BMA CAPITAL

Pakistan Strategy

IMF reaches staff-level agreement with Pakistan

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In an anticipated outcome, the IMF and Pakistan reached staff level agreement on the first review of the USD 3.0bn Stand-By Arrangement. After the IMF Executive Board's approval, Pakistan will have access to USD 700mn (SDR 528mn), taking the total financing to USD 1.9bn (SDR 1,422mn) under the arrangement. The past few weeks saw Pakistan take notable steps to ensure a successful review, particularly hiking the gas tariffs. Moreover, the country achieved several targets put forth by the IMF, including fiscal and monetary benchmarks.

Targets for the next review would likely entail continuing fiscal consolidation, expediting planned energy sector reforms, reinforcing a market-determined exchange rate regime, and overhauling loss-making state-owned enterprises (SOEs).

A necessary step to unlock international funding avenues: Several funding avenues available to Pakistan, including financing options from friendly countries and multilateral institutions, hinged upon a successful review of the IMF SBA. Notably, Pakistan's funding gap for the remainder of FY24 is estimated at USD 6.5bn. While the UAE has provided assurances of financial support, Pakistan is likely to approach Saudi Arabia and Chinese Commercial banks for deposit rollovers and loan financing.

Notable priorities under the SBA

- **Continued Fiscal Consolidation:** Pakistan is expected to achieve a primary surplus of 0.4% of GDP for FY24, likely aided by enhanced revenue collection and controlled spending. While the tax target of PkR 9.4tn remains unchanged, the government plans to introduce reforms to enhance the tax base by tapping into the undocumented economy.

- **Implementing energy sector reforms:** Implementing energy sector reforms to limit the flow of circular debt has always been a priority of the IMF. In addition to the energy tariff hikes, the fund wants Pakistan to introduce extra steps to reduce the overall cost of the country's energy chain. Potential action includes the privatization of DISCOs, intensification of the anti-theft drive, revisiting PPA terms, and disincentivizing captive power plants.

- **Overhauling the loss-making SOEs:** The IMF wants Pakistan to identify and overhaul loss-making SOEs as potential candidates for privatization. There are 27 entities on the government's privatization list, including the aforementioned DISCOs, Pakistan International Airlines, and RLNG-based power plants.

Financial Assistance Received by Pakistan

USD mn	Category	Date	Amount
Saudi Arabia	Deposit	02-Dec-22	3,000
UAE	Deposit	19-Jan-23	2,000
CDB	Commercial	24-Feb-23	700
ICBC	Commercial	4-Mar-23	500
ICBC	Commercial	18-Mar-23	500
China	Deposit	24-Mar-23	2,000
ICBC	Commercial	14-Apr-23	300
Saudi Arabia	Deposit	11-Jul-23	2,000
UAE	Deposit	12-Jul-23	1,000
IMF	SBA	13-Jul-23	1,200

Source: MoF, BMA Research

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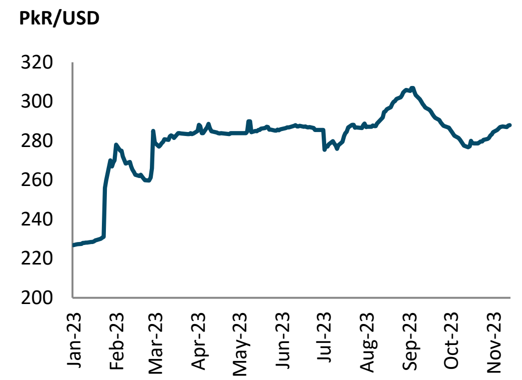
- **Reinforcing a market-determined exchange rate regime:** The IMF highlighted the importance of a market-driven exchange rate in rebuilding reserves and alleviating external account imbalances. It considered the recently introduced FX market reforms a necessary step to ensure transparency and efficiency. Recall that the IMF had placed a limit of 1.25% on the difference between the interbank and the open market rate. Said reforms limited illicit activities and enabled the open market rate to converge towards the official rate.
- **Implementing a proactive monetary policy stance:** The IMF wants the SBP to ensure a data-driven monetary policy stance with the purpose of achieving medium-term inflation targets. The fund notably highlighted potential risks to inflation emanating from geopolitical uncertainty, rising commodity prices, and the recent weakening of the Pak Rupee.

A successful review likely priced in by the market: We believe investors had likely priced in a successful review of the SBA as the interim government and the central bank had achieved all structural benchmarks set forth by the IMF. Moreover, the last major hurdle was successfully crossed as OGRA notified the higher gas tariffs.

We think the market's focus would be on the upcoming general elections scheduled in Feb 2024. The political climate may dictate the economy's short-term direction, particularly the trend of the Pak Rupee. Notably, friendly countries and multilateral institutions may want to deal with an elected government prior to lending their financial support to Pakistan.

T-Bill auction results hinting at an expedited monetary easing: The recent T-Bills auction saw yields fall by around 50bps across all tenors, hovering around 21.5%. Most notably, the SBP received bids of PkR 4,004bn but accepted bids worth PkR 1,161bn, lower than the target of PkR 1,500bn. We believe the auction results would likely reinforce expectations of an expedited monetary easing cycle.

PKR/USD Parity



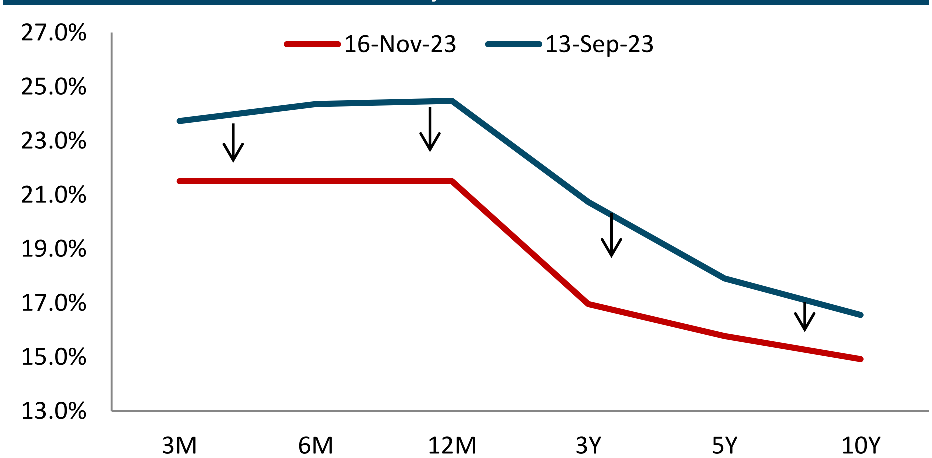
Source: SBP, BMA Research

T-Bill Auction

Tenor	Amount PkR bn	Cut-off Yield 15-Nov-23	Cut-off Yield 01-Nov-23	bps D
3M	473	21.50%	21.95%	(45)
6M	92	21.50%	21.99%	(49)
12M	596	21.50%	22.00%	(50)
	1,161			

Source: SBP, BMA Research

Secondary Market Yields



Source: SBP, BMA Research

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Old rating system

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)