CHAPTER 4

Fiscal Development

Fiscal policy is an important and potential tool for economic stabilization. It has achieved importance over the previous decade as an instrument for macroeconomic stabilization in response to global financial crises. However, there has not been much emphasis on fiscal reforms to provide a more sustainable path to long-term inclusive growth.

In Pakistan, fiscal sector has faced multifaceted challenges over the years due to unproductive and rigid expenditures on one hand and lower tax revenues on the other. This has narrowed the fiscal space for public investment and social safety nets. High fiscal deficit has therefore become a norm, with high interest payments, untargeted subsidies, including energy subsidies, loss making PSEs, and security related expenditure all contributing to the expanding fiscal deficit.

A brief review of fiscal performance during last five years exhibits a deceleration in revenues and increase in expenditures compared to targets, causing an increase in the fiscal deficit to 6.5 percent of GDP in FY2018 - highest during the last five years. In FY2016, fiscal deficit was brought down to 4.6 percent of GDP but the low trajectory could not be maintained and increased to 5.8 percent and 6.5 percent during FY2017 and FY2018, respectively. The performance of fiscal indicators shows that total revenue growth experienced a slow down (5.9 percent in FY2018 against 11.0 percent growth in FY2017), while, total expenditure growth was contained at 10.1 percent in FY2018 as compared to 17.3 percent in FY2017.

During first nine months of FY2019, consolidated fiscal indicators performance suggests that total revenue registered zero growth over same period last year, while total expenditures increased by 8.7 percent for the same period. Therefore, fiscal deficit as percent of GDP reached 5.0 percent as compared 4.3 percent in comparable period of last year.

The incumbent government inherited the economy facing multiple economic challenges which required considerable adjustments. The priority of the government is to undertake structural reforms and fiscal adjustments to correct the underlying imbalances in the economy. In addition, the government is focused on taking various policy measures to address structural problems which have plagued the economy over the years. The focus is on exploiting the overall growth potential of the country and achieving higher growth trajectory through higher investment, efficiency and enhanced productivity.

On fiscal side, the government is committed to implement structural reforms to narrow the fundamental revenue-expenditure gap. This will ensure an efficient and fair tax system with the ability to generate ample revenue to finance a large part of public expenditures.

Fiscal Policy Developments

Fiscal indicators during FY2018 suggest that total revenue at 15.1 percent of GDP remained below the revised target of 16.0 percent. Both tax and non-tax revenue showed dismal performance, while expenditures increased. Tax revenue reached 12.9 percent of GDP against the target of 13.2 percent, of which FBR tax collection remained at 11.1 percent against the revised target of 11.4 percent. Similarly, non-tax revenue reached 2.2 percent against the target of 2.8 percent. On the other hand, total expenditures stood at 21.6 percent against the target of 21.5 percent. Hence, fiscal deficit surpassed its revised target of 5.5 percent and stood at 6.5 percent of GDP in the last fiscal year.

During the last five years, total revenue as percent of GDP on average reached 14.9 percent, with tax revenue and non-tax revenue at 11.8 and 3.1 percent, respectively.

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	5.22	5.8	21.3	16.3	5.3	15.5	12.4	3.0
FY2018	5.53	6.5	21.6	16.9	4.7	15.1	12.9	2.2
FY2019 B.E	6.2	4.9	21.2	16.5	4.7	16.3	13.9	2.4

[/1] including net lending

Note: provisional growth for FY2019 is estimated at 3.29 percent.

Within revenues, tax collection posted a growth rate of 12.5 percent in FY2018 compared with 8.4 percent in FY2017. The rise in tax revenues is primarily due to the 14.1 percent growth in FBR tax collection (compared with 8.2 percent growth in FY2017).Provincial taxes posted a higher growth rate of 24.7 percent in FY2018, compared with 13.6 percent growth in FY2017.

Despite the acceleration in the growth of tax revenues, growth in total revenue collection decelerated, falling from 11.0 percent in FY2017 to 5.9 percent in FY2018, due to a fall in non-tax revenue. Non-tax revenues posted a negative growth of 21.4 percent in FY2018 as compared with 23.0 percent positive growth in FY2017. The contraction in non-tax revenue came primarily from the decline in defence related revenue, especially CSF, negative profit of post office Dept/PTA and negative growth in markup and dividends. As percent of GDP, non-tax revenue reduced to 2.2 percent in FY2018 from 3.0 percent in FY2017. Some components of non-tax revenue maintained a positive growth rate, such as SBP profit with a growth of 2.4 percent in FY2018. Similarly, royalties on oil and gas and windfall levy on crude oil, which have relatively smaller share in total non-tax revenue, also witnessed higher growth during FY2018.

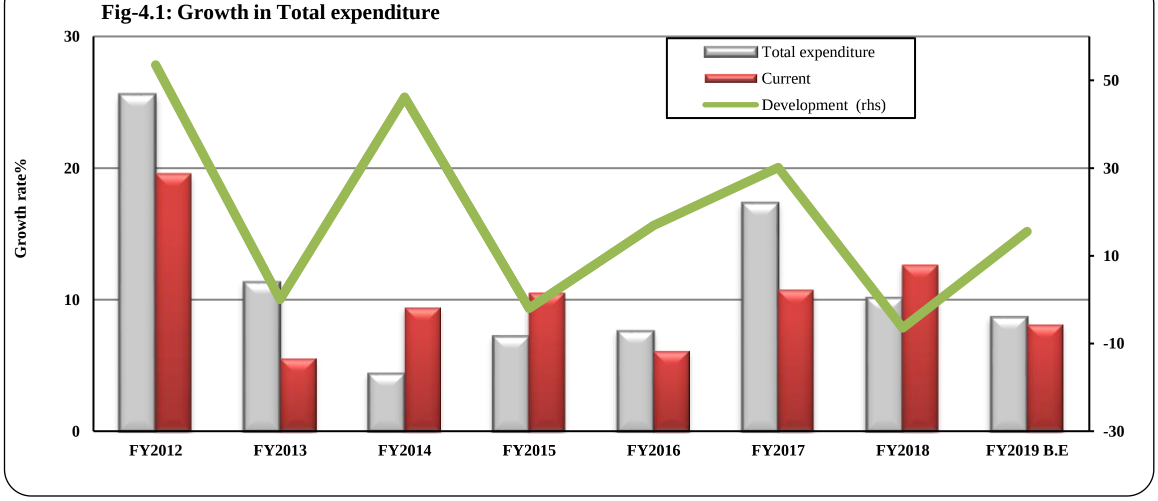
Review of Public Expenditures

In FY2018, total expenditures were 21.6 percent of GDP – higher than the average of the last five years of 20.5 percent. Current expenditures in FY2018 reached 16.9 percent, as compared to the five year average of 16.3 percent, while, development expenditures maintained its share of 4.7 percent of GDP, as per the average of the last five years.

While overall total expenditure remained high, growth in total expenditures decelerated to 10.1 percent during FY2018 as compared to 17.3 percent in FY2017. This slowdown in expenditures came primarily from lower growth in development expenditures and net lending which was reduced by 3.5 percent in FY2018 as compared to growing by 27.9 percent in FY2017. The negative growth largely came from negative growth of 7.7 percent in PSDP expenditures during FY2018 against 33.1 percent growth in FY2017. The pace of PSDP releases remained slow at the end of FY2018, especially during the interim government period as Election Commission prohibited starting any new development project, as this could potentially effect voter sentiments during the elections.

