Pakistan Successfully Concludes First EFF Review

BMA CAPITAL

Saturday, May 10, 2025

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Second tranche of USD 1.0bn to be released

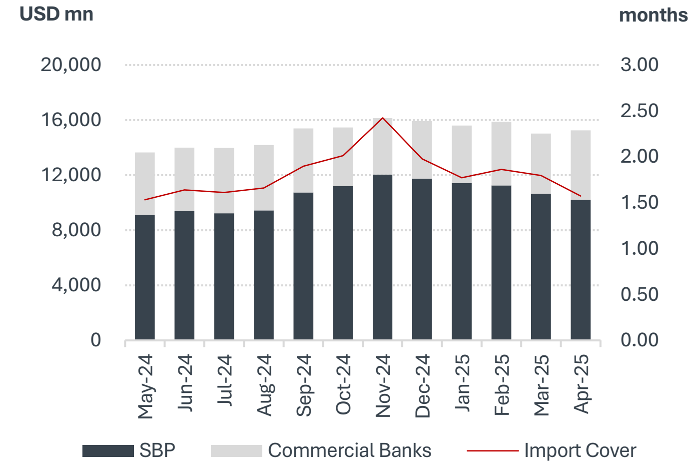
Pakistan has successfully concluded the first review of IMF's Extended Fund Facility (EFF), allowing the country to draw out USD 1.0bn. Cumulative withdrawal under the 37-month facility would increase to USD 2.0bn. Moreover, the executive board also approved the USD 1.4bn Resilience and Sustainability Facility (RSF) to tackle climate vulnerabilities.

The Program Prioritizes Macroeconomic Sustainability: The IMF board reiterated that the program's purpose will be to ensure Pakistan's macroeconomic stability through sound policy, aiming to shore up reserve buffers and broaden the taxation base.

- Shoring up reserves to USD 14.0bn: Despite a consistent current account surplus (USD 1.9bn during 9MFY25) and aggressive US Dollar purchases from the interbank market, the SBP's reserves have declined by nearly USD 2.0bn over the past six months because of debt servicing-led outflows. Given the IMF-driven flows, the **SBP governor estimates the central bank's reserves to rise to USD 14.0bn**, improving the import cover to around 2.3 months from 1.6 months.
- Broadening the taxation base: The IMF reiterated the need to enhance the taxation base, particularly targeting the undertaxed agriculture and retail segments. The fund believes a broader base will enable a **more equitable levy of taxes**, reducing the load on the corporate and salaried segments. The medium-term target for the program is to increase Pakistan's tax-to-GDP ratio to 13.0% over its tenure. As of 10MFY25, FBR missed its tax collection target by **over PKR 800bn.** However, given the likely revision in GDP figures, **the tax-to-GDP ratio is projected to hover around 10.6%,** an improvement from 9.0% in FY24.

Improving SOEs to limit losses: The program also reiterated the need to reform State-Owned Entities (SOEs) to support the country's fiscal landscape. Notably, loss-making SOEs recorded a cumulative loss of PkR 851bn in FY24, while cumulative losses since FY14 stood at around PkR 6.5tn. Pakistan is spearheading the privatization program with PIA, albeit the process has hit snags because of limited buyers.

Pakistan Foreign Currency Reserves



Source: SBP, BMA Research

Pakistan External Liability (as of December 2024) – USD mn

Total External Debt	**86,622**
Multilateral	**48,546**
The World Bank	20,642
ADB	15,933
IMF	8,493
Others	3,478
Bilateral	**23,655**
Paris Club	5,746
Non-Paris Club	17,909
Commercial	**14,421**
Commercial Loans	5,775
Eurobond/Sukuks	6,800
NPC	1,055
Others	791

Source: MoF, BMA Research

USD 1.4bn RSF also approved

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Primary balance target on track to be met: The IMF highlighted Pakistan's improving fiscal performance, evidenced by a **PKR 3.5tn primary surplus in 9MFY25,** crediting disciplined spending for this feat. The fund also stated that Pakistan is on track to meet FY25's **primary surplus target of 2.1% of GDP.**

USD 1.4bn to address climate-related vulnerabilities: The RSF will assist Pakistan in enhancing its resilience to natural disasters and climate-related risks. Key components of the program include strengthening disaster resilience and public investment planning; improving water resource efficiency through better pricing; enhancing federal-provincial coordination for disaster response and financing; advancing climate risk disclosure by banks and corporations; and supporting Pakistan's climate mitigation goals to address macro-critical vulnerabilities.

