

Fitch says IMF bailout deal to weigh on Pakistan's growth

KARACHI: Risks of a further slowdown in Pakistan's economic growth have grown with a bailout deal with the IMF, Fitch Solutions said on Thursday, trimming its real GDP growth forecast for the country to 2.7 percent for the upcoming fiscal year.

"We believe that the bailout package from the International Monetary Fund (IMF) will see tighter monetary and fiscal policies in Pakistan, which will be negative for growth in the near term," ratings agency said in an economic analysis on Pakistan.

"Given the tighter monetary and fiscal policies amid an already subdued economic growth outlook, we have revised our forecast for Pakistan's real GDP growth to come in at 3.2 percent in FY18/19 and 2.7 percent in FY19/20 from 4.4 percent and 4.0 percent, respectively, previously."

Pakistan reached an agreement with the IMF in May for a \$6 billion bailout package to address its balance of payment crisis.

Fitch said following the agreement, the State Bank of Pakistan (SBP) had increased the policy rate by 150 bps and shortly after budget was presented with the aim of trimming primary deficit to 0.6 percent of GDP in FY19/20.

It added that as part of the deal with the IMF, Pakistan promised to reduce its primary deficit primarily through tax-based measures and warned that the government's proposed higher taxes in the budget will erode purchasing power of consumers as inflation has been on the rise in the country.

"Given our expectations for continued upside pressure on consumer prices over the coming months, we believe that the consumers' purchasing power will continue to fall over the coming months, thereby weighing on consumption," Fitch said.

Fitch said deteriorating net exports also further weigh on growth. "We expect to see little improvement in Pakistan's net exports ... a global slowdown will likely weigh on exports over the coming months," it said.

"Our view is for global growth to slow from 3.2 percent in 2018 to 2.9 percent by 2020, with growth in two of the largest main export destinations, the US and China, slowing to 2.0 percent and 6.1 percent respectively by 2020, from 2.9 percent and 6.6 percent in 2018."

Moreover, imports could increase over the coming months acting as a slight drag on growth and the impact of rising oil prices on imports will be exacerbated by a weakening currency.

Fitch said investment, which accounts for approximately 17 percent of the GDP, will slow in growth to 5.1 percent in FY19/20, "as tighter monetary policy implemented by the SBP will likely weigh on investment".

Since the start of the current fiscal year, the SBP has increased its policy rate by 575bps, to 12.25 percent in May from 6.5 percent in the beginning of July 2018. “Moreover, the government has committed to borrow less from the SBP as part of the IMF deal, which will improve the monetary policy transmission in the country,” it said.

However, Fitch said investment related to the China Pakistan Economic Corridor (CPEC), a centrepiece of China's Belt and Road Initiative, will likely provide some support to the economy over the coming quarters.

“Construction of many key CPEC projects have already started and will stretch over the coming years. In addition, there are more projects in the pipeline that are still at the planning stage but will likely commence soon,” it added.

“We believe that the CPEC will continue to make progress given China's continued push on project implementation and the improving bilateral relationship between the two countries.”

Our Correspondent