FISCAL POLICY STATEMENT

2019-20

Debt Policy Coordination Office
Ministry of Finance

Fiscal Policy Statement 2019-20

Debt Policy Coordination Office
Ministry of Finance
Government of Pakistan

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Acknowledgements

This policy statement has been prepared to fulfil the requirement laid out under Section 6 of the Fiscal Responsibility and Debt Limitation Act 2005. I would like to acknowledge the strategic input and policy guidance provided by Finance Secretary, Mr. Naveed Kamran Baloch. I would like to acknowledge the input of various Ministries, Departments, Divisions and Agencies especially Budget Wing, External Finance Wing and Economic Affairs Division. I would like to recognize the efforts put in by Mr. Muhammad Umar Zahid, Director Debt, Mr. Shujaat Malik Awan, Market and Financial Risk Specialist, Syed Haroon Qidwai, Credit Risk Specialist, Mr. Muhammad Abdullah, Research Associate, and Mr. Zaheer Abbasi, Section Officer in the realization of this comprehensive document.

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1.0 Introduction

1.1 Pakistan’s economy witnessed marked adjustments during FY 2018-19. In order to manage the twin deficits, multiple measures were taken by the government such as an orderly transition to the market-determined exchange rates, increase in policy rates, curtailment of public sector development expenditure, enhancement of regulatory duties on non-essential imports and revision in energy prices. These adjustments / measures helped contain the pressure on the demand side which translated into import compression and led to significant reduction in current account deficit during FY 2018-19. However, slow pace of revenue growth and increase in current expenditures resulted in overall budget deficit during the year to stand at 8.9 percent of GDP.

1.2 Over the medium term, fiscal consolidation plans of the government are centered on improving the primary balance with the objective to attain a primary surplus of 2.6 percent of GDP by FY 2022-23, which is crucial to reduce Pakistan’s economic vulnerabilities. The planned reforms include improving tax revenue mobilization, elimination of tax exemptions and loopholes. Government also aims to maintain a prudent spending policy while ensuring timely disbursements for social spending, reducing poverty and narrowing the gender gap.

2.0 Fiscal Policy Statement

2.1 The Fiscal Policy Statement is presented to fulfill the requirement of Section 6 of the Fiscal Responsibility and Debt Limitation Act 2005 which stipulates that:

(1) The Federal Government shall cause to be laid before the National Assembly the fiscal policy statement by the end of January each year.

(2) The fiscal policy statement shall, inter alia, analyze the following key macroeconomic indicators, namely: -

(a) total expenditures;
(b) total net revenue receipts;
(c) total fiscal deficit;
(d) total Federal fiscal deficit excluding foreign grants;
(e) total public debt; and
(f) debt per capita.

(3) The Federal Government shall explain how fiscal indicators accord with the principles of sound fiscal and debt management.

(4) The fiscal policy statement shall also contain:

(a) the key measures and rationale for any major deviation in fiscal measures pertaining to taxation, subsidy, expenditure, administrated pricing and borrowing;

(b) an update on key information regarding macroeconomic indicators;

(c) the strategic priorities of the Federal Government for the financial year in the fiscal area;

(d) the analysis to the fullest extent possible of all policy decisions made by the Federal Government and all other circumstances that may have a material effect on meeting the targets for economic indicators for that fiscal year as specified in the medium-term budgetary statement; and

(e) an evaluation as to how the current policies of the Federal Government are in conformity with the principle of sound fiscal and debt management and the targets set forth in the medium-term budgetary statement.

3.0 Budget Strategy 2018-19

3.1 Key aspects of the budget strategy are given below:

- Containment of fiscal deficit at 4.9 percent of projected GDP in FY 2018-19;
- Enhancement of consolidated revenue to Rs 6,246 billion;
- Improvement of Tax to GDP ratio to 13.9 percent in FY 2018-19;
- Rationalization of current expenditure to improve efficiency; and
- Enhancement of efficiency of the tax machinery by removing anomalies and distortions in the current tax system;

3.2 Budget FY 2018-19 focused on key areas of revenue mobilization and curtailment of current expenditure to make space for higher development spending. In addition, the budget stressed upon protection of vulnerable groups through a range of measures to minimize the impact of fiscal consolidation policies on such groups.

4.0 Historical Perspective on Fiscal Development

4.1 Pakistan's economy has experienced mixed trends in fiscal performance over the decades. A comparison is shown in Table-1 to present the historical trend of fiscal performance.

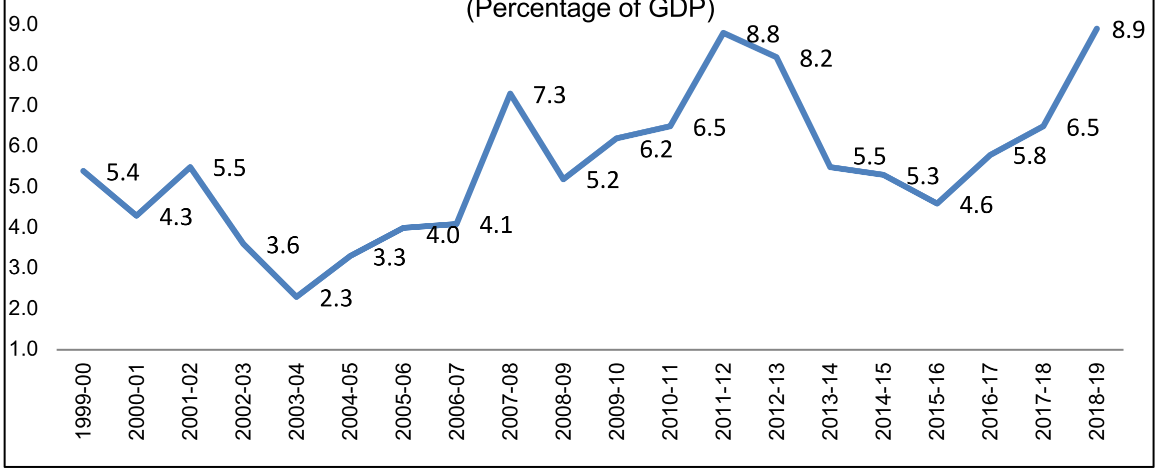
Table-1: Fiscal Indicators (as percentage of GDP)

Years	Real GDP Growth	Fiscal Deficit	Expenditure			Revenue		
			Total	Current	Develop-ment	Total	Tax	Non-Tax
FY92	7.6	7.5	26.7	19.1	7.6	19.2	13.7	5.5
FY93	2.1	8.1	26.2	20.5	5.7	18.1	13.4	4.7
FY94	4.4	5.9	23.4	18.8	4.6	17.5	13.4	4.1
FY95	5.1	5.6	22.9	18.5	4.4	17.3	13.8	3.5
FY96	6.6	6.5	24.4	20.0	4.4	17.9	14.4	3.5
FY97	1.7	6.4	22.3	18.8	3.5	15.8	13.4	2.4
FY98	3.5	7.7	23.7	19.8	3.9	16.0	13.2	2.8
FY99	4.2	6.1	21.9	18.6	3.3	16.0	13.3	2.7
FY00	3.9	5.4	18.9	16.4	2.5	13.4	10.6	2.8
FY01	2.0	4.3	17.4	15.3	2.1	13.1	10.5	2.6
FY02	3.1	5.5	19.6	16.2	3.4	14.2	10.7	3.5
FY03	4.7	3.6	18.4	16.0	2.4	14.8	11.4	3.4
FY04	7.5	2.3	16.4	13.8	2.6	14.1	10.8	3.3
FY05	9.0	3.3	17.2	14.5	2.7	13.8	10.1	3.7
FY06	5.8	4.0	17.1	12.6	4.5	13.1	9.8	3.3
FY07	5.5	4.1	19.5	14.9	4.6	14.0	9.6	4.4
FY08	5.0	7.3	21.4	17.4	4.0	14.1	9.9	4.2
FY09	0.4	5.2	19.2	15.5	3.5	14.0	9.1	4.9
FY10	2.6	6.2	20.2	16.0	4.4	14.0	9.9	4.1
FY11	3.6	6.5	18.9	15.9	2.8	12.3	9.3	3.0
FY12	3.8	8.8	21.6	17.3	3.9	12.8	10.2	2.6
FY13	3.7	8.2	21.5	16.4	5.1	13.3	9.8	3.5
FY14	4.1	5.5	20.0	15.9	4.9	14.5	10.2	4.3
FY15	4.1	5.3	19.6	16.1	4.2	14.3	11.0	3.3
FY16	4.6	4.6	19.9	16.1	4.5	15.3	12.6	2.7
FY17	5.2	5.8	21.3	16.3	5.3	15.5	12.4	3.1
FY18	5.5	6.5	21.6	16.9	4.7	15.1	12.9	2.2
FY19	3.3	8.9	21.6	18.4	3.2	12.7	11.6	1.1

Source: Economic Survey of Pakistan & Debt Policy Coordination Office Staff Calculations, Ministry of Finance

