PAKISTAN ECONOMIC SURVEY (FY19)

The Economic Indicators Surely Don't Depict the Reflection of the Economy as Stated in the Ruling Party's Manifesto

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Adviser to PM on Finance, Revenue and Economic Affairs, Dr. Abdul Hafeez Shaikh along with his team presented Pakistan Economic Survey 2018-19 on 10th Jun 2019 in which the economic performance of past 9 months has been discussed comprehensively. The stated time period also includes 8 months of the newly elected government of PTI who came into power based on so many appealing slogans of economic reforms but, the stated economic indicators surely don't depict the reflection of the economy as stated in the ruling party's manifesto.

There is no doubt that the new government has inherited the economy in a very bad situation. The fiscal deficit was high; the current account deficit was also at the highest level in the country's economic history; debt liabilities had risen to a level where servicing of the debt took a sizeable portion of the federal government's budget; and foreign exchange reserves had depleted to a level that was insufficient to finance even two months of imports. This instability was a result of structural weaknesses in the economy which had remained unaddressed for decades.

To curb all this economic chaos, the government has taken many initiatives like it increased duties to discourage unnecessary imports, brought the PKR near to its fair value by depreciating it around 43% in order to encourage exports and stop the bleeding of precious and rare foreign exchange reserves, increased gas and electricity tariffs to cut circular debt and fiscal deficit and increased policy rate from 5.75% to 12.25% in order to limit the rising inflation which is a result of the massive exchange rate devaluation and increased tariffs. Unfortunately, all these measures have an adverse impact on the economy in short term as the cost of doing business has increased which has resulted into lower GDP, higher unemployment and higher cost of living which can be clearly seen in the indicators mentioned in the table. Another great challenge for the current government is the accumulation of an enormous public debt. The country's debt to GDP ratio has reached around 74% which is the highest in the history of Pakistan. The severity of the situation can be realized by the fact that the foreign debt of the country has reached the $100 billion mark, the debt servicing in the next 2 years is around $27 billion, current account deficit in 11 months is around $9.6 billion and the total foreign exchange reserves owned by SBP are mere $8 billion.

In order to revive the deteriorating economy, the government has to do much more than what it has already done. The government has to create import substitution and increase custom duties on unnecessary imports to further cut the current account deficit. Furthermore, subsidies should be provided to support the export sector and help them to develop value-added products in order to decrease the deficiency of foreign exchange reserves required for foreign debt servicing. The tax base should be widened, and the expenses should be curtailed to reduce the fiscal deficit. Privatization of state-owned entities is indispensable now as they eat around 25% of the total budget of Pakistan every year. Documentation of the black economy and recovery from electricity, gas and other defaulters is also needed in order to bring Pakistan's economy back on right track. We hope that the government would take the above-mentioned initiatives very soon and resultantly, we might see some improvements in the economic indicators from FY21 onwards.

Indicators	FY19	FY18
GDP	3.29% ▲	5.50% ▲
Investment	1.90% ▲	12.80% ▲
Saving-Investment Gap	27.00% ▼	70.00% ▲
Inflation	7.00% ▲	3.77% ▲
Current Account Deficit	26.90% ▼	70.00% ▲
Foreign Investment	51.70% ▼	26.37% ▲
Literacy Rate	62.30% ▲	62.30% ▲
Unemployment Rate	5.79% ▲	5.79% ▲
Population Growth Rate	2.40% ▲	4.36% ▲

Debt Profile (PKR' bn)	FY19	FY18
Domestic Debt	18,171	16,416
External Debt	9,626	7,796
Private Sector External Debt	2,108	1,654
PSEs External Debt	489	325
PSEs Domestic Debt	1,378	1,068
Total Debt and Liabilities	35,095	29,879
Total Public Debt	28,608	24,953
Total Government Debt	26,368	23,024

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TP	Target Price	DDM	Dividend Discount Model	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	JPB	Justified Price to Book

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Sector Rating	Sector Outlook
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