Chapter 4

FISCAL DEVELOPMENT

In 2022, the global economy experienced a series of detrimental shocks that muddled not only the present situation but also the outlook for the future. Amidst the recovery from the impact of the COVID-19 pandemic, the Russian-Ukraine war triggered a new crisis by disrupting food and energy markets and intensifying global inflationary pressures. Besides, the instability in the financial sector further exacerbated the situation. In such a highly volatile and challenging economic environment, the expansionary fiscal policy stance adopted in response to the pandemic-induced recession largely came to an end. Due to high inflation and the need to reduce debt vulnerabilities, many countries around the world moved to a tightening stance in 2021–22.

Fiscal deficits across the globe reduced to 4.7 percent of GDP on average in 2022 from 9.6 percent in 2020. Overall fiscal deficits are expected to increase slightly up to 5.0 percent of GDP on average due to increasing interest costs and an anticipated increase in public spending mainly due to higher spending on wages and pensions to compensate for past inflation[1]. As economies encounter expenditure pressures, fiscal tightening is expected to slow down global economic activity in 2023. Furthermore, ongoing geopolitical tensions may further necessitate substantial increases in defence spending and budgetary support to mitigate the negative effects of international trade disruptions.

The geopolitical tension, tight financial conditions, and high inflationary pressures have all had a substantial impact on global growth expectations. Pakistan is no exception. The combination of these factors together with flood-related devastation resulted in a weaker economy, with lower growth expectations. Besides coping with these issues, the government still implemented strict budgetary and monetary policies.

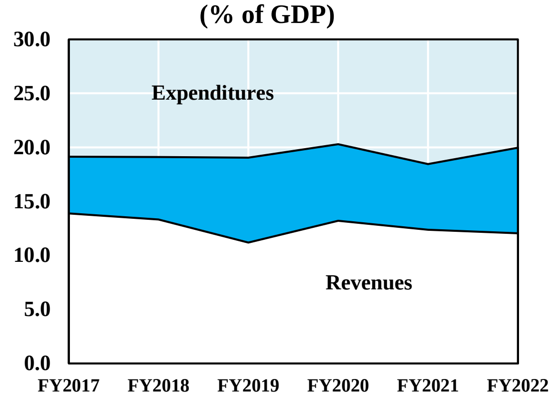
From the start of the current fiscal year, the government followed tight budgetary conditions. However, conditions became severe due to the devastating impact of floods which added to the already existing economic woes of the country. Economic activities across the country stalled as a result of the widespread destruction of the agriculture sector and infrastructure, especially roads and bridges, and other essential services caused by the flood. Additionally, supply disruptions increased domestic food prices that were already at a higher level due to rising international commodity prices and the depreciation of the currency. Thus, the need for additional public spending for reconstruction and rehabilitation was increased. Furthermore, revenue mobilization activities were jeopardized due to a downturn in economic activity. In the wake of these challenges, the government took swift and timely measures to mitigate the economic damage, including cash grants and food assistance to affected families and assistance to farmers through the Kisaan package.

The government is committed to reducing the fiscal deficit to achieve fiscal sustainability and macroeconomic stability despite significant challenges. On one hand, the challenge is to support vulnerable segments of society and on the other hand, there is the daunting task of meeting expenditures on rising interest payments. For this purpose, the government is strictly following prudent expenditure

[1]IMF Fiscal Monitor, April 2023

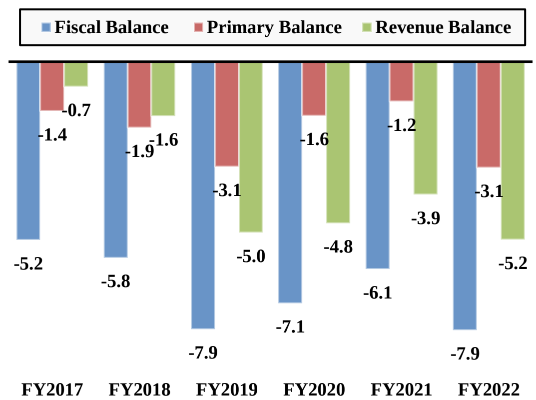
management and an effective domestic resource mobilization strategy. These efforts helped in containing the fiscal deficit to 3.6 percent of GDP during the first nine months of the current fiscal year against 3.9 percent of GDP recorded in the same period of last year. Similarly, the primary balance posted a surplus of Rs 503.8 billion (0.6 percent of GDP) during July-March FY2023 against a deficit of Rs 447.2 billion (-0.7 percent of GDP) last year owing to a slowdown in the growth of non-mark-up expenditures. The current fiscal performance demonstrates that fiscal consolidation initiatives are on track despite enormous challenges caused by domestic and global economic conditions.

Fig.4.1a: Revenue-Expenditure Gap (% of GDP)



Source: Budget Wing & EA Wing's calculations

Fig. 4.1b: Fiscal Indicators % of GDP



Source: Budget wing & EA Wing's calculations

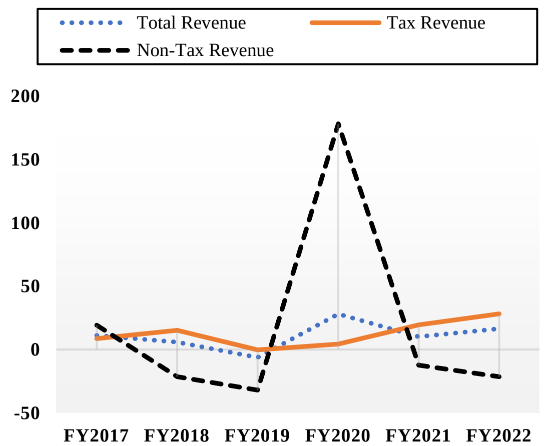
Fiscal Performance (FY2022)

The unprecedented rise in expenditures during FY2022 compared to the revenues put the fiscal sector under severe pressure. Consequently, the revenue expenditure gap widened, and overall, the indicators of fiscal performance witnessed a sharp deterioration in FY2022. For instance, the fiscal deficit widened by 55 percent and reached Rs 5,259.9 billion in FY2022 against Rs 3403.3 billion in FY2021. In terms of GDP, the fiscal deficit increased to 7.9 percent from 6.1 percent during the period under review. The primary deficit reached Rs 2077.5 billion in FY2022 (-3.1 percent of GDP) from Rs 653.6 billion in FY2021 (-1.2 percent of GDP) owing to higher growth in non-markup expenditure. Similarly, a sharp rise in current expenditures relative to revenues jacked up the revenue deficit from 3.9 percent of GDP in FY2021 to 5.2 percent of GDP in FY2022.

Total revenues grew by 16.4 percent to Rs 8035.4 billion (12.1 percent of GDP) in FY2022 against Rs 6903.4 billion (12.4 percent of GDP) in FY2021. The revenue growth was largely driven by increased tax collection from both the federal and provincial governments. Tax collection grew by 28.1 percent to Rs 6755.2 billion in FY2022 against Rs 5272.7 billion in FY2021. In fact, FBR was able to record a substantial increase in tax collection during the year due to various policy and operational measures (digitization, transparency, and taxpayer facilitation), higher prices, and a surge in imports.

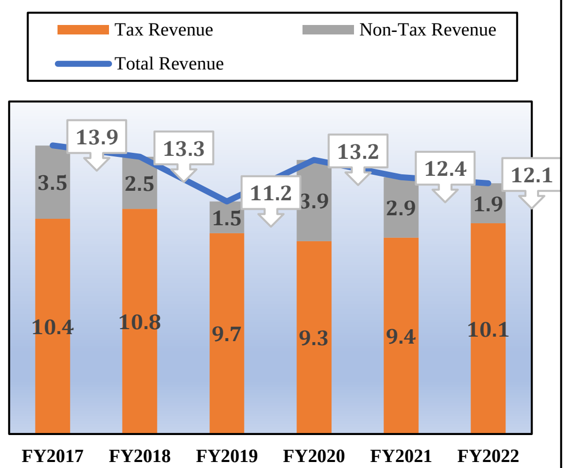
On the other hand, non-tax revenues fell by 21.5 percent and reached Rs 1280.2 billion in FY2022 from Rs 1630.7 billion in FY2021. The drop in non-tax collection was primarily due to a decline in receipts from SBP profits and the considerable decrease in levy receipts owing to the suspension of the petroleum development levy during FY2022. Non-tax revenues fell sharply for the second consecutive year in fiscal year 2022 following an exceptionally high growth in FY2020. In FY2020, the sharp rise was attributed to the significant increase in profits from the SBP, the Pakistan Telecom Authority (PTA), and mark-up income from Public Sector Enterprises (PSEs).

