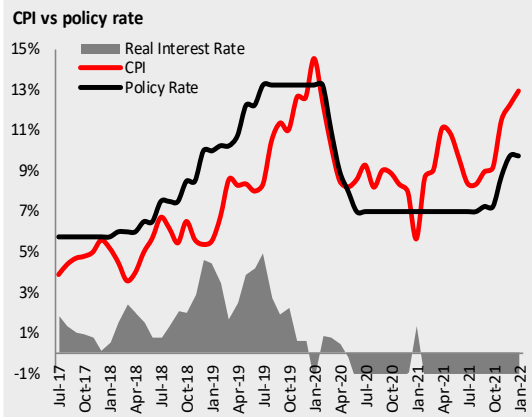
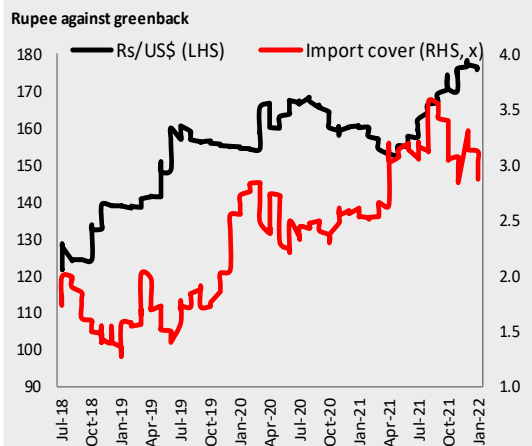


PAKISTAN



Source: SBP, Foundation Research, Feb 2022



Source: SBP, Foundation Research, Feb 2022

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Pakistan Economy

IMF Review: Executive Board approval paves way for US\$1bn tranche

6th review completed of IMF program

International Monetary Fund (IMF) has announced via a press release that its Executive Board has completed the 6th review under the Extended Fund Facility (EFF) given to Pakistan in 2019. This would immediately authorize release of the US\$1.0bn (SDR750mn) tranche, bringing total disbursements under the EFF to US\$3.0bn. The approval by the IMF Executive Board followed implementation of strict prior structural actions, notably on fiscal (mini budget) and institutional (SBP) reforms.

CAD concerns to ease in MT amid appropriate policy mix

The EFF program aims to support Pakistan's policies to (1) help the economic recovery from the COVID-19 pandemic, (2) ensure macroeconomic and debt sustainability, and (3) advance structural reforms to lay the foundations for strong, job-rich, and long-lasting growth that benefits all Pakistanis.

A strong economic recovery has gained hold since 2020. At the same time, external pressures also started to emerge in 2021, including a widening CAD and depreciation pressures on the exchange rate which also reinforced domestic price pressures.

The recent policy adjustment was appropriate to address these challenges and maintain economic stability. The economy is set to continue recovering in FY22, with GDP growth projected at 4%, while inflation is expected to pick up this year before gradually slowing down. Continued commitment to a market-determined exchange rate and a prudent macroeconomic policy mix will help reduce the CAD and ease external pressures over the medium term.

Fiscal, Monetary and Structural reforms to continue

Along with careful spending management, revenue mobilization will help to create space for much-needed spending on infrastructure and social protection, while improving debt sustainability. Maintaining the momentum on the reform of personal income taxation and harmonization of general sales taxes is essential. Broader reforms in tax administration and public financial and debt management are expected to further improve the fiscal framework.

The recent monetary policy tightening was necessary and continued proactive, data-driven monetary policy would help to anchor inflation. Preserving a market-determined exchange rate is crucial to absorb external shocks, maintain competitiveness, and rebuild reserves. The authorities are committed to removing the existing exchange restrictions and multiple currency practices.

Strong efforts to advance electricity sector reform are needed to restore the sector's financial viability. The Circular Debt Management Plan will help to guide the planned management improvements, cost reductions, alignment of tariffs with cost recovery levels, and better targeting of subsidies to the most vulnerable.

