

Equity Research Pakistan

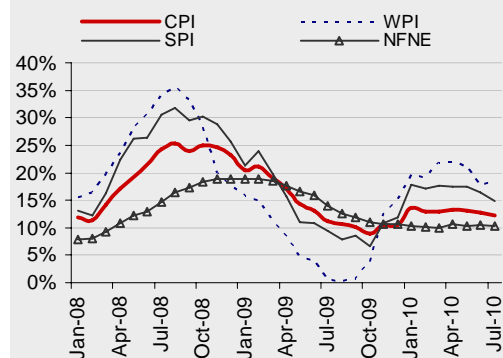
In Focus
Economy

Abdul Shakur
abdul.shakur@bmacapital.com

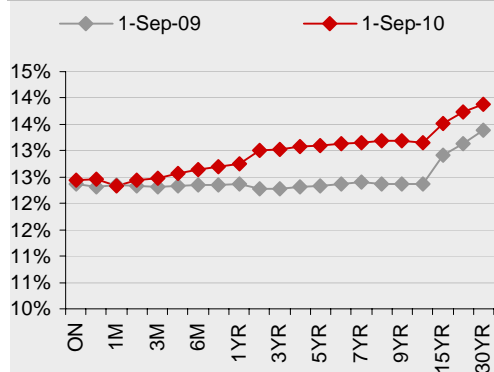
Economy Numbers

CPI Inflation	Jun10 YoY	12.3%
SPI Inflation	Jun10 YoY	14.9%
NFNE Inflation	Jun10 YoY	10.3%
Reserves	As 20-Aug-10	USD16.1bn
Remittances	FY10	USD8.9bn
Trade Balance	FY10	USD(11.2bn)
Current A/c deficit	FY10	USD(3.5bn)
6 Month KIBOR	01-Sep-10	12.8%
10 Year PIB	01-Sep -10	13.2%
Discount Rate		13.0%

Inflation



Yield Curve



Fiscal Deficit of 6.3% for FY10; IMF not to be too Content

- Fiscal account deficit increased to PKR929bn (6.3% of GDP) compared to the revised budgeted target of PKR723bn (4.9% of GDP)
- Non tax revenue lent support as healthy collection growth of 16% YoY to PKR605bn helped surpass the total revenue target of PKR2.02trn by 3% to PKR2.07trn
- Unfavorable variance in outlays caused fiscal slippages; expenditures settled at 20.5% of GDP - up by 20% YoY while missing the targets by 10% for FY10
- Provincial deficit pumped up consolidated deficit considerably by adding only PKR55bn to revenue share compared to the budgeted share of PKR655bn (declining by 90% YoY)
- Foreign pledges clocked in at only PKR189bn compared to targeted amount of PKR312bn for FY10. Primary source of financing remained banks - loaned PKR305bn, 111% higher than the targets
- Although flood devastations remains a considerable point, IMF has not been too content with pre-flood fiscal indiscipline. VAT imposition and additional 5% import and 5-10% income tax seem the likely outcome of ongoing meeting. However, 100bps relaxation for fiscal account is also on the cards

Ministry of finance has released the details of fiscal account for FY10. As per the statement, fiscal account deficit increased to PKR929bn (6.3% of GDP) compared to the revised budgeted target of PKR723bn (4.9% of GDP).

Comparative analysis of fiscal account

	Actual FY09	Budgeted FY10	Actual FY10
Total Revenue	14.1%	13.7%	14.2%
Tax Revenue	10.2%	10.2%	10.0%
Provincial share	4.0%	4.4%	0.4%
Nontax Revenue	4.0%	3.5%	4.1%
Total Expenditure	19.1%	18.5%	20.5%
Current	15.6%	15.1%	16.3%
Of which :			
Interest	4.9%	4.4%	4.4%
Defence	2.5%	2.3%	2.6%
Development Expenditure and net lending	3.5%	4.4%	4.5%
Budget deficit	4.9%	4.9%	6.3%

Source: MoF, BMA Research

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Loosing grip on outlays: Missing targets by ~10%

Although tax revenues declined by 3% from the targets, they posted a decent recovery by posting a YoY growth of 11% despite the economic slowdown in the country. Non tax revenue lent support as healthy collection growth of 16% YoY to PKR605bn helped surpass the total revenue target of PKR2.02trn by 3% to PKR2.07trn.

