



The Outlook for Pakistan

Carnegie Endowment for International Peace

March 7, 2012

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Key Messages

- Pakistan has abundant potential
- Non-economic factors have hurt economic performance (political, security, and natural catastrophes)
- So have inappropriate economic policies
- Risks and vulnerabilities have grown, and the external environment has deteriorated
- Measures are needed now to contain vulnerabilities and move the economy to high and inclusive growth





My presentation today

- Key Features of the Economy
- Economic Outcomes
- Outlook
- Policies
- Key Messages





I. Key Features of the Pakistan Economy and Policy Framework



Pakistan's potential



Key Features of the Pakistan Economy and Policy Framework

An economy vulnerable to shocks

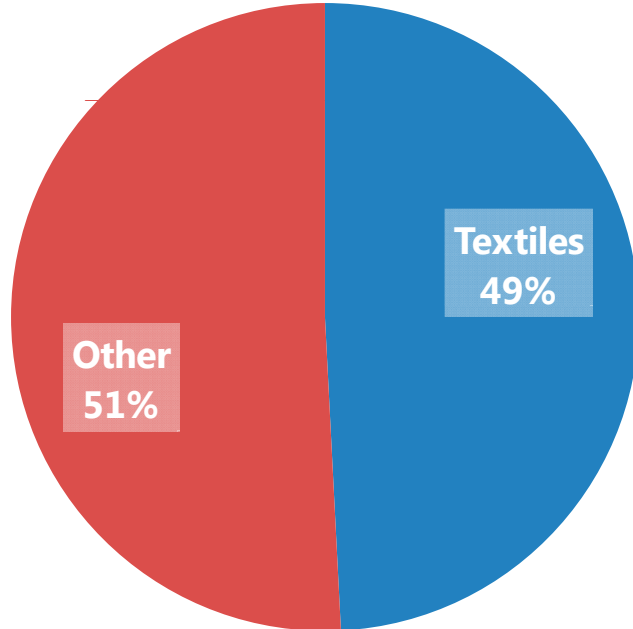




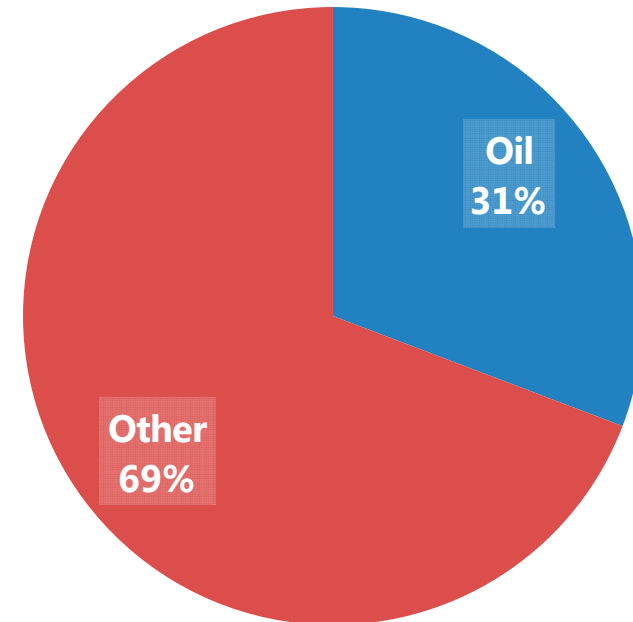
An economy vulnerable to external shocks

Heavy dependence on oil and textile price.

Share of Textiles and Cotton in Total Exports
(Average 2008/09 - 2010/11)

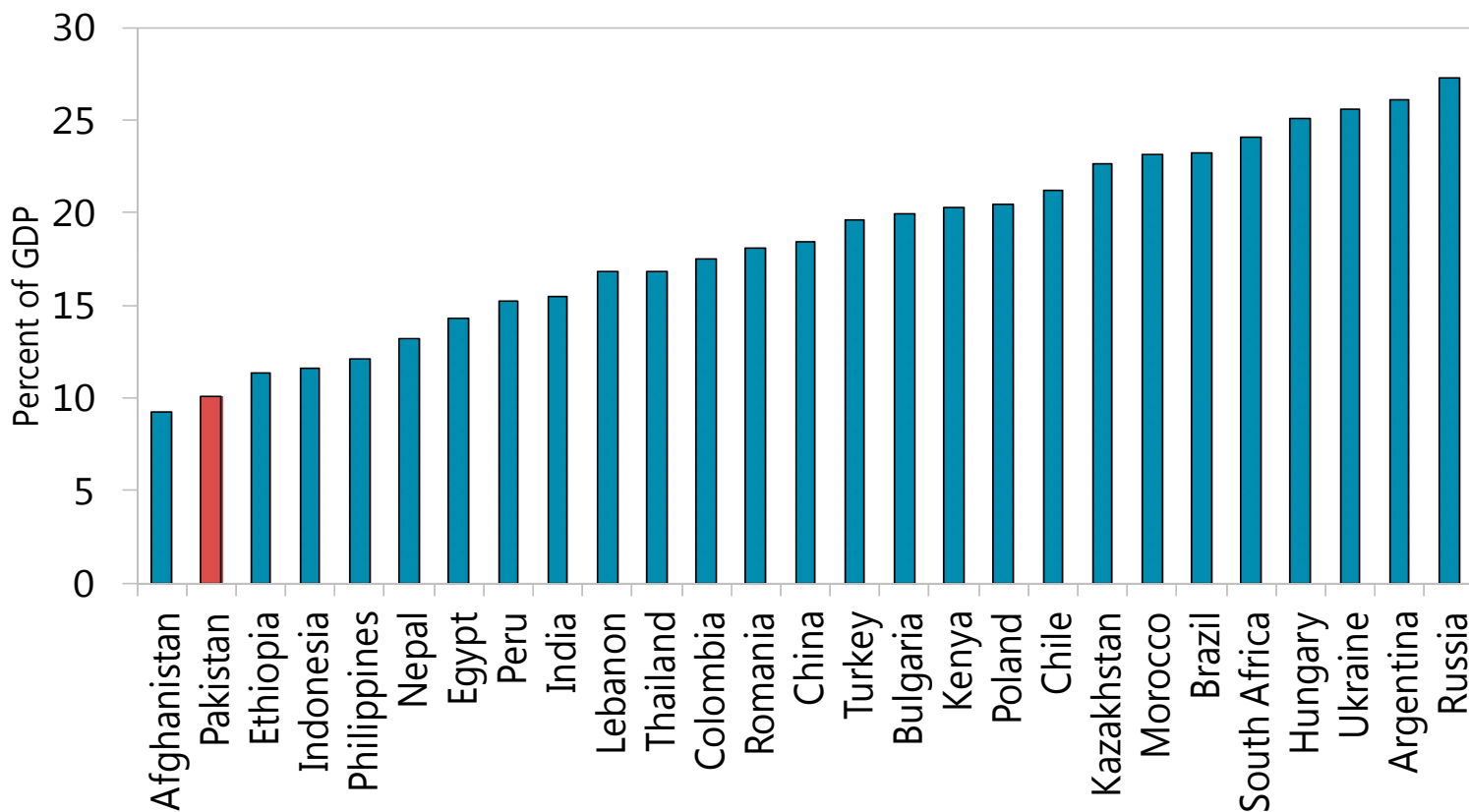


Share of Petroleum Products in Total Imports
(Average 2008/09 - 2010/11)