4.2 The 1990's decade experienced high fiscal imbalances. Fiscal performance of the country saw considerable improvements during the period starting from FY 2002-03 to FY 2006-07 primarily because of (i) rescheduling of external debt of US$ 12 billion that brought down the debt servicing from 42 percent in FY 2000-01 to 22 percent of revenue in FY 2005-06 and (ii) huge inflows of foreign grants as well as foreign exchange received on account of Coalition Support Fund (CSF) reimbursement that increased non-tax revenue. Post FY 2006-07, fiscal performance declined considerably as the average fiscal deficit remained around 7 percent of GDP during FY08-FY13. It was mainly due to lower tax collections, caused partly by lower economic growth, persistent losses posted by ailing Public Sector Enterprises (PSEs), additional expenditures need arising out of devastating floods, increasing debt servicing requirements and higher than budgeted subsides. Trend analysis of fiscal deficit over the years (2000-2019) is depicted in the following graph:

Fig-1: Trends in Fiscal Deficit
(Percentage of GDP)



4.3 An analysis of over last two decades of fiscal performance reveals that high subsidies remained a major burden on fiscal accounts combined with falling tax to GDP ratio. Interestingly, even during the period of fiscal improvement (FY99-FY04), tax to GDP ratio continued to decline, implying that fiscal improvement was achieved solely through expenditure compression. Tax revenue as percentage of GDP, which stood at an average of 13.7 percent during FY92-FY96, decreased to an average of 11.2 percent during FY09-FY19. Low tax to GDP ratio has also translated into falling total revenue to GDP ratio as it decreased from an average of 18 percent during FY92-FY96 to 14 percent during FY09-FY19. During the last three years, an increasing trend in fiscal deficit has been observed – from 4.6 percent of GDP in FY 2015-16 to 8.9 percent in FY 2018-19. However, the reasons for the sharp increase in fiscal deficit in each of these years were different. In FY 2016-17, the fiscal deficit surged on the basis of sharp increase in expenditure, particularly provincial expenditure, while in FY 2017-18, it was a combination of slower growth in revenue and continued expansion of public spending.

4.4 Lower revenue collection and sharp rise in current expenditures caused a deterioration in fiscal indicators during FY 2018-19. The fiscal performance during FY 2018-19 can be mainly assessed through analysis of developments in revenue and current expenditures as highlighted below:

- Revenue collection at the Federal level remained lower than 2 percent of GDP than expected during FY 2018-19, out of which around ¾ of the revenue shortfall was due to one-off factors which are not expected to carry over into FY 2019-20 i.e. delay in renewing telecom licenses, delay in sale of envisaged state assets and weaker than anticipated tax amnesty proceeds contributed around 1 percent of GDP while a shortfall in the transfer of SBP profits contributed an additional 0.5 percent of GDP. Profit of SBP witnessed a steep plunge during FY 2018-19 as SBP incurred heavy exchange rate losses on its external liabilities;
- The current expenditure grew by around 21 percent during FY 2018-19 mainly due to higher interest payments (up by 39 percent) on account of rise in domestic interest rates. Government initially budgeted the interest servicing target that was only 6 percent over FY 2017-18, however, overall interest payments were 29 percent higher compared to expense targeted in the Budget 2018-19. Apart from rise in domestic interest rates, one-off transaction amounting to Rs 296 billion on account of interest payment against re-profiling of SBP borrowing contributed towards increase in interest payments i.e. re-profiling of SBP borrowing from short-term to medium-to-long term on June 30, 2019 required the government to pay accrued interest amounting to Rs 296 billion to State Bank of Pakistan (SBP). Since re-profiling of SBP borrowing involved creation of new instruments, accrued interest was required to be paid on existing debt instruments till June 30, 2019 as per accounting policies followed by SBP.

5.0 Fiscal Performance during Fiscal Year 2018-19

5(i) Total Revenue

5.1 Total revenue of the government is bifurcated into tax revenue and non-tax revenue. Tax revenue includes direct taxes and indirect taxes while non-tax revenue mainly consists of government receipts on its investments and provision of services. Total revenue of the government was recorded at Rs 4,900 billion during FY 2018-19 compared with Rs 5,228 billion during FY 2017-18, registering a decline of 6 percent (Table-11).

5.2 FBR is responsible for a major portion of tax collections. FBR collected Rs 3,829 billion and achieved 86 percent of its target of Rs 4,435 billion. An overall growth of 15 percent was envisaged in FBR target during FY 2018-19 over last fiscal year. Most of the improvement was envisaged in indirect taxes, whereas moderate growth was expected in direct taxes. The main drivers of this envisaged growth in revenue were:

- Government envisaged the real GDP growth at 6.2 percent;
- Expected success of the proposed tax reforms, including an improvement in tax base, better administration and compliance; and
- Persistent impact of asset declaration and tax amnesty scheme and improved regulation of the real estate sector.

5.3 Economic activity slowed down considerably right from the start of FY 2018-19 with the impact of regulatory and macroeconomic stabilization measures taking hold which naturally weakened the revenue generation capacity of the economy. Moreover, revenue impact of tax measures and import compression policies also fell short of target. In addition, the government had to significantly lower tax rates on various petroleum products following the Court’s decision to suspend withholding tax collections on mobile top-ups during the first quarter of FY 2018-19 which made things more challenging for the government. As petroleum products constitute almost a third of the indirect tax collections, revenue mobilization was severely impacted.

5.4 Non-tax revenue of the Federal Government reduced by almost 42 percent and recorded at Rs 364 billion in FY 2018-19 compared with Rs 630 billion during FY 2017-18 (Table-10). The decline is mainly attributable to exchange rate losses incurred by SBP on its external liabilities.

5(ii) FBR Collection Analysis

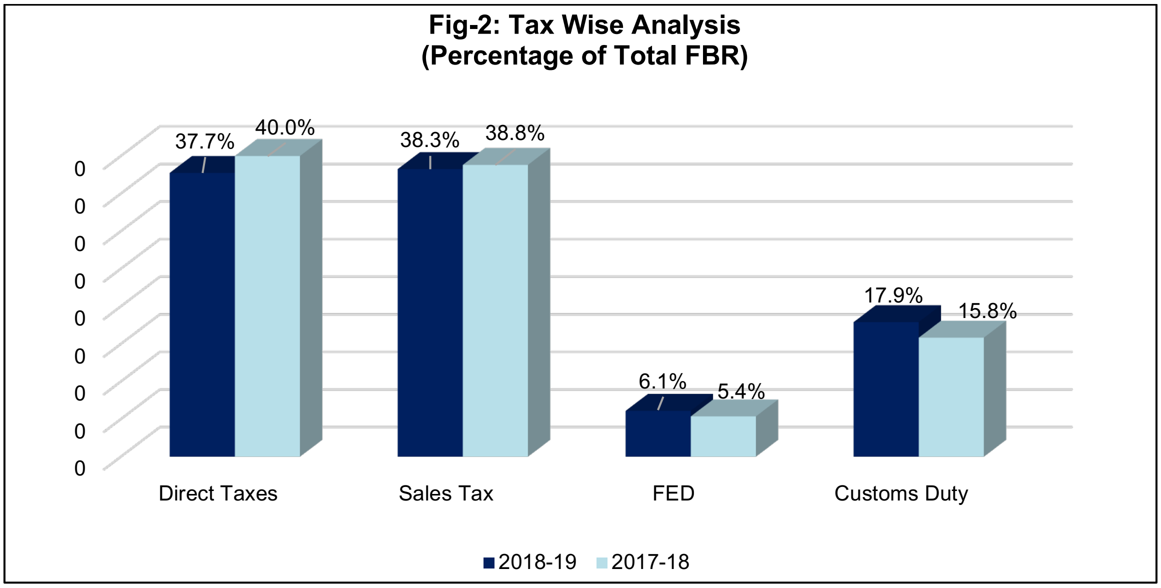
The details of tax collection against targets are depicted in the table below:

Table-2: Comparison of Tax Collection against Targets - (Rs in billion)

Tax Head	Original Budget	Provisional Collection (FY19)	Provisional Collection (FY18)	Achievement of Target (%) (FY19)
FBR Taxes	**4,435.0**	**3,829.5**	**3,842.2**	**86.3**
Direct Taxes	1,735.0	1,445.6	1,536.6	83.3
Sales Tax	1,700.0	1,464.9	1,491.3	86.2
Federal Excise Duty	265.0	233.6	205.9	88.1
Customs Duty	735.0	685.4	608.3	93.3
Other Taxes	**453.6**	**242.2**	**223.6**	**53.4**
Federal Tax Revenue	**4,888.6**	**4,071.6**	**4,065.8**	**83.3**
Provincial tax Revenue	**454.1**	**401.8**	**401.4**	**88.5**
Total Tax Revenue	**5,342.7**	**4,473.4**	**4,467.2**	**83.7**

Source: Annual Budget & Fiscal Operations FY19

5.5 Direct taxes declined by 6 percent mainly due to decline in withholding taxes on the back of concessions on income tax granted in the budget along with lower Public Sector Development Program (PSDP) spending. On the other hand, indirect taxes grew by around 3 percent. The proportion of taxes collected by the FBR in FY 2018-19 slightly reduced in case of direct tax and remained almost similar for sales tax when compared with FY 2017-18, whereas, positive changes were observed in federal excise duty and customs duty as depicted in the graph below:



5(iii) Head Wise Analysis of Taxes

5.6 Direct taxes are primarily categorized as Voluntary Payments, Collection on Demand and Withholding Taxes (WHT). Direct taxes contributed 38 percent in FBR tax receipts and recorded at Rs 1,446 billion during FY 2018-19. Withholding taxes remained lower than last fiscal year mainly due to considerable reduction in the collection from cash withdrawals, contracts, salaries and telephone. In addition, collection through amnesty scheme (introduced during FY 2018-19) remained modest.

