BUSINESS RECORDER
Founded by M.A. Zuberi

11th April, 2019

The World Bank's assessment

Multilateral financial institutions continue to be quite pessimistic about the prospects of Pakistan's economy. In its latest edition of the South Asia Economic Focus report, the World Bank has estimated that Pakistan's economic growth rate is expected to decelerate to 3.4 percent in FY19 and further to 2.7 percent during FY20, as fiscal and monetary policies are tightened to address macroeconomic imbalances. Domestic demand is expected to contract, while export growth will be gradual. On the supply side, services sector is projected to decline by 4.4 percent and agriculture and industry sectors will grow significantly lower in FY19 and FY20. The economic growth is expected to recover to 4 percent in FY21 as structural reforms take effect and macroeconomic conditions improve. Pakistan's trade deficit has been projected to remain high during FY19 but would narrow in FY20 and FY21 as the impact of currency depreciation, domestic demand compression, and other regulatory measures to curb imports take hold. Flow of remittances is likely to support the C/A (current account) balance in the next year. A more stable external sector environment is projected to support a pick-up in economic activity. According to the World Bank Country Director for Pakistan, the country's growth must be driven by investment and productivity which will put an end to the boom and bust cycles that affect the country every few years. It is possible for Pakistan to transform its regulatory environment and reduce the cost of doing business while reforms to improve tax administration and widen the tax base are critical on the revenue front.

As for other countries, South Asia holds out to its top spot as the world's fastest growing region, with its average growth set to step up to 7 percent in 2019 and then 7.1 percent in FY20 and FY21. Compared to other countries, Afghanistan will be the only country in the eight-member South Asia region to stay behind Pakistan with 2.5 percent growth rate compared to Pakistan's 3.4 percent growth this year. India is expected to lead the region with a 7.5 percent growth during the current year through 2021, closely followed by Bangladesh with 7.3 percent growth this year, 7.4 percent next year and 7.3 percent in 2021. Nepal is expected to maintain its third position at 6.0 percent during this year to be followed by 6.1 percent and 6.2 percent over the next two years. Bhutan and Maldives are forecast to remain on 4th and fifth positions with growth rates ranging between 5.2 percent and 5.7 percent by 2021. To ensure growth in the long-run, South Asia needs to integrate further into an international market to sustain the region's upward growth trajectory, create more jobs and boost prosperity for its people.

The latest edition of "South Asia Economic Focus" released by the World Bank is a very good commentary on economic prospects in the South Asia region and shows quite clearly where the Pakistan's economy is headed to in the foreseeable future. Overall, the report seems to be satisfied with the growth prospects of the region but is concerned about the external sector prospects of various countries in the region. The report says that the region's growth "while still robust" is mainly driven by domestic demand which swells imports and far outstrips exports, further widening trade gaps and current account deficits, triggering currency depreciation in certain countries. Despite some recent progress, South Asian countries' exports are only one-third of their potential and the gap between exports and imports is widening. South Asia has not fully taken advantage of a favourable international trade environment but remains on the margins of global value chains.

The case of Pakistan in the South Asian region is particularly disturbing. While other countries of the region are growing at a very handsome rates and their exports potential still need to be fully realised, Pakistan's growth as well as other economic indicators are deteriorating. The situation seems to have worsened to an extent that the country's Finance Minister himself is said to have stated that Pakistan is going through an economic crisis and we are near bankruptcy. As it is, Pakistan's economy has not only hit the rock-bottom in terms of growth but the fiscal deficit is about to hit more than 6 percent of GDP and inflation is at its highest in five and half years and likely to go up further to double-digit figure. Circular debt continues to rise and interest rates are also going up making the cost of business even more uncompetitive. Prime Minister Imran Khan has announced the biggest and boldest poverty alleviation programme called 'Ehsaas' in the history of Pakistan when there are no funds in the kitty to finance it. It should be fairly obvious by now that Pakistan has finally decided to enter into an IMF programme which is going to make things far worse for most of the Pakistanis, especially the lower class who are already dealing with prospects of a marked economic slowdown and far higher prices. The IMF will certainly ask for more austerity, stabilisation and insist on more devaluation of the rupee and higher cost for utilities that will cause more inflation and slow down the growth rate. The reform measures agreed with the Fund would certainly be painful for common people and are needed to be implemented with care in order to avoid socio-economic chaos in the country. We know that most of the weaknesses of the economy were inherited by the PTI government but the burden of mismanagement in the past has to be carried and lightened by the present dispensation. The IMF is also not satisfied with the prospects of the economy and has projected a sharp decline in GDP growth rate from 5.2 percent in FY18 to 2.9 percent in FY19 and further to 2.8 percent in FY20 along with a sharp rise in inflation from 3.9 percent in FY18 to 7.6 percent in FY19. This simply means that a tough road is lying ahead to put the country on a sustainable path of development with financial stability.