Geopolitical concerns highlighted: The IMF highlighted geopolitical tensions as potential risks to Pakistan's macroeconomic stability and emphasized the importance of maintaining prudent macroeconomic policies to build resilience and navigate an uncertain global environment.

Energy chain reforms a priority: The IMF credited timely energy tariff adjustments for reducing the flow of circular debt. Since the previous year, the stock of the power sector's circular debt has declined by around PkR 400bn to **PkR 2.4tn as of March 2025.** The fund also mentioned the need to expedite cost-side reforms, likely referring to tariff negotiations, to enhance the chain's viability and improve Pakistan's global competitiveness.

Continued need for data-driven monetary policy: The IMF credited the tight policy stance for Pakistan's record-low inflation (CPI of 0.3% as of April 2025). It stressed the continued need for data-driven monetary policy setting to ensure **SBP's medium-term inflation target (5-7%) is anchored**. The fund highlighted that a flexible exchange rate regime will be imperative for building reserve buffers and weathering unforeseen external shocks.

Pakistan Fiscal Summary

PkR bn	9MFY25	9MFY24	YoY
Total Revenue	13,367	9,780	37%
Tax Collection	9,137	7,262	26%
Non-Tax Collection	4,230	2,518	68%
Total Expenditure	16,131	13,460	20%
Current Expenditure	14,588	12,333	18%
Interest	6,439	5,518	17%
Development Expenditure	1,543	1,127	37%
Budget Balance	**(2,970)**	**(3,886)**	**-24%**
% of GDP	-3.2%	-4.9%	
Primary Balance	**3,469**	**1,632**	**113%**
% of GDP	3.7%	2.1%	

Source: MoF, BMA Research

IMF Economic Projections

IMF Projected Macroeconomic Indicators			
	FY24	**FY25E**	**FY26F**
Real GDP Growth	2.5%	2.6%	3.6%
Unemployment (%)	8.3%	8.0%	7.5%
CPI (Average)	23.4%	5.1%	7.7%
CPI (Period-end)	12.6%	6.5%	6.6%
Fiscal Summary (% of GDP)			
Fiscal Revenues	12.6%	15.9%	15.2%
Expenditure	19.4%	21.6%	20.3%
Budget Balance	-6.8%	-5.6%	-5.1%
Primary Balance	0.9%	2.1%	1.6%
Total Debt	67.9%	71.2%	69.2%
External Debt	22.7%	24.0%	22.2%
Domestic Debt	45.2%	47.3%	47.0%
External Summary (% of GDP)			
CA Balance	-0.5%	-0.1%	-0.4%
FDI	0.6%	0.5%	0.6%
Reserves (USD bn)	9.4	13.9	17.7
Import Cover (months)	1.6	2.3	2.8
Foreign Debt	31.7	33.1	31.3

