Chapter 4

Fiscal Development

Introduction

Fiscal policy has an effective role in promoting sustainable and inclusive growth. A well structured fiscal policy ensures the efficient allocation of public resources. It encourages effective public spending and creates fiscal space for priority investments thus creating a favorable environment for achieving higher economic growth. However, it is equally important to maintain fiscal discipline that is essential to boost economic performance and preserving macroeconomic stability.

Pakistan has made substantial progress in the last five years which is characterized by macroeconomic stability, improved fiscal indicators, low inflation, sustained growth rate, high forex reserves and significant performance of stock market. Prior to 2013, the economy was caught up in persistent energy shortages, double-digit inflation, low development spending, mounting fiscal deficit, low tax revenues, negative credit to private sector and deteriorating law and order situation. Nevertheless, the present government took all these challenges head-on and within five years achieved stabilization and higher economic growth.

The economic performance remained strong as growth accelerated significantly to 5.37 percent in FY2017, supported by a broad-based growth in Agriculture, Industrial and Services sectors, while inflation remained well below the target. The issue of power crises was taken on as a priority which consequently created an improved energy situation thus resulting in Industrial and Services sectors growth. Whereas, for FY2018 the GDP growth is estimated at 5.79 percent (Provisional). This shows that the growth prospects of Pakistan's economy from FY2018 onwards are encouraging given that vast infrastructure projects are under implementation along with capacity expansion of industries.

On fiscal side, unprecedented public expenditures and persistently low revenues undermined the stability of the fiscal accounts. However, during the past five years, this sector has witnessed a notable improvement on account of wide ranging reforms in the area of resource mobilization and expenditure management. The substantive measures taken in a challenging environment to control unproductive expenditures as well as increasing revenues helped in generating additional fiscal space for expenditure on development and social safety net.

Particularly, the restructuring plan of key Public Sector Enterprises (PSEs) as well as power sector reforms is in progress. These reforms are providing the needed support to reduce financial losses and related fiscal costs, thus creating more fiscal space for various growth-oriented projects. It is evidenced that during the past five years, total development expenditures (excluding net lending) increased from 3.5 percent of GDP during FY2013 to 5.3 percent of GDP during FY2017.

Overall, Pakistan's fiscal position improved considerably given that the consolidated fiscal deficit that averaged 7.2 percent of GDP between FY2009 and FY2013 registered a decline to an average of 5.8 percent between FY2013 and FY2017.The government remained focused on a gradual reduction of the fiscal deficit whilst being committed to fiscal consolidation. Overall, the fiscal deficit registered a persistent decline from 8.2 percent of GDP in FY2013 to 5.5 percent, 5.3 percent and 4.6 percent over the successive 3 years. However, during FY2017 the fiscal deficit increased to 5.8 percent against the revised target of 4.2 percent of GDP primarily due to low provincial surplus, a shortfall in FBR tax collection and increase in project loans on account of CPEC related activities.

Nevertheless, during the first half of FY2018, fiscal sector has performed reasonably well on account of higher growth in revenue collection and increase in provincial surplus. Encouragingly, the growth in revenue collection outpaced the increase in expenditure during the period under review.

Looking at the performance of the key fiscal indicators to the end of first half of current fiscal year, it is visible that total revenues grew by 19.8 percent, whereas in terms of GDP it increased to 6.9 percent. Within revenues, both tax and non-tax revenues grew by 16.4 percent and 43.4 percent respectively during first half of FY2018. While in terms of GDP, tax revenues contributed 5.9 percent and non-tax revenues 1.0 percent during the same period.

On the other hand, expenditures increased by 14.0 percent and in terms of GDP, it was recorded at 9.2 percent. Of total expenditures, growth in development expenditures (excluding net lending) remained robust as it stood at 23.4 percent, whereas current expenditures grew by 13.5 percent.

Hence, strong growth in revenues relative to expenditures helped in containing fiscal deficit to 2.3 percent of GDP during first half of FY2018 as compared to 2.5 percent of the corresponding period of last year. Likewise, revenue deficit reduced to 0.5 percent of GDP and primary deficit declined to 0.1 percent of GDP during July-December, FY2018 against 0.8 percent and 0.5 percent respectively in the comparable period of FY2017.

On positive side, with 17.5 percent growth, FBR tax collection increased to Rs 2,257.6 billion during July-February, FY2018 against Rs 1,921.7 billion in the comparable period of FY2017. The rise in FBR tax revenues is mainly attributed to various tax measures taken during the last few years along with increase in economic activity and strengthening of domestic demand.

Aforementioned developments and efforts are the testament of this fact that the fiscal position has improved significantly and the government is highly committed to furthering gains derived during the past five years.

Fiscal Policy Developments

A cursory look at table 4.1 indicates a change in pattern of both revenues and expenditures over the past decade. On revenue side, revenue-to-GDP ratio witnessed a declining trend between FY2008 and FY2012. Similarly, tax-to-GDP ratio remained within the narrow range of 9.1 percent to 10.2 percent of GDP between FY2008 and FY2012 largely due to structural weaknesses in the tax system. However, in recent years, tax-to-GDP and hence revenue-to-GDP ratios have witnessed a marked improvement, particularly since FY2013.

Total revenues as percentage of GDP increased from 13.3 percent in FY2013 to 15.4 percent during FY2017. Within total revenue, overall tax collection also grew from 9.8 percent in FY2013 to 12.4 percent of GDP during FY2017. On the other hand, non-tax revenues stood at 3.0 percent during FY2017 against 3.5 percent of GDP in FY2013.

Table 4.1: Fiscal Indicators as Percent of GDP

Year	Real GDP Growth	Overall Fiscal Deficit	Expenditure			Revenue		
			Total	Current	Development[/1]	Total Rev.	Tax	Non-Tax
FY2008	5.0	7.3	21.4	17.4	4.0	14.1	9.9	4.2
FY2009	0.4	5.2	19.2	15.5	3.5	14.0	9.1	4.9
FY2010	2.6	6.2	20.2	16.0	4.4	14.0	9.9	4.1
FY2011	3.6	6.5	18.9	15.9	2.8	12.3	9.3	3.0
FY2012	3.8	8.8	21.6	17.3	3.9	12.8	10.2	2.6
FY2013	3.7	8.2	21.5	16.4	5.1	13.3	9.8	3.5
FY2014	4.1	5.5	20.0	15.9	4.9	14.5	10.2	4.3
FY2015	4.1	5.3	19.6	16.1	4.2	14.3	11.0	3.3
FY2016	4.56	4.6	19.9	16.1	4.5	15.3	12.6	2.7
FY2017	5.37	5.8	21.3	16.3	5.3	15.4	12.4	3.0
FY2018 B.E	6.0	4.1	21.3	15.0	6.3	17.2	13.7	3.5

[/1] including net lending
Note: Estimated growth during FY2018 is 5.79 percent.

However, the pace of growth in revenues remained slow during FY2017 as compared to FY2016 primarily due to low FBR tax revenues and provincial taxes. During FY2017, overall tax revenues posted a growth of 8.4 percent against an impressive growth of 21.3 percent recorded in FY2016. In terms of GDP, tax revenues reduced to 12.4 percent in FY2017 from 12.6 percent recorded in FY2016.

While, FBR tax collection grew by 8.2 percent in FY2017 as compared to remarkable growth of 20.2 percent witnessed in FY2016. In fact, various tax incentives and relief measures to encourage investment, exports and domestic production added to the slower growth in tax revenues during FY2017.

Similarly, the taxes collected by the provincial governments grew by 13.6 percent during FY2017 against an impressive growth of 37.6 percent recorded in FY2016.

A strong reversal in growth of non tax revenues has been witnessed during FY2017 after a sharp decline in FY2016. Contrary to tax revenues, non tax revenues posted a significant growth of 23 percent during FY2017 over preceding year which is largely attributed to one-off receipts from disinvestment of government stakes in the Pakistan Security Printing Corporation and sale of two LNG power plants under the Pakistan Development Fund. Viewed from GDP perspective, non tax revenues increased to 3.0 percent during FY2017 from 2.7 percent in FY2016.

