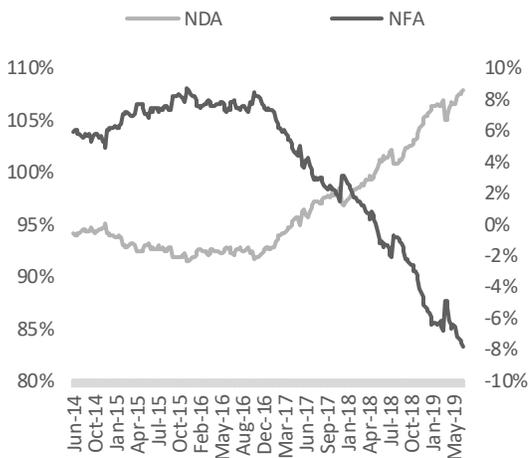


# Budget 2019-20

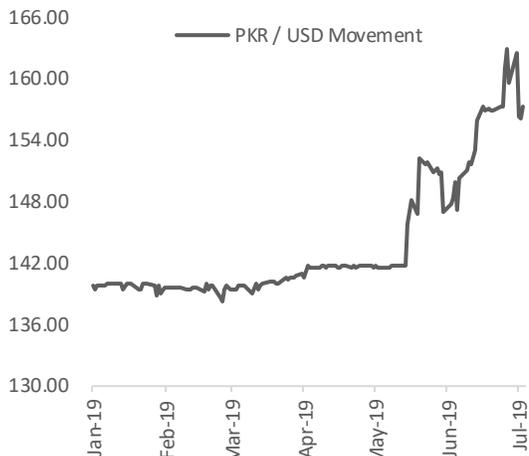
Thursday, 04 July 2019

## Economy

**Exhibit: NDA and NFA as %age of government borrowing**



**Exhibit: PKR / USD Movement**



Source: Bloomberg, IMF & IGI Research

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## Pakistan Economy

### Enter the IMF

- IMF approved a USD 6.0bn Extended Fund Facility (EFF) arrangement for a period of 39-months or just over 3-years,
- Basic objective of the program is to; increase savings and investment, stimulate the domestic economy, bring about sustainable GDP growth, adopting a market-based exchange rate, reduce poverty and improve governance

### Summary

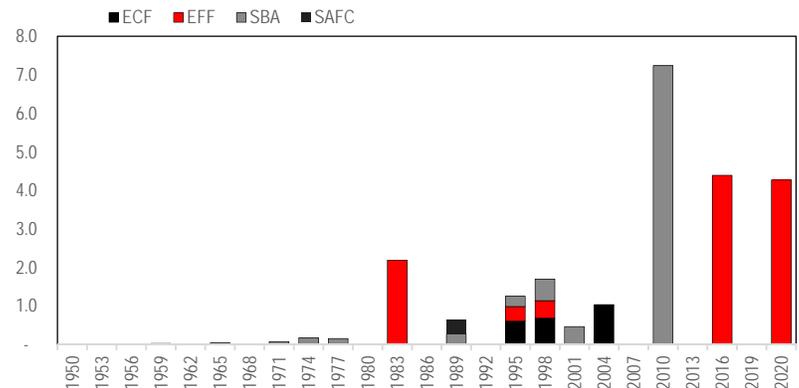
Earlier today through a press release ([link](#)) the International Monetary Fund (IMF) approved a USD 6.0bn Extended Fund Facility (EFF) arrangement for a period of 39-months or just over 3-years.

*On July 3, 2019, the Executive Board of the International Monetary Fund (IMF) approved a 39-month extended arrangement under the Extended Fund Facility (EFF) for Pakistan for an amount of SDR 4,268 million (about US\$6 billion or 210 percent of quota) to support the authorities' economic reform program.*

The program will follow up with an immediate disbursement of USD 1.0bn while the remaining amount will be disbursed subject to successful 4-quarterly reviews and 4-semiannual reviews. The press release further said that the Fund-support program will also help Pakistan secure support from multi/bilateral partners in excess of USD 38bn over the coming years.

