



MID-YEAR BUDGET REVIEW REPORT FY 2020-21

**GOVERNMENT OF PAKISTAN
FINANCE DIVISION**



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LETTER OF REPORT SUBMISSION

25th February, 2021

Dear Mr. Speaker,

In terms of Section 34(1) of Public Finance Management Act 2019, the Mid-Year Budget Review Report outlining the comparison between the budgeted and actual Revenues, Expenditure and Financing for Current Financial Year 2020-21 is hereby submitted for placing before the National Assembly.

With profound regards,

Yours sincerely,



(Dr. Abdul Hafeez Shaikh)
Minister for Finance & Revenue

Mr. Asad Qaiser
Speaker
National Assembly
Islamabad

FOREWORD

The Mid-Year Budget Review Report for FY 2020-21 has been formulated to comply with the provisions laid down under Section 34(1) of the Public Finance Management Act, 2019. The purpose of placing this report before the National Assembly is to apprise the august house about the actual results achieved during six months (July-December) of the current financial year 2020-21 vis-à-vis the approved budget. In conformity with the vision of the Prime Minister of Pakistan and under the policy guidance of Dr. Abdul Hafeez Shaikh, Minister for Finance and Revenue, this Report represents the continued commitment of the Government to be more responsive and transparent for improved public financial management.

I would like to express my appreciation for all the Principal Accounting Officers of the Federal Government for their earnest cooperation in the timely provision of reconciled data, in compliance with the Public Finance Management Act, 2019. I would also like to appreciate the strategic analysis provided by the Additional Secretaries of Budget and Expenditure, as well as the Economic Adviser, Finance Division. Furthermore, the inputs provided by the Director General, Debt Policy Coordination Office, and the qualitative and quantitative analysis contributed by the Federal Board of Revenue, have been critical in preparation of this report.

Gratitude is also due to all other Federal Ministries for their untiring efforts towards realisation of the Government's vision of rationality, probity and accountability, especially in the allocation and management of public finances.


(Kamran Ali Afzal)
Finance Secretary
Government of Pakistan

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Executive Summary

This report presents the mid-year comparison of the budgeted and actual Revenues, Expenditures and Financing for FY 2020-21.

On the Revenue side, FBR tax collection grew by 5.6 percent during the first half of the Current Financial Year (CFY) on a Year-on-Year (YOY) basis despite an upsurge of Covid-19. Non-tax revenue remained at par with the previous year collection during the same period in spite of reduction in SBP profits and non-realization of fees from cellular license renewals. Current expenditure was controlled through austerity measures and strict financial discipline. However, Covid-related expenditures were made to provide relief and mitigate the impact of the pandemic. Nevertheless, the increase in the federal net revenue and containment of expenditure limited the federal deficit to 3.1 percent of GDP. Similarly, the current account balance continued to improve, posting a surplus of USD 1.1 billion (0.8% of the GDP) during the first half of CFY.

Government borrowing operations remained quite successful and in line with the Medium-Term Debt Management Strategy (MTDS FY20 – FY23). Just as in the case of last year, domestic borrowing came entirely from the financial markets and no borrowing was made from SBP. In fact, an amount of Rs. 285 billion was repaid to SBP during first half of ongoing fiscal year. Furthermore, all borrowing needed to finance the fiscal deficit was made through longer-term debt, while short-term debt (T-bills) reduced by around Rs. 579 billion during this period.

Government's efforts on the economic front have been acknowledged at international level. Bloomberg ranked Pakistan's stock market as the best performing market in Asia. Similarly, Moody's rating agency upgraded the country's outlook to 'Stable' from 'under review for downgrade'. Fitch affirmed Pakistan's sovereign credit rating at 'B-' with a 'Stable' outlook, and S&P also affirmed our 'stable' outlook with a rating of 'B', on the basis of persistent efforts of the Government.

1. Mid-Year Overall Fiscal Performance (FY 2020-21)

For the Financial Year 2020-21, the overall fiscal deficit was projected at 7.0% of the GDP. The Overall Mid-Year Fiscal indicators have shown encouraging results as considerable growth in net revenue and effective expenditure control measures have helped contain the overall fiscal deficit to 2.5% of the GDP. Primary surplus at 0.7% of GDP has been achieved. A snap shot of fiscal performance during the period July-December 2020 is as follows:

(Rs. Billion)

Description	Budget Estimates FY 2020-21	Mid-Year Actual FY 2020-21
Gross Federal Revenue Receipts	6,573	3,072
Less: Provincial Share	2,874	1,280
Net Federal Revenue Receipts	3,700	1,792
Total Federal Expenditure	7,136	3,185
Current	6,346	2,915
Development and Net Lending	791	270
Federal Budget Deficit	(3,437)	(1,393)
Federal Fiscal Deficit (% of GDP)	-7.5%	-3.1%
Primary Balance	-491	82
Primary Balance (% of GDP)	-1.1%	0.2%
Provincial Surplus	242	255
Overall Fiscal Deficit	(3,194)	(1,138)
Overall Fiscal Deficit (% of GDP)	-7.0%	-2.5%
Overall Primary Balance	-248	337
Overall Primary Balance (% of GDP)	-0.5%	0.7%
GDP	45,567	45,567

2. Revenues

Federal Revenue Receipts are broadly categorized as Tax Revenue and Non-tax Revenue. Tax revenue is administered by the Federal Board of Revenue whereas the Non-tax Revenue is collected by the respective Ministries/Divisions/Departments of the Federal Government.

