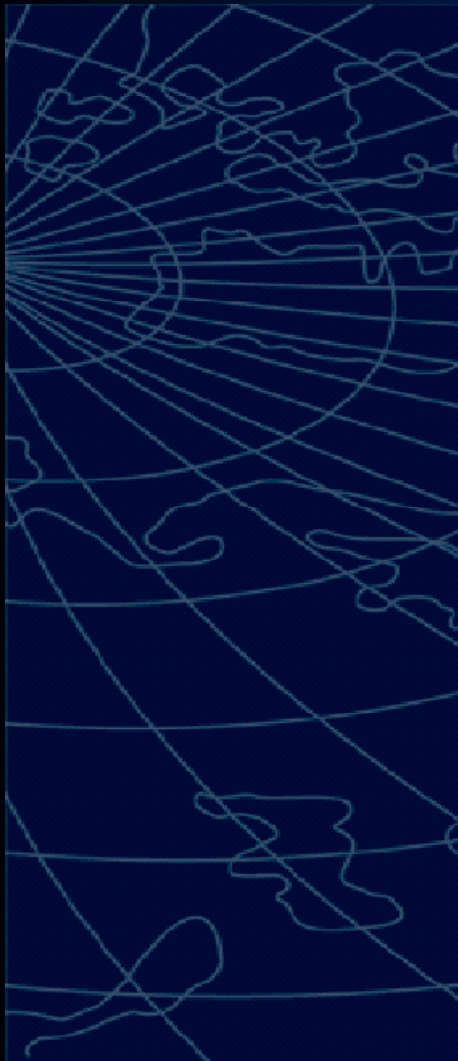


KASB Bank

December 2008

Global recession and Pakistan



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The end to global imbalances

A global recession

The global economy is in recession with growth at 1.3% in 2009, the weakest since 1982.

At its core, the global financial crisis brings an end to the vendor financing model, whereby excess consumption in the US was financed by a saving glut in the emerging world.

The markets are ensuring this adjustments through 1) US balance sheet repair, 2) no more vendor financing from emerging markets.

To mitigate this, massive policy stimulus is ongoing.

Aggressive monetary easing combined with fiscal stimulus is the theme to be followed.

Regional snapshot

In US: recession is expected to last till Dec 2009 before the L-shaped recovery take hold in 2010.

A surge in the personal savings rate will require a massive fiscal and monetary stimulus to prevent the deflation.

In Japan: dependence of exports to Asia rather than US is the key.

In China: there are big risks to growth, the economy will slow, but an aggressive policy response will limit the down turn.

Europe: a full-blown recession is now unfolding: export growth is set to collapse, credit crisis to hit investment, but consumption benefiting from lower oil prices.

Global GDP outlook (%)

	2007	2008	2009F	2010F
Global	4.8	3.4	1.3	3.1
Europe	2.6	1.0	-0.6	1.1
Japan	2.2	0.3	0.2	2.3
UK	3.0	0.7	-1.6	1.5
USA	2.2	1.3	-2.3	0.5
China	11.9	9.5	8.6	8.3
India	8.9	7.9	5.8	7.5
Pakistan	6.8	5.8	3.5	4.9

Global CPI outlook (%)

	2007	2008	2009F
Global	3.5	5.6	1.3
Europe	1.1	2.1	3.4
Japan	0	1.6	-0.5
UK	2.3	3.6	0.9
USA	2.9	3.9	-0.6
China	4.8	6.3	1.8
India	4.8	8.8	4.2
Pakistan	7.8	12.0	17.5

Global interest rate outlook (%)

	Current	2008	2009F
Global	4.66	4.28	3.81
Europe	3.25	2.50	1.50
Japan	0.3	0.3	0.3
UK	3.0	2.0	1.0
USA	0.25	0.50	0.50
China	5.85	5.58	5.04
India	6.0	5.75	5.25
Pakistan	15.0	15.0	13.0

Commodity perspective

The sharp-run up in commodity prices in 1H08 and dramatic down turn in 2H08 reflect a massive global misallocation of capital.

The credit crunch and the energy crunch are two sides of the same coin.

In a leveraged global economy where growth averaged 5% for 5 years, too much capital investment went into real estate and too little into energy.

This period of leverage-fuelled, synchronous growth resulted in an unprecedented surge in the demand for commodities.

In turn, the price rally culminated with a inflationary spike in emerging markets.

That brought world economy to halt as the first bank failures

Currencies: 2009: the global diet

Consumers around the globe will likely adjust in 2009. some may spend more, some less.

This will have a meaningful relative value implications for currencies.

It is about rebalancing, resisting, spending urges, risk appetite and the interruption of reserve accumulation.

Fundamentals predicting a weaker USD by the end of 2009, mainly against EM currencies.

Currencies with weaker/ negative balance of payment outlook are expected to suffer and Pakistan is among those elite panel!

Global currencies performance against USD Ytd

	Current	Year ago	Change (%)
Europe	0.70	0.70	0
Japan	87.9	113	+22.2%
UK	0.65	.50	-30%
USA	1	1	0
China	6.84	7.38	+7.3%
India	47.7	39.6	-20.45%
Pakistan	79.5	60.9	-30%
Korea	1225	040	41%

Pakistan in 2009

- Firefighting for macroeconomic stability to continue in the months ahead and believe 2009 could be a year of macro consolidation.
- Pakistan's vulnerability indices have reached a climax of late, driven by bleak balance-of-payment outlook, instable politics and poor law-and-order situation.
- The twin deficit and inflation malice was sparked by surging global food and fuel prices.
- With the reversal in commodity prices, we expect Pakistan's trade deficit should narrow in the medium term.
- The damage was done and would take some time to repair.
- The government's recent macro structural reforms (fiscal and monetary tightening), coupled with global commodity meltdown, have eased fiscal and inflationary risks.
- Commodity price meltdown coupled with US\$7.6bn IMF standby facility will likely shield Pakistan from internal financial squeeze and recession.