

Pakistan Economy

Fiscal Deficit in 1HFY21 clocked-in at PKR 1,138bn (2.5% of GDP)

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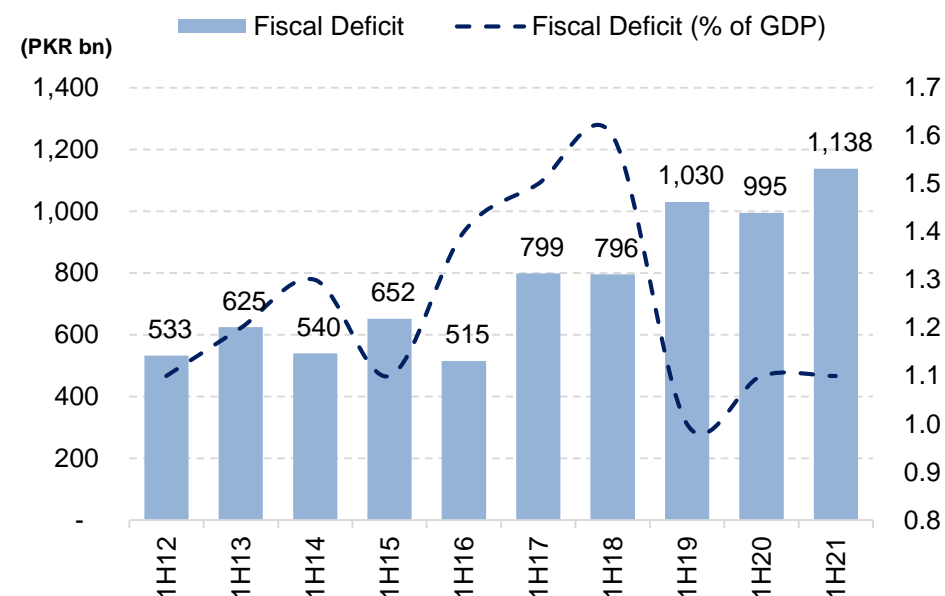
Best Equity Research
Analyst: 2020

Pakistan Fiscal Operations

Deficit up by 14% YoY in 1HFY21

- Pakistan's fiscal balance in the current fiscal year to date has weakened over prior year, with the deficit arriving at PKR 1.14trn in 1HFY21 (2.5% of GDP) compared to PKR 995bn in 1HFY20 (2.3% of GDP), up by 14.4% YoY. With that said, the primary surplus during the period at PKR 337bn (0.7% of GDP in 1HFY21) fares better compared to a primary surplus of PKR 286bn witnessed last year (0.7% of GDP), which is slightly above the IMF's initial target at 0.6% of GDP.
- Primarily, total revenue growth at 3.7% in 1HFY21 to PKR 3.4trn (1HFY20: PKR 3.2trn) aided the fiscal operations, translating into 7.4% of GDP vs. 7.3% last year. The total tax revenue collection remained almost flat at PKR 2.5trn (-0.4% YoY). Indirect taxes (+5.4% YoY to PKR 1.38trn), sales tax (+6.9% YoY to PKR 918bn), and direct taxes (+5.9% YoY to PKR 831bn; higher number of tax payers), contributed to the overall collection.
- Moreover, the government collected PKR 895bn in non-tax revenues, displaying a jump of 17% YoY. This was particularly on the back of Petroleum Levy which is now classified under non-tax revenue (+1.1% YoY | PKR 275bn). On the flipside, the surplus profit of State Bank of Pakistan and Pakistan Telecommunication Authority declined during 1HFY21 to PKR 372bn (-12% YoY) and PKR 18bn (-84% YoY), respectively.
- In addition, total expenditures went up by 6.2% YoY to PKR 4.5trn (9.9% of GDP vs. 9.6% of GDP in 1HFY20). Further breakup revealed that current expenditure underwent an uptick of 8.3% YoY of which markup payments rose by 15% YoY. On the contrary, the defence expenses went down by 8% YoY to PKR 487bn. Moreover, development expenditure and net lending undertaken by the government declined by 3.3% YoY.
- Total PSDP expenditure in 1HFY21 arrived at PKR 403bn (-12% YoY) with provincial expenditure at PKR 227bn, outdoing federal disbursement of PKR 175bn.