Fig-4.2a: Revenue Growth (%)



Source: Budget wing and EA Wing's calculations

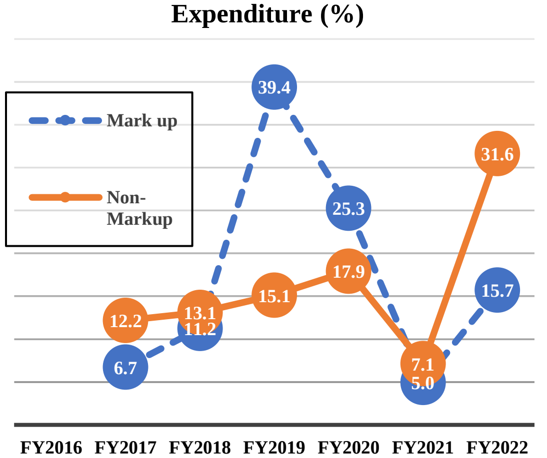
Fig-4.2b: Revenues % of GDP



Source:Budget Wing and EA Wing's calculations

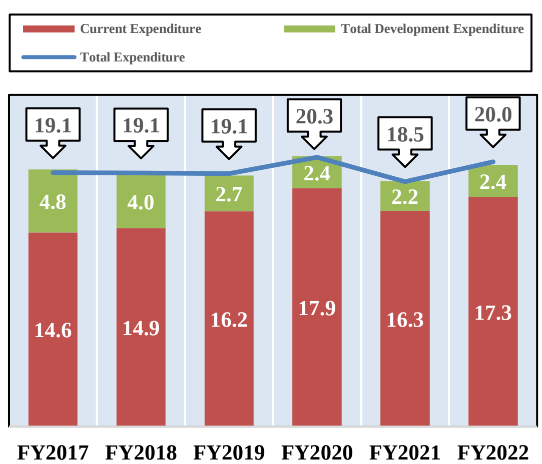
Total expenditures grew by 29.0 percent (20.0 percent of GDP) in FY2022 from 6.8 percent growth (18.5 percent of GDP) in FY2021. The pace in expenditure growth was driven by a substantial rise in current spending triggered by expenses related to the procurement of the COVID-19 vaccine, IPPs circular debt payments, higher markup payments, and social sector spending. Higher global oil and commodity prices in response to the Russia-Ukraine war further exacerbated the situation. In the face of these challenges, the announcement of POL subsidies under the Prime Minister Relief Package during the second half of FY2022 further restricted the fiscal space. Overall, the expansionary fiscal policy stance in FY2022 overturned the consolidation gains of the preceding two years.

Fig. 4.3a: Growth in Current Expenditure (%)



Source: Budget Wing and EA Wing's calculations

Fig.4.3b: Expenditure % of GDP



Source: Budget Wing and EA Wing's calculations

Current expenditures increased by 26.8 percent in FY2022 against the 6.5 percent growth witnessed during FY2021. The increase was observed on the back of a 33.3 percent growth in federal spending fueled by both markup and non-mark-up expenditures. The trend of component-wise expenditures is presented in Table 4.1.

Table 4.1: Trends in Components of Expenditure (% of GDP)

Year	Total Expen-diture	Current Expen-diture	Markup Pay-ments	Defence	Develop ment Expen-diture*	Non-Interest Non-Defence Exp	Fiscal Deficit	Revenue Deficit	Primary Balance
FY2016	17.7	14.3	3.9	2.3	4.0	11.5	4.1	-0.8	-0.3
FY2017	19.1	14.6	3.8	2.5	4.8	12.8	5.2	-0.7	-1.4
FY2018	19.1	14.9	3.8	2.6	4.0	12.7	5.8	-1.6	-1.9
FY2019	19.1	16.2	4.8	2.6	2.7	11.7	7.9	-5.0	-3.1
FY2020	20.3	17.9	5.5	2.6	2.4	12.2	7.1	-4.8	-1.6
FY2021	18.5	16.3	4.9	2.4	2.2	11.2	6.1	-3.9	-1.2
FY2022	20.0	17.3	4.8	2.1	2.4	13.1	7.9	-5.2	-3.1
FY2023 B.E	18.1	15.6	5.1	2.0	2.4	11.1	4.9	-2.3	0.2

* excluding net lending, B.E= budget estimates

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

The growth in markup payments remained restricted at 0.7 percent during July-March FY2022 down from 11.9 percent in the same period of FY2021. However, this trend was reversed during the last quarter of FY2022 wherein the markup payments increased to more than Rs 1 trillion. The increase was witnessed both in domestic and external markup payments. With the increase in the policy rate during the latter half of the current year, the depreciation of the Pak-Rupee together with the increase in LIBOR rates in international markets triggered markup payments to grow by 15.7 percent in FY2022 against 5.0 percent growth in FY2021. However, the share of markup payments in current expenditure was reduced to 28 percent in FY2022 from 30 percent in FY2021.

Higher subsidies remained critical in non-markup expenditures. It grew by 260 percent, owing mostly to increased fuel and energy subsidies. The power and petroleum sectors received the most with a total of Rs 1193 billion in FY2022 compared to Rs 349.0 billion in FY2021. Thus, the share of subsidies to current expenditure climbed to 13.3 percent in FY2022 from 4.7 percent in FY2021.

During FY2022, defence expenditures grew by 7.2 percent against 8.5 percent growth in FY2021. While the expenditures under the running of civil government increased by 8.1 percent in FY2022 after witnessing a decline of 3.5 percent in FY2021. Higher expenditures in this category were noticed due to different relief measures for federal employees to compensate them for income losses caused by higher inflation.

Total development spending increased by 30.5 percent in FY2022 compared to 7.2 percent in FY2021. The PSDP spending climbed by 33.5 percent primarily due to higher development expenditures by the provincial governments, which increased by 58.0 percent for the second consecutive year. Whereas the federal PSDP (net excluding development grants to provinces) declined by 9.2 percent during the year. The decline was primarily attributed to the government's strategy to rationalize development expenditures by prioritizing key development projects to limit escalating fiscal imbalances in FY2022. However, infrastructure, social sector, and regional development for merged districts and special areas (AJ&K, GB) remained the main priority areas under the federal PSDP.

Structure in Tax Revenues

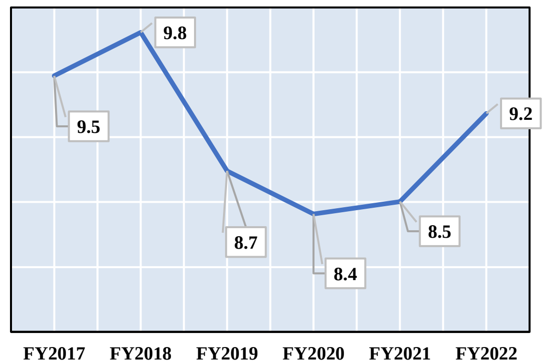
Buoyant tax revenues provide a steady and reliable source of income for a country. It is a fundamental source of public funds for investments in human capital, infrastructure, and the delivery of critical public services, like healthcare and education. Finally, taxes can be used to reduce the burden of public debt, which can help to ensure long-term economic stability.

Pakistan has been struggling to collect sufficient revenues to finance its own development objectives. Federal Board of Revenue (FBR) provides the major contribution to the country's tax revenue while additional contribution to the country's tax revenues is provided by the provinces is meager, which are responsible to collect sales tax on services, excise duties, stamp duties, motor vehicle tax, land revenues, etc.

In FY2022, FBR was not only able to surpass the Rs 6.0 trillion mark for the first time in its history, but it also exceeded its upward revised revenue target of Rs 6100 billion by Rs 48.5 billion. Various measures to improve tax collection helped it to achieve a healthy growth of 29.6 percent in FY 2022 against 18.7 percent rise in the preceding year. The net tax collection in FY2022 stood at Rs 6148.5 billion compared to Rs 4,745.0 billion in FY2021. Despite significant growth in absolute terms, the FBR tax-to-GDP ratio hovered between 8.4 to 9.8 percent in the last seven years (Fig. 4.5).

Over the years, Pakistan has been confronting several issues in its tax structure, such as a narrow tax base, lack of enforcement, poor documentation, exemptions/concessions, fragmentations across provinces for different tax rates, complexity of tax code, widespread tax evasion and avoidance, etc. As a result, Pakistan's revenue-to-GDP ratio is at the lowest level.

Fig. 4.5: FBR Revenue as % of GDP



Source: FBR and EA Wing's calculations

FBR tax collection witnessed broad-based growth in all its revenue heads during FY2022. Particularly, during the second half of FY2022, the growth was more than 27 percent despite challenges, like local and international geopolitical situations, inflation, and zero rating of petroleum products. In FY2022, customs duties recorded the highest growth at 35 percent, followed by direct taxes at 32 percent, sales tax at 27.4 percent, and Federal Excise Duty (FED) at 15.7 percent. The share-wise analysis shows that direct taxes contributed 37.2 percent in total FBR tax collection, while indirect tax contribution remained at 62.8 percent during FY2022. Within total FBR collection, sales tax remained the top revenue-generating source with a 41.2 percent share, customs duty 16.4 percent, and FED 5.2 percent, respectively. The structure of federal tax revenue is presented in Table 4.2.