Table-3: Analysis of FBR Direct Tax Collection (Rs in billion)

Tax Head	FY19	FY18	Growth (%)	% Share in FY19
Voluntary Payments	383.5	373.9	2.6	25.1
Collection on Demand	102.9	102.9	0.0	6.7
Withholding Taxes	960.7	1,047.3	(8.3)	62.8
Miscellaneous	82.3	82.0	0.4	5.4
Gross Direct Taxes	**1,529.4**	**1,606.1**	**(4.8)**	**100.0**
Refunds	83.8	69.5	20.6	
Total Net Direct Taxes	**1,445.6**	**1,536.6**	**(5.9)**	-

Source: FBR & Fiscal Operations (FY18 & FY19)

a- Voluntary Payments

5.7 This component includes "Payments with Returns" and "Advance Tax". In this head, an amount of Rs 384 billion was collected during FY 2018-19 compared to Rs 374 billion during last fiscal year. Within voluntary payments, the payments via return filing reduced significantly while it had witnessed substantial increase last year when a large number of individuals took advantage of the asset declaration and tax amnesty scheme. Government introduced similar amnesty scheme during FY 2018-19, however, its response remained modest. Resultantly, advance tax constituted around 90 percent of total voluntary payments where a sum of Rs 344 billion was collected.

b- Collection on Demand

5.8 Collection on Demand (COD) remained unchanged during FY 2018-19 compared to last year and recorded at Rs 103 billion. The stagnation under this head may be attributable to extension in deadline of e-filing during FY 2018-19.

c- Withholding Taxes

5.9 WHT contributed a major chunk of around 63 percent in gross direct tax collection during FY 2018-19. WHT collection during FY 2018-19 was Rs 961 billion against Rs 1,047 billion during last fiscal year, indicating a decline of 8 percent. The main factors behind this reduction in WHT were (i) Reduction in rates on salary income in Budget 2018-19 by the government; (ii) Supreme Court's decision to suspend withholding tax on telecom subscription; (iii) FBR's abolishment of tax on cash withdrawal on filers; and (iv) decline in PSDP funding by around 31 percent (Table-11). These factors resulted in reduction in collection from salaries, telephone, cash withdrawals, contracts and also affected revenue mobilization from construction and allied industries. The performance of major components of withholding taxes are depicted in the table below:

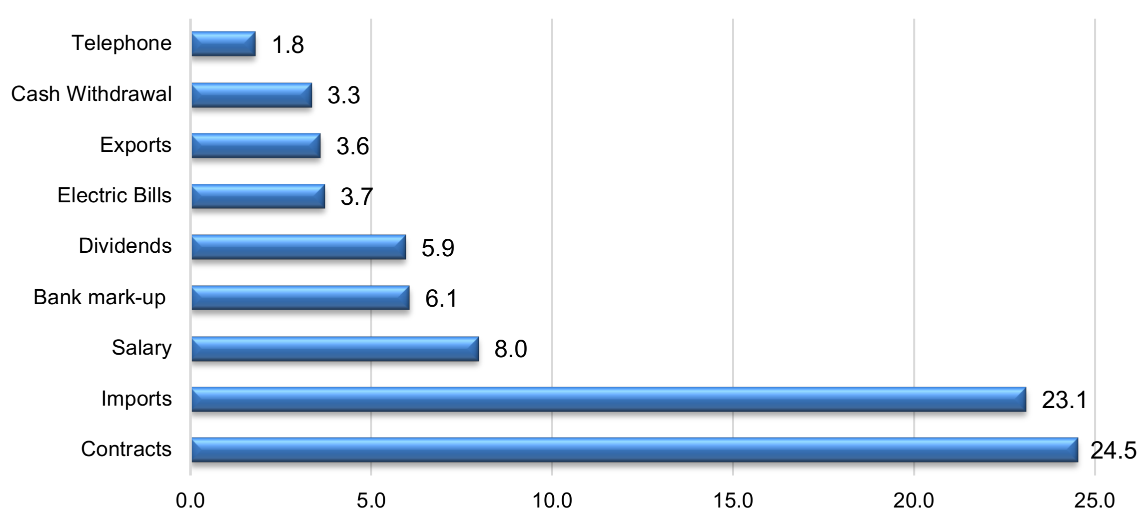
Table-4: Head Wise Collection of WHT (Rs in billion)

Collection Head	Collection		Growth %	% Share FY19
	FY19	FY18		
Contracts	235.5	249.9	(5.8)	24.5
Imports	221.8	218.7	1.4	23.1
Salary	76.4	133.4	(42.7)	8.0
Bank mark-up	58.1	45.6	27.4	6.1
Dividends	57.1	57.8	(1.4)	5.9
Electric Bills	35.6	33.8	5.1	3.7
Exports	34.4	28.3	21.8	3.6
Cash Withdrawal	32.1	34.4	(6.7)	3.3
Telephone	17.2	47.4	(63.7)	1.8
Sub total	**768.2**	**849.3**	**(9.5)**	**80.0**
Others	**192.5**	**198.0**	**(2.8)**	**20.0**
Total WHT	**960.7**	**1,047.3**	**(8.3)**	**100.0**
% share in Gross Direct Tax	62.8	65.2	-	-

Source: FBR Yearly Book FY19

5.10 Noticeable growth in withholding tax collection was witnessed in bank mark-up (27 percent) followed by exports (22 percent), electric bills (5 percent) and imports (1 percent). The nine major components of withholding taxes contributed around 80 percent of total WHT collection, in which contracts, imports and salaries jointly constituted around 56 percent. These are presented in the graph below:

Fig-3: Percentage Share of Major of WHT items in Total WHT (2018-19)



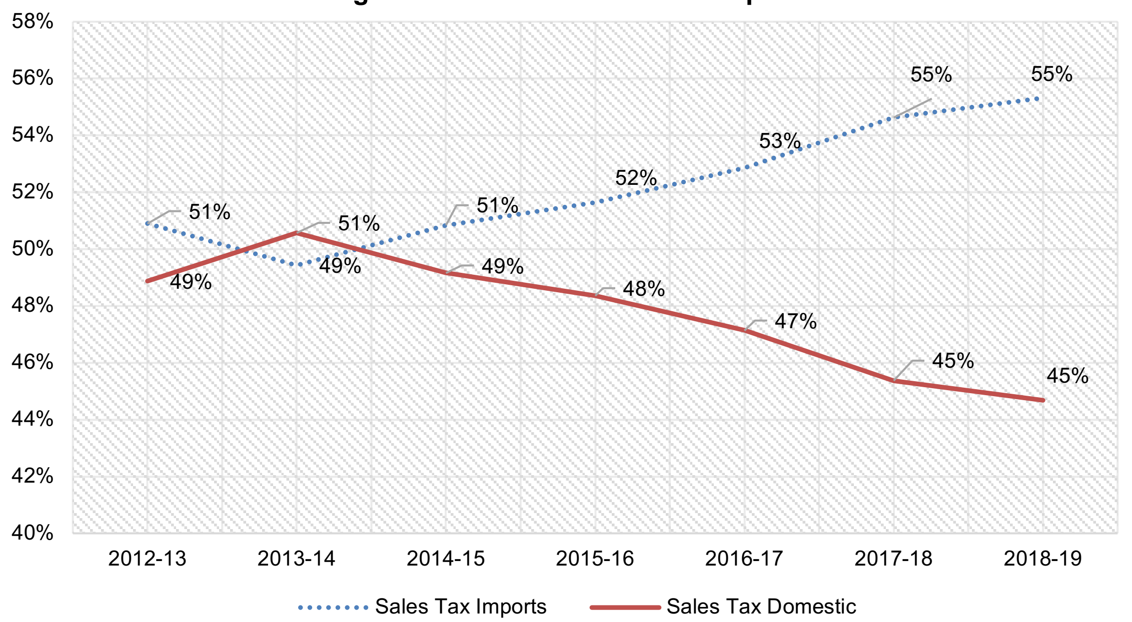
Indirect Taxes

Indirect taxes include sales tax, federal excise duties and custom duties. Indirect tax constituted 62 percent of the total FBR tax collections during FY 2018-19.

Sales Tax

5.11 Collection from sales tax remained the top contributor in FBR receipts and recorded at Rs 1,465 billion or 38 percent of FBR tax collection during FY 2018-19 (Table-2). Domestic sales tax collections and sales tax from imports decreased by almost 2 percent each (Table 5 & 6). The decline in sales tax majorly came from the POL segment. Although, POL sales in value terms registered a growth of around 6 percent during FY 2018-19 but significant reduction in sales tax rates on petroleum products during first half of FY 2018-19 resulted in contraction of revenues. The analysis of sales tax during past few years reveal that the share of sales tax on imports is gradually rising in comparison to the falling share of sales tax on domestic products.

Fig-4: Sales Tax Domestic V/s Imports



a. Sales Tax from Imports

5.12 Sales tax from imports is a significant component of total sales tax receipts, recorded at Rs 810 billion or around 55 percent of net sales tax collection during FY 2018-19. The analysis of sales tax from imports indicates that out of total collections, around 60 percent was contributed by POL products, machinery & mechanical appliances, iron & steel, vehicles and electrical machinery.

