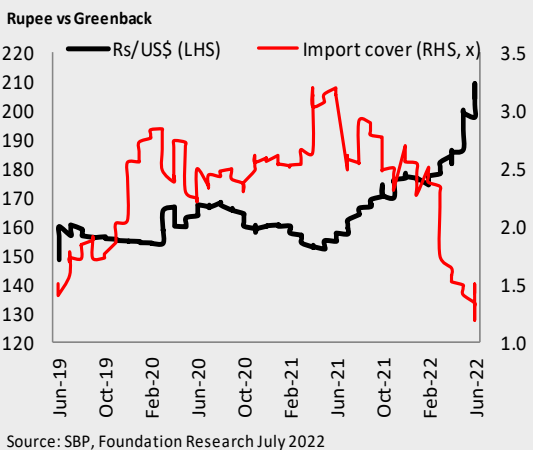
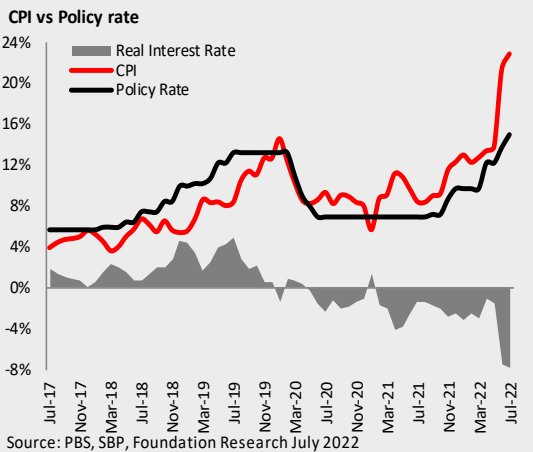


PAKISTAN



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Pakistan Economy

IMF Review: Staff level agreement reached

Agreement reached on 7th and 8th review of IMF program

International Monetary Fund (IMF) has issued a statement that the Pakistani authorities and IMF have reached a staff level agreement on policies and reforms needed to complete the 7th and 8th review under the Extended Fund Facility (EFF). The agreement is subject to approval by the IMF Executive Board which would make available ~US\$1.2bn (SDR894mn), bringing total disbursements under the EFF to ~US\$4.2bn. The IMF Executive Board will also consider an extension of the EFF till end of FY23 and an augmentation of the EFF size from ~US\$6bn to ~US\$7bn.

Adherence to FY23 budget

To stabilize the economy, policy actions to be implemented by the Gov't include adherence to the FY23 budget to reduce the Gov't's large borrowing needs by targeting a primary surplus of 0.4% of GDP, underpinned by current spending restraint and revenue mobilization efforts focused particularly on higher income taxpayers. Development spending will be protected, and fiscal space will be created for expanding social support schemes. The provinces have agreed to support the federal government's efforts to reach the fiscal targets, and MOU's have been signed by the provinces to this effect.

Catch-up in Power sector reforms

On the back of weak implementation of the previously agreed plan, the power sector circular debt flow is expected to be ~Rs850bn in FY22, overshooting program targets, threatening the power sector's viability, and leading to frequent power outages. The government has committed to resuming reforms including the timely adjustment of power tariff including for the delayed annual rebasing and quarterly adjustments.

Proactive monetary policy to moderate inflation

IMF notes that recent monetary policy increase was necessary and appropriate, and that monetary policy would need to be geared towards ensuring that inflation is brought down to the medium-term objective of 5-7%. Greater exchange rate flexibility will help cushion activity and rebuild reserves to more prudent levels.

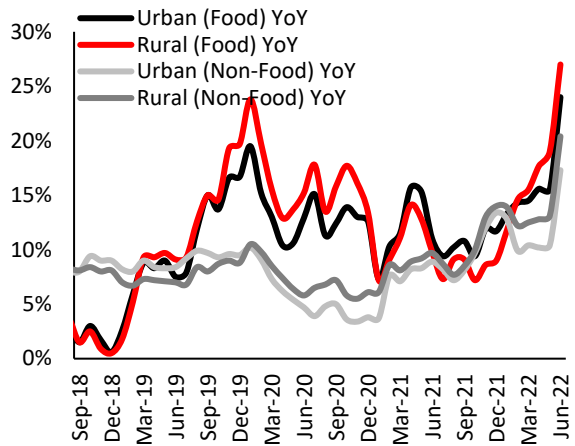
Strengthen social safety

During FY22, the unconditional cash transfer Kafalat scheme reached ~8mn households, with a permanent increase in the stipend to Rs14,000 per family, while a one-off cash transfer of Rs2,000 (Sasta Fuel Sasta Diesel, SFSD) was granted to ~8.6mn families to alleviate the impact of rampant inflation. For FY23, the authorities have allocated Rs364bn to BISP (vs Rs250bn in FY22) to be able to bring 9mn families into the BISP safety net, and further extend the SFSD scheme to additional non-BISP, lower-middle class beneficiaries.

