Faysal Asset Management

Research Note

31st May 2012

Highlights on Economic Survey 2011-2012

Gross Domestic Product FY11-12

- In the outgoing fiscal year Pakistan missed most of the target set at the beginning of FY11-12 owing sluggish growth and macroeconomic vulnerability of the economic fundamentals.
    - **Agriculture**

Agricultural	Target	Expected	Short fall
FY12	3.4	3.1	9%

    - **Manufacturing**

Manufacturing	Target	Expected	Short fall	FY11
FY12	3.70%	3.60%	3%	3.10%
LSM	2%	1.80%	10%	1.20%

    - **Services**

Services	Target	Expected	Short fall / Excess	FY11
FY12	5%	4%	20%	

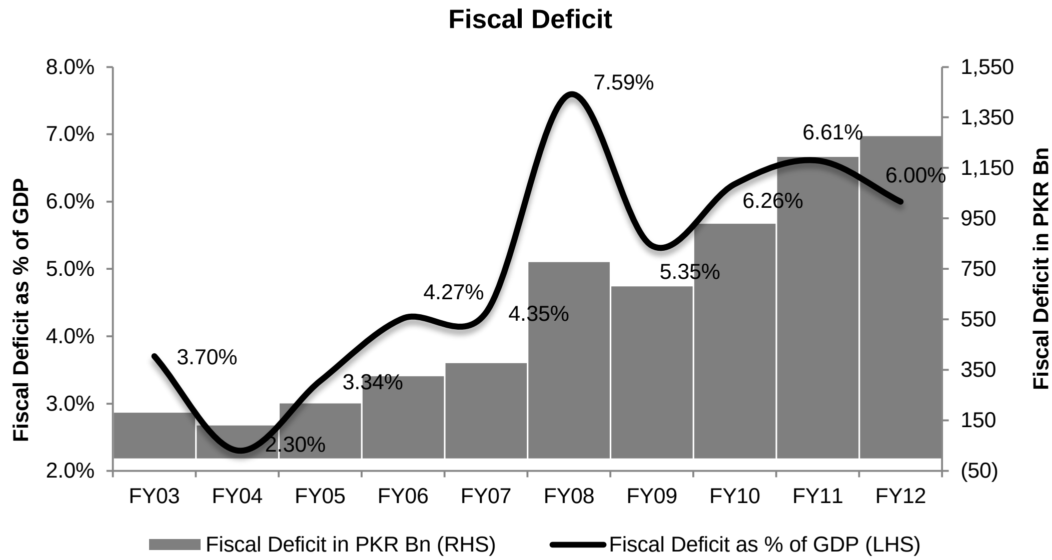
- During Jul-Feb, private businesses borrowed PKR 57 bn, of which PKR 52 bn were borrowed for working capital requirements. (Only PKR 5 bn for Fixed Investment – further highlighting that the growth is consumption drives and not investment driven)

FDI Savings and Growth

- National savings of 10.8% vs. target of 13.2% (Last year 13.2%)
- During Jul-Feb, private businesses borrowed PKR 57 bn, of which PKR 52 bn were borrowed for working capital requirements. (Only PKR 5 bn for Fixed Investment)
- FDI stood at $ 599 million as against $1,157 million. Change from last year (48.2%)

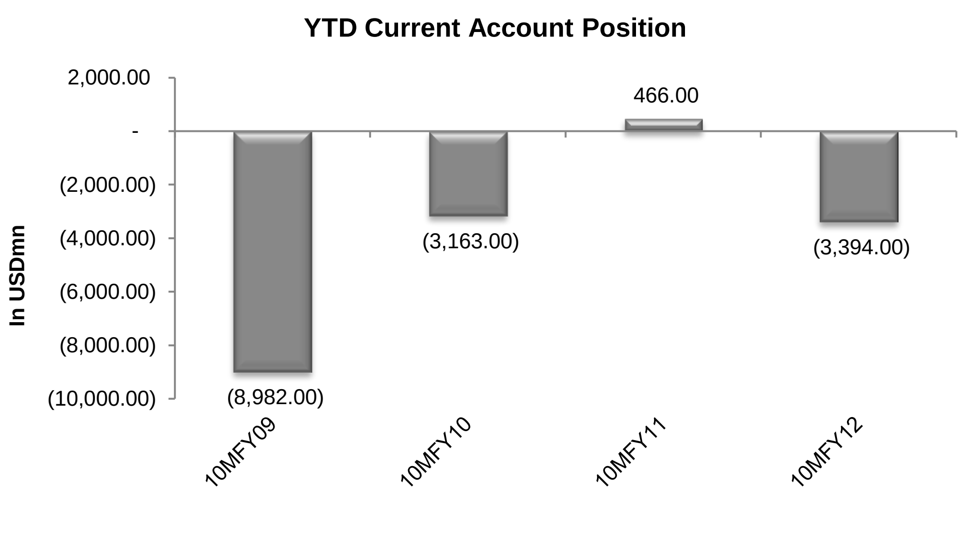
Fiscal Deficit FY11-12

- Fiscal deficit was targeted at Rs 851 billion (4 percent of GDP) however recent reports suggest that it will be over 6%



