



FISCAL POLICY STATEMENT

January 2022

**Budget Wing
Finance Division
Ministry of Finance & Revenue**

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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 annual basis. It gives significant information, actual data and analyses of the fiscal performance of the Government. Accordingly, the Fiscal Policy Statement for FY 2020-2021 has been compiled after collecting final data from all stakeholders belonging to the Federal and Provincial Governments. At the time of Budget approval in June, 2020, GDP for FY 2020-21 was estimated at Rs: 45,567 billion which was revised to Rs: 47,709 billion by the National Accounts Committee in May, 2021. Now the 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 2020-21 has been enhanced to Rs: 55,488 billion.

We are grateful for the strategic input and invaluable policy guidance being provided by the Honourable Minister for Finance and Revenue Mr. Shaukat Fayaz Ahmed Tarin. I would also like to appreciate the contribution of various Ministries, Divisions and Departments of the Federal Government, especially Ministry of Planning, Development and Special Initiatives, Federal Board of Revenue and 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 Secretary (Budget), Mr. Javed Iqbal Khar, Joint Secretary (Budget), Mr. Arif Tahseen, Deputy Secretary, Dr. Nayyar Shah, (BPO), Mr. Sajid Ayub, Section Officer, and his team in the preparation of this comprehensive document.

Hamed Yaqoob Sheikh
Additional Secretary Incharge

Islamabad...January, 2022

Table of Contents

1. Introduction	1
2. Provisions of Fiscal Responsibility and Debt Limitation Act 2005 (FRDLA)	3
3. Salient Features of Budget Estimates FY 2020-21 (Federal)	4
4. A snap shot of consolidated fiscal performance (Federal and Provincial Governments) during FY 2020-21 is as under	5
5. Analysis and an evaluation of Fiscal Year 2020-21	8
6. Review of Public Debt	9
7. Conclusion	12
Statement of Responsibility under section 10(1) (a) of fiscal responsibility and debt limitation Act, 2005	13
Statement of Responsibility under section 10(1) (b) of fiscal responsibility and debt limitation Act, 2005	14

Fiscal Policy Statement January 2022

1. Introduction

1.1 The present Government had to grapple with fiscal and current account challenges; however, it has successfully steered the economy towards an impressive recovery from the initial shock of the COVID pandemic. The performance was all the more remarkable since it was achieved in spite of multiple waves of the virus. Resultantly, during FY 2020-21, the economy started moving progressively along the path of stabilization. Major economic indicators, including the twin deficits, showed significant signs of improvement.

1.2 Pakistan's economy rebounded during FY 2020-21, with real GDP growth rising to 5.57 percent. This growth was achieved without broadening the twin deficits. The current account deficit (CAD) dropped to a 10-year low and contributed to the build-up in the foreign exchange reserves. This performance was the result of the country's success in navigating through multiple waves of COVID-19 with targeted mobility restrictions as well as well-coordinated and targeted monetary and fiscal response aimed at countering the impact of COVID-19 on economic growth. The structural adjustments, 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 encouraging during the FY 2020-21. Increase in tax revenues and restraint on non-interest current spending underpinned a reduction in fiscal deficit to 6.1* percent of GDP during FY 2020-21, from 7.1* percent the previous year. This improvement for the second year in a row was helped by a combined provincial surplus that exceeded the budget target for FY 2020-21. The seasonal spending pressures during the last quarter of the year pushed the primary surplus seen

Fiscal Policy Statement January 2022

during July-March FY 2020-21 to a deficit during the full FY 2020-21. However, the recovery in revenues kept the level of primary deficit at a two-year low.

** (Updated after rebasing of National Accounts by National Accounts Committee on January 20, 2022).*

1.4 The country successfully continued to implement fiscal consolidation during FY 2020-21. Increase in tax revenue was contributed by both federal and provincial governments. On the spending side, federal non-interest current expenditures remained contained, while development spending posted a recovery, after a constant decline during the last three years. The government was able to create fiscal space for undertaking spending on social safety nets, Economic Stimulus Package (ESP) and provision of targeted support to various sectors of the economy to mitigate the recessionary impact of the pandemic. At the same time, the country made payments to partially settle the circular debt of Independent Power Producers (IPPs) and Power Holding Private Limited (PHPL). However, loss-making Public Sector Enterprises (PSEs) continued to strain fiscal accounts during the year.