For FY2018, total revenues are expected to reach 17.2 percent of GDP on account of 13.7 percent and 3.5 percent target of tax and non-tax revenues respectively.

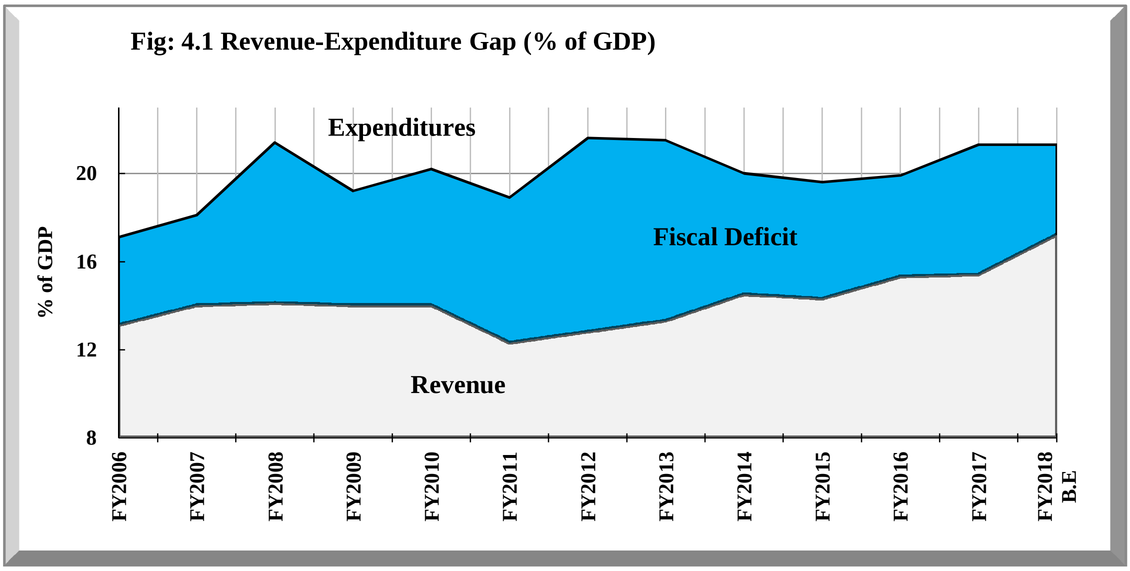
On expenditure side, total expenditures stood at 21.3 percent of GDP during FY2017 against 21.5 percent of GDP in FY2013. In total expenditures, current expenditures recorded at 16.3 percent of GDP in FY2017 against 16.4 percent of GDP recorded in FY2013. While the development expenditure and net lending edged above 5 percent in FY2017 and stood at 5.3 percent of GDP against 5.1 percent of GDP recorded in FY2013.

Total development expenditures (excluding net lending) grew by more than 100 percent to stand at Rs 1,693.5 billion in FY2017 from Rs 777.1 billion in FY2013. Expenditures under PSDP (Federal and Provincial) registered a significant rise as it increased from Rs 695.1 billion in FY2013 to Rs 1,577.7 billion in FY2017. Particularly, Federal PSDP (net excluding development grants to provinces) increased from Rs 323.5 billion during FY2013 to Rs 725.6 billion in FY2017. During FY2018, the size of PSDP has been increased to Rs 2,113 billion. Out of this Rs 1,112 billion has been allocated to provinces and Federal PSDP has been estimated at Rs 1,001 billion.

Encouragingly, the allocation under BISP (development expenditure outside PSDP) has also witnessed a substantial increase of 73 percent to reach Rs 121 billion during FY2018 from Rs 70 billion in FY2013.

During FY2017, total expenditures grew by 17.3 percent against 7.6 percent in FY2016 on the back of 10.7 percent increase in current expenditures and 30.1 percent growth in development expenditures (excluding net lending). It is expected that total expenditure would remain at 21.3 percent of GDP during FY2018 on account of expected decline in current expenditure. Conversely, development expenditure is budgeted to increase from 5.3 percent of GDP to 6.3 percent of GDP in FY2018.

Prior to FY2013, delays in key reforms for revenue mobilization and unprecedented rise in expenditures resulted in high fiscal deficit. However, the present government has not only taken various measures to promote stronger economic growth but it has also followed deficit reduction measures in the interests of the country's long-term growth such as revenue collection and expenditure are being monitored, efforts are being made to avoid un budgeted expenditure, expenditures are being made in the light of flow of revenue receipts and other receipts through implementation of ways and means procedure and ban on purchase of all type of vehicles both for current as well as development expenditure except operational vehicles of law enforcing agencies. Consequently, the fiscal deficit has fallen from a peak of 8.2 percent of GDP in FY2013 to 5.8 percent in fiscal year 2017 and is expected to fall further during the current fiscal year.

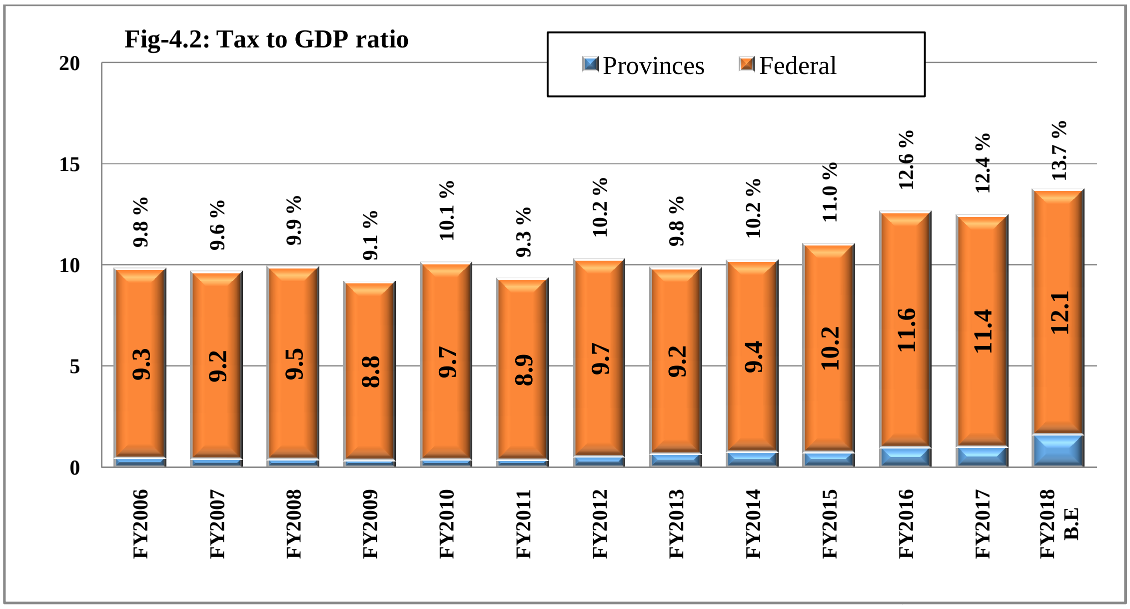


On the other hand, provinces could not maintain their strong fiscal position during FY2017 as compared to previous years. The provinces posted a cumulative deficit of Rs 15.9 billion during FY2017 against the surplus of Rs 207.4 billion in FY2016 on account of significant rise in provincial expenditure and slow pace in own revenue collection.

