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New government faces uphill economic tasks in days ahead

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KARACHI: New government will have hard nuts to crack on economic front as it needs to immediately take some tough decisions to address the twin deficits, economists and analysts said on Thursday.

“Pitch ahead needs sensible batting like a test match and not a T-20 because several cumbersome economic challenges… need to be addressed,” a leading businessman said, requesting anonymity.

The businessman advised the untested government to show patience in tackling economic challenges.

Analysts said stabilisation of external account and controlling the fiscal deficit are key challenges facing the new government.

“Entry into the IMF (International Monetary Fund) program appears inevitable,” an analyst from an overseas brokerage house said, wishing to be anonymous.

Current account deficit widened 43 percent in the last fiscal year, while rupee has already lost 20 percent of its value against dollar since December last year.

Economist Ashfaque Khan said a big current account deficit passes through fiscal side.

“So, the new government needs to address fiscal challenges and most importantly, addressing the flaws in the 7th NFC (National Finance Commission Award) award,” Khan added.

Ex-finance minister Salman Shah sees a very difficult situation for the new government ahead.

“How will the upcoming government meet the gross financing gap of approximately $30 billion in the backdrop of dwindling foreign exchange reserves and heavy foreign loan repayments,” Shah said.

“The financing is unlikely to be raised from the international debt markets right now.”

Saad Bin Ahmed, head of Equities Broking at Arif Habib said the new government would face tough tasks given the diminutive balance at the coffers, weak currency and higher current account deficit.

“The new government will need to take tough decisions to curb import tendency and bring fiscal discipline,” Ahmed said. “Steep inflation and rising interest rates are expected to negatively affect the aggregate demand and the dent in purchasing power of common man is likely to affect sales of electronics, cement, textile and steel sectors.”

Analysts said first 100 days will be crucial. De-subsidisation of tariffs, privatisation of loss-making state-owned enterprises and spending cut would be required, they added.

“I think, in two to three months’, much would be dependent upon the effectiveness of the recent economic steps and the path of new government to control the economic deterioration,” Zeeshan Afzal, director research at Insight Securities said.

The analysts said results of 2018 elections bode well for the stocks market as prospects of hung parliament were sidelined.

A near-simple majority gives Pakistan Tehreek-e-Insaaf a free hand-on economic policy making, though the party may depend on support of other political parties to bring any constitutional change for which two-third majority is required.

Saad Hashmey, chief economist at Topline Securities said the market is expected to further increase on strong government.

“The market’s expectation was a weak coalition, but now a strong coalition or even a simple majority is a possibility,” Hashmey added.

“However, a strong government is likely the case, which should bode well for market sentiments in the immediate term.”

Analysts said economic measures by the incoming government will eventually dictate the market movement.

Hashmey expected the index gains to be short-lived and “the economic situation will likely keep the upside in check”.

Khurram Schehzad, chief commercial officer at JS Global Capital said mounting economic challenges are a hard fact and the incumbent government will need to take economic indicators up on a war-footing basis to rein in the overall economy under control.

Analysts said equity bullishness is to gain strength from the ability of the new government to take apt decisions.

“How smoothly and effectively the new government can tackle this issue will determine market sentiment in the coming months. Overall, we see limited downside,” Shumaila Badar, head of research at Iqbal Ismail Securities said