Conversely, current expenditures grew from 10.7 percent in FY2017 to 12.6 percent in FY2018. This sharp increase was due to increase in provincial current expenditures as was expected during election year. Federal and provincial current spending registered a growth of 9.1 and 19.6 percent, respectively. Share of current expenditures in total expenditures increased from 76.4 percent in FY2017 to 78.2 percent in FY2018. This share is budgeted at 77.8 percent for FY2019.

Fig-4.1: Growth in Total expenditure



Defence expenditures grew by 16.0 percent and reached Rs 1,030.4 billion (3.0 percent of GDP) in FY2018 against Rs 888.1 billion (2.8 percent of GDP). Share of defence expenditures in total and current expenditures remained at 13.8 and 17.6 percent, respectively in FY2018 compared with 13.1 and 17.1 percent in the preceding year. The budget estimates suggest that defence expenditures will remain at 2.9 percent of GDP during current fiscal year.

Similarly, mark up payments posted a growth of 11.2 percent in FY2018 to Rs 1,499.9 billion (4.3 percent of GDP) compared to Rs 1,348.4 billion (4.2 percent of GDP) in FY2017, growth of 6.7 percent. Share of mark-up payments in total and current expenditures remained at 20.0 and 25.6 percent, respectively in FY2018 compared with 19.8 and 25.9 percent, respectively in FY2017. For FY2019, marks up payments are budgeted at 4.2 percent of GDP.

Current subsidies posted a negative growth of 25.7 percent in FY2018 as compared with negative growth of 25.8 percent in FY2017. Share of subsidies in current expenditures reduced from 3.0 percent in FY2017 to 2.0 percent in FY2018. It is expected to remain at Rs 174.7 billion (2.8 percent of current expenditures) in FY2019.

On the other hand, overall development expenditures and net lending posted a negative growth of 3.5 percent in FY2018 compared with the positive growth of 27.9 percent in FY2017. Development expenditures excluding net lending posted negative growth of 6.5 percent in FY2018 and stood at Rs 1,584.1 billion (4.6 percent of GDP) as compared with growth of 30.1 percent to Rs 1,693.5 billion (5.3 percent of GDP) in FY2017.

Table 4.2: Trends in Components of Expenditure (As % of GDP)

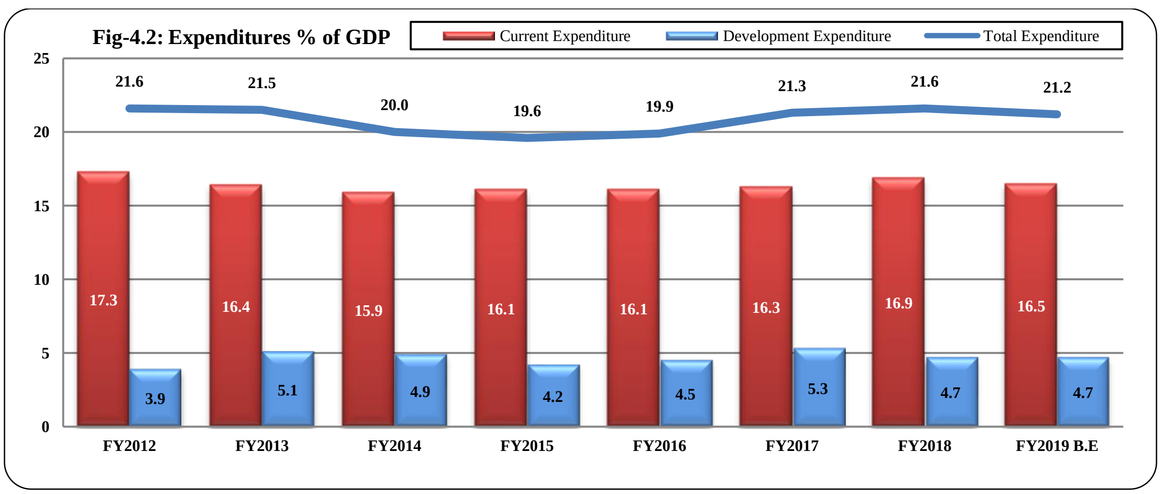
Year	Total Expen-diture (A)	Current Expenditure	Markup Payments (C)	Defence (D)	Development Expenditure *	Non Interest Non-DefenceExp (A-C-D)	Fiscal Deficit	Revenue Deficit/ Surplus (TR-Total CE)	Primary Balance (TR-NI Exp)
FY2006	17.1	12.6	2.9	2.9	4.4	11.2	4.0	0.5	-1.1
FY2007	18.1	14.9	4.0	2.7	4.7	11.4	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	21.6	16.9	4.3	3.0	4.6	14.3	6.5	-1.8	-2.2
FY2019 B.E	21.2	16.5	4.2	2.9	4.8	14.1	4.9	-0.2	-0.7

* excluding net lending

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

Within development expenditure, total Public Sector Development Program (PSDP) expenditures posted a negative growth of 7.7 percent in FY2018 and stood at Rs 1,456.2 billion as compared with Rs 1,577.7 billion (growth of 33.1 percent) recorded in FY2017. Federal PSDP (net excluding development grants to provinces) spending witnessed negative growth of 20.6 percent (Rs 576.1 billion) in FY2018 against growth of 22.3 percent (Rs 725.6 billion) in FY2017. Provincial PSDP registered a growth of 3.3 percent in FY2018 compared with 43.8 percent in FY2017.

Despite contraction in development spending, released amount for BISP (development expenditures outside PSDP) posted a significant growth of 53.7 percent to Rs 107 billion in FY2018 from Rs 69.6 billion in FY2014.

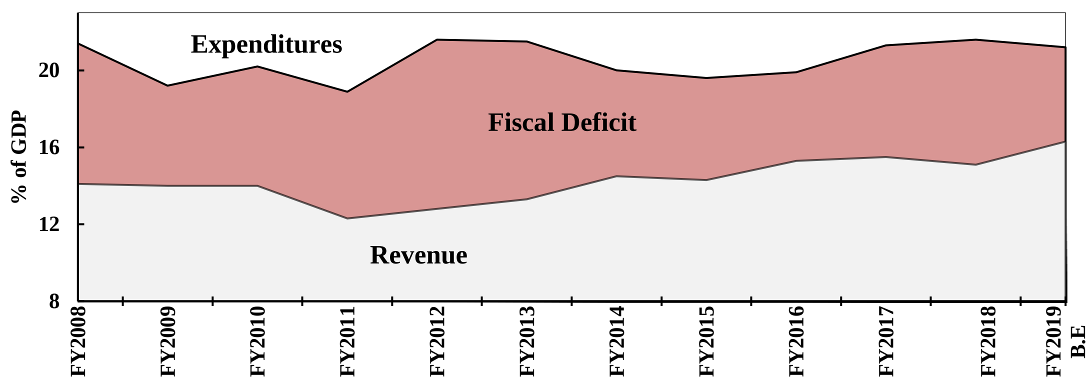


Both provincial tax collection and expenditures accelerated in FY2018. The provincial tax revenue increased by 24.7 percent in FY2018 compared to 13.6 percent in FY2017. On the other hand, provincial total expenditures increased by 19.6 percent in FY2018 as compared to 11.3 percent increase last year. Hence, provincial governments collectively posted a cumulative deficit of Rs 17.5 billion against the revised surplus target of Rs 273.9 billion in FY2018, an increased from provincial fiscal deficit in FY2017, of Rs 15.9 billion. Provincial deficits during the last two years are weighing on consolidated budget deficit and deteriorating the fiscal position.

