In Focus

BMA CAPITAL

Pakistan Fiscal Summary (1HFY24)

Fiscal Deficit rises to 2.3% of GDP

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As per figures released by the Ministry of Finance (MoF), Pakistan's Fiscal Deficit rose to PkR 2,408bn (2.3% of GDP) during 1HFY24 compared to PkR 1,683bn (2.0% of GDP) seen SPLY, driven by a sharp rise in debt servicing costs. Primary balance surged by 2.0x to PkR 1,812bn (1.7% of GDP) because of higher revenue collection and controlled expenditures.

Key Highlights

- Pakistan's total revenues surged by 46% YoY to PkR 6,854bn during 1HFY24, with the increase supported by higher tax and non-tax revenues.
- FBR's tax collection increased 30% YoY to PkR 4,469bn, led by higher direct taxation (+41% YoY) and FED (+61% YoY). FBR exceeded its agreed-upon revenue collection target by PkR 44bn. Moreover, the **ratio of direct taxation also increased to 48.1%** from 44.5% witnessed a year prior.
- Growth in customs duty (+16% YoY) and sales tax (+19% YoY) remained muted despite a high inflation environment. Low customs duty collection of PkR 541bn **missed its target by PkR 100bn** because of import compression, as imports were down 15% YoY. Moreover, the low sales tax collection of PkR 1,515bn **missed its target by PkR 220bn** because of subdued imports and low economic activity.
- The government's non-tax revenues were up 2.1x to PkR 2,020bn during 1HFY24. SBP profits (+162% YoY) and PDL collection (+166% YoY) witnessed notable increases during the half. SBP's profits increased because of the previous year's low base, **led by a change in the transfer mechanism,** and PDL collection benefitted from **a higher petroleum levy of PkR 60 per liter**.
- The government's total expenditures rose by 41% YoY to PkR 9,262bn, driven by a surge in mark-up spending. Record-high interest rates and debt balance (+24% YoY) caused debt servicing to increase by 64% YoY to PkR 4,220bn, **constituting 62% of the government's total revenues**. Moreover, adjusting for provincial transfers, debt servicing **utilized 100% of the net federal revenue receipts.**
- Reduced fiscal space because of high mark-up spending compelled the government to limit its development expenditure. Notably, federal PSDP expenditure stood at PkR 136bn against the annual target of PkR 1,150bn, **suggesting a utilization rate of 24%.**
- Onwards, we foresee an uptick in expenditures as the stock of approved subsidies and development spending will likely **land in the 2nd half of the fiscal year.** We estimate that the **fiscal deficit will increase to 7.6% of GDP by FY24**, roughly in line with FY23's figure of 7.7% of GDP. Given higher expenditure, we also see the stock of primary surplus reducing and **registering around 0.4% of GDP**.

Pakistan Fiscal Summary (1HFY24)

PkR bn	Dec23	Dec22	YoY (%)
Total Revenue	6,854	4,699	46%
Federal Revenues	4,469	3,429	30%
Direct Taxes	2,149	1,526	41%
Customs Duty	541	467	16%
Sales Tax	1,515	1,272	19%
FED	265	164	61%
Provincial Revenues	365	303	20%
Non-Tax Revenues	2,020	967	109%
SBP Profits	972	371	162%
Petroleum Levy	473	178	166%
Total Expenditures	9,262	6,382	45%
Current Expenditures	8,565	6,061	41%
Mark-up	4,220	2,573	64%
Defence	758	639	19%
Dev. Expenditure	661	637	4%
Statistical Discrepancy	36	(315)	n.m
Budget Balance	(2,408)	(1,683)	43%
% of GDP	-2.3%	-2.0%	
Primary Balance	1,812	890	104%
% of GDP	1.7%	1.1%	

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.)