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
FY2016	3,112.7	9.5	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	9.5	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	9.8	1,536.6	608.4	1,485.3	213.5	2,307.2
			[39.7]	{26.4}	{64.4}	{9.3}	[60.0]

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
FY2019	3,828.5	8.7	1,445.5	685.6	1,459.2	238.2	2,383.0
			[37.8]	{28.8}	{61.2}	{10.0}	[62.2]
FY2020	3,997.4	8.4	1,523.4	626.6	1,596.9	250.5	2,474.0
			[38.1]	{25.3}	{64.5}	{10.1}	[61.9]
FY2021	4,745.0	8.5	1,731.3	748.4	1,988.3	277.0	3,013.7
			[36.5]	{24.8}	{66.0}	{9.2}	[63.5]
FY2022	6,148.5	9.2	2,284.9	1,010.7	2,532.2	320.7	3,863.6
			[37.2]	{26.2}	{65.5}	{8.3}	[62.8]
FY2023 (B.E)	7,470.0	9.6	3,039.0	953.0	3,076.0	402.0	4,431.0
			[40.7]	{21.5}	{69.4}	{9.1}	{59.3}

B.E: Budget Estimate

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

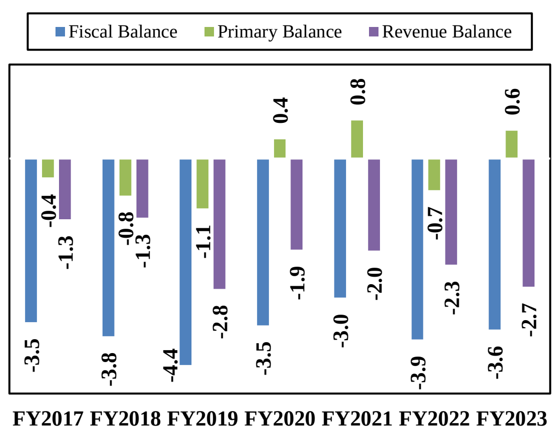
Despite significant economic challenges, FBR's various initiatives to improve tax collection yielded remarkable performance. The Point of Sales (POS) system for documenting the retail sector and the Track and Trace System (TTS) for capturing some of the major large-scale manufacturing (LSM) sectors across the country, were particularly important in enhancing tax collection.

Fiscal Performance (July-March FY2023)

To address the challenges posed by the expansionary fiscal policy stance adopted in FY2022 and to create an environment conducive to sustainable and inclusive growth, the current fiscal year's budget outlined a strategy for fiscal consolidation. It entailed reducing unnecessary spending and improving tax revenues. Moving away from untargeted subsidies was also prioritized to create ample fiscal space to safeguard the poor against inflation.

The government's prudent and calibrated response resulted in better fiscal accounts during the first nine months of the current fiscal year. During July-March, FY2023, the fiscal deficit was contained at 3.6 percent of GDP against 3.9 percent recorded in the same period of last year. Similarly, the primary balance posted a surplus of Rs 503.8 billion in July-March FY2023 as compared to a deficit of Rs 447.2 billion last year, reflecting a slowdown in the growth of non-markup expenditures. However, the revenue deficit deteriorated indicating a higher growth in current expenditures due to a substantial increase in markup payments.

Fig.4.6: Fiscal Indicators % of GDP (Jul-Mar)



Source: Budget Wing and EA Wing's calculation

According to the consolidated fiscal operations, total revenues increased by 18.1 percent from Rs 5,874.2 billion in July-March FY2022 to Rs 6,938.2 billion during July-March FY2023. Both tax and non-tax collection contributed to an increase in overall revenues. Tax revenues (federal and provincial) witnessed a growth of 16.5 percent on the back of a significant rise in FBR tax collection despite various economic challenges at the domestic and global level. In absolute terms, total tax collection reached Rs 5,617.7 billion in July-March FY2023 against Rs 4,821.9 billion in the same period of last year. The information pertaining to the consolidated revenue and expenditure of the government is depicted in Table 4.3.

Table 4.3: Consolidated Revenue and Expenditure of the Government

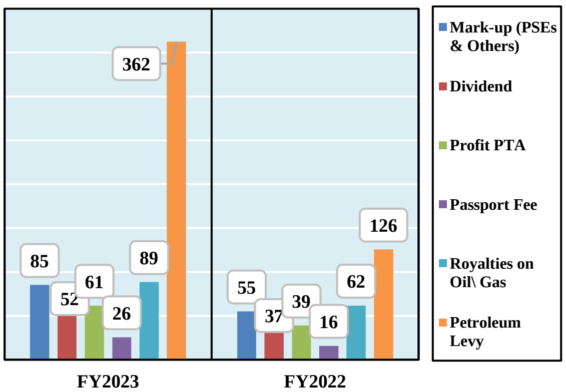
	FY2023 B. E	July-March FY2023	July-March FY2022	Growth
A. Total Revenue	10,370.0	6,938.2	5,874.2	18.1
% of GDP	13.3	8.2	8.8	-
a) Tax Revenue	8,260.0	5,617.7	4,821.9	16.5
% of GDP	10.6	6.6	7.2	-
Federal (FBR Taxes)	7,470.0	5,155.9	4,383.6	17.6
% of GDP	9.6	6.1	6.6	-
Provincial Tax Revenue	790.0	461.8	438.3	5.4
b) Non-Tax Revenue	2,110.0	1,320.5	1,052.2	25.5
% of GDP	2.7	1.6	1.6	-
B. Total Expenditure	14,167.0	10,016.9	8,439.8	18.7
% of GDP	18.1	11.8	12.7	-
a) Current Expenditure	12,183.0	9,244.6	7,378.0	25.3
% of GDP	15.6	10.9	11.1	-
Federal	8,627.0	6,607.9	5,209.9	26.8
Markup Payments	3,950.0	3,582.4	2,118.5	69.1
% of GDP	5.1	4.2	3.2	-
Defence	1,563.0	1,000.7	881.9	13.5
% of GDP	2.0	1.2	1.3	-
Provincial	3,557.0	2,636.7	2,168.2	21.6
b) Development Expenditure &Net Lending	1,984.0	1,060.4	1,051.1	0.9
% of GDP	2.5	1.3	1.6	-19.7
PSDP	1,893.0	1,014.0	1,032.7	-1.8
Federal	644.0	292.9	308.6	-5.1
Provincial	1,249.0	721.0	724.1	-0.4
c) Net Lending	91.0	46.5	18.4	-
d) Statistical discrepancy	-	-288.1	10.7	-
C. Overall Fiscal Balance	3,797.0	-3,078.7	-2,565.6	20.0
% of GDP	4.9	-3.6*	-3.9**	-
D. Primary Balance	-153.0	503.8	-447.2	-
% of GDP	-0.2	0.6	-0.7	-
E. Revenue Balance	-1,813.0	-2,306.4	-1,503.9	53.4
% of GDP	-2.3	-2.7	-2.3	
Financing	3,797.0	3,078.7	2,565.6	20.0
i) External Sources	1,611.2	-682.8	981.5	-
ii) Domestic	2,185.0	3,761.5	1,584.2	137.4
- Bank	93.2	1,958.8	1,051.7	86.2
- Non-Bank	1,996.3	1,802.7	532.4	238.6
- Privatization Proceeds	96.4	-	-	-
GDP at Market Prices	78,197	84,658	66,624	27.1

*: on the basis of Provisional GDP estimates
**: on the basis of Revised GDP

Source: Budget Wing, Finance Division; B.E = Budget Estimates

Similarly, non-tax revenues increased by 25.5 percent to stand at Rs 1,320.5 billion during July-March FY2023 against Rs 1,052.2 billion in the comparable period of last year. In total, the federal non-tax collection increased by 26.7 percent, while provincial non-tax collection increased by 12.8 percent. Higher receipts from petroleum levy, markup (PSEs and others), royalties on oil/gas, and passport fee remained the main drivers to trigger a substantial growth in federal non-tax revenues during the period under review.

Fig. 4.7: Federal Non Tax Revenues (Rs. billion) July-March



Source: Pakistan Fiscal Operations

During the current fiscal year, massive floods caused unexpected expenditures to meet immediate needs like the cost of additional doctors, teachers, rubble removal, and temporary shelters together with cash grants and food assistance to affected families. Nonetheless, the government's fiscal consolidation measures during the year supported better expenditure control.

The government has taken various austerity measures to curtail expenditure and ensure rational utilization of public money to reduce the fiscal deficit. Under these measures, a ban was implemented on the purchase of all types of vehicles except utility vehicles, creation of new posts, treatment abroad at government expense, purchase of office furniture, purchase of machinery and equipment, official visits abroad by Govt. functionaries where GoP funding is involved except obligatory visits and official lunches/dinners / hi-tea except for foreign delegations.