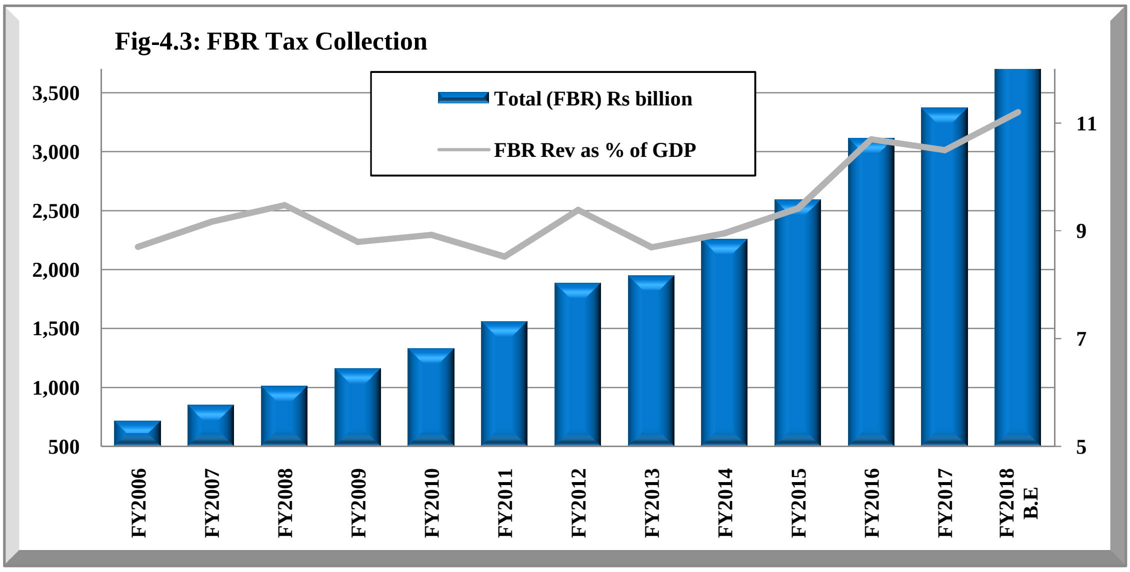
Structure of Tax Revenue

The present government has undertaken various policy and administration reforms in order to address low tax revenues with an aim to improve the effectiveness and fairness of tax administration, promote compliance and broadening the tax base**.** These measures have started paying dividends in shape of improved tax revenues in terms of GDP.

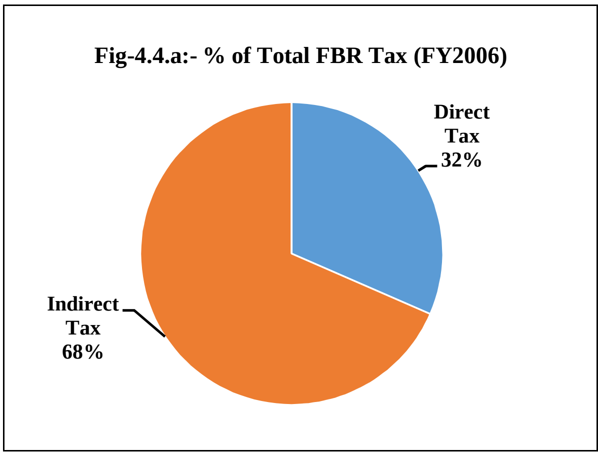
Overall tax- GDP ratio has increased from 9.8 percent during FY2013 to 12.6 percent during FY2016, however, it fell to 12.4 percent in FY2017 on account of relief measures and tax incentives introduced through the Federal Budget for FY2017.

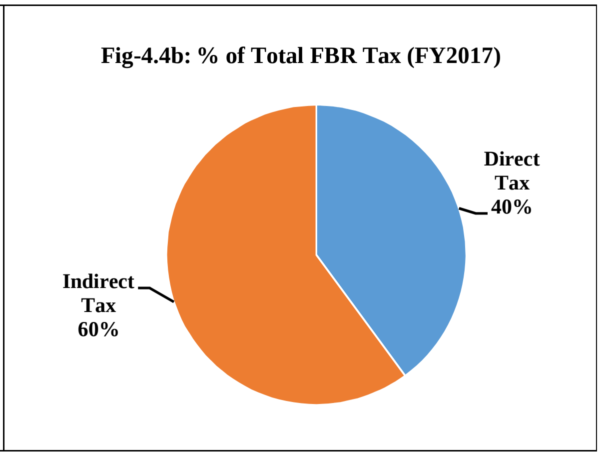


Within tax collection, FBR Tax revenues increased from Rs 1,946 billion in FY2013 to Rs 3,368 billion in FY 2017, registering an overall growth of around 73 percent. While as percentage of GDP, it grew from 8.7 percent in FY 2013 to 10.5 percent of GDP during FY2017.



The tax structure in Pakistan is skewed towards indirect taxes. However, Pakistan has witnessed a visible improvement in its tax structure on account of efforts to control the unjustified balance between direct and indirect taxes. Consequently, the share of indirect taxes reduced from 68.5 percent in FY2006 to 60.1 percent of total FBR tax during FY2017 (Table 4.2).





Within Indirect tax, the proportion of sales tax increased from 60.3 percent in FY2006 to 70.3 percent during FY2012. However, the share has witnessed a gradual decline since FY2013 and reduced to 65.7 percent in FY2017. During FY2018, the share of sales tax is budgeted at 66.4 percent of indirect taxes. On the other hand, in total FBR tax collection, the share of sales tax reduced from 41.3 percent in FY2006 to 39.5 percent during FY2017.

The base of indirect taxes particularly of sales tax has further contracted due to shifting of services to the provincial governments like telecommunication, banking and insurance services which were the major source of revenue of sales tax. Moreover, over a period of time the sales tax has been restructured as a tax on consumption, which is in line with the principle of equity and progressivity.

Likewise, Customs duty constituted 24.5 percent of indirect taxes during FY2017 against 28.3 percent recorded in FY2006. The share is likely to be 24.0 percent during current fiscal year. It is worth mentioning that the maximum statutory rates of customs duty have been gradually reduced from 125 percent in FY1988 to 20 percent in FY2016. Resultantly, the contribution of customs duty in total FBR collection has come down from 45.7 percent in FY1991 to 15 percent in FY2017.

Whereas, the share of federal excise duty (FED) reduced from 11.3 percent of indirect taxes in FY2006 to 9.8 percent during FY2017. During FY2018, its share is expected to reduce further to 9.6 percent. The tax base of FED contracted over the years and now is restricted to only few commodities like cigarettes, cement, beverages, international travel etc. The contribution of FED in the total collection has also dropped from 20 percent in FY1991 to 6 percent during FY2017.

On the other hand, the share of direct taxes in total taxes has increased over the years. Historically, the share of direct taxes has increased from 19 percent in FY1971 to 32 percent in FY2006. It has further jumped to 38.2 percent in FY2013 and now it is 40 percent in FY2017.

The improved performance of direct taxes is mainly due to a number of reform initiatives undertaken in the past like introduction of Universal Self-Assessment Scheme (USAS), promulgation of Income Tax Ordinance, 2001 where emphasis was shifted to voluntary compliance, automation of entire business processes and reduction of corporate tax rates from peak of 49 percent to 31 percent in tax year 2017 and 30 percent onwards by providing level playing field to the taxpayers. With the help of all these initiatives, tax revenue collection from direct taxes has increased substantially and will increase in future. A comparison of direct and indirect taxes in terms of contribution in overall federal taxes collected by FBR indicates that the reliance on indirect taxes has reduced to a great extent.

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
FY2006	713.5	8.7	225.0	138.4	294.8	55.3	488.5
			[31.5]	{28.3}	{60.3}	{11.3}	[68.5]
FY2007	847.2	9.2	333.7	132.3	309.4	71.8	513.5
			[39.4]	{25.8}	{60.3}	{14.0}	[60.6]
FY2008	1,008.1	9.5	387.9	150.7	377.4	92.1	620.2
			[38.5]	{24.3}	{60.9}	{14.9}	[61.5]
FY2009	1,161.1	8.8	443.5	148.4	451.7	117.5	717.6
			[38.2]	{20.7}	{62.9}	{16.4}	[61.8]
FY2010	1,327.4	8.9	526.0	160.3	516.3	124.8	801.4
			[39.6]	{20.0}	{64.4}	{15.6}	[60.4]
FY2011	1,558.2	8.5	602.5	184.9	633.4	137.4	955.7
			[38.7]	{19.3}	{66.3}	{14.4}	[61.3]
FY2012	1,882.7	9.4	738.4	216.9	804.9	122.5	1,144.3
			[39.2]	{19.0}	{70.3}	{10.7}	[60.8]
FY2013	1,946.4	8.7	743.4	239.5	842.5	121.0	1,203.0
			[38.2]	{19.9}	{70.0}	{10.1}	[61.8]
FY2014	2,254.5	9.0	877.3	242.8	996.4	138.1	1,377.3
			[38.9]	{17.6}	{72.3}	{10.0}	[61.1]
FY2015	2,589.9	9.4	1,033.7	306.2	1,087.8	162.2	1,556.2
			[39.9]	{19.7}	{69.9}	{10.4}	[60.2]
FY2016	3,112.7	10.7	1,217.3	404.6	1,302.7	188.1	1,895.4
			[39.1]	{21.3}	{68.8}	{9.9}	[60.9]
FY2017	3,367.9	10.5	1,344.2	496.8	1,329.0	197.9	2,023.7
			[39.9]	{24.5}	{65.7}	{9.8}	[60.1]
FY2018B.E	4,013.0	11.2	1,594.9	581.4	1,605.2	231.5	2,418.1
			[39.7	{24.0}	{66.4}	{9.6}	[60.3]

