Chapter 4

Fiscal Development

The importance of a prudent fiscal policy cannot be overruled as it supports economic activity through sustainable growth and poverty alleviation. The effective implementation of the policy endeavors to mobilize resources through taxes and public savings, which can fund much needed public goods and services. It also helps to correct fiscal imbalances as well as promote investment and growth by optimal allocation of resources and through improving the tax system. Consequently, a well structured fiscal policy ensures rapid economic growth and development in the country.

The global financial crisis and the policy responses of the governments around the world exemplified the potential role for fiscal policy to stabilize the global economy and to avert an employment collapse of the type witnessed during the great depression. However the current global economic environment is characterized by a fragile financial system, high public deficits and mounting debts. Global output is expected to increase by only 3.5 percent in 2012 as compared to 4 percent in 2011 on account of the significant rise in sovereign vulnerabilities and deteriorated financial conditions in the advanced countries[1]. Going forward, the emerging and developing countries are also expected to witness sluggish growth due to the worsening external environment and the weakening of internal demand. Accordingly, sustained adjustment, ample liquidity and easy monetary policy and most importantly restoration of confidence are urgently required for sustained economic recovery.

Pakistan's economy, which largely remained impervious to the global financial crisis due to its lower exposure to international finance, faced multifaceted challenges on external and internal fronts mainly campaign against extremism, unstable law and order situation, lingering energy shortages and non materialization of external inflows. Additionally the unprecedented calamity of floods in 2010 and torrential rain in Sindh in 2011 contributed further stress on the economy. However, the fiscal situation was well contained. Efforts to manage the fiscal deficit within acceptable level through an expenditure management strategy, austerity measures and reforms in public sector enterprises (Box-1) have yielded results. The fiscal deficit declined from 7.6 percent in FY08 to 5.9 percent in 2010-11. In 2011-12 the fiscal deficit was projected to be 4 percent of GDP (Rs. 851 billion). Nevertheless, during the course of the period the projection for fiscal deficit has been revised to 4.7 percent. However, achievement of this revised target depends crucially on the realization of the envisaged surpluses from provincial governments, the non-tax revenues which depends on inflows into the Coalition Support Fund, and strict control over expenditures.

[1] Global Economic Outlook , April, 2012

Box-1
Snapshot of Current Economic Reforms in Pakistan

The government has undertaken various economic and financial reforms for economic stabilization. These include:-

I. **Expenditure Management Strategy through,**
- Containing fiscal deficit
- Elimination of general subsidies, to be replaced by targeted subsidies
- Restructuring of public sector enterprises
- Power sector reform

II. **Improving domestic resource mobilization through,**
- Harmonization of tax administration
- Strengthening risk based audits
- Improving efficiency of tax administration
- Broadening of tax base

III. **Achieving economic efficiency through devolution through,**
- Transfer of concurrent subjects to provinces
- Equitable resource transfer to provinces

IV. **Strengthening social safety nets through,**
- Benazir income support program
- Bait-ul-Mal
- Disaster management

In order to maintain the budgetary allocation of the development program a number of steps have been initiated such as curtailing the expenditure on traveling allowance, stationery, entertainment, advertisement, repair/maintenance and utilities by 20 percent of the budget estimates. It is also worth mentioning that as a part of the austerity measures, the federal government has implemented the "Compulsory Monetization of Transport Facility for Civil Servants in BS-20 to BS-22" which will be help to save Rs. 1.3 billion per annum. From these measures an amount of Rs. 5.366 billion is expected to be saved during the financial year 2011-12. In addition, to create more fiscal space through the expansion of the tax base, various tax measures have been taken such as an exclusive and dedicated directorate general has been created specifically for broadening of tax base (BTB). In this regard a nationwide BTB campaign is in progress. Similarly sales tax exemptions and zero ratings have been withdrawn for all major items except food items, health, education and agricultural produce (Box-2).

Box-2
Revenue Measures

The government introduced reform initiatives through presidential ordinance and withdrawal of SRO based exemptions; amendments were made in the Sales Tax Act, 1990, Income Tax Ordinance, 2001 and Federal Excise Act, 2005. These measures were effective from 15th and 16th March, 2011 to meet the growing need of flood affected people and to reach the assigned target. These reforms include:

- 15 percent surcharge on income and advance taxes
- Increase in the rate of special excise duty from 1 percent to 2.5 percent, however special excise duty was abolished in 2011-12

- Withdrawal of special regime of assessable price for levy of GST at 8 percent on actual value of sugar
- Removal of SRO based exemptions from fertilizer, pesticides, tractor and elimination of zero rating from plants, machinery and equipment
- Restriction of zero rating to registered person for export of textile, leather, carpets, sports goods and surgical goods.

Source: FBR

These measures yielded a total of Rs. 29.4 billion during 2010-11. The withdrawal of exemptions and the left over amount of 15 percent flood relief surcharge contributed an additional amount of around Rs. 50 billion during July-March, 2011-12.

Fiscal Policy Development

Tax as a major source of revenue and growth plays a vital role in building up institutions and markets. A good tax system not only helps in equitable distribution of economic benefits for social justice but also attracts investment at all levels of business activities. The absence of an efficient tax system discourages well documented investment and compels the country to rely on continuous borrowing from internal and external sources to finance the budgetary deficit, which may crowd out private investment. For more than a decade now the low tax to GDP ratio has been a major economic issue confronting Pakistan. The overall tax to GDP ratio has varied between 9.5 to 11.4 percent mainly due to structural deficiencies in the tax and administration system. Pakistan is characterized as having the lowest tax to GDP ratio not only amongst the peer countries but also in the region.

Table 4.1: Fiscal Indicators as Percent of GDP^

Year	Real GDP Growth	Overall Fiscal Deficit	Expenditure			Revenue		
			Total	Current	Development	Total Rev.	Tax	Non-Tax
FY01	2.0	4.3†	17.4	15.3	2.1	13.1	10.5	2.6
FY02	3.1	4.3†	18.5	15.7	2.8	14.0	10.7	3.3
FY03	4.7	3.7	18.8	16.2	2.6	14.8	11.4	3.4
FY04	7.5	2.3	16.5	13.7	2.8	14.2	11.0	3.2
FY05	9.0	3.3†	16.8	13.3	3.5	13.8	10.1	3.7
FY06	5.8	4.3*†	18.4	13.6	4.8	14.1	10.5	3.6
FY07	6.8	4.4	20.6	15.8	5.0	14.9	10.2	4.7
FY08	3.7	7.6	22.2	18.1	4.4	14.6	10.3	4.4
FY09	1.7	5.3	19.9	16.0	3.8	14.5	9.5	5.1
FY10	3.1	6.3	20.3	16.8	3.5	14.0	10.1	3.9
FY11	3.0	5.9	19.2	16.1	2.8	12.5	9.5	3.1
FY12B	3.7	4.0	18.0	14.4	3.6	13.9	10.4	3.5

Notes ^: The base of Pakistan's GDP has been changed from 1980-81 to 1999-2000, therefore, wherever GDP appears in denominator the numbers prior to 1999-2000 are not comparable.