Limited buffers - Weak fiscal structure

General Government Tax Revenue, 2010

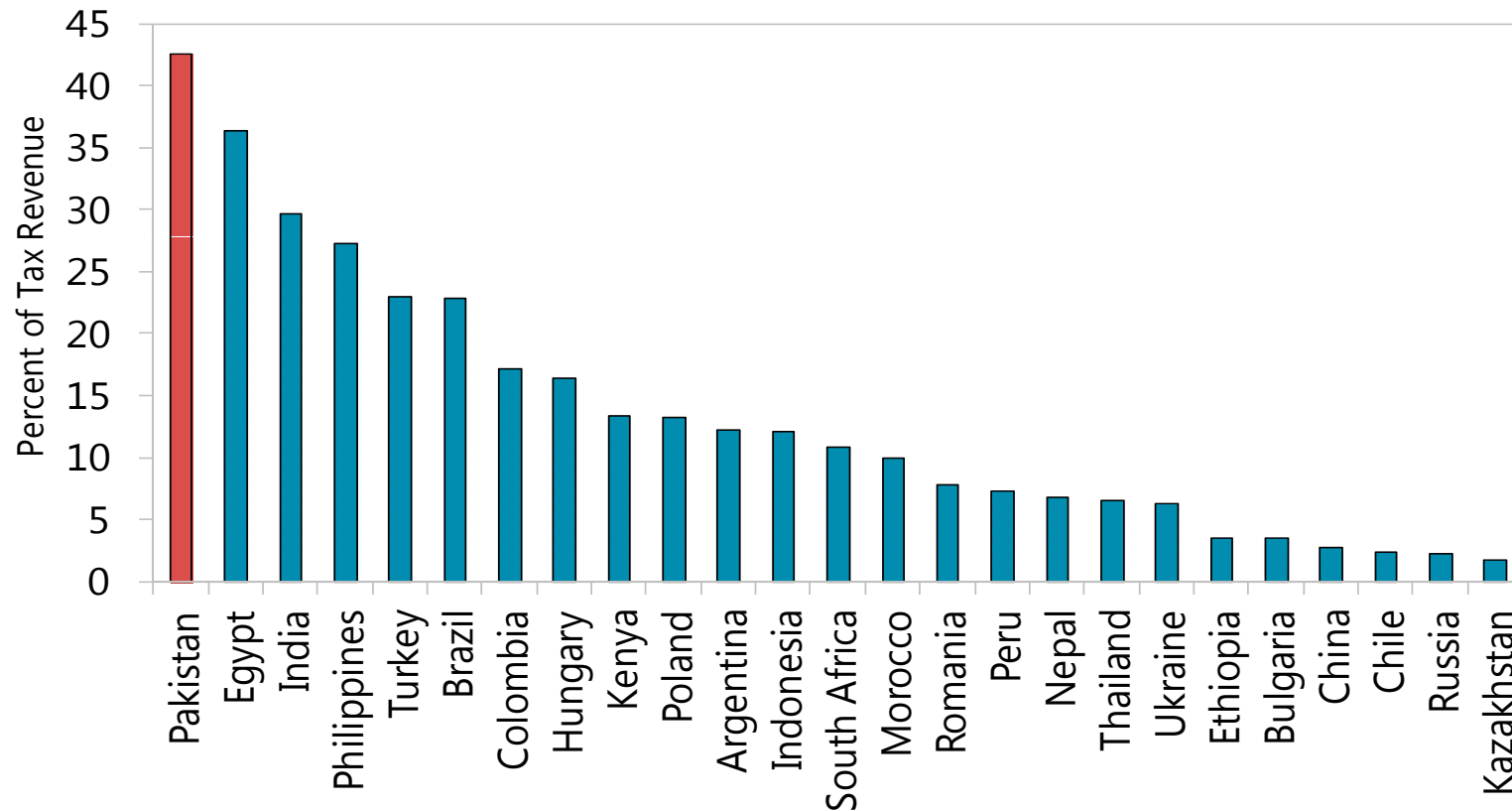


Source: IMF Fiscal Monitor Database.



Weak fiscal structure

Interest Expenditure, 2010



Source: IMF Fiscal Monitor Database.





Weak fiscal structure: Public enterprises

- Large public enterprises operate in energy, transportation, food and other sectors
- Many run large losses that end up on budget
- Services provided by these enterprises are poor in quality, e.g., there are widespread electricity shortages and power cuts





Weak fiscal structure: Fiscal decentralization

- Increased share of revenue allocated to expenditure responsibilities devolved to provinces
- But rules of the game need strengthening
 - Little incentive for provinces to raise own revenue
 - No binding mechanism in place to coordinate federal and provincial fiscal targets





Constrained energy supply

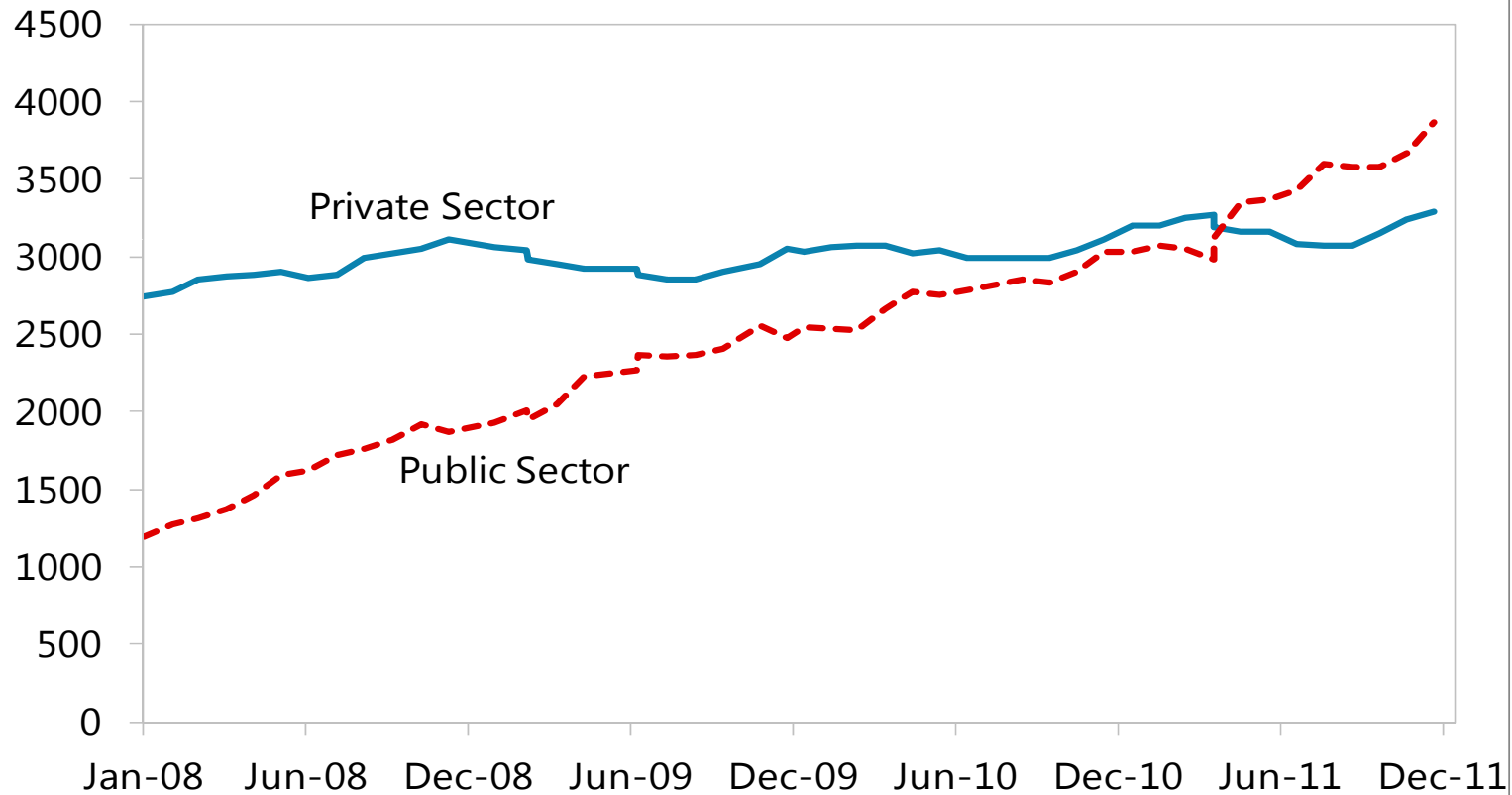
- Energy shortages a longstanding issue
- Reform plans not implemented
- Widespread outages that hurt growth
- Large budgetary subsidies that hurt public finances