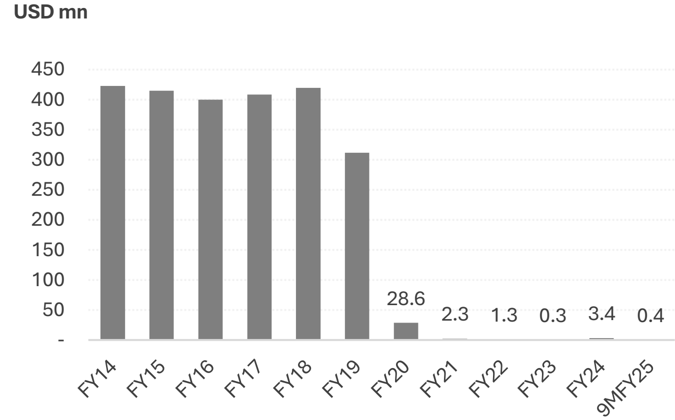
Source: IMF, BMA Research

Regional Escalation a Concern for Stability

Escalating conflict with India a cause for concern: Pakistan's ongoing conflict with India continues to escalate, threatening to delay the country's economic stabilization efforts. Moreover, **potential delays in planned FDI** are a definite possibility as investors wait for de-escalation before committing.

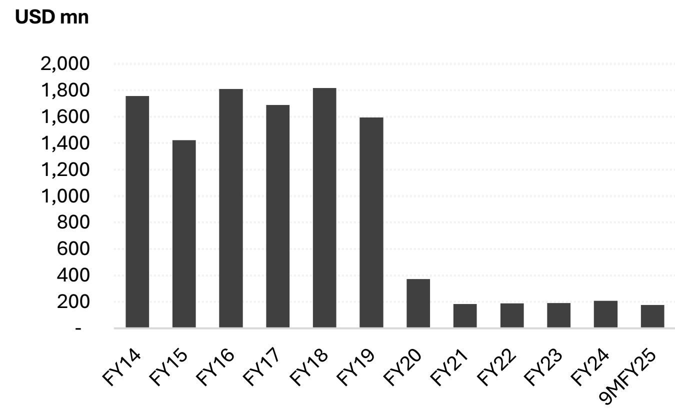
- **The KSE100 Index has lost 10% of its value since the conflict:** The KSE100 index has declined by 10% since the conflict escalation, reflecting investor caution amid an increasingly uncertain environment. Early apprehensions were driven by fears of potential delays in the IMF board's approval process. While those concerns have been alleviated, other risks remain, particularly if air travel is restricted.
- **Over USD 50mn in T-Bills sold in a single day:** Foreign investors have been pulling out their investments from Pakistan's treasury market since the monetary easing cycle commenced in June 2024. The recent conflict escalation greatly accelerated the outflow. Foreign investors, notably, liquidated over **USD 50mn worth of T-Bills** in a single day (May 02, 2025).
- **Trade with India has already been at low levels since 2019:** Since the 2019 cross-border incident, both countries have placed strict restrictions on trade. Before the incident, Pakistan's exports to India averaged around USD 400mn annually. They have since plummeted to negligible levels, registering **under USD 0.5mn during 9MFY25.** Pakistan's imports from **India averaged around USD 1.6-1.8bn** annually and have since fallen to **around USD 200mn.**
- **Social media ban may affect media companies:** Pakistani media has a large market amongst the Indian population. The ban on Pakistan's social media will significantly limit the online growth of Pakistan media companies. Hum Network's YouTube channel was averaging around **60 million views daily.** This figure has declined to around 30 million views after the ban.

Pakistan Exports to India



Source: SBP, BMA Research

Pakistan Imports from India

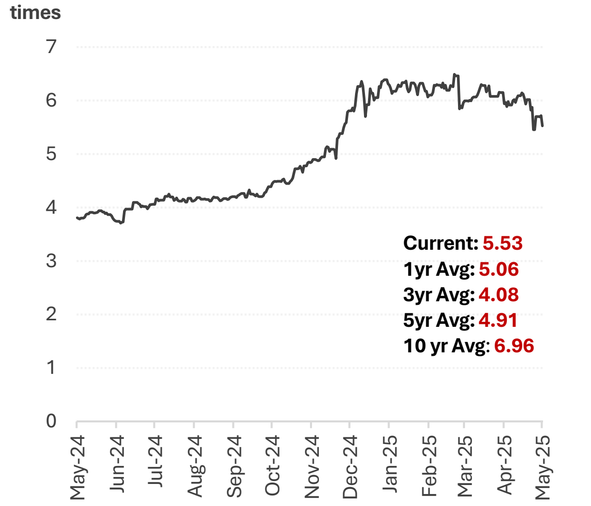


Source: SBP, BMA Research

Value buyers may closely monitor entry points

Value buyers may enter the fray: As mentioned, the KSE100 index **has lost around 10%** of its value since the conflict escalated. The lower index level has improved valuation metrics for value buyers, who are closely monitoring potential entry points. While the EFF approval will alleviate some concerns, regional stability will be imperative for sustained market recovery.

