PAKISTAN INVESTMENT RESEARCH

In Focus

IMF EFF Staff Report Review

Sunday, May 18, 2025

The IMF released the staff report on Pakistan's EFF program. The report discusses Pakistan's economic performance under the EFF and the country's performance targets.

Key Highlights

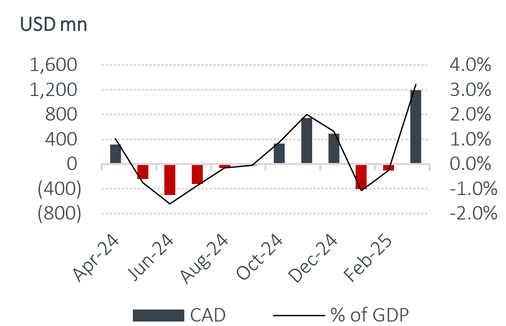
Program's Performance

- **Performance Criteria:** Pakistan met all **seven** quantitative performance criteria (PC) for December 2024**.** These included 1) net international reserves, 2) targeted cash transfer spending, 3) new tax return filers, 4) net domestic assets of SBP, 5) SBP's FX swap/forward book, 6) primary deficit target, and 7) government guarantees.
- **Indicative Targets (ITs):** The government met the majority of the ITs, including: 1) provincial primary deficit, 2) net accumulation of tax refund arrears, 3) power sector payment arrears, 4) provincial revenue collection, and 5) weighted average maturity of local debt securities. The missed criteria were: 1) government health and education spending, 2) FBR's tax collection, and 3) net tax collection from retailers under Tajir Dost Scheme.
- **Structural Benchmarks (SBs):** Nine SBs were met, including: 1) National Fiscal Pact, 2) monetary policy operation safeguards, 3) amendments to bank resolution and deposit legislation. The country missed Provincial Agriculture Income Tax Legislation, and amendments to the Civil Servants and Sovereign Wealth Fund (SWF) acts.

Outlook and Risks

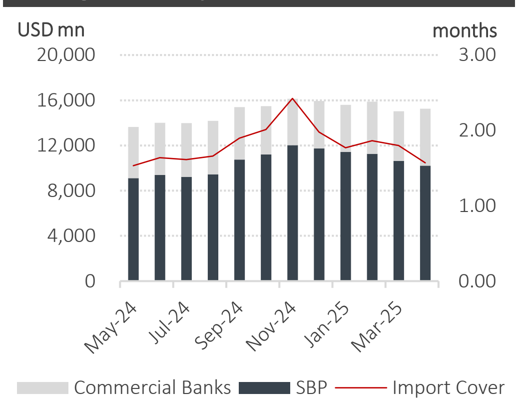
- **GDP and Inflation:** The IMF revised FY25's growth target to 2.6%, against initial estimates of over 3.0%. The fund also anticipates inflation to increase as the high-inflation base fades.
- **Balance of Payments:** The IMF projects a CA deficit of USD 0.2bn (0.1% of GDP). For FY26, it foresees the CA deficit rising to 1.0% of GDP, driven by higher imports. The fund sees Gross International Reserves rising, led by official multilateral and bilateral flows, including the IMF's RSF. Commercial inflows, however, may be limited, barring the planned Panda Bond issuance in the Chinese Markets.
- **Fiscal:** The fund sees Pakistan achieving its primary fiscal balance target in FY25 despite missing its revenue collection target. For FY26 onwards, the IMF sees revenue mobilization and spending rationalization to support Pakistan's Fiscal Balance.

Balance of Payment



Source: SBP, BMA Research

Foreign Currency Reserves



Source: SBP, BMA Research

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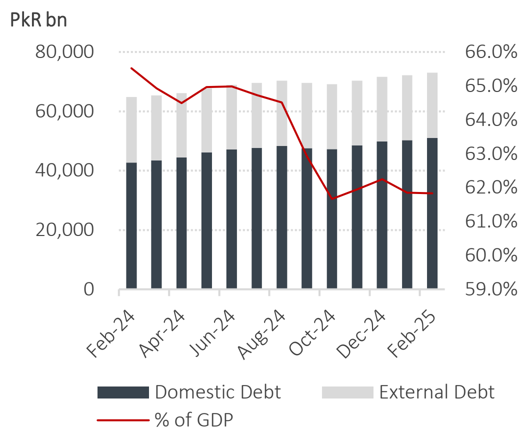
Impact of US Tariffs

- **Potential tariffs of 29% on Pakistani exports to the US:** The IMF conveyed concerns on the potential impact of tariffs on Pakistan's exports. The fund, however, highlighted that Pakistan's key export competitors faced higher tariffs, including tariffs on China (145%), Vietnam (46%), and Bangladesh (37%).
- **Growth projections revised down:** The IMF has revised Pakistan's GDP growth target by 0.3pps, resulting from the potential tariffs. It highlighted that a flexible exchange rate regime will be imperative to support the country's exports.