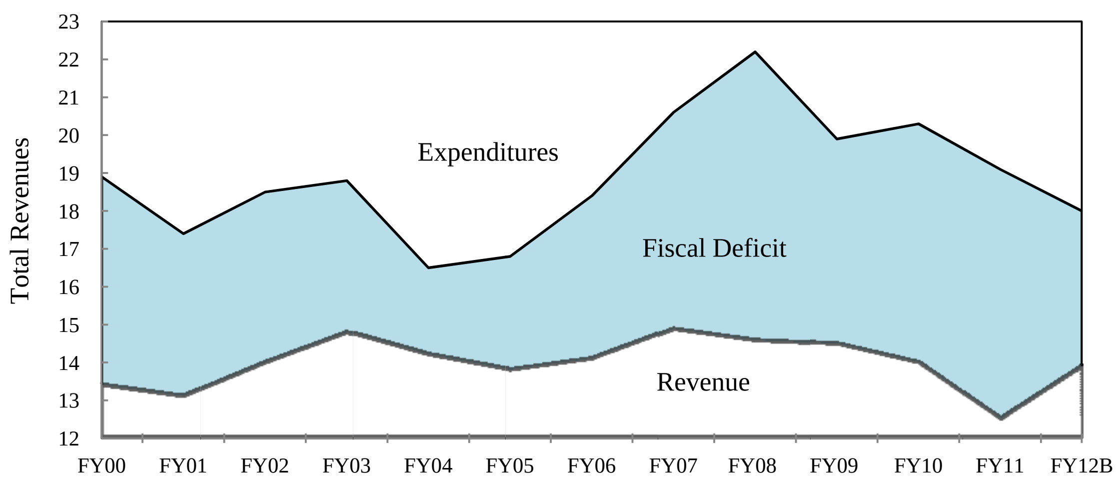
† : Statistical discrepancy (both positive and negative) has been adjusted in arriving at overall fiscal deficit numbers.

* : Include earthquake related expenditure worth 0.8 and 0.5 percent of GDP for 2005-06 and 2006-07 respectively.

B : Budgted

However, the government is committed to increase this ratio by introducing various additional tax measures such as: monitoring and risk based audit, strengthening electronic payment, close watch on Afghan transit trade and recovering arrears etc. These measures helped the FBR to collect Rs. 1,558 billion during 2010-11 against Rs. 1,008 billion in 2007-08. FBR Tax collection has shown a significant growth of 54.6 percent since 2007-08. For the current fiscal year 2011-12, the target of Rs. 1,952.0 billion has been set; which is expected to be achieved as the total collection during first ten months of 2011-12 stood at Rs. 1,426.0 billion excluding Rs 19 billion of sales tax on services collected by the Sindh Revenue Board (SRB) against Rs. 1,149.8 billion in the comparable period of last year. This is an increase of 24.0 percent.

Fig-4.1: Fiscal Deficit



Despite the numerous challenges the country has faced since 2001 including the continued and intensified security issues, the fiscal position last year in terms of key fiscal indicators such as revenues, expenditures and the fiscal deficit indicates a notable change. Table 4.1 suggests that as a percentage of GDP the total expenditures remained in a narrow band during the last five years. Despite the large demands for government spending on subsidies (electricity subsidies), interest payments, security and flood related issues (rehabilitation and reconstruction) the government has successfully brought down the total expenditures from 22.2 percent of GDP in 2007-08 to 19.2 percent in 2010-11. These are expected to decline to 18.0 percent in fiscal year 2011-12. Every effort has been made to protect the PSDP program, which not only gives impetus to poverty reduction but also creates employment opportunities. During the current fiscal year Rs. 300 billion were allocated by the federal government to the PSDP and no cut has been imposed. During the first nine months of the current fiscal year (July-March, 2012) about Rs. 219 billion committed for the Public Sector Development Program (PSDP) has been released. This accounts 73 per cent of the total allocation of Rs. 300 billion.

On the revenue side the tax to GDP ratio either remained stagnant or showed a secular decline. Consequently the budget deficit widened during the past four years. However, it was well contained during fiscal year 2010-11 despite the challenges faced due to the flood and security related expenditures.

On the other hand the expenditure to GDP ratio witnessed a similar pattern to that for total expenditures; showing an overall decline since 2007-08. The decline in total expenditure (3.0 percentage points of GDP) is shared by current expenditure (2 percentage points of GDP) and development expenditure (1.6 percentage points of GDP) during the past four years. During July-March, 2011-12 period total expenditures stood at Rs. 2,641.9 billion against Rs. 3,721.2 billion set for the fiscal year 2011-12. During the period under review total revenues were Rs. 1,747.0 billion against the budgeted estimates of Rs. 2,870.5 billion.

The fiscal deficit has declined from 7.6 percent in 2007-08 to 5.9 percent in 2010-11 on account of reduction in development expenditure. The fiscal deficit witnessed considerable deviation from its original target due to some structural deficiencies in the tax system, large additional subsidies to the electricity sector and support to public sector enterprises (PSEs). However, the government is committed to contain the fiscal deficit through several measures as well as to put the economy on a high growth trajectory. These include austerity measures, broadening of the tax base through tax measures, elimination of subsidies (specially the power sector subsidies), restructuring public sector enterprises and power sector reforms. However, the massive floods in 2010 and 2011 have put an enormous strain on public finances due to the unexpected expenditures to meet the rehabilitation and reconstruction needs and resulted in the upward adjustment in the fiscal deficit target from 4 percent to 4.7 percent of GDP.

Structure of Tax Revenues

An efficient tax system is vital for raising sufficient revenues to finance essential expenditures without recourse to excessive public sector borrowing. At present the country has a narrow tax base, massive tax evasion and administrative weaknesses due to the challenges faced in the implementation of an efficient and effective tax system. Although revenue collection has increased in recent years, the tax to GDP ratios varied between 8.6 and 9.8 percent (Table 4.2).

Fig-4.2: FBR Tax Rev as % of GDP

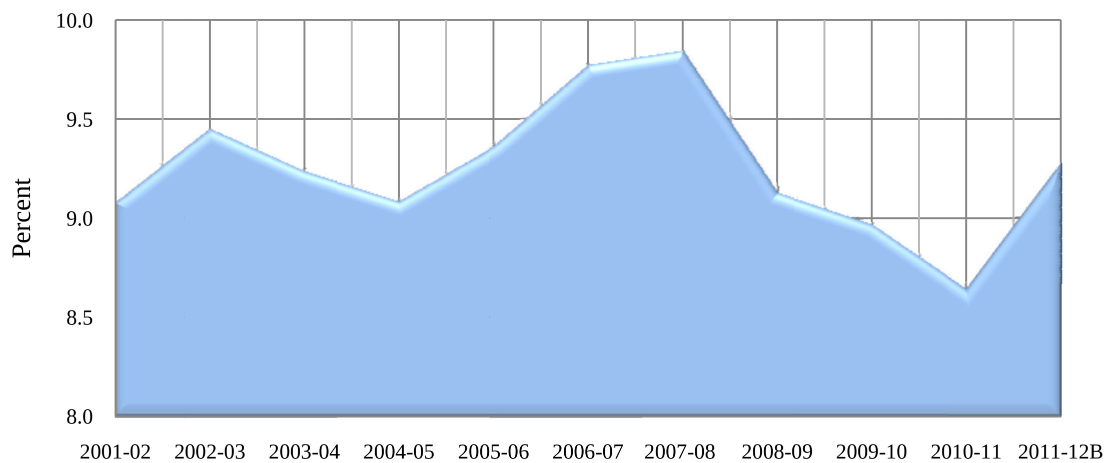


Table 4.2: Structure of Federal Tax Revenue (Rs. Billion)