Private sector credit

Banking Sector Credit, 2008–11

(In billions of Rupees)



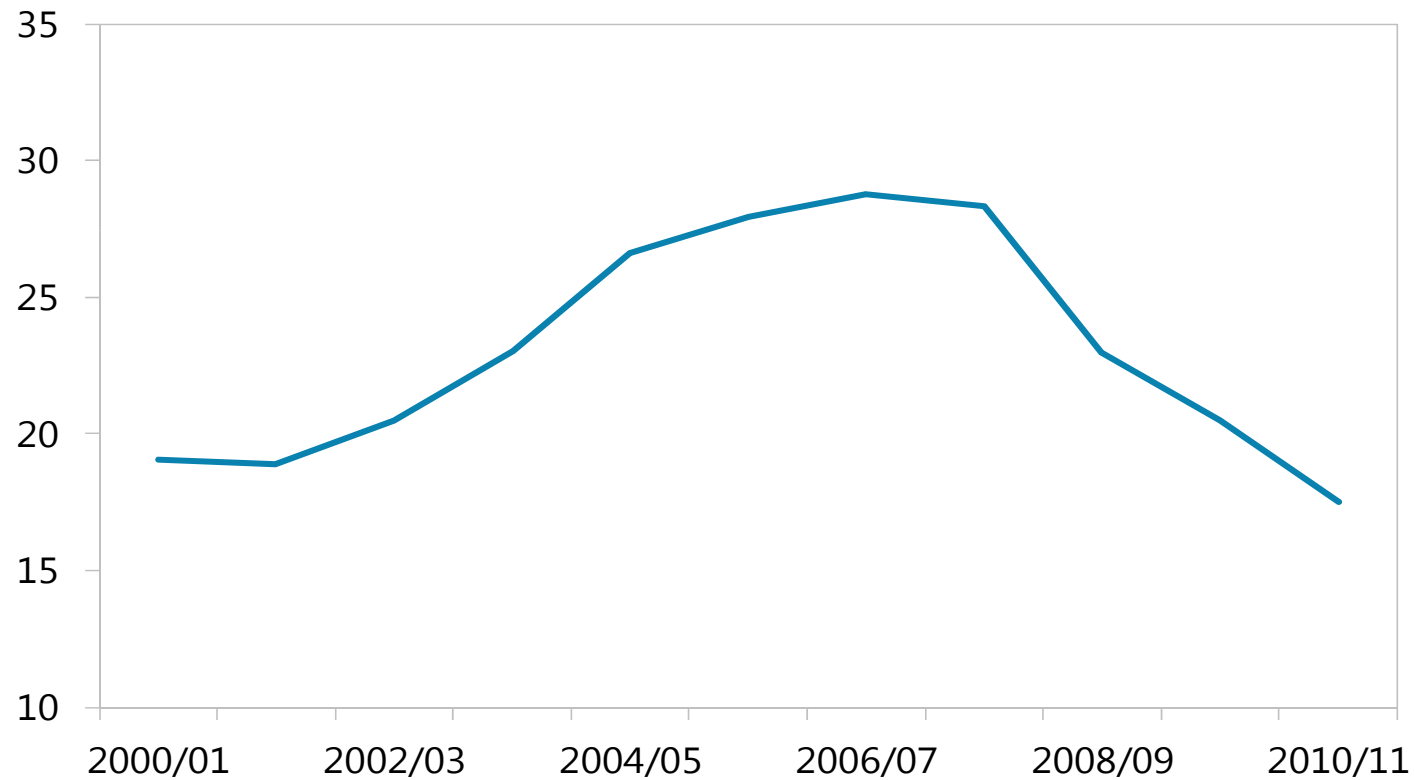
Sources: Pakistani authorities; and IMF staff calculations.



Private sector credit

Private Credit, 2001–11

(In percent of GDP)



Sources: Pakistani authorities; and IMF staff calculations.





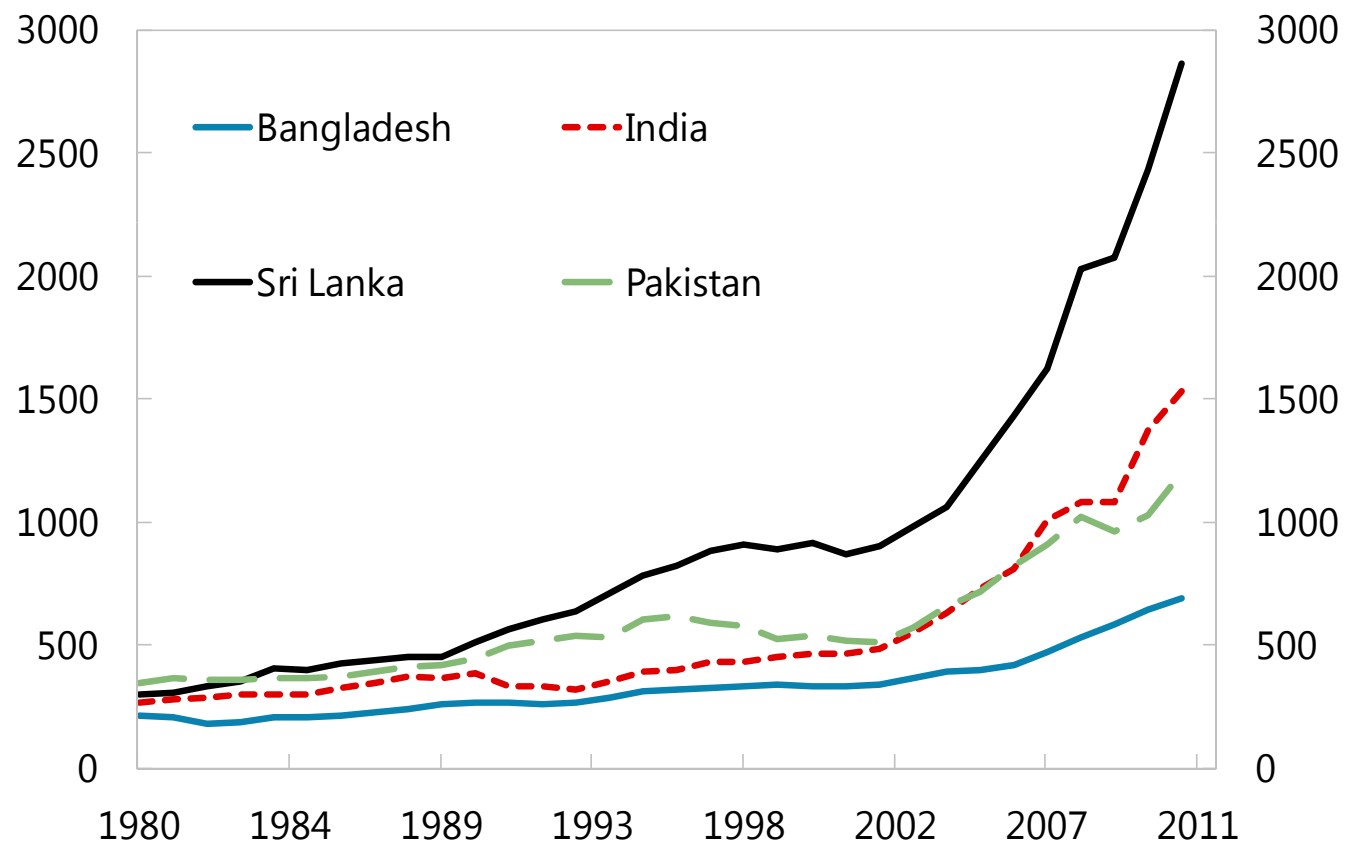
II. Economic Outcomes



Past economic outcomes - growth

Real GDP per Capita

(In U.S. dollars)



