"Scheduled Banks" means, "All Commercial banks and specialized banks (like IDBP and ZTB etc) 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"

Balances with other Scheduled Banks

These are balances of scheduled banks amongst each other and exclude balances with National Bank of Pakistan where it acts as an agent of State Bank of Pakistan.

Bills Purchased & Discounted

These refer to advances extended through discounting or purchasing of inland and foreign bills.

Capital

Capital comprises of paid-up capital of Pakistani banks and equivalent rupee amount kept by foreign banks with the State Bank of Pakistan as reserve capital requirement.

Deposits

The data on deposits include the following types:-

i. Call Deposits:
These include short notice and special notice deposits

ii. Current Deposits:
Cheque account deposits wherein withdrawals and deposit of funds can be made frequently by the accountholders. Generally, these are return free deposits kept with the banks.

iii. Fixed Deposits:
Deposits having fixed maturity dates and a rate of return determined or determinable on the basis of a bank's financial performance during a period.

iv. Other Deposits:
These generally include security deposits, margin deposits and sundry deposits etc.

v. Savings Deposits:
Deposits held by the scheduled banks, consisting of cheque accounts on which a certain return is paid by the institution.

Rate of Margin for advances

Margin for collateral is the excess of the market/assessed value of the collateral over the amount of advance.

Chapter 4- *Balance of Payments and Foreign Trade*

Balance of Payments

The balance of payments (BOP) is a statistical statement that systematically summarizes, for a specific time period, the economic transactions of an economy with the rest of the world.

Current Account
Current account covers all transactions (other than those in financial items) that involve economic values and occur between resident and nonresident entities. Also covered are offsets to current economic values provided or acquired without a quid pro quo. Specifically, the major classifications are goods and services, income, and current transfers.

Current transfers
These are offsetting entries for real resources or financial items provided, without a quid pro quo, by one economy to another.

Direct investment income
It is the profit on equity participation and interest on debt earned by direct investor abroad

Capital Account
Capital account covers capital transfers and acquisition / disposal of non-produced, non-financial assets.

(i) Capital transfer
Capital transfers relate mainly to investment grants used for financing the gross fixed capital formation of the recipient economy. It consists of the transfer of ownership of a fixed asset or the debt forgiveness.

(ii) Acquisition / disposal of non-produced, non-financial assets
These refer to the purchases and sales of assets such as land, copyrights, licenses, patents etc.

Financial Account
Financial account records all transactions associated with changes of ownership in foreign financial assets and liabilities.

Errors & Omissions
It is a balancing item intended to offset overstatement or understatement of recorded components due to statistical discrepancies.

Foreign Direct Investment
Direct investment implies a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence by the direct investor on the management of the direct investment enterprise. Direct investment comprises the initial transaction between the two entities—that is, the transaction that establishes the direct investment relationship—and all subsequent transactions between the entities and among affiliated enterprises, both incorporated and unincorporated. For direct investment, direct investor owns 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise).

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

Balance of Trade
The balance of trade is the difference between the monetary value of exports and imports for an economy over a certain period of time.
Balance of 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.
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 borne trade, imports through foreign economic assistance, exports & imports by Export Processing Zones and 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. Still some discrepancies may arise in the two sets of trade data due to valuation, timing and coverage of transactions.

Unit Value & Quantum Indices:
These indices are used to measure changes in the unit value and quantity of Exports & Imports with reference to base year. Laspeyer's formula is used for the computation of these indices that is as under.

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

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

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.

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.

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

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

Income
The Income component of 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 capital is called investment income.

Portfolio Investment Income
Portfolio Investment Income includes dividend on equity securities (share holding of less than 10 %) and interest from holding of foreign bonds, notes, and money market instruments.

Reserves Assets
Reserve assets consist of those external assets that are readily available to and controlled by monetary authorities for direct financing of payments imbalance. In BOP, they cover monetary gold, SDRs, reserve position in the fund, foreign currency reserves and other claims.

Services
Services component implies receipts & payments for provision and acquisition of services of an economy to and from the rest of the world.

