

PAKISTAN



Pakistan Economy

Departed Gov't leaves behind gaping fiscal hole amid higher subsidies

3QFY22 fiscal deficit deteriorated sharply YoY to 1.9%

As per the latest numbers released by Ministry of Finance, 3QFY22 fiscal deficit stood at 1.9% of GDP (Rs1.2tn) vs 1.1% of GDP (Rs514bn) in 3QFY21. The govt has posted a primary deficit of Rs528bn (0.8 % of GDP) compared to primary surplus of Rs115bn (0.3% of GDP) reported in same period last year. These numbers fall short of IMF conditionality given previous governments' push for growth in the FY22 budget.

During 3QFY22, total revenue increased by 17% YoY on the back of 24% YoY incline in FBR revenue despite 12% YoY decline in non-tax revenue. Comparatively, total expenditures increased by 44% YoY as (1) current expenditure rose by 31% YoY amid 248/133% YoY higher subsidies/grants, and (2) development spending surged by 81% YoY.

Revenues surged amid higher FBR tax collection

Total revenue inclined by 17% YoY during 3QFY22 driven by 24% increase in FBR collection despite a decline of 12% in non-tax collection. FBR collection increased as direct taxes were up by 35% YoY and indirect taxes rose by 18% YoY during the quarter. In indirect taxes, incline was witnessed in (1) sales tax (up by 19% YoY) as economic growth accelerated, (2) customs duty (up by 15% YoY) as goods imports surged by 40% YoY and (3) excise duties (up by 15% YoY).

During the quarter, non-tax collection declined by 12% YoY as Petroleum Levy fell by 41% YoY and Profit from SBP declined by 25% YoY. Petroleum Levy declined as Govt lowered levy rate to zero amid record high prices of MS and HSD.

Ballooning subsidies & grants swell current expenditures

Total expenditures were up by 44% YoY during 3QFY22. Current expenditure rose by 31% YoY on the back of higher subsidies (up 248% YoY) and higher grants (up 133% YoY). Debt servicing witnessed modest incline of 6% YoY on the back of higher interest rates (9.8% in 3QFY22 vs 7.0% in 3QFY21). Defense expenditure posted an increase of 22% YoY whereas other expenditures declined by 64% YoY.

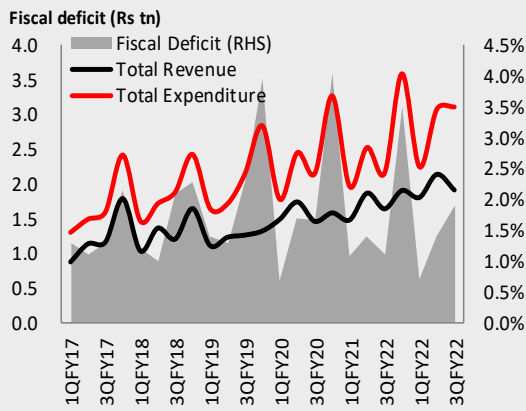
Development spending also increased by 81% YoY in 3QFY21 as PSDP (Provincial) shot up by 121% YoY while PSDP (Federal) inclined by a more moderate 23% YoY.

Deficit fully financed by domestic debt

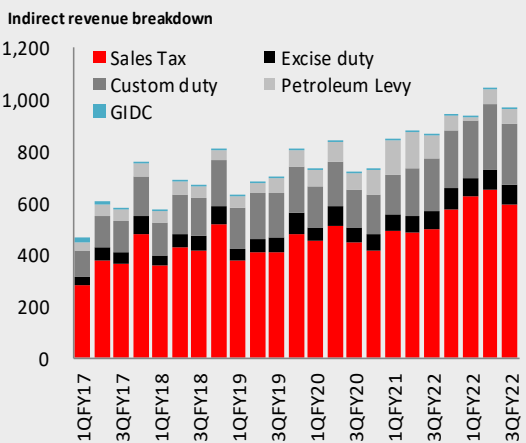
The deficit was purely financed from domestic sources as some external debt (Rs44bn) was retired during the quarter. Notably, share of domestic bank borrowing was 63% and domestic non-bank sources was 37%.

FY22 fiscal deficit projected to breach IMF conditionality

We expect that revenues would post strong growth in FY22 given robust economic growth. However, swollen subsidies and grants to others during 9MFY22 would impinge on FY22 expenditures even if Gov't drastically scales them back during 4Q. We anticipate that the axe would also fall on development spending amid revival of IMF program. We expect that Govt should be able to obtain relaxation from IMF on current expenditure overshoot during 2HFY22. Govt/IMF have projected FY22 fiscal deficit at 6.3/5.7% of GDP whereas FSL has estimated it to be ~6.8% of GDP.



Source: SBP, Foundation Research, Apr 2022



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Fig 1: Fiscal Operations (Rs bn)

	3QFY22	3QFY21	YoY	9MFY22	9MFY21	YoY
Total Revenue	1,918	1,641	17%	5,874	4,993	18%
FBR Revenue	1,464	1,185	24%	4,384	3,395	29%
Direct	559	416	35%	1,579	1,246	27%
Indirect	905	769	18%	2,805	2,149	31%
- Sales Tax	592	498	19%	1,866	1,416	32%
- Excise Duty	79	68	15%	224	192	17%
- Custom Duty	234	204	15%	715	541	32%
Non Tax Revenue (Federal)	268	304	-12%	983	1,166	-16%
- Petroleum Levy	56	94	-41%	126	369	-66%
- GIDC	3	6	-47%	14	15	-7%
- Surplus Profit of SBP	94	125	-25%	474	498	-5%
- Surplus Profit of PTA	0	1	-90%	39	20	95%
- Other	115	78	48%	330	263	25%
Total Expenditure	3,112	2,156	44%	8,440	6,645	27%
Current Expenditure	2,702	2,056	31%	7,378	6,085	21%
- Mark up payment	666	629	6%	2,118	2,104	1%
- Defence	361	297	22%	882	784	12%
- Subsidies	262	75	248%	575	204	182%
- Grant to others	371	159	133%	920	424	117%
- Other	1,042	896	16%	2,882	2,569	12%
Development Expenditure & net lending to PSE	480	265	81%	1,051	723	45%
-PSDP (Federal)	109	88	23%	309	264	17%
-PSDP (Provincial)	358	162	121%	724	390	86%
-Other	12	14	-14%	18	69	-73%
Statistical Discrepancy	(70)	(166)	na	11	(164)	na
Budget Balance	(1,194)	(514)	132%	(2,566)	(1,652)	55%
Budget Balance (% of GDP)	(1.9)	(1.1)	-0.8	(4.0)	(3.6)	-0.4
Primary Balance	(528)	115	-561%	(447)	452	-199%
Primary Balance (% of GDP)	(0.8)	0.3	-1.1	(0.7)	1.0	-1.7
Financing	1,194	514	132%	2,566	1,652	55%
External	(44)	108	-141%	981	562	75%
Domestic	1,238	406	205%	1,584	1,090	45%
Non - Bank	456	160	185%	532	292	82%
Bank	782	246	217%	1,052	798	32%

Source: MoF, Foundation Research, April 2022

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.