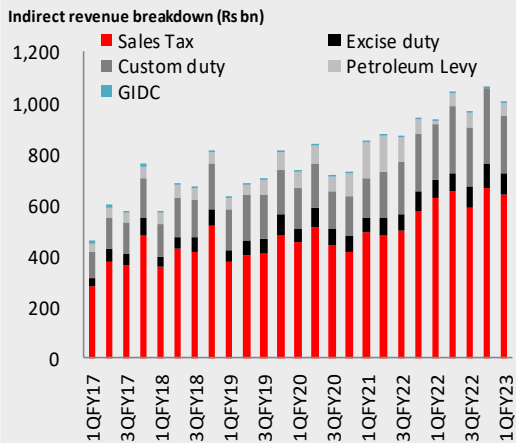
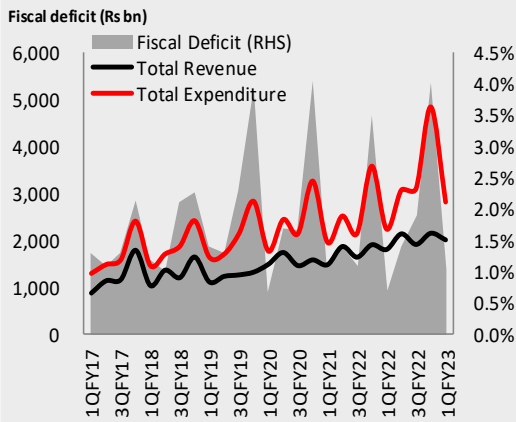


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# Pakistan Economy

## Fiscal deficit jumps 84% YoY in 1QFY23

### 1QFY23 fiscal deficit deteriorated to 1.0% of GDP

As per the latest numbers released by Ministry of Finance, 1QFY23 fiscal deficit stood at 1.0% of GDP (Rs809bn) vs 0.7% of GDP (Rs438bn) in 1QFY22. The govt has posted a primary surplus of Rs145bn (0.2% of GDP) compared to Rs184bn (0.3% of GDP) reported in same period last year. These numbers fell short of IMF conditionality which required primary surplus of Rs339bn in 1QFY23 but we expect this shortfall would be overlooked by the IMF for the Nov'22 review. We believe Gov't would have to alter its fiscal trajectory to comply with IMF requirements in the future.

During 1QFY23, total revenue increased by 12% YoY on the back of 17% YoY incline in FBR revenue despite 16% YoY decline in non-tax revenue. Comparatively, total expenditures increased by 26% YoY as current expenditure rose by 29% YoY amid 53% YoY higher debt servicing whereas development spending declined by 17% YoY.

### Revenues rose as FBR collected more tax

Total revenue inclined by 12% YoY during 1QFY23 driven by 17% increase in FBR collection despite a decline of 16% in non-tax collection. FBR collection increased as direct taxes were up by 42% YoY amid imposition of super tax whereas indirect taxes rose by 4% YoY during 1QFY23. In indirect taxes, incline was witnessed in (1) sales tax (up by 3% YoY) amid economic slowdown, (2) customs duty (up by 4% YoY) even as goods imports decreased by 8% YoY in 1QFY23 and (3) excise duty (up by 12% YoY).

During 1QFY23, non-tax collection declined by 16% YoY on the back of nil profit from SBP compared to Rs109bn in 1QFY22. Whereas, Petroleum Levy increased by 3.6x YoY in 1QFY23 as Govt collected avg. of Rs22/7/ltr on MS/HSD during the quarter.

### Current expenditures rise due to higher debt servicing

Total expenditures were up by 26% YoY during 1QFY23. Current expenditure rose by 29% YoY on the back of higher debt servicing (up 53% YoY) due to higher average interest rates (15.0% in 1QFY23 vs 7.1% in 1QFY22). Whereas, subsidies/grants rose by 25/18% YoY in 1QFY23. Defense expenditure posted an increase of 19% YoY and other expenditures inclined by 17% YoY.

Development spending decreased by 17% YoY in 1QFY23 as PSDP (Federal) declined by 73% YoY while PSDP (Provincial) fell by a paltry 1% YoY.