Table 5: Commodity / Source Wise Collection of Sales Tax at Import Stage (Rs in billion)

Commodities/Source	Collection			% Share FY19
	FY19	FY18	% Growth	
POL Products	221.3	264.2	(16.2)	27.3
Machinery & Mechanical Appliances	72.2	68.6	5.2	8.9
Iron and Steel	69.6	68.3	1.8	8.6
Vehicles (Non-Railway)	63.0	66.8	(5.6)	7.8
Electrical Machinery	57.1	51.7	10.4	7.0
Plastic Resins etc.	52.1	45.1	15.4	6.4
Edible Oil	41.6	41.0	1.6	5.1
Organic Chemicals	20.2	17.6	14.9	2.5
Coffee, Tea, Mate and Spices	6.9	13.3	(48.4)	0.8
Oil Seeds, Fruit, Misc Grains, Seeds	16.6	16.1	3.3	2.1
Sub Total	**620.6**	**652.7**	**(4.9)**	**76.6**
Others	189.9	171.6	10.6	23.4
Gross	**810.4**	**824.3**	**(1.7)**	**100.0**
Refund / Rebate	0.1	0.1	(29.8)	
Sales Tax (Import) Net	**810.4**	**824.2**	**(1.7)**	

Source: FBR & Fiscal Operations (FY19 & FY18)

5.13 POL products were the leading source of sales tax collection at import stage with share of around 27 percent. However, reduction in sales tax rates on petroleum products during first half of FY 2018-19 resulted in contraction in revenues from POL products by around 16 percent. In addition, restrictions imposed on imported vehicles, coffee, tea, mate and spices contributed towards corresponding decline in sales tax from imports.

b. Sales Tax from Domestic Market

5.14 Collection from domestic sales tax were recorded at Rs 655 billion in FY 2018-19. The POL products and electrical energy constituted around 47 percent of net sales tax collection from domestic market. The details of major ten items are shown in table below:

Table-6: Commodity / Source wise Collection of Sales Tax from Domestic Market (Rs in billion)

Commodities/Source	Net Collection			% Share FY19
	FY19	FY18	% Growth	
POL Products	248.5	236.8	4.9	38.0
Electrical Energy	57.9	53.9	7.5	8.8
Withholding Agents	29.8	27.1	9.9	4.6
Sugar	26.6	20.2	31.8	4.1
Cigarettes	23.1	20.5	12.6	3.5
Cement	21.6	24.1	(10.2)	3.3
Food Products	17.6	16.0	9.6	2.7
Aerated Waters / Beverage	12.2	17.7	(31.0)	1.9
Iron & Steel Products	11.4	15.4	(25.9)	1.7
Motor Cars	6.3	9.4	(33.1)	1.0
Sub Total	**455.1**	**441.2**	**3.2**	**69.5**
Others	199.4	225.9	(11.7)	30.5
Sales Tax (Domestic) Net	**654.5**	**667.1**	**(1.9)**	**100.0**

Source: FBR & Fiscal Operations (FY19 & FY18)

5.15 Collection from POL products contributed 38 percent in sales tax from domestic market, thus remaining the top revenue generating source. Moreover, growth was also witnessed in sugar (32 percent), cigarettes (13 percent), withholding agents & food products (10 percent each) and electrical energy (8 percent) during FY 2018-19. However, collection from the cement, aerated waters / beverage, iron & steel and motor cars registered a decline.

Customs Duty

5.16 Customs duty constituted around 29 percent and 18 percent of indirect taxes and FBR taxes, respectively (Table-2). Net collection from customs duty during FY 2018-19 stood at Rs 685 billion, registering a growth of around 13 percent. This rise in customs duty is attributed to imposition of additional regulatory duties along with devaluation of PKR against USD. The PKR depreciation resulted in increasing the import value, however, quantum of import remained lower. Customs duty achieved around 93 percent of its budgeted target.

5.17 Around 56 percent of customs duty collection have emanated from 10 major commodities (Table-7). It is also important to note that all the major revenue spinners have exhibited growth in the customs duty collection except vehicles because of restriction imposed on imported cars. Commodity wise collection of the customs duty is given below:

Table-7: Commodity Wise Collection of Customs Duty (Rs in billion)

Commodities	Collection			% Share FY19
	FY19	FY18	% Growth	
Vehicles (Non-Railway)	81.5	97.1	(16.1)	11.6
POL Products	79.4	70.7	12.3	11.3
Iron & Steel	47.2	41.4	13.9	6.7
Machinery & Mechanical Appliances	42.5	39.0	9.0	6.1
Electrical Machinery	42.2	30.9	36.6	6.0
Edible Oil	31.7	28.2	12.2	4.5
Plastic Resins	25.5	21.8	16.8	3.6
Paper & Paperboards	15.1	11.7	28.9	2.2
Articles of Iron & Steel	13.2	11.8	11.6	1.9
Coffee, Tea, Mate and Spices	12.0	8.4	44.2	1.7
Sub Total	**390.2**	**361.0**	**8.1**	**55.6**
Other Sectors	311.9	262.1	19.0	44.4
Gross	**702.1**	**623.1**	**12.7**	**100.0**
Refund/ Rebate	16.6	14.8	12.3	
Customs Duty Net	**685.4**	**608.3**	**12.7**	

Source: FBR & Fiscal Operations (FY19 & FY18)

5.18 Unlike sales tax, collection from customs duty is less concentrated around any particular commodity. However, vehicle and POL products remained the major contributor with a combined share of around 23 percent of total customs duty collection.

5.19 It is important to highlight that from revenue perspective, structure of imports remained unfavorable over past 3 years because the growth in duty free imports remained higher than the increase in dutiable imports. This resulted in lower revenue collection despite increasing imports.

Federal Excise Duty

5.20 Federal Excise Duty (FED) constituted 10 percent of indirect taxes and 6 percent of the total taxes collected by FBR. The collection from FED registered a growth of 13 percent during FY 2018-19 compared with last fiscal year. The net collection from FED stood at Rs 234 billion in FY 2018-19 against Rs 206 billion recorded during last year. However, revenue target of FED was missed by around 22 percent (Table-2).

Table-8: Commodity Wise Collection of FED (Rs in billion)

Commodities	Collection			% Share FY19
	FY19	FY18	% Growth	
Cigarettes & Tobacco	91.0	67.1	35.5	38.9
Cement	57.6	54.0	6.7	24.6
Services	44.1	44.9	(1.7)	18.9
Beverages & Concentrate	23.0	22.3	2.9	9.8
Natural Gases	9.6	10.7	(9.7)	4.1
Edible Oil	5.6	3.8	48.0	2.4
Sub-total	**230.9**	**202.8**	**13.9**	**98.8**
Others	2.7	3.1	(11.9)	1.2
Gross	**233.6**	**205.9**	**13.5**	**100**
Refund	0.000	0.002	(100.0)	-
Net	**233.6**	**205.9**	**13.5**	**-**

Source: FBR & Fiscal Operations (FY19 & FY18)

5.21 Cigarettes & tobacco sector constituted major share in FED collection of 39 percent with cement and services taking the second and third place, respectively. Significant growth in collection from cigarettes and tobacco along with slight growth in cement sector was on the back of upward revision in the rates of excise duty. In addition, other contributing factors towards growth were beverages and edible oil. However, FED collections on natural gases and services declined by 10 percent and 2 percent, respectively.

Other Taxes

5.22 Government also relied on other sources of indirect taxes which include Petroleum Levy, Gas Infrastructure Development Cess (GIDC), Natural Gas Development Surcharge, Airport Tax and ICT Tax. Although, other taxes increased by 8 percent during FY 2018-19, however, the government was able to achieve only 53 percent of budgetary target i.e. a shortfall of around Rs 212 billion was registered in other taxes compared with the budgetary estimates. This was mainly because the government was unable to collect most of the GIDC owing to cases filed by the consumers in court. Moreover, collection from petroleum levy stood at Rs 206 billion against the target Rs 300 billion (achievement of 69 percent). Brief analyses of other taxes are depicted in the table below:

Table-9: Analysis of Other Taxes Collection (Rs in billion)

Tax Head	Budget FY19	FY19	FY18	Growth (%)	% Share in (FY19)	Target Achieved (%)
Petroleum Levy	300.0	206.3	178.9	15.3	85.2	68.8
GIDC	100.0	21.4	15.2	41.1	8.8	21.4
Natural Gas Development Surcharge	16.0	5.3	24.2	(78.1)	2.2	33.2
Other Taxes (ICT)	37.6	9.0	5.3	69.1	3.7	24.1
Airport Tax	0.1	0.0	0.0	(17.2)	0.0	26.7
Total Other Taxes	**453.6**	**242.1**	**223.6**	**8.25**	**100.0**	53.4

