

# Pakistan Economy

## Staff-level agreement (SLA) reached on 37 months USD 7bn Extended Funding Facility (EFF) with IMF

13-Jul-2024

### AHL Research

D: +92 21 32462589

UAN: +92 21 111 245 111

F: +92 21 32420742

E: [research@arifhabibltd.com](mailto:research@arifhabibltd.com)

 ASIAMONEY

Best Securities House: 2023  
Best Investment Bank: 2023

 FinanceAsia

Best Investment Bank: 2022



Best Equity House: 2022



Best Equity Advisor: 2021



Best Brokerage House: 2023  
Corporate Finance House: 2023  
Best Economic Research House: 2023  
Best Equity Sales Person (Runner up): 2023



Top 25 Companies  
(2019, 2018 & 2017)



Excellence Award  
Leading Brokerage House for RDA 2021



Best Money Market Broker  
(Islamic) 2021

Pakistan has achieved a breakthrough by signing a new 37 months EFF with the International Monetary Fund (IMF) amounting to USD 7bn (SDR 5.3bn). This significant achievement comes after the stabilization measures taken by the gov't along with the successful conclusion of the last Standby Arrangement (SBA) of USD 3bn back in Apr'24. The staff-level agreement reached between Pakistan and the IMF for the new EFF is now subject to approval by the IMF Executive Board.

### Key Takeaways from IMF Press Release

The new EFF aims to support macroeconomic stability achieved during last year by strengthening public finances, reducing inflation, and building external buffers while removing economic distortion.

**Fiscal Consolidation:** Gradual fiscal consolidation by broadening the tax base, eliminating exemptions while increasing spending for social welfare

**Tax to GDP:** Authorities are keen to increase tax revenue by 1.5% of GDP in FY25 while 3% of GDP over the program

**Primary surplus:** Recently approved FY25 budget targets 1% of primary surplus (2% in headline terms)

**Revenue:** Revenue collection would be enhanced by simple and fairer direct and indirect taxation while also targeting untaxed sectors including retail, exports, and agriculture sector.

**BISP** FY25 budget would also provide additional resources for social protection and BISP spending.

**National Fiscal Pact:** Fair fiscal balance between federal and provincial gov't including rebalancing of spending activities in line with the 18th constitutional amendment through the National Fiscal Pact which devolves to provincial governments higher spending for education, health, social protection, and public infrastructure investment.

### Exhibit: History of Lending Commitments

SDR mn	Date of Arrangement	Expiration Date	Amount Agreed	Amount Drawn
Standby Arrangement	8-Dec-58	22-Sep-59	25	-
Standby Arrangement	16-Mar-65	15-Mar-66	38	38
Standby Arrangement	17-Oct-68	16-Oct-69	75	75
Standby Arrangement	18-May-72	17-May-73	100	84
Standby Arrangement	11-Aug-73	10-Aug-74	75	75
Standby Arrangement	11-Nov-74	10-Nov-75	75	75
Standby Arrangement	9-Mar-77	8-Mar-78	80	80
Extended Fund Facility	24-Nov-80	1-Dec-81	1,268	349
Extended Fund Facility	2-Dec-81	23-Nov-83	919	730
Structural Adjustment Facility Commitment	28-Dec-88	27-Dec-91	382	382
Standby Arrangement	28-Dec-88	30-Nov-90	273	194
Standby Arrangement	16-Sep-93	22-Feb-94	265	88
Extended Credit Facility	22-Feb-94	13-Dec-95	607	172
Extended Fund Facility	22-Feb-94	4-Dec-95	379	123
Standby Arrangement	13-Dec-95	30-Sep-97	563	295
Extended Fund Facility	20-Oct-97	19-Oct-00	455	114
Extended Credit Facility	20-Oct-97	19-Oct-00	682	265
Standby Arrangement	29-Nov-00	30-Sep-01	465	465
Extended Credit Facility	6-Dec-01	5-Dec-04	1,034	861
Standby Arrangement	24-Nov-08	30-Sep-11	7,236	4,936
Extended Fund Facility	4-Sep-13	30-Sep-16	4,393	4,393
Extended Fund Facility	3-Jul-19	30-Jun-23	4,988	2,144
Standby Arrangement	30-Jun-23	31-Mar-24	2,250	2,250
Extended Fund Facility	12-Jul-24	Jul-27	5,320	
<b>Total</b>			<b>31,947</b>	<b>18,188</b>

Source (s): IMF, AHL Research

**Provinces taxation:** Provinces will increase their tax collection including sales tax on services and agriculture income tax.

**Agriculture tax:** All provinces are committed to introduce agriculture income tax by Jan'25

**Inflation and external:** Reducing inflation, access to financing, and building strong external buffers are key for stability.

**Monetary policy:** Monetary policy will continue to focus on disinflation.

**Exchange rate:** SBP will maintain a flexible exchange rate and continue improving the functioning of the foreign exchange market.

