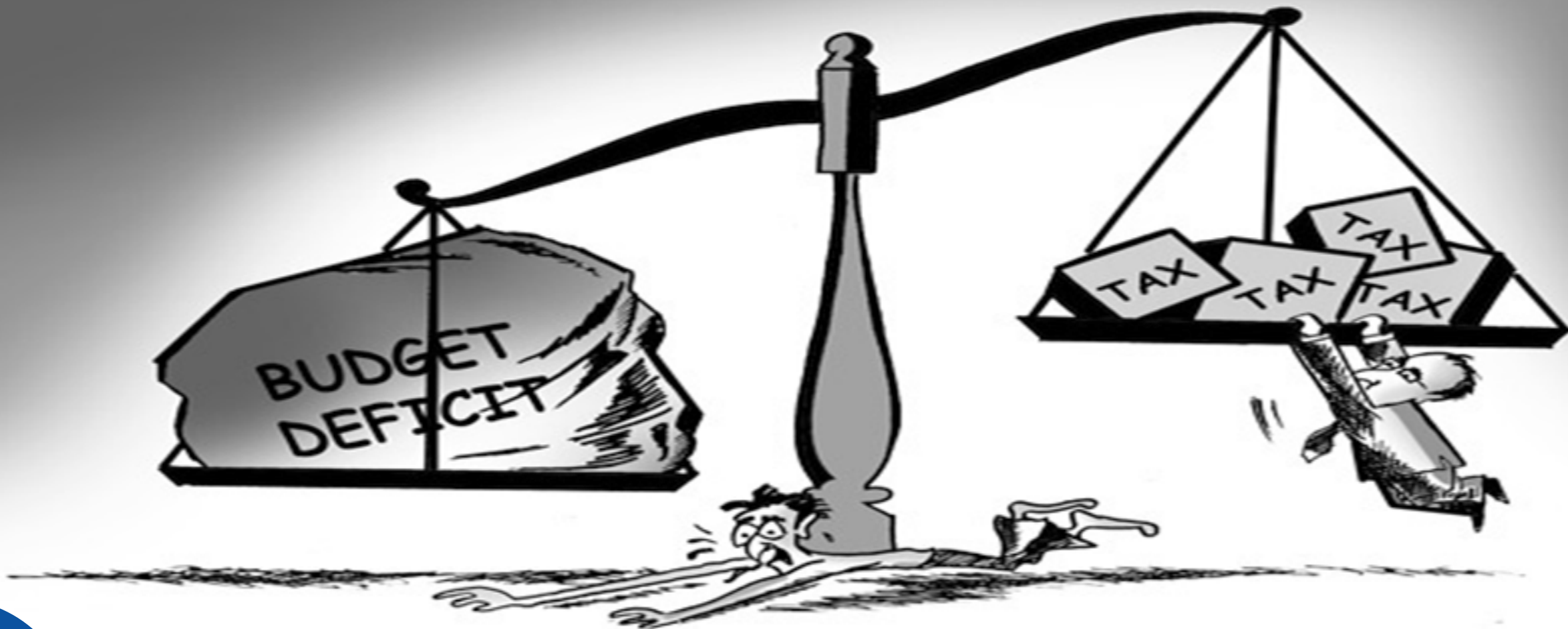
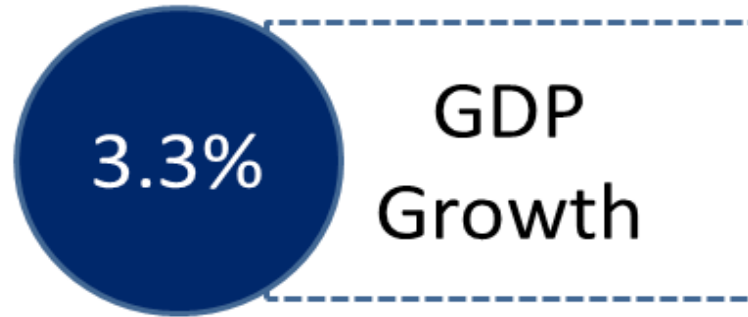


FISCAL IMBALANCE



Macro-Economic Overview



Public Debt to GDP

72%

EXPENDITURE TO GDP

21.7%

PRIMARY BALANCE

-3.5%

GoP Projections

	FY20	FY21	FY22
Real GDP Growth	2.40%	3.00%	4.50%
Tax to GDP	14.40%	16%	17%
Public Debt to GDP	73%	71.30%	67.30%
Fiscal Balance	-7.10%	-5.10%	-3.60%
Expenditure to GDP	23.80%	23.40%	22.80%