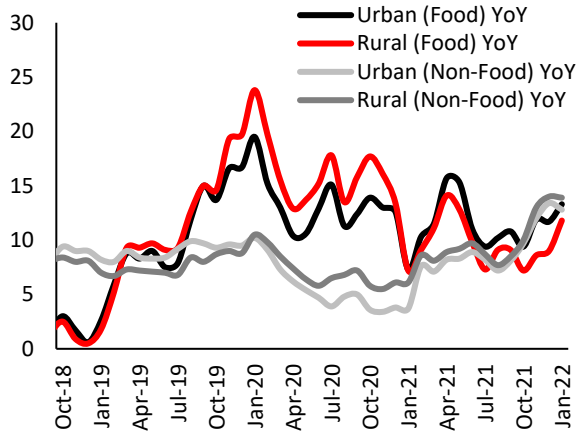
Ambitious steps to remove structural impediments and facilitate structural transformation remain essential to boost growth and job creation and improve social outcomes. The authorities are focused on state-owned enterprises reform, fostering the business environment and reducing corruption, promoting financial inclusion and addressing the challenges posed by climate change.

Table 1: Economic Indicators from IMF

	FY19	FY20	FY21 E	FY22 P
Output				
Real GDP at factor cost (% change)	2.1	(0.5)	3.9	4.0
Prices				
Consumer prices, period average (%)	6.7	10.7	8.9	9.4
Consumer prices, end of period (%)	8.0	8.6	9.7	10.2
General government finances				
Revenue and grants (% GDP)	13.0	15.2	14.5	15.9
Expenditure (% GDP)	21.9	23.2	21.6	22.8
Budget balance, including grants (% GDP)	(9.0)	(8.0)	(7.1)	(6.9)
Budget balance, excluding grants (% GDP)	(9.0)	(8.1)	(7.1)	(6.9)
Primary balance, excluding grants (% GDP)	(3.6)	(1.8)	(1.4)	(1.3)
Underlying primary balance (excluding grants)	(3.6)	(1.8)	(0.6)	-
Total general government debt excl. IMF obligations	82.9	84.5	81.1	78.9
External general government debt	28.5	28.4	26.1	27.0
Domestic general government debt	54.4	56.0	55.1	51.9
General government debt incl. IMF obligations (% GDP)	85.3	87.6	83.6	82.0
General government and government guaranteed debt (incl. IMF; % GDP)	90.5	93.2	88.6	86.7
Monetary and credit				
Broad money (% change)	11.3	17.5	16.2	15.8
Private credit (% change)	11.9	3.0	11.5	16.0
Six-month treasury bill rate (%)	10.2	11.9	7.3	-
Balance of Payments				
Current account balance (% GDP)	(4.9)	(1.7)	(0.6)	(4.0)
Foreign Direct Investment (% GDP)	0.5	1.0	0.6	0.8
Gross reserves (in millions of U.S. dollars)	7,274	12,175	17,297	21,211
In months of next year's imports of goods and services	1.7	2.4	2.7	3.2
Total external debt (% GDP)	37.4	41.6	39.1	40.6
Exchange rate				
Real effective exchange rate (% change)	(15.1)	3.4	7.3	-

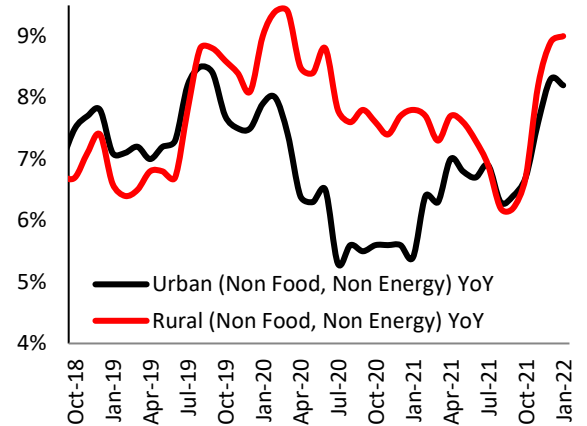
Source: IMF, Foundation Research, February 2022

Fig 1: Food/Non-Food CPI on upwards trajectory...