Exhibit: Historical Fiscal Deficit During 6M



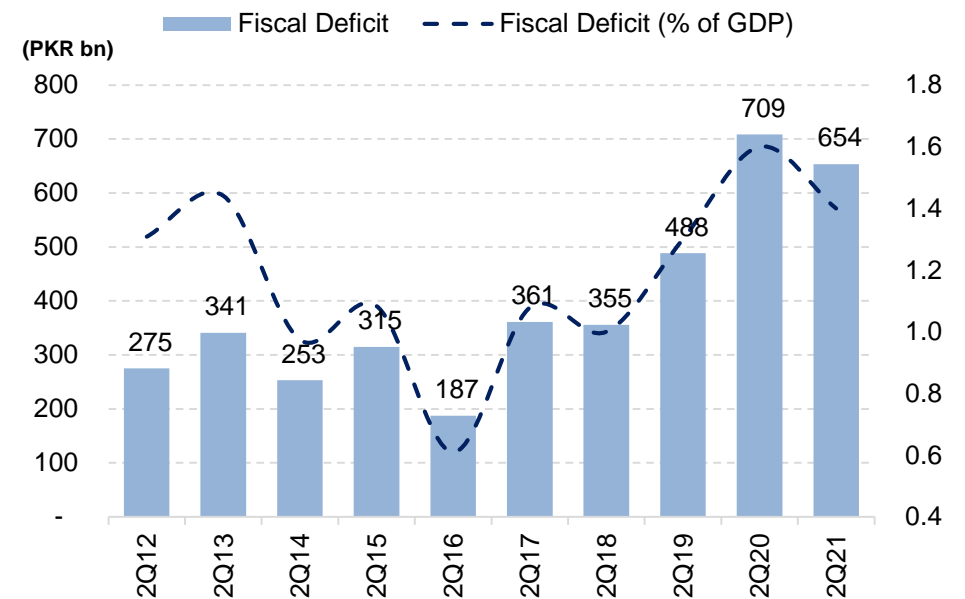
Source (s): MoF, AHL Research

Pakistan Fiscal Operations

Decline of 7.8% YoY in deficit during 2QFY21

- We also highlight that cumulatively all four provincial governments recorded an overall balance of PKR 254bn during 1HFY21, compared to PKR 324bn recorded in the corresponding period last year, marking a 22% decline. Punjab remained the only province to record a jump of 23% YoY in 2QFY21.
- Pertinently, budget deficit during 2QFY21 settled at PKR 654bn (1.4% of GDP), depicting a decline of 7.8% YoY vis-à-vis PKR 709bn in SPLY.
- Total revenues of the government in 2QFY21 arrived at PKR 1.87trn (4.2% of GDP), up by 7.4% YoY from PKR 1.74trn. Observations were similar to 1HFY21 with non-tax revenues in the outgoing quarter depicting a surge of 28% YoY to PKR 539bn alongside a meagre 0.8% jump in tax revenues to PKR 1.3trn.
- FBR benefitted from a 9% YoY rise in direct taxes to PKR 467bn in 2QFY21 whereas collection from sales tax and indirect taxes went up by 6% and 5% YoY to PKR 482bn and PKR 732bn, respectively.
- Total expenditure in 2Q clocked in at PKR 2,526bn (5.6% of GDP), up 3% YoY over the same period of last year (PKR 2,452bn; 5.6% of GDP) with a 9% decline in defense expenditure to PKR 262bn and 4% upturn in current expenditure to PKR 2.2trn.
- The deficit in the first half of FY21 was financed by borrowing 60% of the total deficit domestically, which amounts to PKR 683bn (+42% YoY | 1HFY20: PKR 481bn); while remaining 40% PKR 454bn was raised through external sources (-12% YoY| 1HFY20: PKR 513bn).

