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Pakistan Economic Update

Pakistan Economic Outlook in the Current Scheme of Things

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Tariffs put USD 115Trn world economy at risk

- Global equity markets plunged enormously in the aftermath of the announcement of reciprocal tariffs on about 90 countries by the US President Donald Trump, putting the USD 115Trn global economy at risk. Wherein, the new tariff rates seemed to have been somewhat ludicrously calculated; inflicting disparate punishment on several countries, as they scrambled to renegotiate.
- The tariffs include a 10% base-line tariff on all imports into the US, with additional tariffs of up to 34% on China (now raised to 145%), 20% on the EU, 29% on Pakistan, 26% on India and so on.
- Accordingly, the MSCI World & the MSCI Emerging Markets Indices, which cover 85% of the free-float adjusted large-cap and mid-cap stocks in 23 developed and 24 emerging markets, respectively, were down ~11% owing to the announcement of the tariffs, with trillions of dollars being wiped out from the financial markets globally—amidst heightened global macroeconomic uncertainty, putting the USD 115Trn global economy at risk.
- Consequently, responding to the global dent in sentiment, the KSE 100 Index also touched a low of 110,104 points during trading on April 07, 2025, shredding-off a record 8,688 points before recovering to close at 114,909 points. Even though Pakistan remains an inconsequential player at the global level in terms of the size of its capital markets and contribution to global trade. Volatility picked-up substantially in the global bond markets as well.

A 90-day pause offers a breather...

- Nevertheless, heeding to the turmoil in the global financial markets and intense pressure from within, a 90-day pause has been announced in the reciprocal tariffs (10% baseline tariff to stay) for all the countries except China. Additionally, the US has increased its tariffs on Chinese goods to ~145%, responding to retaliation. Subsequently, exempting (excluding the fentanyl based tariffs) smartphones and other electronics etc. coming from China too, bringing reprieve to US tech companies some what.
- To note, a few countries like Canada and the EU did respond with some retaliatory measures. Whereas, China has responded with 125% tariff on US goods. However, a wider consensus for renegotiating the tariffs (opting not to retaliate) has prevailed among most of the countries; including Pakistan.

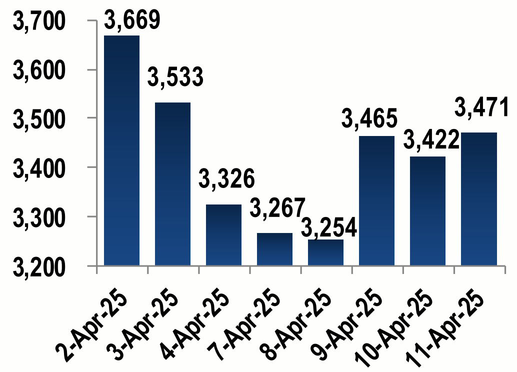
US Reciprocal Tariffs Summary

Country	Share of US Imports	Tariff Imposed	Revised Rate *
EU	19%	20%	10%
China	13%	34%	145%
Japan	5%	24%	10%
Vietnam	4%	46%	10%
South Korea	4%	25%	10%
Taiwan	4%	32%	10%
India	3%	26%	10%
UK	2%	10%	10%
Pakistan	**<1%**	**29%**	**10%**

Source: White House, updated as of 11 Apr 2025

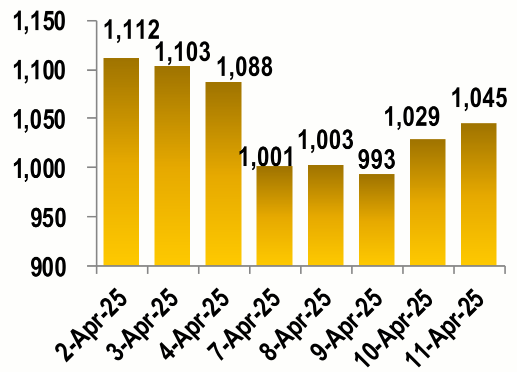
**After 90-Day Pause Announcement*

MSCI World Index



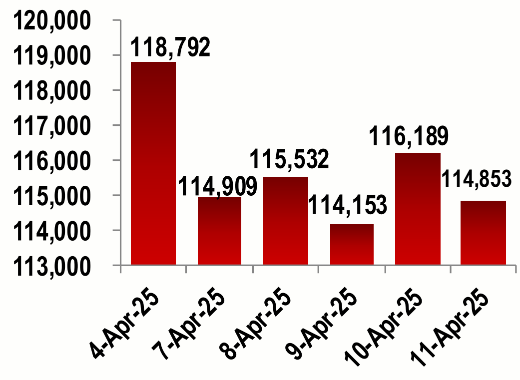
Source: Investing.com and TSL Research

MSCI Emerging Markets Index



Source: Investing.com and TSL Research

KSE-100 Index



Source: PSX and TSL Research

- Hence, global equities including the KSE-100 index posted a sharp recovery following the announcement of the 90-day pause, offering a much needed breather to the markets. However, the situation remains extremely fluid with markets across the world swinging back and forth, reacting to rumours and news flows, and the growing uncertainty, specially as the trade war between the US and China seems to intensify, with wider, more global repercussions.
- Nevertheless, given the willingness of the Trump administration and the affected countries (except China) to renegotiate the tariffs, we expect a large number of countries to secure relief or some sort of a deal within the 90-day window. For context, some countries have preemptively removed tariffs on US goods and committed to increasing their imports from the US in order to address the trade imbalance.
- Our view is also supported by the potential impact of the tariffs on the US economy in terms of a spike in inflation (as supplies are difficult to adjust in the short-run), and the eventual drop in consumption leading to a recession—having devastating consequences for the entire global economy.

Top-10 Economies of the World by GDP

Country	Nominal GDP (USD Trn)	Annual Growth (%)	GDP Per Capita (USD'000)	Trade as a % of GDP	% of US Imports	Initial Reciprocal Tariffs (%)	Revised Reciprocal Tariff
United States	30.34	2.2%	89.7	24.9%	NA	NA	NA
China	19.53	4.5%	13.9	37.3%	13.4%	34.0%	145.0%
Germany	4.92	0.8%	57.9	82.8%	4.0%	20.0%	10.0%
Japan	4.39	1.1%	35.6	45.2%	4.5%	24.0%	10.0%
India	4.27	6.5%	2.9	45.9%	2.7%	26.0%	10.0%
United Kingdom	3.73	1.5%	54.3	63.9%	2.1%	10.0%	10.0%
France	3.28	1.1%	49.5	70.6%	1.6%	20.0%	10.0%
Italy	2.46	0.8%	41.7	66.2%	1.9%	20.0%	10.0%
Canada	2.33	2.4%	55.9	67.2%	10.3%	NA	NA
Brazil	2.31	2.2%	10.8	33.9%	1.3%	10.0%	10.0%

Source: Investopedia, Trading Economics and TSL Research; as per latest data available

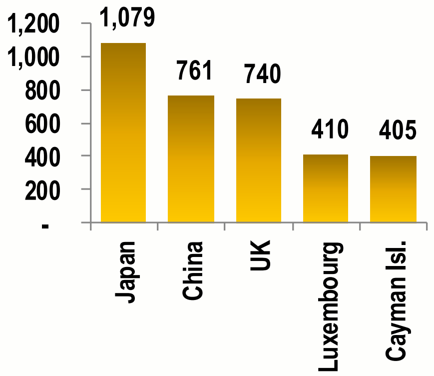
US-China trade war likely to intensify going forward

- Conversely, the US's trade war with China is likely to intensify as both sides are yet to show restrain. For context, the Trump Administration imposed a 34% tariff on Chinese goods which was reciprocated with a 34% tariff by China on April, 04. In response, the US imposed additional tariffs on China, taking the total to ~104%, to which China countered by raising the tariff on US goods to 84% on April, 09.
- Further, after the announcement of the 90-day pause (except in case of China), the tariff on Chinese goods has now been raised to a staggering 145% as per the White House, essentially making it impossible

for China to export to the US at all. Meanwhile, China has vowed to 'fight to the end', labelling the tariffs as 'economic bullying', raising tariffs on US goods to 125% as well, as its final response.