[]as of total taxes *{} as % of indirect taxes*

Source: Federal Board of Revenue

The government has initiated various policy and administrative reforms measures including broadening of tax base, withdrawal of exemptions/concessions, differential taxation for non-filers, conversion of CNIC into NTN for individual taxpayers, behavioural change and strengthening of tax audit etc (Box-I). These measures would further increase the contribution of direct taxes in overall FBR tax revenues in coming years.

Review of Public Expenditures

The Government's commitment to promote inclusive and sustainable development by ensuring effective utilization of funds for priority areas is at the forefront of its reform agenda.

In the past, unprecedented rise in public expenditures together with weak revenue performance posed multifaceted challenges for better fiscal management. Unproductive and reckless spending owing to high interest payments, untargeted subsidies, loss making PSEs and security related expenses further intensified the challenges and exposed the country to high fiscal deficit of over 8 percent of GDP. However, the present government has not only contained the fiscal deficit but also put it on downward trajectory. The achievement was realized through higher revenue collection as a result of improved administration and broadening of the tax base, undoing decades-old concessionary SRO and restricting non-development expenditure.

Table 4.3 discloses the trend in composition of expenditure over the past few years. It reveals that earlier the increasing trend in total expenditure was on account of a rise in current expenditure, however, in later years particularly since FY2013, the rise in expenditures was on account of significant rise in development expenditure. The government's adherence to prudent expenditure management paved the way towards increasing expenditures on development and social security.

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

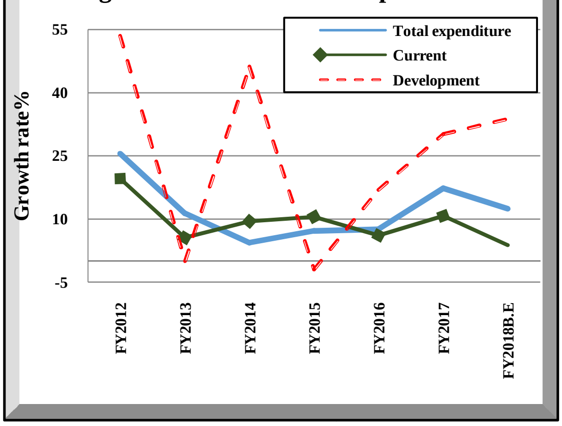
Year	Total Expen-diture (A)	Current Expen-diture	Mark-up Payments (C)	Defence (D)	Develop-ment Expen-diture*	Non Interest Non-Defence Exp (A-C-D)	Fiscal Deficit	Revenue Deficit/Surplus (TR-Total CE)	Primary Balance (TR-NI Exp)
FY2006	17.1	12.6	2.9	2.9	4.4	11.2	4.0	0.5	-1.1
FY2007	18.1	14.9	4.0	2.7	4.7	11.4	4.1	-0.8	-0.1
FY2008	21.4	17.4	4.6	2.6	4.2	14.2	7.3	-3.3	-2.7
FY2009	19.2	15.5	4.8	2.5	3.4	11.8	5.2	-1.4	-0.3
FY2010	20.2	16.0	4.3	2.5	4.1	13.4	6.2	-2.1	-1.9
FY2011	18.9	15.9	3.8	2.5	2.8	12.6	6.5	-3.5	-2.7
FY2012	21.6	17.3	4.4	2.5	3.9	14.6	8.8	-4.5	-4.3
FY2013	21.5	16.4	4.4	2.4	3.5	14.7	8.2	-3.0	-3.8
FY2014	20.0	15.9	4.6	2.5	4.5	12.9	5.5	-1.5	-1.0
FY2015	19.6	16.1	4.8	2.5	4.1	12.3	5.3	-1.8	-0.6
FY2016	19.9	16.1	4.3	2.6	4.5	13.0	4.6	-0.9	-0.3
FY2017	21.3	16.3	4.2	2.8	5.3	14.3	5.8	-0.8	-1.6
FY2018 B.E	21.3	15.0	3.8	2.6	6.3	14.9	4.1	2.2	-0.3

* excluding net lending

Source: Budget Wing, Finance Division and EA Wing's Calculations

A brief look into past year performance indicates that total expenditures increased by 17.3 percent and amounted to Rs 6,800.5 billion during FY2017 against Rs 5,796.3 billion in FY2016. In terms of GDP, total expenditures increased by 1.4 percentage point to reach 21.3 percent of GDP during FY2017 against 19.9 percent of GDP recorded in FY2016. Total expenditures are expected to remain at 21.3 percent of GDP during current fiscal year.

Fig-4.5: Growth in Total expenditure



Likewise, the growth in current expenditures increased by 10.7 percent to stand at Rs 5,197.9 billion (16.3 percent of GDP) during FY2017 against Rs 4,694,3 billion (16.1 percent of GDP) in the preceding year. Nevertheless, the proportion of current expenditures in total expenditures has declined from 80.1 percent during FY2016 to 76.4 percent in FY2017. It is expected to decline further to 70.5 percent in FY2018. The consistent decline in proportion is largely attributed to decreasing share of mark-up payments and subsidies in current expenditure.

Within current expenditures, markup payments grew by 6.7 percent and stood at Rs 1,348.4 (4.2 percent of GDP) billion during FY2017 against Rs 1,263.4 billion (4.3 percent of GDP) in FY2016. During FY2018, mark-up payments are expected to reach 3.8 percent of GDP. Going forward, the share of mark-up payments in total expenditure has declined noticeably. Accordingly, it has provided substantial space for higher development expenditures.

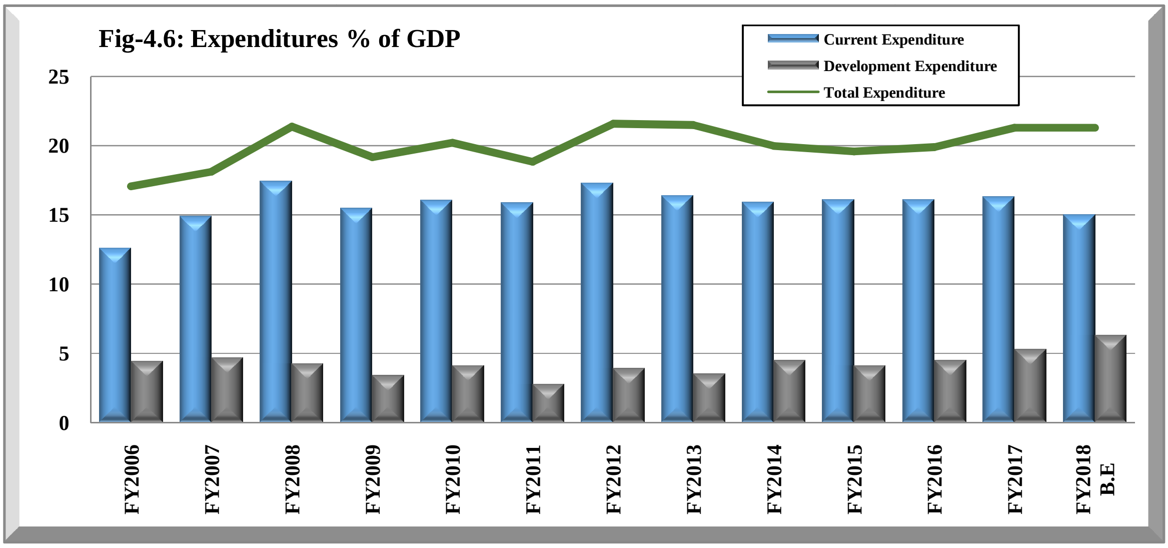
On the other hand, defence expenditure, posted a growth of 17.2 percent during FY2017 due to ongoing security related spending and stood at Rs 888.1 billion (2.8 percent of GDP) against Rs 757.7 billion (2.6 percent of GDP) in FY2016.

