PAKISTAN INVESTMENT RESEARCH

In Focus

Pakistan IMF reach Staff-level Agreement

Another 28-month Arrangement under the Resilience and Sustainability Facility (RSF) for USD 1.3bn

Wednesday, March 26, 2025

Pakistan and the IMF have reached a staff-level agreement (SLA) for the 1st review of the Extended Fund Facility (EFF), potentially unlocking the second tranche of USD 1.0bn. Moreover, an agreement on a 28-month RSF for around USD 1.3bn was reached.

The IMF highlights Pakistan's economic progress: The IMF highlighted Pakistan's economic progress, including falling inflation (Feb 2025 CPI: 1.5%) and a controlled external account (8MFY25 CA Surplus of USD 691mn vs. a CA Deficit of USD 1.7bn SPLY). The fund, however, pointed downside risks to macroeconomic stability, including a volatile geopolitical landscape and climate-related challenges. It commented that Pakistan should continue rebuilding external buffers, ensuring price stability, and supporting private sector-led growth.

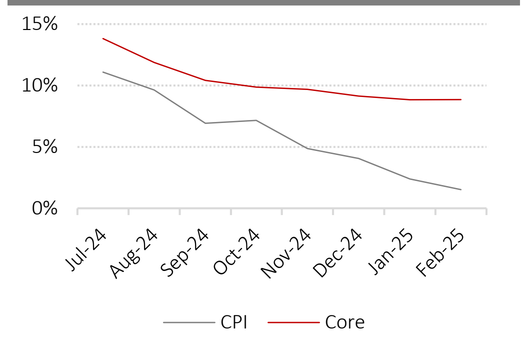
Fiscal consolidation should continue: The IMF commented that Pakistan should continue its fiscal consolidation process by aiming for a primary surplus (target: 1.0% of GDP). The fund expects the country's fiscal consolidation process to continue into FY26 via the upcoming federal budget. The goal is to reduce public debt (58% of GDP as of January 2025) and make funds available for the private sector's growth.

Fiscal reforms through enhanced revenue mobilization: Broadening Pakistan's tax base remains the key focus of the IMF. The fund highlighted that all provinces have amended the Agriculture Income Tax (AIT) regime, an important step to bringing the country's agriculture sector under the tax net. This move may enhance Pakistan's potential tax collection by around 1.0% of GDP. The IMF stressed that effective implementation of tax reforms will be necessary in achieving the country's tax target.

An appropriate monetary policy for sustainable growth: The IMF conveyed that the central bank should continue with a tight, data-driven policy stance to anchor inflation expectations towards **the SBP's medium-term inflation target of 5-7%.** It also stressed the need for a flexible exchange rate regime to rebuild FX buffers.

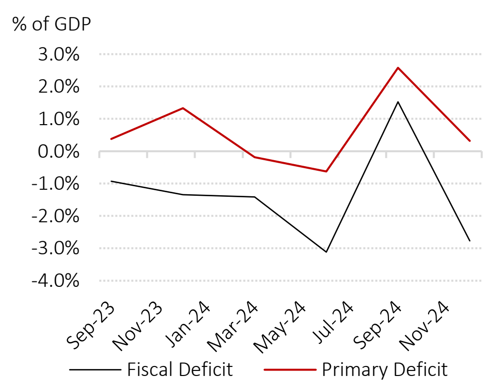
Energy-sector reforms are also a priority: The IMF pointed out that timely electricity and gas tariff adjustments limited the flow of circular debt (PkR 12bn reduction in the power sector's circular debt during 5MFY25). It stressed the need for continued **cost-side reforms,** including improving distribution & transmission efficiencies, integrating captive plants to the national grid, privatizing inefficient plants, and enhancing the renewables base.

CPI & Core Inflation Trend (FY25)



Source: SBP, BMA Research

Quarterly Fiscal Deficit Trend



Source: MoF, BMA Research

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Expedite the privatization process: The IMF stressed the need to expedite the SOE privatization process to boost productivity and support private sector development. Notably, the fund commented on the need **to reduce trade barriers** to support inclusive growth and ensure a level playing field for businesses and investments.

Climate reforms on the agenda: The IMF commented on Pakistan's need to scale up climate reforms to build climate resilience. For this, the IMF **approved the USD 1.3bn RSF**. The program will focus on efficient water usage and promoting green mobility to mitigate pollution-led risks.

Investor sentiments to improve amidst enhanced clarity on the IMF: We believe the SLA will improve investor sentiments over enhanced clarity. The past few trading sessions have remained volatile because of uncertainty over the IMF program. We prefer cyclical stocks **(top picks: LUCK, FCCL, THCCL, and ISL)** because of an improving macroeconomic backdrop. We also like energy stocks **(OGDC, PPL, SNGP, and PSO)** led by the increased focus on energy sector reforms.

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Old rating system

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

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