Monetary and Fiscal Policy Discussions

- **Fiscal Policy:** The IMF expects Pakistan to meet its primary balance target of 1.0% of GDP. It emphasized that total government revenues must reach 12.3% of GDP, with tax collection accounting for 10.6% of GDP (equivalent to PKR 12.33 trillion). The IMF also stated that primary expenditure needs to be contained within 13.8% of GDP. It highlighted that potential fiscal room may originate from energy subsidy savings (PkR 54bn), unused contingency allocations (PkR 188bn), and withheld PSDP (PkR 87bn).
- **Implementation plan for agriculture and retailer segments:** The government is preparing an implementation plan, with support from the IMF and the World Bank, to mobilize revenues from the agriculture segment. It anticipates collection from September 2025 onwards. While the Tajir Dost scheme has not met expectations, recent hikes in withholding taxes on unregistered retailers have shown promising results, with a 51% annual increase in registered filers among retailers, wholesalers, and traders, and a 38% rise in those with tax liabilities as of January 2025.
- **Monetary Policy:** The IMF emphasized increased transparency and guidance in the central bank's policy-based communications. It reiterated the need for the SBP to continue building FX buffers through purchases. It stressed the need for a flexible exchange rate to ensure global competitiveness, ensuring necessary buffers for external shocks.

Central Government Debt



Source: SBP, BMA Research

Energy Sector Policies

- **Timely adjustments limited circular debt flow:** The IMF highlighted that timely tariff adjustments limited the flow of circular debt. It also pointed out the cost-reducing measures, including tariff negotiations and levy on CPPs as necessary to ensure progress on this front. For FY26, the fund wants a timely notification of FY26's annual rebasing, based on cost recovery, to ensure circular debt control.

- **Greenlit the CD-Sukuk conversion plan:** The IMF endorsed the government's plan to convert up to 80% of existing CD stock into CPPA debt via a new sukuk, leveraging low interest rates to ease the power sector's financial burden. This move is expected to significantly reduce interest charges and CD flow, lowering the need for budgeted power subsidies through FY31. The IMF stressed that to ensure fiscal sustainability, the sukuk payments will be financed through the existing debt service surcharge (DSS).
- **Other required measures:** Restoring the power sector's viability requires deep structural reforms, including advancing DISCO privatization or private concessions to boost performance, transitioning captive power to the grid, and restructuring the National Transmission Dispatch Company. Other key steps involve privatizing inefficient public generation companies and progressing toward a competitive electricity market. These reforms aim to eliminate new circular debt flow by FY31.
- **Gas CD issues need to be tackled:** The IMF emphasized timely gas tariff adjustments that meet revenue needs while keeping the structure progressive, especially ahead of scheduled changes in mid-2025 and early 2026. The IMF stated a need for regular quarterly CD reporting. This will support the development of a gas sector CD Management Plan, helping identify CD sources and mitigate related fiscal and financial risks.
- **Transitioning captive power plants (CPPs):** Converting CPPs to the electricity grid remains a key reform to increase grid demand and conserve gas for more efficient generators. Although the planned gas cutoff for CPPs was delayed due to some plants being unprepared, the government introduced CPP Levy (CPL) from February 1, 2025, to incentivize the shift by raising CPP gas prices gradually. Levy proceeds will help lower the overall grid tariff.

Other Policy Discussions

- **Commodity procurement:** The IMF highlighted the success of the government's decision to stop procuring wheat, resulting in a sharp decline in domestic prices and inflation. The fund emphasized that a similar approach should be adopted for other commodities to ensure a competitive landscape.
- **Trade policies:** The fund highlighted the need to enhance export competitiveness by addressing long-standing trade distortions caused by restrictive policies and a complex tariff structure. The newly introduced National Tariff Policy (FY25–30) is set to simplify and lower tariffs, both customs and regulatory, while also reducing non-tariff barriers and phasing out special import duties that benefit select industries.