Government Revenue

5 YEAR - CAGR

Total Revenue

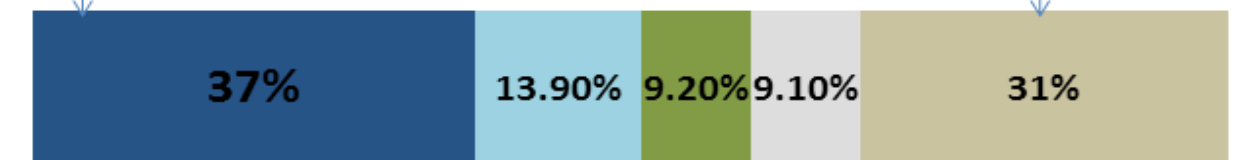
4.3%

Tax Revenue

10.1%

Non – Tax Revenue

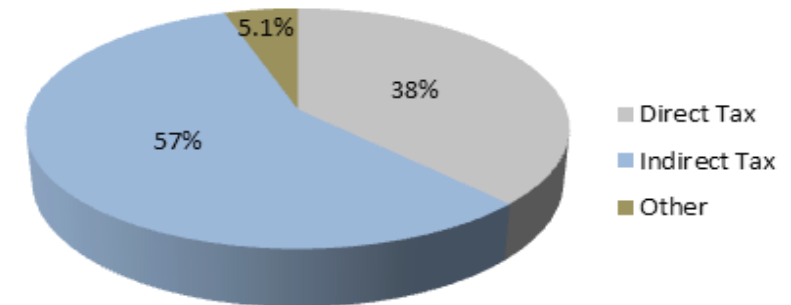
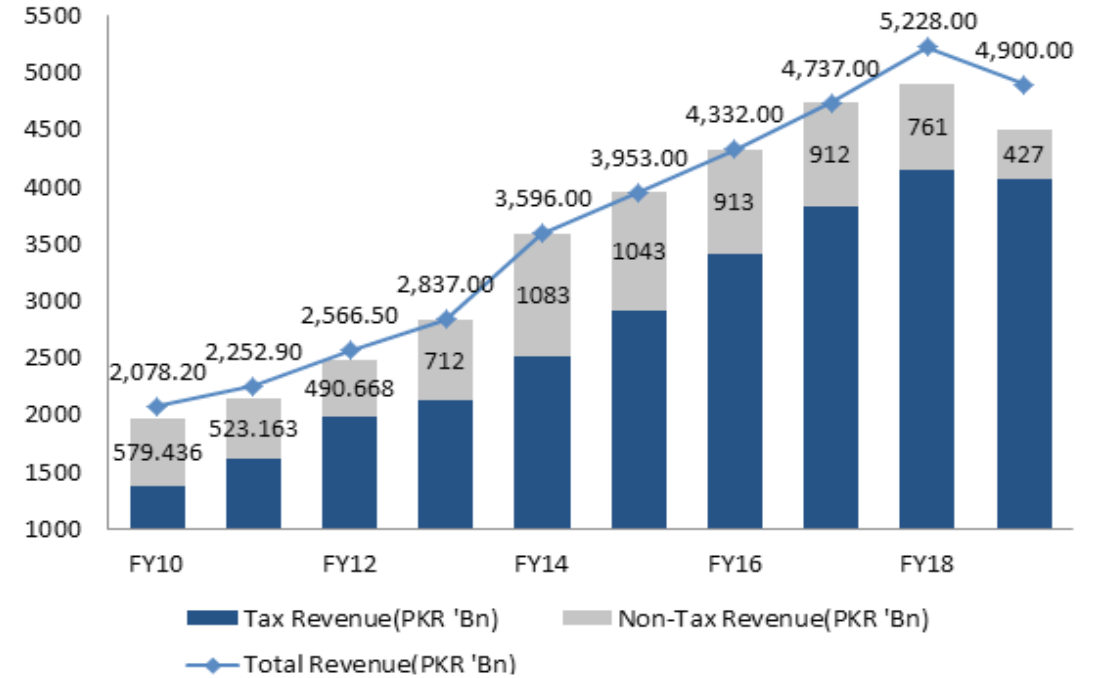
-19.6%



