

Day Break

Wednesday, 28 August 2019

Economy

Exhibit: Fiscal and primary deficit historical

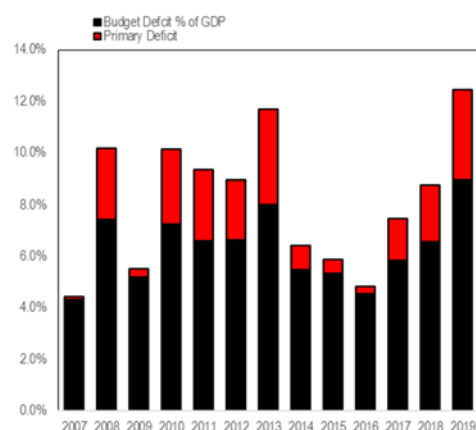
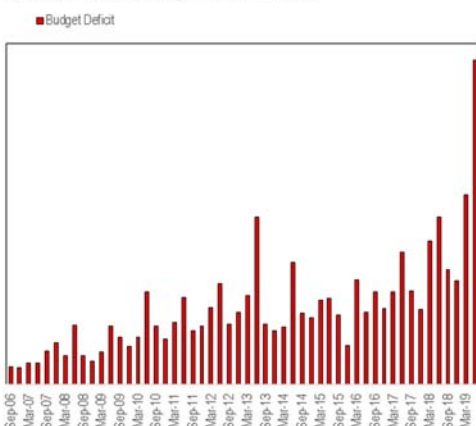


Exhibit: Quarterly fiscal deficit



Source: SBP, PBS, MOF, IGI Research

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Fiscal Accounts

Major slippages on revenue side pushed fiscal deficit to 8.9% of the GDP

- The latest release by Ministry of Finance shows that the consolidated fiscal deficit for period 2018-19 touched PKR 3.45trn or in term of GDP fiscal deficit amounted to 8.9% versus initial budget deficit projection of 7.2% or PKR 2.76trn, a growth of 25%
- Major slippages were seen in both tax and non-tax revenue which reduced by PKR 322bn and PKR 274bn respectively
- Relative to revenue, government expenditure side showed some containment. Total expenditure clocked in at PKR 5.6trn against projected PKR 5.4trn (+4% or PKR 208bn)

Consolidated fiscal deficit came at 8.9% of the GDP, one of the highest recorded deficit

The latest release by Ministry of Finance shows that the consolidated fiscal deficit for period 2018-19 touched PKR 3.45trn or in term of GDP fiscal deficit amounted to 8.9% versus initial budget deficit projection of 7.2% or PKR 2.76trn, a growth of 25%. More importantly, country's primary deficit now stands at 3.5% of the GDP against a projected 2.0% and 0.6% under IMF-recommendation. Nevertheless, revised number reveal major shortcomings on revenue side, while total expenditure remained relatively in-line with government projection.

Exhibit: Consolidated Federal Budget Snapshot

PKRbn	FY17	FY18	FY19	FY19 R	Diff. (%)	Diff. (abs.)	FY20F
Net Revenue Receipt	2,616	2,676	2,569	2,038	-21%	(531)	3,462
Total Expenditure	4,219	4,857	5,391	5,599	4%	208	7,036
Fiscal Balance	(1,603)	(2,180)	(2,822)	(3,561)	26%	(739)	(3,574)
Provincial Surplus	290	274	59	116	97%	57	423
Cons. Fiscal Balance	(1,313)	(1,907)	(2,763)	(3,445)	25%	(682)	(3,151)
Fiscal Deficit	-4.1%	-5.5%	-7.2%	-8.9%			-7.2%
Primary Deficit	0.2%	-1.1%	-2.0%	-3.5%			-0.6%
GDP (PKRbn)	31,862	34,396	38,559	38,559	0%	-	44,003

Source: MoF & IGI Research

Lower than projected revenues key cause of concern

Against a projected revenue for FY19 of PKR 5.03trn, actual gross revenue came at PKR 4.4trn or 11.5% of the GDP versus 13.0%. Major slippages were seen in both tax and non-tax revenue which reduced by PKR 322bn and PKR 274bn respectively.

Expenditure remain close to projected

Relative to revenue, government expenditure side showed some containment. Total expenditure clocked in at PKR 5.6trn against projected PKR 5.4trn (+4% or PKR 208bn). Key slippages were seen in debt servicing cost at PKR 2.0trn against projected PKR 1.98trn, on the back of higher domestic loan servicing cost. Nevertheless, as a result of weak revenue collection, country's primary deficit clocked in 3.5% of the GDP or PKR 1.35trn against a projected PKR 0.77trn, difference of nearly +74%. To recall, IMF in its recent fund facility agreement recommended a primary deficit cap of 0.6% of the GDP. More importantly, Development expenditure reduced by 4% to PKR 795bn. Break-up

wise, Public Sector Development Projects (PSDP) came short by PKR 132bn to PKR 1.07trn down to 2.8% of the GDP.