### Deficit mostly financed by domestic debt

The 1QFY23 deficit was financed mostly from domestic sources (96%) as share of domestic bank borrowing was 63% and domestic non-bank sources was 37%.

### FY23 fiscal deficit projected to decline

We expect that revenues would post modest growth in FY23 as economic growth would be below potential amid very high inflation and lower imports. The thrust for higher revenues would come from Petroleum Levy, the imposition of which the IMF has set as condition for release of future tranches under the IMF program. We expect that Govt would find it difficult to control current expenditure amid high interest rates and being fixed in nature. Govt has projected FY23 fiscal deficit at 4.9% of GDP whereas FSL has estimated it to be ~5.6% of GDP.

**Table 1: Fiscal Operations (Rs bn)**

	1QFY23	1QFY22	YoY	FY22	FY21	YoY
<b>Total Revenue</b>	<b>2,017</b>	<b>1,809</b>	<b>12%</b>	<b>8,035</b>	<b>6,903</b>	<b>16%</b>
<b>FBR Revenue</b>	<b>1,634</b>	<b>1,398</b>	<b>17%</b>	<b>6,755</b>	<b>4,764</b>	<b>42%</b>
Direct	683	481	42%	2,280	1,732	32%
Indirect	951	917	4%	3,862	3,027	28%
- Sales Tax	642	624	3%	2,532	1,990	27%
- Excise Duty	79	71	12%	321	272	18%
- Custom Duty	230	221	4%	1,009	765	32%
<b>Non Tax Revenue (Federal)</b>	<b>202</b>	<b>242</b>	<b>-16%</b>	<b>1,185</b>	<b>1,631</b>	<b>-27%</b>
- Petroleum Levy	47	13	256%	128	425	-70%
- GIDC	3	7	-54%	19	19	-4%
- Surplus Profit of SBP	-	109	na	474	651	-27%
- Surplus Profit of PTA	13	30	-57%	103	39	265%
- Other	139	83	68%	462	497	-7%
<b>Total Expenditure</b>	<b>2,826</b>	<b>2,247</b>	<b>26%</b>	<b>13,295</b>	<b>10,307</b>	<b>29%</b>
<b>Current Expenditure</b>	<b>2,538</b>	<b>1,968</b>	<b>29%</b>	<b>11,521</b>	<b>9,084</b>	<b>27%</b>
- Mark up payment	954	623	53%	3,182	2,750	16%
- Defence	313	262	19%	1,412	1,316	7%
- Subsidies	93	74	25%	1,530	425	260%
- Grant to others	199	169	18%	1,142	828	38%
- Other	979	840	17%	4,256	3,765	13%
<b>Development Expenditure &amp; net lending to PSE</b>	<b>220</b>	<b>265</b>	<b>-17%</b>	<b>1,657</b>	<b>1,316</b>	<b>26%</b>
-PSDP (Federal)	67	108	-38%	400	441	-9%
-PSDP (Provincial)	152	154	-1%	1,217	770	58%
-Other	1	3	-73%	40	104	-61%
Statistical Discrepancy	68	14	378%	116	(93)	na
<b>Budget Balance</b>	<b>(809)</b>	<b>(438)</b>	<b>84%</b>	<b>(5,260)</b>	<b>(3,403)</b>	<b>55%</b>
Budget Balance (% of GDP)	(1.0)	(0.7)	-0.4	(7.9)	(7.1)	-0.8
<b>Primary Balance</b>	<b>145</b>	<b>184</b>	<b>-21%</b>	<b>(2,077)</b>	<b>(654)</b>	<b>218%</b>
Primary Balance (% of GDP)	0.2	0.3	-0.1	(3.1)	(1.4)	-1.7
<b>Financing</b>	<b>809</b>	<b>438</b>	<b>84%</b>	<b>5,260</b>	<b>3,403</b>	<b>55%</b>
External	30	466	-93%	1,178	1,338	-12%
Domestic	778	(28)	na	4,081	2,065	98%
Non - Bank	488	108	352%	981	196	400%
Bank	290	(136)	na	3,101	1,869	66%

Source: MoF, Foundation Research, November 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.