- However, the US has subsequently exempted (excluding 20% Fentanyl based tariffs) smartphones, laptops, machinery to make semiconductors, etc., addressing concerns of an immediate increase in their respective prices at home, and bringing relief to most US tech companies—essentially exempting a notable portion of the overall imports from China from full tariffs. In response, China has urged a complete removal of the tariffs on exports.
- Regardless, being the second largest holder of US Treasuries after Japan, China may potentially start dumping US Treasuries, driving up borrowing costs for the US Government, hammering public finances in a highly destabilizing move. This could have widespread global repercussions too, if the dollar loses value as the reserve currency.
- However, the scenario is less likely to play given that the Chinese themselves hold over USD 3Trn in USD denominated assets, thereby making a huge sell-off as self-inflicting. Further, the US Fed may also step-in to buy Treasuries in a response to any such sell-off by China. China has been steadily reducing its US Treasury holdings for years.
- As it stands, the stand-off between the two largest economies in the world (43% of the global economy) could have wider spillover effects including a sharp drop in demand for commodities like oil etc. China could face a potential GDP decline of 2.5% in 2025 as a result of the tariffs. To note, the Bloomberg Commodity Index fell ~9% over the past week mirroring the fall in global commodity prices. Brent fell by ~17% owing to increase in production by the OPEC+ as well as fears of a global slowdown due to the tariffs. Gold is up ~4% month to date.

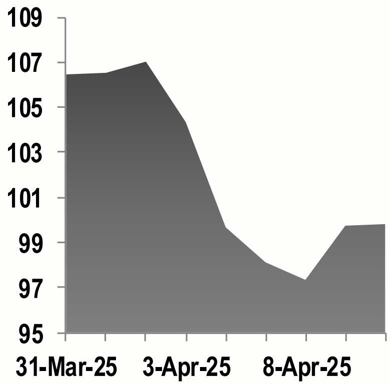
Major Foreign Holders of US Treasuries



Source: US Department of Treasury, Jan'25

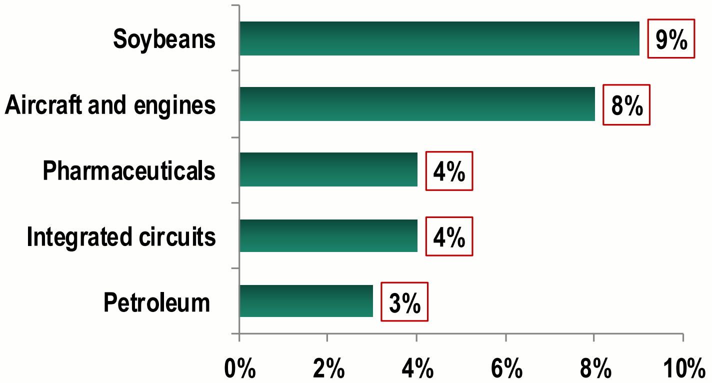
**USD Bn*

Bloomberg Commodity Index



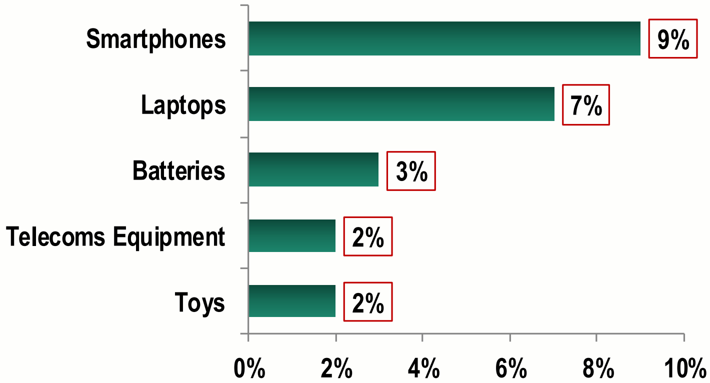
Source: Investing.com & TSL Research

Top-5 US Exports to China



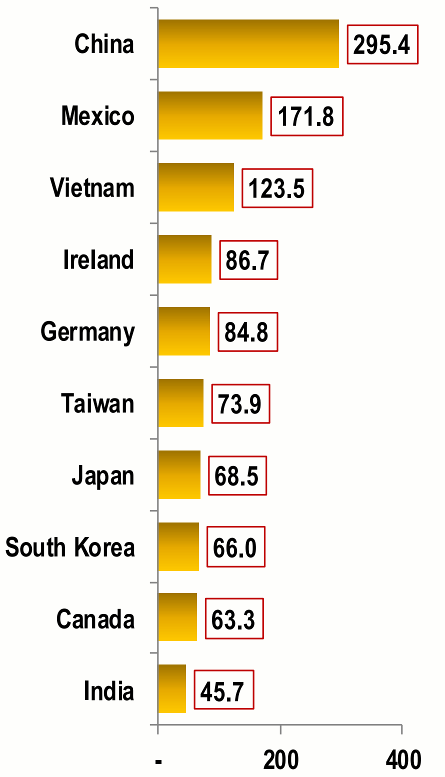
Source: US International Trade Commission & TSL Research

