



THE UNITED NATIONS 'WORLD ECONOMIC SITUATION AND PROSPECTS 2018'

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)



The World Economic Situation and Prospective Report (WESP) was launched on December 11, 2017. The Report is a collaborative effort by the UNDESA, UNCTAD and five UN regional economic commissions and the WTO. The objective of this report is to help policymakers address issues that continue to hinder progress towards sustainable development and formulate policies aimed at strengthening the environmental quality of economic growth, making economic growth more inclusive and tackling institutional deficiencies.¹

The newest WESP highlights the strengthening of global economy which provides an opportunity to address structural challenges as crisis-related instabilities and the adverse effects of recent global shocks wane. This may encourage the rebound in capital spending needed to revive global productivity growth and to accelerate progress towards the Sustainable Development Goals (SDGs), this is because investment conditions have improved in many countries.²

According to the WESP 2017, positive economic outlook is prevalent across the South Asian region, with most economies projected to see stronger growth rates in 2018 compared to the 2017. In 2017, global economic growth reached 3 % the highest growth rate since 2011 and growth is expected to remain steady for the coming year. The regional GDP growth is expected to strengthen to 6.5 % in

¹ UNSDN, "World Economic Situation and Prospects 2018," January 10, 2018, <http://unsdn.org/2018/01/10/wesp2018/>

² Development Policy & Analysis Division, "World Economic Situation and Prospects: January 2018 Briefing, No. 110," January, 2018, <https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-january-2018-briefing-no-110/>

2018 and 7.0% in 2019, following an estimated expansion of 6.3% in 2017.³ The improvement in global economic conditions offers greater scope for policymakers to shift from a short-term focus that is inevitably part of coping with crises, towards addressing longer-term challenges and eliminating deep-rooted barriers to development. Labour market indicators continue to improve in many countries, and world trade has rebounded. The improvement in world trade has been largely driven by rising demand from East Asia. In fact, East and South Asia remain the world's most dynamic regions, contributing nearly half of global growth. South Asia's economic outlook remains steady and largely favourable, driven by robust private consumption and sound macroeconomic policies. Monetary policy stances in the region are moderately accommodative, while fiscal policies maintain a strong focus on infrastructure investment.⁴

For Pakistan, which is among the smaller economies in the region, economic activity is expected to remain vigorous, with GDP growth projected to reach 5.5% and 5.2% in 2018 and 2019, respectively. This is due to an increase in exports and rising investment demand, which is expected to benefit from an improving business sentiment, the China-Pakistan Economic Corridor (CPEC) and other infrastructure initiatives. However, a rising current account deficit coupled with a recent deterioration of fiscal accounts, poses risks to the baseline projection, notes the survey published by UN Department of Economic and Social Affairs (DESA).⁵ According to the report, India's economy is likely to expand by 7.2 % in 2018 and go up further by 7.4% in the following year. The outlook for India remains largely positive, "underpinned by robust private consumption and public investment, as well as ongoing structural reforms."⁶

Overall, this positive outlook is a continuation of the improvement in economic conditions in South Asia over the past several years, and will contribute to gradual progress in labour market indicators and a reduction in poverty rates, the report notes. The regional inflation is expected to remain stable and at relatively low levels. The favourable prospects for inflation, coupled with mostly sustainable current account deficits, will facilitate macro-economic policy management across the region in the near term. The economic outlook for South Asia is seen mostly favourable and steady for the short-

³ Development Policy & Analysis Division, "World Economic Situation and Prospects 2018," <https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-2018/>

⁴ UNESCAP, "World Economic Situation and Prospects 2018 launched in New Delhi," December 22, 2017, <http://www.unescap.org/announcement/world-economic-situation-and-prospects-2018-launched-new-delhi>

⁵ Amin Ahmed, "UN sees positive economic outlook for South Asia," Dawn, December 15, 2017, <https://www.dawn.com/news/1376650/un-sees-positive-economic-outlook-for-south-asia>

⁶ DevikaPanse, "What the latest UN report has to say about India," Qrius, December 16, 2017, <https://qrius.com/world-economic-situation-prospects-2018-latest-un-report-say-india/>

term, notwithstanding significant medium-term challenges.⁷ Pakistani exports grew nearly 15% year-on-year in December 2017, leading to revival in the overseas sales of Pakistani goods. The upward trend in exports will contribute towards bridging the deficit in current account, which is under pressure because of rising oil prices and growing imports of other fuels and machinery. In absolute terms, exports edged up to \$1.97 billion in December from \$1.72 billion a year ago, according to recent Pakistan Bureau of Statistics data. This was due to Prime Minister export package, realistic exchange rate and growing international demand for Pakistani goods. Total foreign reserves of the country have also increased and stand at above \$ 20.154 billion after falling down to \$19.5 billion. This is because of the US dollar bond sales.⁸

The report goes on to point out that despite a general bright picture for South Asia, several downside risks and challenges exist, such as heightened geopolitical tensions that may restrain investment. The region needs to address structural issues to unleash its growth potential and promote a more sustained and inclusive development path. On the domestic front, the reform agenda, a crucial element of higher productivity growth, could experience setbacks in some countries, while heightened regional geopolitical tensions may restrain investment projects. On the external front, the monetary normalization process in the United States poses risks to financial stability across the region. Amid relatively high levels of public debt, fiscal policies are officially in a moderately tight stance in most economies. Ongoing fiscal consolidation efforts, however, have yielded different levels of progress, as public budgets have been in reality more expansionary. The fiscal deficit has recently expanded in Pakistan, while in Sri Lanka, the fiscal deficit has also narrowed, amid strong consolidation pressures under the Extended Fund Facility arrangement with the IMF, and it continues to be moderately high in Bangladesh, at about 5% of GDP.⁹

The report emphasizes that beyond the favourable economic situation and its short-term risks and uncertainties, there are crucial areas that South Asia, and especially Pakistan, needs to address to unleash its growth potential and to promote a more sustained and inclusive development path in the medium-term. First, strengthening fiscal accounts is a key challenge for most economies. Low tax revenues and largely rigid public expenditure have contributed to persistent structural fiscal deficits across the country. Improving tax revenues is a critical aspect in building fiscal buffers and strengthening the capacity to implement countercyclical policies. Proactive fiscal policies play a

⁷ UNESCAP, "World Economic Situation and Prospects 2018 launched in New Delhi," December 22, 2017, <http://www.unescap.org/announcement/world-economic-situation-and-prospects-2018-launched-new-delhi>

⁸ Mubarak Zeb Khan, "Exports register 15pc growth in Pakistan," Dawn, January 11, 2018, <https://www.dawn.com/news/1382112/exports-register-15pc-growth>

⁹ Amin Ahmed, "UN sees positive economic outlook for South Asia," Dawn, December 15, 2017, <https://www.dawn.com/news/1376650/un-sees-positive-economic-outlook-for-south-asia>

crucial role in stabilizing economic activity and supporting development priorities, including in the social protection, poverty and inequality dimensions. Second, Pakistan needs to tackle large infrastructure gaps, particularly in the areas of energy, sanitation and water access, as well as transportation. Persistent deficits in these areas pose a threat not only to productivity gains and economic growth, but also to poverty alleviation..