0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

■ SBP Profits ■ Mark up on PSE ■ Royalty on Oil & Gas ■ Dividends ■ Others

TOTAL REVENUE



Direct Tax Revenue

10 Year CAGR

10.6%

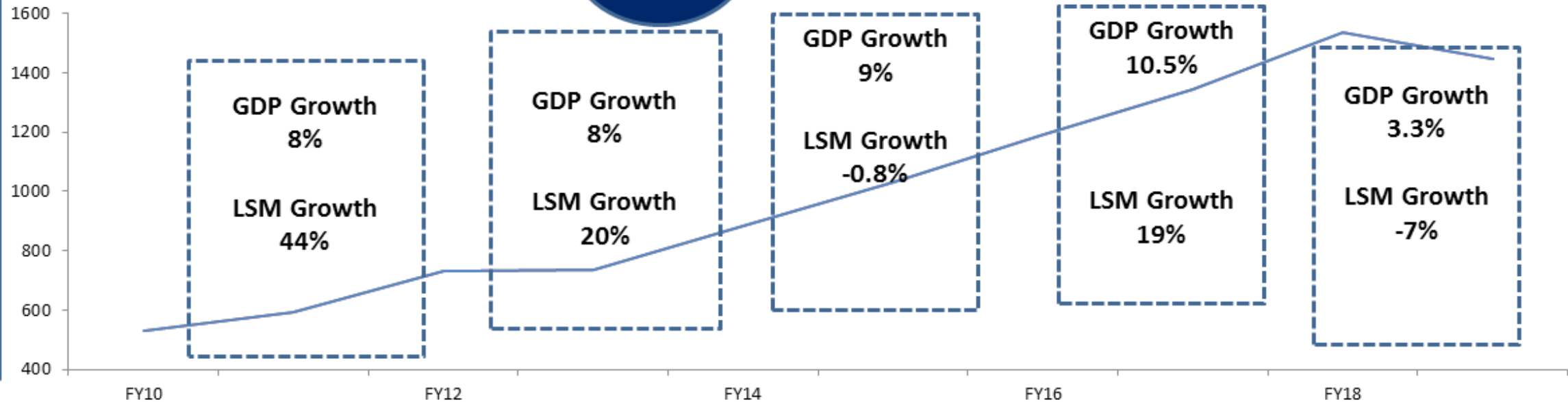
Key Generation Source

Imports + Development
Expenditure + Corporate Profits

57.2%

	FY15	FY16	FY17	FY18
Contracts	11.5%	14.3%	16.9%	18.4%
Corp + Advance Tax	18.7%	22.2%	24.1%	24.6%
Imports	9.6%	11.7%	12.8%	14.2%
Salary	5.2%	6.0%	7.2%	8.7%
Dividends	1.9%	2.7%	3.2%	3.8%
Others	20.1%	20.6%	23.1%	30.3%

DIRECT TAXATION



Indirect Tax Revenue

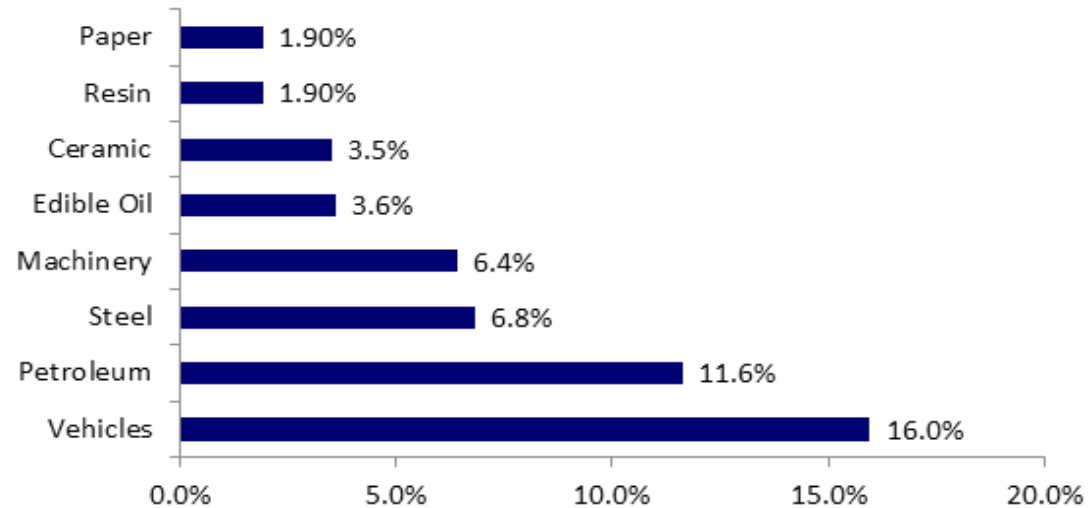
3 Year CAGR

13.9%

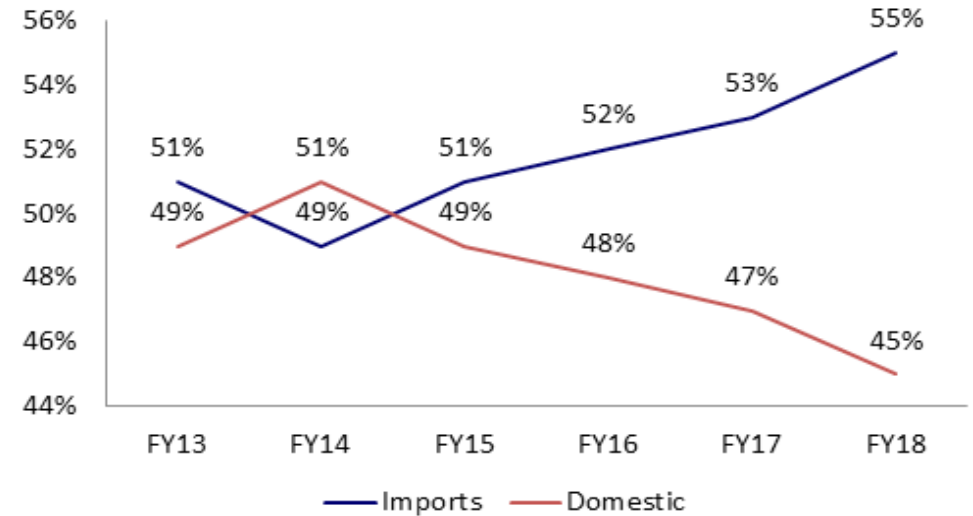
Collection from Imports

70.7%

TOP CUSTOM DUTY COLLECTION



Sales Tax Collection



Indirect Tax Proportion

Indirect Taxation	FY15	FY16	FY17	FY18
Sales Tax	69.8%	68.9%	65.6%	64.7%
Custom Duty	19.6%	21.1%	24.6%	26.4%
FED	10.5%	9.9%	9.9%	8.9%

