



**MID-YEAR
BUDGET REVIEW REPORT
FY 2021-22**

**GOVERNMENT OF PAKISTAN
FINANCE DIVISION**



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LETTER OF REPORT SUBMISSION

11th March, 2022

Dear Mr. Speaker,

The Mid-Year Budget Review Report outlining the comparison between the budgeted and actual Revenues, Expenditure, Financing and Revised Estimates for Current Financial Year 2021-22, is hereby submitted for placing before the National Assembly, in terms of Section 34(1) of Public Finance Management Act 2019.

With profound regards,

Yours sincerely,

(Shaukat Fayaz Ahmed Tarin)
Minister for Finance & Revenue

Mr. Asad Qaiser
Speaker
National Assembly
Islamabad

FOREWORD

The Mid-Year Budget Review Report for FY 2021-22 has been prepared to comply with the provisions of the 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 in economic and fiscal paradigms during first six months (July-December) of the current financial year 2021-22 vis-à-vis the approved budget in June 2021. Furthermore, the revised budgetary estimates for the CFY have also been included in the Report. In conformity with the vision of the Prime Minister of Pakistan and under the policy guidance of Minister for Finance and Revenue, this Report represents the continued commitment of the present Government to be more open, responsive and transparent for improved public financial management.

I would like to appreciate the strategic analysis provided by Mr. Muhammad Tanvir Butt, Additional Finance Secretary (Budget) Ms. Sarah Saeed, Additional Finance Secretary (Expenditure) and Mr Awais Manzur Sumra, Additional Finance Secretary (External Finance), as well as Dr. Imtiaz Ahmad, Economic Adviser, Finance Division. Furthermore, the inputs provided by Mr. Umar Zahid, Director General, Debt Policy Coordination Office, and the qualitative and quantitative analysis contributed by the Federal Board of Revenue and Ministry of Planning Development & Special Initiatives, have been critical in preparation of this report.

Gratitude is also due to all other Federal Government Organizations 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.

(Hamed Yaqoob Sheikh)
Additional Secretary Incharge
Finance Division
Government of Pakistan

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Executive Summary

Pakistan's economy grew by 5.57 percent in FY 2020-21, compared to 1.0 percent contraction in FY 2019-20. This is the second highest growth achieved in the last 14 years. This high growth has been achieved without the widening of twin deficits. There are strong expectations about economic growth in FY 2021-22. The trend of core macroeconomic indicators provides optimistic scenario for growth in FY 2021-22 with the expectation that it will remain above the projected growth of 4.8% and will maintain its momentum in medium-term. The government is introducing such economic policies that are focused on strengthening the economy, based on price stability and sustainability of the external and fiscal sectors.

On the Revenue side, FBR tax collection grew by 32.5 percent during the first half of the Current Financial Year (CFY) on a Year-or-Year (YOY) basis. The collection of Non-Tax Revenue remained 69% of Mid-Year estimates due to low realization of Petroleum Development Levy (PDL), Gas Infrastructure Development Cess (GIDC), Dividend from SOEs, Passport Fee, etc. Current expenditures were controlled through austerity measures and strict financial discipline.

However, Covid-related expenditures, including purchase of vaccine, were made to provide relief and to mitigate the impact of the pandemic. Nevertheless, the increase in the federal tax revenue and containment of expenditure limited the federal deficit to 2.1 percent of GDP. The Economic Stimulus Package announced by Prime Minister continued in CFY, and balance package of Rs. 352 bn has been prioritised for Covid emergency and vaccine procurement.

Federal PSDP was prepared with the focus on building capacities for sustainable growth, modernization & infrastructure for growth acceleration, Mitigating Climate Change Impact, Strengthening Efficiency of Transport and Logistics, Transforming Delivery of Social Services, Deepening People-Centric Security and Expanding Outreach of Digital Media. In order to achieve these objectives, a robust release mechanism of funds has been adopted by Ministry of Planning Development & Special Initiatives. The PSDP has been utilized at 52% of authorization.

Owing to the successful encountering of Pandemic, Pakistan's economy has consolidated the gains achieved from last fiscal year. The International financial institutions like World Bank and IMF noted the surprising improvements in Pakistan's economic situation supported by enhanced domestic demand, increased inflows and accommodative monetary policy.

Government's efforts on the economic front have been acknowledged at international level. The IMF has appreciated that Government Authorities have taken important measures to strengthen fiscal policy and to put public finance on a sound footing. IMF further added that along with careful spending management, revenue mobilization will help to create space for other important spending needs such as infrastructure, social protection and improving debt sustainability.

During the 1st half of CFY, many actions and measures have been taken by the Federal Government in implementation of the approved budget by National Assembly in June 2021. Pakistan has remained in IMF EFF Program and has successfully completed 6th review and Article 4 consultations. The FBR revenue collection has increased and supplementary budget passed to eliminate various tax exemptions which will further bolster overall collection. FBR has also introduced tax collection reforms including execution of Point of Sales (POS). On revenue side, decrease in Non Tax Revenue collection particularly in PDL and GIDC have been noticed.

The increase in current expenditure is expected due to rising interest payments, Covid related spending, energy subsidies, social safety net expenditures and running of civil government. Adjustments are, however, required to be made in PSDP allocation due to higher than estimated recurrent expenditure. Pakistan Bureau of Statistics announced Rebasing of National Accounts from FY 2005-06 to FY 2015-16. Consequently, the fiscal indicators including nominal GDP have been revised.