Current Account FY11-12

- On the external side Pakistan's current account deficit widened to a provisional $3.089 billion in the first nine months of the 2011/12 fiscal year, compared with $10 million over the same period in the previous year, The current account had a provisional surplus of $142 million in March, compared with a surplus of $184 million in the same month the previous year.



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Remittance 10MFY11-12

- Overseas Pakistanis remitted an amount of $10,877 million in ten of the current fiscal year 2011- 12, showing an impressive growth of 20.24% or $1,831 million when compared with $9,046 million received during 10MFY11.
- The joint efforts by SBP and MoF to facilitate remittances through formal channel have led to higher inflow in FY11-12. Continued strong remittance will provide the much needed support to the escalating current account deficit.
- Reliance on remittances makes the balance of payments susceptible to slowdown in the Gulf region and other countries where Pakistani migrants are concentrated.
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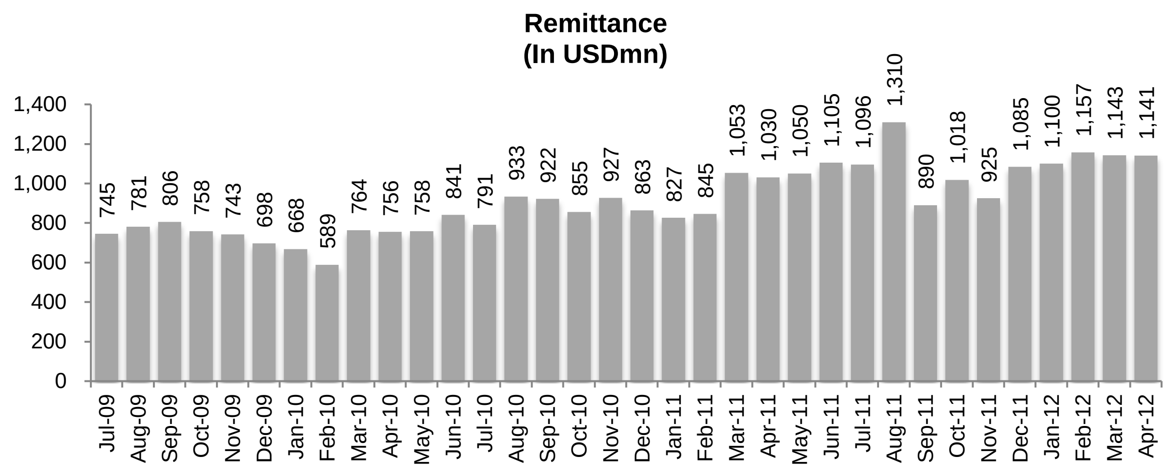
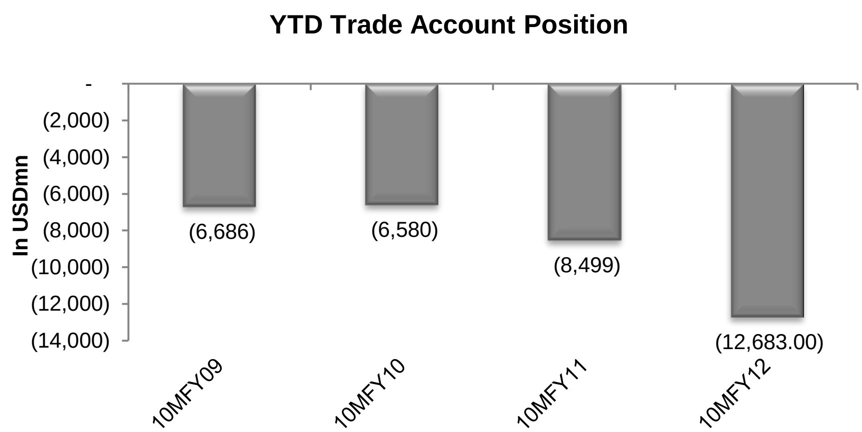


