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Pakistan Market**World Economic outlook and Pakistan's economy****MORNING BRIEFING**

KSE100 Index: Closing 9487.95 ↑ (+32.80)

Recently, IMF released its World Economic Outlook report where it expects that the world economy to sustain the economic recovery, forecasting a global GDP of 3% in 2010, after contracting by about 1 percent in 2009. The question remains whether Pakistan's economy is following the world's GDP trajectory or lagging behind? Our answer is "lagging behind", as Pakistan's policy framework refrains to follow the supportive and accommodative policies like rest of the world. Pakistan's leading macroeconomic data ranging from domestic consumption to investments is still pointing towards weak economic growth in FY10 and beyond. This should continue to undermine the financial sector's asset quality recovery and in turn will slowdown the capital market recovery, in our view.

IMF Economic Outlook 2010 excerpts

"After a deep recession, economic growth has turned positive, as wide-ranging public intervention has supported demand and lowered uncertainty and systematic risk in financial markets. The recovery is expected to slow, as financial systems remained impaired, support from public policies will gradually have to be withdrawn, and households in economies that suffered asset price busts will continue to build savings while struggling with high unemployment. The key policy requirements to restore financial sector health while maintaining supportive macroeconomic policies until the recovery is on a firm footing. However, policy makers need to begin preparing for an orderly unwinding of extraordinary levels of public intervention".

Policy framework post financial and commodity meltdown

We believe Pakistan is still not out of the aftermaths of 2008 commodity super cycle (including hyper inflation, sky rocketed twin deficits, and growth concerns). The risk of bankruptcy has left no other option for the government except to accept

IMF program. Though the timely IMF program has saved Pakistan from defaulting but it has never allowed government to stimulate the economy through adopting loose monetary and fiscal policy. IMF has devised tough quantitative and performance criteria for the country in a very short-span of time. This has resulted into massive domestic demand destruction, higher unemployment and lower investments in the country. On the positive side, the reforms initiated by IMF program may help Pakistan to prevent the shocks like 2008. But nevertheless, Pakistan will lag behind its peers in year 2010 and 2011. We expect Pakistan economic growth at around 3-3.5%, lower from our previous expectation of 4-4.5%.

Key data highlights

The weaker domestic demand and investments can also be validated from the machinery imports data. Overall, machinery imports in the country contracted by 20% in FY09, with the exception of power generating machinery up 17%. The weak trend persisted even in the first two months of FY10, down 27%YoY. Our leading import categories like POL, Transport, Textile group, agriculture and chemical group all depicted an import contraction since June 2008 (see table below). This should continue to undermine the growth prospects in the country.

Table: Pakistan's import trend

	FY09	2MFY10
Machinery group	-10.5%	-27.1%
Transport group	-41.1%	-11.5%
Petroleum group	-17.0%	-41.0%
Agriculture & other chemicals	-9.9%	-19.1%
Metal group	1.8%	-18.3%

Source: FBS

What needs to be done?

To stimulate the economy on a fast track, we believe, government should overcome the power crisis, followed by loose monetary and fiscal policy. However, government

should abstain from giving power and fuel subsidies and pass down the indirect support through income support programs.

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Also in focus**FBR collects Rs259.2bn in taxes in 1QFY10**

Federal Board of Revenue collected Rs259.2 (US\$3.1bn) in taxes in the first three months of the fiscal year as compared to a target of Rs286bn. In the corresponding period last year the amount stood at Rs262bn. Interestingly, the last date of filing the annual tax return this year is 15th October compared to 30th September last year, which we believe is reflected in the depressed amount. Full year target for FY10 is Rs1,379bn.

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