Strengthen governance

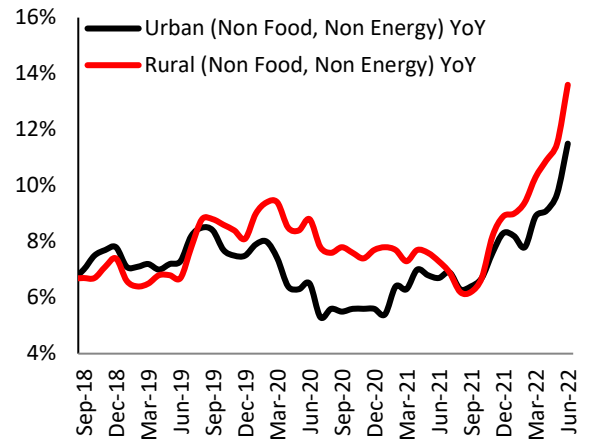
To improve governance and mitigate corruption, the authorities are establishing a robust electronic asset declaration system and plan to undertake a comprehensive review of the anticorruption institutions (including NAB) to enhance their effectiveness in investigating and prosecuting corruption cases.

Fig 1: Food and Non-Food inflation increasing sharply



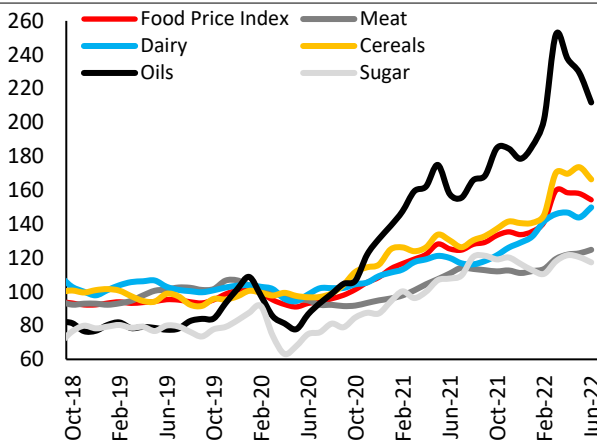
Source: PBS, FSL Research, July 2022

Fig 2: Core inflation jumped in last 8 months...



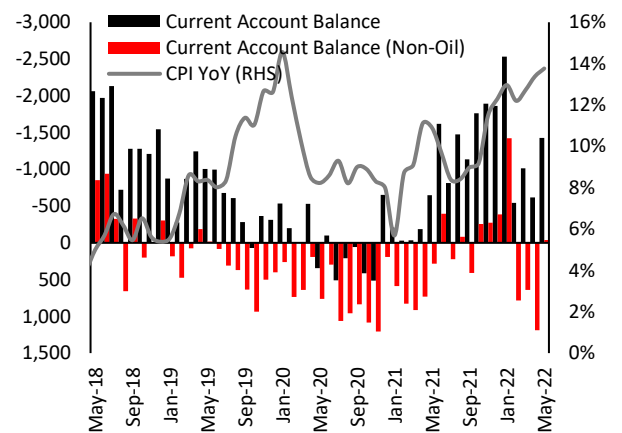
Source: PBS, FSL Research, July 2022

Fig 3: Int'l food prices declined recently...



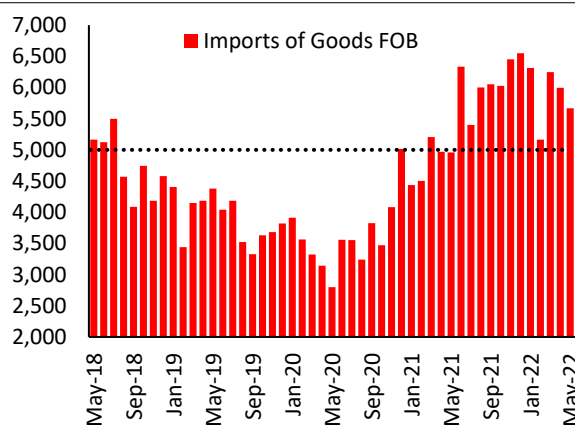
Source: FAO, Foundation Research, July 2022

Fig 4: Current account and CPI still not in control...



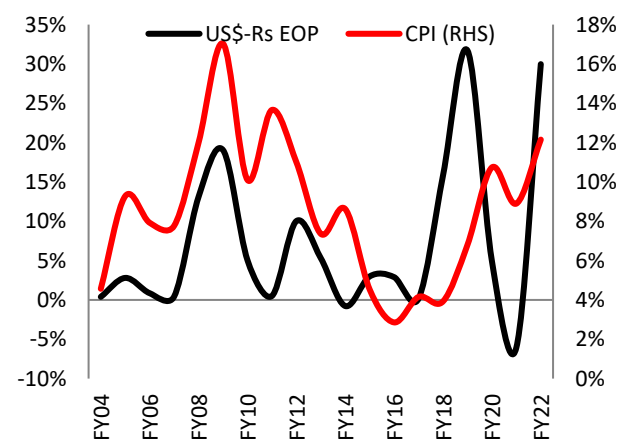
Source: SBP, PBS, Foundation Research, July 2022

Fig 5: ...as goods import remain elevated (US\$ mn)



Source: SBP, Foundation Research, July 2022

Fig 6: Exchange rate and inflation move in tandem



Source: Bloomberg, SBP, FSL Research, July 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.