With the new revenue base set lower, government will now require +43% tax revenue growth to reach its PKR 5.8trn target in FY20

More intriguingly with the new revenue base set lower, government will now require +43% tax revenue growth to reach its PKR 5.8trn target in FY20. Similarly, non-tax revenue would need to increase two-fold to reach its target number of PKR 0.9trn from current PKR 0.4trn. Even adjusting for ~11% average inflation in FY20 total gross revenue growth comes at ~46% y/y. Given a weaker domestic GDP growth rate of ~3% in FY20, we think achieving such a revenue growth target will be an uphill task and we may see major slippages in revenue collection mainly on sales, excise and income tax. Although expenditure was more or less aligned with projected figures, we think government would require cutbacks on current expenditure budgeted for PKR 7.3trn in FY20 from current PKR 5.6trn (+30% growth), key to which is domestic debt servicing cost which is estimated to reach PKR 2.5trn from PKR 1.8trn, a growth of +39%.

Exhibit: Non-tax revenues nearly evaporated in the 4q 2019.

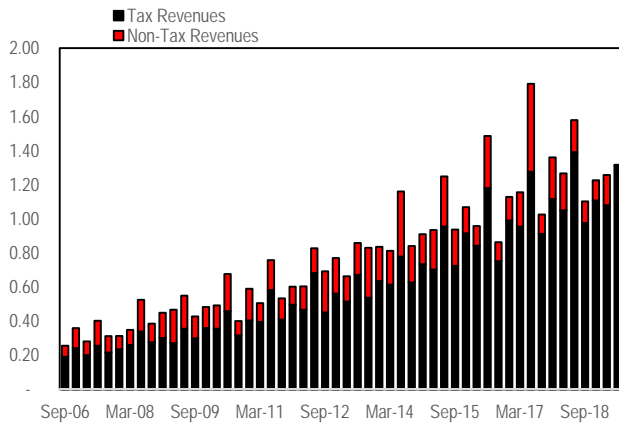


Exhibit: Debt servicing cost accounts for nearly ~45% of total revenue

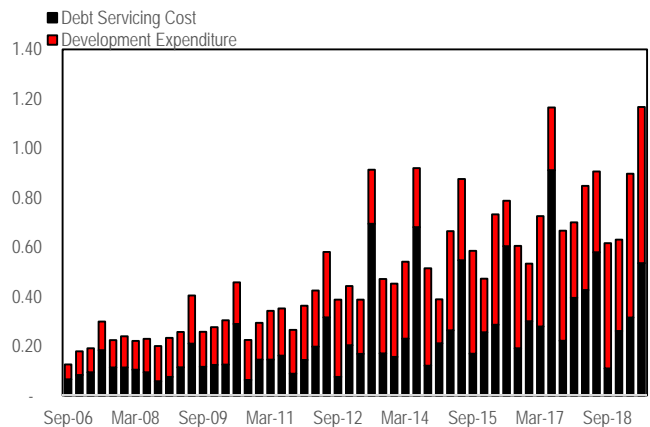


Exhibit: List of PSE approved for Privatization

	PKRbn	USDbn
SME Bank Limited	n.m.	n.m.
First Women Bank Limited	n.m.	n.m.
PAKRI	n.m.	n.m.
SLIC	n.m.	n.m.
OGDC	37.1	0.2
PPL	42.3	0.3
MARI	19.0	0.1
Balloki Power Plant	160.0	1.0
Haveli Bahadur Power Plant	160.0	1.0
PIA Roosevelt Hotel (NY)	n.m.	n.m.
Scribe Hotel in Paris	n.m.	n.m.
Total Proceeds	418.4	2.6

Earlier IMF highlighted the profligacy on fiscal side will act as a major drag on achieving targeted GDP growth

The IMF in its recent assessment on Pakistan economic outlook highlighted the profligacy on fiscal side will act as a major drag on country’s GDP, hence targeting a GDP growth of 2.4% in FY20. Major slippages on fiscal side as per the IMF authorities may emanate from higher power sector subsidies and lower than estimated materialization of provincial surplus, which will likely bring the fiscal deficit close to 7.0% of the GDP or PKR 3.0trn.