The budget deficit of Rs 2,260.4 billion financed from both domestic and external sources. Government borrowed Rs 785.2 billion (34.7 percent of budget deficit) from external sources. While, Rs 1,475.2 billion or (65.3 percent of budget deficit) generated from domestic sources. Within banks, government primarily borrowed from SBP for budgetary support.

Primary deficit[1] increased from 1.6 percent of GDP in FY2017 to 2.2 percent of GDP in FY2018. Simultaneously, revenue deficit increased to 1.8 percent of GDP in FY2018 compared to 0.8 percent in FY2017 due to uncontrollable current expenditures.

Fig: 4.3 Revenue-Expenditure Gap (% of GDP)



For FY2019, total revenue is estimated at 16.3 percent of GDP, of which tax revenue target Rs 5,342.6 billion or 13.9 percent of GDP and non tax revenue 2.4 percent of GDP. Total expenditures at 21.2 percent of GDP with current expenditures at 16.5 percent of GDP and development expenditures and net lending estimated at 4.7 percent of GDP. Allocation for PSDP increased to Rs 1,650.0 billion, Federal PSDP[2] allocation Rs 800 billion and provincial ADP at Rs 850.0 billion as per budget estimates at the start of CFY.

Provincial surplus is estimated at Rs 285.604 billion. Therefore, consolidated budget deficit target is estimated Rs 1,890.2 billion (4.9 percent of GDP).

The budget deficit to be financed from both external and domestic sources. Within financing, Rs 342.1 billion (18.1 percent of budget deficit) and Rs 1,548.1 billion (81.9 percent of budget deficit) was targeted from external sources and domestic sources, respectively. Within domestic sources, bank and non-bank to contribute 65.6 and 34.4 percent, respectively. Revenue deficit and primary deficit budgeted at 0.2 and 0.7 percent of GDP, respectively for FY2019.

The present government is focused on improving the fiscal accounts particularly, focusing on improving the tax revenues. The tax system is being streamlined. As a first step, tax policy and tax administration functions have been separated so as to remove the apparent conflict of interest in tax collection. Tax policy is being designed to be fair, equitable and productive. The revenue and fairness objectives are pursued by expanding the tax base, reducing tax exemptions and through more efficient tax administration. Tax administration is being strengthened by allowing its access to third-party data and modern tools to identify and tapping tax defaulters. Fiscal reforms will ensure an

[1]The primary balance is the balance excluding interest payments , while the revenue balance is total revenue less current expenditures.

[2]Total Federal PSDP 2018-19 would be Rs 1,030 billion out of which Rs 230 billion would be self-financing by the corporation/authorities and Rs 800 billion would be provided through budget 2018-19.

efficient and fair tax system which will be capable of generating sufficient revenue to meet a large portion of public expenditure and investment needs, leading to a decline in fiscal deficit and falling debt-to-GDP ratio.

On expenditure side, the government plans to enhance the efficiency and effectiveness of public expenditure by framing laws to give greater autonomy to the spending units, but with greater accountability, enforcing rules to stem leakages from the system, improving coordination between the federal government and the provinces and reorienting expenditure priorities towards social welfare.

The government plans to manage public expenditures prudently with increased efficiency and effectiveness. State Owned Enterprises are expected to increase efficiency and be self-reliant and capable of performing at par with private sector. These efforts would expand fiscal space which in turn would help the government to better protect the poor and vulnerable from economic and non-economic shocks[3].

Fiscal Performance (July-March, FY2019)

Consolidated fiscal position during first nine months of current fiscal year shows zero growth in total revenue and 8.7 percent growth in total expenditures over same period last year. As a result, fiscal deficit during this period reached 5.0 percent of GDP as compared with 4.3 percent in comparable period of last year.

Table 4.3: Consolidated Revenue & Expenditure of the Government

	FY2019	July-March (Rs billion)		Growth in (%) July-March	
	B.E	FY2019	FY2018	FY2019	FY2018
A. Total Revenue	**6,245.7**	**3,583.7**	**3,582.4**	**0.0**	**13.9**
% of GDP	**16.3**	**9.3**	**10.3**		
a) Tax Revenue	**5,342.6**	**3,162.1**	**3,076.2**	**2.8**	**14.2**
% of GDP	**13.9**	**8.2**	**8.9**		
Federal	**4,888.6**	**2,874.4**	**2,796.3**	**2.8**	**13.5**
of which FBR Revenues	4,435.0	2,704.5	2,627.6	**2.9**	**16.2**
other Federal	453.6	169.9	168.6	**0.8**	**-17.1**
Provincial Tax Revenue	454.0	287.7	280.0	**2.8**	**21.4**
b) Non-Tax Revenue	**903.1**	**421.6**	**506.2**	**-16.7**	**12.2**
% of GDP	**2.4**	**1.1**	**1.5**		
B. Total Expenditure	**8,135.9**	**5,506.2**	**5,063.3**	**8.7**	**15.5**
% of GDP	**21.2**	**14.3**	**14.6**		
a) Current Expenditure	**6,328.6**	**4,798.4**	**4,075.4**	**17.7**	**13.0**
% of GDP	**16.5**	**12.4**	**11.8**		
Federal	**4,150.6**	**3,180.9**	**2,653.3**	**19.9**	**8.8**
Mark-up Payments	1,620.2	1,459.2	1,172.8	**24.4**	**7.2**
% of GDP	4.2	3.8	3.4		
Defence	1,100.3	774.7	623.8	**24.2**	**16.5**
% of GDP	2.9	2.0	1.8		
Provincial	**2,178.0**	**1,617.4**	**1,422.1**	**13.7**	**22.0**
b) Development Expenditure & net lending	**1,807.3**	**684.2**	**1,002.5**	**-31.8**	**30.3**
% of GDP	**4.7**	**1.8**	**2.9**		
PSDP	**1,650.0**	**578.5**	**931.4**	**-37.9**	**24.7**
Other Development	**180.2**	**77.4**	**61.9**	**25.0**	**8.3**
c) Net Lending	**-22.9**	**28.3**	**9.2**	**208.0**	**-126.8**
e) Statistical discrepancy	**0.0**	**23.7**	**-14.6**	**-262.3**	**-265.6**
C. Overall Fiscal Deficit	**1,890.2**	**-1,922.5**	**-1,480.9**	**29.8**	**19.6**
As % of GDP	4.9	-5.0	-4.3		
Financing of Fiscal Deficit	**1,890.2**	**1,922.5**	**1,480.9**	**29.8**	**19.6**

[3]A roadmap for Stability, growth and productive employment, Finance Division, GoP

Table 4.3: Consolidated Revenue & Expenditure of the Government

	FY2019	July-March (Rs billion)		Growth in (%) July-March	
	B.E	FY2019	FY2018	FY2019	FY2018
i) External Sources	342.1	524.5	524.3	**0.0**	**138.1**
ii) Domestic	**1,548.1**	**1,398.0**	**956.6**	**46.1**	**-6.0**
- Bank	1,015.3	787.7	813.5	**-3.2**	**17.1**
- Non-Bank	532.8	610.4	143.1	**326.5**	**-55.7**
Privatization Proceeds	0.0	0.0	0.0		
GDP at Market Prices	**38,388**	**38,559**	**34,619**		

Source: Budget Wing, Finance Division

Total revenue increased to Rs 3,583.7 billion (9.3 percent of GDP) during first nine months of FY2019 from Rs 3,582.4 billion (10.3 percent of GDP) during comparable period of last year – an negligible growth rate as compared to the growth of 13.9 percent during the same period last year. Decelerated performance of total revenues is primarily due to marginal growth of 2.8 percent in tax revenues and negative growth of 16.7 percent in non-tax revenues.

