

Rise in Pakistan Stock Market mostly due to increased corporate earnings

The Karachi Stock Exchange's 100 share index was 9989.41 on Friday 30 June 2006, Price/Earnings ratio 12.25, dividend yield 4.27 % pa.

On Friday 29 June 2007, it was 13,772.46, P/E ratio 12.89, dividend yield 4.15% pa. The rise was 37.87%, or 3,783.05 points.

(Source for P/E ratio & dividend yield: Taurus Securities Ltd)

Earnings mean historical, not projected, earnings. The KSE 100 is a Total Return Index, including dividends. So the growth can be approximately analysed thus:

Item	Contribution to Growth	
	Points	%
Dividends	548.79	5.49%
Increased corporate earnings	2,581.05	25.84%
Increase in P/E ratio	656.74	6.57%
Unreconciled	(-)3.53	(-)0.03%
	3,783.05	37.87%

Most of the rise was due to better corporate earnings. Only a small part was due to changed market sentiment, reflected in a slightly higher P/E ratio.

Mathematics: the mother of science

On 17 June 2007, a speaker at Stanford University in the USA called mathematics the mother of all science. The high demand for mathematics graduates in the USA explains US domination in many fields.

More than a thousand years ago, a person in the territory now comprising Pakistan was solving indeterminate equations. Our sub-continent pioneered in mathematics.

Compared with physics, chemistry and the life sciences, mathematics needs much fewer laboratory facilities. We Pakistanis should work hard to improve mathematical education in schools, colleges and universities. Some beginnings have been made, but much more needs to be done.

Improvements in EOBI pensions proposed by Finance Bill, 2007

The Finance Bill, 2007, proposed the following changes affecting pensions provided by the Employees' Old-Age Benefits Institution (EOBI):

Upto 30 June 2006, the Minimum Wage under the Minimum Wages for Unskilled Workers' Ordinance, 1969 was Rs 4,000 pm. The Bill proposed to increase this to Rs 4,600 pm from 1 July 2007.

EOBI contributions and pensions are calculated on the Minimum Wage. They are not calculated on actual wages.

As at June 2006, the Formula Pension was 2% multiplied by years of contributions multiplied by the average Minimum Wage during the most recent 12 months for which EOBI contributions were made.

From 1 July 2007, the third item will be the Minimum Wage during the last month for which contribution was received.

Example: Suppose pension starts in Aug 2007. Suppose the last EOBI contribution was received for April 2003. Then the Formula Pension will be based on the Minimum Wage as at April 2003, not the new Minimum Wage of Rs 4,600 pm.

If the formula pension is less than the Minimum Pension, the Minimum Pension is

payable. As at 30 June 2006, the Minimum Pension was Rs 1,300 pm. It has been raised by 15.4 % from 1 July 2007, to Rs 1,500 pm.

Upto 30 June 2006, on death before pension age, spouses were given only the Minimum Pension. They were not given the Formula Pension. The Bill proposed that the spouses' pension will be the Formula Pension or the Minimum Pension, whichever is the higher. But this will apply only where death takes place on or after 1 July 2007.

If a formula pension was in payment as at 30 June 2007, it will be increased by 15% from 1 July 2007.

(Of course, if a Minimum Pension of Rs 1,300 pm was being paid as at 30 June 2007, it will be increased to Rs 1,500 pm)

On 1 July 2006, the Minimum Wage was increased by 33.33%, from Rs 3,000 pm to Rs 4,000 pm, and the Minimum Pension by 30%, from Rs 1,000 pm to Rs 1,300 pm. The further increase on 1 July 2007 of 15% in both is well over the rate of inflation during Fiscal Year June 2007.

Increases in (a) the Minimum Wage, (b) the Minimum Pension and (c) Pensions in Payment are good for the low paid persons who are EOBI's main beneficiaries. But they do have profound long-term consequences for the EOBI scheme. A basis or rationale should be devised for future increases in all three items.

Changes in Voluntary Pension Scheme

The Finance Bill, 2007, proposed the following changes:

Previously, only people with a National Tax Number could join the VPS. It will now be sufficient to have either an NTN or a computerised National Identity Card.

Under the "Standing Orders", an employer does not have to pay a gratuity to a workman on cessation of service, if there is a Provident Fund to which he contributed at least as much as the workman. From 1 July 2007, this exemption from gratuity will also apply if the employer matches a workman's contribution to the VPS.

No expansion of EOBI's scope: 2006 reduction of coverage continues

EOBI covers less than 2 million out of the total work force of over 40 million. Its scope has not been expanded since the scheme was enacted on 1 July 1976. In fact, the scope was regrettably reduced on 1 July 2006, when the thresh-hold for new establishments to enter the scheme was raised to 20 employees, instead of the previous thresh-hold of 10 fixed on 1 July 1976.

It is easy to make changes in benefits to existing EOBI insured persons and pensioners, as proposed in the Finance Bill, 2007. It is a much harder task to expand EOBI to cover the entire work-force as a National Basic Pension Scheme. This would benefit tens of millions of old people and widows. So this hard task must be done.

It seems wrong to have neglected this issue for 30 years. We must not be like the man who lost his watch in a dark alley. He found it too difficult to look for it there. Instead, he started to look for it under a nearby lamp-post, "because there is more light".

Useless information

Alcohol is a legal and widely advertised drug. Medical problems caused by it cost the British National Health Service about £ 1.7 billion yearly. Medical problems caused by illegal drugs, including marijuana, cocaine and heroin, cost about £ 0.5 billion yearly.

(Statistics from *The Times*, 2 Jun 07)