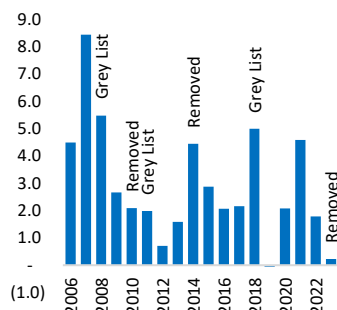


Strategy

Exhibit: Total Foreign investments hampered due to Pakistan under FATF grey list



Strategy

Pakistan Gets Cleared Off On FATF Grey List

- The Financial Action Task Force has decided by consensus that Pakistan has completed all substantial, technical and procedural requirements of both 2018 and 2021 Action Plans. As a result, Pakistan has been taken out of the list of jurisdictions under increased monitoring, with immediate effect.
- Since 2008, Pakistan had a rollercoaster ride in meeting The Financial Action Task Force (FATF) Anti-money Laundering (AML) and Combat Terrorism Financing (CFT) standards.
- Apart from this, removal from FATF grey list means easing trade financing terms from global private banks which could potentially favour country's export. And more importantly, a possible credit rating upgrade for Pakistan could soon follow, making it easier to reach out external debt markets.

We review recent Pakistan removal from the FATF grey list and the potential implications it holds for economy.

Pakistan finally gets cleared off the FATF grey lists

Since 2008, Pakistan had a rollercoaster ride in meeting The Financial Action Task Force (FATF) Anti-money Laundering (AML) and Combat Terrorism Financing (CFT) standards. Pakistan was initially placed on FATF grey-list back in Feb-08, and was later removed by Jun-10. Then again placed on grey-list in Feb-12 and later to be removed again in Feb-15. In Jun-18 Pakistan was placed again in grey-list and after a period of nearly 4 years Pakistan finally cleared-off the grey-list.

In a press release by ministry of foreign affairs;

"The Financial Action Task Force has decided by consensus that Pakistan has completed all substantial, technical and procedural requirements of both 2018 and 2021 Action Plans. As a result, Pakistan has been taken out of the list of jurisdictions under increased monitoring, with immediate effect."

Potential implications of removal from grey list;

- The economic situation in Pakistan, notably the financial services sector, has been significantly impacted by this grey-list particularly with respect to CFT action plans. Nevertheless, now being compliant with FATF, both CFT and AML standards and out of the Grey List, we can expect formal channelizing of funds in Pakistan financial sector increasing financial inclusion on one hand. But a major benefits will be increase in international investments both in terms of portfolio and direct investments; which have shied away during the times when Pakistan was under FATF grey-list.
- Moreover, concerns of FATF non-compliance also had implication on Pakistan ongoing International Monetary Fund (IMF)'s US\$ 6.0bn Extended Fund Facility program as well; with one of the terms pertained to adhering to FATF regulations. Hence with the IMF review due to next month in Nov-22, for disbursement of US\$ 1.0bn we can expect some good news on that platform.

"Adoption of measures to strengthen the effectiveness of the AML/CFT framework to support the country's efforts to exit the Financial Action Task Force (FATF) list of jurisdictions with serious deficiencies." -- IMF Structural Benchmark conditions (2022)

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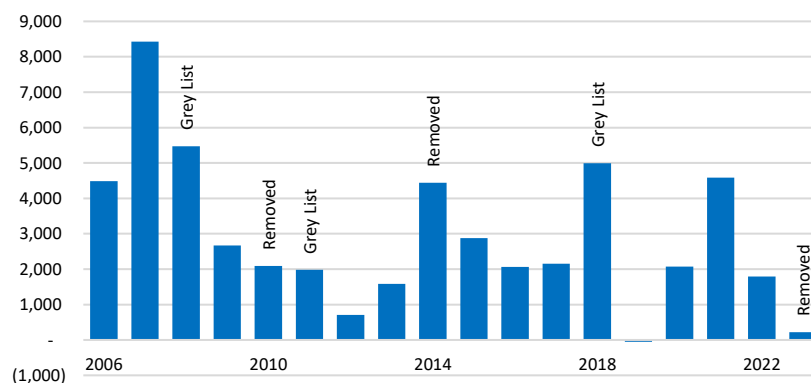
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- Apart from this, removal from FATF grey list means easing trade financing terms from global private banks which could potentially favour country's export. And more importantly, a possible credit rating upgrade for Pakistan could soon follow, making it easier to reach out external debt markets.

Exhibit: Pakistan Total Foreign Investments

Pakistan being in the grey list had its ramification on foreign investment inflows



Source: SBP, IGI Research

Exhibit: Pakistan FATF timeline of majors events

2008	28-Feb-08	Pakistan was placed on the FATF grey-list after being unable to meet AML and CFT standards
2010	1-Jun-10	Pakistan Taken off the FATF Monitoring list after country showed progress.
2012	16-Feb-12	Pakistan placed on grey-list again for non-compliance of AML and CFT
2015	26-Feb-15	Pakistan was removed from grey-list
2018	28-Jun-18	Pakistan placed on grey-list again for non-compliance of AML and CFT
	16-Aug-18	Deficiencies were found in Pakistan implementation of FATF compliance action plan.
2019	8-Mar-19	Pakistan ban high-risk outfits in order to comply with FATF terms.
	25-Jul-19	Special unit setup along with Federal Board of Revenue (FBR) to comply with FATF action plans
	25-Aug-19	PM setups special body fully committed to meet FATF targets
	18-Oct-19	Pakistan urged to complete action plan review by February 2020.
	29-Oct-19	FATF cell establish to finally ensure implementation of FATF action plans
2020	21-Feb-20	FATF keeps Pakistan on grey-list, but acknowledges progress.
	24-Jun-20	FATF plenary meeting does not take up Pakistan case.
	6-Oct-20	SECP meets all FATF related conditions
	23-Oct-20	FATF keeps Pakistan on grey-list, meeting all 21 compliance points.
	19-Nov-20	JuD (Hafiz Saeed) sentenced to a 5 years of prison.
2021	8-Jan-21	SBP meets all FATF related conditions
	8-Jan-21	LeT (Zakiur Rehman) sentenced to 5 years of prison.
	25-Feb-21	FATF keeps Pakistan on grey-list, citing 3 of the 27 points still needs to be addressed.
	19-May-21	FIA setup special squad to curb money laundering.
	25-Jun-21	FATF keeps Pakistan on grey-list, citing 1 of the 27 points still needs to be addressed.
	4-Jul-21	NAB setup special cell to curb money laundering and terror financing.
	21-Oct-21	FATF keeps Pakistan on grey-list, citing increased monitoring.
2022	4-Mar-22	FATF keeps Pakistan on grey-list, citing to address the remaining deficiencies.
	8-Apr-22	JuD (Hafiz Saeed) sentenced increased to 33 years.
	14-Jun-22	Pakistan found compliance on all 34 action items, FATF for an official on-site visit to Pakistan.
	17-Aug-22	Pakistan Civil Aviation implements FATF standards.
	29-Aug-22	15 members of FATF pays an on-site visit in Pakistan
	2-Sep-22	APG releases rating of Pakistan placing it 'Low' on international AML standards.
	21-Oct-22	FATF clears Pakistan off the grey-list

Source: FATF, Dawn.com, IGI Research

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