Year	Total (FBR)	Tax Rev as % of GDP	Direct Taxes	Indirect Taxes			
				Customs	Sales	Excise	Total
2000-01	392.3	9.4	124.6	65.0	153.6	49.1	267.7
			[31.8]	{24.3}	{57.4}	{18.3}	[68.2]
2001-02	404.1	9.2	142.5	47.8	166.6	47.2	261.6
			[35.3]	{18.3}	{63.7}	{18}	[64.7]
2002-03	460.6	9.6	151.9	68.8	195.1	44.8	308.7
			[33.0]	{22.3}	{63.2}	{14.5}	[67.0]
2003-04	520.9	9.2	165.1	91.0	219.2	45.6	355.8
			[31.7]	{25.6}	{61.6}	{12.8}	[68.3]
2004-05	590.4	8.9	183.4	115.4	238.5	53.1	407.0
			[30.1]	{28.4}	{58.6}	{13.0}	[68.9]
2005-06	713.5	9.4	225.0	138.4	294.8	55.3	488.5
			[31.5]	{28.3}	{60.3}	{11.3}	[68.5]
2006-07	847.2	9.7	333.7	132.3	309.4	71.8	513.5

Table 4.2: Structure of Federal Tax Revenue (Rs. Billion)

Year	Total (FBR)	Tax Rev as % of GDP	Direct Taxes	Indirect Taxes			
				Customs	Sales	Excise	Total
			[39.4]	{25.8}	{60.3}	{14.0}	[60.6]
2007-08	1,008.1	9.8	387.9	150.7	377.4	92.1	620.2
			[38.5]	{24.3}	{60.9}	{14.9}	[61.5]
2008-09	1,161.1	9.1	443.5	148.4	451.7	117.5	717.6
			[38.2]	{20.7}	{62.9}	{16.4}	[61.8]
2009-10	1,327.4	9.0	526.0	160.3	516.3	124.8	801.4
			[39.6]	{20.0}	{64.4}	{15.6}	[60.4]
2010-11	1,558.2	8.6	602.5	184.9	633.4	137.4	955.7
			[38.7]	{19.3}	{66.3}	{14.4}	[61.3]
2011-12B	1,952.0	9.5	745.0	215.0	852.0	140.0	1207.0
			[38.2]	{17.8}	{70.6}	{11.6}	[61.8]

Source: Federal Board of Revenue
[ ]as % of total taxes
{ } as % of indirect taxes

Under the present tax system, some sectors are under-taxed and others are not taxed at all. This distortion is being addressed. Moreover, the internal tax system has undergone substantial changes as the share of income tax has risen significantly from around 32 percent in 2000-01 to 38.2 percent in 2011-12. On the other hand the composition of taxes has been rationalized with a gradual decrease in the dependence on foreign trade taxes and a simultaneous increase in GST. Customs and excise duties have registered a gradual decline on account of the tax and tariff reforms with excise and custom comprising only 8.5 percent and 10.6 percent respectively in 2011-12. Pakistan's tax to GDP ratio stood at around 8.6 percent in 2010-11 and expected to be about 9.5 percent of GDP in 2011-12. The indirect tax to GDP ratio stood at around 5.3percent and direct tax to GDP ratio at around 3.3 percent in 2010-11. During July-April, 2011-12 indirect tax to GDP ratio stood at 4.3 percent and direct tax to GDP ratio recorded at 2.6 percent. The ratio can only be increased substantially if the major contributors to GDP growth not included in the tax net can be brought into the tax system.

Tax Reforms

The low tax-to-GDP ratio restricts the country's ability to counter inflation, deliver quality public services or improve human resources to reach a take-off stage for economic development. To address this issue and others including debt servicing and defense needs, the government has placed Tax Administration high on its reform agenda.

Reform Strategy

The reform strategy had three main planks (a) policy reforms, (b) administrative reforms and (c) organizational reforms. The policy reforms include simpler laws, universal self-assessment, elimination of exemptions, less dependence on withholding taxes and effective dispute resolution mechanism. The administrative reforms aim (i) to transform income tax organization on functional lines; (ii) re-engineer manual processes of all taxes with the aim to reduce face to face contact between taxpayers and tax collectors, increase effectiveness of FBR, and improve skills and integrity of the workforce and facilitation of taxpayers. The organizational reforms also included re-organization of the FBR on functional lines, reduction in number of tiers and reduction in the workforce.

In pursuance of tax reforms FBR has been re-structured on functional lines. With a view to supplement the level of skills in the FBR, the government in March-April, 2001 appointed professional members from private sector for (i) Human Resource Management (HRM), (ii) Information Management System (IMS), (iii) Audit, (iv) Facilitation and Taxpayers Education (FATE) and (v) Fiscal Research and Statistics (FR&S). The FBR has prepared a new recruitment policy (with greater emphasis on skills that match

FBR needs), incentive and merit based remuneration and promotion mechanism and extensive training. FBR through its reform program is strengthening audit and enforcement activities.

Broad objectives of reforms included overall increase in the revenue collection/tax-GDP ratio, broadening of the tax base, strengthening audit and enforcement procedures, guarantee fairer and more equitable application of tax laws, increase in transparency and integrity, facilitate and promote voluntary compliance with tax laws and provide transparent and high quality tax services.

To achieve reforms objectives, the FBR has established Large Taxpayer Units (LTUs) and Regional Tax Offices (RTOs) to test the re-organized structure of income tax and sales tax and Taxpayers Education and Facilitation Centers to improve voluntary compliance. Customs processes have been re-engineered and Customs Administration Reform (CARE) was started which has minimized the time of clearance of goods and reduced the cost of doing business. Facility for online filing of goods declarations and a website for information dissemination and helpline for taxpayers have been established (see Box-3).

Box-3
Major Achievements under TARP

General

- Gaining stakeholders respect.
- Creating business friendly environment.
- Introducing professionalism, integrity, teamwork, courtesy, responsiveness, transparency and fairness.
- Facilitating and providing service to the taxpayers.
- Reducing the cost of doing business.
- Moving towards optimum use of automation and IT.
- Infused confidence among taxpayers through regular facilitation and tax education which has bridged the gap between taxpayers and tax collectors.
- Creation of an enabling environment for various stakeholders

Income Tax

- Self Assessment Scheme introduced.
- Improved voluntary compliance and number of compliant taxpayers increased to more than 2.5 million.
- Efficiency of the department improved with the introduction of working on functional basis.
- Computerized and updated taxpayers profiles.
- Reduced contact between tax officials and taxpayer.
- Tax base widened.
- Simplification of Income Tax Law, Rules and Forms.
- Share in total Revenue collection increased.

Automation

a. Integrated Tax Management System (ITMS)

- 100% e-filing of corporate income tax returns.
- 100% e-filing of Sales Tax returns.
- 100% e-filing of sales tax invoice summaries.
- E-Registration.
- E-Payment.
- E-Notices and feedback to taxpayers.

