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REP-108
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Today's Daily

■ Pakistan Economy: Twin Deficit remains imminent

Fiscal deficit for 1HFY18 clocked in at PkR796.3bn (~2.2% of GDP), reflecting a slowdown from 1HFY17 (2.5% of GDP), while CAD for Jan'18 surged to US\$1.62bn vs US\$1.256bn in Dec'17 (+28.7%MoM/4.0YoY). With regards to fiscal deficit, the slowdown is largely a function of higher revenue collection during the period (revenue recorded at PkR2,384bn - up 20%YoY) while total expenditure scaled up by 16%YoY to PkR3,161bn in 1HFY18. Growth in development expenditure remained healthy at 23%YoY beating 14%YoY growth in current expenditure, supporting the ongoing economic growth momentum. On the other hand, the uptick in CAD is primarily attributable to increasing trade deficit at US\$2.76bn in Jan'18 vs US\$2.29bn (up 20.6%MoM/9.8%YoY) on account of soaring imports at US\$4.87bn (up 13.2%MoM/12.6%YoY) while export growth (4.8%MoM/16.5%YoY) lagged behind. Moreover, slowdown in remittances, recorded at US\$1.64bn (down 4.9%MoM), further added on to the pressure. We expect election year populism to continue driving fiscal deficit particularly in the absence of any tax enhancement measures while CAD is also expected to persist on account of higher imports (oil and machinery related).

KSE100 - Index

Current 43,294.95
Previous 43,572.67
Chg. -0.64%

Mkt Cap. (PkRbn/US\$m)

Current 8,972 / 81.15
Previous 9,006 / 81.45
Chg. -0.37%

Daily Turnover (mn)

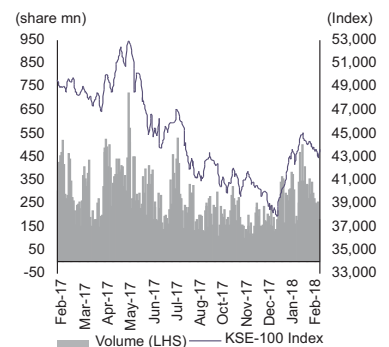
Current 169.71
Previous 126.71
Chg. 33.9%

Value Traded (PkRmn/US\$m)

Current 7,789 / 70.44
Previous 5,125 / 46.35
Chg. 52.0%

News and Views

- Pakistan has been given a three-month reprieve by a global watchdog over a US-led motion to put the country on a terrorist financing watchlist, said Khawaja Asif.
- The GSP+ scheme has passed smoothly through European Parliament's Committee on International Trade (CIT), likely enabling Pakistani exporters to enjoy preferential duties on exports for the next two years. The CIT also agreed to deliberate upon possibility of up-scaling the relationship with Pakistan from a beneficiary of GSP+ scheme to a free trade agreement (FTA) partner in future.
- SBP reported on Tuesday that the current account deficit during July-Jan rose to US\$9.156bn compared to US\$6.182bn deficit noted in the same period of 2016-17. On the other hand, Pakistan's fiscal deficit touched 2.25% of GDP in 1HFY18 despite reasonable cash surpluses offered by the four provinces. The ministry said the consolidated fiscal deficit amounted to PkR796.3bn during Jul-Dec 2017 period vs. PkR799bn of same period last year.



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AKD Daily

Wednesday, Feb 21, 2018



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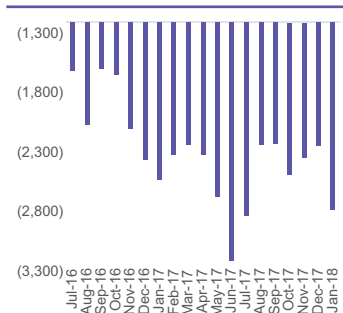
1HFY17 fiscal deficit: Fiscal deficit for 1HFY18 clocked in at PkR796.3bn (~2.2% of GDP), reflecting a slowdown from 1HFY17 (2.5% of GDP). This is largely a function of higher revenue collection that outpaced expenditure growth along with higher provincial surplus (up 2.5x) during the period. In this regard, total revenue for the period was recorded at PkR2,384bn (up 20%YoY) primarily on the back of healthy growth in FBR tax collection (incl. direct taxes, sales tax, excise & custom duties) amounting to PkR1,734bn (up 18%YoY vs 6%YoY in 1HFY17). On the other hand, total expenditure scaled up by 16%YoY to PkR3,161bn in 1HFY18 vs. PkR2,733bn (growing at 8%YoY) in the previous year. Debt servicing remained the biggest burden on expenditure accounting for 24% of total expenses at PkR751bn (up 16%YoY) as a consequence of excessive borrowing on both external and domestic fronts with central GoP total debt standing at PkR22,130bn on Dec'17 vs. PkR19,653bn/PkR19,043bn in Dec'16/Jun'16.