Exhibit: Historical Fiscal Deficit During 2Q



Source (s): MoF, AHL Research

Pakistan Fiscal Operations

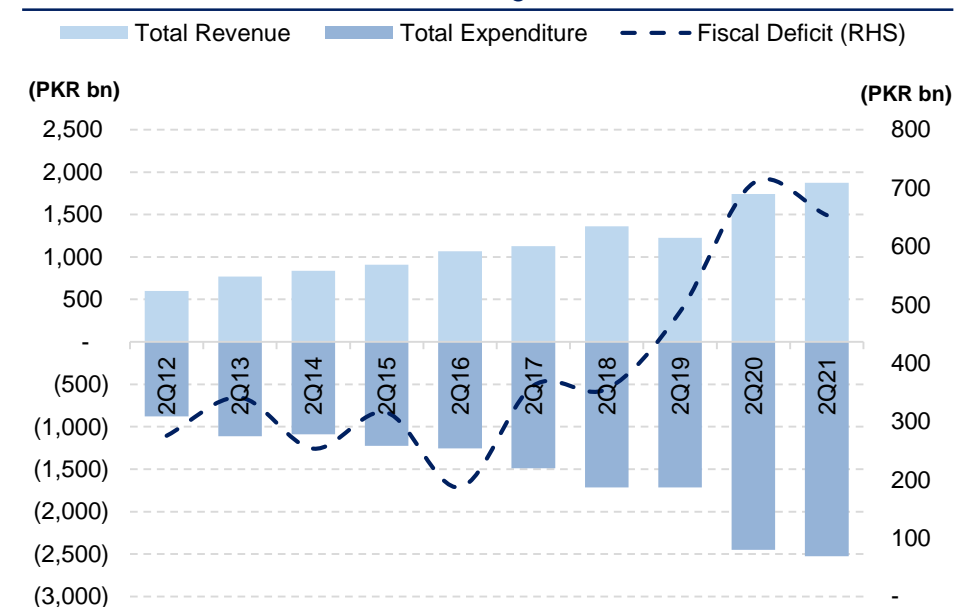
Consolidated Budgetary Operations

Exhibit: Consolidated Budgetary Operations

PKRbn	1HFY21	1HFY20	YoY	2QFY21	2QFY20	YoY	1QFY21	QoQ
Total Revenue	3,351	3,232	4%	1,872	1,743	7%	1,479	27%
- Tax Revenue	2,456	2,465	0%	1,334	1,322	1%	1,122	19%
FBR Taxes	2,210	2,093	6%	1,199	1,129	6%	1,011	19%
Direct Taxes	831	784	6%	467	429	9%	364	28%
Indirect Taxes	1,379	1,309	5%	732	700	5%	647	13%
- Non-tax Revenue	895	767	17%	539	421	28%	356	51%
Less: Provincial Share	1,280	1,326	-3%	776	713	9%	504	54%
Total Expenditure	4,489	4,227	6%	2,526	2,452	3%	1,963	29%
Current Expenditure	4,029	3,721	8%	2,217	2,139	4%	1,813	22%
Mark-up Payment	1,475	1,281	15%	733	710	3%	742	-1%
- Domestic Debt	1,357	1,121	21%	672	627	7%	685	-2%
- Foreign Debt	118	160	-26%	61	83	-26%	57	7%
- Defence	487	530	-8%	262	287	-9%	224	17%
Budget Balance	-1,138	-995	14%	-654	-709	-8%	-484	35%
Primary Balance	337	286	18%	79	1	97x	258	-69%
% of GDP								
Total Revenue	7.4	7.3		4.2	3.9		3.2	
Tax Revenue	5.4	5.6		2.9	3.0		2.5	
Non-tax Revenue	2.0	1.7		1.2	0.9		0.8	
Total Expenditure	9.9	9.6		5.6	5.6		4.3	
Current Expenditure	8.8	8.5		4.8	4.9		4.0	
Budget Deficit	2.5	2.3		1.4	1.6		1.1	
Primary Balance	0.7	0.7		0.2	0.0		0.6	