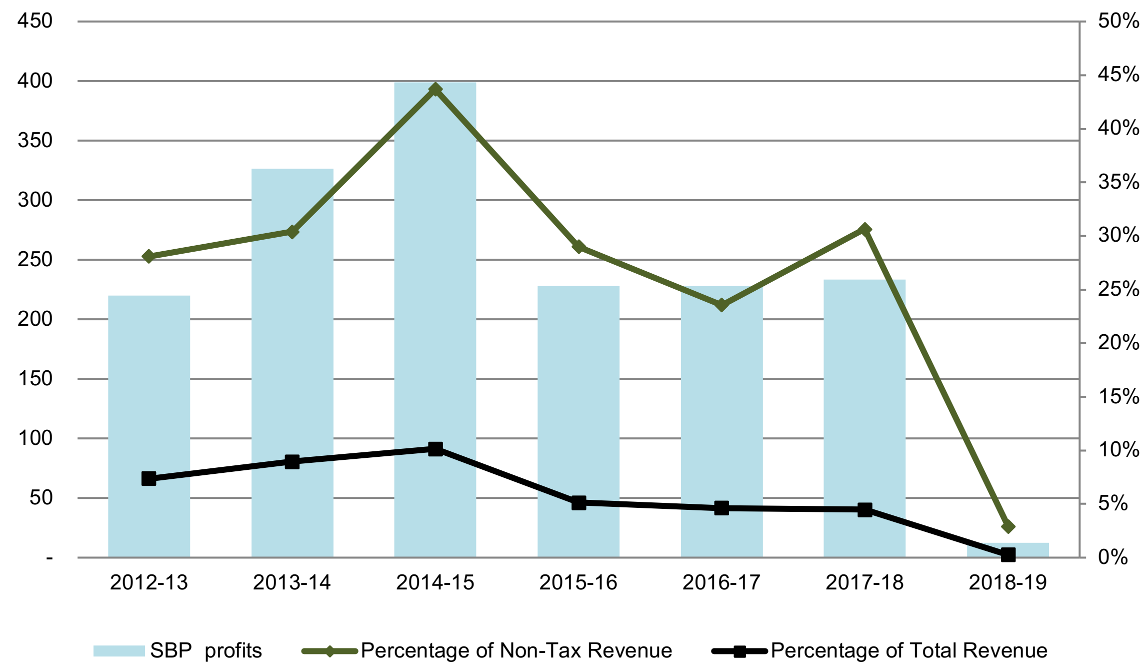
Source: Annual Budget FY19 & Fiscal Operations (FY19 & FY18)

5(iv) Non-Tax Revenue

5.23 Non-tax revenue collection of Federal Government stood at Rs 364 billion against a target of Rs 772 billion (Table-10). This implies an achievement of around 47 percent of the intended target. The decline of 42 percent in non-tax revenue from the level of last year is largely attributable to considerable shrinkage in SBP profits by around 95 percent and reduction in markup payments from PSEs by around 59 percent.

5.24 SBP profits remained the most important source for the government as it contributed on an average 30 percent in non-tax revenue during FY 2013-14 to FY 2017-18. However, during FY 2018-19, SBP profits declined by almost 95 percent to stand at Rs 13 billion. Since mark-up earned on government debt represents major portion of SBP earnings, the transfer of SBP profits implies partial reimbursement of interest payments. However, SBP incurred significant exchange rate losses on its external liabilities, resulted in steep decline in SBP profits during FY 2018-19. The historical trend of SBP profits is highlighted in the graph below:

Fig-5: Profit Receipts from State Bank of Pakistan
LHS: Rs in billion, RHS: Percent of Non-Tax Revenue & Total Revenue



5.25 In addition to SBP profits, the decline in PSDP spending for two consecutive years (which involves government's lending to public sector institutions), led to lower mark-up payments from PSEs. The cumulative decline in revenue from these sources more than offset the higher collection from royalties on gas and oil, discount retained on crude oil and other levies. The increase in these revenues mainly attributable to rise in rupee value of crude oil. Head-wise comparison of non-tax revenue collection can be seen in the table below:

Table-10: Sources of Non-Tax Revenue (Rs in billion)

Sources of Taxation	Budgeted (FY19)	FY19	FY18	% Growth	% Share	Target Achieved (%)
SBP profits	280.0	12.5	233.2	(94.6)	3.4	4.5
Mark-Up (PSE's)	123.6	35.7	87.8	(59.3)	9.8	28.9
Royalty on Oil and Gas	53.3	87.9	58.2	51.0	24.2	164.8
Dividends	76.5	60.2	57.5	4.8	16.5	78.7
Mark-Up (Provinces)	16.8	22.9	16.2	41.4	6.3	136.7
PTA	20.0	18.2	15.9	14.7	5.0	91.3
Citizenship & Naturalization, Passport Fee	31.0	23.0	15.9	44.4	6.3	74.2
Defense	16.0	15.6	12.8	22.4	4.3	98.0
Discount Retained on Crude Price	10.0	14.0	9.1	53.6	3.8	139.9
Windfall Levy	5.0	7.7	3.9	97.8	2.1	154.5
Petroleum Levy on LPG	2.0	3.7	2.1	75.0	1.0	185.7
Others	138.0	62.4	117.8	(47.0)	17.1	45.2
Gross Receipts	**771.9**	**363.9**	**630.4**	**(42.3)**	**100.0**	**47.1**

Source: Annual Budget FY19 & Fiscal Operations (FY19 & FY18)

6.0 Total Expenditure

6.1 Government's total expenditure is the aggregate of two major components; current expenditure and development expenditure. The consolidated government expenditure registered a growth of 11 percent during FY 2018-19 and stood at Rs 8,345 billion (Table-11). The growth witnessed in total expenditure was lower than last year primarily due to decrease in development expenditure, which reduced by around 25 percent during FY 2018-19 on the back of reduction in Public Sector Development Program (PSDP) spending both at Federal and Provincial level. The decline in PSDP was witnessed in two consecutive years, which was primarily attributed to establishment of interim government, which suspended PSDP releases during the last quarter of FY 2017-18. However, in FY 2018-19, the decline was spread throughout the year. The aim was to curtail current expenditure in order to enhance development spending. Although, this trend reversed as evident from this year's figures primarily as a consequence of higher interest payments due to increase in SBP policy rates.

Table-11: Consolidated Fiscal Position of the Government (FY 2018-19)

	Budgeted FY19	Provisional		% Growth	% of GDP	% of Budget FY19
		FY19	FY18			
Total Revenue	**6,245.7**	**4,900.7**	**5,228.0**	**(6.3)**	**12.7**	**78.5**
Tax Revenue	5,342.6	4,473.4	4,467.2	0.1	11.6	83.7
Non-Tax Revenue	903.1	427.3	760.9	(43.8)	1.1	47.3
Total expenditure	**8,135.9**	**8,345.6**	**7,488.4**	**11.4**	**21.6**	**102.6**
a) Current expenditure	**6,328.6**	**7,104.0**	**5,854.3**	**21.3**	**18.4**	**112.3**
of which Mark-Up Payments	1,620.2	2,091.1	1,499.9	39.4	5.4	129.1
Domestic	1,391.0	1,820.8	1,322.6	37.7	4.7	130.9
Foreign	229.2	270.3	177.3	52.5	0.7	117.9
Provincial Current Expenditure	2,178.0	2,327.9	2,064.5	12.8	6.0	106.9
Defense Expenditure	1,100.3	1,146.8	1,030.4	11.3	3.0	104.2
b) Development expenditure and net lending	**1,807.3**	**1,219.2**	**1,621.7**	**(24.8)**	**3.2**	**67.5**
Development Expenditure	1,830.2	1,178.4	1,584.1	(25.6)	3.1	64.4
PSDP	1,650.0	1,008.2	1,456.2	(30.8)	2.6	61.1
Other Development Expenditure	180.2	170.2	127.8	33.2	0.4	94.4
Net Lending	(22.9)	40.8	37.6	8.3	0.1	178.1
c) Unidentified Expenditure	**0.0**	**22.4**	**12.4**	**80.1**	**0.1**	**0.0**
Overall Fiscal Balance	**(1,890.2)**	**(3,444.9)**	**(2,260.4)**	**52.4**	**(8.9)**	**182.3**
Percent of GDP	4.9	8.9	6.5	36.8	0.0	181.4
Financing of Fiscal Balance	1,890.2	3,444.9	2,260.4	52.4	8.9	182.3
a) External Sources	342.1	416.7	785.2	(46.9)	1.1	121.8
b) Domestic Sources	1,548.1	3,028.2	1,475.2	105.3	7.9	195.6
Non-Bank	532.8	765.0	352.7	116.9	2.0	143.6
Bank	1,015.3	2,263.2	1,120.5	102.0	5.9	222.9
Privatization Proceeds	0.0	0.0	2.0		0.0	0.0
GDP at market prices	**38,388.0**	**38,559.0**	**34,618.6**	**11.4**	**100.0**	**100.4**

Source: Budget Wing & Fiscal Operations (FY19 & FY18)

6(i) Current Expenditure

6.2 Current expenditure mainly constitutes general public services and defense expenditure. Current expenditure was recorded at Rs 7,104 billion in FY 2018-19 and witnessed a growth of around 21 percent. The component wise analyses of current expenditure are as follows:

General Public Services

6.3 Around 45 percent of the current expenditures were allocated to general public services which stood at Rs 3,245 billion in FY 2018-19 (Table-12). The general public services mainly include the mark-up payments on foreign/domestic debt, pensions & annuities and grants. Mark-up payments on domestic debt constituted around 56 percent of general public services expenditure and 26 percent of the total current expenditure, while mark-up payments on foreign debt constituted around 8 percent of this expenditure and almost 4 percent of the total current expenditure. The total mark-up payments (domestic & foreign debt) increased by 39 percent during FY 2018-19 (Table-11). The significant increase in mark-up payments, particularly on domestic debt, was on the back of increase in inflation and interest rates. During FY 2018-19, SBP policy rate increased by 5.75 percent to stand at 12.25 percent in May 2019 compared with 6.5 percent at end June 2018. Although, mark-up payments on external debt also increased but their levels remained quite low.

6.4 Superannuation and pension costs are another main component of general public services. This segment witnessed 18 percent growth to stand at Rs 393 billion in FY 2018-19 compared with Rs 334 billion in last fiscal year.

