

## The Growth of Pakistani Stock Market

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This month I analyze the growth of the Pakistani stock market over the last few years, and the future prospects. The total stock market capitalization (size) has increased from Rs. 0.3 trillion in 2001 to Rs. 4.4 trillion in 2007 - a 14 times increase (see Table below). Average daily traded value has increased from Rs. 3 billion in 2001 to Rs. 25 billion in 2007. The number of listed companies has dropped from 747 in 2001 to 657 at present. However, this is not necessarily a bad thing as there are many small companies listed on the exchange, which are not liquid. It would be better if these small companies, especially in the textile sector, merge so that their merged market capitalization and traded value is large enough to attract local and foreign investors.

The average return that investors have earned during the 2001-2007 period, including capital gains and dividend yield, has been 50% per year. Pakistani stock market has been one of the best performing markets in the world over the last 5-years. One of the main reasons for this impressive performance is that following September 11 events, overseas Pakistanis got scared that their accounts in Western countries may be frozen. As a result, tens of billions of dollars were remitted back to Pakistan by overseas Pakistanis. These funds were invested in the stock & real estate markets and industrial &

services sectors. This spurred growth in all sectors of the economy. The Government during this period did a good job getting Pakistan's foreign debt restructured, and managing budget and trade deficits.

The performance of the Pakistani stock market over the last 5 years has been linked to cyclical factors, the primary factor being huge inflows of remittances of overseas Pakistanis and foreign direct investment. These two factors will continue to play an important role in the future as well. However, to sustain robust economic and stock market performance, structural improvements will also be necessary. The most important of structural improvements include (i) a stable political and law & order environment; and (ii) large increase in allocations to education, healthcare, infrastructure, and law & order sectors in the budget. Despite government's recent increase in spending, Pakistan still spends a much smaller percentage of its budget on human development than most countries. United Nations rank Pakistan 134 among 177 countries based on our human development indicators. In today's world, the most important asset that a country can have is an educated, skilled, productive and healthy work force. Thus, a substantial increase in investment in people by the government is a must to move Pakistan towards a better future.

### Karachi Stock Exchange 100- Statistical Data

	2001	2002	2003	2004	2005	2006	Oct-07
Stock Market Capitalization (Rs trn)	0.30	0.60	0.95	1.72	2.75	2.77	4.38
% Change		101%	60%	81%	59%	1%	58%
Average Daily Value (Rs bn)	3.04	6.12	15.69	17.41	33.58	31.61	25.05
% Change		101%	156%	11%	93%	-6%	-21%
KSE 100 Index Performance	1,273	2,701	4,472	6,218	9,557	10,041	14,486
% Change		112%	66%	39%	54%	5%	44%
Number of Companies	747	712	701	661	661	652	657
% Change		-5%	-2%	-6%	0%	-1%	1%

Source: Karachi Stock Exchange, S&P Global Stock Market Factbook