

Pakistan's July-Sept fiscal deficit rises to 1.1pc of GDP

ISLAMABAD: Pakistan's fiscal deficit for the September quarter stood at Rs484 billion or 1.1 percent of the gross domestic product compared with 0.7 percent of GDP or Rs286 billion in the same period last year.

Data issued by the Ministry of Finance on fiscal operations for FY2021 showed that the government posted a primary balance of 0.6 percent of GDP (Rs258 billion) in July-September FY2021, which is in line with the pre-Covid-19 International Monetary Fund's target.

Analysts, however, said statistical discrepancy helped keep the deficit in check.

"The government has recorded a surplus statistical discrepancy of Rs65 billion (0.14pc of GDP) during 1QFY21 compared to a deficit of Rs46 billion (0.10pc of GDP) last quarter giving the government a swing of Rs110 billion from 1QFY20," brokerage Topline Securities said in a market note.

Saad Hashemy, executive director at BMA Capital, said fiscal numbers for the quarter are very encouraging.

"Looking at details, better performance came because of higher petroleum levy and lower foreign debt servicing," he said.

Government data showed that Punjab and Balochistan provinces recorded budgetary surplus during the first three months of the current fiscal year, while Sindh and Khyber Pakhtunkhwa posted budgetary deficits during the period under review.

It further showed that total revenues fell 1 percent to Rs1.479 trillion. Tax revenues declined 2 percent to Rs1.122 trillion.

Direct taxes increased by 2 percent to Rs364 billion, while sales tax also rose 8 percent to Rs436 billion.

However, federal excise duty and sales tax on services dropped by 8 percent and 11 percent year-on-year, respectively in July-September FY2021.

Non-tax revenues increased 3 percent to Rs356 billion due to rise in petroleum levy.

Surplus profit from the State Bank of Pakistan fell 43 percent to Rs105 billion. The government financed Rs161 billion of the overall deficit through net external financing and Rs333 billion through net internal financing.

Total expenditures increased 11 percent to Rs1.963 trillion in July-September FY2021 from Rs1.775 trillion a year earlier, according to the ministry's figures.

Current expenditures amounted to Rs1.813 trillion, up 15 percent over Rs1.582 trillion in the corresponding period last year.

Mark-up payments were up 30 percent, despite the fact that interest rates have sharply come down. "We believe this is largely owing to realization of coupon payments on PIBs [Pakistan Investment Bonds] sold during 1QFY20 and higher borrowing," Topline Securities said.

The government expenditure (minus markup and defense) also increased 10 percent; however defense expenditures went down 7 percent.

Analysts expect Pakistan's fiscal deficit to clock in at around 8.0-8.5 percent of GDP in FY2021 compared with 8.1 percent of GDP in FY20.

The IMF expects the budget deficit, the gap between expenditures and revenues, to be 6.7 percent of GDP in the current fiscal year.

The government managed to keep primary balance at 0.57 percent, which is a positive sign for the fiscal sector. The SBP, in its last monetary policy statement, sees some risks around achieving the revenue target. However, it expects the pre-pandemic path of fiscal consolidation will resume as economic activity recovers in coming quarters.