INTERNATIONAL THE NEWS

22nd January, 2019

IMF lowers growth forecast for Pakistan, region

DUBAI: The International Monetary Fund on Monday lowered its 2019 economic growth forecast for Pakistan and the region by 0.3 percentage points to 2.4 percent.

“Growth in the Middle East, North Africa, Afghanistan, and Pakistan region is expected to remain subdued at 2.4 percent in 2019 before recovering to about 3 percent in 2020,” the global lender said in its World Economic Outlook update for January.

“Multiple factors weigh on the region’s outlook, including weak oil output growth, which offsets an expected pickup in non-oil activity (Saudi Arabia); tightening financing conditions (Pakistan); US sanctions (Iran); and, across several economies, geopolitical tensions.”

The IMF lowered its projection for Saudi Arabia´s gross domestic product growth this year to 1.8 percent, down from 2.4 percent in its October report. However it raised its forecast for next year by 0.2 percentage points, to 2.1 percent.

Riyadh has projected 2.6 percent GDP growth for 2019.

The world´s top crude exporter, the kingdom has been hit hard by tumbling oil prices and saw its economy shrink by 0.9 percent in 2017.

It has since rebounded, with healthy 2.3 percent growth in 2018, mainly thanks to higher oil prices and output.

Major Gulf oil exporters, including Saudi Arabia, have posted budget deficits since the crash of the global oil market in 2014.

Riyadh has posted an accumulated budget shortfall of $313 billion over the past five years and projects a $32 billion deficit for 2019.

The IMF said US-China trade confrontations, Brexit and other uncertainty are threatening to drag down global growth even further.

The latest global economic forecasts was even more pessimistic than those released just three months ago, the IMF emphasized that risks dominate the outlook.

The World Economic Outlook cut the global GDP forecast for this year to 3.5 percent from the 3.7 percent projected in October.

And for 2020 the estimate was trimmed to 3.6 percent.

And due to slowing momentum in latter part of 2018, from trade tensions and rising fears on global financial markets, growth last year was expected to come in at just 3.7 percent, two-tenths slower than the October forecast.

The fund released the report at the annual gathering of economic and financial leaders from around the world and once again urged cooperative action to defuse the risks.

"With momentum past its peak, (and) risks to global growth skewed to the downside ... policies urgently need to focus on preventing additional deceleration," the IMF urged.

Several major economies saw sharp downgrades to the GDP estimates, including Germany, Italy and Mexico, along with a smaller cut for France amid the yellow vest demonstrations that have riven the country.

However, the world´s two largest economies, currently the source of most of the risk to global growth, did not see further downward revisions.

The US is expected to grow 2.5 percent this year and 1.5 percent in 2020. China GDP is forecast to expand 6.2 percent in both years.

With growth already weakened by the tariffs imposed on hundreds of billions of dollars in annual trade, mostly between the US and China, the global economy is more susceptible to additional risks.

An "escalation of trade tensions ... remains a key source of risk to the outlook," the IMF warned, pointing to the sharp decline in global financial markets in the final weeks of 2018.

Washington and Beijing declared a 90-day truce on December 1, but the risk remains that tensions will flare up again in the Spring and "casts a shadow over global economic prospects."

Another major concern is the potential for a more severe slowdown in China, which would have repercussions throughout Asia.

"As seen in 2015-16, concerns about the health of China´s economy can trigger abrupt, wide-reaching sell-offs in financial and commodity markets," the report said.

So far, China´s fiscal stimulus has cushioned the impact of the trade disputes.

As in October, the fund urged countries to negotiate a solution that will not inflict economic damage.

The main policy priority is for countries "to resolve cooperatively and quickly their trade disagreements and the resulting policy uncertainty, rather than raising harmful barriers further and destabilizing an already slowing global economy."

Beyond the trade risks, other sources of political uncertainty also have the potential to slow growth in major economies, including the month-long US government shutdown, and the possibility of a no-deal Brexit.

In the case of Germany, the growth forecast for 2019 was cut 0.6 points to just 1.3 percent due to the impact on business and private consumption following new auto emissions standards -- likely a one-time hit.

In France, the impact of massive street protests could trim growth even further than the 1.5 percent forecast for this year.

The WEO also forecast 1.5 percent 2019 growth for Britain, the same as in October, but warned the estimate is fraught with uncertainty since "as of mid-January, the shape that Brexit will ultimately take remains highly uncertain."

Meanwhile, Mexico saw sharp downward revisions of 0.4 and 0.5 this year and next, to 2.1 percent and 2.2 percent, and crisis-stuck Venezuela is likely to see an "even more severe contraction."

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