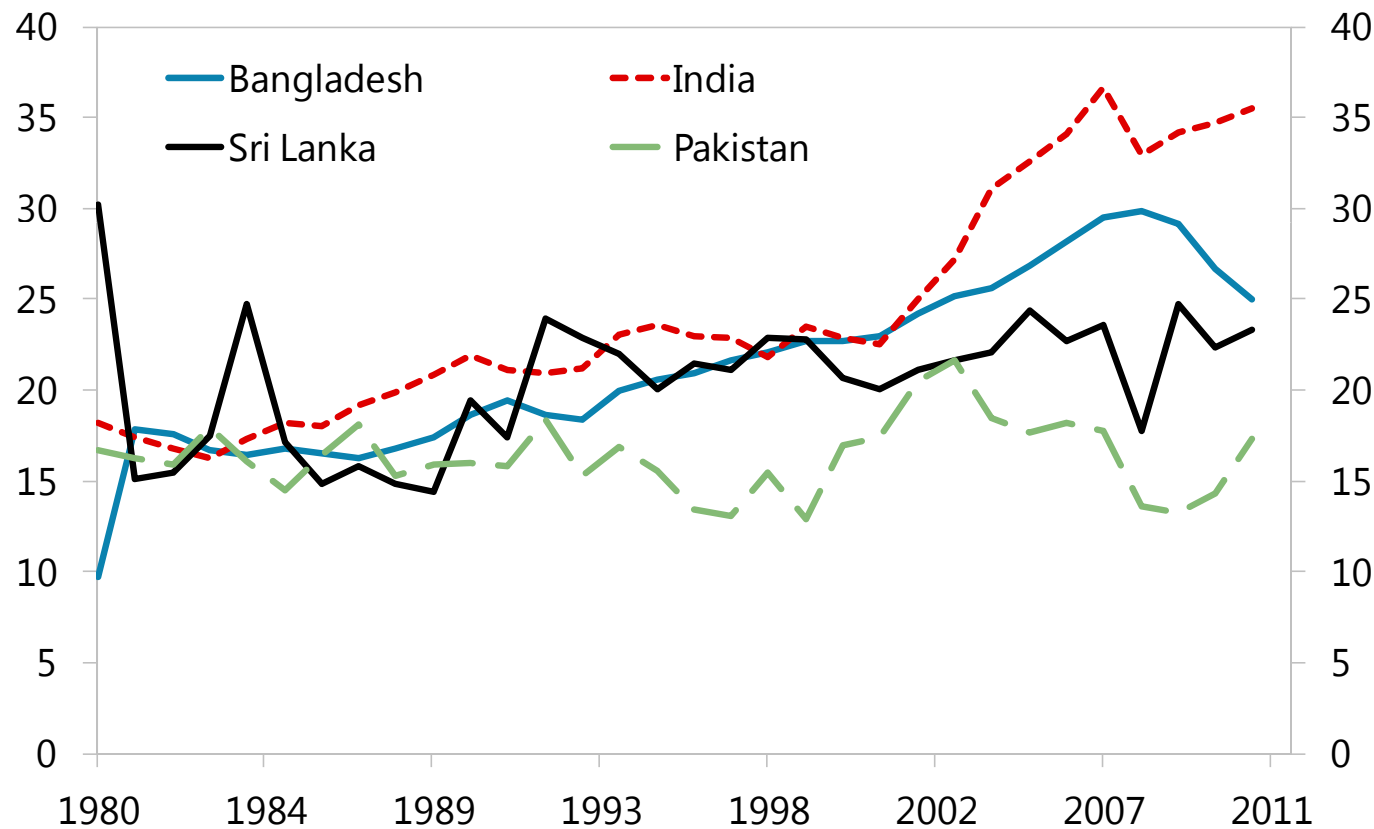
Sources: Pakistani authorities; and IMF staff estimates.



Past economic outcomes - savings

Gross National Savings

(In percent of GDP)



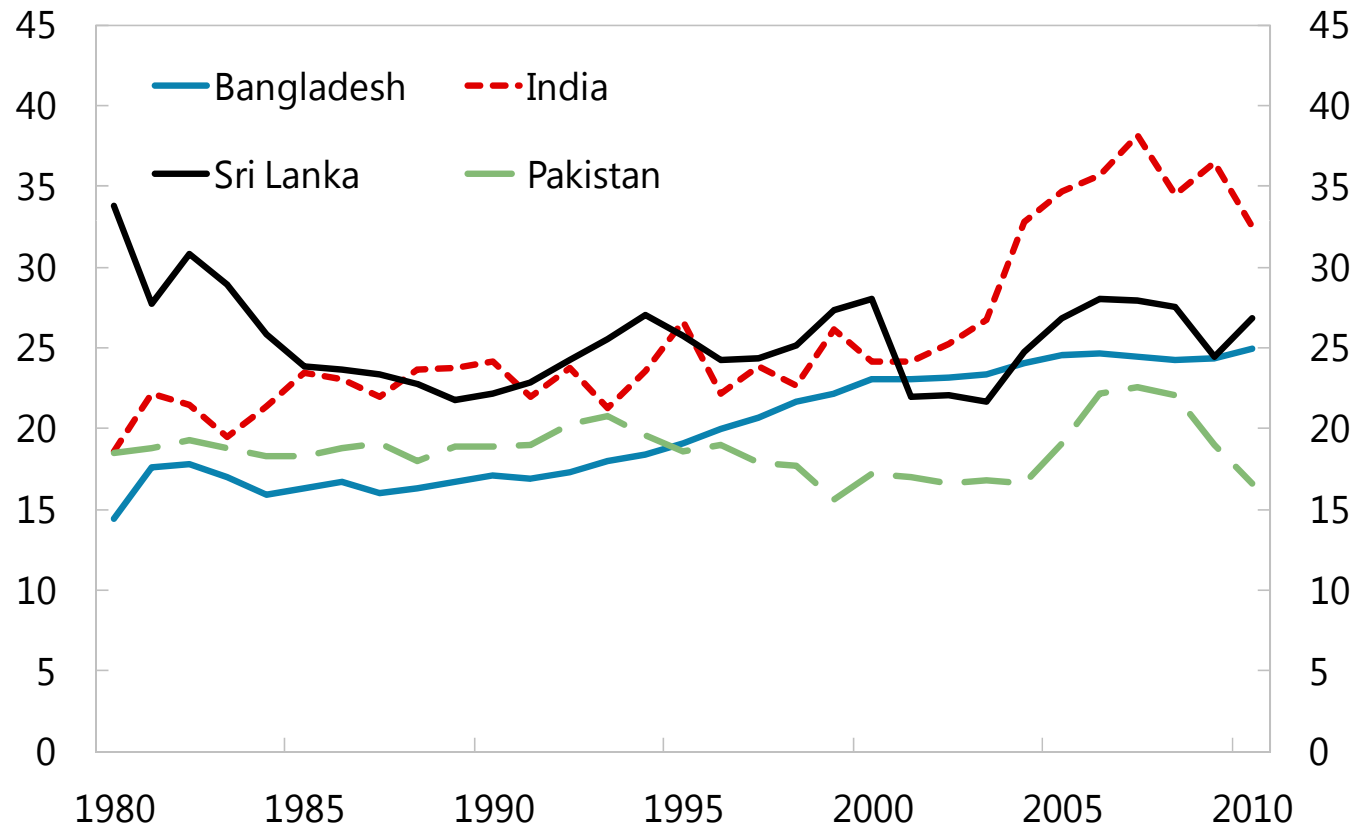
Sources: Pakistani authorities; and IMF staff estimates.



