

PAKISTAN



Pakistan Economy

IMF Review: Prior actions need to be completed before IMF Board approval

Agreement reached on 6th review of IMF program

International Monetary Fund (IMF) has issued a statement that the Pakistani authorities and IMF staff have reached a staff level agreement on policies and reforms needed to complete the 6th review under the Extended Fund Facility (EFF). The agreement is subject to approval by the IMF Executive Board, following the implementation of prior actions, notably on fiscal and institutional reforms. Completion of the 6th review would make available US\$1.1bn (SDR750mn), bringing total disbursements under the EFF to US\$3.0bn and helping unlock significant funding from bilateral and multilateral partners.

Mini budget and SBP Act amendment in the offing

The government plans to introduce a package of fiscal measures targeting a small reduction of the primary deficit with respect to last fiscal year based on (1) high-quality revenue measures to make the tax system simpler and fairer (including through the adoption of reforms to the GST system) and (2) prudent spending restraint, while fully protecting social spending. Furthermore, the approval of the SBP Act amendments would strengthen the independence of SBP and the central bank is expected to formally adopt an inflation targeting (IT) regime in the medium term, underpinned by a forward-looking and interest-rate-focused operational framework.

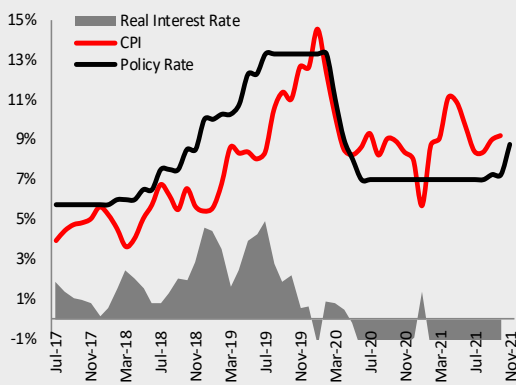
Multifaceted progress made on IMF conditionality and macroeconomic front

Despite a difficult environment, progress continues to be made in the implementation of the EFF-supported program. All quantitative performance criteria for FY21 were met with wide margins, except for that on the primary budget deficit. Notable achievements on the structural front include the finalization of the National Socio-Economic Registry update, parliamentary adoption of the NEPRA Act amendments, notification of all pending quarterly power tariff adjustments, and payment of the first tranche of outstanding arrears to IPPs to unlock lower capacity payments fixed in renegotiated PPAs.

On the macroeconomic front, available data suggests that a strong economic recovery has gained hold, benefiting from the authorities' multifaceted policy response to COVID. The Gov't has started to adjust policies in response to external account pressures, including by gradually unwinding COVID-related stimulus measures. SBP has also taken the right steps by starting to reverse the accommodative monetary policy stance, strengthening some macro-prudential measures to contain consumer credit growth, and providing forward guidance.

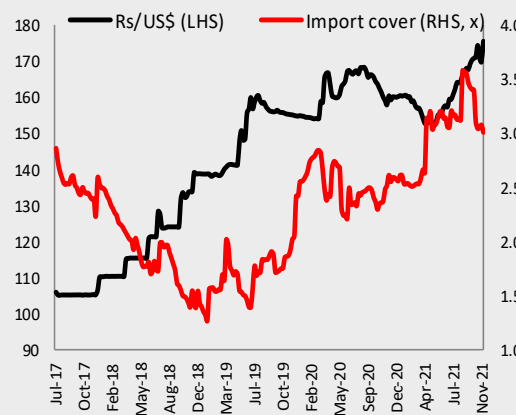
These policies will help safeguard the positive near-term outlook, with growth projected to reach, or exceed, 4% in FY22 and 4.5% in FY23. However, inflation remains high, although it should start to see a declining trend once the pass-through of rupee depreciation is absorbed, and temporary supply-side constraints and demand-side pressures dissipate. However, the current account is expected to widen this fiscal year despite some export growth, reflecting the rising import demand and international commodity prices. However, this economic outlook continues to face elevated domestic and external risks, while structural economic challenges persist.