Top-5 China Exports to the US



Source: US International Trade Commission & TSL Research

US Trade Deficit (USD Bn) - Top 10

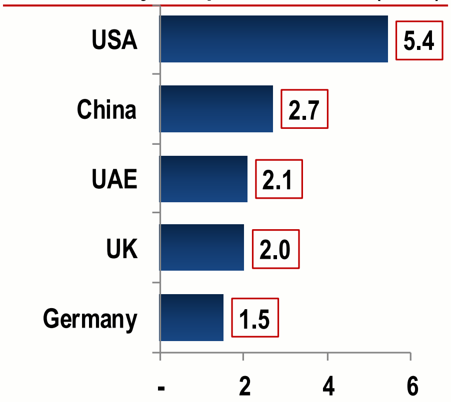


Source: Forbes & TSL Research

- The US imports far more from China i.e. USD 440Bn than China imported from the US last year i.e. USD 145Bn. Hence, the US has a trade deficit of ~USD 295Bn with China. Smartphones (9%), Laptops (7%), Batteries (3%), Toys (2%) and Telecoms Equipment (2%), are the Top-5 items imported by the US from China. Conversely, the leading US exports to China are Soybeans (9%), Aircraft and Engines (8%), Integrated circuits (4%), Pharmaceuticals (4%) and Petroleum (3%).
- Another way the two can hurt each other is through increasing trade barriers. For instance, China has a central role in refining many vital metals for industry, from copper and lithium to rare earths. Beijing could place obstacles in the way of these metals reaching the US.
- Alternatively, the US could attempt to tighten the technological blockade on China making it harder for China to import advanced microchips (having AI applications). The US may also pressurize countries like Cambodia and Vietnam to restrict trade with China if they want to continue exporting to the US or restrict exports of Chinese goods from other countries. It may even restrict exports of items made from imported Chinese raw materials.
- Despite the exemption on electronics etc. the crisis is far from settled with the damage to the US retail market and small businesses deemed as ‘irreversible’ without a wider pause. Elsewhere, the global freight industry is also facing multiple challenges dealing with abandoned cargo, cancelled shipments and offering bonded storage, with a likely spike in freight rates once the situation normalizes.
- China already runs a ~USD 1Trn trade surplus, often enjoying a comparative advantage due to state subsidies and other financial support. Hence, it may dump a lot of the produce it is unable to export to the US to other countries. On the other hand, exorbitant tariffs may also hit US export orders for the Chinese suppliers as other nations benefit from the opportunity, capturing market share from the Chinese.
- Overall, the entire Chinese economic model seems at risk. Companies and businesses in the US have already commenced cancelling orders from China with some facing the risk of closure and lay-offs. In addition, factories have begun production shutdowns or curtailments. To note, the Chinese economy continues to struggle from a property crisis, despite the Government announcing substantial stimulus measures since last year. With the tariffs likely to dent the economy too, the question is how long or what sort of a stimulus does China have the capacity to introduce to counter the effects of the tariffs.

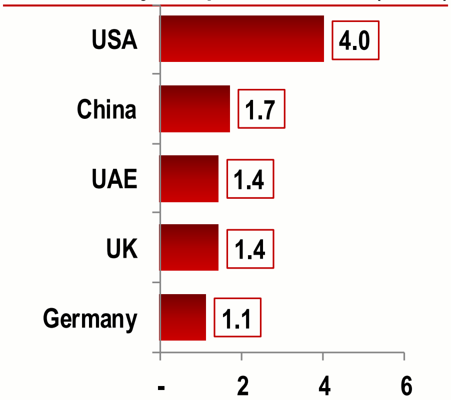
Impact of tariffs on Pakistan and the way forward

Pakistan Major Export Countries (FY24)



Source: SBP & TSL Researc; (USD Bn)

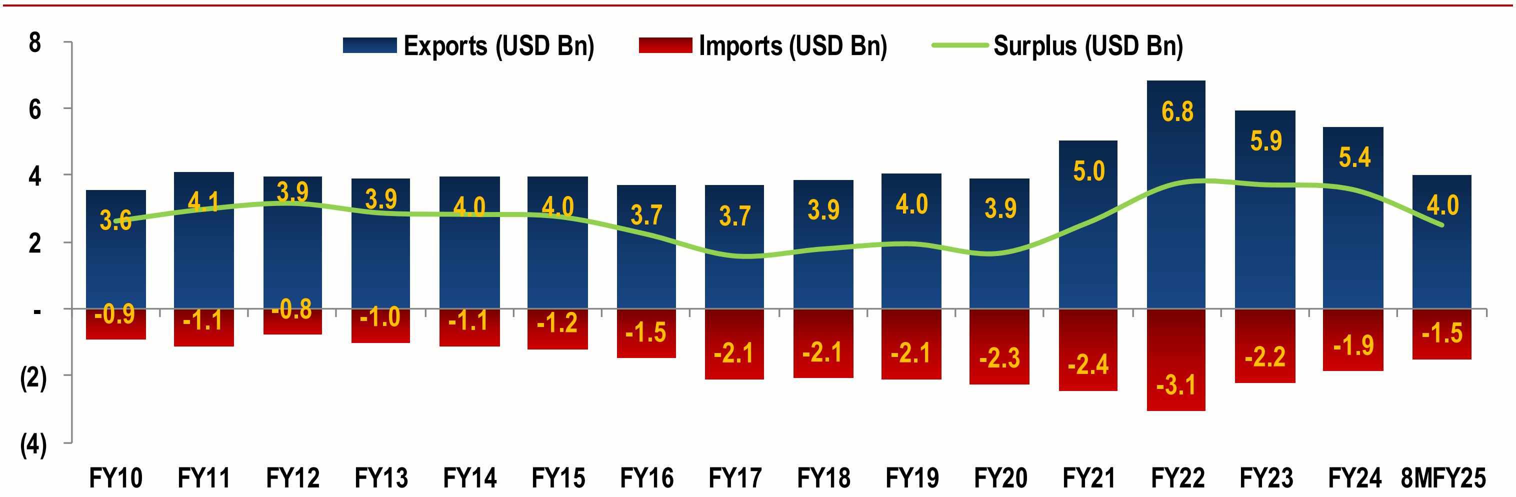
Pakistan Major Export Countries (FY25*)



Source: SBP & TSL Research; (USD Bn) *8MFY25

- Pakistani exports to the US are now subject to a 39% tariff (including a 10% base tariff). However, only the 10% base tariff shall apply during the 90-day pause period, as discussed earlier.
- Nevertheless, given that the US is the largest export destination for Pakistan, accounting for 18% of the country's total exports in FY24, the tariffs are likely to substantially affect the competitiveness of Pakistani exports to the US, going forward. Wherein, textile exports make-up more than 80% of Pakistan's total exports to the US.
- For context, Pakistan's exports to the US totaled ~USD 5.4Bn in FY24, with imports amounting to USD 1.9Bn only—resulting in a trade surplus of ~USD 3.6Bn. Accordingly, during 8MFY25 Pakistan's exports to the US stand at ~USD 4Bn, with imports clocking-in at USD 1.5Bn— translating into a trade surplus of USD 2.5Bn, respectively.
- We believe the higher tariffs (which almost nullify Pakistan's GSP status to the US) may impact the textile sector's export orders to an extent. Wherein, Pakistan faces direct competition from the likes of Vietnam, India, Bangladesh and Turkey while exporting to the US. Alternatively, Pakistan may also benefit from the relatively higher tariffs imposed on Vietnam & Bangladesh.

Pakistan's Trade Balance with the US



Source: SBP and TSL Research

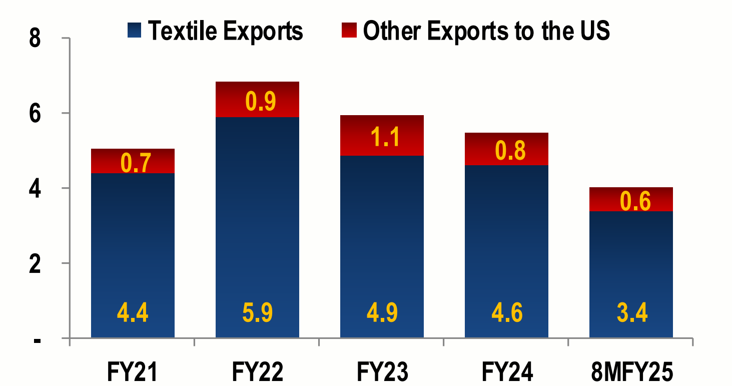
- Meanwhile, negotiations on tariff relief for India are already progressing with India having a head-start among its Asian peers. We anticipate India's strategic alliance with the US is likely to clinch it a trade deal very soon removing or substantially reducing the tariffs.