BUDGETED REVENUE GROWTH

BUDGETED GROWTH FOR FY20

TAX REVENUE

43%

TOTAL REVENUE

51%

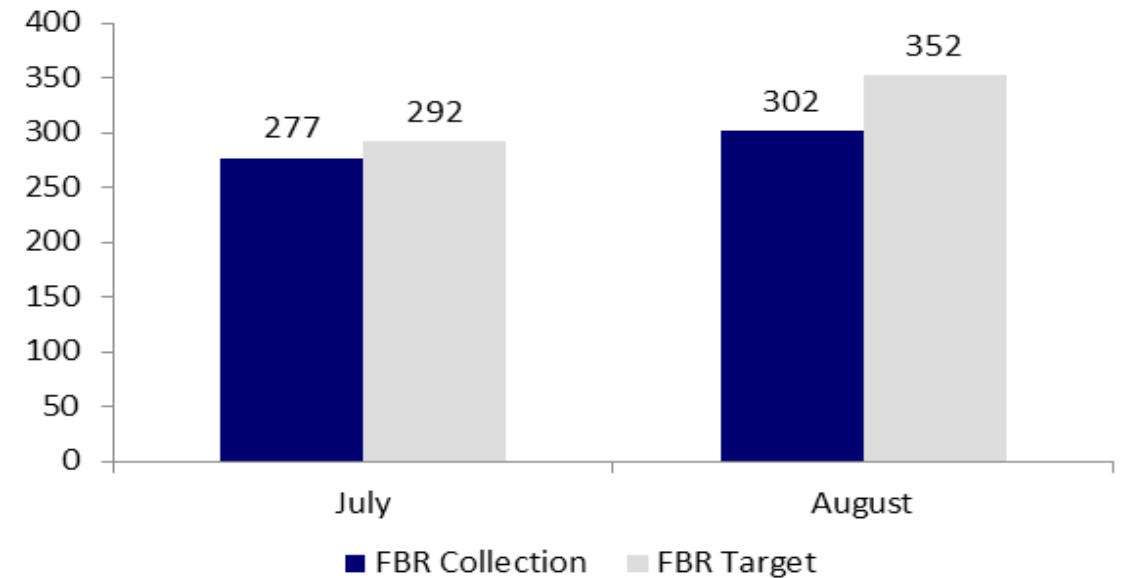
NON-TAX
REVENUE

146%



HIGHEST EVER GROWTH PROJECTED IN
HISTORY OF PAKISTAN

- FBR has provisionally collected Rs. 302b in the first month 2 months of FY20 against a target of Rs. 352b, missing the target by Rs.50b.
- IMF Quarterly Review to take place in Dec'19 which might provoke GoP to impose further taxation