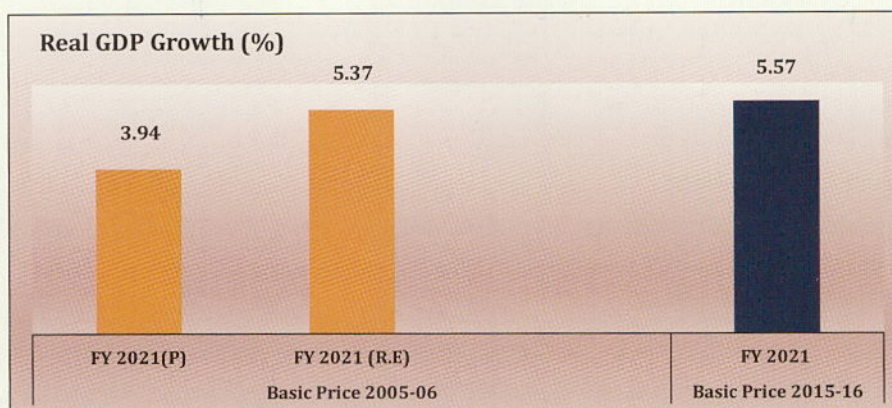
This report presents the mid-year comparison of the budgeted and actual Revenues, Expenditures and Financing for FY 2021-22.

1. Mid Year Economic Updates (FY 2021-22)

The global economy has entered 2022 amid significant challenges due to new waves of Covid-19, persistent supply-chain challenges and rising inflationary pressures. Particularly, the advent of new Covid-19 variants could prolong the pandemic and bring more economic disruptions. As per IMF estimates, the global economic growth is expected to be moderate at 4.4% in 2022 after witnessing an expansion of 5.9% in 2021. The moderate growth in 2022 is projected mainly because of downgrades for the United States (4.0%) and China (4.8%). Further, the global economic growth is projected to slow down to 3.8% in 2023 indicating multiple challenges for continuing global recovery as the pandemic enters its third year.

Pakistan's economy has made a V-shaped recovery in FY 2020-21, following a significant contraction in FY 2019-20 due to Covid-19 caused economic crisis. The economy grew by 5.57% in FY 2020-21, compared to a 10% contraction in FY 2019-20. This is the second highest growth achieved in the last 14 years. Moreover, this enormous growth has been achieved without the widening of twin deficits, as the current account deficit (CAD) dropped to a 10-year low, leading to accumulation of foreign exchange reserves. Exports increased by 13.7% to \$ 25.5 bn in FY 2020-21 against \$ 22.5 bn in FY 2019-20. Pakistan has been placed among the top ten remittance recipient countries in FY 2019-20 and its share increased to 9.8% of GDP during FY 2020-21. Similarly, despite Covid-related spending, the fiscal deficit remained low, and consequently reduced the public debt-to-GDP ratio. Tax collection has shown a remarkable growth of 32.5% in the 1st half of CFY. The performance signifies the economic resilience of Pakistan's economy to withstand the Covid-19 crisis.

There are strong expectations about economic growth in FY 2021-22. The trend of core macroeconomic indicators provides optimistic scenario for growth in FY 2021-22 with the expectation that it will remain above the targeted growth rate of 4.8% and will maintain its momentum in the medium-term.



The government is introducing economic policies that are focused on strengthening the economy, based on price stability and sustainability of the external and fiscal sectors. The impact of these policies has already become visible in terms of encouraging performance of key economic indicators.

- In the agriculture sector, the production of important crops like Cotton, Sugarcane, Rice, Wheat, is encouraging for Rabi FY 2021-22.
- In industries, LSM recorded a growth of 3.3 % during Jul-Nov FY 2021-22 (6.9 % last year). Similarly, high frequency data has shown significant performance indicating robust domestic economic activity.
- CPI inflation (Jul-Dec FY 2021-22) is recorded at 9.8% (8.6% last year). Pakistan is a net importer of food and oil items. The upsurge in international food, fuel prices and supply chain disruptions has been transmitted in the domestic prices of these items. However, the government is taking policy initiatives, administrative actions and introducing relief measures to control inflationary pressure in the country without passing full inflationary pressure to the domestic consumers.
- As a result of effective implementation of monetary and fiscal policies, Pakistan has witnessed a significant rise in exports as it grew by 29.0%

during Jul-Dec FY 2021-22. Remittances increased by 11.3% in Jul-Dec FY 2021-22. FDI grew by 20.1% during Jul-Dec FY 2021-22.

- Current Account posted a deficit of \$ 9.1 bn (5.7 % of GDP) for Jul-Dec FY 2021-22 against a surplus of \$1.2 bn (0.9% of GDP) due to constantly growing import volume of energy and non-energy commodities. In addition, rising trend in the global commodities prices especially oil, Covid-19 vaccines, food and metals, built pressure on import bill
- Within the fiscal sector, FBR has posted a healthy growth in revenue collection by exceeding target. The net tax collection grew by 32.5% during Jul-Dec FY 2021-22. The fiscal deficit during Jul-Dec FY 2021-22 has been contained.

Overall current economic performance indicates that the economy is progressively moving on a higher inclusive and sustainable growth path. For FY 2021-22, the economy is forecasted to grow at a rate of 4.8%. The envisaged growth will be driven on the back of targeted 3.5%, 6.5% and 4.7% growth in agriculture, industrial and services sector, respectively. In the medium term, the growth target is set at 5-6% with price stability. The realization of this goal requires economic stability.

However, there are certain challenges which may impact the growth prospects such as increasing trend in global oil and food prices, which may affect domestic inflation, widening current account deficit due to constantly growing import volume of energy and non-energy commodities, Covid-19 vaccines, food, and metals. New Covid-19 variants are potential downside risks for global growth. Its spill over impact may bring further challenges for Pakistan's economy.

2. Mid-Year Overall Fiscal Performance (FY 2021-22)

In June, 2021, the Federal Government presented Annual Budget 2021-22 focusing on growth and prosperity. Government has successfully moved from a path of stabilization to growth. It has contained adverse effects of pandemic and forged its journey towards economic revival and growth.

