31 January 2024

REN # REP-004

REN # REP-400R

ECONOMY

Fiscal Operations

Pakistan Research

Economy: Advancing Fiscal progress in 1HFY24

The MoF published the 1HFY24 fiscal accounts which reveal doubling of the primary surplus on a YoY basis to PKR 1.8tn (1.7% of GDP). This increase was mainly driven by growth in federal direct tax and non-tax revenues amid controlled non-interest expenses. However, the fiscal budget deficit increased by 43.0% YoY to PKR 2.4tn (2.3% of GDP) in 1HFY24 from 1.7tn in 1HFY23 (2.0% of GDP) on the back of higher markup payments. The improvements on the fiscal front are attributable to consolidation efforts to boost debt sustainability and relieve external pressure in the long run.

1HFY24 reflecting fiscal consolidation & revenue mobilization

Total revenues expanded by 45.9% YoY in 1HFY24 to PKR 6.9tn on account of a 29.5% YoY increase in tax revenues and a 2x increase in federal non-tax revenues. The surge in tax revenues was mainly due to 40.8% growth in federal direct revenue, which emanated from efforts to increase the tax base. Federal non-tax revenue was boosted by a 2.6x YoY surge in SBP profits and a 2.7x YoY increase in petroleum levy in 1HFY24. SBP recorded a profit of PKR 1.0tn in 1HFY24 as against PKR 0.3tn in 1HFY23 while the government collected petroleum levy PKR 0.5tn in 1HFY24 compared to PKR 0.2tn in 1HFY23.

The fiscal consolidation planned for FY24 (primary surplus of PKR 0.4tn) is backed by strategies to enhance revenue generation while curbing non-essential expenses. These encompass operations to bring 900k non-filers into the tax net and reforms to enhance revenue administration including anti-smuggling and close monitoring of a track & trace system.

Total expenditures mounted by 45.1% YoY to PKR 9.2tn on the back of higher interest payments. Markup payments augmented by 64.0% YoY to PKR 4.2tn in 1HFY24 from PKR 2.6tn in 1HFY23. Non-interest expenditure increased by 21.4% YoY in 1HFY24, which is lower than the expected rate of nominal GDP growth (25.0% YoY). Hence, in our view the government has succeeded in controlling non-interest expenditures so far, as reflected in the primary surplus balance.

The primary balance met IMF's indicative targets

The primary surplus improved from PKR 0.9tn in 1HFY23 to PKR 1.8tn in 2HFY24. This surpassed IMF targets of PKR 1.4tn for a primary surplus. Additionally, Federal government net revenues exceeded the PKR 4.4tn floor imposed by the IMF, registering net revenues of PKR 4.5tn.

Budget was financed mainly by domestic banking sector

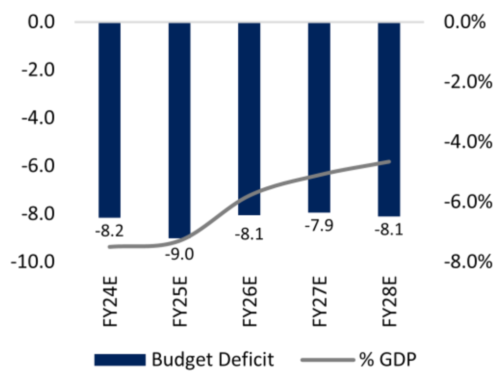
The overall budget deficit of PKR 2.4tn in 1HFY24 was primarily financed by the domestic sector (PKR 1.8tn, 74.8%). Within the domestic sector gov't borrowed PKR 2.0tn, where additional borrowing was used to retire PKR 0.3tn from non-banking.

Sustained improvements in fiscal framework required

In the past, persistent deficits fostered growth in M2 which drove an overheating economy with inflationary pressures exceeding the 30.0% YoY mark. With significant external imbalances, Pakistan is likely to remain in an IMF program with a continued emphasis on consolidation efforts. Hence, we expect the fiscal position to strengthen as recovery of GDP growth boosts tax collection and persistence with a contractionary fiscal policy is likely to keep expenditures contained.