Source (s): MoF, AHL Research

Exhibit: Historical Fiscal Deficit During 2Q



Source (s): MoF, AHL Research

Pakistan Fiscal Operations

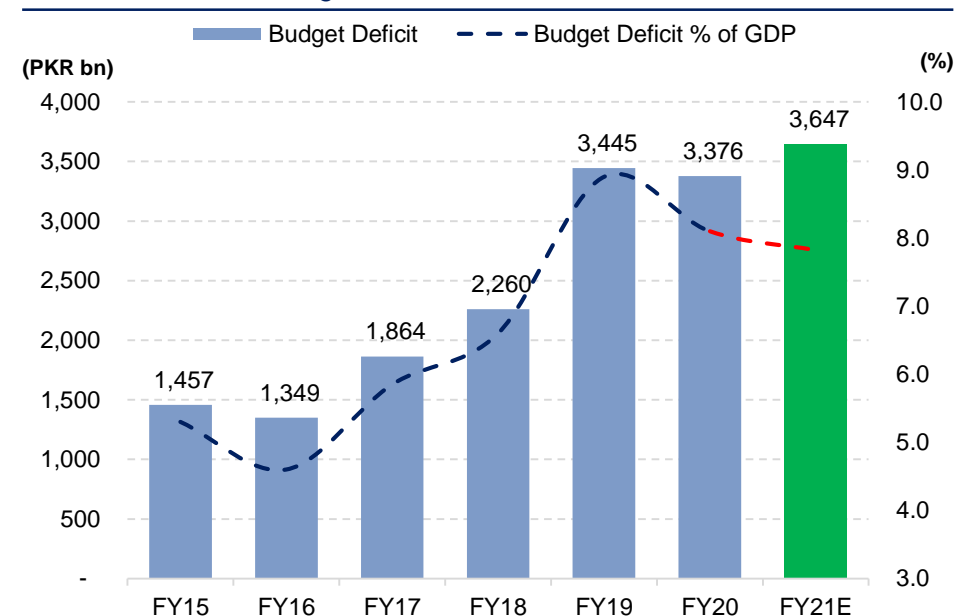
Fiscal Deficit to Climb up to 7.8% of GDP during FY21

Exhibit: Pakistan Fiscal Operations

PKR bn	FY16	FY17	FY18	FY19	FY20	1HFY21	FY21E
Total Revenue	4,447	4,937	5,228	4,901	6,272	3,351	7,311
Tax Revenue	3,660	3,969	4,467	4,473	4,748	2,456	5,453
Non-Tax	787	967	761	427	1,524	895	1,858
Total Expenditure	5,796	6,801	7,488	8,346	9,648	4,489	8,760
Current Expenditure	4,694	5,198	5,854	7,104	8,532	4,029	7,308
Mark-up Payments	1,263	1,348	1,500	2,091	2,620	1,475	3,452
Defence	758	888	1,030	1,147	1,213	487	1,206
Federal PSDP	1,186	1,578	1,456	1,008	1,090	403	850
Budget Balance	(1,349)	(1,864)	(2,260)	(3,445)	(3,376)	(1,138)	(3,647)
Primary Balance	(86)	(515)	(760)	(1,354)	(757)	337	(195)
% of GDP							
Total Revenue	15.0	15.5	15.2	12.7	15.0	7.4	15.7
Tax Revenue	12.4	12.5	13.0	11.6	11.4	5.4	11.7
Nontax Revenue	2.7	3.0	2.2	1.1	3.7	2.0	4.0
Total Expenditure	19.6	21.3	21.8	21.6	23.1	9.9	18.8
Current Expenditure	15.9	16.3	17.0	18.4	20.4	8.8	15.7
Mark-up Payments	4.3	4.2	4.4	5.4	6.3	3.2	7.4
Defence	2.6	2.8	3.0	3.0	2.9	1.1	2.6
Budget Deficit	4.6	5.8	6.6	8.9	8.1	2.5	7.8
Primary Balance	(0.3)	(1.6)	(2.2)	(3.5)	(1.8)	0.7	(0.4)

