



# Pakistan Economy

**Govt. Finally Decides to Seek IMF Program  
Pak Rupee Weakens**

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# IMF Program in the Offing; Pak Rupee Weakens

- Contrary to expectations where a delay in the International Monetary Fund (IMF) was looking likely, the Govt. yesterday announced to approach IMF for bailout given the country's deteriorating external position. This is in line with our expectations of approaching IMF. Please see our detailed report titled 'Pakistan Economy: Life with IMF & its Likely Impact' dated Apr 3, 2018.
- As per early morning reports, Pak Rupee has weakened in the interbank market by around 8% and was trading at Rs134, compared to previous close of Rs124.25. This is a positive indication to lending agencies and shows Govt's resolve to undertake much needed measures.
- As per news reports, the entire negotiation process of the bailout can take 4 to 6 weeks. We believe it may take longer given the amount of bailout needed is large, which is expected to come with strong conditionalities.
- Govt. sources have been quoted as saying that along with IMF money, funding from other friendly countries may also be utilized given IMF's letter of comfort.
- A Pakistani delegation led by the Finance Minister is scheduled to attend the annual meeting of IMF and World Bank in Bali, Indonesia this week, which could further lead to developments regarding the program.
- We believe it is high time that the govt finally decided to seek the IMF bailout. Other than low foreign exchange reserves (at US\$8.6bn as of Sep 28, 2018, less than 2x monthly imports) the country posted Jul-Aug Current Account Deficit (CAD) of US\$2.7bn, up by 10% YoY.
- We are of the view that the govt's decision to approach the IMF is a positive development and the IMF program will eventually lead to the much needed fiscal discipline and stabilization process.

# IMF program will come with its set of conditions

- The IMF program will come with specific external, fiscal and monetary measures that will likely include the following. These will likely result in slowdown in GDP growth to around 4.0-4.5% (compared to GDP growth of 5.8% in FY18):
  - Exchange rate devaluation: The Pak Rupee has devalued in early interbank market trading today to Rs134. The Real Effective Exchange Rate (REER) Index (as of Aug'18) was reported at around 112, when the Pak Rupee was at around Rs124.
  - Further hike in interest rates. The State Bank of Pakistan (SBP) has already raised interest rates by 275 basis points to 8.5% in calendar year to date.
  - Hike in gas and electricity tariff to reduce energy related subsidies and contain the burgeoning fiscal account (as well as circular debt). The govt. has already hiked gas tariff on average by 35% and more could follow.
  - Taxation measures to reduce the fiscal deficit over and above the recently announced mini-budget.
  - Cap on borrowing from State Bank of Pakistan (SBP) to contain monetary expansion and inflation pressures and floor on FX Reserves to maintain adequate level of reserves.
  - Increase in regulatory duties (RD) and customs duty (CD) on imports to contain trade deficit
  - Restructuring/Privatization of State Owned Enterprises.

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