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Founded by M.A. Zuberi

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Prospects for bruised economy are dim

The latest United Nations report on world economic situation and prospects for 2019 released by its Department of Economic and Social Affairs presents a very unfavourable view of Pakistan's economy. It says the country's economy is facing severe Balance of Payments (BoP) difficulties amid large fiscal and current account deficits, a visible decline in foreign exchange reserves and mounting pressures on the domestic currency. Macro-economic imbalances and financial fragilities pose significant risks of a future slowdown. In order to promote sustainable medium-term growth, policymakers need to encourage infrastructure investment to alleviate chronic energy shortages while addressing imbalances, particularly by promoting export growth. The level of public debt is also close to 70 percent of GDP- with rising sustainability concerns and the government is currently negotiating an IMF programme to address macroeconomic and fiscal challenges for the second time in the last five years. Entering an IMF programme would of course necessitate a sharp fiscal consolidation. During the first eight months of 2018, SBP raised policy rate by 275 points to 8.5 percent, and expectations are that further tightening will continue. Despite this tightening, significant depreciation of the rupee has increased consumer price inflation. About economic outlook, the report has projected a marked slowdown of the economy in 2019 and 2020 to below 4.0 percent compared with 5.4 percent growth rate in 2018 while GDP growth was expected to expand by 5.4 percent in 2019 and 5.9 percent in 2020 in South Asia, after an expansion of 5.6 percent in 2018.

Although the UN report does not seem to have been based on the latest information, yet most of its observations are still valid and very relevant to the current situation of the economy. Contrary to the assertions of Finance Minister, Asad Umer at various forums that the economy of the country which was on the verge of bankruptcy about six months ago is out of the woods now, the economic outlook for Pakistan is still challenging, encompassing significant downside risks. A severe BoP crisis, large fiscal deficit, mounting pressure on the rupee, a woeful decline in foreign exchange reserves, a constant rise in outstanding stock of public debt and its servicing and a slowing growth rate are some of the issues which need the urgent attention of the authorities. While these macro imbalances and a fall in growth continue to pose trouble and call for early redressal, the PTI government seems to have declared victory before even throwing their hat into the ring and fighting the maladies of the economy. For instance, C/A deficit of the country is still quite huge and absolutely unsustainable despite substantial depreciation of the Pak rupee and foreign exchange reserves of the country are almost declining constantly, the government has resorted to huge borrowings from friendly countries and authorities think that the crisis in the external sector is, more or less, over. Policymakers do not seem to realize that such borrowings could only be a one-time affair and has exacerbated the debt problem of the country without offering a long-term solution to the balance of payment crisis of the country. Finance Minister of the country is also not keen to negotiate an IMF programme because it would involve painful conditionalities which in any case have to be implemented to keep the country solvent, whether we go to the IMF or not. Fiscal situation is even more bizarre. It is absolutely clear by now that the authorities concerned cannot meet the fiscal deficit target prescribed for the current year due mainly to a huge shortfall in tax receipts amounting to Rs 170 billion. Contingent liabilities of the government like circular debt and loans of the PSEs are also increasing alarmingly and adding to the public debt. Keeping these factors in view, all eyes were set to see additional measures to narrow the widening fiscal gap but contrary to all expectations, the finance minister, did not announce any tax measures in the recently announced 'mini-budget' but offered various kinds of exemptions and concessions which would cost the government exchequer another Rs 6.8 billion, widening the fiscal deficit further. We are of the view that the government must analyse the UN report carefully, reappraise its policies and come up with an appropriate framework urgently to redress the growing weaknesses of the economy and put it on a sustainable path of development.

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