- Risk based refund processing (Pilot Project).
- Audit case selection through Nexus Business Intelligence System.

b. <u>Customs Automation</u>

- E-filing, paperless workflow and risk based selectivity.
- Nationwide e-filing.
- Post Clearance Audit (PCA) introduced.
- Electronic access to consolidated data to different stake holders.
- System based random marking of examiners and appraisers.
- Availability of country wide referential import value data.
- On-line Bank Payment System (24 NBP nation wide booths).
- Elimination of GD filling fee.

Source: FBR

Review of Public Expenditure

Public expenditures are significant for provision of social services, economic stabilization and growth. However, in Pakistan, public expenditures remained under tremendous pressure during 2011-12 owing to flood related expenses, continued security related issues and higher subsidies. During July-March, 2011-12, actual disbursement against the budgeted subsidy of Rs. 166.4 billion set for the current fiscal year 2011-12 stood at Rs. 103 billion (excluding Rs. 391 billion on account of debt consolidation). It is expected to increase further on account of a settlement of circular debt issue. The permanent solution of the circular debt issue requires the rationalization of electricity tariff and improving the overall efficiency of the energy sector.

Table 4.3: Trends in Components of Expenditure (as % of GDP)

Year	Total Expenditure (A)	Current Expenditure (B)	Interest Payments (C)	Defence (D)	Development Expenditure (E)	Non Interest Non-Defence Exp (A-C-D)	Fiscal Deficit	Revenue Deficit/ Surplus (TR-Total CE)	Primary deficit (TR-NI Exp)
1999-00	18.5	16.4	6.8	3.9	2.5	7.7	5.4	-3.0	1.7
2000-01	17.0	15.3	5.9	3.1	2.1	8.0	4.3	-2.2	2.0
2001-02	18.5	15.7	6.1	3.3	2.8	9.0	4.3	-1.7	1.6
2002-03	18.4	16.2	4.8	3.3	2.6	10.0	3.7	-1.4	1.2
2003-04	16.9	13.7	4.0	3.3	2.8	9.7	2.3	0.3	1.1
2004-05	17.2	13.3	3.4	3.2	3.5	10.5	3.3	0.5	0.0
2005-06	18.4	13.6	3.4	3.2	4.8	11.8	4.3	0.5	-0.8
2006-07	20.6	15.8	4.4	2.9	5.0	13.3	4.3	-0.9	-1.3
2007-08	22.2	18.1	5.0	2.7	4.4	14.5	7.6	-3.5	-2.6
2008-09	19.9	16.0	5.2	2.6	3.8	12.1	5.4	-1.5	-0.2
2009-10	20.3	16.8	4.5	2.5	3.5	13.3	6.3	-2.7	-1.8
2010-11	19.2	16.1	4.0	2.5	2.8	12.7	5.9	-3.5	-2.6
2011-12B	18.0	14.4	3.8	2.4	3.6	11.8	4.0*	-0.5	-0.3

B Budgeted
*** Budgeted number is revised to 4.7 percent of GDP**

Total expenditures (TE) stood at Rs. 3,455.1 billion or 19.2 percent of GDP in 2010-11 as compared to Rs. 3,006.7 billion or 20.3 percent of GDP in 2009-10. It is worth mentioning that despite the unplanned expenditures due to flood related activities at the start of the current fiscal year, the expenditures as percent of GDP remained at 12.8 percent (Rs. 2,641.9 billion) during July-March 2011-12. Total expenditures are expected to decline by 18.0 percent.

Current expenditures (CE) are expected to remain at 14.4 percent of GDP in fiscal year 2011-12. During fiscal year 2010-11, current expenditure were Rs. 2,900.8 billion or 16.1 percent of GDP compared to Rs. 2,481.0 billion or 16.8 percent of GDP in 2009-10. The decline came from non-interest-non-defense spending. During July-March, 2011-12 current expenditures stood at Rs. 2,154.1 billion or 10.4 percent of GDP compared to Rs. 1,909.8 billion or 10.6 percent of GDP in the same period of fiscal year 2010-11.

Development expenditures in fiscal year 2010-11 remained at Rs. 506.1 billion or 2.8 percent of GDP as compared to Rs. 517.9 billion or 3.5 percent of GDP in 2009-10. In the current fiscal year's budget, the allocation for development expenditure is 3.6 percent of GDP. The share of current expenditure in total expenditure has declined significantly from 89.9 percent to 84 percent in 2010-11. These are expected to decline further by 4 percent due mainly to the substantial fall in interest payments. Defense expenditures accounted for 15.5 percent of current expenditure in 2010-11. As a percentage of GDP defense expenditures were 2.5 percent in 2010-11 and are likely to remain slightly below this level in 2011-12. However in absolute terms defense expenditure rose to Rs. 450.6 billion during 2010-11 from Rs. 375.0 billion in 2009-10. Nevertheless the budget target is set at Rs. 495.2 billion for 2011-12 which is around 2.4 percent of GDP.

Fiscal Performance: July-March, 2011-12

At present Pakistan is confronting unsustainable fiscal deficits and unabated debt service charges on account of both external and internal challenges including electricity and gas outages that have restricted the overall growth of the economy. Similarly insufficient external inflows have resulted in increased reliance of government on domestic resources. It is, therefore, important to revamp the strategies of domestic and external financial resource mobilization through tax and non-tax instruments.

Pakistan has witnessed a sharp deterioration in fiscal indicators during the past few years due to the revenue-expenditure gap. The fiscal situation was further aggravated by the domestic and external imbalances together with the deteriorating security environment, persistent inflationary pressures, unprecedented floods in 2010 and massive rains in 2011.

Table 4.4 Consolidated Revenue & Expenditure

	Budget Estimate 2011-12	Prov. Actual July-March 2010-11	Prov. Actual July-March 2011-12	Growth (%) July-March 2011-12
A. Total Revenue	**2,870.5**	**1,495.3**	**1,747.0**	**16.8**
a) Tax Revenue	**2,151.2**	**1,117.6**	**1,379.2**	**23.4**
Federal	**2,074.2**	**1,074.8**	**1,321.5**	**23.0**
of which FBR Revenues	1,952.0	1,020.1	1,280.4	**25.5**
Provincial Tax Revenue	77.0	**42.8**	57.6	**34.6**
b) Non-Tax Revenue	**719.3**	**377.7**	**367.9**	**-2.6**
B. Total Expenditure	**3,721.2**	**2,262.6**	**2,641.9**	**16.8**
a) Current Expenditure	**2,976.3**	**1,909.8**	**2,154.1**	**12.8**
Federal	**2,016.3**	**1,345.7**	**1,478.7**	**9.9**
- Interest	791.0	**507.4**	624.5	**23.1**
- Defence	495.2	**335.1**	348.0	**3.8**
Provincial	960.0	**564.1**	675.4	**19.7**
b) Development Exp. & net lending	**744.9**	**352.7**	**428.0**	**21.3**