**Exhibit: Pakistan history with IMF**

Amount in SDRs (bn)	Agreed	Drawn	Outstanding
Extended Credit Facility	2.32	1.30	-
Extended Fund Facility	7.41	5.64	4.32
Extended Fund Facility 2020	4.27	0.72	-
Standby Arrangement	9.27	6.40	-
Structural Adjustment Facility Commitment	0.38	0.38	-
<b>Total</b>	<b>23.65</b>	<b>14.44</b>	<b>4.32</b>



Source: IMF, IGI Research, \* immediate disbursement of USD 1.0bn or SDR 716m

IMF's basic objective is to; increase savings and investment, stimulate the domestic economy, bring about sustainable GDP growth, adopting a market-based exchange rate, reduce poverty and improve governance. To this effect, it follows a multipronged strategy, some of which are discussed below;

Subject	Policy Action	Comments
Fiscal Policy	A decisive fiscal consolidation to reduce public debt and build resilience	<p>Improve revenue / GDP by 4-5% over the program period. To recall, tax / GDP target in FY20 budget was set at 12.6% or PKR 5.5trn which as per IMF recommendation will need to grow to ~16.0% by 2022 a real growth of nearly ~14% or incremental revenue addition of PKR ~1.5trn every year over the program period. Low tax / GDP limits the resources available at the government to finance its fiscal expenditure, leading to increase borrowing from SBP. Historically, IMF has always discouraged borrowing from SBP to finance its fiscal deficit by setting limits on Net Domestic Assets (NDA) and instead encourage market based borrowing. As per the press release; [...] <i>Eliminate central bank financing of the budget deficit will enable the SBP to deliver on its mandate of price and financial stability.</i></p>
Exchange rate and monetary policy	<p>A flexible, market-determined exchange rate to restore competitiveness.</p> <p>&amp;</p> <p>Tighter Monetary Policy</p>	<p>This was already communicated earlier by SBP governor; Pakistan will continue to follow a” market-based flexible exchange rate system”, whereby exchange rate is determined by the demand and supply conditions in the domestic interbank foreign exchange market, which draws its parallel to flexible-exchange rate regime. As per the press release; <i>A flexible, market-determined exchange rate will help to restore competitiveness, rebuild official reserves, and provide a buffer against external shocks.</i></p> <p>In recent weeks PKR has shown a volatile movement against USD, appreciating from a low of USD 164/PKR to current USD ~155/PKR (+5%). As said we may be expecting both way movements for PKR. More importantly, as per IMF Pakistan will likely secure an amount of USD 38bn from multi/bilateral partners in coming years, which will ease up Pakistan oncoming financial obligations and thereby help limit sharper exchange rate depreciations episodes in future.</p> <p>With respect to tighter monetary policy, SBP has already increased key policy rate by +375bps since FY19 start to current 12.25% (discount rate 12.75%). With a forward view of 13% inflation target we suspect further rate tightening could come along, in order to keep real rates positive and achieve savings/GDP target of 12.1% in 2020 from existing 10.8%.</p>
Structural Reforms	<p>Structural reforms through strengthening institutions</p> <p>&amp;</p> <p>Enhancing the Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT)</p>	<p>Key amongst the structural reforms include energy sector. As per the press release by IMF, electricity and gas price tariffs will be gradually increased to bring the sector to cost-recovery. This in our view implies removing all subsidies in power and gas tariff and recovering the entire cost including line and distribution losses allowed for by the Government from the consumer through increase in tariffs. As a result, this will reduce the burden on fiscal accounts.</p> <p>To cater better cost recovery, government has also initiated the Anti-Theft Drive to recover full cost and targets to bring down circular debt to PKR 225bn by Dec-2019. Moreover, to remove cost burden on Government’s part, IMF has recommended depoliticising power and gas tariffs which in our view refers to Government approval for line losses allowed for in the gas and power tariff which takes months and creates a time lag which adds to the lower cost recovery. However, we await further clarity on this matter.</p> <p>Some of the reforms in energy sector have already started to take shape. In order to bring down bulging circular debt included a PKR 200bn tranche injected in to power sector in Jan-19 and second one currently under review. Furthermore, gas and power tariff hike of 25% and 12% on average respectively has been implemented to allow for recoveries from consumer and reduce burden on the Government.</p> <p>Other than that, improvement in government transparency and governance, will be key for a sustainable growth path. Structural reforms will allow for strengthening institutions and remove growth impediments, for that matter IMF has also recommended focusing on enhancing AML/CFT framework, which will later be critical for Pakistan FATF review.</p>
<p>Source: IMF Press Release (<a href="https://www.imf.org/en/News/Articles/2019/07/03/pr19264-pakistan-imf-executive-board-approves-39-month-eff-arrangement">https://www.imf.org/en/News/Articles/2019/07/03/pr19264-pakistan-imf-executive-board-approves-39-month-eff-arrangement</a>), IGI Research</p>		

