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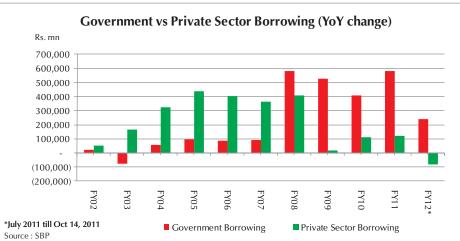
The Private Sector and Economic Growth

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In today's world the private sector is the engine of economic growth for any country. It is more productive, efficient, transparent, dynamic and professional than the government sector. It creates jobs, pays taxes, and brings in foreign exchange via exports. Governments around the world are increasingly privatizing businesses, reducing their size, and providing an enabling environment to businesses to grow, while themselves focusing primarily on providing basic social services like education and health care to the poor. Unfortunately, in Pakistan the role of the private sector in the economy seems to be reducing and that of the government growing, which is negatively impacting Pakistan's economic growth and stability. Government-owned businesses are incurring huge losses of about Rs 400 billion per year, which is more than the combined government spending on education, health care and population planning. In addition, a tremendous increase in government-sector borrowing over the last four years has crowded out the private sector (see Chart below). In FY 2007 private sector borrowing was around Rs 366 billion, which has declined to Rs. 121 billion by FY 2011. On the other hand, government borrowing during FY 2007 was Rs 93 billion, which has risen to Rs 580 billion by FY 2011. A matter of concern is that in the first three and a half months of FY 2012, the net borrowing of the private sector has been negative Rs. 81 billion. This means that businesses are retiring their debt instead of borrowing and expanding. This situation is not sustainable and it would not be possible for the economic growth rate to rise back to the 6% p.a. level, and unemployment to reduce, till this trend is reversed.

The Federal and provincial governments need to take steps to raise tax revenues, reduce non-productive expenditures and revive the privatization process in order to limit government borrowing, and allowing the private sector to grow again. The recent reduction in interest rates will help the private sector. However, crowding out of capital due to excessive government borrowing persists. Energy shortages and the law & order situation are also badly impacting the private sector. Kidnapping for ransom is on the rise all over the country, and is spreading jitters among the business community. I have recently come across several businessmen in Punjab as well as in Karachi, who plan to move their businesses and their families outside Pakistan due to the law & order and security concerns. This is a serious matter because if businesses and businessmen start moving out of Pakistan in large numbers, unemployment will increase tremendously. This will have severe social repercussions and may result in further deterioration of the law & order situation and reduction in the government's tax collection.

The stock market is down nearly 5% since the start of the prevailing fiscal year, even though a marginal recovery was depicted in the last few days of October. Investors are generally on the sidelines waiting for some positive signals on the economic and security front before entering the market. The valuations of the stock market are attractive and a significant upside is expected over the next year provided that some concrete steps are taken by the government to improve the performance of state-owned entities, control the budget deficit, and reform the police system.



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