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Economic challenges: make the tough calls

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The immediate economic challenge is to bring macroeconomic stability by filling the huge gross external funding requirement; and then to bring reforms in key sectors mainly energy and taxation. The idea is to slowly cut down the twin deficit on sustainable basis by instilling reforms and offering out of box solutions to not let the crisis hit again in five years.

The PTI government is facing the fist challenge on how to bridge in the external gap and how to work on lowering current account and fiscal deficits to manageable levels before thinking of sustainable long term issues. That is why Prime Minister Khan in his maiden visit to Karachi as PM asked business community to wait for two years.

Now this seems to be a confused statement and the stock market did not take it well yesterday. The problem is that to bring the deficits down and to bridge in the external gaps, there are steps required which are at one eighty degrees to what were promised by Imran and his team during the election campaign.

The government cannot take politically tough decisions and cannot survive for long without these either. Precious time has passed after the red flags were raised somewhere in the last quarter of 2017. Earlier, it was PMLN government inaction which is followed by caretaker's dull period; and now PTI is taking not-so-sweet time to absorb the ground realities.

The first good but tough decision was taken yesterday by ECC on gas prices revision, subject to approval of cabinet. The increase is short of what was warranted; but it's a welcome decision in the right direction. Similar steps are required in power sector; and similar attitude is the need of the day in taxation policies.

The need is to make the public realize that how imperative is correcting economic imbalances for sustainable stability. The first step is to anchor stability and in the process growth prospects may be compromised in the short to medium term. However, without doing so, gaps would reach a level that global market forces would adjust to an ugly level which would implicitly increase prices through inflation and high interest rates.

Case in point is the example of Turkey, Argentina and Egypt. These economies are facing similar external challenges like us and their respective currencies are plummeted much more than what has happened in Pakistan in 2018.

The graph shows that higher the gross funding requirement as percentage of foreign reserves, higher is the adjustment is currency warranted. Pakistan is just behind Turkey. Turkey's currency is in shambles. This has jolted the Turkish economy; do we want similar steps for Pakistan?

If energy prices and taxation policies are not corrected within weeks, the time would come that the reserves would be not enough to sustain $1.5 billion current account deficit; and huge currency adjustment would force to do so.

The PM and team are visiting the KSA for some bounty and soon after that a probable IMF programme will be in action. The REER is at 111 now and the IMF may ask to bring it to 100 level; seeing wholesale price index already in double digits, the CPI would be up soon too. This will take higher than 11 percent depreciation to bring REER close to equilibrium.

The people of Pakistan should get ready for some sacrifices before ruthless market forces come in play. Asad and team should run public campaigns for people to get ready for tough decisions as it is at the best interest of country for the long term. Sooner the better. The clock is ticking.