Past economic outcomes - investment

Gross Capital Formation, 1980-2010

(In percent of GDP)



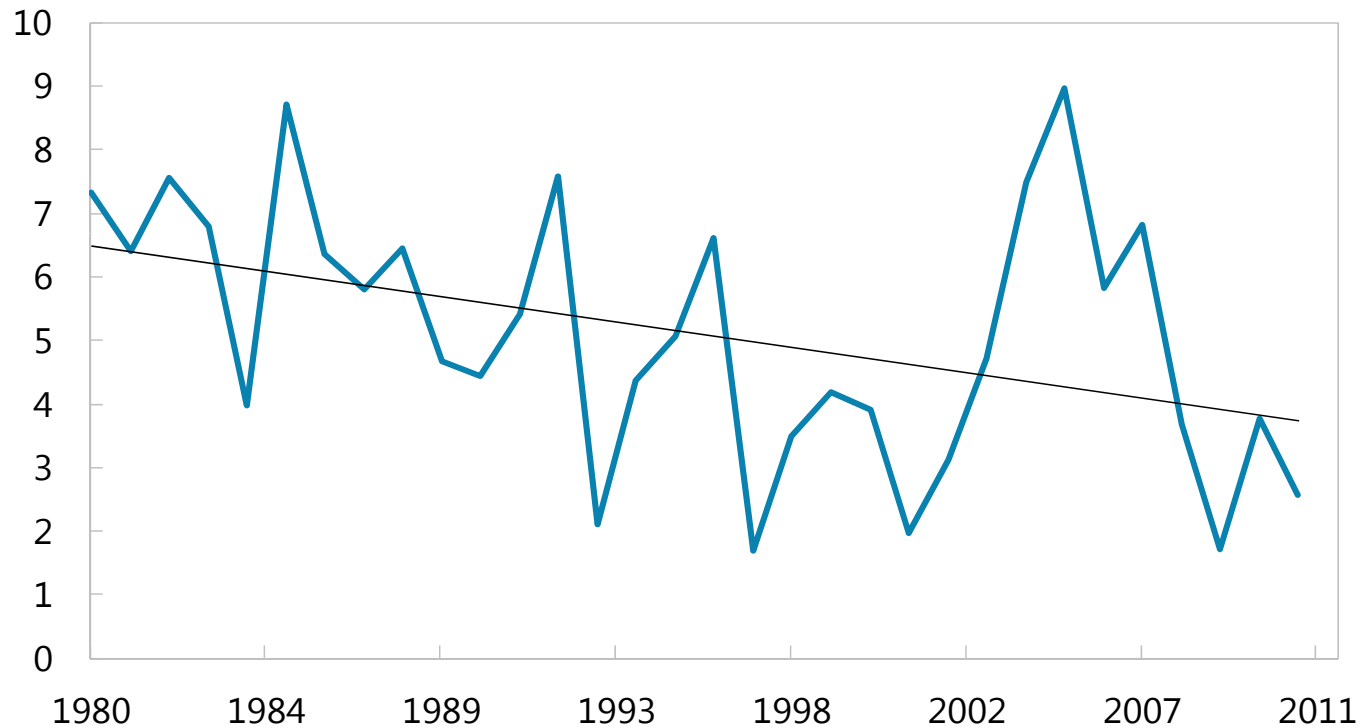
Sources: Pakistani authorities; and IMF staff calculations.



Growth

Real GDP, 1980–2011

(In y-y percent change)



Sources: Pakistani authorities; and IMF staff calculations.





Growth

Pakistan's New Growth Strategy

- The government of Pakistan has formulated a new growth strategy (NGS)
- The NGS promotes sustained growth by addressing what it considers the two main constraints to growth:
 - Inadequate market development
 - Inefficient public sector management





Employment

- Official unemployment is low, but
- There is considerable underemployment and considerable unpaid employment and
- A young population; an average GDP growth of 7 percent per year is needed to absorb about 2 million new labor market entrants





Inflation

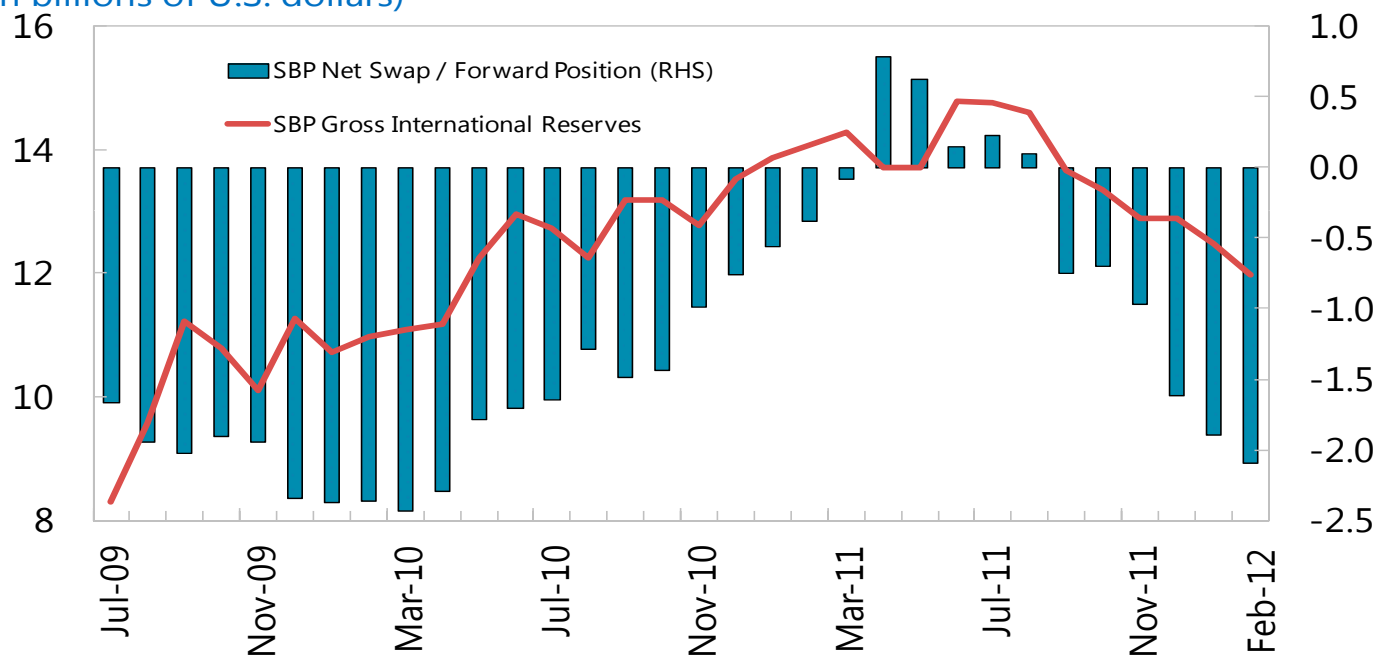
- Recent inflation performance has been poor
- High inflation is regressive and hurts the poor the most
- High inflation harms growth



A weakening external position

SBP Gross International Reserves and Net Swap/Forward Position, 2009–12

(In billions of U.S. dollars)



Sources: Pakistani authorities; and IMF staff calculations.