Tax revenue registered a growth of 2.8 percent during Jul-Mar, FY2019 (to Rs 3,162.1 billion or 8.2 percent of GDP) compared with Rs 3,076.2 billion (8.9 percent of GDP) in the same period last year. Sluggish growth in overall tax collection came mainly from slow FBR tax collection (see below for detailed analysis of FBR taxes)

Within overall tax revenue, federal taxes grew by 2.8 percent during the period under review against 13.5 percent growth during same period of last year. FBR tax collection increased to Rs 2,704.5 billion (7.0 percent of GDP) during first nine month of CFY compared with Rs 2,627.6 billion (7.6 percent of GDP) in the same period of FY2018. Provincial tax revenue registered a growth of 2.8 percent during Jul-Mar of CFY against 21.4 percent during the same period last year.

Non-tax revenue declined by 16.7 percent (during Jul-Mar, FY2019) from Rs 506.2 billion to Rs 421.6 billion. Major factors responsible for this sharp decline in non-tax revenues include negative growth of SBP profit which declined by 3.5 percent as depreciation of rupee had a strong effect on rupee income, negative growth of 33.7 percent in mark-up payments (PSEs and others) and a 4.2 percent fall in dividends received from PSEs and other investments.

Total expenditures increased to Rs 5,506.2 billion (or 14.3 percent of GDP) during first nine months of CFY compared with Rs 5,063.3 billion (14.6 percent of GDP) during the comparable period of last year. This implies a growth of 8.7 percent in expenditure during Jul-Mar, FY2019 against the growth of 15.5 percent in the same period last year.

Current expenditures grew by 17.7 percent (to Rs 4,798.4 billion (or 12.4 percent of GDP) compared with Rs 4,075.4 billion (11.8 percent of GDP) in the same period of last year. Federal and provincial government current expenditures grew by 19.9 and 13.7 percent, respectively compared with 8.8 and 22.0 percent during same period last year. Share of federal and provincial current expenditures in total current expenditures stood at 66 and 34 percent, respectively. The increase in federal government's current expenditure was mainly on account of increase in interest payments, which grew by 24.4 percent to Rs 1,459.2 billion during Jul-Mar, FY2019 compared with Rs 1,172.8 billion during same period last year. Growth in interest payments was caused by continued increase in stock of public debt (both domestic and external), large increase in interest rates and a sharp depreciation in exchange rate.

Defence expenditures grew by 24.2 percent against a growth of 16.5 percent last year. This acceleration in defence expenditure of heightened security concerns in the region. During July-March, FY2019 subsidies reached Rs 96.8 billion, against Rs 88.7 billion during same period of FY2018, posting a growth of 9.2 percent.

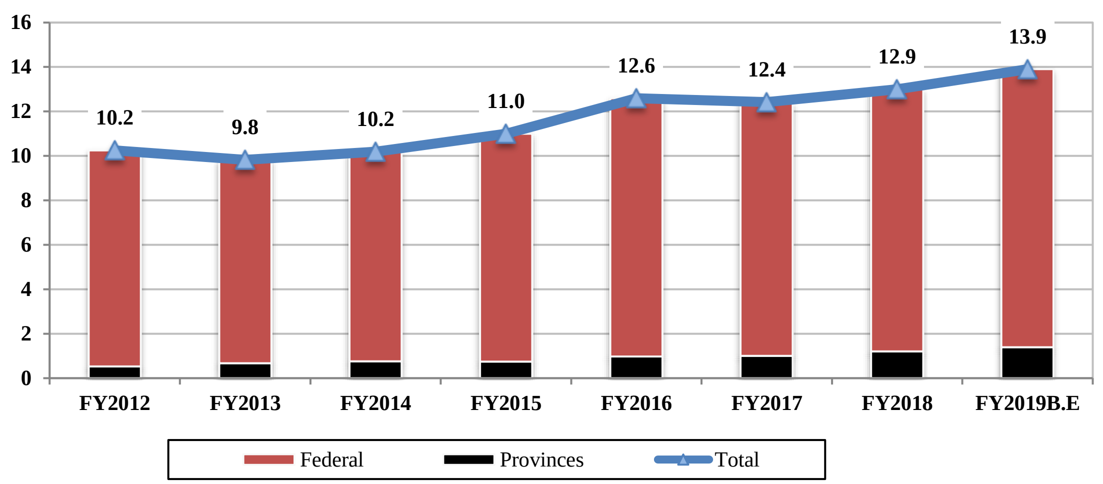
Development expenditures (excluding net lending) decreased to Rs 655.9 billion during Jul-Mar FY2019 compared with Rs 993.3 billion last year – a decline of 34.0 percent. PSDP spending witnessed a negative growth of 37.9 percent, with federal expenditure declining by 14.5 percent and provincial by 52.2 percent.

To finance the higher fiscal deficit, the government mobilized financing of Rs 524.5 billion from external resources, which was at about the same level as last year. Another Rs 1.4 trillion were mobilized as borrowing from the domestic banking system and from public (mainly through national savings schemes) and some other non-bank resources. Banking system contributed domestic financing during the first nine months of FY2019 was 46 percent higher than last year. External resources contributed a little more than one quarter (27 percent) of total financing, banking system 41 percent and non-bank sources the remaining 32 percent.

Structure of Tax Revenue

Over the years, narrow tax base, large number of concessions and exemptions, tax administration challenges and weak tax compliance resulted in a low tax to GDP ratio. In this connection, the present government is aiming to introducing measures to remove these weaknesses and disincentives in the tax system.

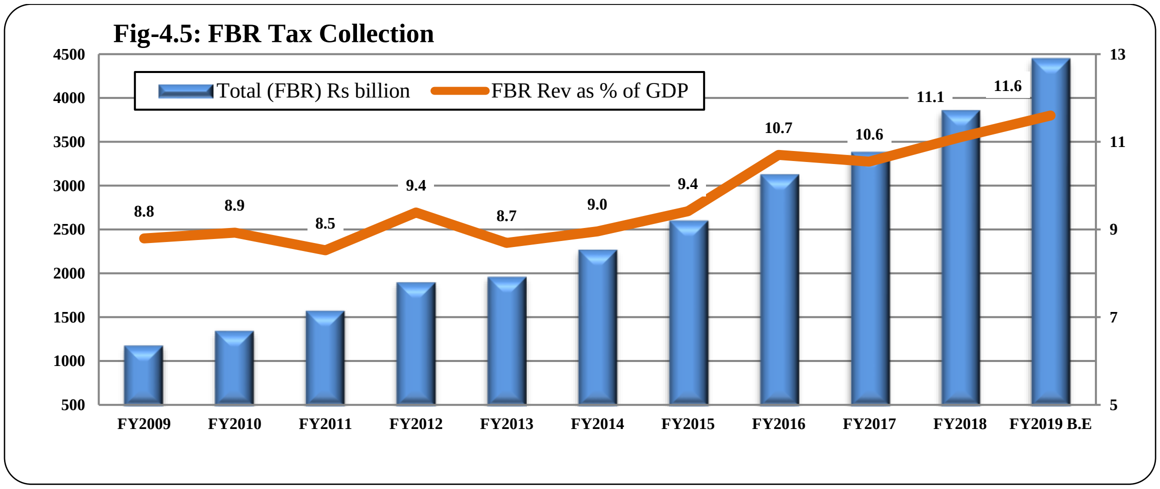
Fig-4.4: Tax - to-GDP ratio



The government intends to implement such fiscal reforms that will ensure an efficient and fair tax system which will be proficient to generate sufficient revenue to meet a large portion of public expenditure and investment needs, leading to a decline in fiscal deficit and falling debt-to-GDP ratio **(Box: I).**

Within FBR tax collection, direct taxes posted a growth of 14.3 percent in FY2018 as against a growth of 10.4 percent in FY2017. The pace of growth remained higher due to growth in withholding taxes (WHT), collection on demand (CoD) and voluntary payments (VP). For FY2019, direct tax expected to be higher by 12.9 percent than last year actual collection or amounted to Rs 1,735.0 billion (39.1 percent of FBR target).