Table-12: Components of General Public Expenditure (Rs in billion)

Expenditure	FY19	FY18	% Growth	% Share FY19
Mark-up on Domestic Debt	1,820.8	1,322.6	37.7	56.1
Mark-up on Foreign Debt	270.3	177.3	52.5	8.3
Superannuation Allowances & Pension	392.9	333.7	17.7	12.1
Grants (other than Provinces)	442.0	383.8	15.2	13.6
Other General Public Service	319.4	219.0	45.9	9.8
Total	**3,245.4**	**2,436.3**	**33.2**	**100.0**

Source: Fiscal Operations (FY19 & FY18)

Subsidies

6.5 Total subsidies increased by 71 percent to Rs 195 billion compared with last year. Moreover, subsidies exceeded the budgeted target on account of both power and food & agriculture sector. The power sector consumed 82 percent of total subsidies whereas 18 percent was consumed by food & agriculture sector during FY 2018-19.

6.6 Power sector in Pakistan has been facing crisis during last few years mainly due to inefficiencies in transmission and distribution of electricity along with increase in electricity generation cost. Therefore, reducing the circular debt by improving collection and reducing losses, streamlining tariff, and rationalizing subsidies remain the priority of the government. In order to stabilize food prices, provide food security, increase food production, and guaranteeing the farmer basic income, government supports food and agriculture sector in the form of subsidies. The subsidies position from FY 2014-15 to FY 2018-19 is depicted in the table below:

Table-13: Subsidies (FY15-FY19) - (Rs in billion)

Subsidies	Power sector	Food and Agriculture	Oil Refineries	Others	Total
FY19					
Budget Estimate	149.4	25.0	-	0.3	**174.7**
Actual Subsidies	160.5	34.8	-	-	**195.3**
Percent Share	82.2	17.8	-	-	**100.0**
FY18					
Budget estimate	118.0	20.5	-	0.3	**138.8**
Actual Subsidies	84.0	29.9	-	0.3	**114.2**
Percent Share	73.6	26.2	-	0.3	**100.0**
FY17					
Budget Estimate	118.0	22.3	-	0.3	**140.6**
Actual Subsidies	118.0	35.4	-	0.3	**153.7**
Percent Share	76.8	23.0	-	0.2	**100.0**
FY16					
Budget Estimate	118.0	18.3	1.0	0.3	**137.6**
Actual Subsidies	171.2	35.7	-	0.3	**207.2**
Percent Share	82.6	17.2	-	0.1	**100.0**
FY15					
Budget Estimate	185.1	15.0	2.0	1.1	**203.2**
Actual Subsidies	221.0	20.3	-	0.3	**241.6**
Percent Share	91.5	8.4	-	0.1	**100.0**

Source: Budget Wing

6(ii) Development Expenditure

6.7 Development expenditure and net lending decreased to 3 percent of GDP compared with 5 percent last year. In terms of growth, these expenditures decreased to Rs 1,219 billion in FY 2018-19 from Rs 1,622 billion during FY 2017-18 posting a decline of around 25 percent (Table-11) in comparison to the decline of 4 percent witnessed last year. This could be attributed to slower release of allocated funds to PSDP by Federal as well as Provincial Governments.

6.8 The Federal PSDP was reduced by around 13 percent[1]. The decline in PSDP was witnessed in two consecutive years on the back of establishment of interim government, which suspended PSDP releases during the last quarter of FY 2017-18. However, in FY 2018-19, the decline was spread throughout the year. It is important to highlight that despite reduction in PSDP during FY 2018-19, healthy spending was witnessed in CPEC related infrastructure projects. In addition, other development expenditure grew by around 33 percent and stood at Rs 170 billion during FY 2018-19 (Table-11) on the back of higher disbursements from Benazir Income Support Program (BISP).

6.9 Development expenditure and net lending constituted around 15 percent of the total expenditure during FY 2018-19 and fell short of the budgetary target by around 33 percent. Going forward, the government plans to invest more resources towards the targeted development expenditure in the wake of the current socio-economic environment to contribute in economic growth.

7.0 Provincial Fiscal Operations

7.1 Provinces posted combined surplus of around Rs 190 billion during FY 2018-19 against the deficit of Rs 18 billion recorded last year (Table-15). It is noteworthy to mention that all the four provinces remained in surplus. Punjab contributed Rs 122 billion in the overall surplus, followed by Sindh which posted surplus of Rs 42 billion. Baluchistan and Khyber Pakhtunkhwa reported surpluses of Rs 19 billion and Rs 7 billion, respectively[2].

[1] Net Excluding development grant to provinces.

7.2 The provincial revenues grew by 2 percent and stood at Rs 2,996 billion during FY 2018-19 against Rs 2,938 billion during last fiscal year. However, their expenditure declined by 4 percent and recorded at Rs 2,857 billion during FY 2018-19. (Table-14). Although, Federal Government collected less revenues during the year, but provincial share in Federal revenue grew by 8 percent and recorded at Rs 2,398 billion during FY 2018-19 against Rs 2,217 billion in FY 2017-18[2].

7.3 Provincial revenues from its own resources declined by 11 percent and stood at Rs 488 billion during FY 2018-19 against Rs 548 billion during FY 2017-18[2]. It was on the back of time lag in payments against profits from hydroelectricity from federal to provincial bodies, which resulted in reduction in provincial non-tax revenues by around 41 percent.

7.4 In case of provincial tax revenues, although collection from property taxes and stamp duties grew by around 27 percent and 12 percent, respectively, however, decline of 9 percent in collections from General Sales Tax on Services (being the major contributor in provincial tax collections) reduced the impact of growth witnessed in other heads i.e. a meagre growth of 0.1 percent was observed in provincial tax revenues during FY 2018-19 (Table-15).

7.5 On the expenditure side, provinces registered decline of around 4 percent during FY 2018-19. The decline was on the back of Provincial Governments' fiscal consolidation efforts to generate surplus. Punjab and Sindh, which recorded deficits in FY 2017-18, controlled their expenditures and recorded fiscal surplus during FY 2018-19. Although, current expenditure grew by 13 percent, however development expenditure remained in control and witnessed decline of around 43 percent (Table-15).

7.6 In case of Punjab, expenditure control was observed across all sectors, however, variation in target adherence reflected provincial priorities. For example, actual spending on construction and transport remained less than the budgeted target for FY 2018-19. However, spending on education, health and public order and safety was in-line with the expenditure envisaged for FY 2018-19. In contrast, Sindh received higher transfer from the government during the year, but the austerity

[2] Provincial Fiscal Operations (FY19 & FY18)

objectives and uncertainty associated with the timing of these cash flows prevented Sindh Government to spend according to the plan. Moreover, development expenditure by Sindh focused primarily on two sectors i.e. agriculture and social spending. Nonetheless, KP government turned out to be the only province which was able to maintain its level of development expenditure. In case of Baluchistan, almost all expenditure heads registered decline, except for education.

7.7 It is noteworthy to mention that with respect to provincial development expenditures, all the provinces curtailed their expenditure on transport and construction sector. Moreover, all the provinces struggled to increase their spending on education and health sector. Main highlights from provincial fiscal operations are shown in the table below:

Table-14: Provincial Fiscal Operations (Rs in billion)

Fiscal Operations	FY19	FY18	% Growth FY19
Total Revenue*	**2,995.9**	**2,938.5**	**2.0**
a) Tax Revenue	401.8	401.4	0.1
b) Non-Tax Revenue	86.3	146.7	(41.2)
c) Federal Loans and Grants	110.0	173.0	(36.4)
Total Expenditure	**2,857.0**	**2,960.9**	**(3.5)**
a) Current Expenditure**	2,350.8	2,080.7	13.0
b) Development Expenditure	506.2	880.1	(42.5)
Statistical Discrepancy	**(51.1)**	**(4.8)**	**956.9**
Fiscal Surplus / (Deficit)	**190.0**	**(17.5)**	**1,183.8**

*Includes Rs 2,217 billion and Rs 2,398 billion received from the Federal Government in 2017-18 and 2018-19 respectively.

**Includes Rs 16.2 billion and Rs 22.9 billion as mark-up paid to Federal Government in 2017-18 and 2018-19 respectively.