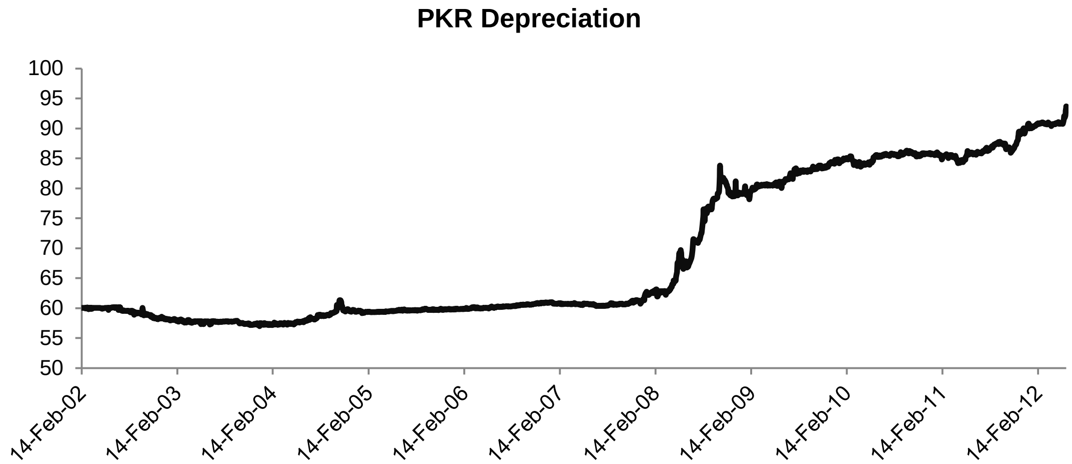
Trade Balance 10MFY11-12

- The country's oil import bill has registered a phenomenal rise of 38%, crossing $11-billion-mark during the current fiscal year mainly because of soaring oil prices in the world market.
- Trade Deficit for FY11-12 was budgeted at $12.2 billion (5.3% of GDP) where in 10MFY12 trade deficit of $10billion has been registered.



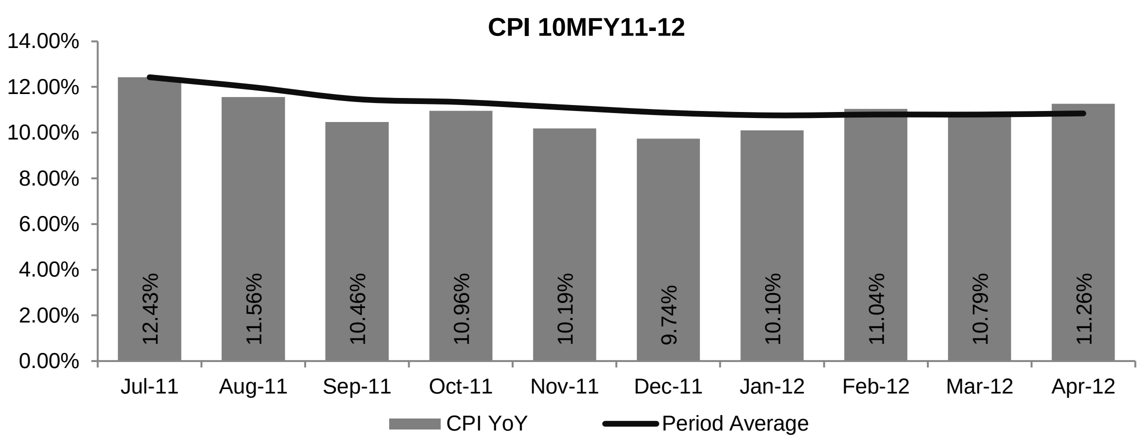
Currency Depreciation FY11-12

- Due to the repayments of IMF SBA program since Jan 2012 the pressure on currency has increased manifold.
- The pressure would continue in FY12-13 as Pakistan has to pay USD 2.9bn



Inflation 10MFY11-12

- With only two months left till FY12 end, we anticipate that the government will be successful in maintaining inflation within 11%.
- As per Budget the inflation for FY11-12 was targeted at 12% July-April 10.8% Vs. 13.8% last year



Conclusion:

Despite the ease in inflationary pressure, continuous fiscal slippages, power crisis and depleting forex reserves impede the growth prospects in FY12-13. Additionally entering into a new plan with IMF seems inevitable for macroeconomic stability in the upcoming fiscal year.