

FY2018-19: Foreign investment plunges by 74.8 percent YoY: report

Foreign investment into Pakistan, of which around 30 percent comes from China, has decreased by 74.8 percent year-on-year (YoY) over the first seven months (July-January) of the current fiscal year 2018-19, says Fitch Solutions. Fitch Solutions in its latest report "Industry Trend Analysis - vehicle sales in Pakistan to weaken as risks come to fruition", states that Chinese investment in Pakistan, primarily as part of the China-Pakistan Economic Corridor, has slowed by 28.4 percent YoY.

It is believed that this slowdown in investment inflows into Pakistan will have a detrimental impact on the country's commercial vehicles segment, especially its heavy commercial vehicle segment. Fitch Solution forecasts that total commercial vehicle sales would grow by only 4.9 percent in fiscal year 2019.

"We believe that Pakistan's automotive sector will start to struggle in fiscal year 2018-19 and fiscal year 2019-20, as the risks that we highlighted in 2018, namely the over-reliance of the sector on Chinese investment, come to fruition.

"That said, the government's latest decision to remove the vehicle purchasing restrictions on non-income tax filers will provide some support and stem some of the pressures coming from the slowdown in investment inflows. We have therefore moved to revise down our forecast for new vehicle sales in fiscal year 2018-19 and fiscal year 2019-20 to a 2.4 percent contraction and 1.3 percent growth respectively, down from 7.3 percent and 10.6 percent growth forecasted previously," the report stated.

Fitch Solutions forecasts light commercial vehicle sales to remain relatively unscathed and expand by 11.8 percent while heavy commercial vehicle sales, which will bear the brunt of the investment slowdown, to contract by 18.1 percent over the same period. However, some of this deteriorating sales outlook stems from a market correction as sales experienced a spike in fiscal year 2017-18, the report added.

"We believe that the government's decision to remove the vehicle purchasing restrictions of non-income tax filing consumers will prop up passenger vehicle sales as the slowdown in investment exerts a drag on consumers' willingness to make larger purchases, such as new cars. Previously non-filers of income tax were prohibited from purchasing new vehicles, which pushed the poorer consumer base out of the market, thereby somewhat limiting growth in Pakistan's new passenger vehicles sales.

"That said, this change in government policy will only offer marginal support to the demand for passenger vehicle sales as the majority of the non-income tax paying consumers remain poor and unable to afford new vehicles. It is therefore forecast new passenger vehicle sales to contract by 3.6 percent in fiscal year 2019, and remain stable in fiscal year 2020, growing only 0.6 percent, " the report concluded.

TAHIR AMIN