30 April 2024

Alpha Capital
REN # REP-004

AKSEER RESEARCH
REN # REP-400R

Economy

IMF Executive Board Approval

Pakistan Research

Economy: Sustained policy and reforms critical for sustainable growth

The IMF Executive Board concluded the final review of the Stand-by Agreement (SBA), allowing the disbursement of SDR 800mn (~USD 1.1bn) on an immediate basis. This brings the total disbursements to SDR 2.25bn (~USD 3.0bn) under the program. From an equity's standpoint, the timely release of the final tranche along with an acknowledgement on policy efforts bodes well to sustain the momentum in coming months especially in a time when country is eyeing a presumably bigger IMF program.

In addition to extending the reform effort, the IMF continues to highlight fiscal management and keeping the first line of defense intact through market determined exchange rate to achieve sustainable economic growth.

A program successfully managed by three government setups

The program came at a critical juncture for Pakistan wherein political unrest superseded the national discourse, manifesting into considerable external financing risks for the economy. Fast forward to today, the program has been pivotal in facilitating financial support from multilateral and bilateral partners allowing Pakistan much needed room to set itself on course for sustainable growth. In particular, the 9-month program allowed the country to build some external buffers and navigate through elections.

Continuity required to achieve stronger and inclusive growth

Fiscal rationalization coincided with visibility on the political front as Pakistan returned to moderate growth territory during the program. However, as the country yet again finds itself in a "non-IMF" period, visibility on reforms would take cue from (i) the build-up of FX reserves, (ii) flattish fiscal expenditures (over nominal GDP growth) and (iii) disinflation. Steady readings on the aforesaid variables should provide insights on the sustenance of reforms and consequently help in the negotiation with the IMF on the upcoming program. Looking ahead, the IMF expects GDP growth of around 2.0% in FY24 (slightly higher than our estimate of 1.9%). Moreover, the excess of primary surplus in 1HFY24 (1.8% of GDP) over FY24 target (0.4% of GDP) bodes well for the fiscal sustainability. On the external front, SBP FX reserves increased to USD 8.0bn with the IMF expecting it to further improve over the medium term.

Revenue mobilization from undertaxed & non-filers for fiscal sustainability

Revenue generation and spending curtailment both at the federal and provincial levels can help to attain primary surplus target of 0.4% of GDP for FY24. Revenue mobilization, especially from untapped sectors and non-filers, is critical in achieving fiscal sustainability beyond FY24 while ensuring funds for social and development spending.

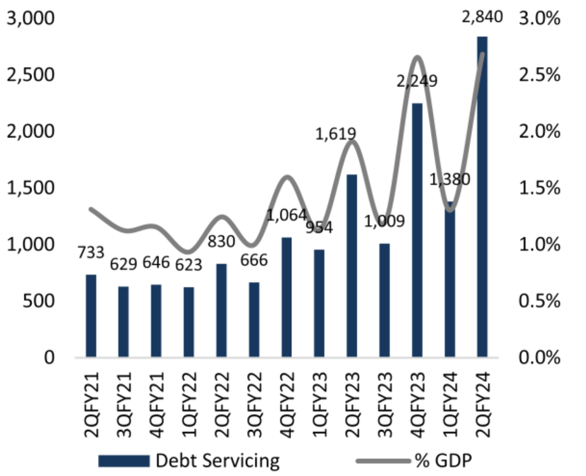
Focus to shift on cost-side reforms for energy sector

The stabilization of the energy sector during the program has been achieved through the timely rationalization of tariff along with the enhanced collection efforts. Now the IMF calls for cost-side reforms to be key for addressing the sector's underlying issues besides adhering to ongoing measures.

Tight monetary policy to continue till moderation of inflation

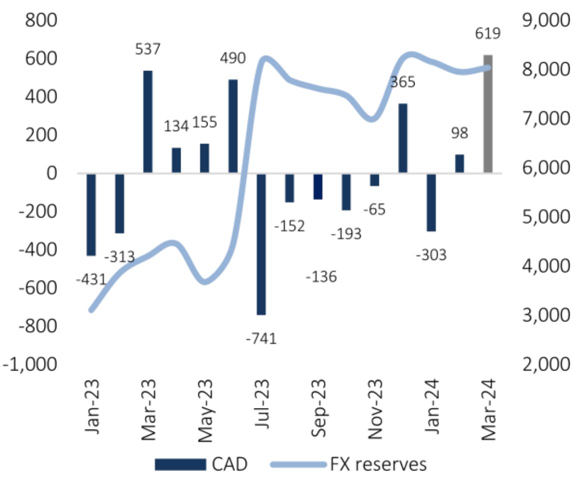
IMF advocates for tight monetary policy stance until inflation returns to more moderate levels. The fund expects inflation reading of 20% by Jun-24 (in-line with our expectation). Further improvement in functionality of foreign exchange (FX) market, including market determined exchange rate is crucial in building FX reserves, which will help to weather external shocks and attract financing.