The share of direct taxes in FBR revenue has been rising gradually due to steps taken 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 49 percent to 30 percent in tax year 2018 and 29 percent in 2019 by providing level playing field to the taxpayers. Despite all these initiatives that contributed to increase the tax revenue collection from direct taxes, the share of direct taxes needs to be increased further to make taxes more progressive as well as equitable and further reduce reliance on indirect taxes[4].



The tax structure in Pakistan is skewed towards indirect taxes. The share of indirect tax to FBR tax collection remained static around 60 percent over the last one decade. For FY2019, the share of indirect tax collection set at 60.9 percent.

Within indirect taxes, sales tax posted a growth of 11.8 percent in FY2018 against 2.0 percent increase in FY2017. Strong aggregate demand and pass through of high international oil prices contributed in sales tax collection during FY2018. The share of sales tax which constituted 64.4 percent of indirect taxes during FY2018 reduced gradually from 72.3 percent in FY2014. Similarly, share of sales tax in total FBR tax is gradually coming down since FY2014 from 44.2 percent to 38.6 percent during FY2018.

For FY2019, sales tax collection target set at Rs 1,700 billion which is 14.5 percent higher than last year collection and (constitute 63.0 percent of indirect tax and 38.3 percent of FBR tax collection target).

The share of custom duty in indirect taxes has increased gradually from 17.6 percent in FY2014 to 26.4 percent in FY2018. It is pertinent to mention that the maximum statutory rates of customs duty have been gradually reduced from 125 percent in FY1988 to 20 percent in FY2016 till date. Consequently, the share of custom duty in FBR tax collection has reduced gradually from 45.7 percent in FY1991 to 15.8 percent in FY2018.

Custom duty collection momentum continued with the same pace and registered a growth of 22.5 percent in FY2018 against 22.8 percent in FY2017. High aggregate demand, increase in general income level, high imports, higher commodity prices, exchange rate depreciation and fiscal measures such as regulatory duties on non-essential imports and an increase in additional custom duty by 1 percent led to increase in growth of custom duty.Custom duty collection is estimated at Rs 735.0 billion for FY2019 which reflects an increase of 20.8 percent over last year actual tax collection.

On the other hand, the share of federal excise duty in indirect taxes declined by 9.3 percent in FY2018. The tax base of Federal Excise Duty (FED) contracted over the years and now is restricted to only few commodities like cigarettes, cement, beverages, and international travel etc. Share of

[4]Year Book 2017-18 FBR, GoP

FED in total FBR tax collection has also fallen from 10.1 percent in FY2009 to 5.6 percent in FY2018.

FED registered a growth of 7.9 percent in FY2018 compared to 5.2 percent in FY2017. Collection from cement mainly fueled this growth momentum. FED is projected to Rs 265.0 billion which is 24.1 percent higher as compared with actual last year collection. The projected share is 6.0 and 9.8 percent of FBR and indirect tax collection, respectively for FY2019.

Table 4.4: Structure of Federal Tax Revenue (Rs. Billion)

Year	Total (FBR)	Tax Rev as % of GDP	Direct Taxes	Indirect Taxes			
				Customs	Sales	Excise	Total
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	10.6	1,344.2	496.8	1,329.0	197.9	2,023.7
			[39.9]	{24.5}	{65.7}	{9.8}	[60.1]
FY2018	3,843.8	11.1	1,536.6	608.4	1,485.3	213.5	2,307.172
			[40.0]	{26.4}	{64.4}	{9.3}	[60.0]
FY2019 B.E	4,435.0	11.6	1,735.0	735.0	1,700.0	265.0	2,700.0
			[39.1]	{27.2}	{63.0}	{9.8}	[60.9]

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

FBR Tax Collection (July-April, FY2019)

The preceding year FY2018, FBR tax collection remained below the target. The revised FBR target was estimated at Rs 3,935 billion compared to Rs 4,013 billion originally budgeted.

For FY2019, FBR annual tax collection target has been set at Rs 4,435.0 billion (11.6 percent of GDP) and 15.4 percent higher than actual tax collection of Rs 3,843.8 billion in FY2018. With revenue collection experiencing significant challenges, the collection target was revised downward to Rs 4,398.0 billion (11.5 percent of GDP) showing an expected increase of 14.4 percent over actual tax collection of FY2018.

During the period Jul-Apr, FY2019 FBR tax receipts were only Rs 2,976.0 billion, as against Rs 2,922.5 billion collected during the same period of FY2018, an increase of 1.8 percent. Actual tax collection during first ten months of CFY remained at 67.7 percent of revised target.

Direct Taxes

The direct taxes collection decreased by 2.6 percent during the first ten months of FY2019. The collection has decreased from Rs 1,096.4 billion to Rs 1,067.8 billion. The major reasons for shortfall in collection of direct taxes has been the reduced rates on salary income announced in budget 2018-19, suspension of withholding tax by Honorable Supreme Court on telecom subscription, import compression and adjustment of tax amnesty.

Tax-wise details are presented in the following Table:

Table 4.5: FBR Tax Revenues (Rs Billion)

Revenue Heads	FY2018	July-April		% Change
	Actual	FY2018	FY2019*	
A. DIRECT TAXES				
Gross		1,155.1	1,141.4	-1.2
Refund/Rebate		58.7	73.7	25.6
Net	1,536.6	**1,096.4**	**1,067.8**	-2.6
B. INDIRECT TAXES				
Gross		1,880.3	1,944.2	3.4
Refund/Rebate		54.2	35.9	-33.7
Net	2,307.2	1,826.1	1,908.3	4.5
B.1 SALES TAX				
Gross		1,227.5	1,186.5	-3.3
Refund/Rebate		40.8	21.2	-48.2
Net	1,485.3	**1,186.6**	**1,165.3**	-1.8
B.2 FEDERAL EXCISE				
Gross		163.4	184.0	12.7
Refund/Rebate		0.0	0.0	-100.0
Net	213.5	**163.4**	**184.0**	12.7
B.3 CUSTOM				
Gross		489.5	573.7	17.2
Refund/Rebate		13.4	14.7	10.4
Net	608.4	**476.1**	**558.9**	17.4
TOTAL TAX COLLECTION				
Gross		3,035.4	3,085.6	1.7
Refund/Rebate		112.9	109.6	-2.9
Net	3,843.8	**2,922.5**	**2,976.0**	1.8

***: Provisional**

Source: Federal Board of Revenue

Indirect Taxes

The gross and net collections of indirect taxes have witnessed growth of 3.4 and 4.5 percent, respectively. It is accounted around 64.1 percent of the total FBR tax revenues.