Source (s): MoF, AHL Research

Exhibit: Historical Budget Deficits



Source (s): MoF, AHL Research

Pakistan Fiscal Operations

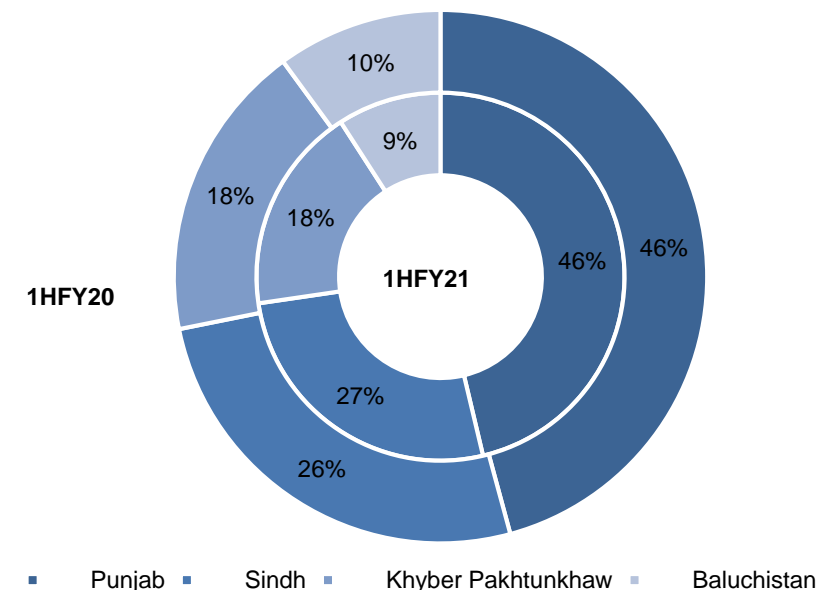
Federal and Provincial Revenue and Expenditure

Exhibit: Federal and Provincial Revenue and Expenditure

PKR bn	1HFY21	1HFY20	YoY	2QFY21	2QFY20	YoY	1QFY21	QoQ
Total Revenue	3,351	3,232	3.7%	1,872	1,743	7.4%	1,479	26.6%
Federal Revenue	2,210	2,093	5.6%	1,199	1,129	6.2%	1,011	18.7%
Provincial Revenue	1,658	1,683	-1.5%	999	892	12.0%	659	51.7%
Punjab	768	771	-0.4%	466	405	15.1%	301	54.7%
Sindh	438	439	-0.2%	260	240	8.3%	178	46.5%
Khyber Pakhtunkhaw	302	305	-1.0%	182	164	11.2%	120	52.3%
Baluchistan	151	169	-10.6%	91	83	9.1%	60	50.4%
Provincial Share in Federal Revenue	1,280	1,326	-3.5%	776	713	8.8%	504	54.0%
Total Expenses	4,489	4,227	6.2%	2,526	2,452	3.0%	1,963	28.7%
Federal Expense	3,185	2,930	8.7%	1,806	1,741	3.8%	1,378	31.0%
Provincial Expense	1,403	1,360	3.2%	789	771	2.3%	614	28.3%
Punjab	621	652	-4.7%	348	361	-3.6%	273	27.5%
Sindh	394	370	6.5%	208	207	0.5%	186	11.5%
Khyber Pakhtunkhaw	282	228	23.7%	158	141	11.8%	124	26.7%
Baluchistan	106	110	-3.7%	75	62	22.1%	31	144.1%
Budget Deficit	1,138	995	14.4%	654	709	-7.8%	484	35.0%
<i>Budget Deficit (% of GDP)</i>	<i>2.5%</i>	<i>2.3%</i>		<i>1.4%</i>	<i>1.6%</i>		<i>1.1%</i>	
Primary Balance	337	286	17.7%	79	0.8	9595%	258	-69.2%
<i>Primary Balance (% of GDP)</i>	<i>0.7%</i>	<i>0.7%</i>		<i>0.2%</i>	<i>0.0%</i>		<i>0.6%</i>	