Elevated debt servicing continues to pose challenges on fiscal front (PKR bn)



Source: MoF, Akseer Research

External account has shown signs of recovery since SBA approval in Jul-23 (USD mn)



Source: SBP, Akseer Research

Muhammad Awais Ashraf, CFA
awais.ashraf@akseerresearch.com

www.jamapunji.pk
Jama Punji

Pakistan Selected Economic Indicators, FY23-25	FY23	FY24	FY25
		Proj.	Proj.
Output and prices (%)			
Real GDP at factor cost	-0.2	2.0	3.5
Employment (%)			
Unemployment rate	8.5	8.0	7.5
Prices (%)			
Consumer prices, period average	29.2	24.8	12.7
Consumer prices, end of period	29.4	19.6	9.5
General government finances (% GDP)			
Revenue and grants	11.4	12.5	12.4
Expenditure	19.2	20.0	19.8
Budget balance, including grants	-7.8	-7.4	-7.4
Budget balance, excluding grants	-7.8	-7.5	-7.4
Primary balance, excluding grants	-1.0	0.4	0.4
Underlying primary balance (excluding grants) 2/	-0.8	0.4	0.4
Total general government debt excl. IMF obligations	74.7	69.6	68.1
External general government debt	28.5	26.2	25.0
Domestic general government debt	46.2	43.3	43.2
General government debt incl. IMF obligations	77.1	72.1	70.0
General government and government guaranteed debt incl. IMF	81.3	76.0	73.6
Monetary and credit (%, unless otherwise indicated)			
Broad money	14.2	13.5	22.0
Private credit	2.3	3.5	20.0
Six-month treasury bill rate (%)	18.3	…	…
Balance of Payments (% GDP, unless otherwise indicated)			
Current account balance	-0.7	-0.8	-1.2
Foreign direct investment	0.5	0.2	0.3
Gross reserves (USD mn)	4,455	9,029	13,364
Months of next year's imports of goods and services	0.8	1.5	2.1
Total external debt	40.1	36.6	34.7
Exchange rate (%)			
Real effective exchange rate	-8.0	…	…

Source: IMF, Akseer Research

Disclaimer

This report has been prepared and marketed jointly by Akseer Research (Pvt) Limited and Alpha Capital (Pvt) Limited, hereinafter referred jointly as "JV" and is provided for information purposes only. Under no circumstances this is to be used or considered as an offer to sell or solicitation of any offer to buy. While reasonable care has been taken to ensure that the information contained therein is not untrue or misleading at the time of publication, we make no representation as to its accuracy or completeness and it should not be relied upon as such. From time to time, the JV and/or any of their officers or directors may, as permitted by applicable laws, have a position, or otherwise be interested in any transaction, in any securities directly or indirectly subject of this report. This report is provided only for the information of professionals who are expected to make their own investment decisions without undue reliance on this report. Investments in capital markets are subject to market risk and the JV accepts no responsibility whatsoever for any direct or indirect consequential loss arising from any use of this report or its contents. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors, who should seek further professional advice or rely upon their own judgment and acumen before making any investment. The views expressed in this report are those of the JV's Research Department and do not necessarily reflect those of the JV or its directors. Akseer Research and Alpha Capital as firms may have business relationships, including investment--banking relationships, with the companies referred to in this report. The JV or any of their officers, directors, principals, employees, associates, close relatives may act as a market maker in the securities of the companies mentioned in this report, may have a financial interest in the securities of these companies to an amount exceeding 1% of the value of the securities of these companies, may serve or may have served in the past as a director or officer of these companies, may have received compensation from these companies for corporate advisory services, brokerage services or underwriting services or may expect to receive or intend to seek compensation from these companies for the aforesaid services, may have managed or co-managed a public offering, take-over, buyback, delisting offer of securities or various other functions for the companies mentioned in this report.

All rights reserved by the JV. This report or any portion hereof may not be reproduced, distributed or published by any person for any purpose whatsoever. Nor can it be sent to a third party without prior consent of the JV. Action could be taken for unauthorized reproduction, distribution or publication.

Valuation Methodology

To arrive at our 12-months Price Target, the JV uses different valuation methods which include: 1). DCF methodology, 2). Relative valuation methodology, and 3). Asset-based valuation methodology.

Ratings Criteria

JV employs a three-tier ratings system to rate a stock, as mentioned below, which is based upon the level of expected return for a specific stock. The rating is based on the following with time horizon of 12-months.

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.

Research Dissemination Policy

The JV endeavours to make all reasonable efforts to disseminate research to all eligible clients in a timely manner through either physical or electronic distribution such as email, fax mail etc.

Analyst Certification

The research analyst, denoted by 'AC' on the cover of this report, has also been involved in the preparation of this report, and is a member of JV's Equity Research Team. The analyst certifies that (1) the views expressed in this report accurately reflect his/her personal views and (2) no part of his/her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Contact Details

Akseer Research (Pvt) Limited
1st Floor, Shaheen Chambers, KCHS block 7 & 8,
off. Shahrah-e-Faisal
T: +92-21-34320359 -60
E: info@akseerresearch.com

Alpha Capital (Pvt) Limited (Formerly: Alfa Adhi Securities (Pvt) Limited)
3rd Floor, Shaheen Chambers, A-4 Central Commercial Area,
KCH Society, Block 7 & 8, Near Virtual University, Karachi
T: +92-21-38694242
E: info@alphacapital.com.pk