2.1. FBR Tax Revenue

Federal Board of Revenue (FBR) is the main tax collecting agency. Tax Revenue collected by FBR constitutes the Divisible Pool Taxes to be distributed amongst the Provinces in accordance with the provisions of National Finance Commission (NFC) Award. FBR taxes are categorized as Direct Taxes and Indirect Taxes. Direct Taxes comprise Income Tax, Workers Welfare Fund and Capital Value Tax whereas Indirect Taxes include Sales Tax, Federal Excise Duty and Customs Duty.

The status of Budget Estimates and Mid Year Actuals of FBR tax revenue receipts is as under:-

(Rs. Billion)

Description	Budget Estimates FY 2020-21	Mid-Year Actual Receipts FY 2020-21
FBR Taxes (A)	4,963	2,210
i- Direct Taxes	2,043	831
Taxes on Income	2,037	827
Workers Welfare Fund	03	4
Capital Value Tax	03	0
ii- Indirect Taxes	2,920	1,379
Customs Duties	640	338
Sales Tax	1,919	918
Federal Excise	361	123

FBR has been able to collect about 99% of the fixed targets for the mid-year.

2.2. Non-Tax Revenue

Non-tax revenue represents the recurring income earned by the Federal Government from sources other than taxes. The major sources of Non-tax Revenue along with their budget estimates and Mid-Year Actuals are as follows:

(Rs.Billion)

Description	Original Budget 2020-21	Mid-Year Actual Receipts
Non-Tax Revenues	1,610	862
SBP Profit	620	373
Petroleum Levy	450	275
Mark-up (PSEs and others)	93	44
Royalties on Oil and Gas	77	35
Dividends from SOEs	61	12
Surplus of PTA including 3G/4G License Fee	30	19
UNO Receipts	28	14
Mark-up (Provinces)	27	14
Citizenship & Passport Fee	25	7
Defence Receipts	18	7
Discount Retained On Local Crude Oil	17	4
Gas Infrastructure Development Cess	15	10
Natural Gas Development Surcharge	10	13
ICT Taxes	26	8
Windfall Levy on Crude Oil	8	1
Petroleum Levy on LPG	6	2
Others	99	24

The major sources of Non-tax revenue for the Federal Government during the period are surplus profit of the SBP and Petroleum Levy. The latter has shown a growth of 110.4%. Federal Government has been able to achieve 54% of budgeted targets during the first half of current fiscal year despite the adverse impact of the Covid-19 pandemic on economic activity.

3. Expenditures

3.1. Current Expenditure

Federal Government comprises 34 Ministries, 42 Divisions and more than 300 allied entities including Attached Departments, Subordinate Offices, Autonomous Bodies, Public Sector Companies and Boards. Currently, Federal Government financial governance apparatus is being run through 71 Principal Accounting Officers, who have comprehensive administrative and financial autonomy to run the business of the federation. Current expenditure of the Federal Ministries/Divisions is well within the budgetary control after completion of the first half of the financial year.

The position of Budget Estimates and Mid-Year Current Expenditure is as under:-

(Rs Billion)

Description	Budget Estimates FY 2020-21	Mid Year Actual FY 2020-21
Interest Payments	2,946	1,475
Defence	1,289	487
Running of Civil Govt	477	195
Pension	470	210
Grants / Transfer	905	311
Subsidies	209	129
Contingency/Relief	50	-
Total	6,346	2,807

Expenditure on running of civil government has been restricted to 40% of the allocation by restricting supplementary grants and implementing austerity measures. Additional funds have only been approved as a supplementary grant by the Federal Government for CFY which remained unutilized under the Economic Stimulus Package announced during the last financial year, to extend the relief measures intended to mitigate the negative impacts of Covid pandemic on the livelihoods and businesses in the country. All additional needs of the Ministries/Divisions have been met through

Technical Supplementary Grants from within the allocated budget, with primary reliance on re-appropriation of funds.

During the 1st half of CFY an amount of Rs. 116 Billion has been provided to combat the pandemic from the revalidated Economic Stimulus Package, including purchase of vaccine amounting Rs. 25 billion. Moreover, an amount of Rs. 64 billion has been utilized under Ehsaas Program in order to provide relief to vulnerable segments.

The major chunk of current expenditure is spent on debt servicing on debts mostly obtained by the previous governments. Public debt servicing was recorded at Rs. 1,475 billion, out of which, domestic interest payments amounted to Rs. 1,357 billion and external interest payments amounted to Rs. 118 billion. The total interest payments were in-line with the budgeted amount and accounted for 50% of the annual budgeted estimates of Rs. 2,946 billion.

