

PAKISTAN



Pakistan Economy

Fiscal deficit improved by 0.1% of GDP YoY in 3QFY23

3QFY23 fiscal deficit clocked in at 1.7% of GDP

As per the latest numbers released by Ministry of Finance, 3QFY23 fiscal deficit stood at 1.7% of GDP (Rs1.4tn) vs 1.8% of GDP (Rs1.2tn) in 3QFY22. The govt has posted a primary deficit of Rs386bn (0.5% of GDP) compared to Rs528bn (0.8% of GDP) reported in same period last year. Despite being in the midst of a tough IMF review, Gov't breached the requirement for a primary deficit of Rs27bn in 3QFY23. Going by this 3QFY23 fiscal pattern, we believe Gov't might not alter its fiscal trajectory to comply with IMF requirements due to impending elections later this year and the need to woo voters with development spending.

During 3QFY23, total revenue increased by 17% YoY on the back of 22% YoY incline in non-tax revenue and 18% YoY increase in FBR revenue. Comparatively, total expenditures increased by 17% YoY as current expenditure rose by 18% YoY amid 52% YoY higher debt servicing whereas development spending declined by 12% YoY.

Tax and non-tax revenues increased

Total revenue inclined by 17% YoY during 3QFY23 driven by 22% increase in non-tax collection and 18% increase in FBR collection. During 3QFY23, non-tax collection increased by 19% YoY on the back of 3.3x YoY jump in Petroleum Levy as Govt increased it to Rs50/40/ltr on MS/HSD in 3Q. However, profit from SBP was nil during the quarter.

FBR collection increased as direct taxes were up by 40% YoY amid imposition of super tax and indirect taxes increased by 4% YoY during 2QFY23. In indirect taxes, incline was seen in (1) sales tax (up by 6% YoY) despite economic slowdown and (2) excise duty (up by 2% YoY).

Higher debt servicing pushed up current expenditures

Total expenditures were up by 17% YoY during 3QFY23. Current expenditure rose by 18% YoY on the back of higher debt servicing (up 52% YoY) due to higher average interest rates (17.7% in 3QFY23 vs 9.8% in 3QFY22). Defense expenditure remained flat YoY and provincial current expenditures were up by 17% YoY. Whereas, subsidies/grants were up/down by 25/38% YoY in 3QFY23.

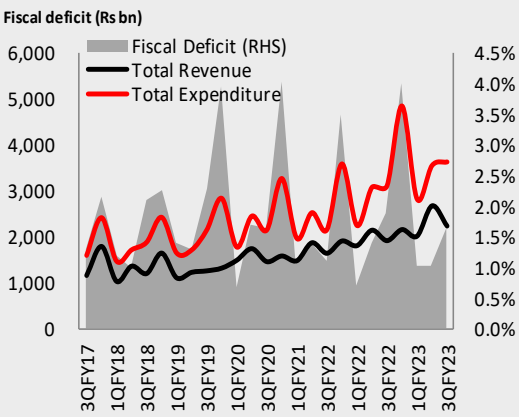
Development spending declined by 12% YoY in 3QFY23 as PSDP (Provincial) fell by 26% YoY while PSDP (Federal) inclined by 44% YoY.

Deficit financed mostly from domestic non-bank sources

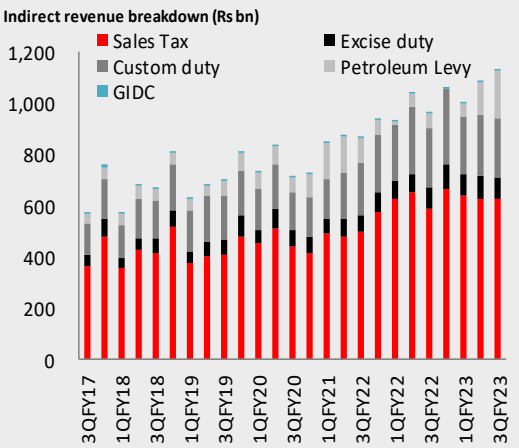
The 3QFY23 deficit was financed mostly from domestic non-bank sources (up 3.1x YoY). Bank borrowing declined by 52% YoY during 3Q. Whereas, significant domestic external financing was retired during the quarter.

FY23 fiscal deficit projected to decline

Tax collection is projected to post strong growth amid increase in direct taxes and Petroleum Levy. Expenditures are unlikely to decrease as they consist of mostly current expenditures which are fixed. Debt servicing is projected to increase substantially given higher interest rates. Govt has projected FY23 fiscal deficit at 4.9% of GDP whereas FSL has estimated it to be ~7.8% of GDP.



Source: MoF, Foundation Research, May 2023



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Monday, May 8, 2023

Table 1: Fiscal Operations (Rs bn)

	3QFY23	3QFY22	YoY	9MFY23	9MFY22	YoY
Total Revenue	2,239	1,918	17%	6,938	5,874	18%
FBR Revenue	1,727	1,464	18%	5,156	4,384	18%
Direct	783	559	40%	2,309	1,579	46%
Indirect	944	905	4%	2,847	2,805	1%
- Sales Tax	629	592	6%	1,901	1,866	2%
- Excise Duty	80	79	2%	245	224	9%
- Custom Duty	234	234	0%	701	715	-2%
Tax Revenue (Provincial)	159	167	-5%	462	438	5%
Non Tax Revenue (Federal)	318	261	22%	1,215	959	27%
- Petroleum Levy	185	56	232%	362	126	188%
- GIDC	1	3	-59%	7	14	-49%
- Surplus Profit of SBP	-	94	-100%	371	474	-22%
- Surplus Profit of PTA	29	0	N/A	61	39	58%
- Other	103	109	-5%	412	306	35%
Non Tax Revenue (Provincial)	35	26	34%	106	94	13%
Total Expenditure	3,635	3,112	17%	10,017	8,440	19%
Current Expenditure	3,183	2,702	18%	9,245	7,378	25%
- Mark up payment	1,009	666	52%	3,582	2,118	69%
- Defence	362	361	0%	1,001	882	13%
- Subsidies	328	262	25%	524	575	-9%
- Grant to others	228	371	-38%	618	920	-33%
- Other	335	253	33%	883	714	24%
Provincial	921	790	17%	2,637	2,168	22%
Development Expenditure & net lending to PSE	424	480	-12%	1,060	1,051	1%
-PSDP (Federal)	157	109	44%	293	309	-5%
-PSDP (Provincial)	267	358	-26%	721	724	0%
-Other	1	12	-94%	46	18	152%
Statistical Discrepancy	27	(70)	N/A	(288)	11	N/A
Budget Balance	(1,395)	(1,194)	17%	(3,079)	(2,566)	20%
Budget Balance (% of GDP)	(1.7)	(1.8)	0.1	(3.7)	(3.8)	0.2
Primary Balance	(386)	(528)	-27%	504	(447)	N/A
Primary Balance (% of GDP)	(0.5)	(0.8)	0.3	0.6	(0.7)	1.3
Financing	1,395	1,194	17%	3,079	2,566	20%
External	(387)	(44)	775%	(683)	981	N/A
Domestic	1,782	1,238	44%	3,761	1,584	137%
Non - Bank	1,409	456	209%	1,803	532	239%
Bank	373	782	-52%	1,959	1,052	86%

Source: MoF, Foundation Research, May 2023

Abbreviations

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

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