Thursday, 04 July 2019

**Exhibit: IMF Indicative economic targets**

	2014/15	2015/16	2016/17 Est.	2017/18 Est.	2018/19 Proj.	2019/20 Proj.
<b>Output and prices</b>						
Real GDP at factor cost	4.1	4.6	5.2	5.5	3.3	2.4
GDP deflator at factor cost	4.3	0.4	4.0	2.4	7.5	11.8
Consumer prices (period average)	4.5	2.9	4.1	3.9	7.3	13.0
Consumer prices (end of period)	3.2	3.2	3.9	5.2	8.4	11.8
Pakistani rupees per U.S. dollar (period average)	(1.5)	2.9	0.4	5.0	-	-
Pakistani rupees per U.S. dollar (end of period)	3.3	2.8	0.2	13.9	-	-
<b>(In percent of GDP)</b>						
<b>Saving and investment</b>						
Gross saving	14.7	13.9	12.0	10.4	10.8	12.1
Government	(1.6)	(0.7)	(0.8)	(2.2)	(3.6)	(3.8)
Nongovernment (including public sector enterprises)	16.3	14.6	12.8	12.6	14.5	15.9
Gross capital formation 2/	15.7	15.7	16.2	16.7	15.4	14.7
Government	3.7	3.7	4.9	4.2	3.1	3.3
Nongovernment (including public sector enterprises)	12.0	11.9	11.2	12.5	12.3	11.4
<b>Public finances</b>						
Revenue and grants	14.5	15.5	15.5	15.2	15.0	16.3
Expenditure (including statistical discrepancy)	19.1	19.2	21.1	21.7	21.7	23.4
Budget balance (including grants)	(5.3)	(4.4)	(5.8)	(6.4)	(6.8)	(7.1)
Budget balance (excluding grants)	(5.4)	(4.6)	(5.8)	(6.5)	(7.0)	(7.3)
Primary balance (excluding grants)	(0.7)	(0.3)	(1.6)	(2.2)	(1.8)	(0.6)
General government debt incl. IMF obligations	63.3	67.6	67.0	71.7	74.9	76.9
External general government debt	18.9	20.8	20.5	24.3	26.5	32.0
Domestic general government debt	44.4	46.8	46.5	47.4	48.4	44.9
<b>Monetary sector</b>						
Net foreign assets	2.2	1.7	(3.2)	(5.6)	(6.3)	8.9
Net domestic assets	11.0	11.9	16.9	15.3	17.1	3.2
Broad money (percent change)	13.2	13.7	13.7	9.7	10.8	12.1
Reserve money (percent change)	9.9	26.5	22.5	12.7	15.7	13.5
Private credit (percent change)	5.9	11.1	16.6	14.9	17.1	13.3
Six-month treasury bill rate (period average, in percent)	8.8	6.3	5.9	6.0	-	-
<b>External sector</b>						
Merchandise exports, U.S. dollars (percentage change)	(3.9)	(8.8)	0.1	12.6	0.2	8.2
Merchandise imports, U.S. dollars (percentage change)	(1.0)	-	17.9	16.2	(4.2)	(4.7)
Current account balance (in percent of GDP)	(1.0)	(1.7)	(4.1)	(6.3)	(4.6)	(2.6)
Financial account (billions of U.S. dollars)	5.0	6.8	10.2	14.3	10.7	8.7
<b>(In percent of exports of goods and services, unless otherwise indicated)</b>						
External public and publicly guaranteed debt	159.8	193.3	209.4	218.3	225.2	234.0
Debt service	20.7	22.2	30.1	26.3	37.9	45.7
Gross reserves (in millions of U.S. dollars)	13,534.0	18,143.0	16,141.0	9,789.0	6,824.0	11,187.0
In months of next year's imports of goods and services	3.2	3.7	2.9	1.9	1.4	2.2
<b>Memorandum items:</b>						
Underlying fiscal balance (excl. grants; percent of GDP)	-	-	(6.3)	(6.5)	(7.3)	(7.3)
General government and government guaranteed debt (incl. IMF; % GDP)	65.7	70.1	70.0	75.3	79.1	80.5
Net general government debt (incl. IMF; % GDP)	58.2	61.3	61.5	66.8	70.7	73.5
Real effective exchange rate (end of period percentage change)	6.5	2.1	3.4	(11.2)	-	-
Terms of trade (percentage change)	6.8	11.1	0.1	(3.2)	(1.3)	(0.1)
Real per capita GDP (percentage change)	2.0	2.6	3.2	3.6	1.4	0.5
GDP at market prices (in billions of Pakistani rupees)	27,443.0	29,076.0	31,922.0	34,619.0	38,559.0	44,446.0

Source: IMF

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