

PAKISTAN



Pakistan Economy

On the path of fiscal consolidation

FY21 fiscal deficit at 7.1% vs 8.1% in FY20

As per the latest numbers released by Ministry of Finance, FY21 fiscal deficit stood at 7.1% of GDP (Rs3,403tn) vs 8.1% of GDP (Rs3,376bn) in FY20. The govt has posted a primary deficit of Rs654bn (1.4 % of GDP) lower than the Rs757bn (1.8% of GDP) reported last year. Even though these numbers fall short of IMF criteria, they are a step in the direction of fiscal consolidation given last year’s slippage due to COVID lockdown.

During FY21, total revenue increased by 10% YoY on the back of 19% YoY incline in FBR revenue despite 9% YoY decrease in non-tax revenue. Comparatively, total expenditures were up by 7% YoY as current expenditure rose by 6% YoY and development spending inclined by 9% YoY.

Whopping increase in tax collection by FBR pushed revenues up

Total revenue inclined by 10% YoY during FY21 driven by 19% increase in FBR collection despite a decline of 9% in non-tax collection. FBR collection increased as indirect taxes were up by 22% YoY and direct taxes rose by 14% YoY during the year. In indirect taxes, incline was witnessed in (1) sales tax (up by 25% YoY) as economic growth accelerated, (2) customs duty (up by 22% YoY) as goods imports were up by 23% YoY and (3) excise duties (up by 9% YoY).

During the quarter, non-tax collection declined by 9% YoY as Profit from SBP decreased by 30% YoY and Profit from PTA was down by 69% YoY whereas Petroleum Levy increased by 45% YoY.

Current and development spending came in higher

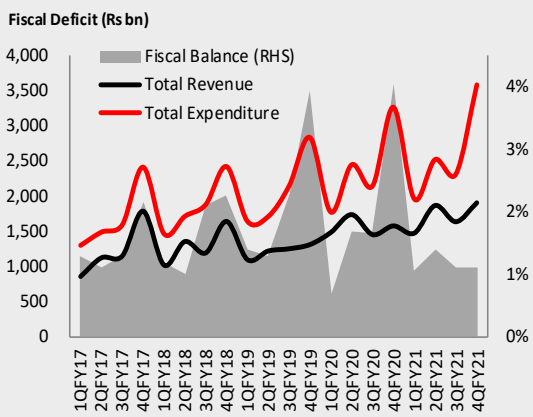
Total expenditures were up by 7% YoY during FY21. Current expenditure rose by 6% YoY where debt servicing witnessed incline of 5% YoY on the back of higher borrowing (up 8% YoY in FY21) despite lower interest rates (7.0% in FY21 vs 11.8% in FY20). Defense expenditure posted an incline of 9% YoY and other expenditures increased by 7% YoY. Development spending also increased by 9% YoY in FY21 as PSDP (Provincial) shot up by 24% YoY while PSDP (Federal) was down by 6% YoY.

Deficit financed mostly by domestic debt

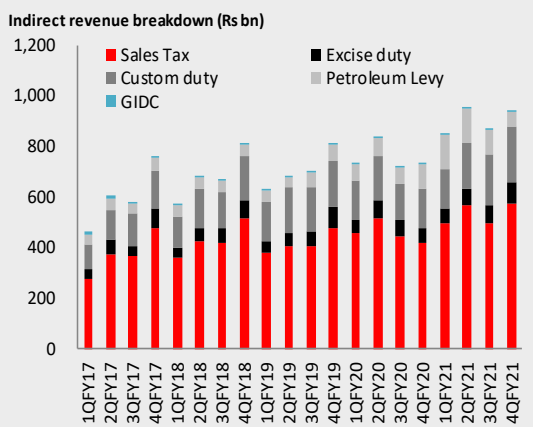
The deficit was mostly financed from domestic sources (61%). Notably, domestic bank borrowing contributed 55% of the deficit borrowing whereas domestic non-bank sources contributed 6%. Share of borrowing from external sources was 39% during the year.

FY22 fiscal deficit projected to decline YoY

Gov’t has projected FY22 fiscal deficit at 6.3% of GDP whereas FSL has estimated it to be ~6.9% of GDP. We feel that the govt’s FBR revenue target of Rs5,829bn (up 22% YoY) is achievable given (1) 19% YoY growth observed in FY21 and (2) pick up in domestic demand causing economic growth (and hence tax collection) to accelerate. However, we foresee that Gov’t slippages on current expenditures (which are mostly fixed) and aggressive development spending plans along with higher spending on social uplift programs would exert pressure on expenditures. We expect that govt would be able to obtain relaxation from IMF on expenditure overshoot.



Source: MoF, Foundation Research, August 2021



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Fig 1: Fiscal Operations (Rs bn)

	4QFY21	4QFY20	YoY	FY21	FY20	YoY
Total Revenue	1,911	1,582	21%	6,903	6,272	10%
FBR Revenue	1,369	954	44%	4,764	3,998	19%
Direct	485	377	29%	1,732	1,524	14%
Indirect	879	575	53%	3,027	2,474	22%
- Sales Tax	574	354	62%	1,990	1,597	25%
- Excise Duty	80	69	17%	272	250	9%
- Custom Duty	224	152	47%	765	626	22%
Non Tax Revenue	465	522	-11%	1,631	1,784	-9%
- Petroleum Levy	55	95	-42%	425	294	45%
- GIDC	4	3	35%	19	9	108%
- Surplus Profit of SBP	153	300	-49%	651	936	-30%
- Surplus Profit of PTA and others	19	13	45%	39	127	-69%
- Other	233	110	112%	497	419	19%
Total Expenditure	3,591	3,343	7%	10,400	9,736	7%
Current Expenditure	2,999	2,920	3%	9,084	8,532	6%
- Mark up payment	646	740	-13%	2,750	2,620	5%
- Defence	532	411	30%	1,316	1,213	9%
- Other	1,820	1,770	3%	5,018	4,699	7%
Development Expenditure & net lending to PSE	593	422	40%	1,316	1,204	9%
- PSDP (Federal)	177	127	39%	441	468	-6%
- PSDP (Provincial)	380	240	58%	770	622	24%
- Other	35	7	435%	104	65	59%
Statistical Discrepancy	71	(70)	N/A	(93)	(87)	N/A
Budget Balance	(1,751)	(1,690)	4%	(3,403)	(3,376)	1%
Budget Balance (% of GDP)	(4.6)	(5.8)	1.2	(7.1)	(8.1)	1.0
Primary Balance	(1,105)	(950)	na	(654)	(757)	-14%
Primary Balance (% of GDP)	(2.3)	(2.3)	0.0	(1.4)	(1.8)	0.4
Financing	1,751	1,690	4%	3,403	3,376	1%
External	776	213	264%	1,338	896	49%
Domestic	975	1,477	-34%	2,065	2,481	-17%
Non - Bank	(96)	138	N/A	196	540	-64%
Bank	1,071	1,339	-20%	1,869	1,941	-4%

Source: MoF, Foundation Research, August 2021

Abbreviations

GIDC	Gas Infrastructure Development Cess
PSDP	Public Sector Development Program
YoY	Year on Year

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If	
Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.