Government Expenditure

7 Year CAGR

8.1%

Average Markup Payment

33.3%

BUDGETED GROWTH FOR FY20

Interest
Servicing

46%

DEFENSE

1%

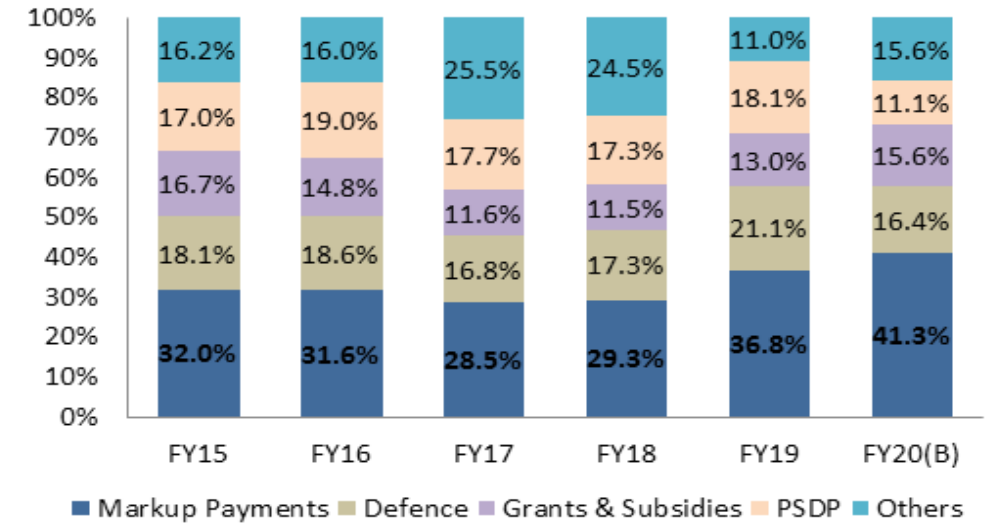
Development

-20%

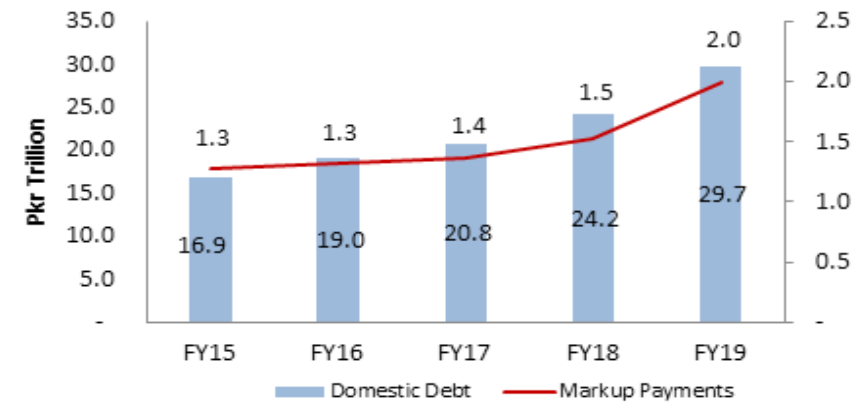
SUBSIDIES

57%

Expenditure Composition



DEBT SERVICING TREND



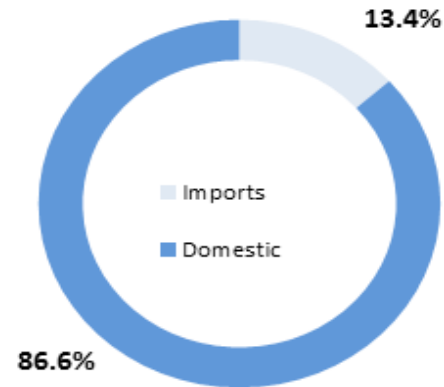
Regional Comparison

Tax Collection Sources

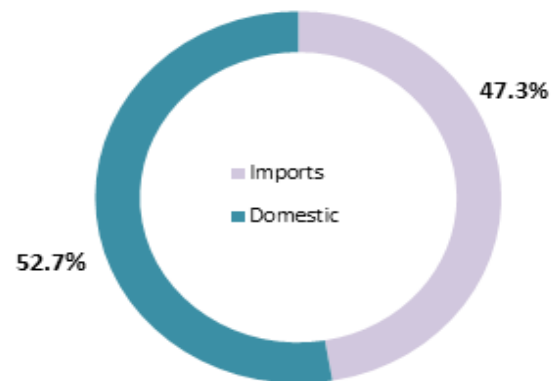
Pakistan



India



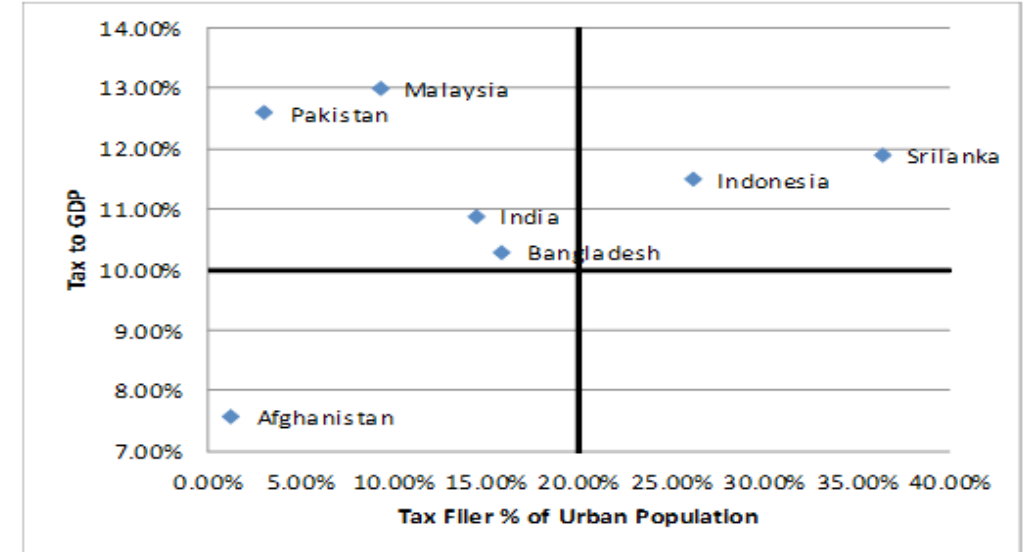
Srilanka



Bangladesh



Tax To GDP & Filer % Of Urban Population



Fiscal & Primary Deficit

	Fiscal Balance	Primary Balance
Srilanka	-5.30%	0.60%
India	-3.40%	-0.30%
Bangladesh	-5.00%	1.10%
Pakistan	-8.90%	-3.5%

