BUSINESS RECORDER
Founded by M.A. Zuberi

24th December, 2019

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# IMF says risks to outlook remain high

ISLAMABAD: The absence of majority by the ruling party in the Senate of Pakistan may hinder the adoption of legislation needed to achieve program objectives, which could jeopardize the availability of external financing, besides a potential blacklisting by the Financial Action Task Force (FATF) could result in a freeze of capital flows and lower investment to Pakistan.

This has been stated by the International Monetary Fund (IMF) in its latest report "First Review under the Extended Arrangement under the Extended Fund Facility and Request for Modification of Performance Criteria."

The report stated that notwithstanding the encouraging start of the program, risks to the outlook remain high. Growth is currently weak and significant fiscal adjustment is needed in the coming years. While the risk of a disorderly adjustment has abated due to the well-managed transition to a market-determined exchange rate and the availability of external financing, risks to the economic outlook are significant.

Fiscal slippages and, more generally, resistance to reform from vested interest groups could undermine the program's fiscal consolidation strategy and put debt sustainability at risk. Moreover, the absence of a majority by the ruling party in the upper house may hinder the adoption of legislation needed to achieve program objectives. Also, provinces may under-deliver on their commitments to budget parameters and related objectives over the program period. Lukewarm progress on structural reforms especially those aimed at strengthening governance of economic institutions may result in stagnant economic activity and little tangible benefits for the population, intensifying pressures to backtrack on policy commitments.

Failure to meet program objectives could jeopardize the availability of external financing. Also, a potential blacklisting by the Financial Action Task Force (FATF) could result in a freeze of capital flows and lower investment to Pakistan. The global economic backdrop poses increasing headwinds and weaker than expected activity may affect growth and current account deficit projections. Against all these risks, the authorities' steadfast commitment to the program and decisive policy and reform implementation could lead to a faster recovery, maintained the report.

It further stated that the economic outlook is broadly unchanged from the program request. Real GDP growth is projected at 2.4 percent in FY 2020, but net exports are now expected to provide a larger contribution to growth mainly due to greater import compression. Growth is projected to strengthen to around 3 percent in FY 2021, as policies take hold and confidence and investment strengthen and 4.5–5 percent over the medium-term, with the output gap closing at the end of the projection horizon.

Average CPI inflation is projected to decelerate slightly to 11.8 percent in FY 2020 as administrative and energy tariff adjustments are expected to offset the effects from weak domestic demand. Thereafter, inflation is expected to converge to SBP's 5–7 percent medium-term objective, hitting the midpoint by FY 2022. The current account deficit is expected to decline to 2.4 percent of GDP in FY 2020, mainly owing to import compression, and to decline to around 1.8 percent of GDP over the medium-term, as exports gradually pick up.