Day Break

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Analyst

Abdullah Farhan
Abdullah.farhan@igi.com.pk

Pakistan and IMF

Pakistan Reach SLA with IMF on First Review under SBA

- Pakistan and IMF have successfully reached a Staff Level Agreement (SLA) on the first review for the SBA signed in Jun-23. The Technical and Policy level talks commenced on 02-Nov-23 and concluded on 15-Nov-23.
- Pakistan is likely to receive the disbursement of US$ 0.7bn in Dec-23 subject to approval from IMF board, bringing total disbursements under SBA to US$ 1.9bn.
- IMF highlighted that Pakistan is on the path of a promising recovery which is reflected by international partners support. As per IMF, consistent execution of Budget 2024, adjustment of energy prices and improved flows in foreign exchange market has reduced pressure on fiscal and external side. Inflation has started to decline and drop further in coming months due to improved supply dynamics and modest demand.

We highlight some of the key points from the IMF's first review press release under Stand-By Agreement (SBA).

Pakistan and IMF successfully conclude first review under SBA

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To recall, Pakistan and IMF signed new 9 month SBA in Jun-23 as previous EFF program concluded as incomplete. Due to ongoing macroeconomic crisis, new SBA was crucial in averting default risk fears. The duration of SBA is of nine months and will conclude in Mar-24.

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Exhibit: Pakistan and IMF

Facility	Start Date	Expiration Date	Amount (SDR)	Amount Drawn (SDR)
Standby Arrangement	Dec-58	Sep-59	25	-
Standby Arrangement	Mar-65	Mar-66	38	38
Standby Arrangement	Oct-68	Oct-69	75	75
Standby Arrangement	May-72	May-73	100	84
Standby Arrangement	Aug-73	Aug-74	75	75
Standby Arrangement	Nov-74	Nov-75	75	75
Standby Arrangement	Mar-77	Mar-78	80	80
Extended Fund Facility	Nov-80	Dec-81	1,268	349
Extended Fund Facility	Dec-81	Nov-83	919	730
Structural Adjustment Facility Commitment	Dec-88	Dec-91	382	382
Standby Arrangement	Dec-88	Nov-90	273	194
Standby Arrangement	Sep-93	Feb-94	265	88
Extended Credit Facility	Feb-94	Dec-95	607	172
Extended Fund Facility	Feb-94	Dec-95	379	123
Standby Arrangement	Dec-95	Sep-97	563	295
Extended Fund Facility	Oct-97	Oct-00	455	114
Extended Credit Facility	Oct-97	Oct-00	682	265
Standby Arrangement	Nov-00	Sep-01	465	465
Extended Credit Facility	Dec-01	Dec-04	1,034	861
Standby Arrangement	Nov-08	Sep-11	7,236	4,936
Extended Fund Facility	Sep-13	Sep-16	4,393	4,393
Extended Fund Facility	Jul-19	Jun-23	4,988	2,144
Standby Arrangement	Jun-23	Mar-24	2,250	1,422

Source: IMF, IGI Research

IMF highlighted few policy priorities for Pakistan in its press release:

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- **Fiscal Consolidation**: Pakistan authorities are firm on achieving primary surplus of at least 0.4% of GDP in FY24 supported by restricted federal and provincial government spending and enhancement of revenue which is needed to be supported additional measures. Measures to increase tax base and improve revenue mobilization remains key focus of the authorities while also expanding the quality of public investment and spending.

- **Social Safety:** Under the strengthening of social safety to protect the vulnerable, Pakistan will continue to disburse amount under BISP for social protection. This should support expansion of Unconditional Cash Transfers (UCT) Kafaalat program to cover 9.3mn families with annual inflation adjustment in stipend. Authorities are committed to expand generosity level of UCT Kafaalat program and increase enrollment in Conditional Cash Transfer programs with focus on children's education and health.

- **Energy sector:** To tackle substantial build up circular debt, the Government notified power tariff adjustment pending since Jul-23 and gas price increase effective from 1-Nov-23 while also protecting the vulnerable consumers. While these price hikes were substantial, it was necessary to curtail build up in circular debt which in total has reached 4% of GDP. To curb cost side pressures, authorities are working towards brining private sector participation in DISCOs, recovery and anti theft actions, improving PPA terms and reducing incentives for captive power plants.

- **Exchange rate:** Rupee must remain market determined to buildup FX reserves and reduce external pressures. To support this, government plans to improve transparency and efficiency of FX market and completely cut influence through administrative actions.

- **Monetary Policy:** Current Monetary Policy is appropriate to bring inflation down and authorities are ready to act on a timely basis if price pressures arise.

- **Financial sector:** Consistent monitoring is required to maintain soundness of banking system. Priority is to be given to address undercapitalized financial institutions, foreign exchange exposure to remain within regulatory limits and aligning bank resolution and crisis management frameworks with best practice.

- **SOEs:** The authorities are moving forward with SOE policy which includes the privatization of selected SOEs. High governance and transparency standards will apply to management of assets under Sovereign Wealth Fund (SWF) and operations of SIFC. Authorities will ensure public access to assets of cabinet members and comprehensive review of anticorruption framework.

- **External inflows:** Timely disbursement of committed external support from multilateral and bilateral partners remains crucial to support policy and reform efforts. The authorities are actively engaged with its partners to materialize the committed support.

Stock Market to react positively in near-term

We expect successful conclusion of first review under SBA with IMF to positively reflect on capital market in the near-term. Funding support from multilateral and bilateral partners would remain critical in building forex reserves and reduce pressure on PKR. As IMF has emphasized on reforms in energy sector, we expect energy sector stocks to perform well. However, in the medium to long term, direction of stock market will depend on build up in foreign reserves, reversal of interest rate cycle and key macroeconomic indicators.

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IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009

Contact Details

Equity Sales

Zaeem Haider Khan	Head of Equities	Tel: (+92-42) 35301405	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Syeda Mahrukh Hameed	Branch Manager (Lahore)	Tel: (+92-42) 38303564	mahrukh.hameed@igi.com.pk
Shakeel Ahmad	Branch Manager (Faisalabad)	Tel: (+92-41) 2540843-45	shakeel.ahmad1@igi.com.pk
Asif Saleem	Equity Sales (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Equity Sales (Multan)	Tel: (+92-61) 4512003	mahtab.ali@igi.com.pk

Research Team

Abdullah Farhan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk

IGI Finex Securities Limited
Trading Rights Entitlement Certificate (TREC) Holder of Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited
Website: www.igisecurities.com.pk

Head Office
Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780

Stock Exchange Office
Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office
Shop # G-009, Ground Floor,
Packages Mall
Tel: (+92-42) 38303560-69
Fax: (+92-42) 38303559

Islamabad Office
Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza,
Block- B, Jinnah Avenue, Blue Area
Tel: (+92-51) 2604861-2, 2604864, 2273439
Fax: (+92-51) 2273861

Faisalabad Office
Office No. 2, 5 & 8, Ground Floor, The
Regency International 949, The Mall
Faisalabad
Tel: (+92-41) 2540843-45

Rahim Yar Khan Office
Plot # 12, Basement of Khalid Market,
Model Town, Town Hall Road
Tel: (+92-68) 5871652-3
Fax: (+92-68) 5871651

Multan Office
Mezzanine Floor, Abdali Tower,
Abdali Road
Tel: (92-61) 4512003, 4571183

IGI Finex Securities Limited
Research Analyst(s)
Research Identity Number: BRP009