

Pakistan and IMF

IMF Releases First Review under SBA; Overall Performance Satisfactory

- The IMF released first review under Standby Agreement (SBA) following disbursement of US\$ 700mn post approval of IMF board on 11-Jan-2024. Total disbursements under SBA now stand at US\$ 1.9bn out of the US\$ 3bn.
- IMF highlighted that SBA remains on track and the performance is satisfactory where 6 out of 8 performance criteria's have been met, 3 out of 4 indicative targets are met and 2 out of 3 structural benchmarks have been met.
- IMF has revised their macroeconomic indicators for Pakistan where GDP growth for FY24 has been revised down to 2.0% from previous 2.5%. The Fund has revised down average CPI estimate for FY24 to 24% from previous 25.9% with period end inflation revised upward from 16.2% to 18.5%.

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

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Program remains on track; 2 new structural benchmarks added

IMF highlighted that SBA remains on track and the performance is satisfactory where 6 out of 8 performance criteria's have been met, 3 out of 4 indicative targets are met and 2 out of 3 structural benchmarks have been met. IMF has also included 2 new structural benchmarks pertaining to semiannual gas tariff determination and internal controls in lending system.

Revised Macroeconomic Indicators by IMF

IMF has revised their macroeconomic indicators for Pakistan where GDP growth for FY24 has been revised down to 2.0% from previous 2.5%. The Fund has revised down average CPI estimate for FY24 to 24% from previous 25.9% with period end inflation revised upward from 16.2% to 18.5%. IMF projects fiscal deficit at 7.6% of GDP for FY24 while maintaining its primary surplus target of 0.4% of GDP. Current account deficit has been revised down from 1.8% of GDP to 1.6% of GDP for FY24.

Analyst

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Exhibit: Selected Economic Indicators		FY22	FY23	FY24	FY25	FY26	FY27	FY28
Real GDP growth	%	6.2	(0.2)	2.0	3.5	4.5	5.0	5.0
Consumer prices (period average)	% change	12.1	29.2	24.0	11.7	7.7	6.6	6.6
Gen. gov. overall balance (incl. grants)	% of GDP	(7.8)	(7.7)	(7.6)	(7.3)	(5.7)	(5.1)	(4.6)
Gen gov. primary balance (underlying, excl. grants)	% of GDP	(2.3)	(0.6)	0.4	0.4	0.4	0.4	0.4
Gen. gov. debt (incl. IMF obligations)	% of GDP	76.2	77.1	72.8	70.9	69.7	67.7	65.7
Current account balance	% of GDP	(4.7)	(0.7)	(1.6)	(1.5)	(1.5)	(1.5)	(1.6)
Gross official reserves	US\$ bn	9.8	4.5	9.1	13.0	16.8	19.5	20.7
Gross official reserves	months	2.0	0.8	1.5	2.0	2.4	2.6	2.7
Gross official reserves	% IMF ARA metric	41.3	19.6	41.4	54.3	66.1	72.5	71.8

Source: IMF, IGI Research

Tighter monetary stance necessary to anchor inflation

IMF highlighted that tight monetary stance remains key to anchor inflation. The Fund laid emphasis on Monetary Policy Committee (MPC) needs to remain proactive and should respond swiftly if signs of inflationary pressures reemerge.

Market based exchange rate

Maintaining a market based exchange rate is critical to absorb any external shocks, build forex reserves and provide economic recovery. To ensure that, Government has to refrain from formal and informal restrictions and monitor informal exchange rate to identify market dysfunction.

Energy sector reforms

IMF has emphasized continuation of energy sector reforms to eliminate accumulation of circular debt at maintaining stock at PKR 2.3tn. To achieve this the Fund has included structural benchmark of semiannual gas tariff adjustment determination by 15-Feb-2024. Key measures for power sector include timely notification of tariff adjustment for cost recovery, conversion of PHPL debt to cheaper public debt, renegotiating term of remaining PPAs and enhancement in collection efforts. For gas sector, completely phasing out industrial captive power plants, implementation of semiannual gas tariff adjustment, eliminating cross subsidy to fertilizer producers and formalization of CD stock reduction plan.

