

PAKISTAN



Pakistan Economy

IMF revival to curtail fiscal deficit

2QFY22 fiscal deficit remained unchanged YoY at 1.4%

As per the latest numbers released by Ministry of Finance, 2QFY22 fiscal deficit stood at 1.4% of GDP (Rs933bn) vs 1.4% of GDP (Rs654bn) in 2QFY21. The govt has posted a primary deficit of Rs103bn (0.2 % of GDP) compared to primary surplus of Rs79bn (0.1% of GDP) reported in same period last year. These numbers fall short of IMF conditionality given governments' push for growth in the FY22 budget. However, recently introduced mini budget is expected to uplift revenues in 2HFY22.

During 2QFY22, total revenue increased by 15% YoY on the back of 27% YoY incline in FBR revenue despite 9% YoY decline in non-tax revenue. Comparatively, total expenditures surged by whopping 22% YoY as current expenditure rose by 22% YoY and development spending inclined by 26% YoY.

Revenues surged as tax collection by FBR moved into higher gear

Total revenue inclined by 15% YoY during 2QFY22 driven by 27% increase in FBR collection despite a decline of 9% in non-tax collection. FBR collection increased as indirect taxes were up by 34% YoY and direct taxes rose by 15% YoY during the quarter. In indirect taxes, incline was witnessed in (1) sales tax (up by 35% YoY) as economic growth accelerated, (2) customs duty (up by 42% YoY) as goods imports surged by 51% YoY and (3) excise duties (up by 11% YoY).

During the quarter, non-tax collection declined by 9% YoY as Petroleum Levy fell by 59% YoY despite Profit from SBP showing modest increase of 1% YoY. Petroleum Levy declined as Govt lowered levy rate amid record high prices of MS and HSD.

Current and development spending posted double digit increase

Total expenditures were up by 22% YoY during 2QFY22. Current expenditure rose by 22% YoY where debt servicing witnessed incline of 13% YoY on the back of higher interest rates (8.6% in 2QFY22 vs 7.0% in 2QFY21). Defense expenditure posted a decline of 1% YoY whereas other expenditures increased by a staggering 121% YoY. Development spending also increased by 26% YoY in 2QFY21 as PSDP (Provincial) shot up by 54% YoY while PSDP (Federal) was down by 13% YoY.

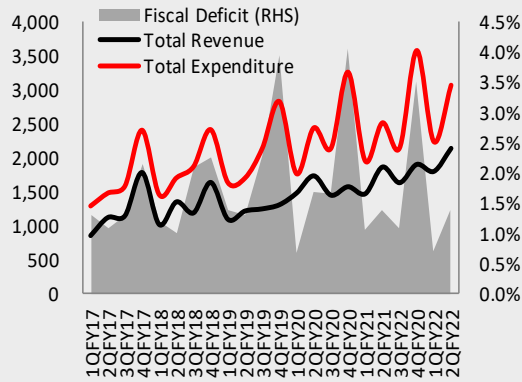
Deficit financed mostly by external debt

The deficit was mostly financed from external sources (60%). Whereas, share of domestic debt was 40%. Notably, domestic bank borrowing contributed 43% of the deficit borrowing and Govt retired debt from domestic non-bank sources.

FY22 fiscal deficit projected to decline YoY

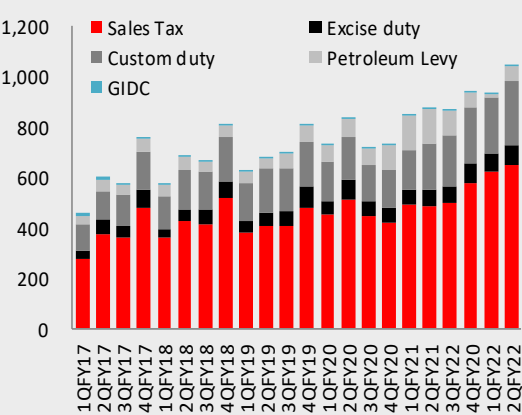
We expect that revenues would post strong growth in FY22 given robust economic growth. However, the Gov't would not be able to curtail current expenditures given their fixed nature but anticipate that the axe would fall on development spending amid revival of IMF program. Debt servicing is projected to increase by 22% YoY. A steep decline is also expected in non-tax collection. We expect that Govt would be able to obtain relaxation from IMF on expenditure overshoot. Govt/IMF have projected FY22 fiscal deficit at 6.3/5.7% of GDP whereas FSL has estimated it to be ~5.8% of GDP.

Fiscal deficit (Rs bn)



Source: SBP, Foundation Research, Feb 2022

Indirect revenue breakdown



Source: SBP, Foundation Research, Feb 2022

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Foundation Securities (Pvt) Ltd
Thursday, February 10, 2022

Fig 1: Fiscal Operations (Rs bn)

	2QFY22	2QFY21	YoY	1HFY22	1HFY21	YoY
Total Revenue	2,147	1,872	15%	3,956	3,351	18%
FBR Revenue	1,522	1,199	27%	2,920	2,210	32%
Direct	538	467	15%	1,020	831	23%
Indirect	984	732	34%	1,900	1,379	38%
- Sales Tax	650	482	35%	1,274	918	39%
- Excise Duty	75	67	11%	145	123	18%
- Custom Duty	259	183	42%	480	338	42%
Non Tax Revenue (Federal)	474	518	-9%	715	862	-17%
- Petroleum Levy	57	139	-59%	70	275	-75%
- GIDC	5	5	2%	11	10	17%
- Surplus Profit of SBP	271	268	1%	380	373	2%
- Surplus Profit of regulatory authorities incl PTA	9	10	-16%	39	19	109%
- Other	133	97	37%	215	186	16%
Total Expenditure	3,081	2,526	22%	5,328	4,489	19%
Current Expenditure	2,708	2,217	22%	4,676	4,029	16%
- Mark up payment	830	733	13%	1,453	1,475	-2%
- Defence	259	262	-1%	520	487	7%
- Other	2,702	1,222	121%	2,702	2,068	31%
Development Expenditure & net lending to PSE	307	243	26%	571	458	25%
-PSDP (Federal)	91	105	-13%	200	175	14%
-PSDP (Provincial)	212	138	54%	366	228	61%
-Other	6	0	na	6	55	-89%
Statistical Discrepancy	66	67	na	81	2	na
Budget Balance	(933)	(654)	43%	(1,372)	(1,138)	21%
Budget Balance (% of GDP)	(1.4)	(1.4)	0.0	(2.1)	(2.5)	0.4
Primary Balance	(103)	79	-230%	81	337	-76%
Primary Balance (% of GDP)	(0.2)	0.2	-0.4	0.1	0.7	-0.6
Financing	933	654	43%	1,371	1,138	21%
External	560	293	91%	1,026	454	126%
Domestic	374	361	4%	346	683	-49%
Non - Bank	(31)	40	-178%	77	132	-42%
Bank	405	320	26%	269	551	-51%

Source: MoF, Foundation Research, February 2022

Abbreviations

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

Important disclosures:

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