

## IMF's Board Approves USD3bn SBA for Pakistan

- The IMF Executive Board in its meeting yesterday approved the 9-month SDR2,250mn (~USD3bn) Stand-By Arrangement (SBA) for Pakistan on which a Staff Level Agreement (SLA) was reached between the IMF staff and local authorities on June 27, 2023 as the 2019 Extended Fund Facility (EFF) expired on June 20, 2023 with stalled 9th review. This development came despite the fact that Pakistan's case was not in the agenda items for yesterday's meeting as per the IMF's website.
- With this approval, Pakistan would immediately receive SDR894mn (about USD1.2bn) while the remaining SDR1,356mn (~USD1.8bn) would be spread over the remaining term of the arrangement, subject to two quarterly reviews. Saudi Arabi and UAE have already deposited a sum of USD3bn by yesterday.
- As per IMF statement, the new SBA-supported program is expected to provide a policy anchor for addressing domestic and external imbalances and a framework for financial support from multilateral and bilateral partners.
- The program will focus on:
  - Implementation of the FY24 budget to facilitate Pakistan's needed fiscal adjustment and ensure debt sustainability, while protecting critical social spending.
  - A return to a market-determined exchange rate and proper FX market functioning to absorb external shocks and eliminate FX shortages.
  - An appropriately tight monetary policy aimed at disinflation.
  - Further progress on structural reforms, particularly with regard to energy sector viability, SOE governance, and climate resilience.
- Within the press release, the IMF shared Pakistan's projected key economic indicators wherein we highlight the following:
  - Real GDP growth for FY23 is projected at -0.5% whereas as per government's estimates it is 0.3%.
  - Real GDP growth for FY24 is projected at 2.5% compared to government's estimate of 3.5%. We agree with the IMF's estimates for real GDP growth for FY24.
  - An important highlight is the projection for average inflation for FY24 that is estimated at 25.9% that appears on the higher side compared to the government and our estimates hovering around 20-21%.
- Inflation projections coupled with IMF's emphasis on an appropriately tight monetary policy aimed at disinflation is likely to develop sentiments that the interest rates may not have peaked at current levels and may fuel negative sentiments in the equities market.
- Renewed emphasis on resolution of circular debt would keep energy sector stocks at the PSX in limelight.

# Pakistan Strategy

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### Pakistan's Key Economic Indicators

	FY22	FY23P	FY24P
<b>Output and prices (% change)</b>			
Real GDP at factor cost	6.1	-0.5	2.5
<b>Employment (%)</b>			
Unemployment rate	6.2	8.5	8.0
<b>Prices (%)</b>			
Consumer prices, period average	12.1	29.6	25.9
Consumer prices, end of period	21.3	34.0	16.2
<b>General government finances (% GDP)</b>			
Revenue and grants	12.1	11.4	12.3
Expenditure	20.0	18.9	19.8
Budget balance, including grants	-7.8	-7.6	-7.5
Budget balance, excluding grants	-7.9	-7.6	-7.5
Primary balance, excluding grants	-3.1	-1.0	0.4
Underlying primary balance (excluding grants) 2/	-2.3	-0.8	0.4
Total general government debt excl. IMF obligations	74.0	74.9	68.4
External general government debt	27.4	31.1	28.4
Domestic general government debt	46.6	43.8	40.0
General government debt incl. IMF obligations	76.1	77.4	70.9
General government and government guaranteed debt incl. IMF	80.6	81.8	74.9
<b>Monetary and credit (% change, unless otherwise indicated)</b>			
Broad money	13.6	13.3	14.5
Private credit	21.1	1.0	8.0
<b>Balance of Payments (% GDP, unless otherwise indicated)</b>			
Current account balance	-4.6	-1.2	-1.8
Foreign direct investment	0.5	0.4	0.2
Gross reserves, SBP (USDmn)	9,821	4,056	8,982
Months of next year's imports of goods and services	1.9	0.7	1.4
Total external debt	32.1	36.4	37.3

Sources: Pakistani authorities, World Bank; IMF staff

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### KSE100 Index Response to Previous IMF Board's Approvals

Date	Event	Before				After			
		12-month	6-month	3-month	1-month	12-month	6-month	3-month	1-month
12-Jul-23	Approval of new USD3bn SBA	10.1%	11.5%	13.4%	8.9%	N/A	N/A	N/A	N/A
29-Aug-22	Approval of 7th & 8th reviews of 2019 EFF	-9.6%	-4.2%	-0.6%	6.1%	-2.7%	-4.9%	-0.5%	-3.7%
24-Mar-21	Approval of 2nd, 3rd, 4th & 5th reviews of 2019 EFF	59.0%	8.6%	4.6%	0.1%	-4.2%	-0.7%	5.6%	-1.5%
29-Dec-19	Approval of 1st review of 2019 EFF	9.9%	20.5%	27.4%	4.0%	5.9%	-16.3%	-31.2%	2.6%
3-Jul-19	Approval of 39-month USD6bn EFF	-17.5%	-8.6%	-9.8%	-3.4%	2.2%	23.4%	-4.5%	-7.7%
28-Sep-16	Approval of 12th and final review of 2013 EFF	23.3%	22.5%	8.7%	0.9%	5.1%	20.4%	17.7%	-1.0%
27-Jun-16	Approval of 11th review of 2013 EFF	10.3%	15.0%	13.7%	1.9%	23.9%	25.5%	7.8%	5.5%
25-Mar-16	Approval of 10th review of 2013 EFF	5.5%	-0.1%	0.9%	6.5%	49.3%	21.3%	14.0%	2.7%
18-Dec-15	Approval of 9th review of 2013 EFF	7.4%	-4.5%	1.1%	-2.5%	40.7%	17.1%	-0.1%	-7.5%
29-Sep-15	Approval of 8th review of 2013 EFF	11.3%	9.1%	-4.1%	-5.1%	23.3%	0.6%	0.4%	5.0%
26-Jun-15	Approval of 7th review of 2013 EFF	16.8%	6.5%	11.1%	4.8%	9.7%	-4.6%	-3.7%	5.1%
27-Mar-15	Approval of 6th review of 2013 EFF	12.9%	3.3%	-4.1%	-8.8%	7.2%	7.0%	10.5%	10.3%
17-Dec-14	Approval of 4th & 5th reviews of 2013 EFF	21.8%	5.3%	2.5%	-2.6%	7.2%	11.7%	4.7%	9.4%
27-Jun-14	Approval of 3rd review of 2013 EFF	38.9%	15.6%	7.4%	0.5%	16.1%	9.6%	1.8%	4.4%
24-Mar-14	Approval of 2nd review of 2013 EFF	49.0%	15.9%	5.5%	3.8%	17.0%	12.4%	8.6%	7.6%
19-Dec-13	Approval of 1st review of 2013 EFF	51.3%	15.3%	8.8%	7.2%	21.5%	12.3%	6.8%	5.4%
4-Sep-13	Approval of 3-year USD6.64bn EFF	41.7%	20.3%	-2.1%	-5.6%	35.7%	20.2%	12.1%	1.3%

Source: PSX, IMF, Next Capital Research

# Annexure

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### Rating Definition

BUY	Total stock return > 15%
NEUTRAL	Total stock return between 0% - 15%
SELL	Total Stock return < 0%

\* Total stock return = capital gains + dividend yield

### Valuation Methodology:

- To arrive at our period end target prices, Next Capital Limited uses different valuation methodologies including but not limited to:
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