- Elsewhere, Vietnam has offered to withdraw all tariffs on US goods. But Vietnam's trade surplus with the US stands at ~USD 124Bn, making it challenging for a deal to be reached very soon. Moreover, Bangladesh has requested the US for a 3-month pause on the tariffs, with the country now focusing on increasing imports of US agriculture produce including cotton, wheat, corn and soybeans.
- Initial estimates suggest that the potential loss from the tariffs to Pakistan may stand at ~USD 500-700Mn, extending up to USD 1.4Bn, with the US projected to run a USD 2Bn deficit with Pakistan, despite the tariffs. All the same, Pakistan is also planning to send a high-level delegation to the US to renegotiate the tariffs.
- Renegotiating the tariffs is critical for Pakistan's textile industry which is already operating at significantly low margins, specially when it comes to smaller units. About 30% of the sector's exports are to the US annually. Leather, Rice, Surgical Instruments and sporting goods also vulnerable. Potential proposals to put forward could be:

i) Withdrawing tariffs on the US: As a starting point Pakistan may also voluntarily withdraw all tariffs on imports from the US—a measure adopted by several countries in order to set the context for more fruitful and pleasant negotiations. In any case, withdrawal of tariffs on the US alone is likely to be frowned upon by the IMF. However, it may align with the IMF's trade liberalization framework, asking for removal/reduction of tariffs on all the trading partners of Pakistan.

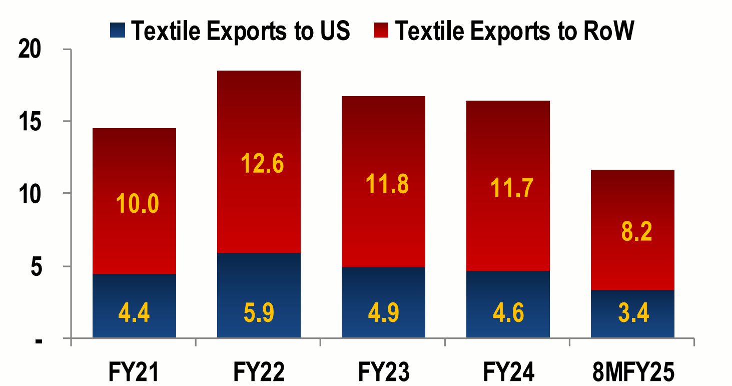
Ii) Increasing imports from the US: Pakistan may propose increasing imports from the US in order to reduce the surplus. In FY24, Pakistan's imports from the US were ~USD 1.9Bn, which included Cotton and Steel Scrap amounting to USD 586Mn and USD 365Mn, mainly, along with several small-ticket items as per SBP data. Hence, Pakistan has ample options to direct imports from other countries to the US, going forward—with a net-zero effect on the overall trade balance.

Mix of Pakistan's Exports to the US (USD Bn)



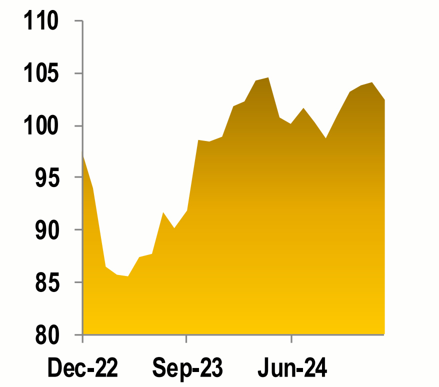
Source: SBP & TSL Research

Textile Exports to the US and the Rest of the World (USD Bn)



Source: SBP & TSL Research

Real-Effective Exchange Rate



Source: SBP and TSL Research

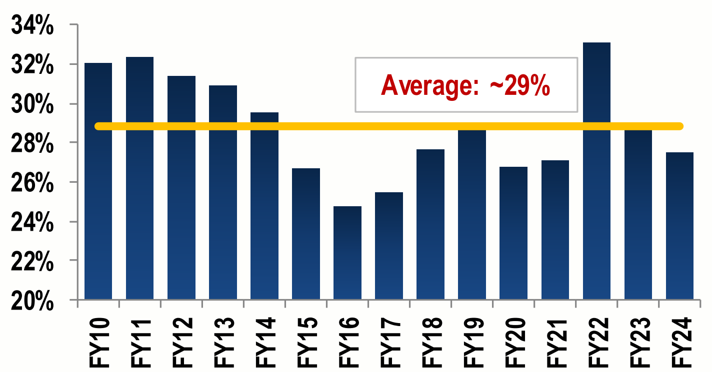
Iii. Devaluation: Pakistan's Real-Effective Exchange Rate (REER) is currently hovering ~100 mark, coupled with a stable external outlook. Wherein, market forces may adjust to absorb the impact of the tariffs by virtue of some devaluation of the Rupee. However, any substantial devaluation may significantly put Pakistan's external stability at risk because Pakistan's FX buffers—although strengthened substantially over the last two years—remain at a critical level in light of the high future external financing requirements.

Iv. Other concessions: Given Pakistan's strategic dependence on the US and the importance of managing the burden of tariffs, incumbent Government could offer concessions to the US within the strategic and diplomatic domains in return for a complete withdrawal or some relief in the reciprocal tariffs. Such concessions may also extend to favouring/facilitating US companies/investors to invest in lucrative sectors in Pakistan like mineral exploration and so on.

Pakistan's lower dependence on trade is favourable

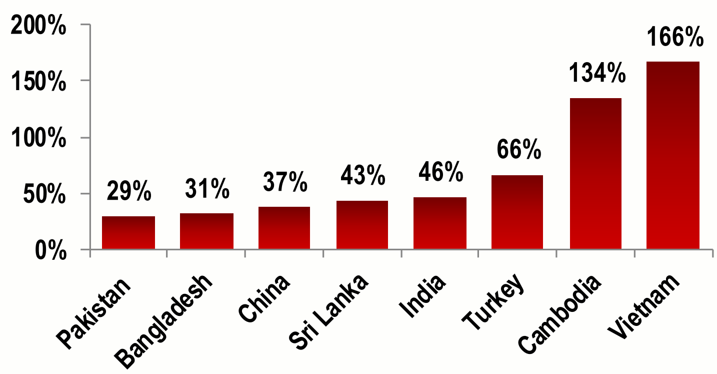
- In the ongoing geo-economic uncertainty related to trade, Pakistan is favourably placed compared to peers due to its lower dependence on trade for economic growth—a blessing in disguise.
- Wherein, Pakistan's ratio of trade to GDP averages ~29%, compared to 31% for Bangladesh, 37% for China, 43% for Sri Lanka, 46% for India, 66% for Turkey, 134% for Cambodia and 166% for Vietnam, respectively. Hence, any form of protectionism or trade related restrictions or barriers are less likely to impact Pakistan's overall economy than its peers.

