



FISCAL POLICY STATEMENT

January 2021

Finance Division
Government of Pakistan

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PREFACE

This policy statement has been prepared to fulfil the requirements as laid down under Section 6 of the Fiscal Responsibility and Debt Limitation Act 2005. Finance Division has been regularly preparing and presenting this document on an annual basis. It gives significant information, actual data and analysis of the fiscal performance of the Government during the foregoing one financial year. Accordingly, the Fiscal Policy Statement for FY 2019-2020 has been compiled after collecting final data from all stakeholders belonging to the Federal and Provincial Governments. We are grateful for the strategic input and invaluable policy guidance provided by the Honourable Minister for Finance and Revenue, Dr Abdul Hafeez Shaikh throughout the year. I would also like to appreciate the contribution of various Ministries, Divisions and Departments of the Federal Government, especially the Federal Board of Revenue and the Economic Affairs Division. The enormous efforts of the officers of Budget Wing Finance Division have been critical, while the support of the Debt Policy Coordination Office, External Finance and Inter-Government Finance Wings of the Finance Division must be commended. In particular, I would like to laud the very hard work done by Mr. Muhammad Tanvir Butt, Additional Finance Secretary (Budget), Mr. Sajjad Azhar, Joint Secretary (Budget-III), Mr. Sajid Ayub, Section Officer, and his team in the preparation of this comprehensive document.

Kamran Ali Afzal
Finance Secretary

Islamabad...January, 2021

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1. Introduction

1.1 On the assumption of office in August 2018, the present Government had to grapple with inherited fiscal and current account challenges; however, it successfully steered through the unfavourable conditions by adopting prudent monetary and fiscal policies. Resultantly, during fiscal year 2019-20, the economy started moving progressively along the path of stabilization. Major economic indicators, including the twin deficits, showed significant signs of improvement.

1.2 The economy witnessed a smooth transition to a market-based exchange rate system, which was pivotal to addressing the external imbalances and rebuilding the foreign exchange reserves buffer. This structural adjustment, along with the government's adherence to its commitment of zero SBP borrowing, impacted overall monetary management and functioning of financial markets positively. Appropriate policy realignments were also made in the tax regime, which resulted in higher revenue generation and documentation of businesses. Similarly, expenditures were aggressively controlled to minimize the fiscal deficit.

1.3 Economic indicators were very encouraging during the nine months (July to March) of the FY 2019-20. However, by March 2020 the COVID-19 pandemic had engulfed almost the whole world, posing grave new socioeconomic challenges, especially for the developing countries. Initially conceived as a health challenge, COVID-19 turned out to be an economic threat, having the potential of destabilizing the international economic system.

1.4 Pakistan was no exception and pandemic severely hit the country in late March 2020, which drastically changed the whole economic scenario and the results achieved during the previous nine months were mostly swept away. On the fiscal side, the successes of first nine months were lost in the next three months due to reduced economic activity, huge loss of revenue, high expenditure owing to COVID-19, and lower provincial surplus, which led to an increase in the fiscal deficit. However, despite the unstable economic situation, FY 2019-20 closed with better than expected fiscal outcomes, which were also appreciated by our international development partners and rating agencies.

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2. Provisions of Fiscal Responsibility and Debt Limitation Act 2005 (FRDLA)

This Fiscal Policy Statement is presented to fulfil the requirement of Section 6 of FRDLA 2005 which stipulates that:

- (1) Federal Government shall cause to be laid before the National Assembly a fiscal policy statement by the end of January each year.
- (2) The fiscal policy statement shall, inter alia, analyse 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, administered 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.

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3. Salient Features of Budget Estimates FY 2019-20 (Federal)

3.1 The aim of the budget strategy for FY 2019-20 was to: provide relief to the people; control fiscal deficit; protect social spending under the *Ehsaas* Program; support vulnerable segments through the Stimulus Package designed to combat the COVID-19 pandemic; keep the development budget at adequate level to stimulate economic growth; fund housing initiatives, including Naya Pakistan Housing project; fund special initiatives like Kamyab Jawan; ensure austerity; and rationalize expenditures.