CPI vs policy rate



Source: SBP, Foundation Research, Nov 2021

Rupee against greenback



Source: SBP, Foundation Research, Nov 2021

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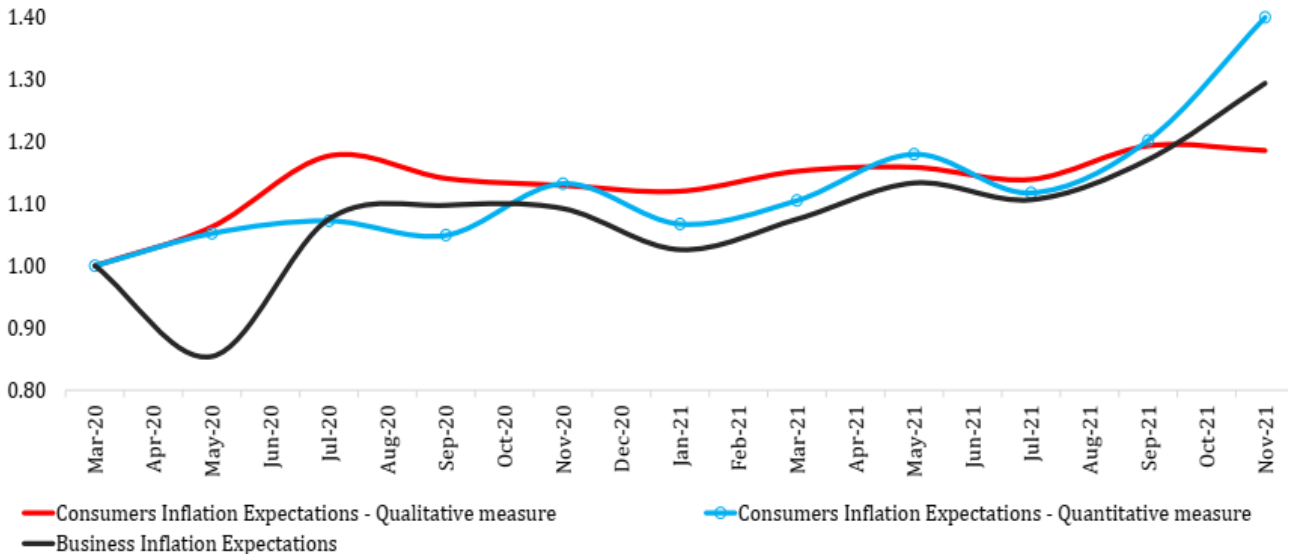
Foundation Securities (Pvt) Ltd
Monday, November 22, 2021

Fig 1: Fiscal Operations (Rs bn)

	1QFY22	1QFY21	YoY
Total Revenue	1,809	1,479	22%
FBR Revenue	1,398	1,011	38%
Direct	481	364	32%
Indirect	917	647	42%
- Sales Tax	624	436	43%
- Excise Duty	71	56	27%
- Custom Duty	221	155	43%
Non Tax Revenue (Federal)	242	343	-30%
- Petroleum Levy	13	136	-90%
- GIDC	7	5	31%
- Surplus Profit of SBP	109	105	4%
- Surplus Profit of regulatory authorities incl PTA	30	8	269%
- Other	83	89	-7%
Total Expenditure	2,247	1,963	14%
Current Expenditure	1,968	1,813	9%
- Mark up payment	623	742	-16%
- Defence	262	224	17%
- Other	1,084	846	28%
Development Expenditure & net lending to PSE	265	215	23%
-PSDP (Federal)	108	71	53%
-PSDP (Provincial)	154	90	71%
-Other	3	55	-95%
Statistical Discrepancy	14	(65)	na
Budget Balance	(438)	(484)	-9%
Budget Balance (% of GDP)	(0.8)	(1.1)	0.3
Primary Balance	184	258	-29%
Primary Balance (% of GDP)	0.3	0.6	-0.2
Financing	438	484	-9%
External	466	161	189%
Domestic	(28)	323	na
Non - Bank	108	92	17%
Bank	(136)	231	na

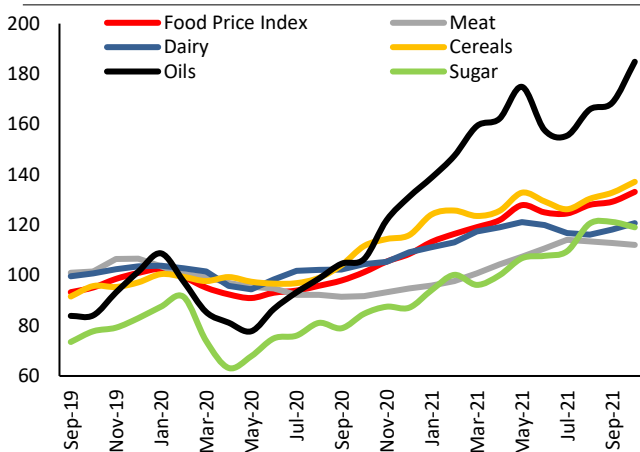
Source: MoF, Foundation Research, November 2021