Source: Fiscal Operations (FY19 & FY18)

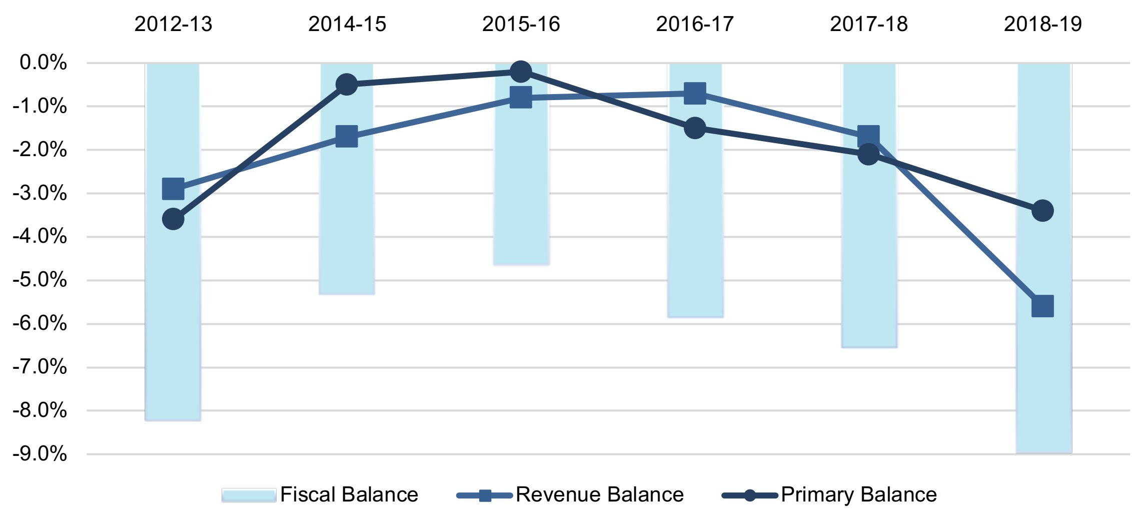
8.0 Total Fiscal Deficit

8(i) Fiscal, Primary and Revenue Balance

The fiscal performance can also be assessed through analysis of revenue and primary balances as follow:

8.1 Lower revenue collection and sharp rise in current expenditures caused a deterioration in fiscal indicators during FY 2018-19 i.e. the government registered a primary deficit[3] of 3.4 percent of GDP and an overall deficit of 8.9 percent of GDP, against its revised target of 1.8 percent and 7.2 percent, respectively. Similarly, revenue deficit[4] also witnessed significant increase and was recorded at 5.6 percent of GDP compared with its revised target of 3.8 percent of GDP. The reasons for deterioration in fiscal indicators are explained in Section 4 above. The trends in fiscal, revenue and primary balance from FY13 to FY19 are depicted in the graph below:

Fig-6: Trends in Fiscal, Revenue and Primary Balance
(in percent of GDP)



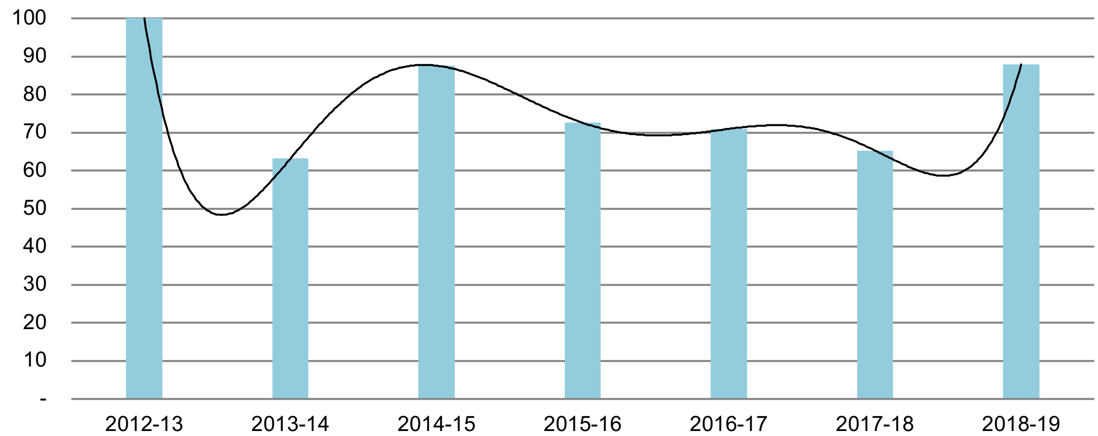
8(ii) Financing of Fiscal Deficit

8.2 Government financed around 88 percent of its budget deficit from domestic sources while the rest was financed from external sources. Within domestic sources, banking sector contributed around 75 percent while the rest was contributed by non-banking sector. Out of total banking system mobilization, most of debt was obtained in the form of short-term domestic debt instruments. The non-bank sources mainly include national savings schemes and private sector investment in government securities.

3. Primary balance is the total revenues minus non-interest expenditure or fiscal deficit before interest payments. Primary balance is an indicator of current fiscal efforts since interest payments are predetermined by the size of previous deficits.

4. Revenue balance is the total revenues minus current expenditure. The persistence of revenue deficit indicates that the government is not only borrowing to finance its development expenditure, but partially also financing its current expenditure.

Fig-7: Domestic Financing of Fiscal Deficit
(Proportion of total fiscal deficit)



9.0 Fiscal Performance July - September, 2019

9.1 The significant growth of around 35 percent in total revenue outpaced the growth of 8 percent in total expenditure. Resultantly, fiscal deficit reduced to 0.7 percent of GDP during first quarter FY 2019-20 compared with 1.4 percent recorded during the same period last year. This good performance was mainly driven by stronger than expected non-tax revenues, accompanied by double-digit growth in tax revenue while spending remained prudent.

Tax Revenue

9.2 Tax revenue grew by 17 percent in the first quarter FY 2019-20 with the comparable period last year. Tax revenue performance was driven by three main factors: (i) tax policy measures; (ii) import developments; and (iii) one-off events. The tax policy measures implemented at the beginning of FY 2019-20 yielded positive results as tax revenue collected by the FBR from domestic component recorded healthy growth of 25 percent (year-on-year basis). At the same time, substantial import compression led to lower tax collection at the import stage. One-off tax revenue inflows (around PRs 30 billion) also contributed to the overall result and are related to tax advances and tax amnesty receipts that were not collected at the end of FY 2018-19 but were realized during first quarter of FY 2019-20 instead. Tax revenues collected at provincial level also witnessed strong growth, increasing by 18 percent (year-on-year basis).

Non-Tax Revenue

9.3 Non-tax revenue increased significantly by almost 3 times and stood at Rs 346 billion in the first quarter FY 2019-20. The major contributing factor towards the growth was surplus profit generated by SBP i.e. SBP accrued higher profits primarily on the back of both higher stock of government securities and interest rates, apart from the appreciation of the Pak Rupee in first quarter of FY 2019-20. In addition, one-off inflow of Rs 70 billion from the telecom licenses renewal further improved the revenue collection.

Expenditure

9.4 Total expenditure grew by 8 percent during first quarter of FY 2019-20 compared with the growth of 11 percent recorded during the same period last year. This was largely achieved by a containment in current expenditures, both at the federal and provincial levels. Going forward, the government is committed to expand revenues and curtail the current expenditure through effective management of financial resources and policy implementation.

10.0 State Owned Enterprises Reforms

9.5 Efforts are underway to improve governance, transparency, and efficiency of SOEs as per the following details:

Privatization of Selected PSEs

Financial advisors were appointed for the privatization of two LNG fired power plants and the transaction structure was approved. Government is committed to finalize the process by end of FY 2019-20.

SOE Legal Framework

Government is committed to develop a new State-Owned Enterprise Law by end-September 2020.

Triage of SOEs

Government is in the process of designing a strategy and the criteria to classify SOEs into companies for sale, liquidation, or retaining under state ownership. This process is expected to be completed by end-September 2020.

11.0 Review of Public Debt

11.1 Fiscal Responsibility and Debt Limitation Act 2005 defines "Total Public Debt" as debt owed by government (including Federal Government and Provincial Governments) serviced out of consolidated fund and debts owed to the International Monetary Fund. Whereas, "Total Debt and Liabilities" of the country include "Total Public Debt" (Government Debt) as well as debt of other sectors as presented in the table below:

Table-15: Pakistan's Debt and Liabilities Summary

(Rs in billion)	FY13	FY14	FY15	FY16	FY17	FY18	FY19	SEP 19 (P)
I. Government Domestic Debt	9,520	10,907	12,193	13,626	14,849	16,416	20,732	22,650
II. Government External Debt	4,336	4,786	4,770	5,418	5,919	7,796	11,055	10,598
III. Debt from IMF	435	298	418	633	641	741	921	993
IV. External Liabilities[1]	308	324	378	377	374	622	1,710	1,619
V. Private Sector External Debt	466	500	539	709	1,183	1,654	2,465	2,378
VI. PSEs External Debt	183	204	253	294	285	325	654	601
VII. PSEs Domestic Debt	312	366	459	568	823	1,068	1,394	1,392
VIII. Commodity Operations[2]	470	492	564	637	687	820	756	741
IX. Intercompany External Debt from Direct Investor abroad	308	336	277	316	354	437	535	518
A. Total Debt and Liabilities (sum I to IX)	**16,338**	**18,214**	**19,849**	**22,577**	**25,114**	**29,879**	**40,223**	**41,489**
C. Total Public Debt (sum I to III)	**14,292**	**15,991**	**17,380**	**19,677**	**21,409**	**24,953**	**32,708**	**34,241**
D. Total Debt of the Government[3]	**13,457**	**14,624**	**15,986**	**17,823**	**19,635**	**23,024**	**29,521**	**29,300**
(As percent of GDP)								
Total Debt and Liabilities	73.0	72.4	72.3	77.6	78.7	86.3	104.3	94.3
Total Public Debt	63.8	63.5	63.3	67.7	67.1	72.1	84.8	77.8
Total Debt of the Government	60.1	58.1	58.3	61.3	61.5	66.5	76.6	66.6
Memorandum Items								
GDP (current market price)	22,386	25,169	27,443	29,076	31,922	34,619	38,559	44,003
Government Deposits with the banking system[4]	834	1,367	1,394	1,853	1,773	1,929	3,187	4,941
US Dollar, last day average exchange rates	99.1	98.8	101.8	104.8	104.9	121.5	163.1	156.3

P: Provisional

1. External liabilities include Central Bank Deposits, SWAPS, Allocation of Special Drawing Rights (SDR) and Non-resident LCY deposits with Central Bank.