Source (s): MoF, AHL Research

Exhibit: Provincial Revenue Break-up



Source (s): MoF, AHL Research

Pakistan Fiscal Operations

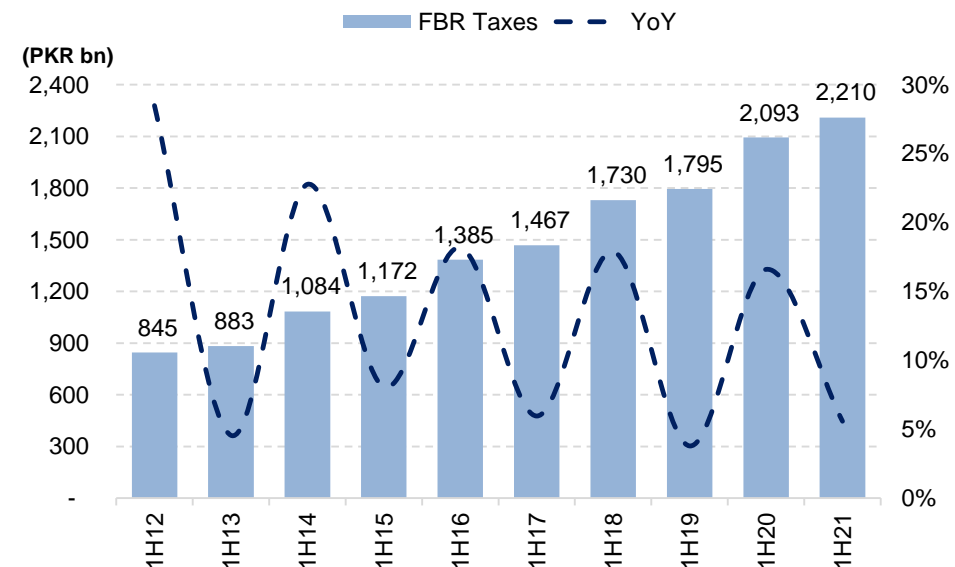
Federal Government Revenue

Exhibit: Federal Government Revenue

PKR bn	1HFY21	1HFY20	YoY	2QFY21	2QFY20	YoY	1QFY21	QoQ
Tax Revenue	2,456	2,251	9.1%	1,334	1,212	10.0%	1,122	18.8%
FBR Taxes	2,210	2,093	5.6%	1,199	1,129	6.2%	1,011	18.7%
i) Direct Taxes	831	784	5.9%	467	429	9.0%	364	28.5%
ii) Indirect Taxes	1,379	1,309	5.4%	732	700	4.5%	647	13.2%
Cutoms Duties	338	328	3.0%	183	173	5.8%	155	17.6%
Sales Tax	918	859	6.9%	482	455	6.1%	436	10.7%
Federal Excise	123	122	0.8%	67	73	-8.0%	56	19.9%
Non-Tax Revenue	862	719	19.9%	518	398	30.4%	343	51.1%
Surplus Profit of SBP	373	427	-12.7%	268	242	10.8%	105	154.8%
Profits Post Office	19	112	-83.4%	10	40	-74.0%	8	28.3%
Royalties on Oil and Gas	35	44	-19.8%	21	20	2.2%	15	40.1%
Others	435	136	219.2%	220	96	129.7%	215	2.2%
Gross Revenue Receipts	3,072	2,970	3.4%	1,718	1,610	6.7%	1,354	26.9%
Transfer to Provinces	1,280	1,326	-3.5%	776	713	8.8%	504	54.0%
Net Revenue Receipts	1,792	1,644	9.0%	942	897	5.0%	850	10.8%

