Political Euphoria:
Light at the End of the Tunnel – III

The first two analyses of October 2007 and March 2008 highlighted the impact of the political uncertainty in the country on the economic stability. Unfortunately this internal political situation is still one of the major factors impacting the economy. The completion of recent electoral process provided a ray of hope to the nation and the political risk was forecasted to decrease significantly. The downward trend of the economic cycle has witnessed continuation of increased political risk impacting the growth of the capital markets negatively.

Local Front: The recent decision of the Supreme Court of Pakistan resulting in the ousting of the government in the largest province by population has turned political pressure to an all time high yet once again. We still need to see how this most recent political crisis plays out as it has long-lasting impacts on the growth of the industrial as well as the financial sector among others. The recent energy crisis in the country coupled with high cost of borrowing has already impacted the growth of the industrial sector negatively. The Central Bank remained cautious in its most recent monetary policy statement. The inflationary pressures remain to be a factor standing in the way of a policy shift regarding interest rates in the country. The positive impact of the decline in the International Oil prices can be passed on to the local consumers to curtail inflationary pressures. The shift in monetary policy along with stability on the political front can reinitiate foreign investors' interest in the country.

International Front: The Dow Jones Industrial Index has fallen below 6800 level in the first week of March 09 marking its lowest trading point in over 11 years. The highest level touched by the Dow Jones industrial index was a little lower than 14000. This is a decline of over 50%. The Wall Street analysts seem to believe that a stock market recovery will first require signs of health among financial companies. While the root of the problem for the financial firms is the bad bets they made on mortgages and mortgage-backed securities, now the recession is exacerbating their problems, forcing job cuts. Mixed economic readings provided little reason to expect a turnaround. Personal spending and incomes both rose for January, but construction spending fell 3.3 percent, more than twice what economists expected. The recovery is nowhere in sight which means that the global financial markets are going to see a change in the next few years to come.

Conclusion: In the light of the local and international events investors are encouraged to remain in short-term liquid instruments minimizing risk exposure of liquidity and duration etc.

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