External risks remain high

The Fund highlighted that external inflows have been substantial during 1HFY24 while support from multilateral and bilateral creditors has been strong and assurances are in place. However, any slippages, insufficient financing or elevated gross financing needs could derail path to debt sustainability which is sustainable as of now under current scenario.

Exhibit: Quantitative Performance Criteria and Indicative Targets		Sep-2023			Dec-2023
		Prog.	Actual	Status	Prog.
I. Quantitative Performance Criteria					
Floor on net international reserves of the SBP	US\$ mn	(14,550)	(13,781)	Met	(13,800)
Ceiling on net domestic assets of the SBP	PKR bn	15,048	14,410	Met	14,888
Ceiling on SBP's stock of net foreign currency swaps/forward position	US\$ mn	4,200	3,540	Met	4,000
Ceiling on net government budgetary borrowing from the SBP	PKR bn	4,708	4,380	Met	4,708
Ceiling on the general government primary budget deficit	PKR bn	(87)	(376)	Not met	(1,232)
Ceiling on the amount of government guarantees	PKR bn	4,000	3,806	Met	4,050
Cumulative floor on targeted cash transfers spending	PKR bn	88	90	Met	186
II. Continuous Performance Criteria					
Zero new flow of SBP's credit to general government		-	-	Met	-
Zero ceiling on accumulation of external public payment arrears by the general government		-	-	Met	-
III. Indicative Targets					
Cumulative floor on general govt budgetary health & education spending	PKR bn	465	482	Met	1,031
Floor on net tax revenues collected by the FBR	PKR bn	1,977	2,042	Met	4,425
Ceiling on net accumulation of tax refund arrears	PKR bn	32	(15)	Met	43
Ceiling on power sector payment arrears	PKR bn	(155)	227	Not Met	64

Source: IMF, IGI Research

Exhibit: Pakistan Structural Conditionality			
Actions		Date	Status
Structural Benchmarks			
Fiscal			
1	Commit to not grant further tax amnesties.		Cont. Met.
2	Avoid the practice of issuing new preferential tax treatments or exemptions.		Cont. Met.
3	Issuance by the Central Monitoring Unit (CMU) of its first periodic report on the performance of SOEs, using latest available data, to the Federal Government.	end-Dec23	In prog.
Social			
4	Inflation adjustment of the unconditional cash transfer (Kafaalat).	end-Jan24	In prog.
Monetary and Financial			
5	Average premium between the interbank and open market rate will be no more than 1.25 percent during any consecutive 5 business day period.		Cont. Not met.
6	Submission to parliament of amendments to align Pakistan's early intervention, bank resolution, and crisis management arrangements with international good practices, in line with IMF staff recommendations.	end-Dec23	In prog.
Energy Sector and State-Owned Enterprises			
7	Notification of the annual rebasing (AR) for FY24 to take effect on July 1, 2023.	end-Jul23	Met.
8	Improve state-owned enterprise (SOE) governance by: (i) operationalizing the recently approved SOE law into a policy that clarifies ownership arrangements and the division of roles within the federal governments; and (ii) amending the Acts of four selected SOEs to make the new SOE law fully applicable to those SOEs.	end-Nov23	Not met.
Climate			
9	Cabinet adoption of a Climate-PIMA and PIMA action plan.	end-Dec23	In prog.
Economic Statistics			
10	Compilation and dissemination of Quarterly National Accounts for FY24Q1 and revised annual estimates for FY23.	end-Nov23	Met.
New Structural Benchmarks			
1	Notification of the December 2023 semiannual gas tariff adjustment determination.	February 15, 24	
2	Develop a plan to strengthen internal control systems in lending operations, including updates to collateral policy and counterparty eligibility policy, in line with recommendations from the 2023 Safeguards Assessment.	March 8, 24	

