Impact of Politics on Economy and Vice Versa

Once again we are witnessing a political euphoria impacting the economy in Pakistan. It is the impact of economic growth leading to the political outcome in the western countries. Is politics bad? Is it impacting the stability of the country and its financial markets in a negative way? Apparently it seems as if the answer is yes; however the reality is otherwise. The long-term solution providing stability to the overall system in Pakistan can only be brought forward through political reforms in the country.

Today, we stand at a stage where an ex-Prime Minister and a political leader has lost her life leading to the rise in uncertainty both at the political as well as the economic front. International rating agencies have indicated further downgrade as a possible outcome due to the recent events in the country. Decrease in real FDI (foreign direct investment) and FPI (foreign portfolio investment) seem imminent due to this turmoil. Inflationary pressures are still on the rise leading to crisis situation in certain commodities. CPI (Consumer price index) was recorded at 7.9% for the first half of FY08. The fiscal deficit is also bound to deepen amid the increasing oil subsidy given by the government as compared to the recent international oil price hike. This fiscal deficit has surpassed a level of 1.5% of GDP during the first half of FY08. Flight of capital is another possibility along with the devaluation of the currency leading to further economic pressures. These pressures can be witnessed by an almost 2% increase in the price of US Dollar versus Pak. Rupee recently.

The stock market took an impact of 9.6% decline but we also witnessed quick recovery of more than half of those losses. The long-term impact is yet to be witnessed. The elections in the country have been postponed till the middle of February leading to further uncertainty at the political front. One can argue that these factors were prevalent in the country even in the pre-assassination days but the counter argument proves that the incident will have a deepening impact on an already worsening situation.

There is always light at the end of every tunnel but one must use a pro-active approach to get through it. We are utilizing such strategies in our balanced equity fund and it is one of the best performing balanced funds in the country during the first half of FY08. Even during the decline of close to 10% in the equity markets, FBGF took the least amount of declining pressure due to its conservative and prudent long-term approach.

The same is the case in the management styles of FIGF and FSGF indicating high levels of short-term investments in highly rated instruments and institutions minimizing the overall portfolio and duration risk. The fixed income funds can provide investors with shelter while their risk capital remains in the balanced equity fund to provide them with outperforming stable returns yielding an optimum long-term investment strategy.

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