

## Analyst

Abdullah Farhan  
[Abdullah.farhan@igi.com.pk](mailto:Abdullah.farhan@igi.com.pk)

Aariz Raza Khan  
[Aariz.raza@igi.com.pk](mailto:Aariz.raza@igi.com.pk)

## Pakistan and IMF

### **Pakistan Reach SLA with IMF on US\$ 3bn SBA to Support Balance of Payment**

- Pakistan authorities and IMF staff have finally come to a conclusion after a long jittery situation that put Pakistan on sovereign debt crisis.
- Even though the Extended Fund Facility (EFF) worth US\$ 6.5bn (SDR 5bn) expired on 30<sup>th</sup> of June-23, the new Stand-By Arrangement (SBA) will help Pakistan to avoid funding requirements to cover C/a bal deficit which is expected to rise as State Bank of Pakistan (SBP) lifted restrictions on prioritization of imports.
- As per IMF, recent measures taken by Pakistan authorities such as approval of FY24 budget incorporating necessary changes, withdrawal of import prioritization by SBP and normal functioning of FX market, and continued efforts to mobilize financial support from multilateral and bilateral partners remain key reasons behind reaching a SLA between IMF and Pakistan.

We highlight some of the key points from the Pakistan and IMF authorities' press release.

#### **Pakistan set to receive US\$ 3bn under Standby Agreement after EFF expired on 30<sup>th</sup> Jun-23**

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This is a Staff Level Agreement (SLA) and the amount will only be disbursed in tranches after the IMF executive board's approval, which is expected by mid of Jul-23. 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	

Source: IMF, IGI Research

### IMF regains trust in Pakistan's commitment to bring economic stability in the long run

Despite the tightening policies enacted through Finance Bill 2023 and monetary circular notices, these measures will aid Pakistan to diffuse circular debt issues, create fiscal space and manage sovereign debts. Even though some of the issues came through multiple domestic and global shocks that include catastrophic floods, Ukraine-Russia war, spike in international commodity prices followed by rising interest rates globally that further aggravated C/a bal gap and exports dropped amid import restrictions stalled economic growth that came at 0.29% in Fy23.

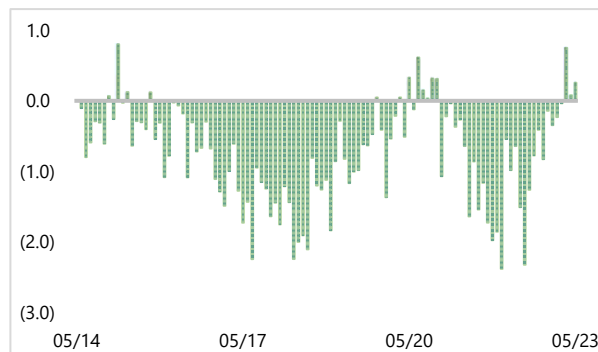
“Continued efforts to mobilize financial support from multilateral institutions and bilateral partners. In addition to generous climate-related pledges from the January 2023 Conference on Climate Resilient Pakistan held in Geneva, the authorities’ efforts have focused on obtaining new financing and securing the rollover of debt falling due. This will support near-term policy efforts and replenish gross reserves, with the aim of

bringing them to more comfortable levels. “The authorities’ program also includes ongoing efforts to strengthen the viability of the energy sector (including through a timely FY24 annual rebasing), improving SOE governance, and strengthening the public investment management framework, including for projects needed to build resilience to climate change”.

[IMF Press Release, Jun-23](#)

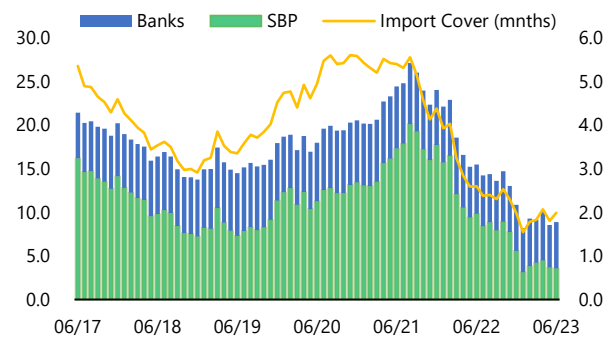
**Exhibit: Historical Monthly Current Account Balance**

Historically C/a remained in negative territory mostly until recently import restrictions has turned C/a bal into positive to reduce pressure on FX reserves. Going forward, normalization of imports may turn C/a bal back into deficit



**Exhibit: Historical Monthly FX Reserves and months of Import Cover**

SBP reserves have fallen to US\$ 3.5bn according to recent SBP data. External financing from bilateral and multilateral partners, SBA first tranche release and flood related disbursements to prop up reserves



**Outlook: SBA to prop up reserves and stabilize PKR in the short-term; immediate default risk subsides**

- SBA provides short-term financial boost to economies facing balance of payments problems with low levels of foreign reserves.
- US\$ 3bn support through SBA will come in tranches, with first one expected right after the executive board’s approval in Jul-23, followed by second tranche expected after the elections. It is highly essential that the policies devised and recently enforced through budget Fy24 and import restrictions lifted by Pakistan authorities including normal functioning of FX market remain intact to complete this SBA facility on timely manner which is expected to expire in Mar-24.
- PKR is expected to appreciate in the short run that will allow Consumer Price Index (CPI) to drop down sharply after peaking at 38%y in May-23. However, PKR is likely to remain under pressure owing to ease in import restrictions and opening up of forex markets.

Though hike in energy prices (electricity and gas) will likely address circular debt buildup issue, this will have negatively impact CPI outlook in the medium term. Thus, we foresee SBP to continue with quantitative tightening policy to counter inflationary pressures.

- Despite SBP reserves standing at \$3.5bn which can barely cover 1-month of imports, this arrangement will boost other bilateral and multilateral partners' confidence in Pakistan's ability to manage its sovereign debts. Eurobond market and KSE-100 have already begun to incorporate this strongly positive development.
- We expect economy to stabilize in the short term as imports normalization and declining CPI trend to boost economic activities. This will also help Pakistan's authorities to reach its targets set in its budget Fy24.

#### Stock Market to react positively in near-term

We expect SBA with IMF to positively reflect on capital market in the near-term as risk of imminent default has subsided in the near-term. Funding support from multilateral and bilateral partners may also materialize which would allow Pakistan to shore up its foreign reserves and provide stability to PKR in the near-term. As IMF has emphasized on ease of import restrictions and reforms in energy sector, we expect energy sector stocks to perform well. Other sectors which rely on imported raw materials would also benefit from ease in import restrictions such as steel, autos, chemicals, etc. 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 political stability.

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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## Contact Details

### Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	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

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Deputy Head of Research	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Aariz Raza	Analyst	Tel: (+92-21) 111-234-234 Ext: 810	Aariz.raza@igi.com.pk

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Website: [www.igisecurities.com.pk](http://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

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