Source: IMF, IGI Research

Exhibit: Pakistan: Selected Economic Indicators	FY23		FY24		FY25
	Prog.	Est.	Prog.	Proj.	Proj.
Output and prices (Annual percentage change)					
Real GDP at factor cost	(0.5)	(0.2)	2.5	2.0	3.5
GDP deflator at factor cost	26.0	26.1	25.9	24.0	11.7
Consumer prices (period average)	29.6	29.2	25.9	24.0	11.7
Consumer prices (end of period)	34.0	29.4	16.2	18.5	9.0
Pakistani rupees per U.S. dollar (period average)	-	39.8	-	-	-
Saving and investment (Percent of GDP)					
Gross saving	12.4	13.0	12.8	12.0	12.3
Government	(5.5)	(5.5)	(5.4)	(5.7)	(5.2)
Nongovernment (including public sector enterprises)	17.9	18.5	18.2	17.7	17.4
Gross capital formation 2/	13.5	13.7	14.7	13.6	13.8
Government	2.0	2.2	2.1	2.0	2.1
Nongovernment (including public sector enterprises)	11.5	11.5	12.6	11.6	11.7
Public finances					
Revenue and grants	11.4	11.4	12.3	12.5	12.4
Expenditure (including statistical discrepancy)	18.9	19.2	19.8	20.2	19.7
Budget balance (including grants)	(7.6)	(7.7)	(7.5)	(7.6)	(7.3)
Budget balance (excluding grants)	(7.6)	(7.8)	(7.5)	(7.7)	(7.3)
Primary balance (excluding grants)	(1.0)	(0.8)	0.4	0.4	0.4
Underlying primary balance (excluding grants) 3/	(0.8)	(0.6)	0.4	0.4	0.4
Total general government debt excl. IMF obligations	74.9	74.7	68.4	70.3	69.1
General government debt incl. IMF obligations	77.4	77.1	70.9	72.8	71.0
General govt. and govt. guaranteed debt (incl. IMF; % GDP)	81.8	81.3	74.9	76.8	74.7
Monetary sector (Annual changes in percent of initial stock of broad money, unless otherwise indicated)					
Net foreign assets	(3.3)	(7.0)	(0.4)	1.1	4.4
Net domestic assets	18.4	21.2	12.9	9.9	16.6
Credit to the private sector	0.3	0.8	2.4	1.5	5.6
Net claims on the government	14.2	13.5	14.5	17.8	14.8
Broad money (percent change)	13.3	14.2	14.5	11.0	21.0
Reserve money (percent change)	17.5	22.4	17.5	11.0	21.9
Private credit (percent change)	1.0	2.3	8.0	5.0	20.0
Six-month treasury bill rate (period average, in percent)	-	18.3	-	-	-
External sector (Annual percentage change, unless otherwise indicated)					
Merchandise exports, U.S. dollars	(13.6)	(14.2)	9.9	8.8	6.7
Merchandise imports, U.S. dollars	(25.2)	(27.5)	19.9	12.4	8.2
Current account balance (in percent of GDP)	(1.2)	(0.7)	(1.8)	(1.6)	(1.5)
Financial account (billions of U.S. dollars)	(2.5)	(2.5)	9.7	9.3	10.9
<i>(Percent of exports of goods and services, unless otherwise indicated)</i>					
External public and publicly guaranteed debt	276.0	258.9	267.5	258.9	253.4
Debt service	57.6	57.8	41.0	40.0	39.6
Gross reserves (in millions of U.S. dollars) 4/	4,056	4,455	8,982	9,101	13,006
In months of next year's imports of goods and services	0.7	0.8	1.4	1.5	2.0
Memorandum items					
Underlying fiscal balance (excl. grants; % GDP) 3/	(7.4)	(7.5)	(7.4)	(7.5)	(7.7)
Net general government debt (incl. IMF; % GDP)	72.4	72.1	67.1	68.9	67.6
Real effective exchange rate (annual average, percentage change)	-	(5.9)	-	-	-
Real effective exchange rate (end of period percentage change)	-	(8.0)	-	-	-
Terms of trade (percentage change)	(1.7)	(1.3)	(6.9)	(5.8)	(0.2)
Real per capita GDP (percentage change)	(2.4)	(2.1)	0.5	-	1.5
GDP at market prices (in billions of Pakistani rupees)	84,665	84,069	108,910	106,577	123,604
Per capita GDP (in U.S. dollars)	-	1,446	-	-	-
Population (millions)	231.6	231.6	236.2	236.2	240.9
GDP at market prices (in billions of U.S. dollars)	-	338.2	-	-	-

Source: IMF, IGI Research

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