2012: a quick and grim recap

BR RESEARCH (January 04, 2013) : 2012 ended as unsurely for the countrys economy as it had begun. Economic growth hovered around 3.7 percent in 2012; posting a slight improvement over three percent in the previous year. However the GDP growth target which was set at 4.2 percent, remained elusive largely due to energy constraints, doestic uncertainty and slow global growth. But local stock markets told a different tale. On the back of strong corporate results the KSE 100-index gained 49 percent over the previous year in terms of Pakistani rupee. This growth when adjusted for slippages in the local currency against the US Dollar, still stacked up to an impressive 38 percent. Bloomberg cited the Karachi Stock Exchange as one of the worlds 10 best performing markets in 2012. The key reason for this achievement was a 4.5 percent dip in policy rate in last 18-month to 6.5 years low, which not only boosted up the earnings but also triggered the flow of funds from government securities to the equity market. The revived investor interest was apparent by market volumes averaging 173 million shares, a humungous jump of 119 percent, over the previous year. Foreign buyers were net buyers in the outgoing year; with net foreign inflow of $125 million. However, the energy crisis has taken a toll on the countrys export-oriented industries that have failed to capitalise on a weaker local currency to push sales abroad. The countrys exports fell six percent compared to 2011, tallying at $22.807 billion. Import demand was stunted slightly, mostly attributable to relatively weak oil prices. That tally dropped three percent over 2011 to end the year at $36.786 billion. CPI clocked in at 7.93 percent at the end of CY12, having dropped into a comfortable single digit range after starting 2012 at runaway double digits. As pointed out in a BR Research article on Wednesday, the southward trajectory of inflation numbers may stop soon. Net capital and financial account inflows fell from a peak of 7.2 percent of GDP in 2007 to 0.7 percent of GDP in 2012. During July-October, there has been a net outflow of $304 million from the capital and financial account. This, coupled with substantial debt repayments to the International Monetary Fund, has resulted in a decline in foreign exchange reserves held by State Bank of Pakistan from $10.8 billion in June 2012 to $8.6 billion in December 2012. Thus, in spite of an external current account surplus of $258 million during July-October 2012, rupee remained under strain. Since July 2012, the rupee has depreciated by 3.3 percent against the US Dollar, thus affecting the size of the outstanding external debt in rupee terms. Fiscal deficit stood at 4.7 percent of GDP in 2012 which was mainly financed through domestic sources. Crowded out by government borrowing and facing energy constraints, the private sectors borrowing tapered by about Rs39 billion during July-October, 2012 despite significant reduction in the discount rate. Money growth (M2) was recorded at 14.14 percent in FY12, while government sector borrowing surged by 113.5 percent during the same period. During 2HCY12, broad money touted a YoY growth of 5.74 percent to reach Rs8.08 trillion in December, while net government borrowing surged by 16.78 percent to reach Rs4.28 trillion.