Workers' Remittances

Workers' remittances are current transfers for family maintenance by migrants who are employed and residents in new economies. (A resident is a person who stays, or is expected to stay for a year or more in an economy.)

Chapter 5-*Internal and External Public Debt*

Domestic Debt
Domestic debt refers to the debt owed to creditors resident in the same country as the debtor. It can be of sovereign nature, i.e., borrowed by a government or non-sovereign, i.e., borrowed by the corporate. Sovereign domestic debt in Pakistan is further classified into three main categories: permanent debt, floating debt and unfunded debt.

i. **Permanent Debt**
Permanent debt includes medium and long-term debt such as Pakistan Investment Bonds (PIB) and prize bonds.

ii. **Floating Debt**
Floating debt consists of short-term borrowing in the form of T-bills.

iii. **Unfunded Debt**
Unfunded debt refers mostly to outstanding balances of various national saving schemes.

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.

i. **Bahbood Savings Certificates**
This is a ten years' maturity scheme, launched by the Government on 1st July, 2003. Initially it was meant for widows only, however, later on the Government. extended the facility for senior citizens aged 60 years and above from 1st January, 2004. These certificates are available in the denominations of Rs.5,000/-, Rs.10,000/-, Rs.50,000/-, Rs.100,000/-, Rs.500,000 and Rs.1,000,000/-. Profit is paid on monthly basis reckoned from the date of purchase of the certificates. Only widows and senior citizens aged 60 years and above are eligible to invest. The minimum investment limit in this scheme is Rs.5,000, whereas, the maximum limit is Rs.3,000,000/-.

ii. **Defence Saving Certificates**
The Government of Pakistan introduced Defence Saving Certificates scheme in the year 1966. This is the only scheme having 10 years' maturity with built-in feature of automatic reinvestment after the maturity. These certificates are available in the denominations of Rs.500,

Rs.1000, Rs.5,000, Rs.10,000, Rs.50,000, Rs.100,000, Rs.500,000 and Rs.1,000,000. The minimum investment limit is Rs.500/-, however, there is no maximum limit of investment in this scheme.

iii. Pensioners' Benefit Account

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. The pensioners of Federal Government, Provincial Governments, Government of Azad Jammu & Kashmir, Armed Forces, Semi Government and Autonomous bodies are allowed to invest.

iv. Regular Income Certificates

This five years' maturity scheme for general public was launched on 2nd February, 1993Profit on this scheme is paid on monthly basis reckoned from the date of issue of certificates. These certificates are available in the denomination of Rs.50,000, Rs.100,000, Rs.500,000, Rs.1,000,000, Rs.5,000,000 & Rs.10,000,000.

v. Savings Accounts

These are ordinary accounts and frequent withdrawals (twice a week) can be made from this account. The minimum investment limit is Rs.100 in the scheme besides no maximum limit. However, only one account can be opened by person at an office of issue. The deposits can be withdrawn any time from the date of deposit. However, there is a limit of two withdrawals within a week's time.

vi. Special Savings Accounts

This three years maturity scheme was 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. The minimum investment limit in this scheme is Rs.500. There is no maximum limit, however, the deposits are required to be made in multiple of Rs.500.

vii. Special Savings Certificates (Registered)

This three years maturity scheme was introduced in February, 1990. These certificates are available in the denomination of Rs.500, Rs.1000, Rs.5,000, Rs.10,000, Rs.50,000, Rs.100,000, Rs.500,000 and Rs.1,000,000. Profit is paid on the completion of each period of six months. The minimum investment limit is Rs.500, however, there is no maximum limit of investment in the scheme.

External Debt

External debt, at any given time, is the outstanding amount of those liabilities that require payment(s) of principal and interest by the debtor at some point(s) in the future and that are owed to nonresidents by the residents of an economy.

Private non-guaranteed debt

Private non-guaranteed debt is defined as the external liabilities of the private sector, the servicing of which is not guaranteed by Government of the economy as that of the debtor.

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.

Chapter 6- *Open Market Operation*

Auction of Government of Pakistan Market Treasury Bills
MTB auctions are held fortnightly (Wednesday) on multi-priced basis. Only Primary Dealers are allowed to participate in the auctions. Announcement of auctions are done two days prior to auction date. SBP decides the target and cut offs.