KEY ISSUES AND SLIPPAGES

KEY ISSUES – REVENUE SIDE

INEFFICIENCIES AT PROVINCIAL LEVEL

Allocation of federal revenues to Provinces has been on average 45% of total Revenues

Surplus Balance by Provinces only contributed 3% to the total FED Revenues

Tax collection by Provinces themselves is only 1/5th of the amount FED allocates

Pkr Bn	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20 (B)
Tax Revenue	2,125	2,513	2,910	3,419	3,825	4,147	4,072	5,822
Non Tax Revenue	712	1,083	1,043	913	912	845	364	894
Total Revenue	2,837	3,596	3,953	4,332	4,737	4,992	4,436	6,716
Provincial Share	1,221	1,413	1,575	1,852	2,121	2,316	2,398	3,255
Provincial Share % of Total Revenues	43%	39%	40%	43%	45%	46%	54%	48%
Net Federal Resources	1,616	2,183	2,378	2,480	2,616	2,676	2,038	3,461

KEY ISSUES – EXPENDITURE SIDE

DEBT SERVICING

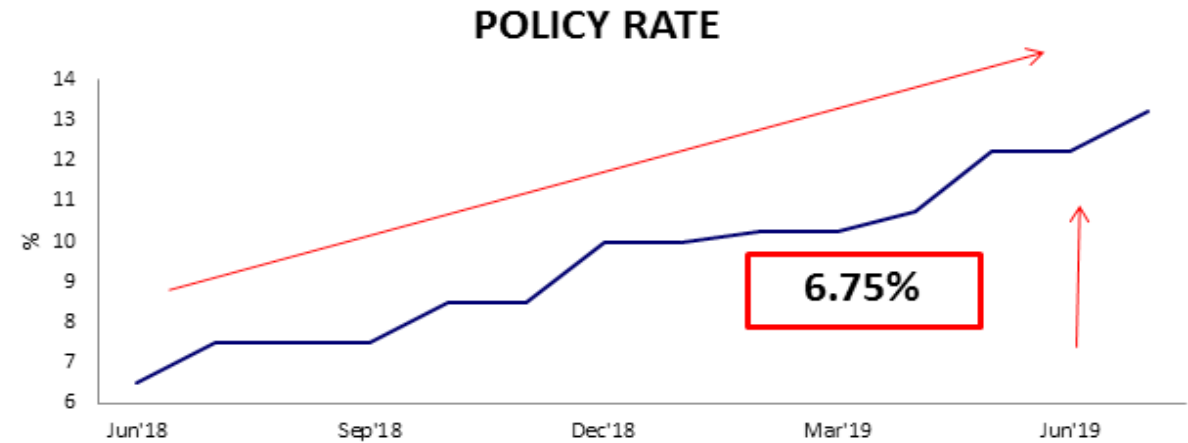
ENERGY SECTOR SUBSIDIES

Pkr Bn	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20 (B)
Current Expenditure	2,720	2,935	3,185	3,282	3,398	3,870	4,661	6,193
Debt Servicing	1,028	1,187	1,270	1,315	1,361	1,526	2,091	2,891
% Of Expenditure	38%	40%	40%	40%	40%	39%	45%	47%
Defence	570	630	720	776	841	999	1,137	1,153
% Of Expenditure	21%	21%	23%	24%	25%	26%	24%	19%
Subsidies	702	659	662	614	551	609	733	1,103
% Of Expenditure	26%	22%	21%	19%	16%	16%	16%	18%
Federal PDSP	388	425	542	661	715	750	500	701
Other Development Expenditure	107	289	133	128	128	153	358	80
Net Lending	173	106	117	95	529	437	80	48
Total Federal Expenditure	3,388	3,755	3,977	4,166	4,770	5,210	5,599	7,022
Provincial Surplus	(62)	183	142	337	290	274	116	423
Fiscal Balance	(1,834)	(1,389)	(1,457)	(1,349)	(1,864)	(2,260)	(3,445)	(3,138)