Keeping in view the economic and financial challenges being faced by the country and to conserve scarce resources, the government decided to take further steps to curtail expenditures and bring austerity in public expenditure. For this purpose, a National Austerity Committee was constituted to recommend additional measures. The additional measures for austerity were approved by the Federal Cabinet in its meeting held on 22nd February 2023 (Box-I). To ensure the implementation of these decisions, the Prime Minister has constituted a committee for the implementation of national austerity measures. The committee held 2 meetings on 27th February 2023 and 13th March 2023 under the chair of the Finance Minister in the Finance Division to review the progress of implementation of austerity measures approved by the Federal Cabinet.

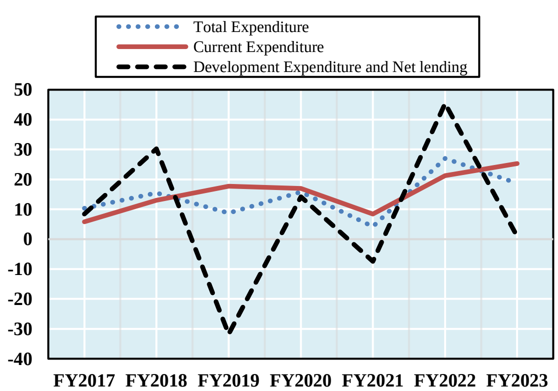
Box I: Austerity Measures

- Federal Ministers, Advisers, MOSs, and SAPMs voluntarily forego salary and allowances.
- All Ministers will continue to pay for utilities, i.e. gas, electricity, water, and telephone from their own pocket.
- All luxury vehicles presently deployed with cabinet members shall be withdrawn.
- Only one security vehicle shall be provided to the cabinet members where necessary.
- Cabinet members shall travel in Economy Class on domestic and foreign visits. No support staff shall be allowed to accompany on foreign visits.
- Cabinet members shall not stay in 5–star hotels during their visits abroad.
- **15% cut** (on an annualized basis) shall be applied in Non-Employee Related Expenses (ERE) current expenditure of all Ministries/Divisions/Attached Departments/Sub-ordinate Offices/Autonomous Bodies, etc. Necessary adjustments in their budget shall be made by the concerned Principal Accounting Officer.
- There shall be a complete ban on the purchase of all new durables till June 2024.
- There shall be a complete ban on the purchase of all vehicles till June 2024.
- Foreign travel of officers shall be allowed only on obligatory visits and in Economy Class. No support staff shall be allowed to accompany.
- Officers on visit abroad shall not stay in 5–star hotels.

- Official vehicles in use of Ministries/Divisions of the Federal Government shall stand withdrawn from those senior officers who are already availing the benefit of car monetization. Action will be taken against the misuse of official vehicles.
- Security vehicles deployed with government officers shall be withdrawn. A committee under Interior Minister may allow a maximum of one vehicle on a case-to-case basis where there is a serious threat to the officer.
- No luxury vehicle shall be allowed for use by cabinet members, public functionaries, and government officers.
- Teleconferencing shall be promoted to reduce traveling and lodging expenditures.
- No new entity shall be created in the Federal Government.
- There shall be a complete ban on the creation of new administrative units (Divisions, Districts, Sub-Divisions and Tehsils) for two years.
- The Single Treasury Account, on which work has been initiated by the Finance Division, shall be implemented immediately.
- Public/government servants shall not be allotted more than one plot with immediate effect.
- A committee under the Law Minister will identify official residences above 1000sq yards for sale/utilization in PPP mode.
- Single dish in case of meal, and tea and biscuits on other occasions shall be served in government events/meetings. This will be served at official premises and not in the hotel except in the case of a foreign delegation.
- The Cabinet may like to request the Chief Justice of Pakistan and Provincial Chief Ministers to take similar decisions for their respective institutions/governments.

Total expenditure grew by 18.7 percent to Rs 10,016.9 billion in July-March FY2023 against Rs 8,439.8 billion in the same period of last year. Within total expenditures, current expenditures increased to Rs 9,244.6 billion during July-March FY2023 from Rs 7,378.0 billion in the same period of FY2022, showing a growth of 25.3 percent.

Fig. 4.8: Growth in Expenditure (%)



Source: Budget wing and EA Wing's calculations

Higher growth in current expenditures during July-March FY2023 is mainly driven by a 69.1 percent growth in markup payments as compared to a 0.7 percent increase in the same period of FY2022. The significant rise in markup payments has been attributed to a rise in servicing on both domestic and foreign debts due to higher policy rates at the domestic and international levels and a Pak-Rupee depreciation. In contrast, non-markup current expenditures grew by 7.7 percent during July-March FY2023 against the substantial increase of 32.1 percent in the comparable period last year. The restricted growth during July-March FY2023 has been observed mainly due to the decline in expenditures on subsidies and grants and is consistent with the government's efforts to ensure fiscal consolidation.

During July-March FY2023, expenditures of Rs. 524.4 billion were incurred under subsidies as compared to Rs 575.2 billion in the comparable period of last year. Thus, it reduced by 8.8 percent during the first nine months of the current fiscal year, against an unprecedented growth of 181.6 percent in the same period last year. The decline has been realized on the back of lower subsidies to the power sector that reduced by 24.2 percent to reach Rs 388.9 billion during July-March FY2023 against Rs 512.8 billion in the same period last year. According to the breakup of subsidies, Rs 20.7 billion was provided to the Utility Store Corporation for the Ramzan Package and Prime Minister Package to provide support to the oppressed segments of society. Similarly, grants to others were reduced by 32.9 percent during July-March FY2023 against a substantial increase of 116.8 percent recorded in the comparable period last year. In absolute terms, expenditures on grants stood at Rs 617.5 billion in July-March FY2023 against Rs 920.0 billion in the same period last year. However, within total grants, the expenditures on Benazir Income Support Program and Pakistan Poverty Alleviation Fund grew by 67.5 percent and 15.7 percent, respectively, during July-March FY2023.

Contrary to the sharp increase in current expenditures, development expenditures, and net lending recorded a marginal increase of 0.9 percent to stand at Rs 1,060.4 billion during July-March FY2023 against Rs 1,051.1 billion in the comparable period of last year. Within total, expenditures under PSDP (Federal and Provincial) registered a decline of 1.8 percent to Rs 1,014.0 billion in July-March FY2023 against Rs 1,032.7 billion in the same period of last year.

The Federal PSDP (including development grants to provinces) stood at Rs 328.8 billion during July-March FY2023 against Rs 452.3 billion in the same period of last year, showing a decline of 27.3 percent. The pace of utilization during July-March, FY2023 is relatively slow mainly due to low quarterly release ceilings for the 1st half i.e., 30 percent against 50 percent during the same period of last financial year. Furthermore, austerity measures also dampen the utilization. The main priority areas under federal PSDP during the current fiscal year are infrastructure (energy, transport & communication, water resource development), the Social sector, particularly, SDGs, and regional development for merged districts and Special areas (AJ&K,GB).

The financing requirements during July-March FY2023 were met through domestic sources. The domestic resources fetched Rs 3,761.5 billion during July-March FY2023, out of which, financing from banks stood at Rs 1,958.8 billion and from non-banks Rs 1,802.7 billion.

FBR Tax Collection (July-April FY2023)

FBR net provisional tax collection increased by 16.1 percent to Rs 5637.9 billion against Rs 4,855.8 billion in a similar period last year. The domestic component of tax revenue collected by the FBR increased by 20.2 percent and stood at Rs 4,886.1 billion in the first ten months of the current fiscal year as compared to Rs 4,064.0 billion last year.

The net collection of direct tax has registered a growth of 44.2 percent during the first ten months of FY 2023. The net collection of direct tax has increased from Rs 1,743.7 billion in July-April FY2022 to Rs 2,514.9 billion during July-April FY2023. The bulk of the tax revenues of direct taxes is realized from income tax. The major contributions of income tax have come from contracts, imports, and profit payout. The tax payments with tax declaration and collection on demand have also shown high growth. Table 4.4 presents the detail of FBR tax-wise collection.

Table 4.4: FBR Tax Collection

Revenue Heads	FY2022 Actual	July-April (Rs billion)		% Change
		FY2022	FY2023 (*)	
Direct Tax				
Gross		1,754.2	2,528.8	44.2
Refund/Rebate		10.5	13.9	-
Net	**2,284.9**	**1,743.7**	**2,514.9**	**44.2**
Indirect Tax				
Gross		3,365.7	3,391.2	0.8
Refund/Rebate		253.7	268.2	-
Net	**3,863.6**	**3,112.0**	**3,123.0**	**0.4**
Sales Tax				
Gross		2,289.2	2,327.5	1.7
Refund/Rebate		224.9	237.5	-

Table 4.4: FBR Tax Collection

Revenue Heads	FY2022 Actual	July-April (Rs billion)		% Change
		FY2022	FY2023 (*)	
Net	**2,532.2**	**2,064.2**	**2,090.0**	**1.2**
Federal Excise				
Gross		256.1	283.9	10.9
Refund/Rebate		0.004	2.8	-
Net	**320.7**	**256.0**	**281.2**	**9.8**
Customs				
Gross		820.5	779.7	-5.0
Refund/Rebate		28.8	27.9	-
Net	**1,010.7**	**791.8**	**751.9**	**-5.0**
Total Tax Collection				
Gross		5,120.0	5,920.0	15.6
Refund/Rebate		264.2	282.0	-
Net	**6,148.5**	**4,855.8**	**5,637.9**	**16.1**

* : Provisional
Source: FBR

The gross and net sales tax collection during July-April FY2023 has been Rs 2327.5 billion and Rs 2090 billion showing growths of around 1.7 percent and 1.2 percent, respectively. Around 64 percent of total sales tax was contributed by sales tax on imports during Jul-April FY2023, while the rest was contributed by the domestic sector.