With regard to current subsidies, it has not only reduced in terms of growth but its share in current expenditure has also declined considerably. In absolute term, it stood at Rs 153.7 billion during FY2017 against Rs 207.2 billion during FY2016, posting a negative growth of 25.8 percent. In FY2018, current subsidies are budgeted to remain at Rs 138.8 billion.

There has been a consistent rise in development expenditures since FY2014. Overall development expenditures and net lending increased from Rs 1,314.1 billion during FY2016 to Rs 1,680.7 billion during FY2017, posting a growth of 27.9 percent.

Encouragingly, development expenditure (excluding net lending) grew sharply by 30.1 percent during FY2017 and outpaced the growth in current expenditure during the second consecutive year. In absolute term it stood at Rs 1,693.5 billion (5.3 percent of GDP) during FY2017 against Rs 1,301.5 billion (4.5 percent of GDP) during FY2016.

Within development expenditures, PSDP spending has witnessed a noticeable surge since FY2013. Overall, PSDP spending posted a growth of 33.1 percent and stood at Rs 1,577.7 billion during FY2017 against Rs 1,185.8 billion in FY2016. Of total, Federal PSDP (net excluding development grants to provinces) increased to Rs 725.6 billion during FY2017 against Rs 593.4 billion during FY2016, thus registered a growth of 22 percent. The size of Federal PSDP has been increased to Rs 1,001 billion for FY2018 which is 38 percent higher than last year’s actual realization of PSDP spending. The rise in development expenditure implies that the economy is geared up to achieve higher inclusive growth.



Fiscal Performance (July-December, FY2018)

The consolidated Revenue and expenditure of the Government indicates a significant improvement in key fiscal indicators during the first half of current fiscal year. Revenues increased at faster rate than the growth in expenditures. As a result, fiscal deficit contained at 2.3 percent of GDP during first half of current fiscal year against 2.5 percent of GDP recorded in the comparable period of FY2017.

Table 4.4: Consolidated Revenue & Expenditure of the Government

	Budget Estimates FY2018	July-December (Rs billion)		Growth
		FY2018	FY2017	
A. Total Revenue	**6,167.2**	**2,384.7**	**1,990.6**	**19.8**
% of GDP	**17.2**	**6.9**	**6.2**	
a) Tax Revenue	**4,912.5**	**2,026.9**	**1,741.2**	**16.4**
% of GDP	**13.7**	**5.9**	**5.4**	
Federal	**4,330.5**	**1,850.5**	**1,595.5**	**16.0**
of which FBR Revenues	4,013	1,730.1	1,467.3	**17.9**
other Federal	317.5	120.4	128.1	**-6.0**
Provincial Tax Revenue	582	176.4	145.7	**21.1**
b) Non-Tax Revenue	**1,254.7**	**357.8**	**249.4**	**43.4**
% of GDP	**3.5**	**1.0**	**0.8**	
B. Total Expenditure	**7,646.8**	**3,181.0**	**2,789.7**	**14.0**
% of GDP	**21.3**	**9.2**	**8.7**	
a) Current Expenditure	**5,393.9**	**2,545.2**	**2,241.6**	**13.5**
% of GDP	**15.0**	**7.4**	**7.0**	
Federal	**3,451.1**	**1,656.0**	**1,473.5**	**12.4**
Markup Payments	1,363	751.4	647.4	**16.1**
% of GDP	3.8	2.2	2.0	
Defence	920.2	393.4	336.3	**17.0**
% of GDP	2.6	1.1	1.1	
Provincial	**1,942.8**	**889.3**	**768.1**	**15.8**
b) Development Expenditure & net	**2,252.9**	**615.9**	**490.9**	**25.4**

Table 4.4: Consolidated Revenue & Expenditure of the Government

	Budget Estimates FY2018	July-December (Rs billion)		Growth
		FY2018	FY2017	
lending				
% of GDP	**6.3**	**1.8**	**1.5**	
PSDP	**2,113**	**558.8**	**445.7**	**25.4**
Other Development	**152.2**	**55.0**	**51.7**	**6.5**
c) Net Lending	**-12.3**	**2.0**	**-6.4**	**-131.4**
e) Statistical discrepancy	**-**	**19.9**	**57.2**	**-65.2**
C. Overall Fiscal Deficit	**1,479.6**	**796.3**	**799.1**	**-0.4**
As % of GDP	4.1	2.3*	2.5	
Financing of Fiscal Deficit	**1,479.6**	**796.3**	799.1	**-0.4**
i) External Sources	511.4	384.1	240.9	**59.5**
ii) Domestic	**968.1**	**412.2**	**558.2**	**-26.2**
- Bank	390.1	331.8	407.1	**-18.5**
- Non-Bank	528	80.4	151.1	**-46.8**
Privatization Proceeds	50			
GDP at Market Prices	**35,919**	**34,396**	**31,963**	
*: on the basis of revised GDP				

Source: Budget Wing, Finance Division

Total revenues grew by 19.8 percent to reach Rs 2,384.7 billion (6.9 percent of GDP) during July-December, FY2018 against Rs 1,990.6 billion (6.2 percent of GDP) in the same period of FY2017. The impressive performance both in tax and non tax revenues attributed to this significant rise in total revenues.

Tax revenues amounted to Rs 2,026.9 billion (5.9 percent of GDP) during first half of FY2018 as compared to Rs 1,741.2 billion (5.4 percent of GDP) in the same period of FY2017, registering a growth of 16.4 percent. Tax revenues picked up sharply in response to increase in economic activity and strong domestic demand along with fiscal measures taken during the last few years.

Within tax revenues, federal and provincial tax revenues posted a growth of 16.0 percent and 21.1 percent respectively during the first half of FY2018. Of total federal tax revenues, FBR tax revenues witnessed a significant growth of 17.9 percent and stood at Rs 1,730.1 billion (5.0 percent of GDP) during July-December, FY2018 against Rs 1,467.3 billion (4.6 percent of GDP) in the same period of FY2017.

A strong recovery has been witnessed in non tax revenues as it grew at 43.4 percent during July-December, FY2018 against the negative growth of 31.8 percent seen in the same period of FY2017. In absolute term, it amounted to Rs 357.8 billion as compared to Rs 249.4 billion in the comparable period of FY2017.The major source of this rebound was dividends, mark-up payment, surplus profit of SBP, defence and PTA profit etc.

Total expenditure grew by 14.0 percent during July-December, FY2018 and stood at Rs 3,181.0 billion (9.2 percent of GDP) against Rs 2,789.7 billion (8.7 percent of GDP) in the same period of FY2017. Within total expenditure, development spending (excluding net lending) increased sharply and recorded at 23.4 percent to reach Rs 613.8 billion during July-December, FY2018 as compared to Rs 497.4 billion in the comparable period of FY2017.

The significant performance of development expenditure was realized on account of increased spending under PSDP which rose to Rs 558.8 billion during first half of FY2018 from Rs 445.7 billion in the comparable period of FY2017, posting a growth of 25.4 percent. Expenditures under federal PSDP amounted to Rs 242.1 billion (net excluding development grants of Rs 6.0 billion to provinces) while provincial government expenditures stood at 316.8 billion during the first half of current fiscal year.

Current expenditure grew by 13.5 percent during July-December, FY2018 on account of 12.4 percent increase in federal and 15.8 percent rise in provincial government current expenditures. In absolute term, current expenditures increased from Rs 2,241.6 billion in first six months of FY2017 to Rs 2,545.2 billion during the same period of current fiscal year. Under federal government current expenditures, mark-up payment grew by 16.1 percent and amounted to Rs 751.4 billion during July-December, FY2018 against Rs 647.4 billion in the same period of FY2017.