For Financial Year 2021-22, the overall fiscal deficit was projected at 6.3% of the GDP (*before rebasing of National Accounts*). The Overall Mid-Year Fiscal indicators have shown encouraging results as considerable growth in net revenue and effective expenditure control measures have helped in containing the overall fiscal deficit to 2.1% of the GDP. Primary surplus at 0.1% of GDP has been achieved. Federal Government achieved 9% increase in the Net Revenue Receipts during 1st half of CFY in comparison to the same period last financial year (LFY). The 19% increase in the total expenditure during this period was primarily due to Covid vaccine expenditures and energy subsidies. The detail of fiscal performance achieved during the period July-December 2021 is as under:

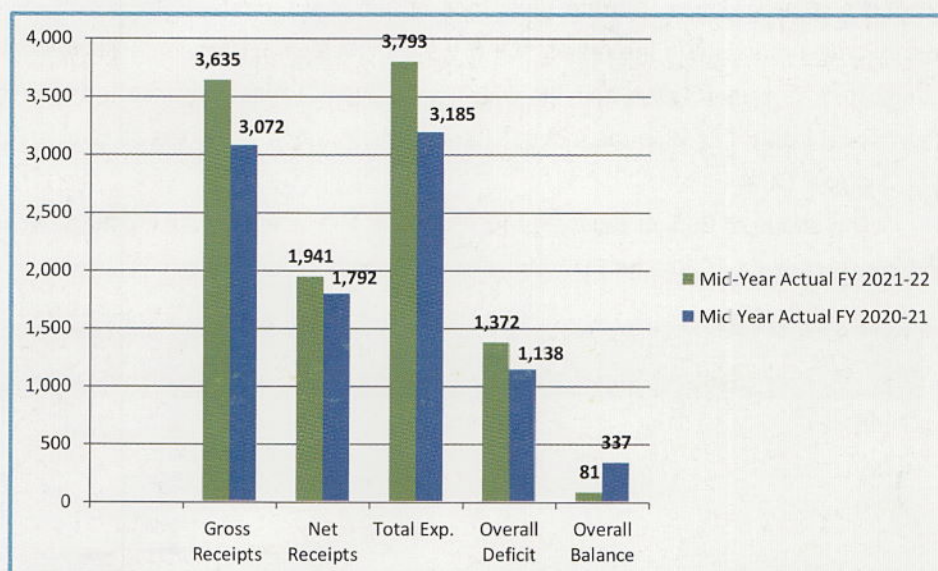
(Rs. Billion)

Description	Budget Estimates FY 2021-22	Mid-Year Actual FY 2021-22	Mid Year Actual FY 2020-21
Gross Federal Revenue Receipts	7,909	3,635	3,072
FBR	5,829	2,920	2,210
Non-Tax	2,080	715	862
Less: Provincial Share	3,412	1,594	1,280
Net Federal Revenue Receipts	4,497	1,341	1,792
Total Federal Expenditure	8,487	3,793	3,185
Current	7,523	3,139	2,914
Development and Net Lending	964	654	270
Federal Budget Deficit	(3,990)	(1,353)	(1,393)
Federal Fiscal Deficit (% of GDP)	-7.4%	-2.3% *	-2.5%
Primary Balance	(930)	(400)	82

Primary Balance (% of GDP)	-1.7%	-0.6%	0.1%
Provincial Surplus	570	481	255
Overall Fiscal Deficit	(3,420)	(1,372)	(1,138)
Overall Fiscal Deficit (% of GDP)	-6.3%	-2.1%	-2.1%
Overall Primary Balance	(360)	81	337
Overall Primary Balance (% of GDP)	-0.7%	0.1%	0.6%
GDP	53,867	63,978	55,488

*Final figures will be reconciled at the end of CFY

At the time of Budget approval in June, 2021, GDP (mp) for FY 2021-22 was estimated at Rs. 53,867 billion. Now the National Accounts Committee in its meeting held on January 20, 2022 has approved the rebased series from FY 2015-16 to FY 2020-21 on the prices of FY 2015-16. Consequently, the GDP for FY 2021-22 has been enhanced to Rs: 63,978 billion.



3. Mid Year Total Revenues Receipts (FY 2021-22)

Article 77 of the Constitution provides that no tax shall be levied for the purposes of the Federation except by or under the authority of Act of Parliament. Accordingly, National Assembly has passed various Acts through Finance Bills to levy direct and indirect taxes.

Federal Revenue Receipts are categorized as Tax Revenues collected by the Federal Board of Revenue (FBR) and Non-tax Revenues including taxes other than FBR receipts and other revenues collected by the respective Ministries/Divisions/Departments/Offices of the Federal Government. All revenue receipts form part of Federal Consolidated Fund maintained with the State Bank of Pakistan (SBP).

3.1. FBR Tax Revenue

Federal Board of Revenue (FBR) is the main tax collecting agency. Tax Revenue collected by FBR constitutes the Divisible Tax Pool to be distributed amongst the Provinces in accordance with the provisions of National Finance Commission (NFC) Award in accordance with the Article 160 of the Constitution of Pakistan. FBR taxes are categorized as Direct Taxes and Indirect Taxes. Direct Taxes comprise Income Tax, and Capital Value Tax whereas Indirect Taxes include Sales Tax, Federal Excise Duty and Customs Duty.

The status of Budget Estimates FY 2021-22, Mid Year Actuals FY 2021-22 and Mid Year Actual FY 2020-21 of FBR tax revenue receipts are as under:-

(Rs. Billion)

Description	Budget Estimates FY 2021-22	Mid-Year Actual FY 2021-22	Mid Year Actual FY 2020-21
FBR Taxes	5,829	2,920	2,210
i- Direct Taxes	2,182	1,020	831
Taxes on Income	2,172	1,014	827
Workers Welfare Fund	10	5	4
Capital Value Tax	1	0.1	0.3
ii- Indirect Taxes	3,647	1,900	1,379

Customs Duties	785	480	338
Sales Tax	2,506	1,274	918
Federal Excise	356	145	123

FBR has surpassed actual collection by 11% as compared to target set by FBR for the period July-December 2021. The collection for CFY has increased 32.5% compared to collection during the same period last year.