The collection of FED during July-April FY2023 has recorded a growth of 9.8 percent. The net collection stood at Rs 281.2 billion during July-April FY2023 as against Rs 256 billion during the same period last year. The major revenue spinners of FED are cigarettes, cement, beverages/food, motor cars, air travel, etc.

Customs duty has registered negative growth of 5.0 percent during July-April FY2023. The net collection has declined from Rs 791.8 billion during July-April FY2022 to Rs 751.9 billion during July-April FY2023, owing to the import compression policy for fiscal stabilization. The major revenue spinners of customs duty have been mineral fuels, vehicles, edible oil, and machinery.

The FBR is committed to achieving its assigned tax revenue target during FY 2023. As part of the 9th Review under the Extended Fund Facility Program of the IMF, new revenue measures of Rs 170 billion were taken through Finance Supplementary Act, 2023 which came into force on 23rd February 2023. However, the risks /challenges to FBR’s revenue outlook are unprecedented import compression, a slowdown in economic activity, and litigation of important revenue measures in the High Courts and the Supreme Court. The revenue mix of the FBR comprises 49 percent of the revenue coming from the import of goods. The import compression since the beginning of FY2023, which is more aggravated in the third quarter and fourth quarter of FY 2023 is hurting the revenue stream.

The Super Tax that was imposed in FY 2023 on high-earning persons has been challenged in the High Courts of Sindh, Punjab, and Islamabad. The decision of the Sindh High Court is pending in appeal before the Honorable Supreme Court of Pakistan and the High Courts of Punjab and Islamabad have yet to decide the issue. As interim relief to FBR, the Honorable Supreme Court has allowed 50 percent of the recovery of Super Tax

Box II: Major Reforms Initiatives and Achievements

- **Ease of Doing Business:** Indicators relating to "Trading across Border" improved by 31 ranks from 142 to 111 in 2021**,** showing a remarkable improvement in simplification and automation of international trade.
- **Automated Duty Drawback Payment System:** To facilitate exporters, the manual rebate approval system has been replaced with Risk Management System (RMS) based, fully automated processing of duty drawback and payments.
- **Pakistan Single Window (PSW):** PSW Act, 2021 has been enacted and its rules have been notified. PSW is making significant progress in reducing the time and cost of doing business by digitalizing Pakistan's cross-border trade and eliminating paper-based processes.
- **WeBOC:** This is a fully automated customs clearance system implemented at all seaports, dry ports, and land border stations, including the features of paperless processing and online payments for traders.
- **Risk Management System:** It is part of WeBOC clearance which is continuously upgraded from time to time. Currently, about 57 percent of the import declarations are being cleared through the green channel, while about 85 percent of the export consignments are allowed clearance through the green channel.
- **Enhancing Regional Connectivity of Pakistan with Central Asian Republics:** This has been achieved through the signing of agreements, simplification of Transit Procedures, and Automated Clearance. Pak-Uzbekistan Transit Agreement was finalized and operationalized. Recently, three more agreements have been signed with China, Russia, and Tajikistan.
- **Focused Administrative Effort for Revenue Mobilization:** This includes action against mis-invoicing through better valuation, auctions, recoveries, etc.
- **Control of Smuggling:** For the first time, a counter-smuggling policy was laid out with collaborative arrangements with other Federal and Provincial Law Enforcement Agencies. This has resulted in huge seizures of smuggled goods and contraband. Moreover, a countrywide operation against illegal POL outlets (sealing of illegal outlets/ petrol pumps with criminal proceedings against owners), through which legitimate imports of POL products increased with a corresponding increase in revenue collection.
- **Greater Facilitation of Trade at the Borders:** FBR has been able to reduce the percentage of imports and exports that undergoes documentary and/or physical inspection through a yellow or red channel by customs at the border.
- **Risk-Based Audit:** The selection of cases for Tax Year 2019 is in a process that is based upon a scientific approach through the Risk Based Audit Management System (RAMS) which covers all segments of taxpayers. The purpose of RAMS is to identify and select non-compliant taxpayers and improve compliance behavior across taxpayer segments. This would enable FBR to not only focus on non-compliant taxpayers but also ensure that the audit process is effective, fair, and conducted with integrity; thus, building the confidence of compliant taxpayers in the Audit system.
- **Automation of Audit Monitoring System / Audit Dashboard:** A software solution has been designed to provide continuous monitoring of the audit cases with sufficient documentation and assistance to the auditors. FBR has conducted and completed several cases of comprehensive field audits of large taxpayers selected through the Audit Policy 2019 by the risk-based selection tool and monitored by the Compliance Unit through this software.
- **Track and Trace System (TTS):** Currently, the TTS has been implemented in sugar, fertilizer, and tobacco sectors. Phase-1 of cement sector implementation is planned for June 2023 onwards. It has currently been implemented in 81 facilities in the sugar sector, 15 facilities in the fertilizer sector, and 9 facilities in the tobacco sector.
- **Inland Revenue Enforcement Network (IREN):** IREN has also been established for curbing the illicit tobacco and sugar movement in different areas of the country. IREN enforcement measures have led to the seizure of illicit tobacco and raids have been conducted for the enforcement of a track and trace system.
- **Automated Issuance of Refunds:** To facilitate taxpayers, a centralized automated refund system is functioning successfully with no requirement for manual application and verification. This system issues refunds directly to the bank accounts of the taxpayers without any face-to-face interaction with tax authorities.

- **Reduction in Withholding Lines:** FBR has been following a rigorous agenda to analyze different withholding lines with respect to their yield and impact on taxpayers. Consequently, the number of withholding lines has been reduced to 31 from 58 since FY 2019-20.
- **Fostering a Culture of Interprovincial Coordination and Data Sharing:** FBR has been working together with provincial authorities to standardize and harmonize tax management to the extent possible. Consequently, FBR has signed memorandums of understanding on data sharing and Immovable property valuation tables.
- **Broadening of the Tax Base (BTB):** Devoted BTB units have been established at Regional Tax Offices for the registration of new taxpayers based on information received. Field formation-wise targets have been assigned for the financial year 2022-23. The aim is to expand the tax base from the existing 1.2 million paid filers to 3.5 million paid filers up to the fiscal year 2023-24. FBR has registered 912,392 new taxpayers during the current year as of 31st March FY2023, against the target of 700,000 new taxpayers.

Source: FBR

Provincial Budget

The overview of the provincial budget shows that in FY2023 total provincial revenues are expected to increase by 24.3 percent to reach Rs 5612.7 billion against the revised estimates of Rs 4515.7 billion in FY2022. The increase in revenues is expected from 22.6 percent and 67.8 percent rise in both tax and non-tax revenues, respectively. On the other hand, total expenditures are budgeted to increase by 16.4 percent to reach Rs 5938.2 billion in FY2023 against the revised estimates of Rs 5102.2 billion in FY2022. During FY2023, the share of current and development expenditures in total expenditures is expected to remain at 70.2 percent and 29.8 percent, respectively. An overview of the provincial budget is given in Table 4.5.

Table 4.5: Overview of Provincial Budgets (Rs billion)

Item	Punjab		Sindh		Khyber Pakhtunkhwa		Balochistan		Total	
	FY2022 (R.E)	FY2023 (B.E)	FY2022 (R.E)	FY2023 (B.E)	FY2022 (R.E)	FY2023 (B.E)	FY2022 (R.E)	FY2023 (B.E)	FY2022 (R.E)	FY2023 (B.E)
Total Provincial Own Taxes	289.7	337.0	267.9	347.5	50.1	52.7	24.1	34.8	631.8	772.0
Share in Federal Taxes (Divisible Pool)	1,764.4	2,156.6	837.2	1,023.3	558.5	682.6	295.7	378.9	3,455.8	4,241.4
Total Tax Revenues	2,054.1	2,493.6	1,105.1	1,370.8	608.6	735.3	319.8	413.6	4,087.6	5,013.3
Total Non-Tax Revenues	76.0	159.5	80.9	97.8	64.3	63.2	19.9	83.8	241.1	404.4
All Others	23.7	10.6	22.5	25.2	136.2	145.4	4.6	13.8	187.0	195.0
Total Revenues	2,153.8	2,663.7	1,208.5	1,493.8	809.1	943.9	344.3	511.3	4,515.7	5,612.7
Current Expenditures	1,423.7	1,711.9	1,037.2	1,199.5	894.1	913.8	306.3	342.8	3,661.3	4,168.0
Development Expenditures	647.9	685.0	269.6	459.7	420.9	418.2	102.6	207.3	1,440.9	1,770.2
Total Expenditures	2,071.5	2,396.9	1,306.8	1,659.2	1,315.0	1,332.0	408.9	550.1	5,102.2	5,938.2

Source: Provincial Finance Wing. Finance Division; B. E = Budget Estimates; R.E = Revised Estimates

Allocation of Revenues between the Federal Government and Provinces

According to the distribution of resources under the 7th NFC Award, federal transfers to provinces (divisible pool and straight transfers) are budgeted at Rs 4,366.3 billion in FY2023. During July-March FY2023, federal transfers to provinces reached Rs 2,953.1 billion against Rs 2,584.2 billion last year, showing an increase of 14.3 percent.

