



## AKD Securities Limited

TREC Holder & Registered Broker  
Pakistan Stock Exchange

Equity Research / Pakistan

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### Today's Daily

#### ■ Pakistan Economy: Key takeaways from IMF PPM discussion

The IMF recently concluded its first Post-Program Monitoring (PPM) discussions with Pakistan, adopting a cautious tone on the country's ability to sustain recent macroeconomic gains. The fund highlighted the external and fiscal imbalances, pressures on FX reserves and debt sustainability as key risks to the sustainability of Pakistan's favorable growth momentum. The fund projects CAD to rise to 4.8% of GDP in FY18F (vs 4.1% of GDP in FY17) on account of accommodative fiscal deterioration during the last FY, monetary policy and rising CPEC related imports. While in their opinion Pakistan needs to focus on near term policies including: 1) greater exchange rate flexibility, 2) monetary tightening and 3) phasing out administrative measures aimed at supporting BoP. On the fiscal front, in the absence of structural reforms to enhance revenue measures and restrict current expenditure slippages, IMF expects fiscal deficit to clock in at 5.5% of GDP compared to GoP's target of 4.1%. Urging for fiscal consolidation, the fund also highlighted concerns on debt sustainability and the need for caution against new external liabilities in light of significant decline in FX reserves. On the positive side, the fund remains favorable on Pakistan's growth momentum (projecting real GDP growth of 5.6% YoY in FY18F) citing improved power structure, CPEC related investments, strong consumption and recovery in agriculture sector as key positives.

#### KSE100 - Index

Current 43,441.18  
Previous 43,705.10  
Chg. -0.60%

#### Mkt Cap. (PkRbn/US\$b)

Current 9,072 / 82.06  
Previous 9,136 / 82.63  
Chg. -0.69%

#### Daily Turnover (mn)

Current 142.43  
Previous 177.59  
Chg. -19.8%

#### Value Traded (PkRmn/US\$m)

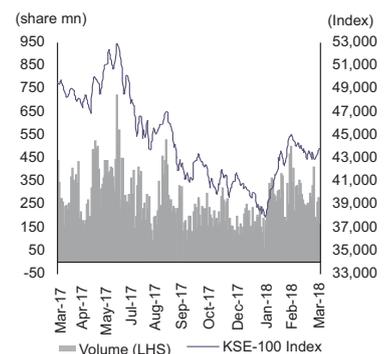
Current 5,875 / 53.14  
Previous 8,087 / 73.15  
Chg. -27.4%

AKD Daily

Thursday, Mar 08 2018

#### News and Views

- Apex court has extended another two months to the six-month deadline set by the SC for the trial of the former PM Nawaz Sharif and his family members in the corruption reference that was to expire on Mar 07'18.
- IMF has expressed concern over Pakistan's weakening macroeconomic situation, including widening external and fiscal imbalances, reduction in foreign exchange reserves and emerging risks to economic and financial outlook and has asked GoP to immediately refocus on near-term policies to preserve macroeconomic stability.
- In a meeting of ECC held yesterday, GoP has approved a plan to obtain PkR80bn through a bank loan to retire part of the longstanding power sector's circular debt in order to meet the request of the power division to provide load-shedding free Ramadan.



Zoya Ahmed

zoya.ahmed@akdsecurities.net  
111-253-111 Ext:603

Haris Imtiaz

haris.imtiaz@akdsecurities.net  
111-253-111 Ext:639

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**Favorable Growth Momentum:** In its meeting held on Mar 5'18, the IMF directors expressed their optimism on Pakistan's near term economic growth outlook. In their view, Pakistan's real GDP will grow by 5.6% in FY18F (in line with our projection of 5.5% real GDP growth), fueled by an improved power infrastructure, CPEC related investments, strong growth in consumption and an ongoing recovery in the agriculture sector.

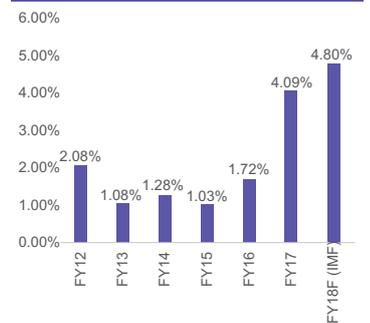
**External Imbalances were highlighted:** However, IMF's directors also highlighted their reservations regarding Pakistan's external imbalances, which in turn have put downward pressure on its FX reserves (down 24% in 8MFY18). Higher CPEC related imports, fiscal deterioration during the last FY and an accommodative monetary policy were held responsible for the weakening external sector. The fund projects CAD to reach 4.8% of the GDP and barring any exchange rate flexibility, FX reserves could decline further with SBP FX reserves ending at US\$12.099 in FY18F. Moreover, in their opinion Pakistan need to focus on near term policies to help sustain its macroeconomic stability. These policies include but are not limited to: 1) greater exchange rate flexibility, 2) further monetary tightening and 3) phasing out administrative measures aimed at supporting BoP. Further, the fund highlighted the country's inability to sustain external debt and emphasized on a more cautious approach to increasing foreign liabilities.

Favorable growth momentum to continue



Source: MoF, IMF & AKD Research

Mounting external account risk

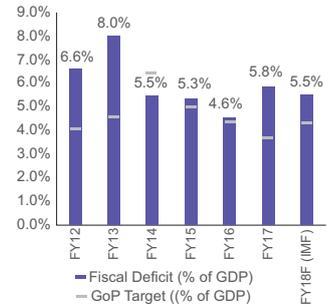


Source: SBP, IMF & AKD Research



**Fiscal consolidation remains a challenge:** Importance of strengthening Pakistan's fiscal discipline through additional revenue collection measures and proactive efforts to curb current expenditures slippages were also highlighted. The fund believes that the fiscal deficit could increase to 5.5% of the GDP in the current year and could escalate further ahead of the upcoming elections. However, we expect the fiscal deficit will over shoot to 6.2% of GDP in light with historical trend of higher development spending and slippages in current expenditure as populist measures take precedence over fiscal discipline during election years. Moreover, key recommendations by the directors include: 1) aggressive structural reforms, 2) strengthening fiscal federalism, 3) enhancement of AML/CFT regime, 4) improved business climate, 5) elimination of circular debt and 6) containment of continuous losses in SPEs which could increase fiscal risks.

**GoP set to miss its fiscal target**



Source: MoF, IMF & AKD Research



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Neutral	≤ 5% to ≥ -5% potential
Reduce	< -5% to > -20% downside potential
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