

Economy

Pakistan and IMF

IMF 6th Review Concludes Successfully; Paving Way for US\$ 1.06bn

- Pakistan authorities and IMF staff have finally reached a staff-level agreement on sixth review under the Extended Fund Facility (EFF), making its way for disbursement of SDR 750mn or US\$ 1.06bn
- Although IMF authority highlighted Pakistani economy has continued to recover despite the challenges from the COVID-19 pandemic. The combined efforts on monetary and fiscal side, means a positive near-term outlook, with IMF projecting growth to reach 4.0% in Fy22 and exceeding 4.5% thereon.
- Moreover, COVID-19 related flare-ups are likely scenario going forward and Pakistan growth sustainability remain vulnerable to this. Along with tighter international financial conditions, a rise in geopolitical tensions, as well as delayed implementation of structural reforms.

Pakistan set to receive USD 1.06bn on successful 6th Review under EFF

Pakistan authorities and International Monetary Fund (IMF) staff have finally reached a staff-level agreement on a much awaited, thrice rescheduled sixth review under the Extended Fund Facility (EFF), making its way for disbursement of SDR 750mn or US\$ 1.06bn ([Link](#)).

This brings total disbursements under the EFF to about US\$ 3.0bn (total: USD 6.0bn) excluding US\$ 1.39bn disbursed under COVID-19 relief. The successful completion of review by IMF will entail country unlock significant funding from bilateral and multilateral partners, along with providing crucial support to Pakistan's foreign exchange reserve.

Waiver given to Pakistan on non-implementation and observance of performance criteria

Acknowledging the difficult economic environment faced amid COVID-19 pandemic IMF highlighted Pakistan economic recovery remain commendable, however imbalances on have widened and risks remain elevated. Given the difficult economic environment Pakistan authorities requested waiver on non-implementation and non-observance of certain performance criteria which was approved by the IMF team.

Actions and step taken by SBP on monetary policy

Nevertheless, IMF credited SBP and the government on gradually unwinding COVID-related stimulus measures and reversal of accommodative monetary policy stance which was necessitated to anchor inflation.

... And inflation should start to descend in medium-term

Having said that, IMF identified that inflation remains high, but should start to see a declining trend once the pass-through of PKR depreciation is

Analyst

Abdullah Farhan

Abdullah.Farhan@igi.com.pk

Tel: +92 21 111 234 234 Ext: 912

Aariz Raza

Aariz.raza@igi.com.pk

Tel: +92 21 111 234 234 Ext: 816

absorbed, and temporary supply-side constraints and demand-side pressures dissipate. Similarly, government authorities are taking steps to

Similarly, efforts on fiscal side remain commendable

On the fiscal side, the IMF said Pakistan authorities have taken important measures to strengthen fiscal policy and put public finances on a sounder footing. Including, adoption of reforms to the GST and personal income, prudent government spending, simplifying and broadening of tax system. Going forward broader tax reforms such as further removal of preferential tax treatments and exemptions, financial and debt management are expected to further improve the fiscal framework.

Amendments in SBP Act a welcome step

In addition to this, IMF highlighted the need for independent central bank necessary for strengthening the on-going economic stability. In this matter the recently senate approved SBP Act amendments are credible. “The adoption of amendments to the central bank Act is a welcome step toward strengthening its independence to pursue its mandates of price and financial stability.”

Pakistan growth recovered despite COVID-19 pandemic

Although IMF authority highlighted Pakistani economy has continued to recover despite the challenges from the COVID-19 pandemic. The combined efforts on monetary and fiscal side, means a positive near-term outlook, with IMF projecting growth to reach 4.0% in Fy22 and exceeding 4.5% thereon.

...but remain vulnerable to COVID-19 flare-ups and other elevated risks

Moreover, COVID-19 related flare-ups are likely scenario going forward and Pakistan growth sustainability remain vulnerable to this. Along with tighter international financial conditions, a rise in geopolitical tensions, as well as delayed implementation of structural reforms. Hence a timely and consistent implementation of policies and reforms remain essential for stronger and more sustainable growth.