The province-wise share in federal transfers (Table 4.6) is as follows: Punjab (Rs 2,164.6 billion), Sindh (Rs 1,094.12 billion), KPK

(Rs 713.5 billion inclusive of 1 percent war on terror), and Balochistan (Rs 394.1 billion).

Table 4.6: Transfers to Provinces (Rs billion)

	FY2023 B. E	Release
Divisible Pool	4,241.4	2,864.1
Straight Transfers	124.917	88.996
Total	4,366.3	2,953.1
Province-wise		
Punjab	2,164.6	1,455.2
Sindh	1,094.1	727.1
KPK	713.5	484.0
Balochistan	394.1	286.8
Total	**4366.3**	**2953.1**

Source: Provincial Finance Wing. Finance Division

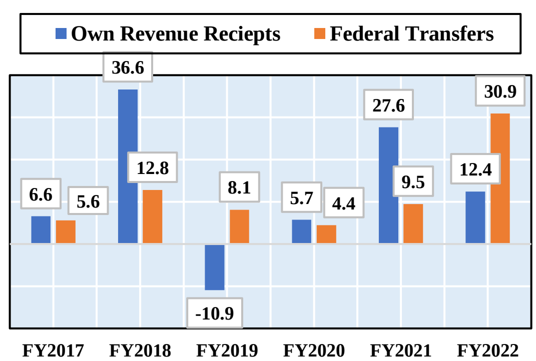
Provincial Fiscal Operations

Performance (FY2022)

Against the target of Rs 570 billion in FY2022, the provincial governments generated a combined surplus of Rs 351 billion, which was higher than the Rs 313.6 billion achieved in FY2021.It was mainly contributed by Punjab and Sindh, while KPK and Balochistan posted a deficit during the year. The consolidated provincial revenues grew by 25.7 percent to reach Rs 4687.5 billion in FY2022 against Rs 3728.0 billion in FY2021. The increase in revenues was largely attributed to a 30.9 percent increase in federal transfers during the year.

Province-own revenue receipts (provincial tax and non-tax) grew by 12.4 percent to reach Rs 740.7 billion in FY2022 against Rs 658.7 billion in FY2021. The increase is primarily attributed to 20.5 percent in provincial taxes in FY2022 over the preceding year. Within provincial taxes, the highest collection was observed in sales tax on services followed by stamp duties and motor vehicle tax. An increase in domestic economic activity and effective measures for revenue mobilization by the provincial governments caused a significant rise in provincial taxes. In contrast, receipts under non-tax collection declined by 14.6 percent to Rs 128.3 billion in FY2022 from 150.3 billion in FY2021 on the back of a decline in receipts from markup and hydroelectricity profit. Table 4.7 presents an overview of provincial fiscal operations.

Fig. 4.9: Provincial Own Revenues and Federal Transfers (% growth)



Source: Pakistan Fiscal Operations and EA Wing's calculations

Table 4.7: Overview of Provincial Fiscal Operations (Rs billion)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	July-March FY2023	July-March FY2022
A. Tax Revenue	**2,145.4**	**2,287.6**	**2,618.8**	**2,799.6**	**2,917.6**	**3,250.3**	**4,201.4**	**3,414.9**	**3,022.5**
Provincial Taxes	283.3	321.8	401.4	401.8	413.6	508.4	612.4	461.8	438.3
Share in Federal Taxes	1,862.2	1,965.8	2,217.4	2,397.8	2,504.0	2,741.9	3,589.0	2,953.1	2,584.2
B. Non-Tax Revenue	**93.3**	**79.5**	**146.7**	**86.3**	**102.4**	**150.3**	**128.3**	105.8	93.7
C. All Others	**55.1**	**61.2**	**173.0**	**110.0**	**221.0**	**327.5**	**357.8**	156.3	278.9
Total Revenue (A+B+C)	**2,293.9**	**2,428.2**	**2,938.5**	**2,995.9**	**3,241.0**	**3,728.0**	**4,687.5**	**3,677.0**	**3,395.2**
a. Current Expenditure	1,559.8	1,739.3	2,080.7	2,350.8	2,541.9	2,844.2	3,200.8	2,662.7	2,192.4
b. Development Expenditure	592.4	852.2	880.1	506.2	622.0	770.2	1,216.6	721.0	724.1
c. Statistical Discrepancy	-65.7	-147.4	-4.8	-51.1	-147.9	-200.0	-80.9	-162.8	-121.1
Total Expenditure (a+b+c)	**2,086.5**	**2,444.1**	**2,956.0**	**2,805.9**	**3,016.1**	**3,414.4**	**4,336.5**	**3,221.0**	**2,795.4**
Overall, Balance	**207.4**	**-15.9**	**-17.5**	**190.0**	**224.9**	**313.6**	**351.0**	**456.0**	**599.8**

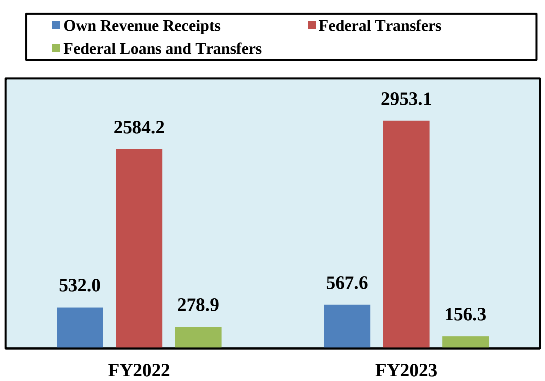
Source: Pakistan Fiscal Operations

During FY2022, provincial expenditure increased by 27.0 percent to reach Rs 4336.5 billion as compared to Rs 3414.4 billion in FY2021. The main driver of expenditure growth was a 58.0 percent increase in development spending. Higher spending on construction and transport services, housing, community development, health, and social protection drove the increase in development expenditure. The current expenditure, on the other hand, increased by 12.5 percent to Rs 3200.8 billion in FY2022 against Rs 2844.2 billion in FY2021. The rise was observed mainly due to higher spending on executive & legislative organizations, financial & fiscal affairs, transfers under general public services, public order & safety affairs, health, education affairs & services, agriculture, food, irrigation, forestry & fishing, and construction & transport under economic affairs.

Performance (July-March FY2023)

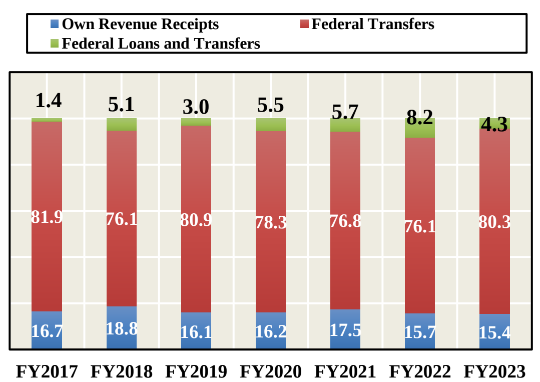
The slowdown in domestic economic activities during the current fiscal year has also been translated into the revenue performance of provincial governments. Total revenues of the provincial government grew by 8.3 percent during July-March FY2023 against the growth of 31.4 percent recorded last year. Within total revenues, the provincial taxes stood at Rs 461.8 billion during July-March FY2023 against Rs 438.3 billion in the comparable period of last year. Thus, the tax collection increased by only 5.4 percent on the back of a 14.5 percent growth in sales tax on services GST and a 9.0 percent increase in excise duty. While tax revenues from stamp duties and motor vehicle tax were reduced by 5.6 and 8.8 percent, respectively, during the period under review. On the other hand, the non-tax collection grew by 12.9 percent to Rs 105.8 billion during the first nine months of the current fiscal year as compared to Rs 93.7 billion recorded last year. The receipts from irrigation, dividends, fiscal administration, social services, and food and agriculture, etc. remained the major revenue spinners within the non-tax collection.

