PRESS RELEASE

Outlook for Pakistan Economy Marked by Uncertainties

The Institute for Policy Reforms (IPR) has undertaken a review of the performance of the economy in 2013-14 and projected the economic outlook for 2014-15.

The year, 2013-14, has ended with a mixed performance. On the positive side, stability has been achieved in the foreign exchange market, with a major appreciation in the value of the rupee after March 2014.Foreign exchange reserves have increased by over 50%, due largely to one-off inflows. Remittances have shown buoyancy, but exports have stagnated, despite the granting of GSP plus status by the EU.

On the negative side, many targets have been missed while some of the claims by government are not substantiated by facts. There is controversy about the Government's claim of a GDP growth rate of over 4% in 2013-14. IPR estimates that at the maximum it is 3.5%, while IMF believes that it is 3.3%. The latter estimates imply that the growth rate of the economy has been the lowest in the last four years.

Other targets that have been missed include a higher rate of inflation than anticipated; lower investment and savings rates; rising unemployment rate which has crossed 7% in 2013-14.

The Governments' claim that the fiscal deficit target of 5.8% of GDP has been met is based on substantial overstatement of the combined cash surplus of the Provincial Governments by almost Rs.150 billion. As such, the actual fiscal deficit is closer to 6.4% of the GDP.

Turning to the economic outlook for 2014-15, it needs to be recognized that this year is characterized by greater uncertainty than is normally the case. At the global level, the world economy is floundering once again and growth forecasts have been revised downwards. There are many more flashpoints of conflict in the Middle East and elsewhere. The oil price is showing greater volatility.

On the domestic front, the army is engaged in military operations (Zarb-e-Azb) and there is the possibility of a blow back. The political situation has become more tense and unpredictable, with parties both inside and outside the Parliament threatening marches to Islamabad.

In this environment of uncertainty, most Government targets appear very ambitious for 2014-15.The growth projection of over 5% is based on a bigger cotton crop and a surge in the large-scale manufacturing sector by 7%. The outcome will depend on the extent of improvement in the load shedding situation and performance of exports. IPR expects that the GDP growth rate will remain range bound at 3.5 to 4%, like the last six years.

The economy's rate of Investment will be impacted negatively by the perceptions of risk. The extent to which the development programs of the Federal and Provincial governments for 2014-15 are implemented will determine the rise in the investment rate.

The projected inflation rate could range from 7% to 10% depending on, first, whether oil prices rise, second, on the extent to which the Government raises power and gas tariffs and, third, on the degree of depreciation (if any) in the value of the rupee. The IMF projects this at over 8% in 2014-15.

A big reduction is proposed in the budget deficit to 4.9% of the GDP in 2014-15. This is based, first, on over 24% growth in tax revenue and, second, on a massive provincial cash surplus of Rs.289 billion (almost 1% of the GDP).These optimistic projections are unlikely to materialize and either the PSDP will be cut once again or the consolidated deficit will approach 7% of the GDP.

On the balance of payments side, it is expected that foreign exchange reserves will rise from $9 billion to $13.5 billion by the end of 2014-15. This is premised on, first, export and remittances growth of 4 and 9 percent respectively, second, doubling of foreign direct investment (excluding privatization receipts), third, a second round of flotation internationally of bonds of $1 billion and, fourth, privatization proceeds of $2 billion. No provision has been made for higher oil prices. IPR projections of the balance of payments are more conservative, with foreign exchange reserves staying at just below $10 billion.

Overall, IPR projections for 2014-15, as compared to those by either the Government or the IMF, are given below:

	Government / IMF	**IPR**
GDP Growth Rate (%)	4.0-5.1	3.5-4.0
Rate of Investment (%)	16.1	15.0
Rate of Inflation (%)	8.0	7.0-10.0
Fiscal Deficit (% of GDP)	-4.9	-7.2
Current Account Deficit (% of GDP)	-1.1	-1.8
Foreign Exchange Reserves ($ billion)	13.5	9.8