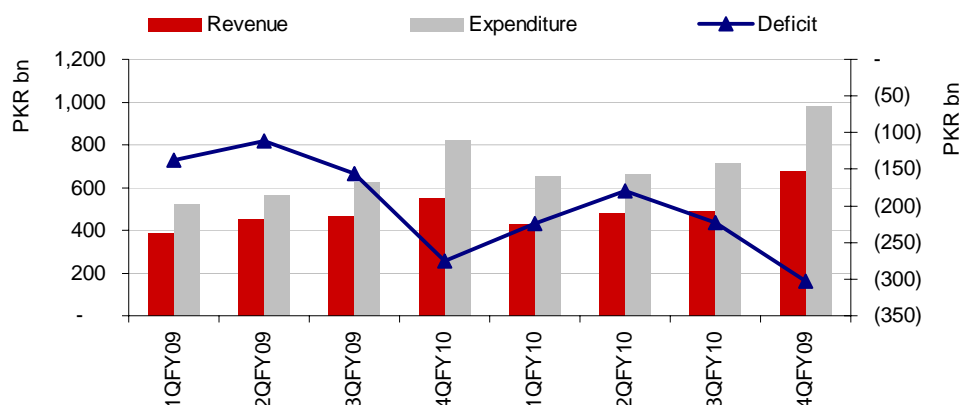
Expenditure controls however weakened over the period as it crossed the targets by PKR258bn (~10%). Amongst current expenditures, only economic affairs and debt servicing on foreign debt has posted decline of 39% and 19% YoY respectively. Economic affairs consolidated amid subsidy elimination primarily for energy chain. Despite financing constraints, development expenditures soared to PKR652bn in FY10 depicting 43% YoY increase including PSDP growth of 30% YoY.

Apparently unfavorable variance in outlays caused slippages; expenditures settled at 20.5% of GDP - up by 20% YoY while missing the targets by 10% for FY10. In addition, lower provincial revenue share has also pumped up consolidated deficit by adding only PKR55bn to revenue share compared to the budgeted share of PKR655bn (also declining by 90% YoY)

Targeting banks for deficit financing

To account for budget deficit, govt. kept relying on domestic sources as foreign pledges clocked in at merely PKR189bn compared to the targeted amount of PKR312bn for FY10. Primary source of financing remained banks - loaned PKR305bn, 111% higher than the targeted financing form banks. Although budgetary borrowing from domestic sources increased significantly, debt servicing increased by a meager 4% YoY. This factor is primarily supported by the declining yields over the period – 12M T-bill and 10yr PIB avg. annual yields declined by 31 and 39bps YoY respectively in FY10.

Quarterly Fiscal Account



Source: BMA Research

Equity Research Pakistan**In Focus**
Economy**All out to relax the fiscal deficit target for FY11**

Pakistan govt. is currently negotiating with IMF for disbursement of next tranche and to reconsider the economic targets for FY11. Although the flood devastation will remain a considerable point for IMF to relax the targets going forward, IMF has not been too content with pre-flood fiscal indiscipline. Therefore, we expect IMF to remain stringent over suggested revenue measures i.e. imposition of VAT and expense rationalization. As per news media, Govt. plans to enhance revenue base by imposing flood taxes of 5% on imports and additional 5-10% on taxable income (above PKR300,000 for all taxpayers) for FY11 and12. These measures would help govt. generate additional ~PKR150bn whereas the expected relaxation of 100bps of fiscal deficit widens the deficit by PKR250bn for FY11.