1.5 The economic recovery during FY 2020-21 is projected to gain further momentum in FY 2021-22. This is evident in the significant increase in machinery and raw material imports, continued expansion in consumer financing, and strong uptrend in domestic sales as seen from high frequency demand indicators during the initial months of FY 2021-22. In the fiscal sector, the government plans to continue with the adjustment measures, which are projected to reduce the deficit to 6.3* percent of GDP during FY 2021-22, from 7.1* percent in FY 2020-21. This outcome would be driven by the continued check on non-priority current spending and expansion in both tax and non-tax revenues.

** (Data prepared before rebasing of National Accounts by National Accounts Committee).*

Fiscal Policy Statement January 2022

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.
-

3. Salient Features of Budget Estimates FY 2020-21 (Federal)

3.1 The budget strategy for FY 2020-21 aimed at improving fiscal discipline, implementing public finance management reforms and cash management system leading to Treasury Single Account, facilitation of efficient release of funds for PSDP projects and existing stock of public guarantees.

3.2 The total outlay of the FY 2020-21 budget was Rs.7,137 billion with gross Federal revenues at Rs.6,573 billion; FBR tax revenues were pitched at Rs.4,963 billion and Non-tax revenue at Rs. 1,610 billion. Transfers to provinces were estimated at Rs. 2,874 billion and net Federal Revenues at Rs. 3,700 billion. Current and Development expenditures were estimated at Rs.6,346 billion and Rs.751 billion respectively. Interest payments were projected at Rs. 2,946 billion, the federal budget deficit at Rs.3,437 billion (or 7.5% of GDP) and Primary balance at Rs.-491 billion, (or -1.1% of GDP). The overall fiscal deficit was estimated at Rs.3,194 billion (or 7.0% of GDP). Primary balance was projected at Rs.-248 billion, (or-0.5% of GDP).

Fiscal Policy Statement January 2022

4. Snapshot of consolidated fiscal performance

4.1 A snapshot of consolidated fiscal performance (Federal and Provincial Governments) during FY 2020-21 was as under:

(Rs. in billion)

Description	B.E FY 2020-21	Actual FY 2020-21	% share in GDP FY21
1. Total Revenue (a+b)	7,261.1	6,903.4	12.4
a. Tax Revenue	5,498.5	5,272.7	9.5
Federal	4,963.0	4,764.3	8.6
Provincial	535.5	508.4	0.9
b. Non-Tax Revenue	1,762.7	1,630.7	2.9
Federal	1,583.4	1,480.4	2.7
Provincial	179.3	150.3	0.3
2. Total expenditure (a+b+c+d)	10,455.4	10,306.7	18.6
a. Current Expenditure	9,113.1	9,084.0	16.4
Federal	6,260.5	6,264.8	11.3
Provincial	2,852.5	2,819.2	5.1
b. Development Expenditure	1,322.0	1,238.7	2.2
Federal	648.0	468.5**	0.8
Provincial	674.0	770.2	1.4
c. Net Lending	20.4	76.9	0.1
d. Statistical Discrepancy	0.0	-93.0	-0.2
Overall Fiscal Balance	-3,194.3	-3,403.3	-6.1
Percent of GDP	-7.0%	-6.1%	
Primary Balance	-248	-654	
Percentage of GDP	-0.5	-1.2	
GDP	45,567	55,488*	

Note:

** At the time of Budget approval in June, 2020, GDP for FY 2020-21 was estimated at Rs. 45,567 billion. It was revised to Rs. 47,709 billion by the National Accounts Committee in May, 2021. Now the Committee has changed the base of national accounts from FY 2005-06 to FY 2015-16. Consequently, the GDP for FY 2020-21 has been enhanced to Rs. 55,488 billion.*

Fiscal Policy Statement January 2022

**** Total Federal Development Expenditure for FY 2020-21 was Rs.694 billion including Federal PSDP Expenditure of Rs.441 billion, expenditure outside PSDP Rs.27 billion and provincial development grants amounting to Rs.226 billion.**

4.2. Total Expenditures:

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

Description	(Rs. in billion)		
	B.E FY 2020-21	Actual FY 2020-21	% of B.E FY 2020-21
Current Expenditure	9,113	8,991	99
Development Expenditure	1,342	1,316	98
Total	10,455	10,307	99

4.3 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 was as under:-

Description	(Rs. in billion)		
	B.E FY 2020-21	Actual FY 2020-21	% of B.E FY 2020-21
Gross Revenue	6,573	6,270	95
Transfers to Provinces	2,874	2,742	95
Total Net Revenue	3,700	3,528	95

