

FISCAL OPERATIONS (2018-19)

Fiscal deficit rose to 8.9% in FY19, the highest in almost three decades

Monday, 29 August, 2019

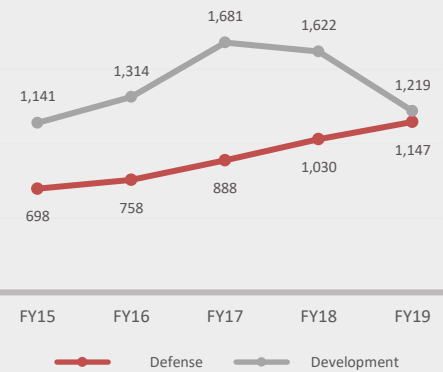
Government of Pakistan has recently published its data regarding fiscal operations which shows that the PTI government has missed its budget deficit target by 82% that stood at Rs3.45 trillion in the fiscal year 2018-19. The budgetary deficit target was just Rs1.9 trillion. Despite Prime Minister Imran Khan's austerity policy, the PTI government miserably failed to contain its expenditures and enhance revenues. Due to the growing debt burden, the country spent Rs2.1 trillion on debt servicing in the last fiscal year – higher by 29% from the previous year. The debt and defense spending consumed Rs3.23 trillion or 80% of the total federal government revenues, according to the finance ministry. The overall expenditures of federal and provincial governments stood at Rs8.34 trillion in the last fiscal year – higher by Rs857 billion or 11.4%. Compared with this, the total revenues stood at just Rs4.9 trillion – Rs328 billion or 6.3% less than the previous fiscal year.

Under the three-year IMF bailout program, the government is legally bound to bring down the primary deficit to 0.6% of GDP – down from last fiscal year's level of 3.5%. In our view, this will require massive efforts to enhance tax revenues and cut non-interest expenditures. Therefore, the possibility of a mini-budget cannot be ruled out in the near future as the government is still behind its tax collection target in the first month of current fiscal year (2019-20).

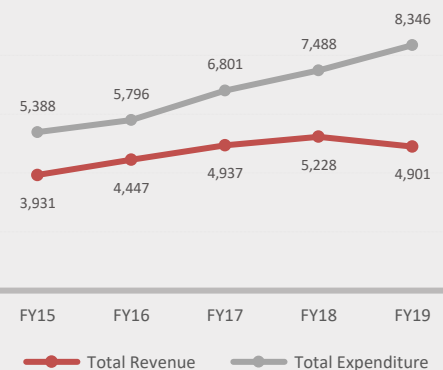
All figures in Rs'bn	FY18	FY19	YoY
Total Revenue	5,228	4,901	6.3% ▼
Tax Revenue	4,467	4,473	0.1% ▲
Direct Taxes	1,537	1,446	5.9% ▼
Property Tax	6	7	26.6% ▲
Excise duty	214	243	13.3% ▲
Sales Tax	1,715	1,668	2.8% ▼
Taxes on International Trade	608	685	12.7% ▲
Stamp duties	63	70	12.2% ▲
Motor vehicles tax	24	25	3.0% ▲
Gas Infrastructure Development Cess	15	21	41.5% ▲
Natural Gas Development Surcharge	24	5	78.1% ▼
Petroleum Levy	179	206	15.3% ▲
Other taxes	82	96	17.7% ▲
Non-Tax Revenue	761	427	43.8% ▼
Total Expenditure	7,488	8,346	11.4% ▲
Current Expenditure	5,854	7,104	21.3% ▲
Mark-up Payments	1,622	2,091	28.9% ▲
Defense	1,030	1,147	11.3% ▲
Development	1,622	1,219	24.8% ▼
Budget Deficit	2,260	3,445	52.4% ▲
Financing	2,260	3,445	52.4% ▲
External	785	417	46.9% ▼
Domestic	1,475	3,028	105.3% ▲
As % of GDP	FY18	FY19	YoY
Total Revenue	15.2%	12.7%	2.5% ▼
Total Expenditure	21.8%	21.6%	0.1% ▼
Budget Deficit	6.6%	8.9%	2.4% ▲
Primary Deficit	1.9%	3.5%	1.7% ▲

Key Statistics

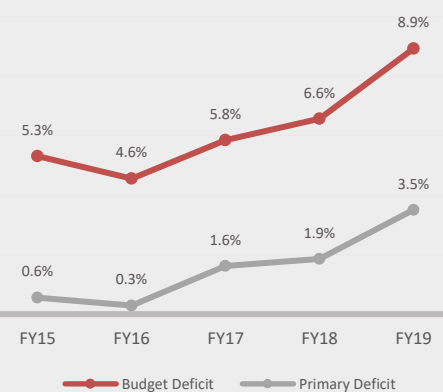
Development vs Defense Expenditure



Revenue vs Expenditure



Budget & Primary Deficit % of GDP



Sources: ACPL Research, Ministry of Finance)

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TP	Target Price	CAGR	Compound Annual Growth Rate	FCF	Free Cash Flows
FCFE	Free Cash Flows to Equity	FCFF	Free Cash Flows to Firm	DCF	Discounted Cash Flows
PE	Price to Earnings Ratio	PB	Price to Book Ratio	BVPS	Book Value Per Share
EPS	Earnings Per Share	DPS	Dividend Per Share	ROE	Return of Equity
ROA	Return on Assets	SOTP	Sum of the Parts	LDCP	Last Day Closing Price

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To arrive at our Target Price, Abbasi & Company (Private) Limited uses different valuation methods which include:

- I. Discounted Cash Flow Model
- II. Dividend Discount Model
- III. Relative Valuation Model
- IV. Sum of Parts Valuation

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HOLD	Between -5% to 15%
SELL	Less than and equal to -5%

Sector Rating	Sector Outlook
Overweight	Positive
Market Weight	Neutral
Underweight	Negative

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