Table 4.4 Consolidated Revenue & Expenditure

	Budget Estimate 2011-12	Prov. Actual July-March 2010-11	Prov. Actual July-March 2011-12	Growth (%) July-March 2011-12
PSDP	**639.9**	**246.5**	**375.6**	**52.4**
Other Development	**97.1**	**35.7**	**45.4**	**27.2**
c) Net Lending	**7.9**	**70.5**	**6.9**	**-90.2**
C. Overall Fiscal Deficit	**850.6**	**783.3**	**894.9**	**14.2**
As % of GDP	4.0	**4.5**	4.3	**-4.4**
Financing of Fiscal Deficit	**850.6**	**783.3**	894.9	**14.2**
i) External Sources	134.5	**83.1**	47.4	**-43.0**
ii) Domestic	**716.1**	**700.1**	**847.5**	**21.1**
- Bank	412.6	**316.4**	443.8	**40.3**
- Non-Bank	303.5	**383.8**	403.7	**5.2**
GDP at Market Prices	**21,042**	**18,033**	**20,654**	**14.5**

Source: Budget Wing, Finance Division and FBR

According to the consolidated revenue and expenditure statement of the government, total revenues grew by 16.8 percent during July-March 2011-12 and stood at Rs. 1,747.0 billion compared to Rs. 1,495.3 billion in the same period of fiscal year 2010-11. The increase is mostly due to a significant rise in FBR tax collection, which increased by 25.5 percent during the period under review. On the other hand non tax revenue declined by 2.6 percent as it stood at Rs. 367.9 billion in July-March 2011-12 from Rs. 377.7 billion in the same period last year. Total expenditures were recorded at Rs. 2,641.9 billion during July-March; 2011-12 compared to Rs. 2,262.6 billion in the same period last year posted a growth of 16.8 percent. External resources for financing the budget deficit amounted to Rs. 47.4 billion - a net decline of 43 percent. Insufficient external financing shifted greater reliance on domestic resources to finance the budget deficit during July-March, 2011-12. The fiscal deficit as a percentage of GDP stood at 4.3 percent against 4.5 percent during the same period of fiscal year 2010-11.

FBR Tax Collection

FBR tax collection for the fiscal year 2011-12 was targeted at Rs. 1,952 billion which was higher by 25.3 percent over the actual collection of Rs. 1,558 billion during 2010-11. During July-April, 2011-12 net collection stood at Rs. 1,426.0 billion despite the major challenges to the economy due to the dearth of electricity and gas. This reflects 24.0 percent growth over Rs. 1,149.8 billion collected during the same period last year (Table:4.5).

Direct Taxes

The gross and net collection of direct taxes has registered growth of 31.3 percent and 22.6 percent respectively during the first ten months of 2011-12. The gross and net collection increased from Rs. 462.9 billion and Rs. 431.3 in July-April, 2010-11 to Rs. 607.8 billion and Rs. 528.9 billion respectively during July-April, 2011-12. Major revenue spinners of direct taxes are withholding tax, voluntary payments and collection on demand.

Indirect Taxes

During July-April 2011-12, the gross and net collection of indirect taxes has witnessed a growth of 23.1 percent and 24.9 percent respectively. It has accounted for 62.9 percent of the total FBR tax revenues.

Within indirect taxes, growth in sales tax increased by 33.7 percent. The gross and net sales tax collection during July-April 2011-12 reached Rs. 673.0 billion and Rs. 635.1 billion respectively, showing growth of 30.6 percent and 33.7 percent respectively over the corresponding period of 2010-11. Of the net collection, 44.8 percent of total sales tax was contributed by sales tax on domestic goods and services during July-April, 2011-12, while the rest was derived from imports. Within net domestic sales tax collection, the major contribution came from POL products, telecom services, natural gas, fertilizer, other services, sugar, cigarettes, beverages, cement and electrical energy. On the other hand POL products, plastic, edible oil, fertilizers, iron and steel, vehicles, machinery, organic chemicals and oilseeds contributed significantly to the collection of sales tax from imports.

Table 4.5: FBR Tax Revenues Rs Billion

	2010-11	2011-12	July-April		% Change	Achievement
Change	**(Actual)**	**(B.E)**	**2010-11**	**2011-12**		**(Percentage)**
A. DIRECT TAXES						
Gross			462.9	607.8	31.3	
Refund/Rebate			31.6	78.9		
Net	**602.5**	**745.0**	**431.3**	**528.9**	22.6	**71.0**
B. INDIRECT TAXES						
Gross			766.5	943.4	23.1	
Refund/Rebate			47.9	46.2		
Net	**955.7**	**1,207.0**	**718.6**	**897.2**	24.9	**74.3**
B.1 SALES TAX						
Gross			515.3	673.0	30.6	
Refund/Rebate			40.3	37.9		
Net	**633.4**	**852.0**	**475.0**	**635.1**	33.7	**74.5**
B.2 FEDERAL EXCISE						
Gross			102.2	95.8	-6.3	
Refund/Rebate			0.0	0.2		
Net	**137.4**	**140.0**	**102.2**	**95.6**	-6.5	**68.3**
B.3 CUSTOM						
Gross			149.0	174.6	17.2	
Refund/Rebate			7.6	8.1		
Net	**184.9**	**215.0**	**141.4**	**166.5**	17.8	**77.4**
TOTAL TAX COLLECTION						
Gross			1,092.3	1,551.2	42.0	
Refund/Rebate			-57.6	125.1		
Net	**1,558.2**	**1,952.0**	**1,149.9**	**1,426.1**	24.0	**73.1**

Source: Federal Board of Revenue (FBR)

Custom duty collection has registered a growth of 17.2 percent and 17.8 in both gross and net terms. The gross and net collection has increased from Rs. 149.0 billion and 141.4 billion during July-April, 2010-11 to Rs. 174.6 billion and Rs. 166.5 billion respectively during July-April, 2011-12. The major revenue spinners of custom duty have been automobiles, edible oil, petroleum products, machinery, plastic, iron and steel, paper and paperboard, textile materials and organic chemicals.

A negative growth of 6.5 percent has been recorded in the net collection of Federal Excise Duties (FED) during July- April, 2011-12. The net collection stood at Rs. 95.6 billion during July-April 2011-12 as against Rs. 102.2 billion during the same period last year. The major revenue spinners of FED are cigarettes, cement, beverages, natural gas, POL product and services.

Provincial Budget

The total outlay of the four provincial budgets for 2011-12 stood at Rs. 1,435 billion; 21.7 percent higher than the outlay of Rs. 1,179 billion last year

Table 4.6: Overview of Provincial Budgets (Rs Billion)