Sales Tax

Within indirect taxes, net collection of sales tax decreased by 1.8 percent. The gross and net sales tax collection during July-April, FY2019 reached to Rs 1,186.5 billion and Rs 1,165.3 billion, respectively showing negative growth of 3.3 percent and 1.8 percent, respectively. During July-April FY2019, around 56 percent of total sales tax was contributed by sales tax on import, 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.

Federal Excise Duty

The collection of federal excise duties (FED) during July-April, FY2019 increased by 12.7 percent growth. The net collection reached to Rs 184.0 billion compared to Rs 163.4 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

The gross and net collections of custom duty have registered a growth of 17.2 and 17.4 percent, respectively. The net collection has increased to Rs 558.9 billion during Jul-Apr, FY2019 from Rs 476.1 billion during the corresponding period of last year. The major revenue heads 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 government is trying hard to enhance its tax revenues. In this regard, various reforms have been initiated to make FBR a modem and efficient organization for optimization of tax revenues while promoting taxpayers friendly environment in the country. Major reform measures induced in the recent years and to be introduced in coming years are:

- **Expansion of the Scheme of Differential Taxation for Filers and Non-filer for penalizing Non-compliant without adding any further burden on the compliant**

  In order to increase compliance and enhance the tax revenues, the concept of filers and non-filers have been introduced. The cost of doing business for non-filers have been significantly increased in recent years. This step was taken to encourage people to file income tax returns. Differential taxation for filers and non-filers have been introduced and number of filers increased from around 750,000 in FY 2012-13 to more than 1.87 million in FY 2017-18

- **Rationalizing Corporate Tax Rates**

To rationalize the import tariff structure and to reduce the general tariff slabs, peak tariff slab of 30% has been reduced to 20%. The existing tariff slabs are 4 with the peak of 20% and floor at 3%. In order to promote tax culture and corporatization, it has been 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...........................30%
Tax year 2019...........................29%

- **Broadening of Tax Base and Documentation of Economy**

For Broadening of Tax Base (BTB), FBR has taken several initiatives including use of third party data. Initially, the objective was to incorporate **300,000** new taxpayers in three years. The BTB drive was successful. During the years 2013-14 to 2016-17. FBR issued 596,464 notices and enforced 264,539 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 been exceeded to 1.87 million in the tax year 2017-18 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. These include 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.

FBR has also chalked out a comprehensive plan to broaden the tax base through:

- Creation of a central data bank
- Enforcement of return in the case of all NTN holders
- Preparation of directory of non-filers deductees
- Data to be obtained from NADRA, Telecom Cos, Banking Cos, Development Authorities, Schools, Clubs, Hotels etc
- Data of suppliers/buyers of sales tax returns of 5,000 big companies
- Raising expenditure on revenue collecting machinery from 0.8% to 1.5% of total revenue
- Registration of persons subjected to withholding of sales tax
- Registration of retailers under the new scheme introduced under Special Procedure Rules.
- **Deployment of Technology to Identify Risk Areas to Support Risk Based Audit**

An audit plan has been reintroduced to accompany the self-assessment scheme and to overcome weak tax compliance. Substantial progress has been achieved for infrastructure upgradation and development with the introduction of the fully Inland Revenue Information System (Iris), which is available to all the field formations. A paradigm shift from simple random selection to Parametric Computer Ballot selection of cases and finally risk based selection in audit has been introduced. Moreover, litigation against General Audit Policies was successfully defended before different Courts of Law.

Under the reform initiatives, Draft Audit policy for the Tax Year 2017 is under consideration and will be finalized after due deliberation/consultation with all concerned. Moreover, Risk-based Audit Framework is being devised to ensure a more targeted and focused approach with the help of World Bank. Training modules have been prepared to import Investigative Audit Training to officers with the help of World Bank.

- **Behavioral Changes**

In order to promote tax culture, compliance and to dispel the general impression about evading taxation by individuals having prominent position in the society. FBR has under taken following initiatives for bringing a behavioral change regarding the tax culture perception in the society:

a) Publishing Tax Directory of Parliamentarians

b) Establishment of Financial Investigation Cell

c) Campaign against Tax Evaders

- **End to End Automation and Facilitation of Taxpayers with increased Use of Information Technology**

To simplify procedures and minimize contact between the taxpayers and the tax collectors, FBR management has made revolutionary changes in automation of tax procedures. Major achievements include:

i. Web Based One Customs (WeBOC) System of Clearance
ii. EDI - Electronic Data Interchange
iii. National Single Window (NSW)
iv. iv. Inland Revenue Information System (Iris)

- **Current initiatives**

– Creation of Tax Policy Unit within Ministry of Finance
– Identification and scrutiny of evasion by High Net worth Individuals
– Administrative measures to increase tax collection by identifying untaxed wealth overseas and by data matching to identify non-filers
– Practical steps taken to curb Offshore Tax Evasion (UK and UAE properties, Panama and Paradise Leaks, etc.) and continuous monitoring of such cases
– Plaza Mapping at Lahore, Karachi and Islamabad
– Launch of Device Identification, Registration and Blocking System (DIRBS) to control smuggling of mobile devices
– Introduction of Currency Declaration System and Advanced Passenger Information System at major airports of the country
– Discouraging imports of luxurious goods through additional Regulatory Duties (RDs)
– Addressing under invoicing by signing MOU with China for exchange of pricing information
– Forensic audit in Sugar, Tobacco and Steel Industries to address leakages and tax evasion and in these industries
– Implementation of Tobacco Track & Trace System
– Resolving pending litigation
– Collection of pending arrears identified as collectable arrears
– Resolving 1.2 million automatically selected cases for audit U/s 214D

These reforms will start paying dividends in shape of improved compliance, higher revenue growth and improvement in tax-GDP ratio. The tax revenues have increased significantly during last four years. The collection jumped from Rs 1,946 billion in FY2013 to Rs 3,844 billion in FY 2018, registering an overall growth of 97.5 percent. Similarly, tax-GDP ratio of the country which was just 8.7 in FY2013 jumped to 11.1 in FY 2018. With the help of these initiatives, FBR is moving towards a more efficient tax system; facilitating taxpayers, promoting investment and broadening the tax base in the years to come. It is envisioned that these resource mobilization efforts will result in further improvement of domestic tax revenues in coming years.

Source: Federal Board of Revenue (FBR)

Provincial Budget

For FY2019, total expenditure of the provinces is budgeted at Rs 3,540.8 billion, an increase of 3.7 percent over revised estimates of Rs 3,413.4 billion last year.

