

Economy

IMF Executive Board Approval

Economy: Pakistan seals executive board approval, unlocking USD 700mn

The IMF’s executive board completed the first review of Pakistan’s economic reform program which allows for an immediate disbursement of USD 700mn (SDR 528 mn). The board highlighted that the greater economic stability achieved in FY24 is subject to consistent implementation of program policies, going forward. These broadly include i) compliance with fiscal objectives, ii) safeguarding social expenditures, iii) adopting a market-driven exchange rate to absorb external pressures and iv) advancing structural reforms with regards to the energy sector, SOE’s governance and climate resilience.

Fiscal consolidation to continue

Strong revenue performance in 1QFY24 as well as federal spending restraint have helped to achieve a primary surplus in line with quarterly program targets. The government is determined to keep primary surplus at 0.4% of GDP by keeping public spending in check and ensuring improved revenue performance.

In the long run, additional revenue mobilization through non-filers and under-taxed sectors along with improved quality of public investment and spending will be key factors to alleviate economic headwinds. Looking ahead, the gov’t should advance the SOE reforms agenda and safeguards related to sovereign wealth fund along with improving BISP disbursement through enrollment of conditional transfers supporting education and health.

Focus on controlling cost pressures to reduce energy prices

IMF acknowledges increase in energy prices were essential to bring prices closer to cost and to improve viability of the energy sector. The Gov’t is shifting its focus to control cost side pressures, including privatization of DISCOs, institutionalization recovery through anti-theft drives, improving PPA terms and discouraging reliance on captive power plants.

Reiterating market-based exchange rate

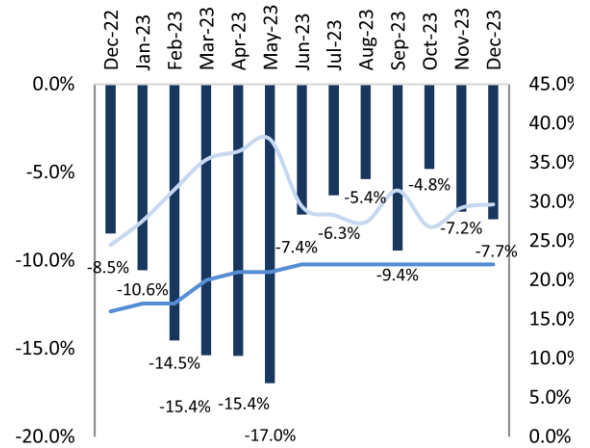
The value of rupee must remain market determined which is crucial to alleviate external pressures and rebuild reserves. The staff stresses to strengthen the transparency and efficiency of the FX market and to refrain from administrative actions to influence the currency market.

Revised projections for inflation & growth

IMF has revised its projections for average inflation in FY24 from 25.9% YoY to 24.0% YoY expecting prices to disinflate to 18.5% YoY at the end of FY24. However, the board stressed that inflation remains elevated, and it is appropriate that the SBP maintains a tight stance to ensure that inflationary pressures return to moderate levels.

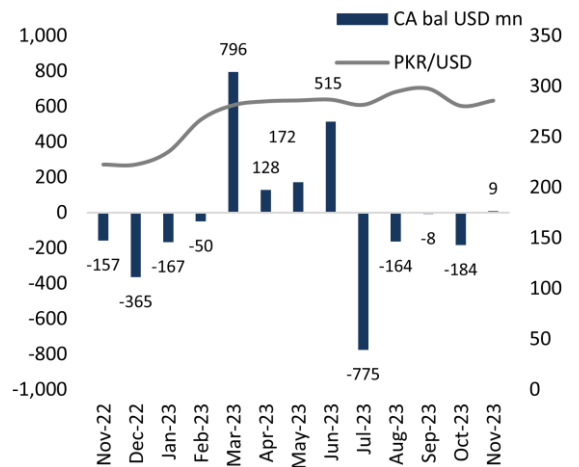
Additionally, the IMF updated its GDP forecast from 2.5% YoY to 2.0% YoY expecting nascent recovery in 2HFY24.

Real interest rates to turn positive in 2HFY24 on account of lower inflation projections



Source: PBS, Akseer Research

CAD reflecting lagged impacts of currency depreciation in FY23



Source: SBP, Akseer Research

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Pakistan: Selected Economic Indicators, FY22-FY24

	FY22	FY23A	FY24E
Output and prices (% change)			
Real GDP at factor cost	6.2	-0.2	2.0
Employment (%)			
Unemployment rate	6.2	8.5	8.0
Prices (%)			
Consumer prices, period average	12.1	29.2	24.0
Consumer prices, end of period	21.3	29.4	18.5
General government finances (%GDP)			
Revenue and grants	12.1	11.4	12.5
Expenditure	20.0	19.2	20.2
Budget balance, including grants	-7.8	-7.7	-7.6
Budget balance, excluding grants	-7.9	-7.8	-7.7
Primary balance, excluding grants	-3.1	-0.8	0.4
Underlying primary balance (excl grants)	-2.3	-0.6	0.4
Total general government debt (excl IMF)	74.1	74.7	70.3
External general government debt	27.4	28.5	27.4
Domestic general government debt	46.6	46.2	42.9
General government debt (incl. IMF obligations)	76.2	77.1	72.8
General government and government guaranteed debt incl. IMF	80.7	81.3	76.8
Monetary and credit (% change)			
Broad money	13.6	14.2	11.0
Private credit	17.4	2.3	5.0
Six-month treasury bill rate avg (%)	11	18.3	...
Balance of Payments (% GDP, unless indicated)			
Current account balance	-4.7	-0.7	-1.6
Foreign direct investment	0.5	0.5	0.3
Gross reserves (USD mn)	9,821	4,455	9,101
Months of next year's imports	2.0	0.8	1.5
Total external debt	32.2	34.4	34.9
Real effective exchange rate	-5.9	-8.0	-

Source: IMF, Akseer Research

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