The Revenue agency is doing its best to facilitate the taxpayers in order to create congenial environment and to fetch sufficient tax revenues. Major initiatives and achievements during first half of CFY are given below;

Inland Revenue:

i. Track and Trace System

Track and Trace Solution has been rolled out for Tobacco and Sugar Sectors and its rolling out for Cement, Beverages and Fertilizer Sectors is in progress. The system is aimed at enhancing tax revenue, reducing counterfeiting and preventing smuggling of illicit goods through implementation of a robust, nationwide, electronic monitoring system through the affixation of tax stamps on various products at the production stage. This enables FBR to trace the entire supply chain of manufactured goods.

ii. Point of Sales (POS)

Point of Sales (POS) Invoicing System is a pathway towards digitization. Responding to the growing needs of digitization of economic transactions in Pakistan, FBR has launched POS Invoicing, which is a computerized system for recording sales data, managing inventory and maintaining customer data. It is a real-time sales documentation system that links the electronic systems at the outlets of all tier-1 retailers with the FBR via the internet. The system is aimed to ensure that all sales are reported in real-time to FBR and are duly accounted for in monthly sales tax returns of such retailers.

iii. Automated issuance of refunds

To facilitate taxpayers, centralized automated refund system has been introduced with no requirement for manual application and verification. The system-based verification system issues refund directly into the bank accounts of taxpayers without any requirement with face-to-face interaction with tax authorities. Enabling legal framework has also been provided through insertion of relevant provisions in tax laws.

iv. Single Sales Tax Portal/Return

Building further on its vision to facilitate taxpayers and ensure ease of doing business through automation, digitization, and minimization of human interaction with taxpayers, FBR has launched Single Sales Tax Portal. Under this new portal the sales tax returns of December will be filed in January 2022. This facility will enable taxpayers to file single monthly Sales Tax returns instead of multiple returns on different portals; thereby, significantly reducing the time and cost of compliance. The system will automatically apportion input tax adjustment as well as tax payments across the sales tax authorities, therefore, eliminating the needs for reconciliation and payment transfers.

v. E-hearing

In order to provide faceless tax administration, reducing compliance cost and saving precious time of taxpayers, the mechanism of e-hearing has been devised. Enabling legal provisions for admissibility of evidence collected during e-hearing has been introduced through 227E of Income Tax Ordinance.

vi. E-filing of appeal

The mechanism of online filing of appeals has been made available to taxpayers. However, enabling legal provisions were lacking which have been introduced through section 127 of the Income Tax Ordinance.

vii. Tax Asaan:

A mobile application to facilitate taxpayers, available free of cost for Android as well as iOS based smart phones. It offers various facilities to the taxpayers including

Registration for Income Tax and Sales Tax, Return filing for Salaried Individuals and POS Invoice Verification.

viii. IREN and Joint Anti-smuggling field intelligence exercise:

Establishment of Inland Revenue Enforcement Network (IREN) to check smuggling and counterfeit products. Inland Revenue Service and Pakistan Customs Service have joined hands for anti-smuggling field intelligence exercise.

ix. Risk based Audit:

FBR has developed a centralized Risk based Audit Management System (RAMS) for selection of audit cases centrally on the basis of pre-determined risk parameters. Selection on scientific matrix allowing allocation and distribution of weightage to different parameters in Risk Grid will segregate the potential and high-risk cases for audit through parametric computer balloting. Subsequently, in September 2020, through Audit Policy, 2019, a total number of 12,533 cases were selected for audit for Tax Year 2018 through RAMS.

Custom:

i. Pakistan Single Window (PSW)

The system of Pakistan Single Window (PSW) has been launched to achieve trade facilitation in an automated environment, reduce clearance times for legitimate trade, improved compliance through increased access to regulatory information and functions. It ensures greater collaboration and coordination between Customs and other border regulatory agencies at the national and international level for coordinated border management and enhanced transparency in regulatory processes and decision-making.

ii. Automated process for Scanning of Cargo

The Pakistan Customs Wing has introduced a new automated process for scanning of containerized import consignments of industrial raw materials for their speedy clearance at ports. WeBOC has led to significant reduction in processing time. The introduction of Non-Intrusive Inspection System by Customs was a long-awaited initiative aimed at replacing physical inspection of cargo and reducing the

dwelling time at ports by using the latest scanning technology in line with international best practices.

iii. Virtual Assessment Module

This is a system based automated assessment of Goods Declared (GD) on the basis of selectivity criteria. The module has been developed and deployed. It will significantly facilitate the assessment process of GDs by reducing the clearance time.

iv. Development of Authorized Economic (AEO) Module

The AEO Module has been developed and deployed. It will help in reducing in port dwelling time and customs clearance.

v. Threshold for Electric/Digital Mode of Payment

The Threshold for Electric/Digital Mode of Payment has been lowered from Rs.500,000 to Rs.200,000. The Module has been developed and deployed. It will streamline the payment process and would reduce time.

vi. Common Bonded Warehousing Module

The Module has been developed and deployed. It will help in streamlining the matters relating to Common Bonded Warehouse.

3.2. Non-Tax Revenue

Non-Tax Revenue comprises of taxes other than FBR, including Petroleum Development Levy (PDL), Gas Infrastructure Development Cess (GIDC), Gas Development Surcharge (GDS) and taxes collected by ICT. In addition, other recurring income earned by the Federal Government from sources other than taxes are interest payments and dividends paid by public sector enterprises, surplus profit of SBP and PTA, oil and gas receipts, passport fee etc. The position indicating Non-Tax Revenue receipts along with Budget Estimates FY 2021-22, Mid Year Actuals FY 2021-22 and Mid Year Actual FY 2020-21 of Non-Tax Revenue receipts are as under:

(Rs. Billion)

Description	Budget Estimate FY 2021-22	Mid-Year Actual FY 2021-22	Mid Year Actual FY 2020-21
Non-Tax Revenues	2,080	715	862
SBP Profit	650	380	373
Petroleum Levy	610	70	275
Mark-up (PSEs and others)	90	33	44
Royalties on Oil and Gas	100	39	35
Dividends from SOEs	90	26	12
Surplus of PTA including 3G/4G License Fee	50	39	19
UNO Receipts	47	14	14
Mark-up (Provinces)	36	18	14
Citizenship & Passport Fee	35	10	7
Defence Receipts	20	8	7
Discount Retained On Local Crude Oil	20	8	4
Gas Infrastructure Development Cess (GIDC)	130	11	10
Natural Gas Development Surcharge	36	10	13
ICT Taxes	30	10	8
Windfall Levy on Crude Oil	10	5	1
Petroleum Levy on LPG	8	2	2
Others	118	33	26

The collection of Non-Tax Revenue remained at 34% of the Budget estimates and 69% of the Mid-Year targets despite the adverse impact of the Covid-19 pandemic on economic activity. Main decreases in collections are on account of low realization of PDL, GIDC, Dividends from SOEs, Passport Fees and Others. However, surplus profits from PTA and SBP are higher than the target.