Pakistan Trade as % of GDP



Source: Ministry of Finance, SBP & TSL Research

Trade as % of GDP Vs Peers

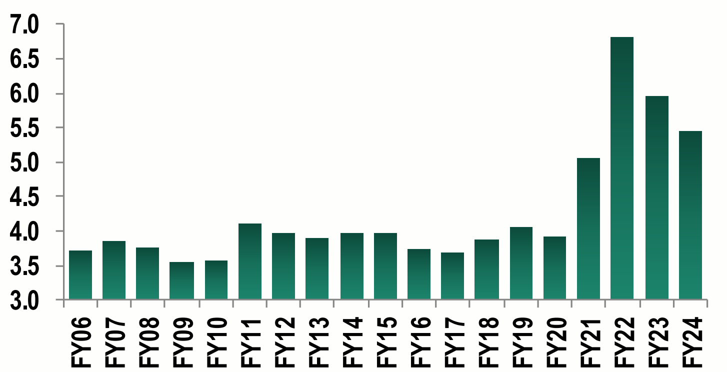


Source: Ministry of Finance, SBP, Trading Economics & TSL Research

A slowdown in the US may impact Pakistan too

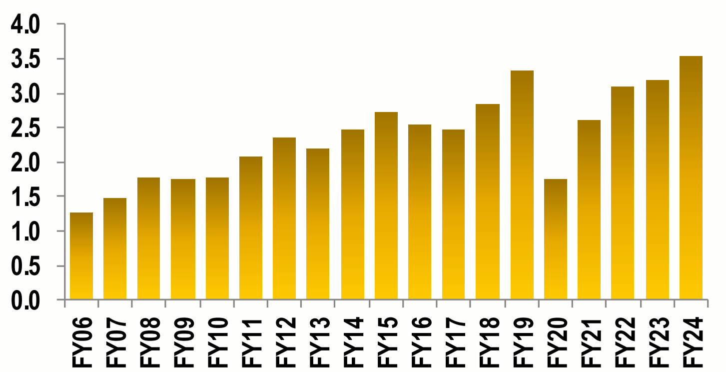
- The probability of the US entering a recession or some sort of a slowdown has increased substantially in recent months under the current macroeconomic environment and the likelihood of a surge in domestic inflation in the US as a result of the tariffs, affecting consumption—hurting Pakistan's exports to and remittances from the US.
- An analysis of the previous two slowdowns i.e. during the 2008 financial crisis (GFC) and Covid shows that while the impact was quite minimal during the GFC; remittances from the US fell by an alarming 47%YoY (FY20) during Covid. Exports to the US were down 3%YoY in FY20. The latter can be attributed to the basic nature of a majority of exports (inelastic demand), shorter lockdowns in Pakistan etc.
- Going forward, we do not anticipate a repeat of the above trends as the circumstances are quite different. But in any case, some attrition in both exports and remittances cannot be ruled out, putting pressure on Pakistan's balance of payments.

Pakistan Exports to the US (USD Bn)



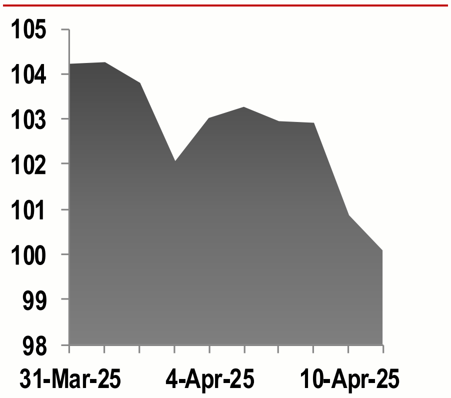
Source: SBP & TSL Research

Pakistan Remittances from the US (USD Bn)



Source: SBP & TSL Research

US Dollar Index



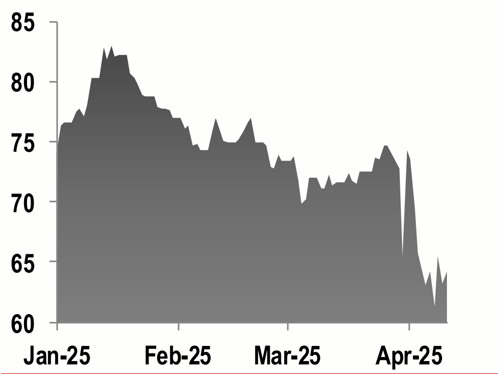
Source: Investing.com & TSL Research

- Nevertheless, unpredictable policy and a fear of recession have created a crisis of confidence in US bonds once seen as 'risk free', as yields are up significantly over the past week. Similarly, the dollar continues to fall, having lost 4% in value since the start of Apr'25, falling to its lowest level in three years as of Friday. The scenario is unprecedented as investors have generally preferred the dollar and the US Treasuries during times of uncertainty.
- Stakes are also high because of a strong likelihood of the US Federal Reserve cutting interest rates very soon. For context, the US consumer inflation eased in Mar'25, turning negative on a MoM basis—first monthly decline in nearly five years—suggesting softening demand among other factors.

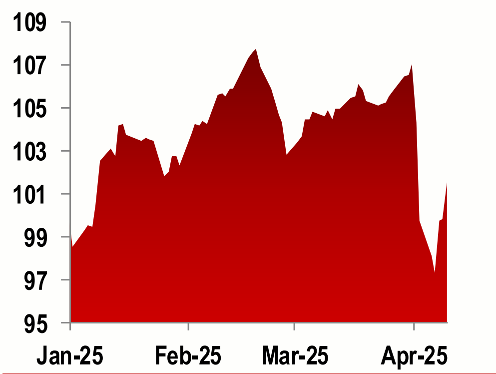
Lower oil prices to bode well for Pakistan

- Despite a moderately bearish outlook at the beginning of the year, global oil prices have fallen significantly since the OPEC+ announcement of hike in output by 411,000 barrels per day. The pressure has been exacerbated by the tariffs driving fears of a US-China trade war and the fallout from it, pushing both the economies into an economic slowdown later this year or next year.
- Consequently, Brent has fallen 17% since the start of Apr'25, recovering marginally on news of the 90-day pause in tariffs. Similarly, WTI has fallen 19% and is currently trading at USD 61/bbl. Moreover, the outlook for other commodities has turned bearish too in anticipation of lower demand from two of the largest consumers of commodities in the world due to the trade war tensions. As discussed earlier the Bloomberg Commodity Index is down ~9%. The Baltic Dry Index is also down over 18% month to date.