The position of Budget allocations and Mid-year actual utilization is as under:-

(Rs. Billion)

S.#	Description	Budget Allocation FY 2020-21	Mid-Year Actual FY 2020-21
1	Servicing of Domestic Debt	2,631	1,357
2	Servicing of Foreign Debt	315	118
	Total	2,946	1,475

3.2. Development Expenditure (PSDP)

Implementation of development programmes and projects through the PSDP not only helps in providing the necessary infrastructure to stimulate economic activity in the country and to promote balanced regional development. The initiatives in less developed areas like Gilgit-Baltistan, Azad Jammu and Kashmir, merged districts of Khyber Pakhtunkhwa, Balochistan etc have been given due priority for the socioeconomic uplift of these areas.

Interventions in Karachi and other cities for the provision of civic amenities have also been adequately financed under the PSDP 2020-21.

The National Development Outlay 2020-21 was approved by the National Economic Council at Rs. 1,324 billion, including the Federal PSDP of Rs 650 billion with Rs. 72 billion in foreign assistance. A significant PSDP initiative conceived during the last financial year was the encouragement of the private sector to become a development partner of the government in financing public sector mega projects. The Public Private Partnership Authority has been established to promote domestic and foreign private investment in public projects, increase availability of public infrastructure, reduce transaction costs, ensure appropriate regulatory control and provide legal and economic framework for PPP initiatives.

Development priorities in the PSDP 2020-21 are on projects aimed at modernizing and upgrading infrastructure. Substantial funds have been earmarked for communications, energy, power, water, railways and maritime projects. Importance has also been given to projects in the areas of health, higher education, environment as well as food security and agriculture.

An amount of Rs. 232 billion has been utilized against the PSDP allocation of Rs. 650 billion upto December 2020. Pace of utilization is further picking up as the M/o PD&SI is fast-tracking releases and allowing intra-sectoral re-appropriations / adjustments in the allocated funds so as to complete the fast-moving projects on priority.

4. Financing

Borrowing operations remained quite successful and in-line with the Medium-Term Debt Management Strategy (MTDS FY20 – FY23) of the Government. Government is following the policy of zero borrowing from SBP since July 2019 and is maintaining a cash buffer with SBP for meeting the contingencies/ obligations.

Following are the key highlights:

- i. Similar to last year, domestic borrowing was made entirely from the financial markets during first half of current fiscal year. No borrowing was made from SBP. In fact, an amount of Rs. 285 billion was repaid to SBP during first half of ongoing fiscal year.
- ii. All borrowings needed to finance the fiscal deficit were made through longer-term debt while Government retired a portion of short-term debt (T-Bills) by around Rs. 579 billion during this period.
- iii. Government introduced various new instruments during first half of the current fiscal year to further develop the government securities market, attract more diversified investor base and to provide more flexibility and options to the investors as well as to the government.
 - 3, 5 and 10-year floating rate PIBs with quarterly coupon payment frequency are being issued since October 2020.
 - Government has started issuance of 5-year Sukuk with fixed rate rental payments since July 2020.
 - Government also introduced 2-year floating rate PIBs in November 2020 with quarterly coupon payment frequency and fortnightly interest rate re-setting. Existing Floating Rate PIBs carry interest rate reset of 6-month while interest rate reset in this instrument in only two weeks.

- iv. Similar to conventional bond, Government introduced re-opening mechanism in Sukuk auctions in July 2020 to increase liquidity of the Sukuk issue and lower costs for the government.
- v. Considering the encouraging participation and demand from the market in the recent auctions of 15 and 20-year PIBs, Government has decided to issue 30-year PIBs with effect from January 2021.
- vi. In order to enhance participation and competition in primary and secondary markets for government debt, the Government banned all institutional investors in National Savings Schemes from July 2020; and
- vii. Most of the external debt was raised from multilateral and bilateral sources on concessional terms (low cost and longer tenor).

The financing has been arranged for the 1st half of the CFY as under:

Rs. Billion

Description	Budget Estimates FY 2020-21	Mid-Year Actual FY 2020-21
Financing	3,437	1,393
External (net)	810	454
Domestic (net)	2,527	939
Government Securities	2,300	942*
National Saving Schemes	227	-3
Privatization Proceeds	100	0

**While calculating financing from government securities, deposits and reserves of the federal government have been taken into account*

5. Conclusion

The Fiscal consolidation measures taken by the government have resulted in financial discipline, higher revenues and controlled expenditures. The same strategy will be followed during the remaining period of the CFY to achieve the fiscal sustainability. The continuity in fiscal consolidation, stable exchange rate, improved current account and better financial management, presents a promising economic outlook. However, there are certain risks to fiscal sustainability. Going forward the fiscal position would depend on the domestic and international evolution of Covid. On the other hand faster than anticipated economic revival is likely to increase demand for inputs. Finance Division has adopted the facilitative policy of release of funds to meet the expenditures, both re-current and development, in accordance with the government spending priorities. Nevertheless, the half year fiscal position indicates that it will remain on track to meet the annual fiscal targets



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