During this period the international oil prices increased significantly. However, Federal Government tried to contain these increases of oil prices by making downward

adjustments in petroleum levy and sales tax rates without letting its impact to the general public.

4. Mid Year Total Expenditures (FY 2021-22)

4.1. Current Expenditure

The Federal Government comprises administrative Divisions their Attached Departments, Subordinate Offices (directly or indirectly controlled) Autonomous Bodies, Public Sector Companies and Boards. Currently, Federal Government financial governance apparatus is being run through 76 Principal Accounting Officers, who have comprehensive administrative and financial autonomy to run the government business. 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 FY 2021-22, Mid Year Actuals FY 2021-22 and Mid Year Actual FY 2020-21 of Current Expenditure are as under:-

(Rs Billion)

Description	Budget Estimates FY 2021-22	Mid Year Actual FY 2021-22	Mid Year Actual FY 2020-21
Interest Payments	3,060	1,453	1,475
Defence	1,370	520	487
Running of Civil Govt	479	210	195
Pension	480	252	210
Grants / Transfer	1,193	691	418
Subsidies	682	313	129
Provision	260*	-	-
Total	7,523	3,439	2,914

* Includes provision for pay and pension increase, Covid and other emergencies

The major chunk of current expenditure is spent on interest payments which stood at Rs. 1,453 billion i.e. 47% of the budget estimates. Out of that, domestic interest

payments amounted to Rs. 1,313 billion and external interest payments amounted to Rs. 140 billion.

The position of Budget Estimates FY 2021-22, Mid Year Actuals FY 2021-22 and Mid Year Actual FY 2020-21 of Debt Servicing is as under:-

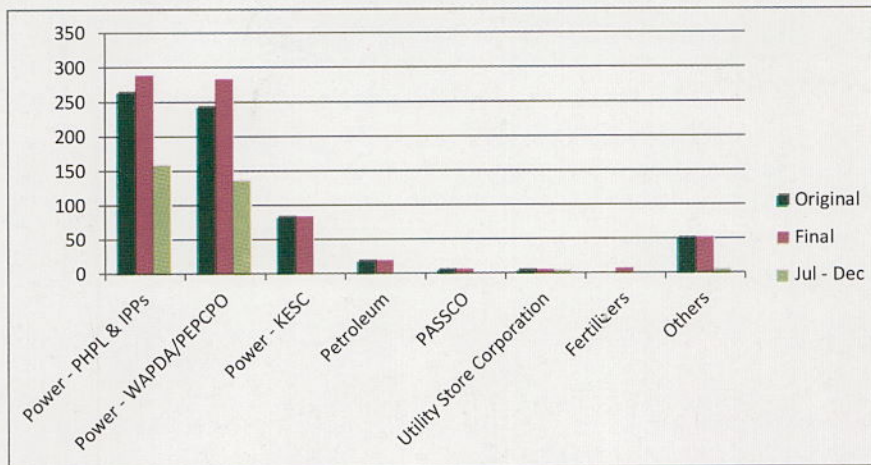
(Rs. Billion)

Description	Budget Allocation FY 2021-22	Mid-Year Actual FY 2021-22	Mid Year Actual FY 2020-21
Servicing of Domestic Debt	2,757	1,313	1,357
Servicing of Foreign Debt	303	140	118
Total	3,060	1,453	1,475

*Final figures will be reconciled at the end of CFY

For the CFY, the Federal Government has increased salaries, pension and allowances (civil & defence) of the employees. Similarly, rent ceilings for hiring of private accommodation by employees have been revised. Furthermore, funds have been released by Finance Division for clearance of pending IPPs claims under circular debt management program.

Detail of spending against budgeted subsidies in CFY 2021-22



Expenditure on running of civil government has been restricted to 44% of the allocation by restricting supplementary grants and implementing austerity measures.

Defence expenditure has also been restricted to 38% of the budget allocation during the 1st half. 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. Brief description is as under:

(Rs. in Billion)

Supplementary Grants	Amounts	Description
Regular Supplementary Grants	231	Covid-19 Vaccine and Power Subsidies
Technical Supplementary Grants (Current / Development)	224	Covid-19 Vaccine & equipments, Industrial Package, Power, Fertilizer, Agriculture, IT exports, ECP & Others.

Function wise Expenditure (current) Details

The position of Budget Estimates FY 2021-22, Mid Year Actuals FY 2021-22 and Mid Year Actual FY 2020-21 of function wise current expenditure are as under:-

(Rs. in Billion)

Description	Budget Allocation FY 2021-22	Mid-Year Actual FY 2021-22	Mid Year Actual FY 2020-21
General Public Service	5,438	2,505	2,186
Defence Affairs and Services	1,370	520	487
Public Orders and Safety Affairs	179	88	75
Economic Affairs	115	33	43
Environment Protection	0.436	0.192	0.168
Housing and Community Amenities	35	2	1
Health	28	105	7
Recreation Culture and Religion	10	5	4
Education Affairs and Services	92	10	40
Social Protection	255	171	70
Total Current Expenditure	7,523	3,439	2,914