1/ Positive values indicate net purchases in the interbank foreign exchange market.





Past economic outcomes

- Subpar growth
- Low savings and investment
- High inflation in recent years
- Considerable underemployment and unpaid employment
- Weakening external position





III. Outlook





Short-term outlook

The outlook for 2011/12 is challenging, clouded by risks in the world economy:

- Real growth is recovering, but remains at a relatively low level
- Double digit Inflation expected to continue
- Balance of payments pressures
- Fiscal pressures





Medium-term outlook

Without policy changes

- Fiscal deficits could crowd out credit to the private sector
- Savings and investment would decline
- Growth would settle around 3½ percent per year
- External position could deteriorate
- Sizeable financing gaps could result





Risks

- There are several risks tilted to the downside
 - Gross fiscal financing requirements
 - Inflation
 - Spillovers from weak global economy
 - Financial stability risks





IV. Policies





Policies

- Policy objectives: to reduce short-term vulnerabilities and boost long-term growth
- Fiscal policies
- Financial sector policies
- Structural reforms





Alternative scenario

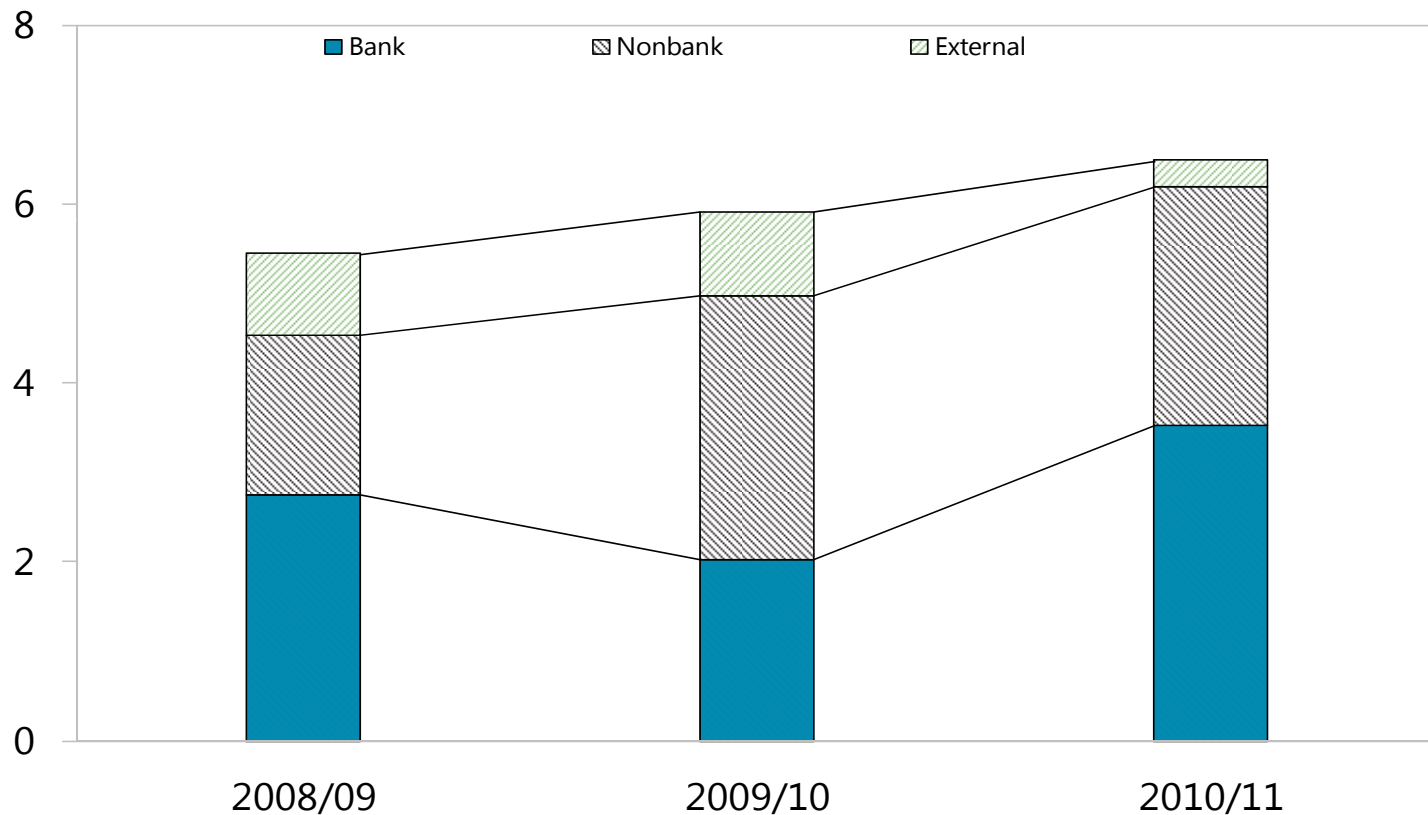
- To manage these risks and lift growth, an alternative set of policies is proposed.
- The scenario assumes prudent fiscal and monetary policies and structural reforms (tax policy, energy, business climate, and others) to enable further fiscal consolidation and higher productivity.
- These policies and reforms would produce higher growth, lower unemployment and inflation, and a more robust reserve cover.



Fiscal policy

Fiscal Deficit Financing, 2009–11

(In percent of GDP)



Sources: Pakistani authorities; and IMF staff calculations.





Fiscal policy

- In the near term, contain the deficit in 2011/12 through revenue and spending measures
 - Revenue measures
 - Limit power subsidies
 - Keep provincial budgets in surplus





Fiscal policy

- In the medium term
 - Revenue mobilization
 - Improving composition of spending by reducing untargeted subsidies, tightening other non-wage current spending and making space for higher spending on social protection, education and health
 - Improve cash and debt management
 - Strengthen fiscal decentralization framework





Financial policies

- Monetary and exchange rate policy
 - Cautious monetary policy needed
 - Allow more exchange rate flexibility
 - Strengthen central bank autonomy





Financial policies

- Safeguarding financial sector stability
- Safeguarding financial stability in the face of rising risks
 - Address NPLs
 - Limit regulatory forbearance and promptly restructure problem banks
 - Improve financial governance
 - Introduce deposit insurance
 - Establish commercial courts.
- Development of capital markets priority
 - Encourage the development of the managed funds industry, and
 - Greater transparency in company data





Structural reforms

Improving Pakistan's competitiveness

- The key to Pakistan's external competitiveness is improving security conditions, the reliability of energy supply, and its business environment and governance.
- Out of 142 countries included in the World Economic Forum's *Global Competitiveness Report 2011–12*, Pakistan ranked 118.
- The World Bank *Doing Business Report 2011*, in which Pakistan ranked 83rd out of 183 countries.