Items	Punjab		Sindh		KPK		Baluchistan		Total	
	2010-11 RE	2011-12 BE	2010-11 RE	2011-12 BE	2010-11 RE	2011-12- BE	2010-11 RE	2011-12 BE	2010-11 RE	2011-12 BE
A. Total Tax Revenue	**502.6**	**625.4**	**310.6**	**359.4**	**160.2**	**195.4**	**100.5**	**111.5**	**1073.9**	**1291.7**
Provincial Taxes	39.0	48.6	32.7	35.0	3.3	3.6	1.2	1.3	76.2	88.5
Share in Federal Taxes	463.6	576.8	277.9	324.4	156.9	191.8	99.3	110.2	997.7	1203.2
B. Non-Tax Revenue	**26.0**	**20.6**	**12.4**	**19.9**	**5.4**	**5.9**	**2.8**	**3.5**	**46.6**	**49.9**
C. All Others	**-7.5**	**21.2**	**11.3**	**17.9**	**37.6**	**23.9**	**3.8**	**-0.2**	**45.2**	**62.8**
Total Revenues (A+B+C)	**521.1**	**667.2**	**334.3**	**397.2**	**203.2**	**225.2**	**107.1**	**114.8**	**1165.7**	**1404.4**
a) Current Expenditure	**387.6**	**434.8**	**281.2**	**283.1**	**139.5**	**149**	**74.3**	**90.6**	**882.6**	**957.5**
b) Development Expenditure	**138.7**	**220.0**	**65.6**	**141.1**	**65.0**	**85.1**	**27.1**	**31.4**	**296.4**	**477.6**
i) Rev. Account	81.4	127.2	3.9	51.7	10.3	13.1	0.0	0.0	95.6	192.0
ii) Cap. Acount	57.3	92.8	61.7	89.4	54.7	72.0	27.1	31.4	200.8	285.6
Total Exp (a+b)	**526.3**	**654.8**	**346.8**	**424.2**	**204.5**	**234.1**	**101.4**	**122.0**	**1179**	**1435.1**

Source: Provincial Finance, Budget Wing

Punjab witnessed the highest increase of 24.4 percent in budgetary outlay, followed by Sindh (22.3 percent), Baluchistan (20.3 percent) and KPK (14.5 percent). The overall provincial revenue receipts for 2011-12 are estimated at Rs. 1,404 billion, which is up by 20.5 percent compared to last year. During 2010-11 provincial revenues witnessed a growth of 34 percent compared to 20.4 percent in 2009-10.

Table 4.7: 4- Years Overview of Provincial Budget Growth Rates (%) Rs. Billion

Items	2007-08	2008-09	2009-10	2010-11	FY10	FY11
A. Total Tax Revenue	**504.1**	**612.0**	**697.3**	**1,073.9**	13.9	54.0
Provincial Taxes	50.3	57.3	68.6	76.2	19.7	11.1
Share in Federal Taxes	453.8	554.7	628.8	997.7	13.4	58.7
B. Non-Tax Revenue	**59.6**	**58.0**	**56.7**	**46.6**	-2.2	-17.8
C. All Others	**48.2**	**52.9**	**116.2**	**45.2**	119.7	-61.1
Total Revenues (A+B+C)	**611.9**	**722.8**	**870.2**	**1,165.7**	20.4	34.0
a) Current Expenditure	**497.5**	**688.9**	**704.8**	**882.6**	2.3	25.2
b) Development Expenditure	**262.0**	**314.0**	**291.8**	**296.4**	-7.1	1.6
Total Exp (a+b)	**759.5**	**1,002.9**	**1,357.7**	**1,179.0**	35.4	-13.2

Source: Provincial Finance, Budget Wing

The accelerated growth in revenues was mainly due to the increase in the provincial share in federal revenues under the 7th NFC award. On the other hand the consolidated fiscal balance deteriorated during July-March, 2011-12 and stood at Rs. 65 billion compared to Rs. 115 billion recorded in the same period of 2010-11. The growth in total expenditure has outpaced the significant growth in revenues.

Allocation of Revenues between the Federal Government and Provinces

Fiscal decentralization, or the transfer of fiscal power from the national government to the sub national governments, is considered to be an effective tool to improve efficiency in the public sector and to stimulate economic growth. This devolution refers to the devolution of responsibilities for public spending and revenue collection from the central to the local governments.

In 2010 the government took a major step towards fiscal decentralization by signing 7th National Finance Commission (NFC) award between the federal government and provincial governments and by passing 18th Constitutional Amendment. This has not only allowed the transfer of more funds but also widen the range of responsibilities from the federation to the provinces.

Table 4.8: Transfers to Provinces (NET) (Rs. Billion)

	2008-09	2009-10	2010-11	2011-12B
Divisible Pool	477.4	574.1	834.7	1,043.9
Straight Transfer	82.4	81.2	163.0	159.4
Special Grants/ Subventions	40.6	82.0	54.1	55.4
Project Aid	26.3	16.0	21.9	38.2
Program Loans	0.0	0.0	0.0	16.6
Japanese Grant	0.0	0.0	0.1	0.9
Total Transfer to Province	**626.8**	753.3	1,073.7	1,313.7
Interest Payment	18.5	18.7	18.5	15.6
Loan Repayment	21.0	24.0	32.4	27.2
Transfer to Province(Net)	**587.3**	710.6	1,022.8	1,270.9

Source: Budget in Brief, 2011-12

Under the 7th NFC award, the financial autonomy of the provinces has been ensured by increasing their share in the divisible pool from 50 percent to 56 percent in 2010-11 and 57.5 percent from 2011-12 onwards. The distribution of the resources has been made on multi–weighted criteria which consist of population (82 percent), poverty/backwardness (10.3 percent), revenue collection/generation (5.0 percent) and area or inverse population density (2.7 percent). While the share of the federal government in the net proceeds of the divisible pool stood at 44 percent in 2010-11 and 42.5 percent from 2011-12 onwards. Total transfers to provinces have been projected to increase to Rs. 1,270.9 billion; an increase of 24.3 percent in 2011-12 over the actual transfer of Rs. 1,022.8 billion in 2010-11.

Medium Term Budgetary Framework

The MTBF has improved the budget preparation process. Firstly, the medium-term fiscal framework and budget policies have been incorporated into a medium-term Budget Strategy Paper on rolling basis, which include medium-term indicative budget ceilings for the recurrent and development budgets, and provides an opportunity to discuss the budget between the technical and political levels prior to the presentation of the annual budget. The political level involvement includes cabinet, Standing Committees on Finance & Revenue, and political parties.

Secondly, the Priorities Committee has been upgraded. Before the reform program, the Priorities Committee meeting was headed by an Additional Finance Secretary (Budget) and would discuss only the development budget in detail. The MTBF reform, has upgraded the committee which is now chaired jointly by the Secretary Finance, Secretary Planning and Secretary Economic Affairs Division. The committee now discusses both the recurrent and development budgets with increased focus on policy priorities.

The Output Based Budget (OBB) has also been institutionalized in the federal government which presents policies of the ministries in the shape of goals, outcomes, outputs and medium-term budgets. The OBB also presents key performance indicators for the outputs to introduce government wide monitoring system.

Similarly the MTBF reform program has drafted the Public Finance Act to legalize the MTBF reform program. Also, the reform program is working with the Planning Commission to implement strategic planning processes in line ministries and introduce an Apex Monitoring and Evaluation function in the government to monitor service delivery and outcomes. The reform program is also interacting with PIFRA (Project to Improve Financial Reporting and Auditing) to introduce SAP based budgeting in the line ministries.

In addition to the above, the following important developments have been initiated as part of the reform program:

- The Priorities Committee, which would only discuss project funding prior to the MTBF has been upgraded and is chaired by Secretary Finance, Secretary Planning and Secretary Economic Affairs Division. The upgraded Priorities Committee discusses policy priorities of the Principal Accounting Officers together with medium-term budgets.
- The Budget Strategy Paper (BSP) is discussed with Parliamentary Standing Committees on Finance and Revenue. This process improves parliamentary input into the budgeting processes of the government.
- The Budget Strategy Paper (BSP) is discussed with political parties, economic advisory council and chambers. This allows greater focus on strategic economic and budgeting agenda of the government.