Removal of structural impediments remain essential to boost growth

Pakistan authority’s efforts on resolving the circular debt with timely payment to IPPs and regular adjustments of energy tariffs is also commendable. However, improving the governance, transparency, and efficiency of the state-owned enterprise (SOE) sector still needs to be addressed.

Outlook

From a market perspective, we see Pakistan’s successful completion of IMF 6th review, will be well received. The implementation of revenue measures, SBP amendment act and other monetary policy related measures taken by Pakistan is pretty much in-line with IMF directives. However, on non-observance and non-implementation of certain performance criteria

pertaining to reforms of SOE and the electricity sectors reforms will likely turn up in next 7th Review.

Exhibit: Timeline of Pakistan and IMF reviews under US\$ 6.0bn EFF	
Date	Review
3-Jul-19	IMF Executive Board Approves US\$6 billion 39-Month EFF Arrangement for Pakistan
21-Jul-19	Statement by the IMF Acting Managing Director on Meeting with the Prime Minister of Pakistan
20-Sep-19	IMF Staff Concludes Visit to Pakistan
8-Nov-19	IMF Reaches Staff-Level Agreement with Pakistan on the First Review under the Extended Fund Facility
19-Dec-19	IMF Executive Board Completes the First Review of Pakistan's Extended Fund Facility
14-Feb-20	Statement at the Conclusion of the IMF Mission to Pakistan
27-Feb-20	IMF Reaches Staff-Level Agreement on the Second Review of Pakistan's Economic Program under the Extended Fund Facility
16-Apr-20	IMF Executive Board Approves a US\$ 1.386 Billion Disbursement to Pakistan to Address the COVID-19 Pandemic
16-Feb-21	IMF Staff and Pakistan Reach Staff-Level Agreement on the Pending Reviews Under the Extended Fund Facility
24-Mar-21	IMF Executive Board Completes the Combined Second, Third, Fourth, and Fifth Reviews of the Extended Fund Facility for Pakistan
24-Mar-21	IMF Executive Board Reviews Pakistan's Remedial Actions, Data Revision Linked to Noncomplying Purchase
21-Nov-21	Pakistan: Staff Concluding Statement of the 2021 Article IV Mission and Staff-Level Agreement on the Sixth Review under the Extended Fund Facility
2-Feb-2022	IMF Executive Board Completes the Sixth Review of the Extended Fund Facility for Pakistan

Source: IMF

Exhibit: Measures to magnify economic activities, investments, private sector developments, and addressing the challenges posed by climatic changes	
Improving the governance, transparency, and efficiency of the state backed organizations	IMF stresses the government to put public finances on a sustainable path to avoid huge fiscal deficits that puts pressure on banks by sacrificing private sector loans, while also upgrading the provision of quality services.
Nurturing the business environment, governance, and strict control of corruption	Simplifying procedures for the businesses, investing in educational sector benefits growing human capital skills that will ultimately lead to innovation and productivity, bolstering of anti-corruption institutions, elimination of tax evasive activities, and combating anti-money laundering.
Enhancing competitiveness and boosting of exports	This can be achieved through implementation of national tariff policy, negotiating new free trade agreements, participating in global value chains by improving firm's reliability and robust quality measures, and elimination of unregistered exports by bringing firms to register with entities for tax, legal and business purposes.
Financial Stability	This can be achieved by channelling savings into productive and competitive sectors, strengthening regulatory and institutional framework, elimination of crowding out effects, and allocating sufficient funds for underserved segments of economy.
Tackling the effects of climatic changes	Globally Pakistan ranks in higher table in terms of largest damages from climate related disasters and greenhouse emissions. Securing additional finances to curb the effects, accelerating the finalization of the National Adaption Plan (NAP), and adopting measures to meet COP26 Nationally Determined Contribution (NCD) targets will aid tackling this emerging challenge for Pakistan.