Covid-19 Policy Response

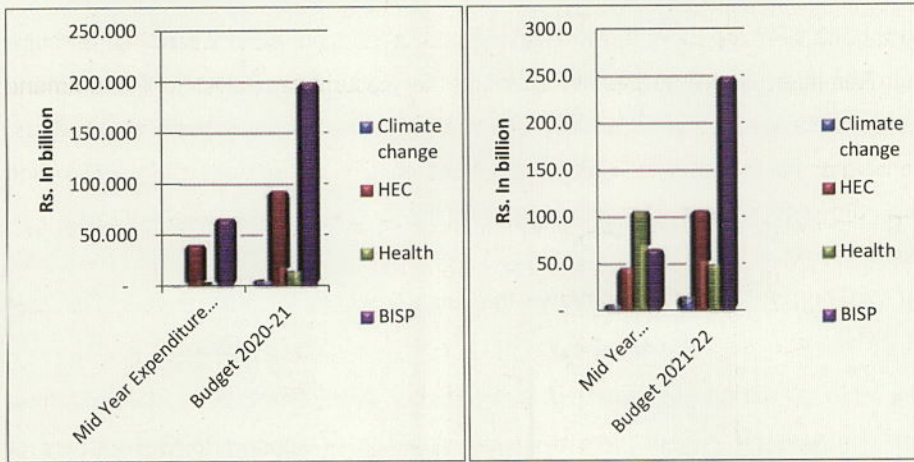
During the CFY the carry forward balance of Rs. 352 bn under Economic Stimulus Package has been approved through supplementary grant to be used for Covid related expenditure. Moreover, another amount of Rs. 100 bn has been allocated for Covid and other emergencies in the CFY. During the 1st half of CFY, an amount of Rs. 212 Billion has been provided for procurement of vaccines and ancillary services against which an expenditure of Rs.196bn has been incurred by respective departments. The emergence of new variants of Covid-19 has drawn the focus towards the vaccination of all age groups as well as for booster's doses.

The international development partners including World Bank, ADB, IMF and other bilateral / multilateral donors have provided all kinds of support to Government of Pakistan in handling the global pandemic. The National Command and Operational Centre, NDMA, Ministry of National Health Services and their allied departments have been playing key roles in meeting the challenges and threats arising out of Covid-19 variants.

Social Sector Spending

Budget 2021-22 was presented with the key priority of social sector improvement. Health, education, attaining SDGs, climate change were some of key focal areas. For this purpose, an amount of Rs.240 bn was allocated (both current & development) in the budget of CFY including Rs.50bn for health, Rs.108bn for Higher Education, Rs.68bn for achievement of SDGs and Rs.14 bn for climate change. These funds were additional to those allocated for EHSAAS program.

Social Sector Mid-Year spending comparison of CFY-2021-22 and Last FY 2020-21



Rs. 250 bn were allocated in Budget for Ehsaas program for the support of vulnerable segments including the major initiatives of the Government for social protection and Poverty Alleviation under which special designed programs have been launched covering cash transfers, Kamyab Jawan, interest free loans, Nashonuma, Tahafuz, Langer and food card.

Bait-ul-mal, setup through PBM Act 1991, has significantly contributed towards poverty alleviation through its various services, providing assistance to destitute, widow, orphan invalid, infirm and other needy persons. Against the allocated budget of Rs. 6.5 bn for CFY, 51% has been utilized for these objectives.

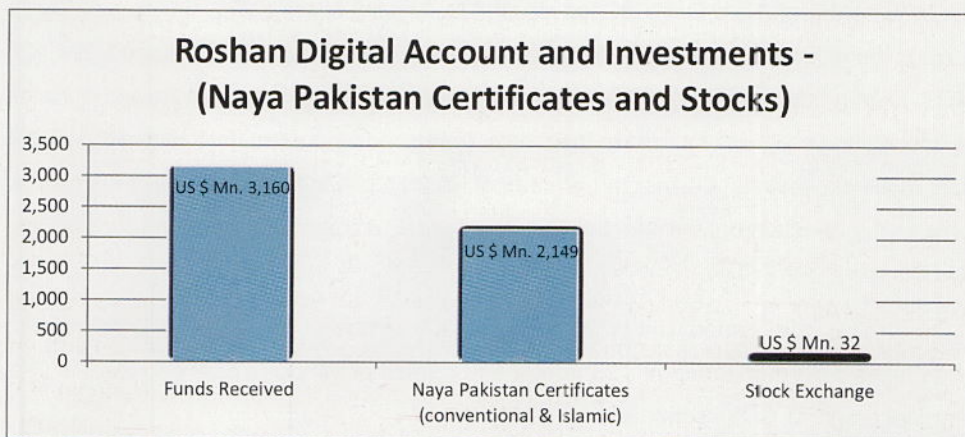
Under Kamyab Jawaan Programme, an amount of Rs. 31.8 billion has been disbursed for loans. Nearly 500,000 applications for loan are in process.

A number of projects are under construction under Naya Pakistan Housing Scheme including 4000 suites in ICT and 4000 suites in Lahore. A number of contracts are under process with private sector on public private partnership scheme.

SBP Scheme

Roshan Digital Account (RDA) is a unique opportunity for Overseas Pakistanis to channel Remittances for further investments in securities. Pakistan Government announced the Naya Pakistan Certificate a bond targeted primarily towards overseas Pakistanis in an attempt to attract foreign investment.

The following graph shows the funds received in Roshan Digital Account and investments in Naya Pakistan certificates and stock exchange.



The SBP has taken measures to increase financing for housing and construction of buildings (Residential and Non-Residential) to at least 7 percent of their respective domestic private sector advances by December, 2022.

Sohni Dharti Remittance Program (SDRP) is a point-based loyalty scheme for our remitters who work abroad and send money to their loved ones in Pakistan through banking channels or exchange companies. Digital Financial Services (DFS) include a broad range of financial services accessed and delivered through digital channels. DFS can be a catalyst in improving living standards, reducing poverty, decreasing fiscal deficit, and providing equal income opportunity to all Pakistanis.