Conclusion

Fiscal policy has the potential of playing a crucial role in spurring economic growth and poverty alleviation. Pakistan's economy has fared well in terms of fiscal deficit in the recent past, reducing deficit from 7.6 percent in FY08 to 5.9 percent in 2010-11. In fiscal year 2011-12 the fiscal deficit was projected to be 4 percent of GDP (Rs. 851 billion). Nevertheless, during the course of the period the projection for fiscal deficit has been revised to 4.7 percent. Various external factors contributed to this revision, for instance, growing burden from the campaign against extremism, domestic security concerns, energy shortages, unprecedented natural disasters, and upheaval in the global economy. However, government efforts to contain the fiscal situation were effective and fiscal deficit has remained within acceptable level through an expenditure management strategy, austerity measures and reforms in public sector enterprises. The achievement of the revised deficit target depends crucially on the realization of the expected surpluses from provincial governments, the non-tax revenues which depend on inflows into the Coalition Support Fund, and strict control over expenditures.

TABLE 4.1

FEDERAL GOVERNMENT OVERALL BUDGETARY POSITION

(Rs Million)

Fiscal Year/ Item	2011-12 B.E.	2011-12 Jul-Mar
A. <u>REVENUE</u>		
<u>FBR Tax Revenue</u> (1 +2)	1,952,300	1,280,397 *
1 <u>Direct Taxes</u>	<u>743,600</u>	<u>478,661</u>
2 <u>Indirect Taxes</u>	1,208,700	801,736
i. Customs	206,400	148,547
ii. Sales Tax	836,700	568,384
iii. Federal Excise	165,600	84,805
Others	121,882	41,139
<u>Non-Tax Revenue</u>	<u>657,968</u>	<u>343,625</u>
Gross Revenue Receipts /1	<u>2,732,150</u>	<u>1,665,161</u>
B. <u>EXPENDITURE</u>		
<u>Current Expenditure</u> /2	<u>2,071,680</u>	<u>1,525,428</u>
i. Defence	495,215	347,956
ii. Interest	790,978	624,499
iii. Grants	294,987	204,081
vi. Others	490,500	348,892
<u>Development Expenditure and Net Lending</u>	<u>432,677</u>	<u>282,483</u>
Total Expenditure /1	<u>2,504,357</u>	<u>1,807,911</u>

* : Source : FBR

Source: Budget Wing, Finance Division, Islamabad

B.E.- Budget Estimates

/1 : Includes other categories not shown here

/2 : Current expenditure includes earthquake related spendings

TABLE 4.2

SUMMARY OF PUBLIC FINANCE (CONSOLIDATED FEDERAL AND PROVINCIAL GOVERNMENTS)

(Rs Million)

Fiscal Year/ Item	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 Jul-Mar
Total Revenues (i+ii)	794,000	900,014	1,076,600	1,297,957	1,499,380	1,850,901	2,078,165	2,260,712	1,747,036
Federal	741,000	842,900	992,200	1,215,730	1,380,599	1,721,028	1,955,457	2,133,832	1,653,432
Provincial	53,000	57,114	84,400	82,227	118,781	129,873	122,708	126,880	93,604
i) Tax Revenues	611,000	659,410	803,700	889,685	1,050,696	1,204,670	1,498,814	1,707,191	1,379,183
Federal	583,000	624,700	766,900	852,866	1,009,902	1,158,586	1,444,000	1,642,632	1,321,536
Provincial	28,000	34,710	36,800	36,819	40,794	46,084	54,814	64,559	57,647
ii) Non-Tax Revenues	183,000	240,604	272,900	408,272	448,684	646,231	580,000	553,521	367,853
Federal	158,000	218,200	225,300	362,864	370,697	562,442	512,000	491,200	331,896
Provincial	25,000	22,404	47,600	45,408	77,987	83,789	68,000	62,321	35,957
Total Expenditures (a+b+c)	956,000	1,116,981	1,401,900	1,799,968	2,276,549	2,531,308	3,006,662	3,455,120	2,641,910
a) Current	775,000	864,500	1,034,700	1,375,345	1,853,147	2,041,570	2,481,000	2,900,784	2,154,077
Federal	557,000	664,200	789,100	973,130	1,416,015	1,495,873	1,854,000	2,088,124	1,478,698
Provincial	218,000	200,300	245,600	402,215	437,132	545,697	627,000	812,660	675,379
b) Development	161,000	227,718	365,100	433,658	451,896	480,282	517,919	506,103	421,037
c) Net Lending to PSE's	20,000	24,763	2,100	-9,035	-28,494	6,911	39,383	7,904	6,948
d) Statistical Discrepancy	-32,000	0	-86,307	-124,510	0	2,545	-31,640	40,329	59,848
Overall Deficit	-130,000	-216,967	-325,300	-377,501	-777,169	-682,952	-929,061	1,194,409	894,874
Financing (net)	130,000	216,988	325,200	377,501	777,169	680,407	879,000	1,194,409	894,874
External (Net)	-5,900	120,432	148,900	147,150	151,311	149,651	138,000	107,705	47,412
Domestic (i+ii)	135,900	96,556	176,300	230,351	625,858	529,466	741,000	1,086,704	847,462
i) Non-Bank	61,000	8,050	8,100	56,905	104,302	223,846	435,610	471,575	403,662
ii) Bank	63,690	60,179	70,900	101,982	519,906	305,620	304,562	615,129	443,800
iii) Privatization Proceeds	11,210	28,327	97,300	71,464	1,650	1,290	0	0	0
Memorandum Item									
GDP (mp) in Rs. Billion	5,641	6,500	7,623	8,673	10,243	12,724	14,804	18,033	20,654
	(As Percent of GDP at Market Price) /1								
Total Revenue	14.1	13.8	14.1	15.0	14.6	14.5	14.0	12.5	8.5
Tax Revenue	10.8	10.1	10.5	10.3	10.3	9.5	10.1	9.5	6.7
Non-Tax Revenue	3.2	3.7	3.6	4.7	4.4	5.1	3.9	3.1	1.8
Expenditure	16.9	17.2	18.4	20.8	22.2	19.9	20.3	19.2	12.8
Current	13.7	13.3	13.6	15.9	18.1	16.0	16.8	16.1	10.4
Development	3.2	3.9	4.8	4.9	4.4	3.8	3.5	2.8	2.0
Overall Deficit Incl. E.quake Exp.	2.3	3.3	4.3	4.4	7.6	5.3	-6.3	5.9	4.3

Source: Budget Wing, Finance Division, Islamabad

/1 : Due to change of base of GDP to 1999-2000 prior years are not comparable

TABLE 4.3

CONSOLIDATED FEDERAL AND PROVINCIAL GOVERNMENT REVENUES

(Rs Million)

