Synopsis

CFA Society Pakistan hosted a Speaker Session by Dr. Waqar Masood, Ex Secretary Finance, on Economic Policy and Direction for CFA Society Pakistan Members on 12th April, 2019.

Dr. Waqar Masood has a PhD degree in Economics from Boston University. He has held several key positions with the Federal Government including Energy, Economic Reforms, Textiles and Finance over the last 30 years. Dr. Waqar has also led negotiations for Pakistan with IMF in the past. He writes regularly for several leading publications.

A brief synopsis of his views is reproduced below for information.

IMF Program

Dr. Waqar expects Pakistan to sign IMF by end April. He expects Pakistan to get around 500x of its quota which would mean a program size of more than USD 12-15 bn. He also expects USD 10-12 bn additional inflows from multilateral agencies which also look for IMF endorsement for release of Funds.

Fiscal Deficit:

Dr. Waqar Masood, considers Fiscal Deficit as the biggest problem for Pakistan’s economy and the root cause of ills afflicting the economy. He expects IMF to set tough targets for fiscal deficit.

Dr. Waqar indicated that the FM has hinted that the fiscal deficit may reach 7.6% of GDP (Rs.2900 bn) in the current fiscal years. He warns of tough revenue measures and expenditure cuts in the next year as IMF is likely to set the fiscal deficit target to near 5% of GDP in the first year i.e. a cut of more than Rs. 1,100 billion in fiscal spending and immense pressure on government to mobilize revenue.

Interest Rates and Currency

IMF does not set specific interest rate targets, however, requires positive real interest rates. In his view, current real rates are adequate and thus there may not be an immediate need for further monetary rate increases, provided the inflation remains moderate.

Currency adjustment is also not a specific target as IMF encourages free floating exchange rate while reserves and foreign currency purchase targets from Open Market may put pressure on exchange rate.

However, the talk with IMF depends on how effectively the negotiators are able to convince IMF on the government policies and strategies.

Energy Sector

On power sector issues and circular debt, Dr. Waqar was of view that it is impossible to address issues in energy chain without privatization. Government should consider Privatization if it really wants to find a sustainable solution. Government will have to increase power and gas tariffs to manage the gaps in consumer tariffs and the cost.
Economic Outlook

Dr. Waqar warned that there would be further slow-down in the economy soon after the program, as aggregate demand would be cut and supply increases would take time. In this period economic stabilization would take place, reserves would stop depleting and investors’ confidence would gradually increase together with investment activity. In a couple of years, if the program is diligently implemented, growth would begin to take place also. Continued political support for the program is critical.