1HFY18 Fiscal Account

| | 1HFY18 | | 1HFY17 | | YoY |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| | PkRbn | % of GDP | PkRbn | % of GDP | |
| Tax Revenue | 2,027 | 5.6% | 1,741 | 5.5% | 16.4% |
| of which: FBR | 1,734 | 4.8% | 1,470 | 4.6% | 18.0% |
| Non-Tax | 358 | 1.0% | 249 | 0.8% | 43.3% |
| Total Revenue | 2,384 | 6.6% | 1,991 | 6.2% | 19.8% |
| Current Expenditure | 2,545 | 7.1% | 2,242 | 7.0% | 13.5% |
| of which: Mark up Payments | 751 | 2.1% | 647 | 2.0% | 16.1% |
| Defence | 393 | 1.1% | 336 | 1.1% | 17.0% |
| Development Expenditure | 614 | 1.7% | 497 | 1.6% | 23.4% |
| Total Expenditure | 3,161 | 8.8% | 2,733 | 8.6% | 15.7% |
| Statistical Discrepancy | 20 | - | 57 | - | - |
| Budget Deficit | (797) | -2.2% | (799) | -2.5% | -0.3% |

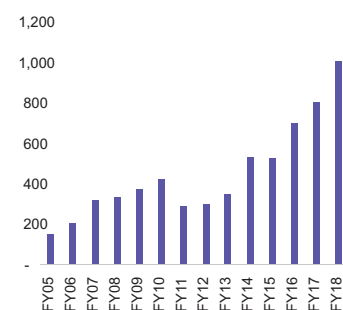
Source: MoF & AKD Research

Bal. of trade (US\$mnn)



Source: SBP & AKD Research

Budgeted PSDP (PkRbn)



Source: SBP & AKD Research

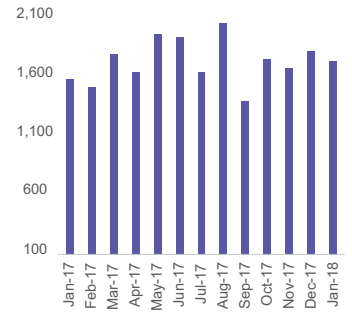


outpacing 14%YoY growth in current expenditure, supporting the ongoing economic growth momentum. The government relied heavily on external borrowings to finance the deficit where net external financing stood at PkR384bn (up by 59%YoY, Inclusive of the recent issuance of Eurobond/Sukuk in Nov'17) while total budgeted amount for FY18 was estimated at PkR511bn (75% already utilized during 1HFY18). Domestic borrowings for the period stood at PkR412bn, down 26%YoY in 1HFY18, on account of higher PIB maturities.

CAD keeps worsening off: After a relative slowdown in the preceding month, CAD for Jan'18 surged to US\$1.62bn vs US\$1.26bn in Dec'17 (up 28.7%MoM/4.0%YoY) which is primarily on account of higher trade deficit (up 20.6%MoM) coupled with limited support from remittances (down 4.9%MoM). Continuous increase in imports at US\$4.87bn (+13.2%MoM) likely on the back higher oil prices (avg. Arablight at US\$67.7/bbl vs US\$62.7/bbl in Dec'17) led to higher deficit with exports growth at 4.8%MoM failing to counter the growth in imports. In addition to, slowdown in remittances in Jan'18 at US\$1.64bn (vs US\$1.72bn in Dec'17) further added on to pressure. 7MFY18F figures show a more bleak picture with deficit being recorded at US\$9.16bn (4.7% of GDP), up 48.1%YoY (vs. US\$6.2bn in 7MFY17, 3.5% of GDP) - the highest since FY05.

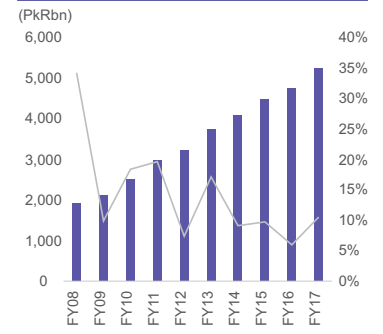
Twin deficit risk to persist: Going forward, development expenditure is expected to scale up significantly over the second half of the year, in line with historical trend as infrastructure spending picks pace (usually exceeds full utilization during election year). Moreover, slippages are expected on back of: 1) current expenditure to overshoot as populist to take precedence over fiscal discipline, 2) higher debt servicing cost on both external (relatively expensive US\$ where the currency depreciated by 4.7% in Dec'17) and internal fronts (increase in interest rates with DR ending at 6.3% in FY18F), 3) revenue collection to remain below target particularly in the absence of any substantial measures to enhance tax base and 4) non-materialization of privatization proceeds (PkR50bn). In this regard, we expect fiscal deficit to clock in at ~PkR2,177bn in FY18F (6.2% of GDP) missing GoP's target of 4.1% of GDP. Similarly CAD is also expected to continue to surge, expected to clock in at ~US\$15.63bn in FY18F (4.9% of GDP) on the back of: 1) rebound in oil prices (expected go up 18.5%YoY in FY18F), 2) higher machinery and development related imports and 3) plateaued remittances (FY18F: growth of 1%YoY).

No Relief from remittances (US\$mn)



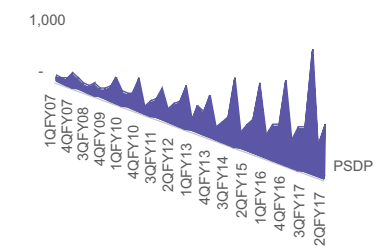
Source: SBP & AKD Research

Slippage is expected in Current Exp.



Source: SBP & AKD Research

Majority of PSDP disbursements during the 2H (Pkrbn)



Source: MoF & AKD Research



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| | |
|------------|------------------------------------|
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| Accumulate | > 5% to < 20% upside potential |
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| Reduce | < -5% to > -20% downside potential |
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