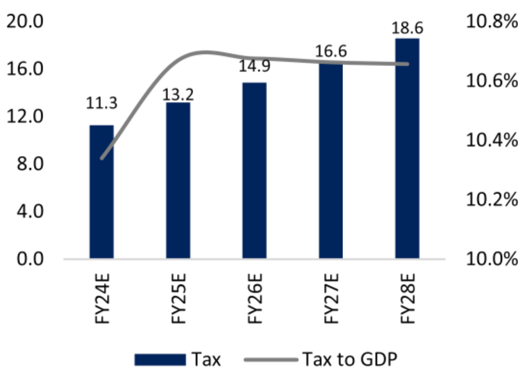
However, tight global and domestic financing conditions would keep markup payments elevated in 2HFY24. Additionally, violations of structural benchmarks agreed with the IMF such as commitments to not grant further tax amnesties and avoiding the practice of issuing preferential tax treatments or exemptions are key risks to fiscal sustainability.

Consolidation measures to contract deficits in the long run (PKR tn)



Source: IMF, Akseer Research

Broad-based fiscal reforms required to increase stagnant Tax-GDP ratio (PKR tn)



Source: IMF, Akseer Research

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Pakistan Fiscal Operations (PKR Bn)

	2QFY23	2QFY24	YoY %Δ	1HFY23	1HFY24	YoY %Δ
Total revenue	**2,682**	**4,168**	**55%**	**4,699**	**6,854**	**46%**
Tax revenue	**1,950**	**2,617**	**34%**	**3,732**	**4,834**	**30%**
Federal	1,795	2,428	35%	3,429	4,469	30%
Direct Taxes	*843*	*1,214*	*44%*	*1,526*	*2,149*	*41%*
Taxes on international trade	*237*	*288*	*22%*	*467*	*541*	*16%*
Sales Tax	*630*	*788*	*25%*	*1,272*	*1,515*	*19%*
Federal Excise	*85*	*137*	*61%*	*164*	*265*	*61%*
Provincial	155	190	23%	303	365	20%
Non-Tax	**732**	**1,551**	**112%**	**967**	**2,020**	**109%**
Federal	694	1,506	117%	896	1,941	117%
Mark-up (PSEs & Others)	*49*	*136*	*179%*	*78*	*203*	*161%*
Dividend	*16*	*17*	*3%*	*41*	*50*	*24%*
Profit PTA & others	*20*	*0*	*-99%*	*33*	*4*	*-89%*
Surplus Profit of State Bank of Pakistan	*371*	*972*	*162%*	*371*	*972*	*162%*
Defense Receipts	*5*	*8*	*40%*	*9*	*14*	*54%*
Passport Fee	*10*	*11*	*15%*	*16*	*26*	*57%*
Discount retained on Crude Oil	*7*	*7*	*5%*	*11*	*13*	*22%*
Royalties on Oil\ Gas	*36*	*46*	*27%*	*57*	*87*	*54%*
Petroleum Levy	*130*	*251*	*92%*	*178*	*473*	*166%*
Others	*30*	*44*	*49%*	*68*	*77*	*13%*
Provincial	38	45	18%	71	79	11%
Total Expenditure	**3,546**	**5,596**	**58%**	**6,382**	**9,262**	**45%**
Current Expenditure	**3,523**	**5,392**	**53%**	**6,061**	**8,565**	**41%**
Mark up payments	1,619	2,840	**75%**	2,573	4,220	**64%**
Defense	326	415	**27%**	639	758	**19%**
Development expenditure & net lending	**324**	**379**	**17%**	**637**	**661**	**4%**
Statistical discrepancy	(394)	(175)	-56%	(315)	36	NM
Overall Budget Balance	**(864)**	**(1,428)**	**65%**	**(1,683)**	**(2,408)**	**43%**
Primary Balance	**755**	**1,413**	**87%**	**890**	**1,812**	**104%**
Financing	**864**	**1,428**	**65%**	**1,683**	**2,408**	**43%**
External (Net)	(337)	166	NM	(296)	608	NM
Domestic (Net)	1,201	1,262	5%	1,980	1,799	-9%
Non-Bank	*1,098*	*287*	*-74%*	*1,586*	*(252)*	*NM*
Bank	*103*	*975*	*847%*	*394*	*2,051*	*421%*
% of GDP						
Primary Balance	**0.9%**	**1.3%**		**1.1%**	**1.7%**	
Overall Balance	**-1.0%**	**-1.3%**		**-2.0%**	**-2.3%**	

Source: MoF, Akseer Research

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Rating	Expected Total Return
Buy	Greater than or equal to +15%
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Sell	Less than or equal to -5%

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