STRATEGY

IMF Staff Level Agreement

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REN # REP-400R

Pakistan Research

Strategy: Pakistan reaches IMF staff level agreement

IMF and Pakistan have reached a staff level agreement on the first review under the Stand-By Agreement (SBA) of USD 3bn. This agreement is subject to approval of the IMF's Executive Board. After approval, Pakistan will receive SDR 528mn (USD 700mn), bringing the total disbursement under the program to USD 1.9bn. The consistent enforcement of budgetary measures and rationalization of energy prices along with commitment to implement market-based exchange rate, proactive monetary policy, and structural reforms have led to reaching an agreement.

Reaching an IMF staff level agreement would increase investor confidence and alleviate concerns over the external account. This would provide stability to currency market and help control inflationary pressures. We advise investors to remain in stocks that are beneficiary of energy sector reforms and economic recovery amid fiscal consolidation.

Fiscal consolidation to continue

The government is determined to keep primary surplus at 0.4% of GDP by keeping public spending in check and ensuring improved revenue performance. To raise additional revenue, federal cabinet has approved imposition of a 40% tax on foreign exchange income earned by banks in 2021 and 2022. In the long run, capacity building to expand the tax base and raise revenue mobilization along with improved quality of public investment and spending would be key factors.

At the same time, the government will ensure timely unconditional disbursements for social protection, adjusted for inflation under BISP's budget allocation. Going forward, the gov't is seeking to improve BISP disbursement through the enrollment of conditional transfers supporting education and health.

Focus on controlling cost pressures to reduce energy prices

IMF acknowledges increase in energy prices were substantial to curb circular debt, exceeding 4% of GDP. However, it is necessary to avoid further arrears that threaten the viability of the sector. The Gov't is shifting its focus to control cost side pressures, including privatization of DISCOs, institutionalization recovery and anti-theft drive, improving PPA terms and discouraging reliance on captive power plants.

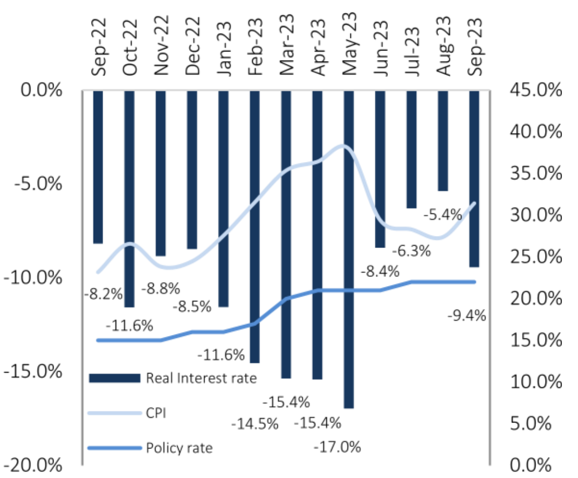
Reiterating market-based exchange rate

The value of rupee must remain market determined which is crucial to alleviate external pressures and rebuild reserves. IMF acknowledges increased regulatory and law enforcement helped to normalize import and FX payments and rebuild reserves. The staff stresses to strengthen the transparency and efficiency of the FX market and to refrain from administrative actions to influence the currency market.

Tight monetary policy to continue

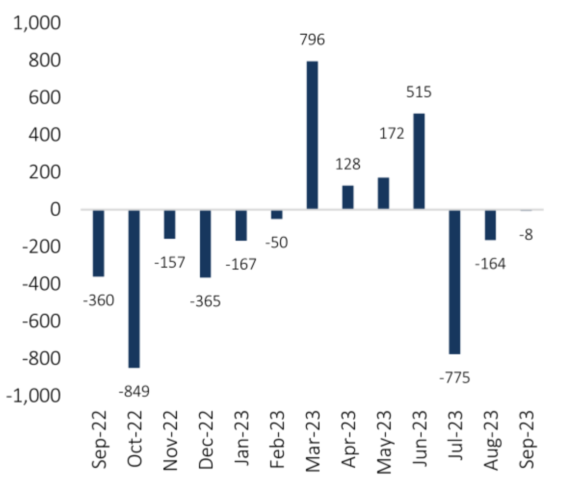
Inflation will be controlled by employing appropriately tight monetary policy. However, it would be imperative for SBP to respond resolutely if price pressures reemerge due to second round effects on core inflation and renewed currency depreciation.

Real interest rates to turn positive in 2HFY24 on account of lower inflation projections



Source: PBS, Akseer Research

CAD normilized (USD Mn)



Source: SBP, Akseer Research

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Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts' assumptions or a combination of these factors.

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