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UN BODY SAYS PAKISTAN LIKELY TO SEEK FRESH IMF BAILOUT

Amin Ahmed Updated September 28, 2018

ISLAMABAD: Pakistan is likely to seek a fresh IMF programme to stabilise its economy, a report released by the United Nations trade body hints.

The 'Trade and Development Report 2018' report released by the United Nations Conference on Trade and Development (UNCTAD) on Wednesday notes that there are expectations that the new government has no choice but to turn to the International Monetary Fund (IMF) for a large loan which would require adopting austerity measures that are likely to affect growth adversely.

Over the medium-term much will depend on whether large infrastructure projects will support a stronger export push, the report says.

In Pakistan, despite robust growth, the currency has lost a quarter of its value against the dollar since the beginning of the year. Higher oil prices have led to a widening trade deficit and foreign exchange reserves have dropped sharply. A widening external debt position, currently standing at $92 billion or 31 per cent of the GDP has raised concerns about its sustainability. About developing Asia, the report says, after recording growth rates of 5.7pc and 5.5pc in 2016 and 2017, the developing countries in Asia are expected to sustain that rate in 2018 as well.

On the whole, across Asia the problem is not so much a weakening of growth as fear that interest rate increases and monetary tightening could trigger capital outflows leading to financial and currency instability. Combined with the effects of rising protectionism in the United States and possible responses, this could adversely impact growth resulting in levels lower than initially predicted.

The report says the world economy remains on shaky ground a decade after the 2008 financial crisis, with trade wars a symptom of a deeper malaise. While the economy has picked up since early 2017, growth remains spasmodic, and many countries are operating below potential, states of the report. This year is likely to see a change of gear.

"The world economy is again under stress," UNCTAD Secretary-General Mukhisa Kituyi said. "The immediate pressures are building around escalating tariffs and volatile financial flows but behind these threats to global stability is a wider failure — since 2008 — to address the inequities and imbalances of our hyper-globalised world."

The report states that many advanced countries have since 2008 abandoned domestic sources of growth for external ones, most noticeably with the turnaround of the eurozone from a deficit to a surplus region.

But this can only work by tapping into other countries' domestic demand – and among countries that do depend on domestic demand, too many are relying on a combination of higher debt and asset bubbles rather than boosting wages. In either case, growth is hindered by the ever-present threat of financial instability.

Today's $250 trillion debt stock — 50pc higher than at the time of the crisis – is three times the size of the global economy. Private debt, particularly corporate debt, has been behind this surge in borrowing but without stimulating business investment — a disconnect that spells trouble ahead.

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