Faysal Asset Management

Research Note – Fiscal Deficit 1QFY13

November 27, 2012

And yet again Expenses outweigh Revenues in 1QFY13

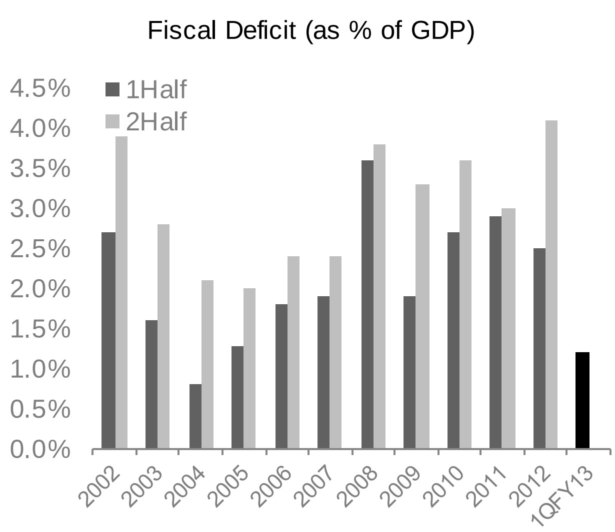
Ballooning expenses and depressing revenues have burdened the fiscal equations in every quarter. Defense (13% of total Expenditure) and interest payments (24% of Total Expenditure) are major contributors on the expenditure side accounting for approximately 37% of the Total Expenditure. Fiscal Deficit clocked in at 1.2% of GDP in 1QFY13 which translates into 4.8% of deficit (provided every quarter the country limits the deficit to 1.2%). Chances of that are rare as Yaseen Anwer (Governor State Bank) proclaimed the following:

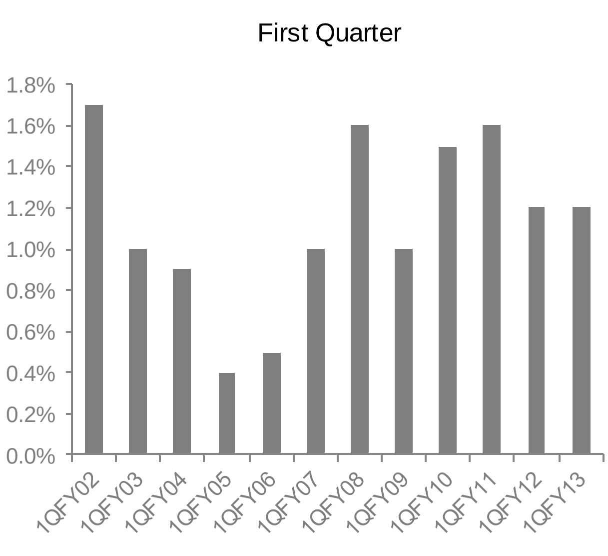
"...the fiscal deficit is always higher in the second half of a fiscal year; by at least 0.5 percent of GDP during the last ten years….For inflation to come down further, the implementation of the Medium Term Budgetary Framework (MTBF) is imperative. The MTBF envisages a systematic reduction in the fiscal deficit to 3.0 percent of GDP in FY14 by increasing the tax to GDP ratio and stipulates inflation targets of 9.5 percent for FY13 and 8 percent for FY14."

Monetary Policy Statement February 2012

Fiscal Deficit 1QFY13	Items	Amount (PKR bn)	% of GDP
	Total Revenue	692.10	2.9%
	Total Expenditure	975.93	4.1%
	Budget Deficit	283.83	1.2%
	External Financing	(1.55)	Due to Repayments of External Debt
	Domestic Financing	285.38	47% from Non-Banks and 53% from Banks

On an average, fiscal Deficit in first half stands at 2.2% while in second half the average is maintained at 3%. Keeping the historical records in mind and extrapolating future withdrawals and injection it can be deduced that Government will find it challenging to meet the budgeted deficit of 4.7% in FY12-13. Despite subdued aggregate demand, liquidity constraints are likely to continue due to uncertain foreign inflows and substantial government borrowings to finance the fiscal deficit.





In order to manage the fiscal deficit it is imperative for the government to promptly undertake revenue enhancing and expenditure curtailment measures. To the dismay of government the much awaited 3G licenses in telecommunication sector has still not materialized and so far it seems too far fledged to attach hopes with it. However, funds under coalition support and declining international oil prices provided the much needed breather to the economic smoothening. Resolving Circular Debt, implementing structural reforms, tackling the tax distortions and tax evasions and making PSE profitable are some of the pressing issues – calling for quick remedial action.