

Pakistan Economy

IMF-Pakistan reaches staff-level agreement

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Pakistan and the IMF have reached a staff-level agreement on the 2nd review of the 37-month Extended Fund Facility (EFF) and the 1st review of the 28-month Resilience and Sustainability Facility (RSF). Upon the IMF board's approval, Pakistan will potentially unlock financing of USD 1.0bn (SDR 760mn) under the EFF and around USD 200mn (SDR 154mn) under the RSF. Cumulatively, disbursements under the two facilities would reach USD 3.3bn.

A stable macroeconomic landscape: The IMF lauded the stable macroeconomic backdrop under the EFF, highlighting the current account (CA) surplus seen during FY25 (USD 2.1bn). Moreover, the IMF also highlighted the primary surplus of 2.4% of GDP seen during the previous fiscal year, overshooting the 2.0% of GDP target. In addition, inflation was contained at 4.5% in FY25, a sharp decline from 23.4% seen in FY24. With improving external buffers, Pakistan was able to considerably reduce its sovereign spreads.

Floods take center stage: The IMF highlighted the potential impact of floods on Pakistan's economy. It estimates Pakistan's GDP growth rate falling to 3.25%-3.50% in FY25, down from initial projections of around 4.20%.

Continuing Fiscal Consolidation: Pakistan has committed to a primary surplus target of 1.6% of GDP for FY26, supported by revenue mobilization and fiscal discipline. Flood relief measures will be allocated from provincial and federal budgets.

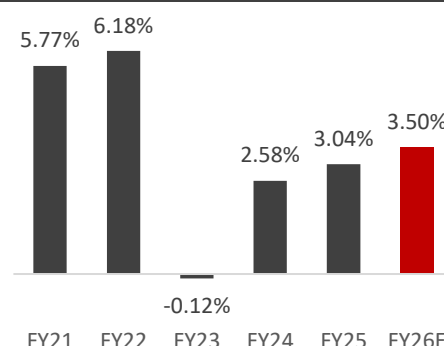
Maintaining a tight and data-driven monetary policy: The SBP has committed to a prudent policy stance. Policy setting will hinge on relevant data points, including the impact of floods, to ensure inflation remains anchored to the central bank's medium-term target of 5-7%.

Ensuring energy sector viability: The government has committed to limiting the flow of circular debt through timely tariff adjustments. Moreover, the government should enhance its focus on improving the sector's efficiency through infrastructure upgrades, improved governance, and privatization.

Limited government intervention: The IMF highlighted that the government needs to scale back its footprint in Pakistan's economy. This can be achieved through expediting the privatization process and reducing intervention in the domestic commodity market. Moreover, the IMF reiterated that the national tariff policy, introduced in the federal budget, needs to be implemented to promote trade activity.

Investor confidence likely reinforced: The staff-level agreement will likely reinforce investor confidence, allowing the KSE100 index to test newer highs. The market's rerating will hinge on improvements in fiscal and external buffers and a controlled inflationary environment. Our top picks include cyclical stocks (MLCF, FCCL, CHCC, HCAR, MUGHAL, ISL), high-growth stocks (HALEON), and energy plays (OGDC, PPL).

Pakistan GDP Growth Rate by Year



Source: IMF, SBP, BMA Research

BMA Research

E-mail: research@bmacapital.com

BMA Capital Management Ltd.

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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.)