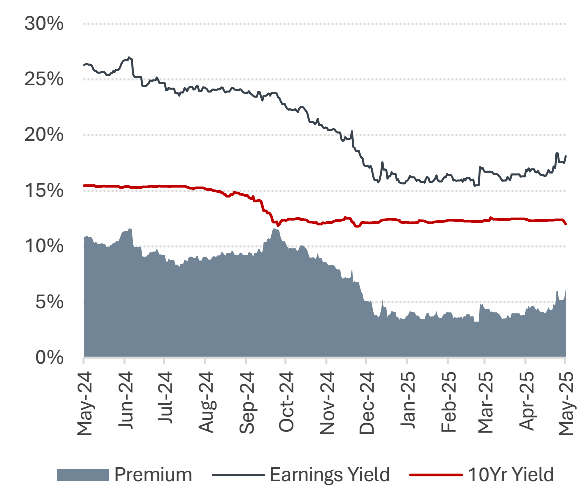
Market PE Multiples



Source: PSX, BMA Research

*Pakistan's PE multiple has **declined to around 5.5x**, after peaking at 6.5x back in March 2025. These multiples stand **20% below** the KSE100's 10-year average of around 7.0x.*

Earnings Yield vs. Long-term Treasury Yield



Source: PSX, Bloomberg, BMA Research

*The KSE100 index's earnings yield has increased to 18.1% from around 15.1% in March 2025. The earnings yield premium over the 10-year yield has **increased to over 6%** from around 3% in March 2025.*

PSX Market Capitalization (USD bn)

Source: PSX, Bloomberg, BMA Research

*The PSX's market capitalization has **dipped to USD 45bn**, compared to May 2025's high of around USD 51bn. Current capitalization stands 55% below the market's record-high peak of USD 100bn.*

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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.)

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Tel: (042) 36280931-34

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Fazel e Haq, Blue Area, Islamabad
Pakistan
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Fax: (051) 280 2356

Sialkot Branch:
2nd Floor, Sialkot Business & Commerce
Centre, Paris Road, Sialkot, Adjacent to
Sialkot Chamber of Commerce.
Tel: (052) 4260091-94

Multan Branch:
Office No. 607/A, 6th Floor,
The United Mall, Plot No. 74
Abdali Road, Multan
Tel: (061) 457 6611-15
Fax: (061) 457 6615

Sargodha Branch:
Ground floor, Shan Plaza, Block No 16,
Main Khushab Road, Near Allied Bank
Limited, Sargodha.
Tel: (048) 3767 817-18

Faisalabad Branch:
Mezzanine Floor, State Life Building #2,
Plot No. 833 Liaquat Road, Faisalabad.
Tel: (041) 2612261-5.

Gujranwala Branch:
51-H block Near Standard Chartered Bank
Trust Plaza GT road Gujranwala.
Tel: (055) 3848501-05

Chakwal Branch:
Office No. 12, 1st Floor, Ejaz Plaza,
Talagang Road Chakwal.
Tel: (0543) 553850, 0543-543720,0543-
543721.

Jhelum:
2nd Floor, Khalid Plaza, Plot#7/89,
Kazim Kamal Road, Jhelum, Punjab.
Tel: (054) 4620594-97

Peshawar Branch:
Shop No.F1 & F2, 1st Floor Mall Tower 35,
The Mall Peshawar Cantt.
Tel: (091) 5274770-72

Abbottabad Branch:
Gohar Son's Arcade 1st Floor Office# 4,
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