Source (s): MoF, AHL Research

Exhibit: FBR Taxes Increased by 5.6% YoY during 1HFY21



Source (s): MoF, AHL Research

Pakistan Fiscal Operations

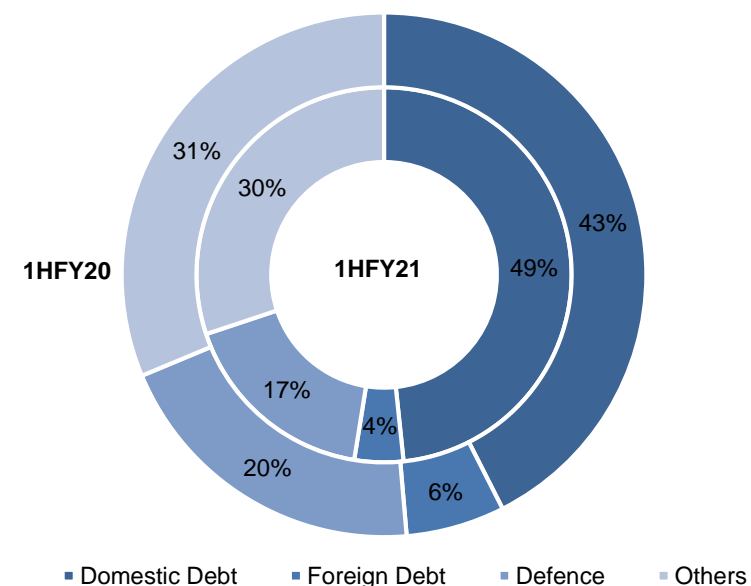
Federal Government Expenses

Exhibit: Federal Government Expenses

PKR bn	1HFY21	1HFY20	YoY	2QFY21	2QFY20	YoY	1QFY21	QoQ
Total Expenditure	3,072	2,970	3.4%	1,718	1,610	6.7%	1,354	26.9%
Current Expenditure	2,807	2,635	6.5%	1,536	1,542	-0.4%	1,271	20.8%
General Public Service	1,475	1,963	-24.8%	733	1,173	-37.5%	742	-1.2%
Servicing of Domestic Debt	1,357	1,121	21.1%	672	627	7.2%	685	-1.9%
Servicing of Foreign Debt	118	160	-26.4%	61	83	-26.3%	57	6.8%
Superannuation Allowances & Pension	210	219	-3.8%	124	120	3.5%	87	42.6%
Defence Affairs and Service	487	530	-8.1%	262	287	-8.6%	224	16.8%
Development Expenditure	270	295	-8.5%	140	198	-29.6%	130	7.0%
PSDP	232	276	-15.9%	150	183	-18.1%	83	81.3%
Net lending	27	11	144.2%	(17)	8	nm	44	nm
Financing	1,393	1,343	3.7%	864	868	-0.4%	529	63.5%
External	454	514	-11.5%	293	347	-15.6%	161	81.6%
Domestic	939	830	13.1%	571	521	9.6%	367	55.5%
Bank	796	387	106.0%	522	320	63.4%	274	90.5%
Nonbank	142	443	-67.8%	49	202	-75.6%	93	-47.2%

Source (s): MoF, AHL Research

Exhibit: Current Expenditure Break-up



Source (s): MoF, AHL Research

Pakistan Fiscal Operations

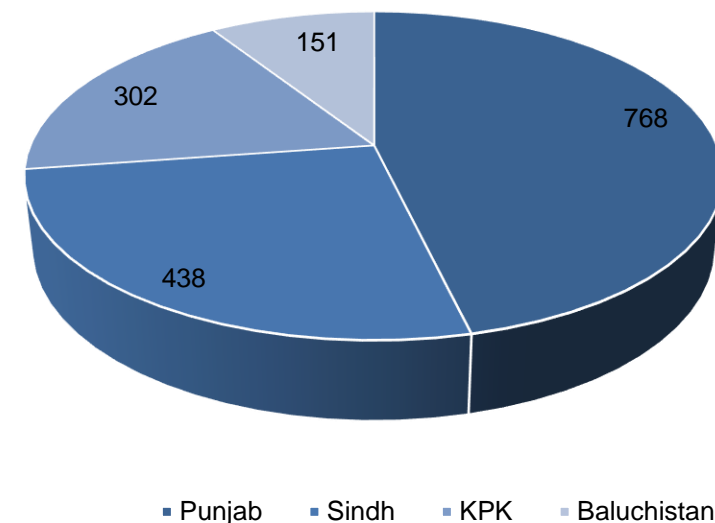
Provincial Fiscal Operations (1HFY21)

Exhibit: Provincial Fiscal Operations (1HFY21)

PKR bn	Punjab	Sindh	KPK	Baluchistan
Total Revenue	768	438	302	151
Provincial Share in Fed Revenue	622	320	205	133
Provincial Taxes	118	103	16	9
Provincial Nontax	27	5	12	3
Federal Loans and grants	1	10	68	6
Total Expenditure	621	394	282	106
Current expenditure	555	373	253	101
Mark-up payment to Federal Govt.	8	4	1	0
Other Current Expenditure	547	369	251	101
Development expenditure (PSDP)	109	49	50	20
Overall balance	146	44	20	45

Source (s): MoF, AHL Research

Exhibit: Provincial Tax Revenue (1HFY21)



Source (s): MoF, AHL Research

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* Upside for Power Generation Companies (Ex. KEL) is upside plus dividend yield.

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- Dividend Discount Model (DDM)
- Sum of the Parts (SoTP)
- Justified Price to Book (JPTB)
- Reserved Base Valuation (RBV)

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- Exchange Rate (Currency) Risk

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