4.2. Development Expenditure (PSDP)

Public Sector Development Programme (PSDP) is an important policy instrument for uplift of socio-economic conditions of the people through implementation of viable development projects across the country. National Economic Council (NEC) in its meeting held on June 07, 2021, inter-alia, approved, Federal PSDP 2021-22 at Rs.900 billion including foreign aid component of Rs.100 billion. The procedure for quarterly release of PSDP funds has been simplified and made more expeditious by empowering PAOs to sanction/utilize funds as per actual requirement of project(s). Quarterly release ceilings have been re-set at 50% as upfront of rupee allocation for July-December, 2021. During the 1st half of CFY an amount of Rs.17.2 billion has been re-appropriated by the Ministries/Divisions within their own budget to important fast moving projects from available savings. Further, an amount of Rs.28.4 billion has been recommended to important projects/programmes through inter-grant adjustments/ surrender including Rs.500 million for ERRRA.

During the period under review (July-December), the PD&SI Division has undertaken field monitoring of 123 important projects of various sectors to track actual physical progress of the schemes.

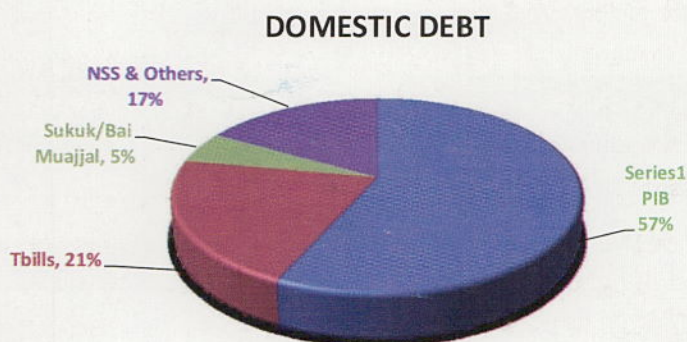
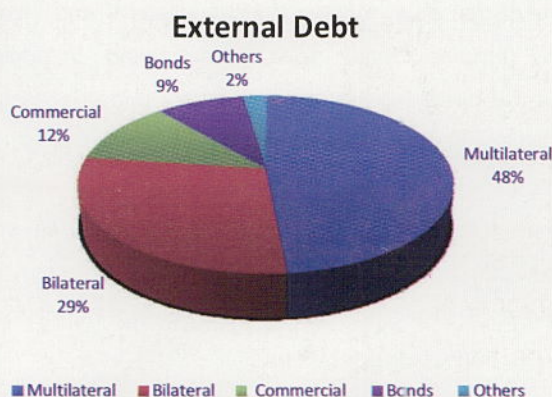
PD&SI Division authorized Rs.392 billion i.e. 49% of rupee allocation of Rs.800 billion. An amount of Rs.204 billion (52% of authorizations) has been utilized upto December, 2021. In addition, an amount of Rs. 65 billion has reported by EAD as disbursement upto December, 2021 against Foreign Aid allocation of Rs.100 billion. The total utilization for July-December, 2021 is Rs.269 billion which is 59% of authorized/disbursed amount of Rs.457 billion.

During FY 2021-22, about 326 projects, costing Rs.486 billion are planned to be completed by 30th June, 2022. An allocation of Rs.89 billion against balance cost has been provided for these projects in PSDP 2021-22. Nevertheless, Ministries/Divisions are being emphasized to complete maximum number of projects by providing required funds through re-appropriation.

5. Borrowing

Public debt has two main components, namely domestic debt (incurred principally to finance fiscal deficit) and external debt (raised primarily to finance development expenditure). Domestic debt mainly includes Government securities and National Savings Schemes. Whereas, external loans are mainly obtained from Multilateral, Bilateral sources, Eurobonds, Commercial Banks and the IMF.

The compositions of stock of external and domestic debt as at end December 21 are as follows:



Following were the highlights of borrowing operations during first half (July – December 2021) of ongoing fiscal year:

- Government retired/repaid portion of T-Bills amounting to Rs 1.0 trillion leading to reduction of short-term maturities in-line with government's commitment to reduce the Gross Financing Needs;
- Government repaid Rs 569 billion against SBP Debt. Cumulative debt retirement to SBP stood at Rs 1.7 trillion from July 2019 to December 2021;
- Within domestic debt, government relied on long-term domestic debt securities for financing of its fiscal deficit and repayment of domestic maturities;
- Within external debt, inflows from multilateral and bilateral development partners remained major sources of funding. In addition, Pakistan re-entered the International Capital Markets and successfully raised USD 1 billion in July 2021 through multi-tranche tap issuance of 5-, 10- and 30-year Eurobonds. These bonds were issued at premium;
- Government repaid USD 1 billion against maturing International Sukuks in October 2021; and
- Government utilized IMF allocated SDR equivalent to Rs 475 billion to support its budgetary operations.

The position of Budget Estimates FY 2021-22, Mid Year Actuals FY 2021-22 and Mid Year Actual FY 2020-21 of financing details are as follow:

(Rs. in Billion)

Description	Budget Allocation FY 2021-22	Mid Year Actual FY 2021-22	Mid Year Actual FY 2020-21
Federal Fiscal Deficit	3,990	1,853*	1,393
External (net)	1,246	1,026	454
Domestic (net)	2,492	827	939

*Final figures will be reconciled at the end of CFY

During the Month of January 2022, the Government of Pakistan has successfully raised US\$ 1.0 billion through the issuance of International Sukuk. The transaction generated great interest as leading global investors from Asia, Middle East, Europe and the US participated in the order book. The transaction's success is a testimony to the

investors' confidence in the country's economic revival and long-term stability and growth. The response was overwhelmingly strong and the order-books were oversubscribed (peaked at US\$ 2.7 billion) consisting of orders from high quality investors. After careful consideration, the Government decided to raise US\$ 1 billion. This is the first issuance under the Government's newly established 'Trust Certificate Issuance Programme and the first time that Government has issued International Sukuk with a 7 Year maturity plan. The program will allow Pakistan to tap the market at short notice. The Government intends to make full use of this program and become a regular issuer of sukuk in the International Capital Markets.

In addition to above, on 2nd Feb 2022, the IMF concluded the sixth review under the Extended Fund Facility (EFF) for Pakistan, through which an amount equivalent of SDR 750 million (about US\$1 billion) has been received.