In addition, defence expenditure stood at Rs 393.4 billion during July-December, FY2018 against Rs 336.3 billion in the comparable period of FY2017, posting a growth of 17.0 percent.

During July-December, FY2018 subsidies amounted to Rs 53.5 billion against Rs 58.3 billion in the same period of FY2017 registered a decline of 8.2 percent. According to the breakup of subsidies, power sector has consumed Rs 36.7 billion during the first half of current fiscal year against Rs 52.5 billion in the comparable period of FY2017, posting a decline of 30 percent.

In order to finance the fiscal deficit, domestic and external resources generated Rs 412.2 billion and Rs 384.1 billion respectively during July- December, FY2018. Of domestic sources, financing from bank stood at Rs 331.8 billion and from non bank amounted to Rs 80.4 billion during the period under review.

FBR Tax Collection (July-February, FY2018)

FBR tax revenues grew by 8.2 percent to Rs 3,367.9 billion during FY2017 against an impressive growth of over 20 percent during FY2016. Accordingly, FBR tax to GDP ratio reduced to 10.5 percent in FY2017 against 10.7 percent recorded in FY2016.

During the first eight months of current fiscal year, FBR has been able to collect around Rs 2,257.6 billion against Rs 1,921.7 billion during the same period of FY2017, posting a growth of 17.5 percent. All the taxes have exhibited positive growth during the period July-February, FY2018**.** FBR annual revenue target for FY2018 has been fixed at Rs 4,013 billion which requires a growth of around 19.15 percent over and above the actual tax receipts of Rs 3,367.9 billion generated during FY2017.

Tax-wise details are presented in the following Table:

Table 4.5: FBR Tax Revenues Rs billion

Revenue Heads	FY2017	July-February		% Change
	Actual	FY2017	FY2018*	
A. DIRECT TAXES				
Gross		790.6	893.4	13.0
Refund/Rebate		37.3	44.5	
Net	1,344.2	**753.3**	**848.9**	12.7
B. INDIRECT TAXES				
Gross		1,202.2	1,460.1	21.5
Refund/Rebate		33.8	51.3	
Net	2,023.6	**1,168.4**	**1,408.7**	20.6
B.1 SALES TAX				
Gross		791.3	955.0	20.7
Refund/Rebate		25.8	40.8	
Net	1,329.0	**765.5**	**914.2**	19.4
B.2 FEDERAL EXCISE				
Gross		108.3	121.2	11.9
Refund/Rebate		0.0	0.0	
Net	197.9	**108.3**	**121.2**	11.9

Table 4.5: FBR Tax Revenues				Rs billion
Revenue Heads	FY2017	July-February		% Change
	Actual	FY2017	FY2018*	
B.3 CUSTOM				
Gross		302.6	383.9	26.9
Refund/Rebate		8.0	10.5	
Net	496.8	**294.6**	**373.4**	26.8
TOTAL TAX COLLECTION				
Gross		1,992.8	2,353.5	18.1
Refund/Rebate		71.1	95.9	
Net	3,367.9	**1,921.7**	**2,257.6**	17.5
***: Provisional**				
Source: Federal Board of Revenue				

Direct Taxes

The net collection of direct taxes has registered a growth of 12.7 percent during the first eight months of 2017-18. The net collection has gone up from Rs 753.3 billion to Rs 848.9 billion. Bulk of the tax revenues of direct taxes is realized from income tax. The major contributors of income tax are withholding tax, voluntary payments and collection on demand.

Indirect Taxes

Sales Tax

The gross and net collections of indirect taxes have witnessed growth of 21.5 percent and 20.6 percent respectively. It is accounted for around 62.4 percent of the total FBR tax revenues. Within indirect taxes, net collection of sales tax increased by 19.4 percent. The gross and net sales tax collection during July-February, FY2018 has been Rs 955.0 billion and Rs 914.2 billion respectively showing growths of 20.7 percent and 19.4 percent respectively. In fact, around 57 percent of total sales tax was contributed by sales tax on imports during July-February, FY2018, while the rest was contributed by domestic sector. Within domestic sales tax collection, the major contribution came from POL products, cement, natural gas, sugar, aerated water, cigarettes etc. On the other hand, mineral fuels, vehicles (other than railway), iron and steel, electrical machinery, plastic and articles, animal and vegetable oils, organic chemicals etc contributed significantly to collection of sales tax from imports.

Federal Excise Duty

The collection of federal excise duties (FED) during July-February, FY2018 has recorded 11.9 percent growth. The net collection has stood at Rs 121.2 billion during July-February, FY2018 as against Rs 108.3 billion during the same period last year. The major revenue spinners of FED are cigarettes, cement, services, beverages, natural gas and edible oil.

Customs Duty

Customs duty collection has registered growth of 26.9 percent and 26.8 percent in both gross and net terms respectively. The net collection has increased from Rs 294.6 billion during July-February, FY2017 to Rs 373.4 billion during July-February, FY2018. The major revenue spinners of customs duty have been vehicles, mineral fuels, iron and steel, electrical machinery, plastic, edible fruits etc.

Box: I- Major Initiatives taken by FBR

The comprehensive reform program covering major reform measures including both policy and administrative measures has been discussed below:

Policy Initiatives

1. Tax Reform Commission (TRC)

The Federal Government in year 2014, constituted a Tax Reform Commission (TRC) in order to review and rationalize direct and indirect taxes, rationalization of import tariff, review of autonomy and administrative structure of FBR along with creation of border force to deal with the illegal movement of persons and goods. The TRC has submitted its recommendation to the Government about bringing reforms in FBR in February, 2015. The Government has constituted a high powered Implementation Committee headed by Advisor to the Prime Minister on Revenue for reviewing the recommendations of TRC. In consultation with FBR, the TRC has broadly divided its recommendations into long-term, medium-term and short-term categories. On the TRC report the implementation committee is holding its meetings periodically in which recommendations of TRC are being evaluated so that these could be implemented. Various recommendations of the TRC have been accepted by the federal government by adopting various taxation proposals. The remaining proposals of TRC are under consideration for the approval of the Federal Government.

2. Elimination of SRO Culture

In order to ensure level playing field for all taxpayers, SROs/concessions worth of more than Rs 290 billion have been withdrawn during three years commencing from FY 2015. However, socially sensitive and essential concessions have been retained and transposed to the relevant laws. Currently, under the law, FBR does not have the power to issue any concessionary SROs. The power to issue SROs now rests with ECC of the Cabinet under very limited circumstances.

3. Rationalization of Import Tariff and Corporate Tax Rates

To rationalize the import tariff structure and to reduce the general tariff slabs peak tariff slab of 30 percent was reduced to 20 percent. The existing tariff slabs are 4, with the peak of 20 percent and base of 3 percent. In order to promote tax culture and corporatization in the country it was decided to gradually reduce the tax rates for corporate taxpayers other than banks in the following manner:-

Tax year 2013	35%
Tax year 2014	34%
Tax year 2015	33%
Tax year 2016	32%
Tax year 2017	31%
Tax year 2018 & onwards	30%

4. Benami Transaction Law

The Benami Transactions (Prohibition) Amendment Bill, 2016 has been passed by National Assembly and Senate. This will help enable the authorities to curb transactions and holding of property in the name of others to avoid proper incidence of tax.

5. Differential Taxation

The cost of business for non-filers has been significantly increased in the recent years. This step was taken to encourage people to file income tax returns. Differential taxation for filers and non-filers has helped increase number of filers from around 750,000 in FY2013 to more than 1.3 million in FY2017.

6. Adoption of CNIC as NTN

This initiative aims at facilitating individual taxpayer by absolving them to a large extent from cumbersome process of registration. It will further help in documentation of economy and broadening of tax base.