3.2 The total outlay of the FY 20 budget was Rs.7,022 billion with gross Federal revenues at Rs.6,717 billion; FBR tax revenue were pitched at Rs.5,555billion and Non-tax revenue at Rs. 1,662 billion. Transfers to provinces were estimated at Rs 3,255 billion and net Federal Revenues at Rs. 3,462 billion. Current and Development expenditures were estimated at Rs.6,321 billion and Rs.701 billion respectively. Interest payments were projected at Rs. 2,891 billion, the federal budget deficit at Rs.3,560 billion and overall fiscal deficit was estimated at Rs.3,137 billion or 7.1% of GDP (Rs. 44,003 billion).Primary balance was projected at Rs.246 billion, which is 0.6% of GDP (GDP: Rs. 44,003 billion).

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4. A snap shot of consolidated fiscal performance (Federal and Provincial Governments) during FY 2019-20 is as under;

Description	(Rs. in billion)		
	B.E FY 2019-20	Actual FY 2019-20	% share in GDP FY20
1. Total Revenue (a+b)	7,365.5	6,272.2	15.0
a. Tax Revenue	6,352.2	4,747.8	11.4
Federal	5,822.2	4,334.2	10.4
Provincial	530.0	413.6	1.0
b. Non-Tax Revenue	1,013.4	1,524.4	3.7
Federal	870.4	1,422.0	3.4
Provincial	143.0	102.4	0.2
2. Total expenditure (a+b+c+d)	10,502.5	9,648.5	23.1
a. Current Expenditure	8,956.4	8,532.0	20.4
Federal	6,096.4	6,016.2	14.4
Provincial	2,860.0	2,515.8	6.0
b. Development Expenditure	1,573.2	1,155.2	2.8
Federal	661.2	533.2	1.3
Provincial	912.0	622.0	1.5
c. Net Lending	-27.2	48.5	0.1
d. Statistical Discrepancy	-	-87.3	-0.2
Overall Fiscal Balance	-3,137.0	-3,376.3	
Percent of GDP	7.1%	8.1%	
Primary Balance	-246	-756	
Percentage of GDP	0.6	1.8	
GDP	44,003	41,727	

4.1. Total Expenditures:

Total expenditures are the aggregate of two major components: current expenditure and development expenditure. The consolidated expenditures of the Federal and Provincial Governments are as under:-

Description	(Rs in billion)		
	B.E FY 2019-20	Actual FY 2019-20	% of B.E FY 2019-20
Current Expenditure	8,957	8,445	94
Development Expenditure	1,546	1,204	78
Total	10,503	9,649	92

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4.2 Net Revenue Receipts (Federal Government):

The total revenues collected by the Federal Government are distributed amongst the Federation and the Provinces as per the provisions of the 7th NFC award. After transfer of the resources to the provinces, Net Revenue of the Federal Government is as under:-

(Rs in billion)

Description	B.E FY 2019-20	Actual FY 2019-20	% of B.E FY 2019-20
Gross Revenue	6,717	5,782	86
Transfers to Provinces	3,255	2,504	77
Total Net Revenue	3,462	3,278	95

4.3 Total Fiscal Deficit:

The Total Fiscal Deficit of the Federal and Provincial Governments remained on track during the first nine months due to high revenue generation and lower expenditures. In March 2020, however, the COVID-19 pandemic hit Pakistan and disrupted economic activities. Total Fiscal Deficit is worked out as under:-

(Rs in billion)

Description	B.E FY 2019-20	Actual FY 2019-20	As % of B.E 2019-20
Total Revenue	7,366	6,272	85
Total Expenditures	10,503	9,649	92
Overall Fiscal Deficit	-3,137	-3,376	
Percent of GDP	7.1%	8.1%	
Primary Balance	-246	-757	
Percent of GDP	0.6	1.8	
GDP	44,003	41,727	

4.4 Federal Fiscal Deficit (Excluding Foreign Grants)

After transfer of resources to provinces, Net Federal Revenue is used to meet the Federal Expenditures. Accordingly the Federal Fiscal Deficit for FY 2019-20 is as under:-

