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WB lowers Pak GDP growth projection to 5 percent

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ISLAMABAD: The World Bank (WB) has lowered down its projections for Pakistan's GDP growth to 5 percent against officially envisaged target of 6.2 percent for the financial year 2018-19 on the basis of possibility of adoption of tighter policies to improve macroeconomic stability.

"In Pakistan, GDP growth is estimated to rise to 5.8 percent in FY2017/18, before moderating to 5.0 percent in FY2018/19, reflecting tighter policies to improve macroeconomic stability," it was stated in the WB's report titled "Global Economic Prospects, the turning of tide" released on Wednesday.

The IMF had already slashed down its projections for Pakistan's GDP growth to 4.7 percent for the next fiscal year 2018-19. All multilateral creditors are revising downward their projections for GDP growth amid the possibility that Islamabad would have to approach the IMF for seeking another bailout package within the next few months in order to overcome the yawning twin deficits including the budget deficit and current account deficit.

The WB report states that in a number of countries, a further deterioration in fiscal balances (e.g. India, Maldives, Pakistan, Sri Lanka), a continued buildup of debt and widening current account deficits (e.g. Pakistan), present significant vulnerabilities to a tightening of domestic or external financing conditions.

The report states that Pakistan's GDP growth rose in FY2017/18, supported by infrastructure projects funded by the China-Pakistan Economic Corridor (CPEC), improvements in energy supply, and persistent private consumption growth. In Bhutan, growth has been moderating, partly owing to delays in hydropower projects. However, growth is still strong, at 5.8 percent in FY2017/18.

China's investment has been rising in the region, especially through the China-Pakistan Economic Corridor.

An increase in political uncertainty (e.g. Afghanistan, Bangladesh, Pakistan, Sri Lanka) and further deterioration in the security environment in some countries (e.g. Afghanistan) might dampen confidence and set back growth. In recent years, the number of people and geographical areas affected by natural disasters such as drought, floods, and earthquakes has risen in the region. A rise in the prevalence of natural disasters, including those caused by climate change, could disrupt infrastructure, agricultural output, and economic activity in general (e.g Bhutan, Nepal and Sri Lanka).

Domestic and external financial market conditions have been generally supportive, but sovereign bond spreads have increased in 2018 amid rising inflation expectations and monetary policy normalisation in advanced economies. Monetary policy in the region has remained broadly accommodative and supported fast credit growth (e.g Bangladesh, Pakistan); however, the State Bank of Pakistan recently hiked its policy rate to reduce growing external pressures. Inflation has been increasing in the region recently and is close to or above targets in some countries (e.g. India, Sri Lanka).

In many countries, budget deficits continue to be sizable or have widened further in 2018 reflecting both weaker-than-expected revenues and expansionary policies (e.g. Bangladesh, Nepal) with fiscal policies being generally pro-cyclical in the region.

Growth in India is projected to accelerate to 7.3 percent in FY2018/19 and 7.5 percent on average in 2019-20, reflecting robust private consumption and firming investment, broadly in line with January projections. In the rest of the region, growth will remain stable at about 5.6 percent in 2018 and throughout the forecast horizon as ongoing recoveries in Bangladesh, Pakistan, and Sri Lanka are offset by slower growth in Afghanistan, Bhutan and Maldives, the report concluded.