PAKISTAN INVESTMENT RESEARCH

In Focus

Pakistan Fiscal Summary (9MFY24)

Primary surplus surges as non-markup expenditures kept under check

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Pakistan's Fiscal Accounts for 9MFY24 revealed that the country's budget deficit remained relatively stable at 3.7% of GDP as against 3.6% during 9MFY23. Moreover, controlled expenditures enabled the primary surplus to expand by around 3.0x to 1.5% of GDP against 0.6% recorded in 9MFY23.

Key Fiscal Highlights

- **Fiscal revenues surged by 41% YoY to PkR 9.8tn during 9MFY24**. The improvement stemmed from a 30% increase in tax revenues and a 91% rise in non-tax revenues.
- **Pakistan's federal taxes rose 29% YoY to PkR 7.3tn during 9MFY24** because of a 41% rise in direct taxes and a 64% increase in FED collection. Direct tax collection likely benefitted from improved corporate profitability. FED, in turn, benefitted from higher levies implemented in the tobacco industry.
- Sales tax and customs duty collection growth underperformed because of restricted imports (-8% YoY) and subdued economic activity.
- The surge in non-tax revenues was primarily driven by a **higher share of SBP profits (+162% YoY)** because of a change in the transfer mechanism and **increased petroleum levy collection (+99% YoY)** because of the sharp rise in PDL levy (PkR 60/liter) on the sale of Motor Gasoline and HSD.
- **Total expenditures rose by 37% YoY to PkR 13.7tn**, driven primarily by higher markup expenditures (+54% YoY). The proliferating debt servicing burden can be credited to rising government debt (+25% YoY) and higher interest rates, with peak borrowing rates hovering around 25%.
- Notably, **net federal revenues**, adjusted for provincial transfers under the NFC award, **stood at PkR 5.3tn.** This figure stands at PkR 262bn below the markup expenditure, highlighting the government's shrinking fiscal space despite a rising primary surplus.
- Total expenditures stood at 11.5% of GDP (extrapolated) during 9MFY24. When adjusted for markup expenditure, defence expenses, subsidies, and grants, the figure falls to 1.4% of GDP, in line with the previous year.
- In our previous report, we highlighted the unsustainability of Pakistan's fiscal accounts. We think under the next IMF extended fund facility (EFF), the focus will likely be to enhance the **country's tax-to-GDP ratio by 2.0pps** by tapping the underpenetrated sectors. Moreover, **the quantum of subsidies and grants would likely be reduced** through energy price revisions, to enable a higher share of development spending.

Pakistan Fiscal Summary (9MFY24)

PkR bn	9MFY24	9MFY23	YoY (%)
Total Revenues	**9,780**	**6,938**	**41%**
Tax Revenues	7,262	5,618	29%
Federal	6,712	5,156	30%
Provincial	551	462	19%
Non-tax Revenues	2,518	1,321	91%
Total Expenditures	**13,683**	**10,017**	**37%**
Current Expenditure	12,333	9,245	33%
Mark-up	5,518	3,582	54%
Defence	1,222	1,001	22%
Dev. Expenditure	1,143	1,060	8%
Budget Balance	**(3,902)**	**(3,079)**	**27%**
% of GDP	*-3.7%*	*-3.6%*	
Primary Balance	**1,615**	**504**	**221%**
% of GDP	*1.5%*	*0.6%*	
GDP	**105,817**	**84,658**	**25%**

Source: MoF, BMA Research

Pakistan Fiscal Revenues (9MFY24)

PkR bn	9MFY24	9MFY23	YoY (%)
Total Revenues	**9,780**	**6,938**	**41%**
Federal Taxes	**7,262**	**5,618**	**29%**
% of GDP*	***9.15%***	***8.85%***	
Direct	3,265	2,309	41%
Customs	808	701	15%
Sales	2,237	1,901	18%
Federal Excise	402	245	64%
Provincial	**551**	**462**	**19%**
Non-tax Revenues	**2,518**	**1,321**	**91%**
SBP Profit	972	371	162%
Petroleum Levy	720	362	99%
Dividend	64	52	23%

**Extrapolated*

Source: MoF, BMA Research

Pakistan Fiscal Expenditures (9MFY24)

PkR bn	9MFY24	9MFY23	YoY (%)
Total Expenditure	**13,683**	**10,017**	**37%**
Federal	**9,124**	**6,608**	**38%**
Mark-up	5,518	3,582	54%
Defence	1,222	1,001	22%
Subsidies	473	524	-10%
Grants	780	618	26%
Provincial	**3,210**	**2,637**	**22%**
PSDP	**1,158**	**1,014**	**14%**
Federal	270	293	-8%
Provincial	888	721	23%

Source: MoF, BMA Research

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Old rating system

Valuation Methodology

To arrive at our period end target prices, BMA Capital uses different valuation methodologies including

- Discounted cash flow (DCF, DDM)
- Relative Valuation (P/E, P/B, P/S etc.)
- Equity & Asset return based methodologies (EVA, Residual Income etc.)