Fig-4.10a: Composition of Provincial Revenues, July-March (Rs billion)



Source: Pakistan Fiscal Operations and EA Wing's calculations

Fig-4.10b: Contribution in Provincial Revenues, July-March (%)



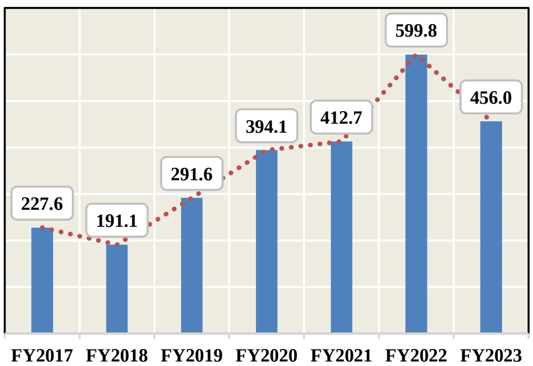
Source: Pakistan Fiscal Operations and EA Wing's calculations

Thus, total provincial own revenue receipts grew by only 6.7 percent to reach Rs 567.6 billion in July-March FY2023 against Rs 532.0 billion in the comparable period of last year. Whereas provinces received Rs 2,953.1 billion from the federal government under NFC award during July-March FY2023 against Rs 2,584.2 billion in the same period of last year.

During July-March FY2023, total provincial expenditure slowed down to 15.2 percent (Rs 3,221.0 billion) down from 28.7 percent (Rs 2,795.4 billion) registered last year owing to a decline in development spending. Conversely, current expenditure observed a sharp rise by posting a growth of 21.5 percent against the 12.5 percent observed last year. In absolute terms, it increased to Rs 2,662.7 billion during July-March FY2023 from Rs 2,192.4 billion in the same period of last year. The main impetus came from expenditures on social protection, agriculture, food, irrigation, forestry & fishing, fuel & energy, health, education affairs, and services, etc. On the other hand, development expenditures witnessed a marginal contraction of 0.4 percent during July-March FY2023 owing to a decline in development spending under general public services, recreational, culture and religion, and health. While development expenditures in the area of environment and social protection witnessed a significant increase during the year.

Overall, the provinces posted a cumulative surplus of Rs 456.0 billion during July-March FY2023 against the surplus of Rs 599.8 billion in the comparable period last year. The major contribution of the provincial surplus came from Punjab with a surplus of Rs 262.5 billion, followed by Sindh (Rs 144.7 billion), Balochistan (Rs 43.4 billion) and KPK (Rs 5.4 billion), respectively.

Fig. 4.11: Provincial Surplus (Rs billion)



Source: Pakistan Fiscal Operations and EA Wing's calculations

Public Financial Management Reforms (PFM)

Public Financial Management Act (PFM) promulgated in 2019 is an important step toward improving public financial management in Pakistan. It aims to improve financial planning, ensure the efficient and effective utilization of funds, and promote transparency and accountability.

Several initiatives have already been taken to make PFM reforms a holistic exercise including the establishment of the office of Chief Finance and Account Officer to assist and support the Principle Accounting Officer (PAO), empowering PAO to utilize his budget grant without endorsement by the Finance Division, amendments in Federal Treasury Rules to facilitate pensioners, amendment in GFR 13(3) to empower the head of an office to authorize any gazette officer serving under him to incur expenditure, amendment in GFR 130, sub-rule 3 to authorize Police Station House Officers (SHOs) of Islamabad Capital Territory (ICT) as Drawing and Disbursement Officers (DDOs) for their respective jurisdictions in ICT, Established TSA phase-I system in Ministries, Division, Attached Departments, and Sub-Ordinate Offices (MDAS), Awareness workshops have been conducted on the TSA phase-II system for Public Entities, the Cash Forecasting Unit (CFU) has been established under the Budget Wing, Financial Management and Powers of Principal Accounting Officers Regulations, 2021 has been reviewed in consultation with stakeholders for incorporation of amendments in the said regulations, and amendments in Sr. No. 4,41,43 & 81 have been made in the schedule of Financial Management and Powers of Principal Accounting Officers Regulations, 2021.

While continuing the agenda for reforms in Public Financial Management (PFM), receipt and Payment Rules, Grant in Aid Rules, and General Financial Rules (drafted in consultation with stakeholders) is in the advanced stages of approval.

Way Forward

Pakistan entered FY2023 with multipronged challenges and the risk of default. However, with prudent and calibrated policies, the risk of default was successfully averted. The budget FY2023 centered on strong fiscal consolidation with an objective to ensure fiscal sustainability and macroeconomic stability. The fiscal deficit was budgeted to be 4.9 percent of GDP, with the primary balance in a surplus of Rs 153 billion. Similarly, the GDP growth for FY2023 was projected at 5.0 percent. However, massive floods at the start of the current fiscal year caused a detrimental impact on all sectors of the economy, altering the entire scenario and outlook of the economy. It put tremendous pressure on the overall expenditure needed for relief and rehabilitation efforts. Despite these difficulties, the government has remained focused on fiscal consolidation efforts during the current fiscal year to keep the fiscal deficit within manageable limits. These efforts paid off in terms of a contained fiscal deficit at 3.6 percent of GDP and a primary surplus of Rs503.8 billion during the first nine months of the current fiscal year.

Currently, higher markup payments due to higher policy rates both at the domestic and global levels are putting tremendous pressure on the expenditure side. To that end, the government is attempting to control different non-productive spending through austerity measures. Furthermore, the emphasis is on providing targeted subsidies to deserving segments of society. The objective is to keep the fiscal deficit under control, encourage sustainable economic growth, and keep the primary balance at a sustainable level. On the revenue side, FBR tax collection, although growing at 16.1 percent, it remained below the target set for the first ten months of the current fiscal year. The slowdown in economic activity and import compression along with litigation of important revenue measures in the High Courts and the Supreme Court have created multifaceted challenges for FBR to achieve its assigned target of Rs 7,640 billion during FY2023. Nonetheless, FBR is putting all its efforts through various policy and administrative measures to improve tax collection.

Despite significant challenges due to the global and domestic economic environment, the fiscal consolidation efforts are on track and reaping the benefits in terms of better fiscal accounts. It is therefore expected that the fiscal year 2023 would observe a considerable decline in fiscal deficit as compared to last year. To this end, additional austerity measures, various tax policies, and administrative reforms to improve tax collection, as well as efforts to improve financial planning through PFM reforms will provide additional impetus to the government's efforts to further reduce the fiscal deficit over the medium term.

TABLE 4.1

FEDERAL GOVERNMENT OVERALL BUDGETARY POSITION

Rs million

Fiscal Year / Item	2021-22	2022-23 P July-March
A. REVENUE		
FBR Tax Revenue (1 +2)	6,142,802	5,155,906
1. Direct Taxes	2,280,470	2,308,916
2. Indirect Taxes	3,862,332	2,846,990
i. Customs	1,009,498	701,152
ii. Sales Tax	2,531,856	1,901,067
iii. Federal Excise	320,978	244,771
Non-Tax Revenue	1,185,421	1,240,676
Gross Revenue Receipts	7,328,223	6,396,582
B. EXPENDITURE		
Current Expenditure	8,451,562	6,675,446
i. Defence	1,411,646	1,000,698
ii. Mark-up payments	3,182,432	3,582,447
iii. Grants	1,239,288	685,093
vi. Others**	2,618,196	1,407,208
Development Expenditure and Net Lending	701,110	428,086
Statistical Discrepancy	197,417	-125,353
Total Expenditure	9,350,089	6,978,179

P : Provisional

Source: Budget Wing, Finance Division, Islamabad

*: Includes other categories not shown here

TABLE 4.2

SUMMARY OF PUBLIC FINANCE (CONSOLIDATED FEDERAL & PROVINCIAL GOVERNMENTS)

