

BUSINESS RECORDER



Beyond success:

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Despite less than appealing macros over Pakistan's tumultuous history, the country's benchmark index, the KSE-100, has continued to depict stellar returns backed by a strong bottoms up story and continued investor appetite. Average annual returns over a 10 year period at the KSE-100 stand at an impressive 25% with US\$ based average annual return at 20%. Even more impressive has been the market's recent performance where the KSE-100 has generated a cumulative 183% return over the past 3 years. In the process, the Karachi Stock Exchange continuously ranked amongst the best performing markets globally.

The uptrend in performance has been a factor of both macro and company level developments where specifically, the strong rally post elections 2013 underpin investor confidence in the economic choices of the incumbent government. Pakistan is on the right development path with FY15 GDP growth expected at 4.5% (FY14: 4.1%) while inflation has come off to just 2.5% from a peak of 15.5% in Dec'10, aided to an extent by receding global commodity prices. Reserve movement has also been positive with the country's total reserves reaching US\$17.2bn after bottoming out at US\$7.6bn in Feb'14. The country also re-entered the global capital market space with successful Eurobond and Sukuk issues while the privatization process appears on track. It was heartwarming seeing the excellent

response received by the recent HBL secondary offering and underscores the demand as well as the confidence of international and domestic investors on well managed institutions. At the other end of the spectrum, strategic sale of loss making entities particularly the domestic power distribution companies should help mitigate the fiscal burden on successful governments in the years ahead.

The government's economic reforms have been well perceived internationally with Pakistan's Eurobond yields falling to current 4.8% from a peak of 8.56% reached in Jul'13. At the same time, Pakistan's broad risk perception as measured by CDS spreads has improved substantially with current spread at 450bps, significantly lower than the 30%+ witnessed in FY09.

Superior market returns have obviously led to questions of sustainability over a longer term and the market correction in the first quarter of the current year certainly fanned these flames. I believe Pakistan has entered a defining phase where the market (a proxy of the economy) movement is likely to track economic progress in conjunction with geo political developments. The government certainly needs to be consistent in its policies where structural impediments to economic progress need to be addressed. Reforms within the energy sector - a bane for growth in the country, need to continue where current subdued

global oil prices have provided the government space on the external front and an excellent opportunity to focus on alternatives. Resting on laurels will not be enough and the government needs to ensure it avails the opportunity to substitute expensive furnace oil electricity generation with coal (local and imported), LNG and hydel capacities. This will have a two-pronged benefit to the economy in that not only will it mitigate exchange pressures but will also help in making our exports competitive given lower energy / input costs.

On the economic front, the fiscal side needs much attention particularly with regards to tax collection. Replacing National Tax Numbers (NTNs) by National Identity Cards (NICs) is a smart move in my view and should lead to growth in numbers. At the same time, improved targeted FDI particularly in light of the US\$50bn China Pak Economic Corridor project should bring to the fore latent economic activity within the country and its neighbors. From the market's development point of view, recent increased oversight by the Securities and Exchange Commission of Pakistan (SECP) with rules for Analysts and Traders as well as the recent passage of the Securities Bill 2015 by the Senate are long term positive. What the government needs to ensure is that for market development, all stakeholders have to work together and interests of all parties including regulators and investors should be aligned.