Fig 2: Inflation expectations of consumers and business community have steadily risen



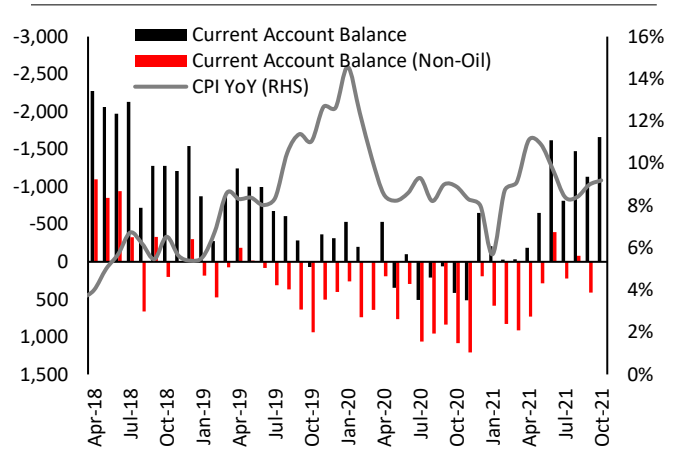
Source: SBP, Foundation Research, February 2021

Fig 3: Int'l food prices marching upwards...



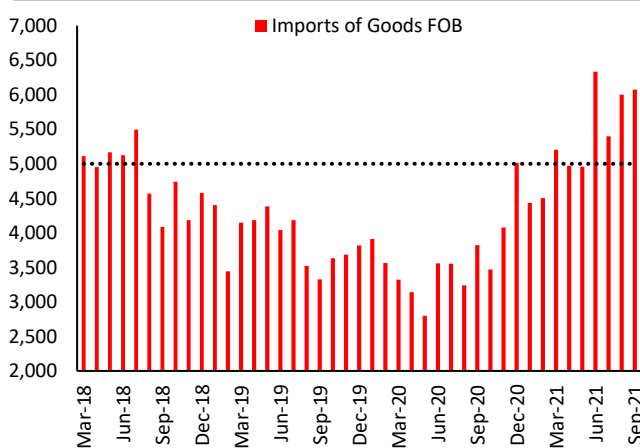
Source: FAO, Foundation Research, November 2021

Fig 4: Current account and CPI going out of control...



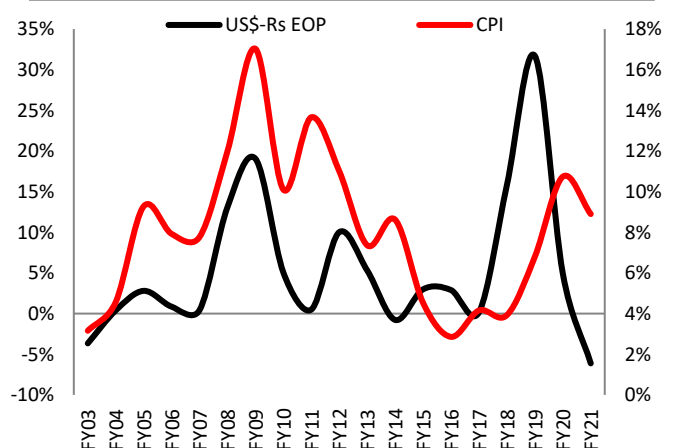
Source: SBP, PBS, Foundation Research, November 2021

Fig 5: ...as goods import rise above FY18 level (US\$ bn)



Source: SBP, Foundation Research, November 2021

Fig 6: Exchange rate and inflation move in tandem



Source: Bloomberg, SBP, FSL Research, November 2021

Abbreviations

CAD	Current Account Deficit
FX	Foreign Exchange
MoM	Month on Month
MPS	Monetary Policy Statement
PR	Policy Rate
RIR	Real Interest Rate
SBP	State Bank of Pakistan
YoY	Year on Year

Important disclosures:

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Recommendations definitions

If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.