Source: IMF (Nov-21)

Important Disclaimer and Disclosures

Research Analyst(s) Certification: The Research Analyst(s) hereby certify that the views about the company/companies and the security/ securities discussed in this report accurately reflect his or her or their personal views and that he/she has not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report. The analyst(s) is principally responsible for the preparation of this research report and that he/she or his/her close family/relative does not own 1% or more of a class of common equity securities of the following company/companies covered in this report.

Disclaimer: The information and opinions contained herein are prepared by IGI Finex Securities Limited and is for information purposes only. Whilst every effort has been made to ensure that all the information (including any recommendations or opinions expressed) contained in this document (the information) is not misleading or unreliable, IGI Finex Securities Limited makes no representation as to the accuracy or completeness of the information. Neither, IGI Finex Securities Limited nor any director, officer or employee of IGI Finex Securities Limited shall in any manner be liable or responsible for any loss that may be occasioned as consequence of a party relying on the information. This document takes no account of the investment objectives, financial situation and particular needs of investors, who shall seek further professional advice before making any investment decision. The subject Company (ies) is a client of the IGI Finex Securities Limited and IGI Finex Securities offers brokerage services to Subject Company (ies) on a regular basis, in line with industry practice. This document and the information may not be reproduced, distributed or published by any recipient for any purpose. This report is not directed or intended for distribution to, or use by any person or entity not a client of IGI Finex Securities Limited, else directed for distribution.

Rating system: IGI Finex Securities employs three tier ratings system, depending upon expected total return (return is defined as capital gain exclusive of tax) of the security in stated time period, as follows:

Recommendation Rating System

Buy if target price on aforementioned security (ies) is more than 10%, from its last closing price(s)

Hold if target price on aforementioned security (ies) is in between -10% and 10%, from its last closing price(s)

Sell if target price on aforementioned security (ies) is less than -10%, from its last closing price(s)

Risk: Investment in securities are subject to economic risk, market risk, interest rate risks, currency risks, and credit risks, political and geopolitical risks. The performance of company (ies) covered herein might unfavorably be affected by multiple factors including, business, economic, and political conditions. Hence, there is no assurance or guarantee that estimates, recommendation, opinion, etc. given about the security (ies)/company (ies) in the report will be achieved.

Basic Definitions and Terminologies used: **Target Price:** A price target is the projected price level of a financial security stated by an investment analyst or advisor. It represents a security's price that, if achieved, results in a trader recognizing the best possible outcome for his investment, **Last Closing:** Latest closing price, **Market Cap.:** Market capitalization is calculated by multiplying a company's shares outstanding by current trading price. **EPS:** Earnings per Share. **DPS:** Dividend per Share. **ROE:** Return on equity is the amount of net income returned as a percentage of shareholders' equity. **P/E:** Price to Earnings ratio of a company's share price to its per-share earnings. **P/B:** Price to Book ratio used to compare a stock's market value to its book value. **DY:** The dividend yield is dividend per share, divided by the price per share.

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

© Copyright 2022 IGI Finex Securities Limited



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
Zaid Farook	Branch Manager (Stock Exchange) Karachi	Tel: (+92-21) 32462651-52	zaid.farook@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	Senior Analyst	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
Ajay Kumar	Analyst	Tel: (+92-21) 111-234-234 Ext: 912	ajay.kumar@igi.com.pk
Huzaifa Yaseen	Analyst	Tel: (+92-21) 111-234-234 Ext: 912	huzaifa.yaseen@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

Room #: 515-516, 5th Floor, State Life
Building, 2- Liaqat Road
Tel: (+92-41) 2540843-45
Fax: (+92-41) 2540815

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

© Copyright 2022 IGI Finex Securities Limited