<u>Administrative Initiatives</u>

Broadening of Tax Base (BTB)

For broadening of tax base FBR has taken several initiatives including use of third party data. Initially, the objective was to register **300,000** new taxpayers in three years. The BTB drive has been successful. During the years 2013-14 to 2016-17, FBR issued 513,468 notices and enforced 203,701 income tax returns. As a result of these efforts the number of income tax return filers which was around 750,000 for the tax year 2012 has exceeded to 1.3 million in the tax year 2016 and would further increase in coming years. To broaden the tax net, different rates of adjustable withholding of income tax for the income tax filers and non-filers on certain transactions have been introduced. This includes sales and purchase of immovable property, registration and transfer of ownership of motor vehicle, cash withdrawal from banks and payment of profit on debt and dividend income. The higher rates of tax for non-filers compel non-filers to file returns.

BTB 4 Years Achievements

S.No.	Period from July 2013 to 31st August 2017	Total
1	Notices issued u/s 114 of the Income Tax Ordinance 2001	547,008
2	Total Income Tax Returns Enforced	216,765
3	Tax paid with returns (Rs Millions)	5440.2

Current initiatives

(1) Taxation of real estate sector
   i. Introduction of FBR valuation table against DC rates
   ii. Imposition of WHT on transfer of immovable property
   iii. Imposition of Capital Gains Tax
(2) Broadening of tax base: More than 216,765 returns have been enforced through policy and administrative measures
(3) Change in Audit Policy and Parametric selection of Audit Cases for TY 2015
(4) Rationalization of Jurisdiction for Optimal Output: Corporate cases consolidated under corporate RTOs/Zones and remaining jurisdiction organized on territorial basis
(5) Checks on fake invoicing through Sales Tax Real Time Invoice Verification System (STRIVe)
(6) Customized SAP application for ensuring proper monitoring of withholding sales tax from AG Offices
(7) Establishment of tobacco enforcement network to counter illicit trade in cigarettes
(8) Tariff Rationalization – from seven slabs to four slabs with maximum tariff rate @20%
(9) International agreements on Exchange of Information
   i. Signing of multilateral exchange convention (OECD)
   ii. Bilateral Agreement with Switzerland on Exchange of Information Regime
(10) Benami Transaction Law passed by the parliament
(11) Enhancement of Digital/E-Library from different sources
(12) Online access of Law Library Portal for Direct Tax Law and Sales Tax Law
(13) Online Verification Services (Notices, Exemption Certificates etc)
(14) Launch of ADC payment System
(15) VOSS (Automatic Verification of Companies and Directors) at the time of registration with SECP

The above noted reform measures have started paying dividends. On one hand tax revenues improved substantially, while on others, these reforms have brought significant improvements in the tax base. It is hoped that tax-GDP ratio will increase to a reasonable level in the coming years.

Source: Federal Board of Revenue (FBR)

Provincial Budget

Total outlay of all the provinces is estimated at Rs 3,548.7 billion for FY2018 which is 16.5 percent higher than the revised estimates of Rs 3,046.3 billion for FY2017.

Table 4.6: Overview of Provincial Budgets **Rs billion**

Items	Punjab		Sindh		Khyber Pakhtunkhwa		Balochistan		Total	
	FY2017 RE	FY2018 BE	FY2017 RE	FY2018 BE	FY2017 RE	FY2018 BE	FY2017 RE	FY2018 BE	FY2017 RE	FY2018 BE
A. Tax Revenue	**1,168.0**	**1,384.7**	**595.0**	**733.0**	**336.2**	**387.5**	**189.5**	**210.0**	**2,288.7**	**2,715.2**
Provincial Taxes	155.4	231.0	114.5	185.6	15.7	22.3	6.3	7.3	**291.9**	**446.2**
GST on Services (transferred by federal Govt)									**0.0**	**0.0**
Share in Federal Taxes	1,012.6	1,153.7	480.5	547.4	320.5	365.2	183.2	202.7	**1,996.8**	**2,269.0**
B. Non-Tax Revenue	**39.4**	**78.6**	**88.9**	**79.1**	**57.5**	**47.6**	**27.8**	**22.3**	**213.6**	**227.6**
C. All Others	**45.7**	**161.9**	**36.4**	**92.1**	**16.0**	**48.0**	**16.9**	**21.1**	**115.0**	**323.1**
Total Revenues (A+B+C)	**1,253.1**	**1,625.2**	**720.3**	**904.2**	**409.7**	**483.1**	**234.2**	**253.4**	**2,617.3**	**3,265.9**
a) Current Expenditure	**899.6**	**1,020.8**	**607.0**	**666.5**	**338.6**	**388.0**	**179.8**	**200.3**	**2,025.0**	**2,275.6**
b) Development Expenditure	**532.5**	**635.0**	**248.7**	**344.1**	**172.1**	**208.0**	**68.1**	**86.0**	**1,021.4**	**1,273.1**
Total Exp (a+b)	**1,432.1**	**1,655.8**	**855.7**	**1,010.6**	**510.7**	**596.0**	**247.8**	**286.3**	**3,046.3**	**3,548.7**

Source: Provincial Finance Wing, Finance Division.

The proportion of current and development expenditure in total expenditure is 64 percent and 36 percent respectively. Whereas the allocation under development expenditure is 25 percent and current expenditure is 12.4 percent higher during FY2018 over last year.

Overall provincial revenue receipts estimated at Rs 3,265.9 billion during FY2018 which is 24.8 percent higher than the revised estimates of Rs 2,617.3 billion for FY2017. Tax revenues accounting for 83 percent of overall revenue and estimated at Rs 2,715.2 billion for FY2018 which is 19 percent higher than last year. While non tax revenues are budgeted at Rs 227.6 billion which is 7 percent higher than last year.

Allocation of Revenues between Federal Governments and Provinces

In accordance with the distribution of resources structured in 7th NFC award, the net transfers to the provinces are estimated at Rs 2,531.1 billion for FY2018 which is 16.2 percent higher than the revised transfers of Rs 2,177.6 billion for FY2017.

Table 4.7: Transfers to Provinces (NET) — Rs billion

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017 R.E	FY2018 B.E
Divisible Pool	1,063.1	1,117.5	1,287.4	1,476.6	1,751.5	1,996.3	2,269.0
Straight Transfer	145.6	103.5	124.4	97.4	100.4	125.1	115.2
GST on services	-	83.7	1.5	0.7	0.1		
Special Grants/ Subventions	53.9	61.2	53.8	33.7	32.6	23.4	26.0
Project Aid	47.8	71.3	85.2	61.9	60.2	77.9	177.8
Program Loans	4.6	4.2	59.1	18.1	29.6	15.9	9.0
Japanese Grant	0.1	0.0	0.0	0.0		0.0	0.1
Total Transfer to Province	**1,315.0**	**1,441.5**	**1,611.5**	**1,688.4**	**1,974.3**	**2,238.5**	**2,597.2**
Interest Payment	12.9	14.8	14.1	13.3	9.8	13.6	14.1
Loan Repayment	36.1	32.1	38.7	38.6	47.8	17.3	51.9
Transfer to Province(Net)	**1,266.0**	**1,394.5**	**1,558.8**	**1,636.6**	**1,916.8**	**2,177.6**	**2,531.1**

Source: Various issues of Budget in Brief.

Provincial Fiscal Operations

During FY2017, the provinces posted a cumulative deficit of Rs15.9 billion against the targeted surplus of Rs 339.0 billion owing to higher expenditures and slow pace in revenue growth.