**Undercapitalized banks:** For fiscal stability, authorities plan to strengthen financial institutions, addressing undercapitalized banks and upgrading their crisis management framework.

**Energy:** Timely tariff adjustment, reducing cost reduction reforms and refraining from further unnecessary capacity addition should be followed to restore the viability and sustainability of the energy sector.

**Subsidies:** Authorities should remain committed towards targeted subsidies / targeted BISP support and replace cross subsidies.

**SOEs:** Improve State Owned Enterprises (SOEs) operations and management alongside privatization of SOEs with highest priority given to most profitable SOEs.

**Pakistan Sovereign Wealth Fund:** Increase transparency and governance around Pakistan Sovereign Wealth Fund.

**Incentives/guaranteed returns:** Phasing out incentives to special economic zones, agriculture support prices, refraining from new regularity or tax based incentives, and any guaranteed return including for projects routing through SIFC.

**Anti corruption/trade policies:** Authorities also committed to advance anti corruption, governance and transparency reforms and gradual liberalization of trade policy.

**Outlook:** The signing of the new EFF program has emerged as a significant and positive development, securing and supporting external sector outlook in the long term.

**Currency:** We anticipate the Pakistani Rupee (PKR) to remain stable in short-mid term driven by a positive sentiment arising from the new program.

### **Stock Market**

- The successful achievement of a staff-level agreement with the IMF will create a favorable environment for financial inflows from other multilateral institutions, bilateral partners, and friendly countries. These inflows are expected to contribute to an increase in the country's foreign exchange (FX) reserves and help alleviate any external pressures. Additionally, the program will provide much-needed clarity and certainty regarding the economic roadmap alongside structural reforms for the next three years.
- This will be beneficial for the markets as it offers a clear direction for economic policies and allows investors to make informed decisions based on the outlined framework.
- Moreover, with respect to sectoral impacts, we believe that energy being one of the top priorities of the IMF, would be beneficial for E&P, OGMCs and Power sector particularly.
- We believe that the sectors with low utilization including Cements, Autos, Steel, and Pharma, amid low economic growth would take a sigh of relief. Thus, utilization and profitability levels of these sectors are expected to improve.
- Our index target for Jun'25 is 109k, implying an upside potential of 36% from current levels.
- KSE-100 is currently trading at a PER of 4.2x (2025) compared to the last five years average PE of 6.0x while offering a dividend yield of ~10%. Our preferred stocks are OGDC, PPL, MCB, UBL, MEBL, LUCK, FCCL, DGKC, MLCF, FFC, FFBL, PSO, HUBC, ILP, NML and, INDU.

# Analyst Certification and Disclaimer

**Analyst Certification:** The research analyst(s) is (are) principally responsible for preparation of this report. The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject security (ies) or sector (or economy), and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. In addition, we currently do not have any interest (financial or otherwise) in the subject security (ies). Furthermore, compensation of the Analyst(s) is not determined nor based on any other service(s) that AHL is offering. Analyst(s) are not subject to the supervision or control of any employee of AHL's non-research departments, and no personal engaged in providing non-research services have any influence or control over the compensatory evaluation of the Analyst(s).

## Equity Research Ratings

Arif Habib Limited (AHL) uses three rating categories, depending upon return from current market price, with Target period as June 25 for Target Price. In addition, return excludes all type of taxes. For more details, kindly refer the following table;

Rating	Description
BUY	Upside* of subject security(ies) is more than +15% from last closing of market price(s)
HOLD	Upside* of subject security(ies) is between -15% and +15% from last closing of market price(s)
SELL	Upside* of subject security(ies) is less than -15% from last closing of market price(s)

## Equity Valuation Methodology

AHL Research uses the following valuation technique(s) to arrive at the period end target prices;

- Discounted Cash Flow (DCF)
- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

**Risks:** The following risks may potentially impact our valuations of subject security (ies);

- Market risk
- Interest Rate Risk
- Exchange Rate (Currency) Risk

**Disclaimer:** This document has been prepared by Research analysts at Arif Habib Limited (AHL). This document does not constitute an offer or solicitation for the purchase or sale of any security. This publication is intended only for distribution to the clients of the Company who are assumed to be reasonably sophisticated investors that understand the risks involved in investing in equity securities. The information contained herein is based upon publicly available data and sources believed to be reliable. While every care was taken to ensure accuracy and objectivity, AHL does not represent that it is accurate or complete and it should not be relied on as such. In particular, the report takes no account of the investment objectives, financial situation and particular needs of investors. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. AHL reserves the right to make modifications and alterations to this statement as may be required from time to time. However, AHL is under no obligation to update or keep the information current. AHL is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Past performance is not necessarily a guide to future performance. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for any investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his or her own advisors to determine the merits and risks of such investment. AHL or any of its affiliates shall not be in any way responsible for any loss or damage that may be arise to any person from any inadvertent error in the information contained in this report.