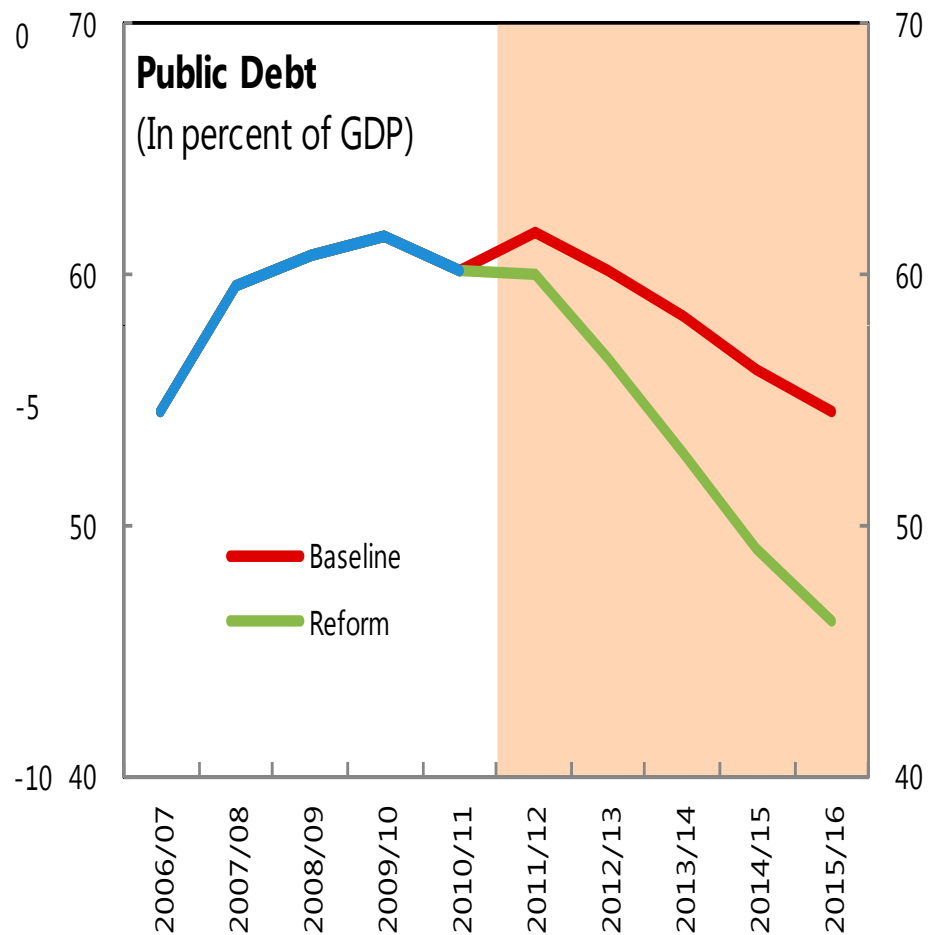
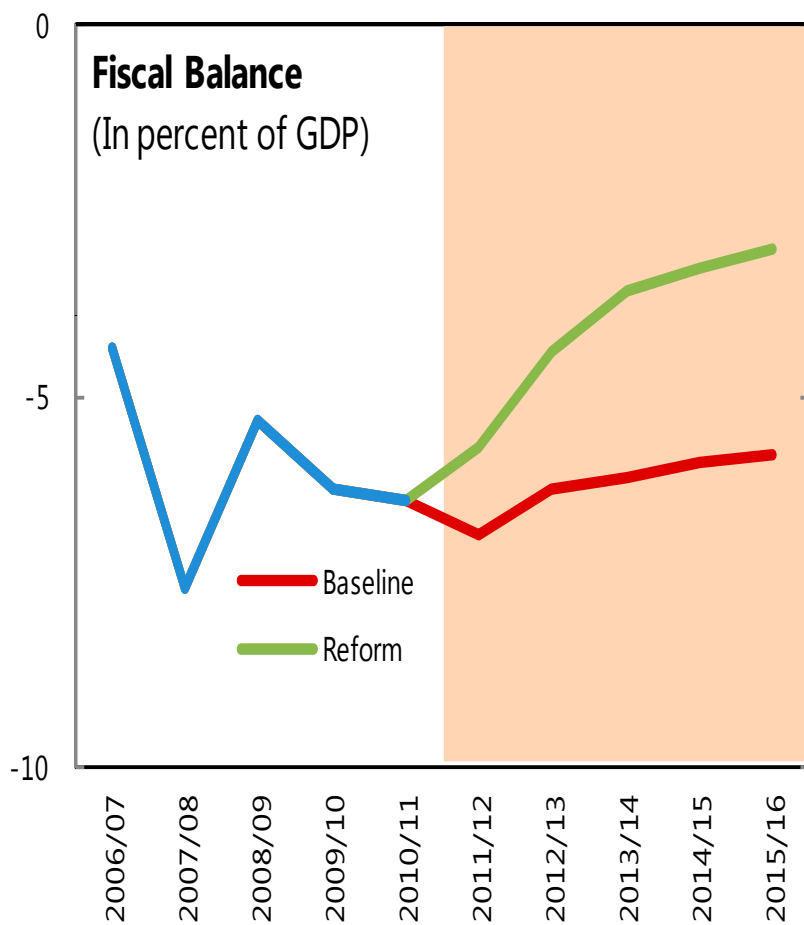
Structural reforms

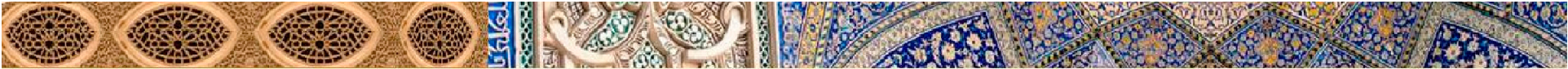
Sustained and inclusive growth requires a number of structural reforms

- Improve reliability and efficiency of Pakistan's energy supply
- A strategy to restructure the large public enterprises
- A program to further reduce the state's footprint in the economy
- Improve the investment climate, by promoting better regulation and governance and facilitating the entry and exit of firms
- Civil service reform
- Improve the functioning of the financial sector
- Further strengthening of the social safety net
- Continue trade liberalization

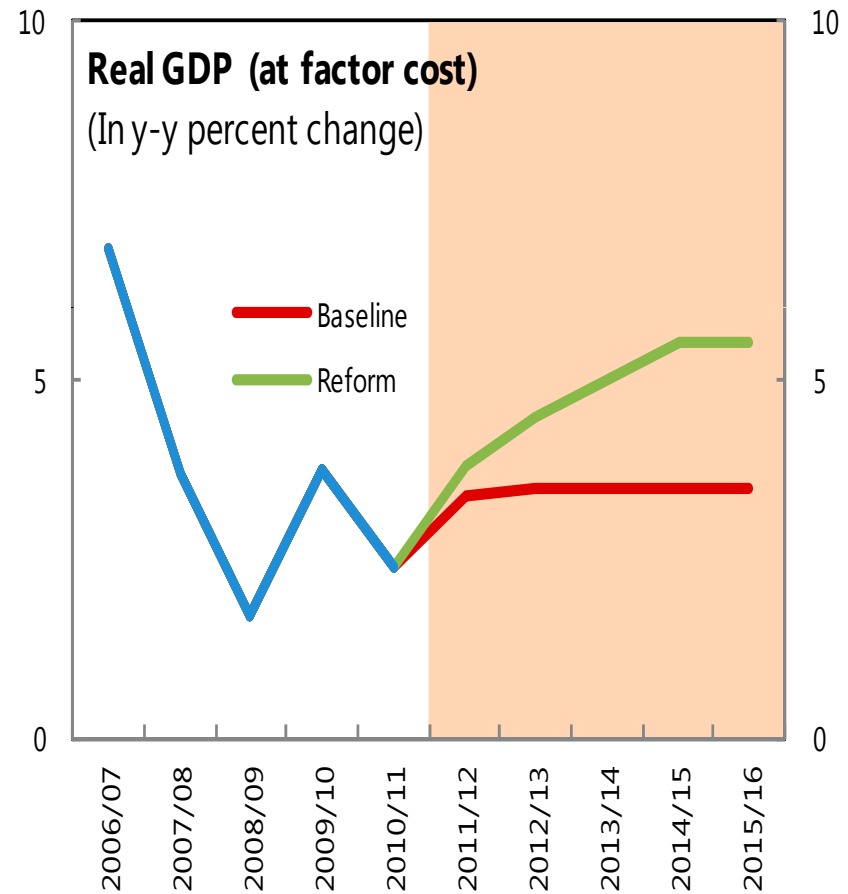
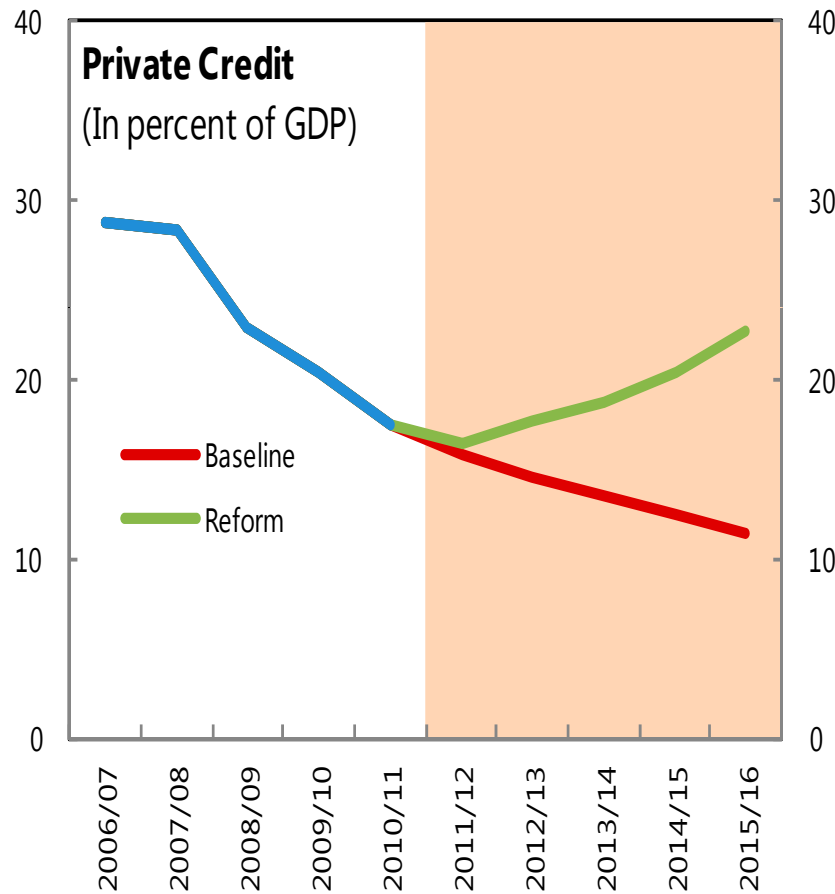