2. Includes borrowings from banks by provincial governments and PSEs for commodity operations.

3. As per Fiscal Responsibility and Debt Limitation Act, 2005 amended in June 2017, "Total Debt of the Government" means the debt of the government (including the Federal Government and the Provincial Governments) serviced out of the consolidated fund and debts owed to the International Monetary Fund (IMF) less accumulated deposits of the Federal and Provincial Governments with the banking system.

4. Accumulated deposits of the Federal and Provincial Governments with the banking system.

Source: State Bank of Pakistan

11.2 Total public debt was recorded at Rs 32,708 billion at end June 2019. Public debt per capita stood at Rs 153,689 at end June 2019[5].Total public debt increased by Rs 7,755 billion during FY 2018-19, out of which:

- Rs 3,635 billion (47 percent) was borrowed for meeting the federal budget deficit;
- Rs 3,061 billion (39 percent) was due to currency depreciation;
- Rs 927 billion (12 percent) was offset by higher cash balances necessary for effective cash management as the government is committed to zero borrowing from SBP in future; and
- Rs 132 billion (2 percent) is difference between the face value (which is used for recording of debt) and the realized value (which is recorded as budgetary receipt) of Pakistan Investment Bonds (PIBs) issued during the year.

11.3 One of the notable developments from debt management perspective in FY 2018-19 was the re-profiling of domestic debt, where government re-profiled the existing stock of SBP borrowing from short term (6 months) to medium to long term (1 to 10 years). The re-profiling took into effect in the month of June 2019, which increased the share of long-term debt (permanent and unfunded) in total domestic debt from 46 percent at end of FY 2017-18 to 73 percent at end of FY 2018-19. This structural shift has reduced the refinancing risk for the government as average time to maturity of domestic debt portfolio increased from 1.6 years at end of FY 2017-18 to 4.2 years at end of FY 2018-19 which is very close to the long-term target set by the government for its domestic debt portfolio.

11.4 Total public debt reached Rs 34,241 billion at end September 2019 registering an increase of Rs 1,533 billion during first quarter of current fiscal year. The bifurcation of this increase is explained below:

- Domestic debt registered an increase of Rs 1,918 billion during first quarter of FY 2019-20 while government borrowing for financing of federal fiscal deficit from domestic sources was only Rs 308 billion during the said period. Rest of the increase in domestic debt was on account of increase in cash

5 Based on estimated total population of 212.8 million as per Economic Survey FY 2018-19

balances of the government by around Rs 1,610 billion. In the wake of government commitment to zero borrowing from SBP, a cash buffer is being maintained to meet short term liquidity needs of the government. The size of the cash buffer keeps changing in-line with the liquidity requirements. This is the normal cash management practice which is followed throughout the world whereby cash buffers are built in anticipation of the upcoming maturities/contingencies. The size of cash buffer has reduced significantly by end December 2019;

- Government borrowing for financing of federal fiscal deficit from external sources was Rs 166 billion during first quarter of FY 2019-20 while external public debt stock decreased by Rs 385 billion. The impact of exchange rate was favorable during first quarter of current fiscal year which decreased the rupee value of external public debt stock at end September 2019; and
- Overall, Total Debt of the Government (Net Debt) decreased by Rs 221 billion during first quarter of FY 2019-20 which indicates that exchange rate gains on account of appreciation of Pak Rupee against US Dollar more than offset the increase caused by financing of fiscal deficit.

12.0 Servicing of Public Debt

12.1 During FY 2018-19, public debt servicing was recorded at Rs 3,065 billion against the annual budgeted estimate of Rs 2,396 billion. Total debt servicing increased by around 57 percent during FY 2018-19 compared with last fiscal year[6] which was driven by higher domestic interest payments (on account of rise in domestic interest rates) while external debt repayments increased significantly and recorded at Rs 974 billion during FY 2018-19 compared with Rs 450 billion during last fiscal year. The interest servicing grew by around 39 percent during FY 2018-19 compared with last fiscal year mainly due to increased borrowing on account of higher than budgeted fiscal deficit, increase in domestic interest rates as well as depreciation of Pak Rupee against main international currencies also contributed towards this rise.

6. Total debt servicing was recorded at Rs 1,950 billion while the interest servicing was Rs 1,500 billion during FY 2017-18.

13.0 Report on Compliance with FRDL Act 2005

The FRDL Act, 2005 requires that the federal government take measures to reduce federal fiscal deficit and maintain total public debt within prudent limits thereof. The following sections identifies the various limits prescribed by the FRDL Act, and reports on progress thereof.

(1) limiting of Federal fiscal deficit excluding foreign grants to four percent of gross domestic product during the three years, beginning from the financial year 2018-19 and maintaining it at a maximum of three and a half percent of the gross domestic product thereafter;

The Federal fiscal deficit (excluding grants) was recorded at Rs 3,635 billion or 9.4 percent of GDP during FY 2018-19, thus, remaining higher than the threshold of 4 percent. It is important to highlight that one-off factors contributed around 2.25 percent of GDP towards Federal fiscal deficit which are not expected to carry over into FY 2019-20 as per the following details:

- Delay in renewing telecom licenses, delay in sale of envisaged state assets and weaker than anticipated tax amnesty proceeds contributed around 1 percent of GDP;
- A shortfall in the transfer of SBP profits contributed an additional 0.5 percent of GDP. Profit of SBP witnessed a steep decline during FY 2018-19 as SBP incurred heavy exchange rate losses on its external liabilities;
- Payments of accrued interest on account of re-profiling of SBP borrowing at end June 2019 contributed 0.75 percent of GDP in Federal fiscal deficit;

In addition to above, some other factors were beyond the control of the fiscal authorities which contributed towards higher than budgeted federal fiscal deficit during FY 2018-19 such as (i) sharp rise in domestic interest rates and exchange rate depreciation (that escalated the debt servicing burden); (ii) legal constraints on the revenue side (court orders to substantially reduce the sales tax rate on major petroleum products and suspend the deduction of withholding tax on mobile phone top-ups); and an overall slowdown in the economy resulted in lower than budgeted revenue collections.

(2) ensuring that within a period of two financial years, beginning from the financial year 2016-17, the total public debt shall be reduced to sixty percent of the estimated gross domestic product;

Government was required to reduce its Debt-to-GDP ratio to 60 percent by end June 2018 as per Fiscal Responsibility and Debt Limitation Act. However, Total Public Debt to GDP ratio reached 72.1 percent while total debt of the government to GDP was 66.5 percent.

Total public debt and total debt of the government as percentage of GDP stood at 84.8 percent and 76.6 percent respectively at end June 2019, thus, increasing further during FY 2018-19. Apart from fiscal deficit, unprecedented revaluation loss on account of currency depreciation and build-up of liquidity buffer contributed significantly toward the increase Debt-to-GDP ratio during FY 2018-19.

(3) ensuring that within a period of five financial years, beginning from the financial year 2018-19 total public debt shall be reduced by 0.5 percent every year and from 2023-24 and going upto financial year 2032-33 a reduction of 0.75 percent every year to reduce the total public debt to fifty percent of the estimated gross domestic product and thereafter maintaining it to fifty percent or less of the estimated gross domestic product; and";

The debt reduction path in terms of GDP has been envisaged after 2017-18 to reduce the public debt to GDP ratio to 50 percent by 2032-33 and thereafter maintaining it at or below that level.

(4) Not issue "new guarantees, including those for rupee lending, bonds, rates of return, output purchase agreements and all other claims and commitments that may be prescribed, from time to time, for any amount exceeding two percent of the estimated gross domestic product in any financial year: Provided that the renewal of existing guarantees shall be considered as issuing a new guarantee."

During FY 2018-19, the government issued new guarantees including rollovers amounting to Rs 489 billion or 1.3 percent of GDP.

14.0 Conclusion

14.1 Revenue mobilization will remain the cornerstone of government's fiscal efforts, with tax to GDP ratio expected to increase by 5.5 percentage points over the medium term through broadening of tax base, strengthening the tax policy and administrative frameworks and reforming public financial management. Primary current spending is expected to remain at around 7.5 percent of GDP while the PSDP – centered on housing schemes, dam construction and transport projects – is targeted to rise gradually over the medium term.

14.2 Protecting the marginalized and under privileged sections of society, especially women, through establishment of comprehensive social protection net remain a key priority for the government. Government's social protection through Benazir Income Support Program (BISP) continue to serve as the main channel for social protection and poverty alleviation. Unconditional cash transfers to low income households, students, poor women and elderly citizens under BISP have increased with higher allowances for girls to incentivize their enrolment in the program. Funds are also being channeled for education of young girls (under Waseela-e-Taleem), and a program has been launched to improve mother and child nutrition. In addition, affordable housing schemes are being developed through Ehsaas program. Government is also trying to ensure that small users of electricity, representing over 70 percent of consumers are not impacted by the increase in tariff.

14.3 Pakistan started FY 2019-20 on a positive note and significant progress has already been achieved on several fronts in a fairly short time span. The medium-term fiscal objectives are firmly back on track supported by strong domestic tax performance while social spending has increased. The momentum is expected to continue and the government is targeting 6.1 percent of GDP adjustment in the primary balance over next five years. Government is also committed to address the deep-rooted financial problems of the power sector. All these measures are expected to improve the fiscal position and reduce the debt burden of the country over the medium term.

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