Fiscal Policy Statement January 2022

4.4 Total Fiscal Deficit:

The Consolidated Fiscal Deficit of (Federal and Provincial) Governments remained on track due to increase in tax revenues and restraint on non-interest current spending. The FY 2020-21 witnessed a notable reduction in the fiscal deficit to 6.1 percent of GDP from 7.1 percent of the previous year. Moreover, it was supported by a greater than targeted provincial surplus of 0.6 percent of GDP. Total fiscal deficit was worked out as under:-

Description	(Rs in billion)	
	B.E FY 2020-21	Actual FY 2020-21
Total Revenue	7,261	6,903
Total Expenditures	10,455	10,307
Overall Fiscal Deficit	-3,194	-3,403
Percent of GDP	-7.0%	-6.1%
Primary Balance	-248	-654
Percent of GDP	-0.5%	-1.2%
GDP	45,567	55,488*

Note:

* At the time of Budget approval in June, 2020, GDP for FY 2020-21 was estimated at Rs. 45,567 billion. It was revised to Rs. 47,709 billion by the National Accounts Committee in May, 2021. Now the Committee has changed the base of national accounts from FY 2005-06 to FY 2015-16. Consequently the GDP for FY 2020-21 has been enhanced to Rs. 55,488 billion.

4.5 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 2020-21 was as under:-

Fiscal Policy Statement January 2022

(Rs in billion)

Description	B.E	Actual
	FY 2020-21	FY 2020-21
Net Federal Revenue	3,699.5	3,527.8
Total Federal Expenditures	7,136.2	7,244.8
Federal Fiscal Balance	-3,436.7	-3,716.9
Percent of GDP	-7.5%	-6.7%
Primary Balance	-491	-967
GDP	45,567	55,488

5. Analysis and evaluation of FY 2020-21

5.1 FBR taxes registered a 5-year high growth rate of 18.4 percent in FY 2020-21 and surpassed the revised collection target by a slight margin. The growth pattern of FBR taxes can be distinguished into two phases during FY 2020-21, an average monthly year to year growth of 6.5 percent during July-February 2020-21 and a significant growth of 49.3 percent during March-June 2020-21. The overall non-tax revenues witnessed a 12.4 percent contraction in FY 2020-21 compared to a large increase during the previous fiscal year. Decline was witnessed in main categories of non-tax revenues, with major contributions from (i) transfers of SBP and (ii) PTA profits. The shortfall of Rs. 372.9 billion in these two components was more than the expansion of Rs. 131.0 billion in collection from PDL.

The federal current spending grew by 4.2 percent during FY 2020-21, compared to 26.8 percent the previous year. Major contribution in this increase came from higher domestic mark-up payments and subsidies, while the expenditure on running of the civil government, pensions and grants declined during the year. However, in terms of GDP, federal current expenditures fell from 14.5 percent of GDP in FY2019-20 to 13.1 percent of GDP in 2020-21. The federal development expenditures ticked up to 6.1 percent of GDP during FY 2020-21 as compared to 6.0 percent of GDP during the previous year. *(Data prepared before rebasing of the National Accounts by National Accounts Committee)*

Fiscal Policy Statement January 2022

5.2 To mitigate the slowdown impact of COVID-19, the government announced an Economic Stimulus Package worth Rs. 1.2 trillion in the second half of FY 2019-20. This was primarily designed to help the most vulnerable sectors such as daily wage earners and small businesses by providing cash assistance, emergency relief for the purchase of COVID-19 vaccine lockdown management as well as management of hospital services. In addition, the package included support and relief to exports, SMEs and agriculture sectors.

5.3 During FY 2019-20, the government spent Rs. 335 billion under this package, and the remaining amount was carried forward to FY 2020-21. The focus areas were lockdown administration during the second and third waves of the pandemic, purchase and administration of COVID vaccine, awareness campaigns, and provision for hospital equipment and services for the COVID patients. Furthermore, government provided relief to various sectors such as the power sector, SMEs, and agriculture for reviving economic activity. The government introduced Ehsaas Emergency Cash Program under the Package and provided immediate financial support to the vulnerable, covering 15 million households all across the country.