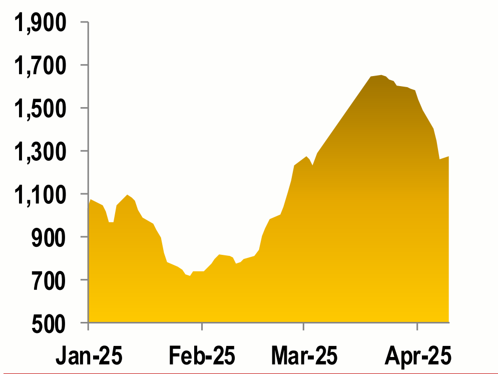
Brent (USD/bbl.) CY25 TD



Bloomberg Commodity Index CY25 TD



Baltic Dry Index CY25 TD



Source: Bloomberg, Investing.com, Trading Economics and TSL Research

Estimated Savings in Import Bill

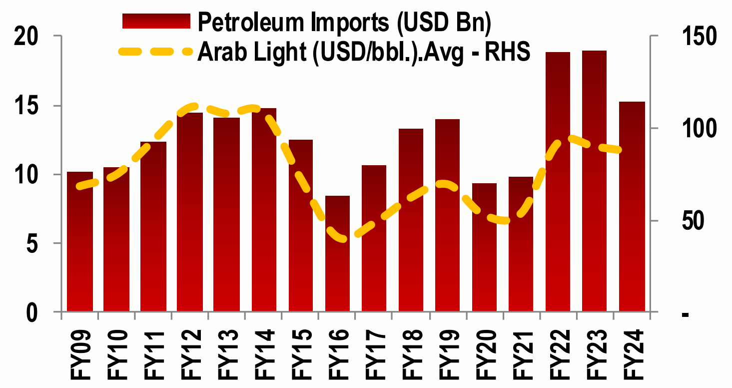
Particulars	Estimated Savings p.a (USD Bn)
Petroleum Products	1.5
RLNG	0.2
Food	0.7
Agri & Other Chem.	0.8
Metals	0.4
Miscellaneous	0.1
Total	**3.7**
% of Imports	**6%**

Source: PBS and TSL Research

- We flag the above situation as boding well for Pakistan, in particular due to the likelihood of a lower oil import bill, translating into lower fuel prices driving headline inflation further down, going forward. Further, Pakistan may also benefit from lower prices for several other commodities like coal, cotton, chemicals etc. and raw materials like steel scrap, rubber, resins etc.—supporting balance of payments, and margins of domestic businesses. Relief can also be expected in the form of lower LNG prices which are linked to oil prices as well.
- Our estimates suggest potential savings of ~6% of Pakistan's total import bill next year with ~USD 1.7Bn in savings emanating from petroleum and RLNG imports alone, followed by ~USD 700Mn in savings from food imports, and ~USD 800Mn in savings from Agriculture & Other Chemical imports, respectively.

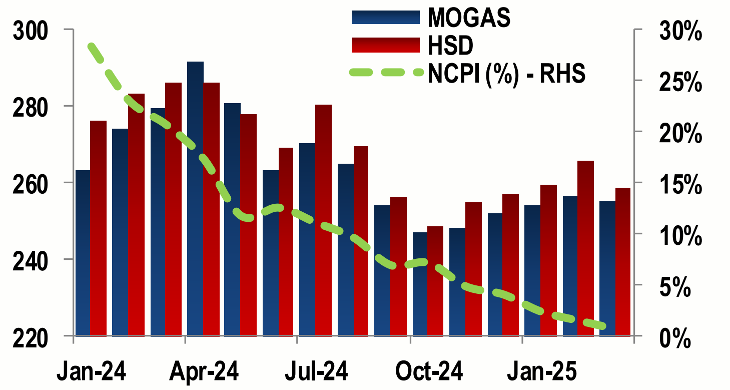
- In terms of headline inflation, the annualized impact of lower commodity prices on NCPI is estimated to range between 200-300bps. However, in order for the savings to materialize completely the decline in commodity prices needs to be persistent. Benefits of cheap oil may be offset by a higher PDL (in order to meet the tax collection targets), or passed on to consumers in the form of lower power tariffs.

Pakistan petroleum imports (USD Bn)



Source: Bloomberg, SBP & TSL Research

Fuel Prices (PKR/litre) and Headline Inflation (%)



Source: PBS, OGRA and TSL Research

- Conversely, in the listed space a sharp fall in international oil prices is likely to impact profitability of exploration and production companies, specially in the context of negligible exchange gains and lower production—with a decline likely in earnings for 4QFY25 onwards. Our base case Arab Light assumption for FY26 stands at USD 69/bbl. along with the long-term Arab Light assumption of USD 65/bbl.

TSL E&P Universe FY26 Earnings Sensitivity to Arab Light (USD/bbl.)

FY26 Earnings	Base Case	50	55	60	65	70	75	80
OGDC	45	33	36	39	42	46	49	52
PPL	36	26	29	31	34	37	39	42
POL	101	73	81	88	95	103	110	117
MARI	63	46	50	55	59	64	68	73

Source: TSL Research

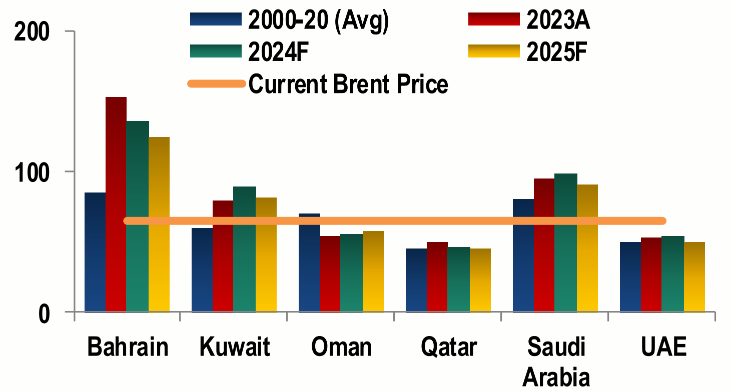
Sustained decrease in oil prices may impact the GCC

- Nevertheless, if oil prices continue to fall and stay low for a substantial period, the oil dependent GCC region is likely to experience problems, specially with potential cuts in spending plans and development projects etc. resulting in overall lower consumption and demand for foreign workers—affecting remittances for Pakistan.
- To note, the GCC holds ~32.6% of the world's proven crude oil reserves. According to Fitch, tariffs will not directly affect the GCC countries' credit profiles due to minimal exports to the US, except in case of Bahrain. However, the main risk will be the indirect effect of

lower global demand and oil prices. Wherein, a USD 10/bbl. drop in oil prices could significantly reduce fiscal revenues, with Bahrain being the most vulnerable due to its high fiscal break-even oil price. Saudi Arabia and Oman have more flexibility, while Qatar, Abu Dhabi, and Kuwait have substantial buffers.

- Historical analysis suggests that despite periodic pressure on oil prices, overall, the trend of remittances from the GCC has remained largely unaffected. In fact since FY09, remittances from the GCC have grown at a CAGR of 9% p.a. Still downside risks remain due to the growing quantum of break-even oil prices for the region on the one hand and a more bearish outlook for oil prices, going forward. GCC remittances were down 5% and 6% in FY16 and FY17, respectively.

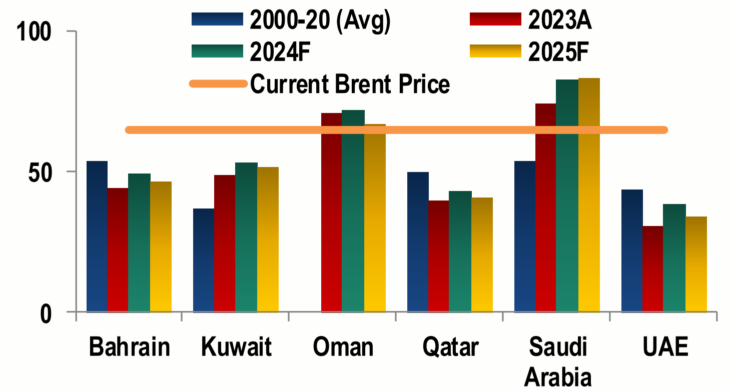
Fiscal Break-Even Prices for GCC Countries (USD/bbl.)