Program Modalities

Key Highlights

- The net tax revenues from the Tajir Dost are proposed to be replaced by income tax revenues collected by the FBR from retailers.
- The RSF proposed access is 49.2% of the SDR 1.0bn quota.
- New PCs are proposed for September 2025 and December 2025 consistent with the EFF objectives, including supporting revenue mobilization and fiscal adjustment, containing inflationary pressures and bolstering FX reserves.
- The program is fully financed, with firm commitments for the next 12 months and good prospects for the remainder of the Fund-supported program

Pakistan Program Financing	FY25	FY26	FY27	FY28	Total
Financing Gap	3,636	4,428	3,032	1,018	**12,114**
BoP Gap	(933)	1,078	(1,794)	25	**(1,624)**
Gross International Reserves	4,568	3,350	4,826	992	**13,736**
IMF Eff	2,036	2,028	2,032	1,018	**7,114**
Other Financing	1,600	2,400	1,000	0	**5,000**
Commercial Loans	1,000	0	0	0	**1,000**
Saudi Oil Facility	400	800	0	0	**1,200**
IsdB Trade Financing	200	200	0	0	**400**
Other Commitments	0	1,400	1,000	0	**2,400**
RSF Disbursement	0	410	514	412	**1,336**
WB	0	0	0	0	**0**
ADB	1,100	250	550	650	**2,550**
External Bond Issue	0	400	1,000	2,000	**3,400**
Net Commercial Loans	815	85	853	1,022	**2,775**

Source: IMF Report, BMA Research

Program Modalities

Structural Benchmarks

Missed Pakistan Structural Conditionality	
Structural Benchmarks	Date
Implement Agriculture Income Tax Legislation	October 2024
5% FED on Fertilizer and Pesticide	June 2025
Publish Full Governance and Corruption Report	August 2025
Place undercapitalized banks under resoltion	November 2024
Implement revised risk mitigating measures	September 2025
Eliminate capitve power usage	January 2025
Amend SWF Act	March 2026
Amend laws for 10 SOEs	June 2025
Prepare a plan to phase out SEZs	June 2025
Notable New Structural Benchmarks	
Approve FY26 budget in line with IMF staff agreement	June 2025
Implement Agriculture Income Tax through a comprehensive plan	June 2025
Prepare a plan highlighting government's financial strategy	January 2026
Notification for annual energy tariff adjustments	July 1, 2025
Notification for semi-annual gas tariff adjustments	Feb 15, 2026
Make CPP levy permanent	May 2025
Remove cap on Debt Service Surcharge	June 2025
Prepare a plan to phase out Special Tech Zones and Parks	December 2025
Remove the restriction of used motor vehicle	July 2025

Source: IMF Report, BMA Research

Annexure

IMF Projections	FY25	FY26	FY27	FY28	FY29	FY30
Real GDP Growth	2.6%	3.6%	4.1%	4.5%	4.5%	4.5%
CPI	5.1%	7.7%	6.5%	6.5%	6.5%	6.5%
CA Balance (% of GDP)	-0.2%	-1.5%	-2.1%	-3.9%	-4.7%	-5.7%
Gross Reserves (USD bn)	13.9	17.7	23.0	24.4	27.1	30.6
External Debt (% of GDP)	30.30%	30.80%	29.90%	28.50%	27.30%	26.20%
Revenues (% of GDP)	15.9%	15.2%	15.7%	15.9%	15.9%	15.9%
Expenditures (% of GDP)	21.6%	20.3%	19.6%	19.2%	19.0%	18.8%
Primary Balance (% of GDP)	2.1%	1.6%	2.0%	2.0%	2.0%	2.0%
Fiscal Balance (% of GDP)	-5.6%	-5.1%	-3.9%	-3.4%	-3.2%	-2.9%
Net Government Debt (% of GDP)	67.5%	66.4%	65.1%	62.5%	59.9%	57.4%
Nominal GDP (PkR tn)	115.4	129.5	143.8	160.1	178.2	198.2
Gross External Financing (USD bn)	16,399	19,316	19,757	31,351	23,133	22,162
Loan Repayment	14,653	17,257	16,510	25,313	16,665	15,432

Source: IMF Report, BMA Research

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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

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