

May 06, 2010

**Pakistan Market****Greece versus Pakistan: a parallel comparison****MORNING BRIEFING**

KSE100 Index: Closing 10561.74 ↑ (+93.98)

The International Monetary Fund has classified Greece under the Euro zone which makes it an Advanced Economy versus Pakistan's categorization as an Emerging and Developing Asian Economy. We believe the two countries are encountering the same set of macro issues, the difference being that Pakistan's problems began two years prior to the patch Greece is currently undergoing. Both countries have had to be eventually rescued by international monetary institutions and are being pressurized for more macro discipline.

Recently, Greece's economic credit rating was downgraded from A2 to A3 (Moody) with a 'negative' outlook compared to Pakistan's credit rating of B3 (Moody) 'stable' outlook. Greece has a debt to GDP of 150% and Pakistan is 56.7% signifying the Greek high macro vulnerabilities. We have carried out a parallel comparison using macroeconomic fundamentals of the two countries to highlight Pakistan's relatively stable future capital market outlook.

**Pakistan versus Greece: Macro differences**

As highlighted in the table, Pakistan's economy is in a far better position, showing signs of recovery, than that of Greece which is experiencing a contraction.

**Macro Comparisons: Greece vs. Pakistan**

	Greece			Pakistan		
	2009	2010	2011	2009	2010	2011
Real GDP (%)	(2.0)	(2.0)	(1.1)	2.0	3.5	4.5
Consumer Prices (%)	1.4	1.9	1.0	20.8	11.0	8.0
C/A Balance (% of GDP)	(11.2)	(9.7)	(8.1)	(5.6)	(3.8)	(4.1)
Fiscal Deficit (% of GDP)	13.6	14.0	11.0	5.0	5.5	4.9
Debt-to-GDP %	115.0	125.0	150.0	58.9	56.7	55.8
CDS - 1 year		1,080			688	
2 year		1,031			718	
5 year		821			653	
Avg. Age of Population	42	42	42	22	25	25

Source: IMF, Bloomberg & JS Research

The twin deficits of the Greek economy for year 2009 were reported at 24.8% compared to 10.6% of Pakistan's. Interestingly, though there is a massive difference between the twin deficits of both countries, the inflation is much more contained in Greece at 1.9% as opposed to Pakistan's 11%. This can be alluded to the fact that the Greek economy is more open than Pakistan's.

The data set reiterates our view that Pakistan's credit rating is set to improve in the days to follow.

**The Euro concern, commodities and macros**

Even with the European Union and IMF's joint bailout, Europe is still embroiled in the debt crisis. As a result, Euro is weakening against the international basket of currencies and has been trading at a one year low-level. As per the FBS, Pakistan's exports to Europe come to only 26 % of the total, comprising mainly of basic textiles. Therefore, we believe if the crisis does prolong our exports will not be hit significantly. The European concern should also keep in check the recent rise in commodity prices which should also stem the risk of a higher external deficit for Pakistan.

**The outlook:**

**Macro:** As highlighted in previous write-ups, we believe Pakistan's macro concerns have overcome the worst since last year. However, a major risk to the economy that still remains is any upside potential materializing in international oil prices and the prolonging of power crisis.

On the flip side, investor concern regarding debt repayment to the IMF 2011 onwards is not a major threat as most of the IMF loan taken stays unutilized as reflected from the reserves level. The government's divestment of its key public holdings coupled with higher remittances should accumulate sufficient reserves for reimbursement to the IMF, in our view.

**Stock Market:** Increased investor confidence in Pakistan's economy can be gauged from the net foreign portfolio inflows of US\$215mn, since March 1st. This also highlights the weak

correlation of Pakistan's market with the rest of the world. The former's market is currently trading at a one year forward PE of 7.5x and offers a 12% upside to our 2010 KSE-100 target of 11,800 points. Therefore, we expect Pakistan's equity market to improve, even if Greece & European debt concerns linger on.

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**Also in focus****T bill yields decline 13-18bps**

The cut off yields on Pakistan's treasury bills declined by 13-18bps in the auction yesterday, as the Central bank managed to raise Rs74.7bn against a target of Rs75bn. The cut off yields on the 6-month paper declined by 14bps to settle at 12.15%, while yields on the 3-month and 12-month paper declined by 18bps and 14bps to 11.97% and 12.23%, respectively. We believe, the decline in yields is down to the excess liquidity in the market, primarily on account of funds released by the Ministry of Finance to PEPCO as partial retirement of the circular debt and arrival of funds relating to the Coalition Support Fund (CSF).

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