Source: IMF & TSL Research

**Fiscal break-even price: The oil price at which fiscal balance is zero.*

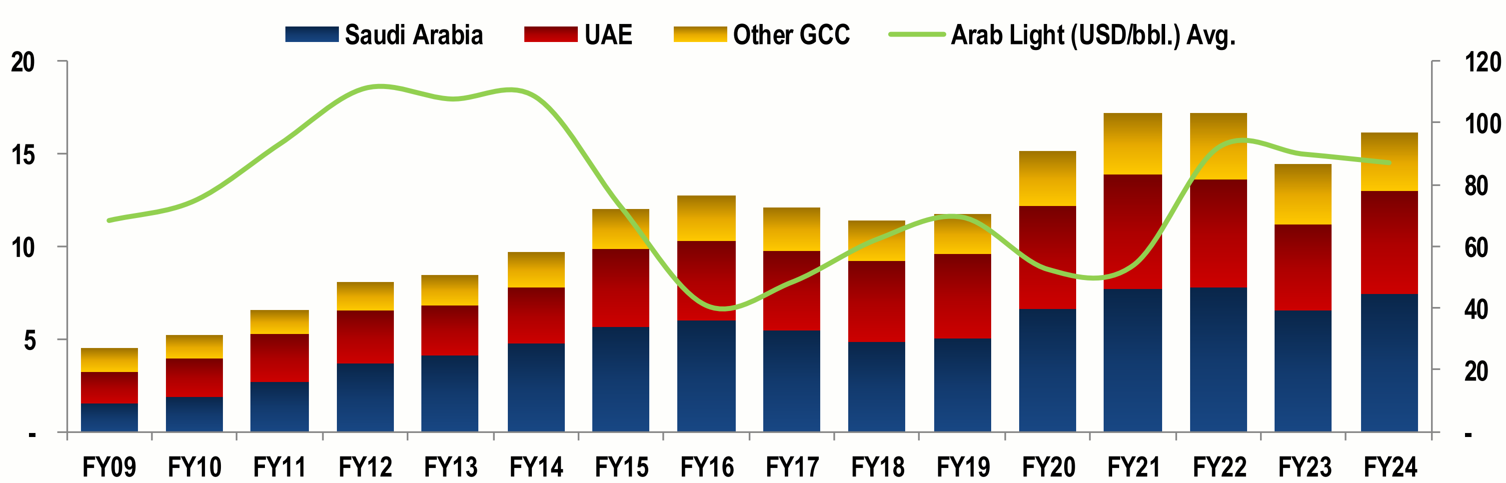
External Break-Even Prices for GCC Countries (USD/bbl.)



Source: IMF & TSL Research

**External break-even price: The oil price at which current account balance is zero.*

Remittances from the GCC Countries (USD Bn)



Source: SBP and TSL Research

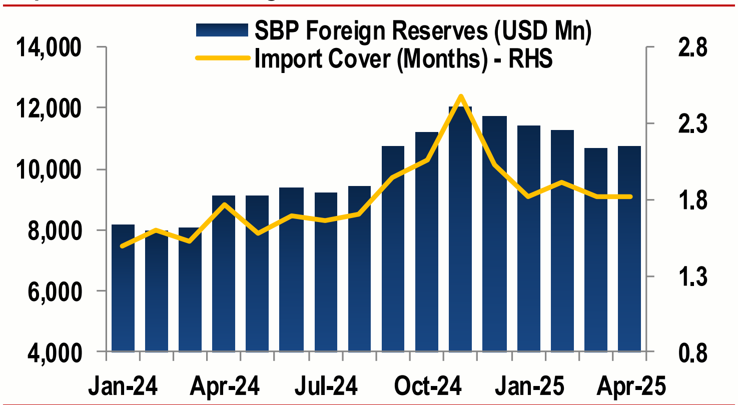
IMF Executive Board approval remains on track

- We believe the budding geo-economic uncertainty is not likely to impact the approval of the next EFF tranche by the IMF Executive Board for Pakistan or result in any delays per se. Although a date for the meeting has not been finalized yet, it is expected that the approval might come later this month.
- Nevertheless, in case a meeting to approve Pakistan's case is not scheduled this month, this may be because of: i) focus of the international financial institutions on the ongoing tariff saga and trade negotiations; ii) emerging context to Pakistan's external and fiscal position due to the surge in global economic uncertainty; and iii) preconditions like approval of the Federal Budget FY26.
- However, the IMF Executive Board approved a 48-month EFF arrangement for Argentina amounting to USD 20Bn on April 12, 2025. The IMF also reached Staff-Level Agreement with Ivory Coast and Burkina Faso this month. Hence, it seems that the IMF's activities are continuing as usual, unaffected by the geo-economic turmoil.

External sector remains as robust as ever

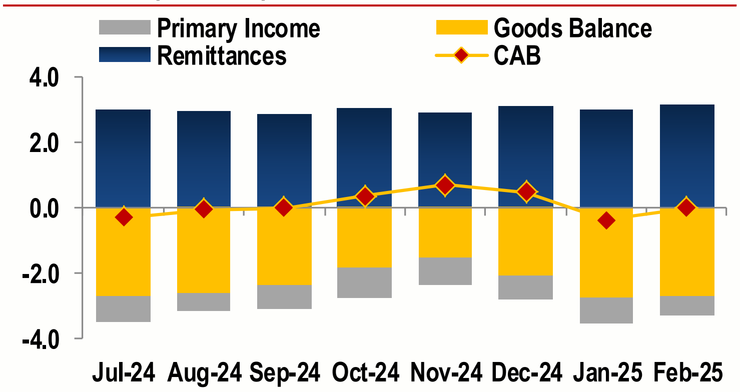
- Regardless, Pakistan remains in a much robust external position than ever before. Hence, any delays in the Executive Board approval (even for a few months) may prove inconsequential in the overall macroeconomic context. To note Pakistan's foreign exchange reserves currently stand at USD 15.8Bn, offering an import cover of ~2 months.