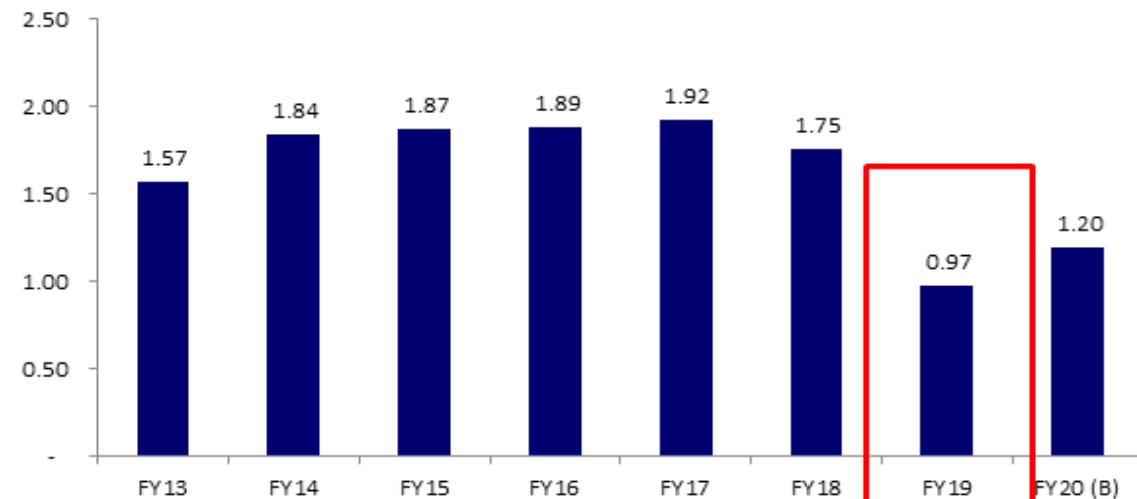
KEY ISSUES – EXPENDITURE SIDE

INTEREST SERVICING

- Interest payments have grown by Rs. 500b during FY19 while Rs. 5.5tr have been added in debt
- Policy rate has been hiked up by 6.75% in the last year
- 3.5% of the overall hike was announced in later half of 2019
- Assuming same level of debt, the incremental impact of interest rate hike would kick in 2020
- It is estimated that a 100bps rise adds Rs.190-200b to interest servicing
- GoP has estimated a Rs. 800b hike in interest servicing for FY20 which might be breached



NET FEDERAL REVENUES TIMES INTEREST SERVICING

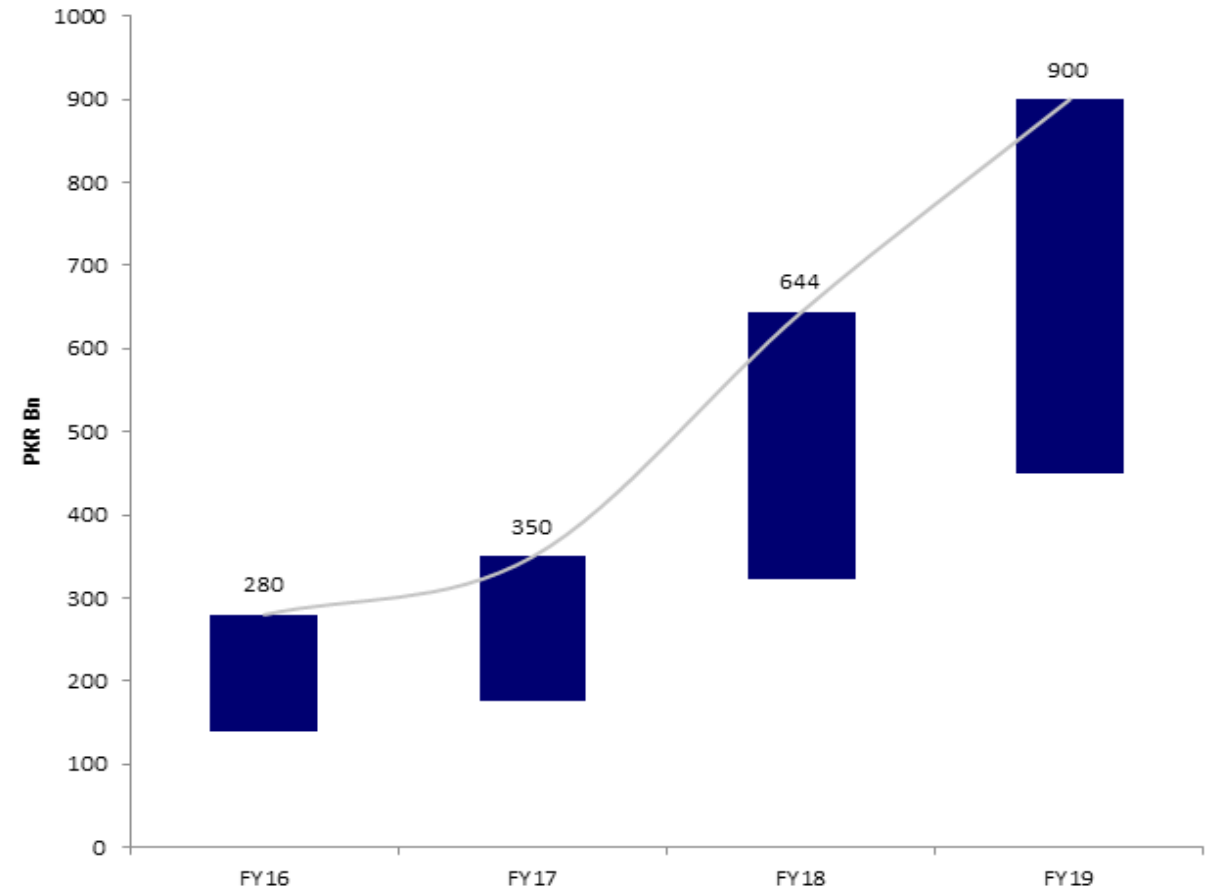


KEY ISSUES – EXPENDITURE SIDE

POWER SECTOR SUBSIDIES

- Capacity Payments have grown by more than 2x over the last 3 years
- Excess capacities vis-à-vis demand has pushed up power generation costs
- NEPRA has not passed on the full impact of cost increment onto the end customers to maintain inflationary balance
- Excess cost is funded by the government by way of grants and subsidies to the power sector
- Capacity Payments are further expected to grow on the back of addition in IPPs
- GoP has budgeted a 57% increase in overall subsidies