Auction of Pakistan Investment Bonds
PIB auctions are held on as and when indicated with target amount and Coupon rates by the MOF. Primary Dealers are allowed to participate in the auction which is decided on multi-priced basis. SBP announces the auction prior to 14 days of auction date to allow short selling to the Primary Dealers on when issued basis. SBP decides the cutoff in consultation with MOF.

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

Coupon Rate
Coupon rate is interest rate payable on bond's par value at specific regular periods. In PIBs they are paid on biannual basis.

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

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

KIBOR – (Karachi Interbank Offered Rate)
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.

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.

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 scrip less (with out physical form) form with interest payment on biannual basis.

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

Chapter 7- *Capital Market*

Index Number
Stock market index is a used for measuring changes in the prices of stock market securities in respect of the base year prices. The index is used as an indicator of the overall performance of the economy.

KSE-100 Index
The KSE-100 Index was introduced in November 1991 with base value of 1,000 points. The Index comprises of 100 companies selected on the basis of sector representation and highest market capitalization, which captures over 80% of the total market capitalization of the companies listed on the Stock Exchange. One company from each sector on the basis of the largest market capitalization and the remaining companies are selected on the basis of largest market capitalization in descending order. This is a total return index i.e. dividend, bonus and rights are adjusted.

All Share Index
The KSE all share indexes was constructed and introduced on September 18, 1995. This is also a total return index (dividend, bonus and adjusted rights shares) computed for all companies listed at KSE.

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 that entitles their holders to have ownership in the company. Holders may receive dividends depending on profitability of the company or recommendation of the directors.

Preference Shares
Preference Shares are issued by a company and the company pays a fixed amount of dividend, irrerespective of its earning profit or loss. The share holders generally have no voting rights.

Chapter 8- *Prices*

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 predefined basket of goods and services and to gauge the increase in the cost of living in reporting period.

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 10- *Public Finance*

Debt Rescheduling
Debt Rescheduling is undertaken through an agreement between the borrower and the creditor to re-arrange the schedule of principle and interest payments due on the debt outstanding. In addition, the rescheduling agreement may include provisions for debt relief to enable the borrower to regain its financial strength to service the rescheduled debt obligation.

Direct Tax
A tax levied directly on the taxpayer such as income and property taxes.

Indirect Tax
A tax levied on goods or services rather than individuals and is ultimately paid by consumers in the form of higher prices such as sales tax or value added tax.

Chapter 11- *Economic Growth*

Gross Domestic Product
GDP, of a country is one of the ways of measuring the size of its economy. GDP is defined as the total market value of all final goods and services produced within a given country in a given period of time (usually a calendar year). It is also considered the sum of value added at every stage of production (the intermediate stages) of all final goods and services produced within a country in a given period of time, and it is expressed in monetary terms.

Followings are the three approaches to measuring and understanding GDP:

i. **Expenditure Based**
   Expenditure-based gross domestic product is total final expenditures at purchasers' prices (including the f.o.b. value of exports of goods and services), less the f.o.b. value of imports of goods and services.

ii. **Income Based**
Income-based gross domestic product is compensation of employees, plus taxes less subsidies on production and imports, plus gross mixed income, plus gross operating surplus.

iii. **Output Based**
Output-based gross domestic product is the sum of the gross values added of all resident producers at basic prices, plus all taxes less subsidies on products.

Gross Fixed Capital Formation
The estimates of GFCF in Pakistan are primarily constructed separately for private and public sectors by economic activity as well as by capital assets. It comprises expenditure incurred on the acquisition of fixed assets, replacement, additions and major improvements of fixed capital viz. land improvement, buildings, civil and engineering works, machinery, transport equipment and furniture and fixture.

Gross National Product
The Gross National Product (GNP) is the value of all the goods and services produced in an economy, plus net factor income from abroad.

Net National Product
NNP is the total market value of all final goods and services produced by citizens of an economy during a given period of time (Gross National Product or GNP) minus depreciation.