Fiscal Year/ Item	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 Jul-Mar
Total Revenue (I+II)	793,700	900,014	1,076,600	1,297,957	1,499,381	1,850,901	2,078,165	2,260,712	1,747,036
Federal	743,600	842,900	992,200	1,215,730	1,380,600	1,721,028	1,955,457	2,133,832	1,653,432
Provincial	50,100	57,114	84,400	82,227	11,878	129,873	122,708	126,880	93,604
I. Tax Revenues (A+B)	611,000	659,410	803,700	889,685	1,050,696	1,312,227	1,499,000	1,707,191	1,379,183
Federal	583,000	624,700	766,900	852,866	1,009,902	1,266,143	1,444,000	1,642,632	1,321,536
Provincial	28,000	34,710	36,800	36,819	40,794	46,084	55,000	64,559	57,647
A. Direct Taxes (1+2)	171,188	186,473	224,147	337,639	391,350	444,875	534,368	606,276	484,171
1 Federal	164,497	176,930	215,000	334,168	387,563	440,271	528,649	602,451	478,661
2 Provincial	6,691	9,543	9,147	3,471	3,787	4,604	5,719	3,825	5,510
B. Indirect Taxes (3+4+5+6+7)	439,812	472,937	579,553	552,046	659,346	844,696	964,361	1,131,273	894,971
3. Excise Duty	47,538	60,813	58,702	74,026	86,549	119,517	125,368	141,746	87,547
Federal	45,823	58,670	55,000	71,575	83,594	116,055	121,182	137,353	84,805
Provincial	1,715	2,143	3,702	2,451	2,955	3,462	4,186	4,393	2,742
4. Sales Tax*	220,607	235,533	294,600	309,228	385,497	452,294	516,102	633,357	568,384
5. Taxes on International Trade	90,940	117,243	138,200	132,200	150,545	148,382	161,489	184,853	148,547
6. Surcharges /1	61,381	26,769	50,800	64,546	35,178	126,026	114,650	113,103	38,211
6.1 Gas	16,770	16,165	26,300	34,888	20,708	14,015	25,908	30,358	-
6.2 Petroleum	44,611	10,604	24,500	29,658	14,470	112,011	88,742	82,745	38,211
7. Other Taxes /2	80,727	59,348	88,051	36,592	36,755	20,408	46,752	58,214	52,282
7.1 Stamp Duties	10,329	10,573	10,211	10,268	11,123	11,290	11,693	14,007	11,538
7.2 Motor Vehicle Taxes	4,722	5,749	7,107	7,719	4,975	7,534	10,222	10,507	8,283
7.3 Foreign Travel Tax*	4,751	2,050	3,593	3,681	356	0	0	0	0
7.4 Others	60,925	40,976	67,140	14,924	20,301	1,584	24,837	33,700	32,461
II. Non-Tax Revenues	182,700	240,604	272,900	408,272	448,685	454,885	579,894	553,520	367,853
Federal	160,600	218,200	225,300	362,864	370,698	454,885	512,000	491,200	331,896
Provincial	22,100	22,404	47,600	45,408	77,987	83,789	67,894	62,320	35,957

/1 : Revenues under these heads are exclusively Federal

/2 : Mainly includes Provincial Revenues

Source: Budget Wing, Finance Division, Islamabad

TABLE 4.4

CONSOLIDATED FEDERAL AND PROVINCIAL GOVERNMENT EXPENDITURES

(Rs million)

Fiscal Year/ Item	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 Jul-Mar
Current Expenditure	775,000	864,500	1,034,700	1,375,345	1,853,147	2,041,573	2,481,216	2,900,784	2,154,077
Federal	557,000	664,200	789,100	973,130	1,416,015	1,495,876	1,854,000	2,088,124	1,478,698
Provincial	218,000	200,300	245,600	402,215	437,132	545,697	627,216	812,660	675,379
Defence	184,904	211,717	241,063	249,858	277,300	329,902	375,019	450,615	347,956
Interest	222,387	234,752	260,021	386,916	509,574	656,259	661,001	716,603	636,228
Federal	196,261	210,196	237,119	368,797	489,681	637,790	642,000	698,095	624,499
Provincial	26,126	24,556	22,902	18,119	19,893	18,469	19,001	18,508	11,729
Current Subsidies	67,920	66,673	101,238	76,039	423,685	225,610	227,000	260,600	103,000
Development Expenditure	161,000	227,718	365,100	433,658	451,896	480,282	517,919	506,103	421,037
Net Lending to PSEs	20,000	24,763	2,100	-9,035	-28,494	6,911	39,383	7,904	*6,948*
Statistical Discrepancy	-32000	0	-86307	-124510	0	2,545	-31,640	40,329	59,848
Total Expenditure	956,000	1,116,981	1,401,900	1,799,968	2,276,549	2,531,308	3,006,662	3,455,120	2,641,910
Memorandum Items:	(Percent Growth over preceding period)								
Current Expenditure	-2.1	11.5	19.7	32.9	34.7	10.2	21.5	16.9	-
Defense	15.8	14.5	13.9	3.6	11.0	19.0	13.7	20.2	-
Interest	-2.4	5.6	10.8	48.8	31.7	28.8	0.7	8.4	-
Current Subsidies	19.8	8.8	25.1	37.9	63.5	-46.8	0.6	14.8	-
Development Expenditure	24.6	41.4	60.3	18.8	4.2	6.3	7.8	-2.3	-
Total Expenditure	6.4	16.8	25.5	28.4	26.5	11.2	18.8	14.9	-
	As % of Total Expenditure								
Current Expenditure	81.1	77.4	73.8	76.4	81.4	80.7	82.5	84.0	-
Defense	19.3	19.0	17.2	13.9	12.2	13.0	12.5	13.0	-
Interest	23.3	21.0	18.5	21.5	22.4	25.9	22.0	20.7	-
Current Subsidies	7.1	6.0	7.2	4.2	18.6	8.9	7.5	7.5	-
Development Expenditure /1	18.9	22.6	26.2	23.6	18.6	19.2	18.5	14.9	-
Total Expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-

/1 : Include Net Lending

Source: Budget Wing, Finance Division

TABLE 4.5

DEBT SERVICING

(Rs million)

Fiscal Year / Item	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12 Jul-Mar
A. Interest Payments	222,387	234,752	260,021	386,916	509,574	656,259	661,270	716,603	636,228
A.1 Federal	196,261	210,196	237,119	368,797	489,681	637,790	642,269	698,095	624,499
Interest on Domestic Debt	154,817	170,466	195,006	318,939	430,189	558,729	578,287	629,709	578,557
Interest on Foreign Debt	41,444	39,730	42,113	49,858	59,492	79,061	63,982	68,386	45,942
A.2 Provincial	26,126	24,556	22,902	18,119	19,893	18,469	19,001	18,508	11,729
B. Repayment/Amortization of Foreign Debt	127,276	57,702	81,394	69,615	68,662	224,576	196,811	154,151	94,505
C. Total Debt Servicing (A+B)	349,663	292,454	341,415	456,531	578,236	880,835	858,081	870,754	730,733
MEMORANDUM ITEMS	(As Percent of GDP)								
Interest on Domestic Debt	2.7	2.6	2.6	3.7	4.2	4.4	3.9	3.5	2.8
Interest on Foreign Debt	0.7	0.6	0.6	0.6	0.6	0.6	0.4	0.4	0.2
Repayment/Amortization of Foreign Debt	2.3	0.9	1.1	0.8	0.7	1.8	1.3	0.9	0.5
Total Debt Servicing	6.2	4.5	4.5	5.3	5.6	6.9	5.8	4.8	3.5

Source: Budget Wing, Finance Division