Alternative scenario - Public finances

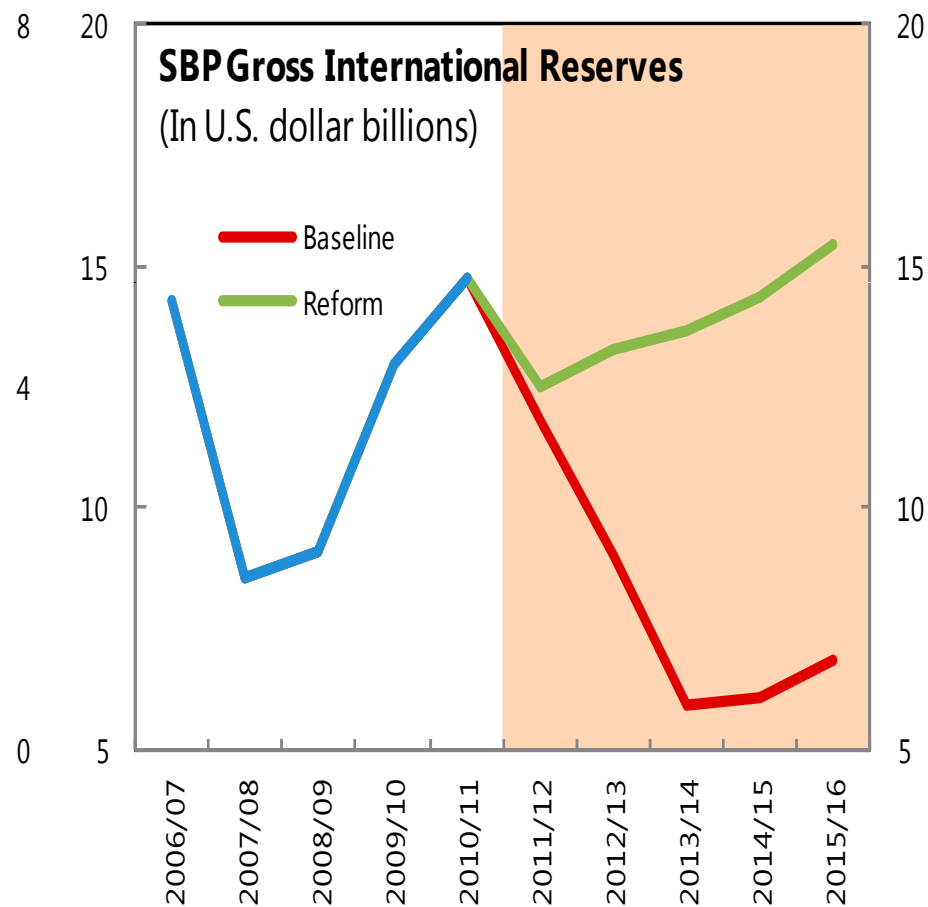
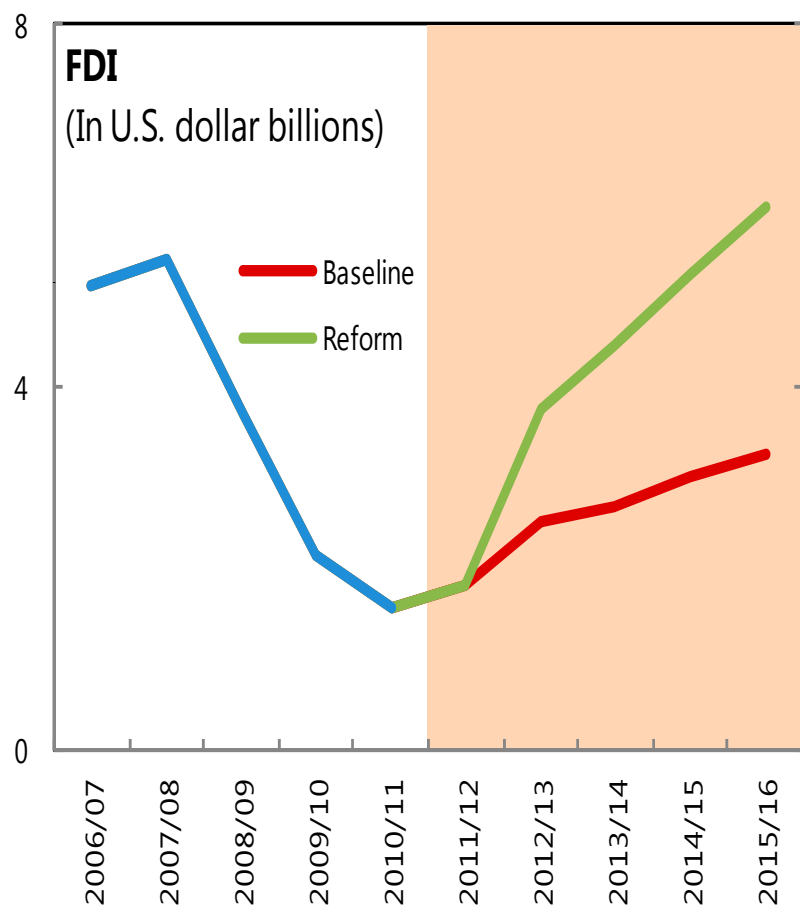




Alternative scenario - Credit and GDP growth



Alternative scenario—FDI and reserves





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Thank you

For further information, please see

<http://www.imf.org/external/pubs/cat/longres.aspx?sk=25714.0>