6. Revised Fiscal Position for FY 2021-22

During the 1st half of CFY, many actions and measures have been taken by the Federal Government for implementation of the approved budget by National Assembly in June 2021. Pakistan has remained in IMF EFF Program and has successfully completed 6th review and Article 4 consultations. The FBR revenue collections have increased while supplementary budget was passed to eliminate various tax exemptions. FBR has also introduced tax collection reforms including execution of Point of Sales (POS) and others. On revenue side, decrease in Non Tax Revenue collection particularly in PDL and GIDC have been noticed.

The increase in current expenditure is expected due to rising interest payments, Covid related spending, energy subsidies, social safety net expenditures and running of civil government. Adjustments are also required to be made in PSDP allocation due to resource constraints, apart from absorption capacity. Pakistan Bureau of Statistics has also announced Rebasings of National Accounts from FY 2005-06 to FY 2015-16. Consequently, the fiscal indicators including nominal GDP have been revised.

On account of these reasons the budgetary estimates for the revenue and expenditures have to be revised while remaining within a sustainable level of deficit.

Budget Estimates FY 2021-22, and Revised Estimates FY 2021-22 are as under:

(Rs. In Billion)

Description	Budget Estimates FY 2021-22	Revised Estimates FY 2021-22
Gross Federal Revenue Receipts	7,909	7,718
FBR Revenue	5,829	6,100
NTR	2,080	1,618
Less: Provincial Share	3,412	3,599
Net Federal Revenue Receipts	4,497	4,119
Total Federal Expenditure	8,487	8,436
Current	7,523	7,672

PSDP	900	700
Net Lending	64	64
Federal Budget Deficit	(3,990)	(4,317)
Federal Fiscal Deficit (% of GDP) *	-7.4%	-6.7%
Provincial Surplus	570	570
Overall Fiscal Deficit	(3,420)	(3,747)
Overall Fiscal Deficit (% of GDP)	-6.3%	-5.8%
Overall Primary Balance	(360)	(687)
Overall Primary Balance (% of GDP)	-0.7%	-1.0%
GDP	53,867	63,978

*Final figures will be reconciled at the end of CFY

7. Conclusion and Outlook

The economic performance during the first half of current fiscal year indicated that the economy is progressively moving on higher inclusive and sustainable growth path. For FY 2022, the economy is forecasted to grow at a rate of 4.8%. The envisaged growth will be driven on the basis of targeted growth of 3.5%, 6.5% and 4.7% in agriculture, industrial and services sector, respectively.

The Budget 2021-22 re-affirms Government's commitment to carry out the process of fiscal consolidation to its logical conclusion. In the fiscal policy of 2021-22, fiscal deficit has been budgeted at 6.3% per cent of GDP. At the end of the second quarter of 2021-22, there is a marked improvement in fiscal parameters when compared to corresponding period of the previous financial year. 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 fiscal sustainability. The continuity in fiscal consolidation and better financial management presents a promising economic outlook. However, there are certain challenges which may impact the growth prospects.

In the medium term, the growth target is set at 5-6% with price stability. The realization of this goal requires economic stability. The Government is highly committed and working diligently to cope with these challenges by introducing comprehensive set of economic policies in all sectors of economy such as industrial package, incentives for export promotion, promulgating investment promotion strategy and social sector development programs etc.

In the budget 2021-22, the government drastically reduced duties and taxes on the imports of raw materials to bring down the input costs of exportable products. Liquidity issues were also resolved to a considerable extent by timely release of refunds and the payments of cash subsidies. As a result, textile exports rose by 26% during the first half of FY 2021-22 and country's overall exports posted a growth of year on year growth of 24.91% to reach \$ 15.13 billion from \$ 12.11 billion in the same period last year.

For sustainable and rapid medium term growth, private sector investment and exports need to revive. Tax exemption on Income from exports of computer software and IT services till 30th June, 2025 have also been granted which will further improve export sector. Meanwhile, a subsidy of Rs.14.88 bn as Industrial Support Package and Rs. 24.3 bn for zero rated industry has been given as supplementary grants along with budgeted subsidies of Rs.15 bn and Rs.26 bn respectively which will help in expanding the manufacturing base in country leading to growth sustainability. In order to meet demand supply gap and to ensure provision of fertilizer for farmers during Rabi Crop, a subsidy of Rs.7.5 bn has been provided to National Food Security & Research.

The government has announced a new Auto Industry Development and Export Policy (AIDEP 2021-26) under which sales tax on local electric vehicles (EVs) has been slashed from 17% to 1%. SME Policy 2021 envisages different aspects of majority sectors and aims at facilitating, encouraging and supporting the entrepreneurs. These measures will not only enable the economy to withstand any external or internal shocks but will also pave the way to achieve higher inclusive and sustainable growth.

Finance Division has adopted a facilitative policy of release of funds in accordance with the government spending priorities. These measures will help the economy to withstand external and internal shocks and will also pave the way to achieve higher inclusive and sustainable growth. Nevertheless, the half year fiscal position indicates that it will remain on track to meet the annual fiscal targets.

After being on the brink of currency and fiscal crisis, Pakistan was able to manage in stabilizing the economy by rebalancing the macroeconomic policy mix under the IMF Program. The IMF noted that the underlying primary deficit, excluding grants and one off expenditure reached 0.6% of GDP, showing considerable improvement over last fiscal year and missing the target only by a small margin of 0.5% of GDP. This was achieved because of comprehensive policies of revenue mobilization and managing expenditure in 1st half of the CFY. Following the successful completion of the 6th review of IMF Program, SBP has received the next tranche of 1.053 billion USD.

It is evident from latest fiscal numbers; the fiscal sector continues to perform better in the wake of unprecedented challenges of Covid-19 pandemic. Pakistan has

adopted necessary fiscal measures to protect the masses from the health emergency and economic impact of Covid-19 pandemic and to support the nascent reopening of the economy in a highly uncertain environment. The government's current fiscal strategy is manifestation of its objective to achieve sustainable and inclusive growth.