CAPACITY PAYMENTS

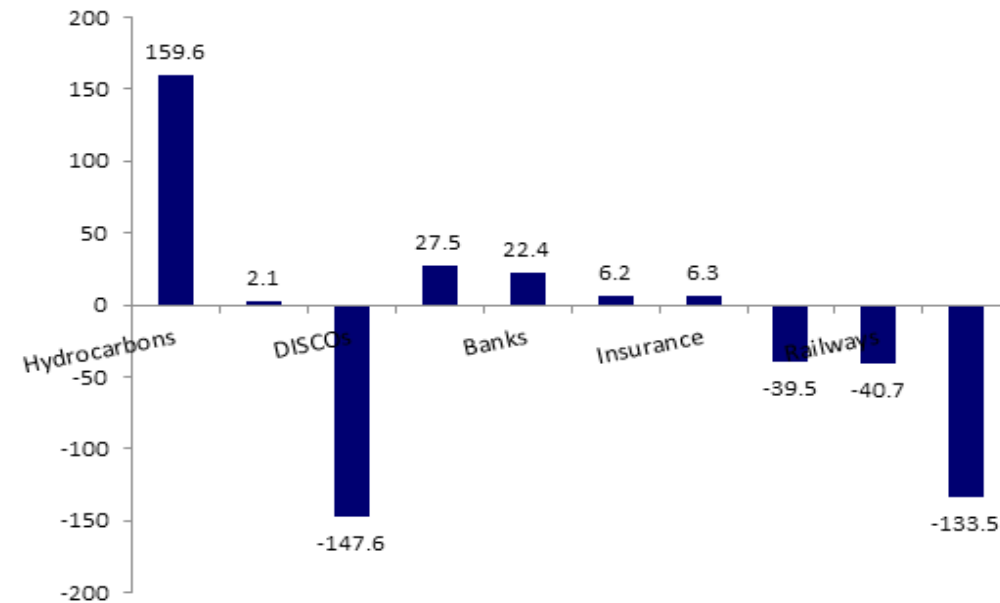


KEY ISSUES – EXPENDITURE SIDE

Rising losses on State-Owned Enterprises is an area of concern. This alongside emergence of circular debt indicates a potential slippage from federal resources in the form of major losses from SOEs and financing of circular debt.

SECTOR WISE LOSSES IN 2017

Top 10 Loss Making SOEs (2017)	Rs. Bn
NHA	133.5
Pakistan Railways	40.7
PIAC	39.6
LESCO	37.4
HESCO	27.3
PESCO	19.4
Sindh Engineering	19.4
QESCO	18.7
MEPCO	17.9
PSM	14.9



ADDRESSING THE ISSUE

ADDRESSING THE ISSUE – EXPENDITURE SIDE

ENERGY ISSUES

- Get out of cost plus Tariffs
- Shift from take or pay to take and pay
- Reduce fuel allocation to captive power plants

SERVICING COST

- 100bps uptick eats up Rs.193b worth of revenue assuming same level of debt
- Reversal of policy rate to smoothen the incremental impact of interest servicing

PROVINCIAL SLIPPAGES

- Emphasize on own tax collection and reduce dependence on federal resources
- Cut down allocation to provinces (which may require political consensus)

LEAKAGES FROM PSE'S

- Accumulated losses from SOE's stood at Rs.1.2tr at end-2018
- Total debt and liabilities have been accumulated at Rs.1.6tr

ADDRESSING THE ISSUE – REVENUE SIDE

IMPROVE GROWTH

- **Ambitious revenue targets can only be achieved in a high growth environment**

IMPORT SUBSTITUTION

- **To maintain balance on the external front and fiscal front, import substitution is considered important**
- **Joint Ventures with Chinese companies can be a long term plan to reduce import burden**

BROADENING TAX BASE

- **Higher tax penetration by way of documenting the informal economy**

DOCUMENTING THE ECONOMY

- **Size of informal economy is estimated to be more than the already documented economy**
- **Conversion of undocumented economy would enable the GoP to achieve the highly ambitious target**

- **Ministry of Finance Pakistan**
<http://www.finance.gov.pk>
- **Ministry of Finance Srilanka**
<http://www.treasury.gov.lk/>
- **Ministry of Finance Bangladesh**
<https://mof.gov.bd/>
- **Ministry of Finance India**
<https://www.finmin.nic.in/>
- <https://fp.brecorder.com/2019/02/20190224449715/>

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