

# Faysal Asset Management

---

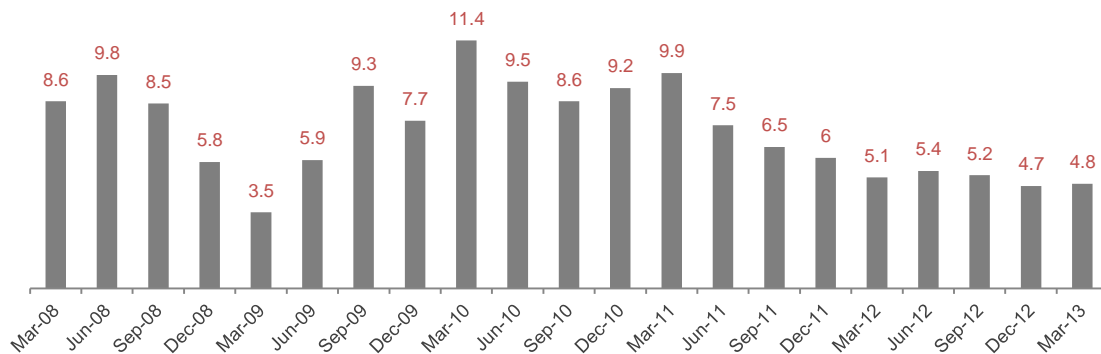
Research Note – South Asian Currency Conundrum

June 11, 2013

## India – Is the Game Over?

India, one of the Asian tigers, grew at annualized pace of 4.8% from a year earlier in January-March quarter posting a below 5% GDP growth in row signifying that the economy is cooling down and may disappoint by posting lower GDP growth numbers compared to over 9% two years back. Consequently, employment opportunities are shrinking thus breeding frustration amongst the growing workforce. Digging deeper into the economic situation poses yet another question of whether India has lost its Talisman.

Indian GDP growth (%)



In such troubling times the economic managers show proclivity towards monetary easing so as to bolster economic growth. But to the dismay of policy makers in India the recent burgeoning external account crisis inhibits the Central Bank from further monetary relaxation – hence resulting into a deadlock. The repercussion of balance of payment crisis is evident in the devaluation of Indian Rupee. The technical triangular breakout of the Indian Rupee was seen coming for many months, culminating in a rapid devaluation of the currency in light of the weakened position of the Central Bank to respond to the ailing economy.



## So is the Economic Situation of Pakistan any different from India?

Honoring IMF payments without financial support from Allies and International bodies explains the constant currency devaluation observed since the beginning of 2012-2013. Currency depreciation by 4.2% over the fiscal year has stoked the external account crisis – thereby making it difficult for policy makers for further monetary easing even though the economy relishes a real return of 4.3%.

Moreover, the imminent talks with IMF and Budget 2013-2014 due on June 12, 2013 will clear the prevalent uncertainty as the newly elected Government is expected to course correct the economy from consumption driven to growth oriented economic setup. Key measures include relieving the national exchequer from the burden of subsidies and devising reforms to curb energy shortages facing consumers and the industrial sector at large.

Will this take its toll on the PKR currency? That's a question best answered by the budgetary and deficit financing targets set by the PML-N government in its upcoming budget announcement.



**Disclaimer:** The information provided in this section are views of Faysal Asset Management Limited only and do not constitute a recommendation, solicitation or offer by Faysal Asset Management Limited or its affiliates to buy or sell any investment schemes, securities or other financial instruments or provide any investment advice or service. The information contained in this website has been prepared for investor education purposes only and may not pertain to any particular user's investment requirements or financial situation. Prior to the execution of any transaction involving information received from this website, investment advisor, attorney and tax and accounting advisors should be consulted with respect to the price, suitability, value, risk or other aspects of any stock, mutual fund, security or other investment.