Table 4.8: Overview of Provincial Fiscal Operations — Rs billion

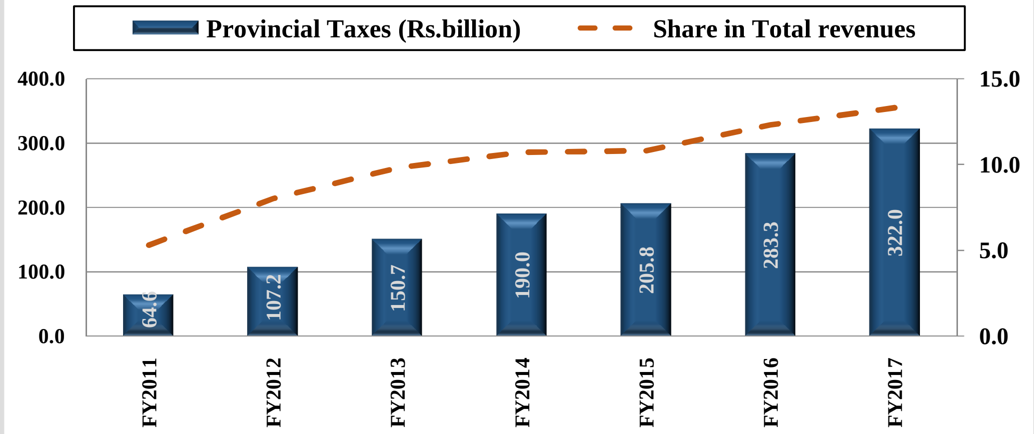
							July-December	
Items	**FY2012**	**FY2013**	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2017**	**FY2018**
A. Tax Revenue	1,197.1	1,365.7	1,596.2	1,744.5	2,145.4	2,287.6	1,012.9	1,270.2
Provincial Taxes	107.2	150.7	190.0	205.8	283.3	321.8	145.7	176.4
Share in Federal Taxes	1,089.9	1,215.0	1,406.3	1,538.7	1,862.2	1,965.8	867.1	1,093.8
B. Non-Tax Revenue	48.0	71.3	49.4	75.6	93.3	79.5	35.4	64.5
C. All Others	88.6	107.4	121.8	82.3	55.1	61.2	15.9	29.1
Total Revenues (A+B+C)	1,333.7	1,544.4	1,767.4	1,902.4	2,293.9	2,428.2	1,064.2	1,363.8
a) Current Expenditure	980.6	1,110.0	1,187.4	1,400.1	1,559.8	1,739.3	774.6	896.3
b) Development Expenditure(PSDP)	375.4	371.5	430.5	498.8	592.4	852.2	247.4	316.8
Total Exp (a+b)	1,356.0	1,481.6	1,617.9	1,898.9	2,152.2	2,591.5	1,022.0	1,213.1

Source: Pakistan Fiscal Operations (various issues), Budget Wing

During FY2017, provincial expenditures increased to Rs 2,591.5 billion against Rs 2,152.5 billion in FY2016, posting a growth of 20.4 percent. Out of total expenditure, current expenditures grew by 11.5 percent almost the same level recorded in FY2016 and touched Rs1,739.3 billion against Rs1,559.8 billion in FY2016. The growth in development expenditure accelerated during FY2017 and stood at 43.8 percent to reach Rs852.2 billion compared to Rs 592.4 billion in FY2016.

The growth in revenues slowed down during FY2017 as compared with the preceding year. Total revenues posted a growth of 5.9 percent primarily due to decline in non tax revenues and slow pace in tax revenues. Tax revenue (provincial tax and federal transfers) grew by 6.6 percent during FY2017 and stood at Rs 2,287.6 billion against Rs2,145.4 billion in FY2016. Under provincial tax revenues major contribution came from property taxes followed by Sales tax on Services (GST), Motor vehicles tax and Stamp duties during FY2017.

Fig-4.7: Provincial Tax Revenues



Federal transfers to provinces grew by 5.6 percent in FY2017. In absolute term, it increased to Rs 1965.8 billion during FY2017 against Rs 1,862.2 billion in FY2016. The share of federal transfers and provinces own revenue receipts in total revenues remained at 81 percent and 13.3 percent respectively.

Performance during July-December, FY2018

Provincial governments witnessed a better fiscal performance during the first half of current fiscal year. Against the target of Rs347.3 billion, all the four provinces generated cumulative surplus of Rs203.9 billion against the surplus of Rs90.6 billion in the comparable period of FY2017. Higher surplus was achieved on the back of healthy growth in total revenues that recorded at 28 percent to reach Rs 1,363.8 billion during July-December, FY2018 against Rs 1,064.2 billion in the comparable period of FY2017.

Within total revenues, both tax and non tax revenues posted a significant growth of 25.4 percent and 82.2 percent respectively. In absolute term, tax revenue amounted to Rs 1,270.2 billion and non tax revenues stood at Rs 64.5 billion during July-December, FY2018 against Rs 1,012.9 billion and Rs 35.4 billion respectively in the same period of FY2017.

On the other hand, expenditures touched 18.7 percent growth during the first half of current fiscal year and stood at Rs 1,213.1 billion against Rs 1,022.0 billion in the same period of FY2017. The rise in growth over preceding year was largely stemmed from significant increase in development expenditures compared to the rise in current expenditure.

Development expenditures grew by 28.0 percent relative to 15.7 percent growth in current expenditures during July-December, FY2018. In absolute term, development spending stood at Rs 316.8 billion during first half of FY2018 compared to Rs 247.4 billion in the same period of FY2017. While current expenditures amounted to Rs 896.3 billion during July-December, FY2018 against Rs 774.6 billion during the same period of FY2017.

Public Financial Management Reforms in the Federal Government

The Ministry of Finance continues on the path to implement Public Financial Management (PFM) reforms with the aim to improve upon a sustainable fiscal policy, link government's strategic policies with the budget, and enhance productivity of public expenditure to improve delivery of public services. A PFM reform strategy has been drafted that incorporates various elements of the PFM system. The strategy envisages adoption of reforms over the next 10 years focusing on administrative, policy, legal, and systemic strengthening.

An important element of the PFM system, the Medium-Term Budgetary Framework (MTBF) reform has entered into its eight year of implementation. Through this initiative, macro-fiscal projections and politically endorsed budget strategy paper form the basis of budget ceilings that are communicated to Principal Accounting Officers. The budget ceilings are designed to enhance empowerment over budget allocations as per the policy priorities of the Ministries / Divisions.

In addition, performance orientation in the budgeting and monitoring systems is providing better understanding of productivity and use of resources to deliver public services. This year, policy and planning exercises are being carried out with a selected number of Ministries / Divisions in order to better align service delivery plans with the budgets. Furthermore, the technology-based planning and performance management system - known as 'Business Planning and Consolidation' is being rolled across the federal government.

An important component of PFM system is coordination between federal and provincial governments, to ensure consistency and harmony in the fiscal policies of federal and provincial governments. There was a coordination mechanism through meeting of finance secretaries. The Council of Common Interest has approved establishment of ministerial fiscal coordination committee to strengthen the existing coordination mechanism. The fiscal coordination committee has since been notified.

To strengthen legal and regulatory framework, a draft PFM law is being drafted. The purpose of the law is to provide legal force to the PFM system in vogue and clarify roles and responsibilities between different PFM institutions.

Conclusion

The performance review of Pakistan's fiscal sector reveals that there is a considerable improvement in fiscal accounts in recent years. The consolidated fiscal deficit that averaged 7.2 percent of GDP between FY2009 and FY2013 registered a decline to an average of 5.8 percent between FY2013 and FY2017.

In order to control unproductive expenditures as well as increasing revenues, the present government has taken various measures in a challenging environment. The aim was to generate additional fiscal space for expenditure on development and social safety net. Resultantly, total development expenditures (excluding net lending) increased from 3.5 percent of GDP during FY2013 to 5.3 percent of GDP during FY2017, particularly, Federal Public Sector Development Program (PSDP) increased from Rs 348.3 billion (including Rs 24.7 billion development grants to provinces) during FY2013 to Rs 733.3 billion (including Rs 7.8 billion development grants to provinces) in FY2017. While the allocation under BISP (development expenditure outside PSDP) has also witnessed a substantial increase of 73 percent to reach Rs121 billion during FY2018 from Rs70 billion in FY2013.

Fiscal sector continued to perform well during the first half of current fiscal year. Strong growth in revenues relative to expenditures helped in containing fiscal deficit to 2.3 percent of GDP during first half of FY2018 as compared to 2.5 percent of the corresponding period of last year.

The performance of fiscal sector is an indication of this fact that home grown programme of economic reforms particularly in the area of revenue mobilization and expenditure management helped the government to increase the tax revenues together with increasing the development spending. This will provide significant support in achieving economic stabilization and unleashing higher economic growth.