# Pakistan Economy

## IMF Team Paints a Dreary Picture of Economy

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# Additional policy actions needed to address economic woes

- The International Monetary Fund (IMF) team that recently visited has painted a dull picture of Pakistan's Economy. IMF has clearly stated that Pakistan's Economy is in an increasingly difficult situation given 1) declining economic growth; 2) rising external deficit, 3) expanding fiscal deficit and 4) low foreign exchange reserves.
- The IMF team has welcomed the recent steps of 1) increase in interest rates (Policy rate up 275 basis points in 2018); 2) Pak Rupee devaluation (local currency has weakened by 18% in 2018); 3) increase in gas tariff by average 35%; 4) proposed increase in power tariff and 5) recent budgetary measures announced by the new govt.
- Despite above steps, the team remains critical and has highlighted that additional policy actions are required to address the economic concerns which include 1) extra exchange rate flexibility; 2) further monetary tightening; 3) additional fiscal consolidation pointing toward more taxation and containment of govt. expenses; 4) further increase in energy (power and gas) tariff and strengthening public sector enterprises. The IMF believes that these further steps are required to reduce the external current account deficit and improve debt sustainability.
- Given the above, further currency devaluation and interest rate hike cannot be ruled out. We currently expect the State Bank (SBP) Policy Rate to increase by further 125 basis points to 9.75% by June 2019 while we also expect a further devaluation of the exchange rate of 12% to Rs140 by June 2019 .

# Additional policy actions needed to address economic woes

- Along with further devaluation and interest rate hike, we expect overall slowdown in Pakistan's Gross Domestic Product (GDP) growth and currently expect it at 4.7% for FY19 (compared to 5.8% in FY18).
- We are of the view that given no significant development as yet on bi-lateral funding sources (including from Saudi Arabia and China) and continued decline in foreign exchange reserves (FX Reserves at US$8.4bn as of Sep 28, down US$627mn over previous week), the govt. will have little or no option but to enter into an IMF program in the near future.
- As per media outlets, Pakistan's gross external financing requirement for the current fiscal year FY19 is estimated at US$25-30bn while the unfunded gap is around US$10-12bn.

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