Import cover is hovering ~2 months



Source: State Bank of Pakistan, PBS and TSL Research

8MFY25 CAB posts surplus of USD 691Mn

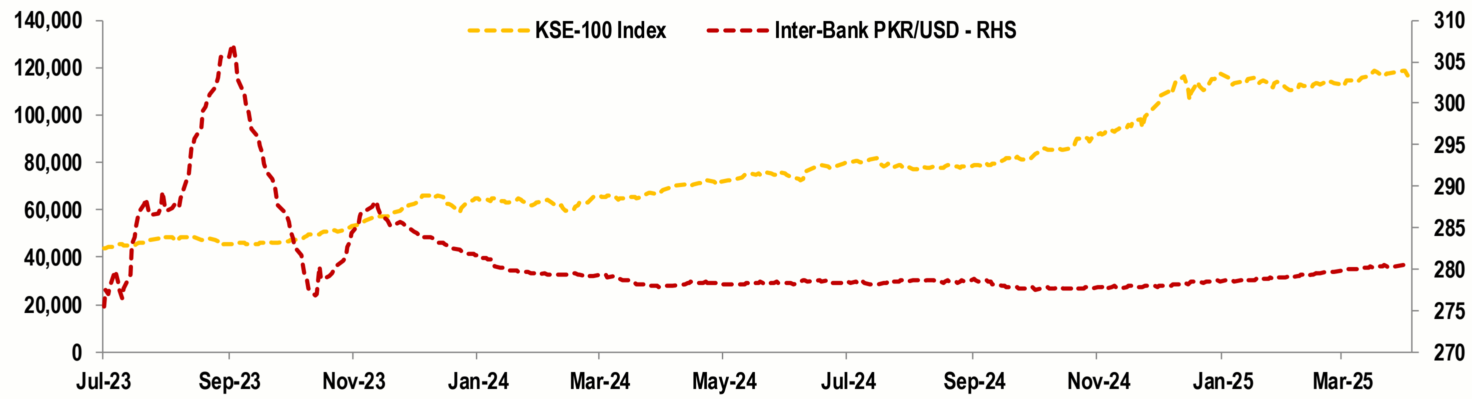


Source: State Bank of Pakistan and TSL Research

- The above comes at the back of the country repaying over USD 5Bn (USD 7.8Bn including interest) in foreign debt during 1HFY25; foreign dividend/profit repatriation amounting to USD 1.6Bn (~up 1xYoY) during 8MFY25; and the SBP purchasing over USD 5.5Bn (net) from the inter-bank foreign exchange market during 1HFY25.

- Additionally, 8MFY25 current account is in a surplus of USD 691Mn. Wherein, exports are up 7% and remittances are up 33%, respectively over the corresponding period last year. We anticipate the FY25 current account to post a deficit of under 1% of GDP as our base case. However, we do not rule out a surplus for FY25 altogether factoring in the impact of the recent fall in commodity prices, likely to result in potential savings of at least over ~USD 500 during 4QFY25.
- Consequently, the Rupee remains stable compared to the greenback, hovering at ~PKR 280/USD level. Nevertheless, Pakistan may experience a delay in its plans for tapping international bond markets next year, specially floating Eurobonds (even Panda bonds) due to a deteriorating and volatile outlook for global capital markets. To note, interest in emerging market debt remains mixed for now.

KSE-100 Index vs Inter-Bank PKR/USD



Source: SBP, PSX, and TSL Research

Risks to consider in case of Pakistan

- Gross external financing requirements are projected to remain very high for Pakistan over the long-run. For instance, the IMF in its Staff Report dated Oct'24 has projected gross external financing requirements of ~USD 92Bn over FY26-FY29. We do anticipate a revision down in the same following release of the latest staff report likely due after approval of the next tranche by the IMF Board but not significantly. Hence, adequate and timely FX inflows will be critical.
- Meanwhile, Pakistan remains subject to tough fiscal targets under the ongoing IMF program like achieving a 3ppts increase in the tax-to-GDP ratio over the EFF duration. Resultantly, leaving little room for policy slippages as well as any widespread fiscal expansion. This means lower GDP growth may continue for a few years despite easing monetary conditions i.e. falling inflation & interest rates.

- Domestic geo-political and security situation remains volatile as ever, clouding the investment potential of game-changing projects like Reko Diq and other mineral exploration projects, specially in Balochistan, KPK and Gilgit Baltistan. Resolving these issues may result in a significant increase foreign investor interest in Pakistan.

Investment strategy

- We expect the KSE-100 index to remain volatile in the near-term, offering swing trades but lacking a sustained direction due to the ongoing economic uncertainty specially due to the tariffs and their likely consequences for Pakistan's economy as a whole. The same reasons also put into question any long-term macroeconomic forecasts as it is difficult to anticipate the next moves in the ongoing trade war between the US & China, and the course of critical variables like the global commodity prices.
- As things stand, Pakistan remains relatively less affected by the tariffs, with lower commodity prices also likely to favour the balance of payments. With the approval of the next EFF tranche very soon along with climate financing, we expect bullish sentiment to gain a firm footing, supported by a gradual economic recovery, and sector specific triggers along with still relatively attractive valuations.
- Favourable news flows to drive sentiment like: i) approval and disbursement of the next EFF tranche; ii) further fall in headline inflation, making the case for interest rate cuts; iii) continuing current account surplus on the back of strong remittances; iv) resolution of the US tariffs issue; v) circular debt related settlements; and vi) cut in power tariffs for industries and households. Moreover, any potential relief in the upcoming Federal Budget for the corporate sector may also be an upside trigger for stocks.
- We favour defensive plays and blue-chip stocks on dips, along with gradual accumulation of cyclicals, with our top-picks being: MCB, HMB, BAHL, MEBL, EFERT, FFC, OGDC, PPL, MARI, CHCC, DGKC, FCCL, LUCK, HUBC, PSO, ISL, MUGHAL, AGP and SEARL.
- **Key risks to investment:** i) sluggish aggregate demand; ii) deterioration in balance of payments as result of the tariffs; iii) worsening domestic political and security situation; iv) delay in circular debt settlements; and v) uptick in headline inflation other than as a result of the base effect.

Company-wise Exports to the US (PKR Mn) in the listed space

Tickers	US Exports	Total Exports	Total Revenue	% of USD Exports to	
				Total Exports	Total Revenue
FML	50,240	67,397	69,758	75%	72%
ILP	80,091	150,819	158,183	53%	51%
TOWL	4,730	12,659	12,315	37%	38%
SGF*	3,509	16,928	17,392	21%	20%
SFL*	9,291	38,579	47,420	24%	20%
KTML*	10,671	19,279	58,175	55%	18%
ISL*	10,193	16,674	69,300	61%	15%
NML	21,629	94,529	160,257	23%	13%
GATM	14,807	133,599	172,480	11%	9%
FASM	3,750	39,120	45,030	10%	8%
NCL*	4,978	62,127	88,880	8%	6%
MFL*	1,309	17,495	27,696	7%	5%
KML*	1,359	16,672	29,854	8%	5%
SYS	1,389	30,253	38,527	5%	4%
MFFL	95	655	2,642	15%	4%
INIL*	929	4,795	29,203	19%	3%
DGKC	1,958	11,590	66,039	17%	3%
NETSOL**	75	9,503	9,580	1%	1%
FCL*	40	707	36,024	6%	0.1%

Source: Company Financials & TSL Research; latest annual financials

**Exports to North American Region*

***Exports to US and European Regions*

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Valuation Methodology

To arrive at our period end target prices, TSL uses different valuation methodologies including

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

SECP JamaPunji Portal link: https://jamapunji.pk/

Frequently Used Acronyms

TP	Target Price	**DCF**	Discounted Cash Flows	**FCF**	Free Cash Flows
FCFE	Free Cash Flows to Equity	**FCFF**	Free Cash Flows to Firm	**DDM**	Dividend Discount Model
SOTP	Sum of the Parts	**P/E**	Price to Earnings ratio	**P/Bv**	Price to Book ratio
P/S	Price to Sales	**EVA**	Economic Valued Added	**BVPS**	Book Value per Share
EPS	Earnings per Share	**DPS**	Dividend per Share	**DY**	Dividend Yield