Table 4.6: Overview of Provincial Budgets (Rs Billion)

Items	Punjab		Sindh		Khyber Pakhtunkhwa		Balochistan		Total	
	2017-18 RE	2018-19 BE	2017-18 RE	2018-19 BE	2017-18 RE	2018-19 BE	2017-18 RE	2018-19 BE	2017-18 RE	2018-19 BE
A. Tax Revenue	**1,329.5**	**1,551.5**	**713.2**	**818.6**	**376.6**	**427.6**	**212.1**	**234.3**	**2,631.4**	**3,032.0**
Provincial Taxes	197.6	275.8	176.1	213.3	18.3	23.8	9.4	10.2	**401.4**	**523.1**
GST on Services (transferred by federal Govt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Share in Federal Taxes	1,131.9	1,275.7	537.1	605.3	358.3	403.8	202.7	224.1	**2,230.0**	**2,508.9**
B. Non-Tax Revenue	**73.4**	**93.3**	**63.4**	**63.2**	**85.2**	**39.7**	**14.3**	**14.2**	**236.3**	**210.4**
C. All Others	**218.0**	**97.7**	**90.3**	**115.1**	**102.1**	**115.5**	**18.9**	**14.6**	**429.3**	**342.9**
Total Revenues (A+B+C)	**1,620.9**	**1,742.5**	**866.9**	**996.9**	**563.9**	**582.8**	**245.3**	**263.1**	**3,297.0**	**3,585.3**
a) Current Expenditure	**1,048.9**	**1,264.5**	**685.2**	**773.2**	**389.0**	**430.0**	**204.0**	**223.0**	**2,327.1**	**2,690.7**
b)Development Exp	**576.8**	**238.0**	**282.4**	**343.9**	**150.2**	**180.0**	**76.9**	**88.2**	**1,086.3**	**850.1**
Total Exp (a+b)	**1,625.7**	**1,502.5**	**967.6**	**1,117.1**	**539.2**	**610.0**	**280.9**	**311.2**	**3,413.4**	**3,540.8**

Source: Provincial Finance Wing, Finance Division.

The allocation for current expenditures at Rs 2,690.7 billion was 15.6 percent higher than last year. However, allocation for development budget was reduced by 21.7 percent to Rs 850.1 billion primarily in light of inability of provinces to spend a significant portion of last year's development budget. The share of current and development expenditures in total expenditures remained at 76 and 24 percent, respectively.

Overall provincial revenue receipts posted a growth of 8.7 percent to Rs 3,585.3 billion in FY2019 compared with Rs 3,297.0 billion in FY2018. Tax revenue was budgeted at Rs 3,032.0 billion in FY2019, which is 15.2 percent higher over last year and contributes around 85 percent in total revenue. On the other hand, non-tax revenue were budgeted at Rs 210.4 billion in FY2019, which is 11.0 percent lower compared to FY2018 revised estimates.

Fiscal Federalism

In accordance with the distribution of resources formula agreed under the 7th NFC award, the net transfers to the provinces were estimated at Rs 2,711.6 billion for FY2019 which was 11.5 percent higher than the revised estimates of Rs 2,430.9 billion for FY2018.

A comparative position of composition of provincial revenues before and after implementation of 7th NFC award has given in following figure:

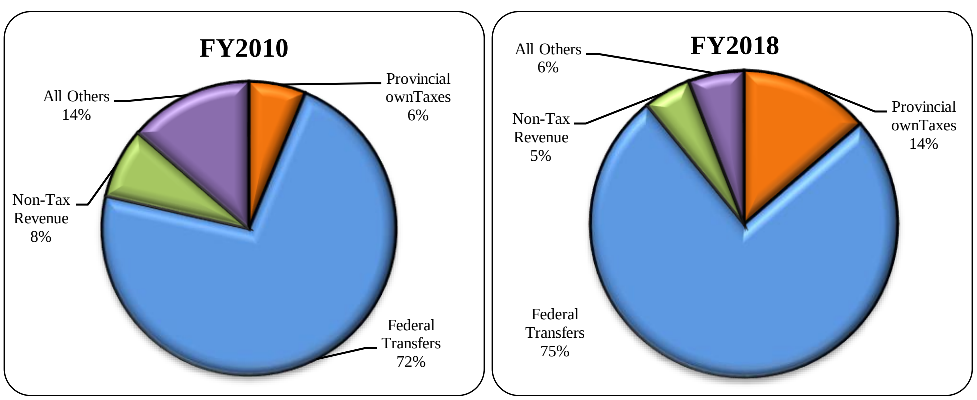


Table 4.7: Transfers to Provinces (NET) **Rs billion**

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 R.E	FY2019 B.E
Divisible Pool	1,063.1	1,117.5	1,287.4	1,476.6	1,751.5	1,996.3	2,230.1	2,508.8
Straight Transfer	145.6	103.5	124.4	97.4	100.4	125.1	86.0	81.2
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	26.5	28.0
Project Loans and Grants	47.8	71.3	85.2	61.9	60.2	77.9	133.1	137.4
Program Loans	4.6	4.2	59.1	18.1	29.6	15.9	26.5	34.4

Table 4.7: Transfers to Provinces (NET)								Rs billion
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 R.E	FY2019 B.E
Japanese Grant	0.1	0.0	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**	**2,502.2**	**2,790.0**
Interest Payment	12.9	14.8	14.1	13.3	9.8	13.6	16.2	16.8
Loan Repayment	36.1	32.1	38.7	38.6	47.8	17.3	55.1	61.6
Transfer to Province(Net)	**1,266.0**	**1,394.5**	**1,558.8**	**1,636.6**	**1,916.8**	**2,177.6**	**2,430.9**	**2,711.6**
Source: Various issue of Budget in Brief.								

Provincial Fiscal Operations

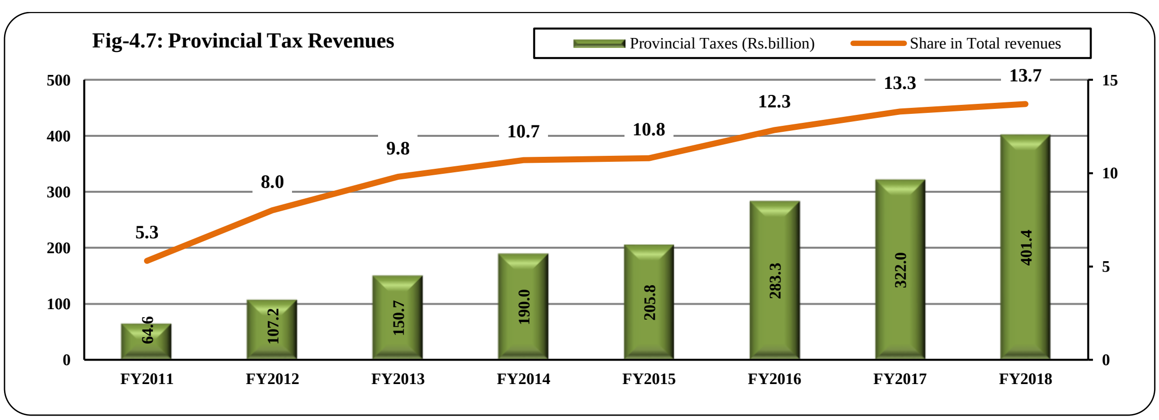
Provincial tax revenues increased to Rs 401.4 billion during FY2018 compared with Rs 321.8 billion in FY2017, an increase of 24.7 percent. Moreover, federal transfers to provinces increased by 12.8 percent and increased to Rs 2,217.4 billion compared with Rs 1,965.8 billion last year. Under provincial tax revenues major contribution came from Sales tax on Services (GSTS) followed by Stamp duties and Motor vehicles during FY2018. Federal transfers contributed 84.7 percent and provinces own revenue receipts constituted 15.3 percent in total tax revenues during FY2018.