Privatisation proceeds to potentially bridge fiscal shortcomings

Moreover, privatization proceed is one area where we think the GoP has the room to cover up for revenues shortcomings. For the year 2020 the government of Pakistan has earmarked PKR 150bn or roughly USD 1.0bn under privatization proceeds. With the recent news tooting government privatising 11 SOE in FY20 that has a potential to bridge in additional USD 2-2.5bn or PKR 400-450bn, in our view.

Exhibit: Consolidated Federal Budget Snapshot

PKRbn	FY17 Actual	FY18 Actual	FY19 Budgeted	FY19 Revised	Diff. %	Diff. PKRbn	FY20 Budgeted
Revenue							
Tax Revenues	3,825	4,147	4,394	4,072	-7%	(322)	5,822
<i>Tax Revenues / GDP</i>	<i>12.0%</i>	<i>12.1%</i>	<i>11.4%</i>	<i>10.6%</i>			<i>13.2%</i>
of which FBR	3,521	3,935	4,150	3,829	-8%	(321)	5,555
Direct taxes	1,379	1,563	1,659	1,446	-13%	(213)	2,082
Indirect taxes	2,142	2,372	2,491	2,384	-4%	(107)	3,473
- Sales Tax	1,445	1,547	1,490	1,465	-2%	(25)	2,108
b) Other Taxes	304	212	244	242		(2)	267
Non-Tax Revenues	912	845	638	364	-43%	(274)	894
<i>Non-Tax Revenues / GDP</i>	<i>2.9%</i>	<i>2.5%</i>	<i>1.7%</i>	<i>0.9%</i>			<i>2.0%</i>
Gross Revenue	4,737	4,992	5,032	4,436	-12%	(596)	6,717
<i>Gross Revenue / GDP</i>	<i>14.9%</i>	<i>14.5%</i>	<i>13.0%</i>	<i>11.5%</i>			
Provincial Share	2,121	2,316	2,463	2,398	-3%	(65)	3,255
<i>Provincial Share / gross revenue</i>	<i>44.8%</i>	<i>46.4%</i>	<i>48.9%</i>	<i>54.1%</i>			<i>48.5%</i>
Net Revenue Receipt	2,616	2,676	2,569	2,038	-21%	(531)	3,462
Expenditure							
Current Expenditure	3,905	4,298	5,589	5,599	0%	10	7,288
- Debt Servicing	1,361	1,526	1,987	2,091	5%	104	2,891
- Domestic	1,228	1,332	1,682	1,821		139	2,532
- External	133	194	306	270		(35)	360
- Defence	841	999	1,138	1,147	1%	9	1,153
- Education	85	91	97	97	0%	(0)	77
Development	936	1,063	830	795	-4%	(34)	950
a) PSDP	1,539	1,550	1,200	1,068	-11%	(132)	1,613
<i>PSDP / Total GDP</i>	<i>4.8%</i>	<i>4.5%</i>	<i>3.1%</i>	<i>2.8%</i>			<i>3.7%</i>
Total Outlay	4,841	5,361	6,419	6,394	0%	(25)	8,238
<i>Total Outlay / GDP</i>	<i>15.2%</i>	<i>15.6%</i>	<i>16.6%</i>	<i>16.6%</i>			<i>18.7%</i>
Total Expenditure	4,219	4,857	5,391	5,599	4%	208	7,036
Fiscal Balance							
Federal	(1,603)	(2,180)	(2,822)	(3,561)	26%	(739)	(3,574)
Provincial Surplus	290	274	59	116	97%	57	423
Consolidated	(1,313.1)	(1,906.5)	(2,763.3)	(3,445.1)	25%	(682)	(3,151.2)
Fiscal Deficit	-4.1%	-5.5%	-7.2%	-8.9%			-7.2%
Primary Deficit	48.0	(380.3)	(776.0)	(1,354.0)	74%	(578)	
Primary Deficit % of GDP	0.2%	-1.1%	-2.0%	-3.5%			-0.6%
GDP (PKRbn)	31,862	34,396	38,559	38,559	0%	-	44,003
Financing							
External	1,350.1	1,906.5	2,763.3	3,634.9	32%	872	3,151.2
Domestic	373.8	708.0	330.7	416.7	26%	86	1,828.8
Domestic	976.3	1,198.5	2,432.6	3,218.2	32%	786	1,322.4
<i>Domestic Financing share</i>	<i>72.3%</i>	<i>62.9%</i>	<i>88.0%</i>	<i>88.5%</i>			<i>42.0%</i>
a) Bank	741	586	1,356	2,456	81%	1,099	339
b) Non-banking	235	612	1,076	763	-29%	(314)	983
Privatisation Proceeds	18	-	-	-		-	150

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