(Rs in billion)

Description	B.E FY 2019-20	Actual FY 2019-20	As % of B.E 2019-20
Net Federal Revenue	3,462	3,278	95
Total Federal Expenditures	7022	6880	98
Federal Fiscal Balance	-3560	-3602	
Percent of GDP	8.1%	8.6%	
Primary Balance			
GDP	44,003	41,727	

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4.5. Total Public Debt and Debt per Capita:

Total public debt was Rs 36,399 billion at end-June 2020, recording an increase of Rs 3,691 billion during FY 2019-20. It is important to highlight that interest payments on debt obtained by the previous governments constituted a major share in total interest payments during FY 2019-20. Government also used a portion of its cash balances to finance the federal fiscal deficit, leading to a reduction in the total public debt stock. The currency devaluation impact was much lower in FY 2019-20 as Pak Rupee depreciated only by 3 percent against US Dollar during the year.

	Rs in Billion
	June-2020
Total Public Debt	36,399
% age of GDP	87.2
GDP	41,727
Debt Per Capita	Rs 175,000

Population as per PBS Annual Account: 208 million

5. Analysis and an evaluation of Fiscal Year 2019-20

5.1 As per Mid-Year Budget Review report for the period July to December, 2019-20 placed by Federal Government before National Assembly in February 2020: FBR revenue growth was 16%, 75% of Non Tax Revenue's yearly target was collected, Primary Surplus of 0.6% was achieved and overall Fiscal deficit was contained at 2.3% of GDP. Current account deficit was reduced by 75% of the GDP.

5.2 The first nine months of FY 2019-20 (Pre-COVID-19 period) witnessed far-reaching positive changes in the economic indicators. During the period (July 2019 to March 2020) vis-à-vis the corresponding period of fiscal year 2018-19, CAD was reduced by 75% and fiscal deficit decreased from 5.0 % to 3.8% of GDP. Primary surplus of 0.4% of GDP was achieved for the first time in last 10 years. FBR revenue witnessed an increase of 17% and was on the track to achieve the massive target of Rs 4.8 trillion. Non-tax revenue increased by 134%. Bloomberg ranked the Pakistan Stock Exchange as one of the top performing markets of the world. Moody's ratings upgraded Pakistan from B3-Negative to B3-Positive.

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5.3 In the post-COVID-19 period (April to June 2020), most of the hard earned achievements were lost. The economic repercussions of the pandemic affected industry and retail businesses adversely, reduced GDP growth projection from 3.3% to -0.4%, and the estimate for the budget deficit had to be revised downward from 7.1% to 9.1%. Nevertheless, the Government stood up to the socioeconomic challenge by reaching out to the vulnerable segments of the society and supporting the business community to cushion the negative impact of the pandemic induced recession.

5.4 The historic Stimulus Package of more than Rs 1.2 trillion was approved out of which Rs 875 billion were made available through the budgetary mechanism for purchase of medical equipment, payment to vulnerable families, establishment of *Panagahs*, cash transfer to daily wage workers, refunds to businessmen, power and gas deferral, relief to farmers etc. BISP, NDMA, USC and other Government entities were geared up to meet the unexpected challenges.

The off-budget component of the Stimulus Package was provided for payment to farmers for wheat procurement, relief on petroleum products and tax concessions on food and health items.

6. Report on Compliance with FRDL Act 2005

6.1 The FRDL Act, 2005 requires Federal Government to take measures to reduce federal fiscal deficit and maintain total public debt within prudent limits. Federal fiscal deficit (excluding grants) was recorded at Rs 3,601 billion or 8.6 percent of GDP during FY 2019-20, thus remaining higher than the threshold prescribed in the Act. The bifurcation of this number depicts the following:

- i. **Interest Payments:** Government paid Rs 2,620 billion against interest payments on the debts mostly obtained by the previous regimes;
- ii. **Federal Primary Deficit:** was recorded at Rs 982 billion. This number also needs to be evaluated in terms of Pre-and-Post-COVID scenarios:

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- **Pre-COVID:** Higher growth in revenue, aggressive expenditure management and overall fiscal discipline (zero borrowing from SBP, no supplementary grants) yielded a visible improvement in the fiscal position of the Federal Government during the first three quarters of FY 2019-20. Federal Government primary deficit was very low during this period, while the consolidated primary balance – Federal and Provincial Governments combined – reflected a surplus of Rs 194 billion during the same period;
- **Post-COVID:** Strong fiscal position of the Federal government (Pre-COVID) was challenged by the outbreak of pandemic during last four months of the year. Pressures emerged simultaneously on both expenditure and revenue sides. Nevertheless, the earlier gains had created enough fiscal space to deal with COVID-19 shock and kept the full year federal primary deficit lower than the last fiscal year.

6.2 The above stated position clearly reflects that departure on fiscal side was beyond control of Federal Government primarily due to COVID-19 pandemic. This departure is temporary and the Federal Government has taken various measures including grant of economic stimulus package to mitigate the adverse impacts. The pandemic is a global challenge and the Government of Pakistan is committed to taking all measures to ensure continued abidance with the principles of sound fiscal management.

6.3 Regarding disclosure of policy decisions and other matters relating to fiscal policy statement, it incorporates to the fullest extent possible all decisions taken by the Federal Government which had material effects. The Federal Government is taking all necessary measures including aggressive rationalization and control over the expenditures from the Federal Consolidated Fund. The Minister for Finance & Revenue and Secretary Finance Division have also fulfilled requirements as per section 10 of the FRDLA 2005.

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Conclusion:

The Federal Government, in collaboration with the provincial governments, has effectively managed the COVID-19 pandemic. Fiscal deficit was contained against higher projections by various international and local agencies. Furthermore, in Budget FY 2020-21, one of the key priorities of the Government is to protect the vulnerable segments of society through social safety initiatives. As the pandemic continues, the Government has carried forward the unutilized Stimulus Package funds of Rs 540 billion to be spent during the FY 2020-21.

The economy is moving progressively along the adjustment path and stabilization process. The government is focusing on bringing improvement in the real sector through growth in agriculture, industrial and services sectors. Pakistan started FY 2020-21 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. Key challenges to budget strategy are adherence to budgetary targets, circular debt of energy sector, revenue collection target and the risk of continuation of the pandemic or natural disasters. There is also the possibility that any reduction of global demand will impact Pakistan's gross domestic product and eventually tax receipts. In case of any slippages, appropriate policy measures shall be put in place.

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Subject: **STATEMENT OF RESPONSIBILITY UNDER SECTION 10(1) (a) OF FISCAL RESPONSIBILITY AND DEBT LIMITATION ACT, 2005**

Stated that all policy decisions with material economic or fiscal implications that the Federal Government has made before 19th January 2021, the day on which the contents of the Fiscal Policy Statement were finalized and all other circumstances with material economic or fiscal implications of which I was aware before that day have been communicated to the Secretary of Finance;

The statement to the best of our knowledge provides for:

- a) The integrity of the disclosures contained in the economic policy statements;
- b) The consistency with the requirements of this Act of the information contained in the economic policy statements; and
- c) The omission from the economic policy statement of any decision or circumstance specified in sub-section (3) of section 8.

(Dr. Abdul Hafeez Shaikh)
(Finance Minister)

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Subject: **STATEMENT OF RESPONSIBILITY UNDER SECTION 10(1) (b) OF FISCAL RESPONSIBILITY AND DEBT LIMITATION ACT, 2005**

Stated that Ministry has supplied to the Minister, using its best professional judgment on the basis of economic and fiscal information available to it before 19th January 2021, the day on which the contents of the Fiscal Policy Statement were finalized, a Fiscal Policy Statement incorporating the fiscal and economic implications of those decisions and circumstances, but any decision or circumstances that the Minister has determined under sub-section (3) of section 8 of the Fiscal Responsibility and Debt Limitation Act, 2005, have not been incorporated in the Fiscal Policy Statement.

(Kamran Ali Afzal)
Secretary Finance

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