Table 4.8: Overview of Provincial Fiscal Operations								Rs billion
Items	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	July-March	
							FY2018	FY2019
A. Tax Revenue	1,365.7	1,596.2	1,744.5	2,145.4	2,287.6	2,618.8	1,928.9	2,066.9
Provincial Taxes	150.7	190.0	205.8	283.3	321.8	401.4	280.0	287.7
Share in Federal Taxes	1,215.0	1,406.3	1,538.7	1,862.2	1,965.8	2,217.4	1,648.9	1,779.1
B. Non-Tax Revenue	71.3	49.4	75.6	93.3	79.5	146.7	126.6	65.3
C. All Others	107.4	121.8	82.3	55.1	61.2	173.0	110.7	66.1
Total Revenues (A+B+C)	1,544.4	1,767.4	1,902.4	2,293.9	2,428.2	2,938.5	2,166.2	2,198.3
a) Current Expenditure	1,110.0	1,187.4	1,400.1	1,559.8	1,739.3	2,080.7	1,432.7	1,630.0
b) Development Expenditure(PSDP)	371.5	430.5	498.8	592.4	852.2	880.1	577.8	276.0
Total Exp (a+b)	1,481.6	1,617.9	1,898.9	2,152.2	2,591.5	2,960.9	2,010.4	1,906.0
Source: Fiscal Operations (various issues), Budget Wing								

Total provincial revenue grew by 21.0 percent during FY2018, of which tax revenue and non tax revenue posted a growth of 14.5 and 84.5 percent, respectively.

Provincial expenditures increased to Rs 2,960.9 billion with a 14.3 percent growth during FY2018 compared with Rs 2,591.5 billion (growth of 20.4 percent) in FY2017. Current expenditures increased to Rs 2,080.7 billion in FY2018 (a growth of 19.6 percent) against Rs 1,739.3 billion in FY2017 (growth of 11.5 percent). Development expenditures increased by 3.3 percent and reached to Rs 880.1 billion in FY2018 as compared to Rs 852.2 billion (an increase of 43.8 percent) in FY2017.

During FY2018, the provinces posted a cumulative deficit of Rs 17.5 billion against the revised fiscal surplus target of Rs 273.9 billion, and last year's actual fiscal deficit of Rs 15.9 billion due to higher expenditures and slow pace in revenue growth.



Performance during the period July-March, FY2019

Total revenues of provincial governments increased by 1.5 percent during Jul-Mar, FY2019 to Rs 2,198.3 billion as compared to Rs 2,166.2 billion (growth of 24.8 percent) during the same period of last year. The provincial tax revenues collection posted a growth of 2.8 percent during the period under review and stood at Rs 287.7 billion compared to Rs 280.0 billion last year. This growth primarily came from better collection of stamp duties, followed by excise duties and motor vehicle tax. GSTS which has a major share of 49.5 percent in provincial taxes, decreased by 4.7 percent during the period under review.

In contrast, non-tax revenue declined by 48.4 percent during Jul-Mar FY2019 as compared to 113.6 percent growth registered last year. Federal transfers to provinces increased by 7.9 percent during Jul-Mar, FY2019 against 16.0 percent increase during the same period last year.

On expenditure front, total expenditures declined by 5.2 percent to Rs 1,906.0 billion during Jul-Mar, FY2019 against Rs 2,010.4 billion (25.8 percent higher) last year. Provincial expenditures registered negative growth primarily due to development expenditures that reduced by 52.2 percent, which offset the sharp growth of 13.8 percent in current expenditures.

Provincial expenditures negative growth translated into provincial surplus. During the period Jul-Mar FY2019, overall provincial surplus increased to Rs 291.6 billion as compared to Rs 191.05 billion during the same period last year. For FY2019, provincial surplus is estimated at Rs 285.6 billion.

Public Financial Management Reforms in the Federal Government[5]

The present government has given highest priority to reforms for improvement of governance, economic management and public service delivery. In this regard, the Prime Minister constituted an Economic Advisory Council (EAC) headed by eminent economists and policy experts. One of the sub-groups of the EAC was dedicated to Public Financial Management reforms. Over the past few months EAC has reviewed the Public Financial Management Reforms Strategy and held various meeting to articulate and clarify the roadmap for reforms. These reforms are aimed at improving legal basis, decentralizing authority to improve management, strengthening fiscal discipline, enhancing revenue mobilization, broadening results-based management system, and improving coordination between Federal and provinces on public finance issues.

In addition, with support of the World Bank, Ministry of Finance in coordination with other relevant stakeholders, is implementing a Public Financial Management Reform Initiative under a Program for Results (P4R) modality. The main objective of the program is to improve system and process to improve management of public finances.

- **Assignment Account Procedure**:

  Assignment account procedures have been revised to make them more robust and effective. There scope has now been extended to current budget allocations as well, to cater the needs of autonomous bodies receiving funds from the Consolidated Fund. However, assignment accounts are prohibited for Ministries/ Divisions/ Departments/ sub-ordinate offices/ projects/ organization where government funding is an exclusive source of financing and those who submit their claims to AGPR/AG/DAO.

  In addition, the Principal Accounting Officers have been required to establish an Internal Audit Cell to improve internal controls. The Revised Procedures explicitly prohibit AGPR/DAO to

[5] MTBF secretariat, Budget Wing, Finance Division

endorse any cheque which are drawn in the name of project authorities or drawer/payer for lump sum transfer of funds from the Consolidate Fund to commercial bank accounts. National Bank of Pakistan will also refuse to honor such cheques.

The practice of allocating one-line budget will be discontinued to ensure transparency. Besides, the provisions with regard to control of expenditure, recording of expenditure and budgeting and reconciliation have been improved to ensure more accountability and transparency of public expenditure. However, the major intervention introduced through the revised procedures is sub-Assignment Accounts to facilitate those entities having field/regional offices, projects etc, spreading all over Pakistan. Sub/Assignment accounts will be allowed in exceptional circumstances on the recommendations of concerned Principal Accounting Officer. They will be constituted under the main assignment account and tagged with Customer Information Folio of the main assignment account by National Bank of Pakistan through IT system (core banking). The payments made from Sub-Assignment Account will be reflected in the main Assignment Accounts and expenditure booked accordingly. The process bypasses various internal controls therefore, the Principal Accounting Officer with the assistance of Internal Audit Unit, will ensure compliance of different provisions of the procedure for utmost transparency.

- **Procedure for Additional Budget through Supplementary Grants**:

  The Hon'ble Supreme Court of Pakistan in its judgment in Civil Appeal No. 1428-1436 of 2016 defined the Federal Cabinet as "Cabinet", therefore a procedure has been formulated to seek approval of the Cabinet by the Ministries/Division to obtain additional budget through supplementary grants.

Conclusion

Pakistan's fiscal accounts remained under intense pressure over the years owing to poor revenue collection and over run in current expenditures which caused a sharp increase in fiscal deficit in recent years. In addition, they limited the fiscal space available for public investment and expansion of social safety net. The fiscal deficit which was brought down to 4.6 percent of GDP in FY2016 has increased to 5.8 percent and 6.5 percent during FY2017 and FY2018, respectively. Whereas, during first nine months of CFY, fiscal deficit as percent of GDP stood at 5.0 percent as compared 4.3 percent in comparable period last year.

The present government has inherited the macroeconomic imbalances, however, the government is cognizant of this challenge and taken up on priority to revamp the fundamentals of economy. Sharp fiscal adjustment is dire need of time. In addition, improving fiscal federalism and strengthening provincial autonomy to rely less on federal transfers and more efforts on increasing revenues would help the federal government to meet additional financing requirements.