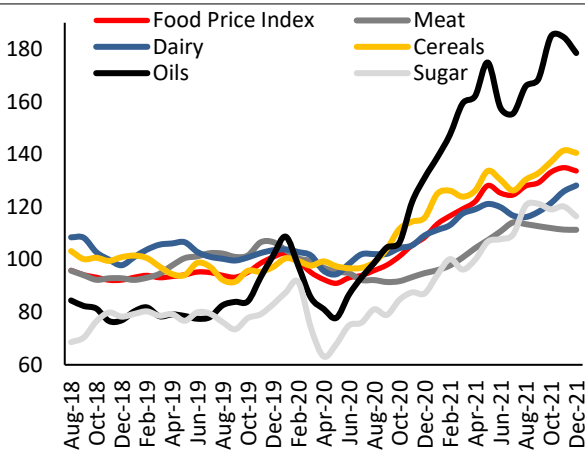
Source: PBS, FSL Research, Feb 2022

Fig 2: Core inflation rising sharply...



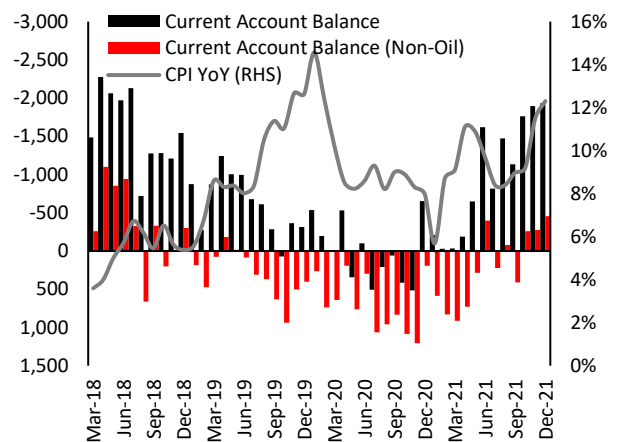
Source: PBS, FSL Research, Feb 2022

Fig 3: Int'l food prices mostly going upwards...



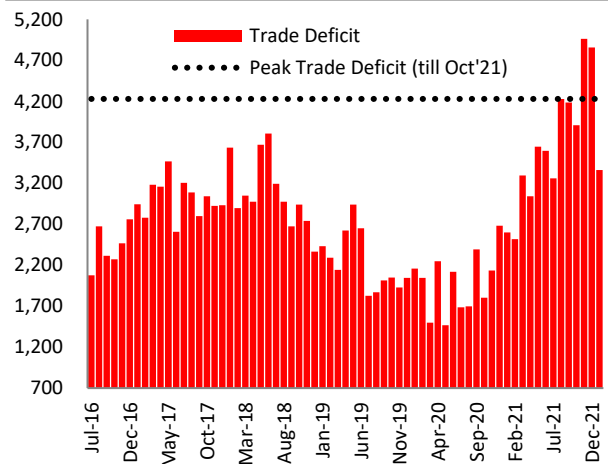
Source: FAO, FSL Research, Feb 2022

Fig 4: Current account and CPI...



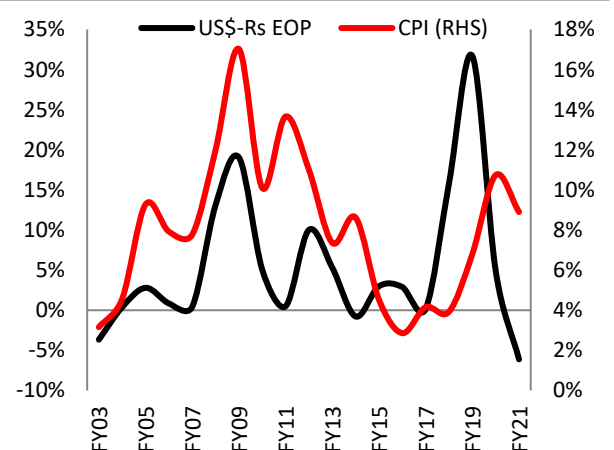
Source: SBP, PBS, FSL Research, Feb 2022

Fig 5: Goods import remain elevated (US\$ bn)



Source: SBP, FSL Research, Feb 2022

Fig 6: Exchange rate and inflation move in tandem



Source: Bloomberg, SBP, FSL Research, Feb 2022

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.