6. Review of Public Debt

6.1 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 debt owed to the IMF less accumulated deposits of the Federal and Provincial Governments with the banking system. The details are as under:

Total Public Debt (Rs in billion)		
	Jun-2020	Jun-2021
Domestic Debt	23,283	26,265
External Debt	13,116	13,595
Total Public Debt	36,399	39,861
Total Debt of Government	35,235	35,753
Debt Ratios		
Total Public Debt as percentage of GDP	76.6	71.8
Total Debt of Government as percentage of GDP	69.9	64.4
Memorandum Items		
GDP (current market price)	47,522	55,488
Government deposits with the banking system	5,163	4,108
US Dollar, last day average exchange rates	168.2	157.3

Source: State Bank of Pakistan

Fiscal Policy Statement January 2022

*Note:** At the time of Budget approval in June, 2020, GDP for FY 2020-21 was estimated at Rs. 45,567 billion. It was revised to Rs. 47,709 billion by the National Accounts Committee in May, 2021. Now the Committee has changed the base of national accounts from FY 2005-06 to FY 2015-16. Consequently the GDP for FY 2020-21 has been enhanced to Rs: 55,488 billion.

6.2 Debt per capita:

The total public debt at end June, 2020-21 was Rs. 39,861 billion which has increased in absolute term on account of increase in primary deficit, interest on debt, exchange rate devaluation effect and maintenance of cash buffer with SBP. The debt per capita has also marginally increased from FY 2019-20.

	Jun-2021
Total Public Debt (Rs. in billion)	39,861
GDP (Rs. in billion)	55,488
% age of GDP	71.83
Population (in million)	222.6
Debt per capita	Rs: 179,070

6.3 Total public debt was Rs. 39,861 billion at end-June 2021, recording an increase of Rs. 3,462 billion during FY 2020-21. Component wise break-up of this increase was as follows:

- Government borrowing for financing of federal primary deficit was Rs. 967 billion, which is lower than the federal primary deficit of last fiscal year. This improvement was supported by increase in tax collection and slowdown in growth of non-interest current spending. The slowdown in non-interest spending was primarily driven by expenditure rationalization measures taken by the government. These measures have also helped to create the fiscal space for undertaking spending on targeted subsidies, additional spending on health sector, providing social safety nets to protect the vulnerable segments of the society and created additional room for fiscal

stimulus package in wake of downturn witnessed as a result of the pandemic;

- The other main reason for accumulation of debt was interest payments amounting to Rs. 2,750 billion. Interest servicing remained lower than its budgeted allocation of Rs. 2,946 billion, primarily due to reduction in domestic and international interest rates and relief availed in the form of Debt Service Suspension Initiative;
- The impact of exchange rate was favourable which reduced the rupee value of external public debt by Rs. 665 billion; and
- Rest of the increase in public debt was mainly due to increase in cash balances of the Federal Government. In wake of government's commitment to zero borrowing from SBP, a cash buffer was being maintained to meet the short-term liquidity needs. The size of the cash buffer varied as per the liquidity requirements.

Conclusion:

The economy has recovered well from a dip in the previous year due to COVID-19 situation. The Government's timely and well design policies, particularly, Economic Stimulus Package, played a major role in containing the pandemic and reviving economic activities. Further, monetary and financial measures by SBP accelerated the speed of recovery. There are however, certain risks to fiscal performance which largely depend on the domestic and international evolution of COVID-19.

The government successfully contained, during the first three quarters FY 2020-21, fiscal deficit to **3.0 percent** of GDP, down from **3.5 percent** of GDP in the same period last year, while the primary balance remained in surplus and stood at Rs. 451.8 billion during July-March, 2021, compared to a surplus of Rs. 193.5 billion in the previous year.

The effective revenue mobilization and prudent expenditure management strategy has been supportive in maintaining the fiscal deficit within reasonable limits during FY 2020-21. The economy has been moving progressively along the path of recovery and stabilization. The government has focused on bringing improvement in the real sector through growth in agriculture, industrial and services sectors. Key challenges to budget strategy included adherence to budgetary targets, circular debt of energy sector, revenue collection target and the risk of continuation of the pandemic or natural disasters. Going forward, there is a 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.

Fiscal Policy Statement January 2022

Government of Pakistan
Finance Division

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 3rd January 2022, 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:

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

(Shaukat Fayaz Ahmed Tarin)
Minister for Finance and Revenue

Fiscal Policy Statement January 2022

Government of Pakistan
Finance Division

Subject: **STATEMENT OF RESPONSIBILITY UNDER SECTION 10(1) (a) 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 before 3rd January 2022, 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.

(Hamed Yaqoob Sheikh)
Additional Secretary
(Incharge)

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Printing Corporation of Pakistan Press, Islamabad.