

1HFY16: Higher tax collection dragged FD down to 1.7% of GDP

- Pakistan's Fiscal deficit checked in at 1.7% of GDP in 1HFY16 underneath 2.2% recorded in the CPLY as it recorded 0.6% deficit in 2QFY16 vs. 1.1% deficit in the previous quarter.
- Tax revenue collection enhanced to PkR916bn vs. PkR723bn in the 1QFY16 due to 1) settling of final tax liabilities by organizations 2) implementation of revised custom and regulatory duty 3) Higher sales tax charged by the government on petroleum products amid declining prices.
- This drove the total tax collection to PkR1.64trn in 1HFY16 as against targeted PkR1.55trn and IMF Target of PkR1.39trn. Where 2H of fiscal year historically witness improvement in tax collection, the expected of curtailment of development expenditure have made us to modify our full year expectation of fiscal deficit to 4.1% vs. 5.2% previously within IMF target of 4.3%.

Contained Fiscal deficit amid rising tax revenues

As per the data released by the Ministry of Finance, 1HFY16 fiscal deficit clocked in at 1.7% of GDP which translates into a deficit of 0.6% in 2Q. While the 1HFY16 deficit is reduced by PkR136bn over the same period last year, the improvement came on the back of PkR278bn rise in tax collection. In this regards, direct taxes increase by PkR82bn which we attribute to the payment of super tax and expansion in profitability while indirect taxes jacked up by PkR196bn reflecting dependence of government on this avenue. The government recorded PkR78bn sales tax essentially from petroleum products particularly HSD (~PkR20bn), PkR58bn from recently introduced GST on services and PkR31bn improvement in GIDC collection. Debt servicing expenditure ascended by 10.31% to PkR632bn despite domestic debt expanding by 12% as the government recorded significant savings from the prevailing low-interest rate environment and the banking sectors' appetite for financing government requirements. PSDP expanded by 40% as federal PSDP disbursement grew by +PkR30bn and provisional PSDP recorded an increase of PkR79bn. To note that the federal government released 22% of the planned PSDP in 1HFY16 as compared to 23% in 1HFY15. Hence, the budget deficit was contained at PkR515bn which was financed 39% by external sources and 35% by the banks. We figured that the government controlled borrowing from banks through the longer tenor papers thereby reducing refinancing risks.

Budget deficit target of 4.3%; well in reach

We believe that, tax collection would discover further backing through gains from the Voluntary Tax compliance scheme introduced by the government in Jan'16 and the full half effect of PkR40bn additional taxes imposed by increasing customs and regulatory duty. The expected curtailment of development expenditure by 26.56% to PkR1.11trn as compared to PkR1.513trn approved by the parliament and the four provisional assemblies would further aid the government in restricting budget deficit within its target of 4.3%. Consequently, the federal government will need to limit Public Sector Development Programme

Pakistan Fiscal Operations

PkR in Bn	1HFY16	1HFY15	YoY	2QFY16	YoY	QoQ
Tax Revenue	1,639	1,361	20.4%	916	24.7%	26.5%
Direct Taxes	541	459	17.8%	301	11.8%	25.6%
Indirect Taxes	1,098	902	21.7%	614	32.1%	27.0%
Non-Tax Revenue	366	388	-5.7%	152	-13.0%	-28.6%
Total Revenue	2,005	1,749	14.6%	1,068	17.4%	14.0%
Current Expenditure	2,104	1,989	5.8%	1,019	8.5%	-6.1%
Mark-up Payments	632	573	10.4%	217	21.5%	-47.9%
Defence Dev.	303	330	-8.0%	158	-4.4%	8.3%
Expenditure and net lending	424	331	28.2%	256	21.2%	51.4%
Statistical Discrepancy	(9)	81	n.m	(20)	n.m	n.m
Total Expenditure	2,520	2,401	5.0%	1,255	2.5%	-0.8%
Budget Deficit	(515)	(652)	-21.0%	(187)	-40.6%	-43.0%
Financing						
External	203	142	n.m	148	n.m	n.m
Domestic	312	510	n.m	39	n.m	n.m
Non Bank	129	296	n.m	(5)	n.m	n.m
Bank	183	199	n.m	44	n.m	n.m
Privatization proceeds	-	15	n.m	-	n.m	n.m
Budget Deficit	1.70%	2.20%	n.m	0.6%	n.m	n.m

Source: MoF, Shajar Research

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(PSDP) expenditure at Rs611bn, down 13%, against Rs700bn. Consequently, the federal government will need to limit Public Sector Development Programme (PSDP) expenditure at Rs611bn, down 13%, against Rs700bn. Hence, we revise our forecast for fiscal deficit, and expects it to clock in at 4.1% in FY16 as compared to 5.2% previously.



Rating Definitions

Buy	=15% Upside
Accumulate	< 5% to >15% Potential
Hold	>+5% to -5% Potential

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