Rs million

Fiscal Year / Items	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 P July-March
Total Revenues (i+ii)	4,936,723	5,228,014	4,900,724	6,272,168	6,903,370	8,035,383	6,938,244
Federal	4,535,452	4,679,945	4,412,625	5,756,162	6,244,698	7,294,720	6,370,632
Provincial	401,271	548,069	488,099	516,006	658,672	740,663	567,612
i) Tax Revenues	3,682,818	4,243,520	4,231,272	4,411,538	5,272,699	6,755,168	5,617,739
Federal	3,361,046	3,842,148	3,829,469	3,997,921	4,764,302	6,142,802	5,155,906
Provincial	321,772	401,372	401,803	413,617	508,397	612,366	461,833
ii) Non-Tax Revenues	1,253,905	984,494	669,452	1,860,630	1,630,671	1,280,215	1,320,505
Federal	1,174,406	837,797	583,156	1,758,241	1,480,396	1,151,918	1,214,726
Provincial	79,499	146,697	86,296	102,389	150,275	128,297	105,779
Total Expenditures (a+b+c+d)	6,800,520	7,488,395	8,345,640	9,648,488	10,306,691	13,295,275	10,016,917
a) Current	5,197,854	5,854,267	7,104,030	8,532,020	9,084,010	11,521,375	9,244,595
Federal	3,472,150	3,789,767	4,776,150	6,016,192	6,264,821	8,354,104	6,607,856
Provincial	1,725,704	2,064,500	2,327,880	2,515,828	2,819,189	3,167,271	2,636,739
b) Development	1,693,474	1,584,057	1,178,442	1,155,213	1,238,738	1,617,050	1,013,985
c) Net Lending to PSE's	-12,817	37,625	40,750	48,528	76,938	40,372	46,461
d) Statistical Discrepancy	-77,991	12,446	22,418	-87,273	-92,995	116,478	-288,124
Overall Balance	-1,863,797	-2,260,381	-3,444,916	-3,376,320	-3,403,321	-5,259,892	-3,078,673
Primary Balance	-515,362	-760,459	-1,353,790	-756,581	-653,592	-1,677,445	503,774
Financing (net)	1,863,797	2,260,380	3,444,916	3,376,320	3,403,321	5,259,892	3,078,673
External (net)	541,390	785,166	416,706	895,510	1,338,091	1,178,410	-682,809
Domestic (i+ii+iii)	1,322,407	1,475,214	3,028,210	2,480,810	2,065,230	4,081,482	3,761,482
i) Non-Bank	276,629	352,719	764,986	540,250	196,189	980,570	1,802,720
ii) Bank	1,045,778	1,120,495	2,263,224	1,940,561	1,869,041	3,100,912	1,958,762
iii) Privatization Proceeds	-	-	2,000	-	-	-	-
Memorandum Item							
GDP (mp) in Rs billion	35,553	39,190	43,798	47,540	55,836	66,624	84,658
	(As Percent of GDP at Market Price)						
Total Revenue	13.9	13.3	11.2	13.2	12.4	12.1	8.2
Tax Revenue	10.4	10.8	9.7	9.3	9.4	10.1	6.6
Non-Tax Revenue	3.5	2.5	1.5	3.9	2.9	1.9	1.6
Expenditure	19.1	19.1	19.1	20.3	18.5	20.0	11.8
Current	14.6	14.9	16.2	17.9	16.3	17.3	10.9
Development Expenditure & net Lending	4.7	4.1	2.8	2.5	2.4	2.5	1.3
Overall Balance	-5.2	-5.8	-7.9	-7.1	-6.1	-7.9	-3.6
Primary Balance	-1.4	-1.9	-3.1	-1.6	-1.2	-2.5	0.6

P : Provisional

Source: Budget Wing, Finance Division, Islamabad

Note: Beginning from FY2016, Pakistan's GDP was rebased at 2015-16 Prices from the old base of 2005-06. Therefore, wherever, GDP appears in the denominator the number prior to FY2016 are not comparable.

/1: During FY2021, the fiscal accounts have been reclassified in line with the implementation of PFM procedures. According to the reclassification, federal taxes other than FBR have now been included in non-tax revenue. To make the data comparable, the fiscal indicators since FY2016 have also been reclassified.

TABLE 4.3

CONSOLIDATED FEDERAL & PROVINCIAL GOVERNMENT REVENUES

Rs million

Fiscal Year/Items	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 P July-March
Total Revenue (I+II)	4,936,723	5,228,014	4,900,724	6,272,168	6,903,370	8,035,383	6,938,244
Federal	4,535,452	4,679,945	4,412,625	5,756,162	6,244,698	7,294,720	6,370,632
Provincial	401,271	548,069	488,099	516,006	658,672	740,663	567,612
I. Tax Revenues	3,682,818	4,243,520	4,231,272	4,411,538	5,272,699	6,755,168	5,617,739
Federal (A+B)	3,361,046	3,842,148	3,829,469	3,997,921	4,764,302	6,142,802	5,155,906
A. Direct Taxes	1,343,197	1,536,636	1,445,594	1,524,252	1,731,860	2,280,470	2,308,916
B. Indirect Taxes	2,017,849	2,305,512	2,383,875	2,473,669	3,032,442	3,862,332	2,846,990
i. Excise Duty	198,570	205,877	233,591	250,470	277,072	320,978	244,771
ii. Sales Tax	1,323,261	1,491,310	1,464,887	1,596,821	1,990,186	2,531,856	1,901,067
iii. Customs	496,018	608,325	685,397	626,378	765,184	1,009,498	701,152
Provincial	321,772	401,372	401,803	413,617	508,397	612,366	461,833
Sales Tax on services GST	170,791	223,860	202,881	232,969	293,645	355,720	287,980
Excise Duty	6,635	8,554	9,274	7,643	8,218	8,896	7,335
Stamp Duties	38,167	62,754	70,396	59,148	55,217	70,888	47,475
Motor Vehicle Taxes	21,282	24,123	24,850	17,979	26,779	36,219	24,873
Others*	84,897	82,081	94,402	95,878	124,538	140,643	94,170
II. Non-Tax Revenues	1,253,905	984,494	669,452	1,860,630	1,630,671	1,280,215	1,320,505
Federal	1,174,406	837,797	583,156	1,758,241	1,480,396	1,151,918	1,214,726
Provincial	79,499	146,697	86,296	102,389	150,275	128,297	105,779
Surcharges**	239,959	203,086	211,612	306,037	447,177	147,901	374,208
i. Gas	73,262	24,212	5,304	12,356	22,523	20,372	11,728
ii. Petroleum	166,697	178,874	206,308	293,681	424,654	127,529	362,480

P: Provisional

Source: Budget Wing, Finance Division

* : It also includes property tax

** : Non-Tax Revenues under these heads are exclusively Federal

Note: According to the re-classification, of data as per PFM procedures, federal taxes other than FBR have now been included under Non tax revenues

TABLE 4.4

CONSOLIDATED FEDERAL & PROVINCIAL GOVERNMENT EXPENDITURES

Rs million

Fiscal Year/Items	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 P July-March
Current Expenditure	5,197,854	5,854,267	7,104,030	8,532,020	9,084,010	11,521,374	9,244,595
Federal	3,472,150	3,789,767	4,776,150	6,016,192	6,264,821	8,354,103	6,607,856
Defence	888,078	1,030,407	1,146,793	1,213,281	1,316,189	1,411,646	1,000,698
Mark-up Payments	1,348,435	1,499,922	2,091,126	2,619,739	2,749,729	3,182,432	3,582,447
Subsidies	153,717	114,194	195,345	359,923	425,023	1,529,609	524,432
Others	1,081,920	1,145,244	1,342,886	1,823,249	1,773,651	2,230,416	1,500,279
Provincial	1,725,704	2,064,500	2,327,880	2,515,828	2,819,189	3,167,271	2,636,739
Development Expenditure	1,693,474	1,584,057	1,178,442	1,155,213	1,238,738	1,617,050	1,013,985
Net Lending to PSEs	-12,817	37,625	40,750	48,528	76,938	40,372	46,461
Statistical Discrepancy	-77,991	12,446	22,418	-87,273	-92,995	116,478	-288,124
Expenditure Booked excl discrepancy	6,878,511	7,475,949	8,323,222	9,735,761	10,399,686	13,178,796	10,305,041
Total Expenditure	6,800,520	7,488,395	8,345,640	9,648,488	10,306,691	13,295,274	10,016,917
Memorandum Items:	(Percent Growth over preceding period)						
Current Expenditure	10.7	12.6	21.3	20.1	6.5	26.8	
Defence	17.2	16	11.3	5.8	8.5	7.3	
Mark-up Payments	6.7	11.2	39.4	25.3	5.0	15.7	
Current Subsidies	-25.8	-25.7	71.1	84.2	18.1	259.9	
Development Expenditure	30.1	-6.5	-25.6	-2.0	7.2	30.5	
Expenditure Booked excl discrepancy	14.5	8.7	11.3	17.0	6.8	26.7	
Total Expenditure	17.3	10.1	11.4	15.6	6.8	29.0	
	As % of total expenditures						
Current Expenditure	76.4	78.2	85.1	88.4	88.1	86.7	92.3
Defence	13.1	13.8	13.7	12.6	12.8	10.6	10.0
Mark-up Payments	19.8	20	25.1	27.2	26.7	23.9	35.8
Current Subsidies	2.3	1.5	2.3	3.7	4.1	11.5	5.2
Development Expenditure*	24.7	21.7	14.6	12.5	12.8	12.2	10.1

P: Provisional

Source: Budget Wing, Finance Division

* : Include Net Lending

TABLE 4.5

DEBT SERVICING

Rs million

Fiscal Year / Item		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 P July-March
A.	Mark-up Payments	1,348,435	1,499,922	2,091,126	2,619,739	2,749,729	3,182,432	3,582,447
	Servicing of Domestic Debt	1,220,265	1,322,645	1,820,821	2,313,133	2,523,811	2,828,572	3,107,743
	Servicing of Foreign Debt	128,170	177,277	270,305	306,606	225,918	353,860	474,704
B.	Repayment/Amortization of Foreign Debt	544,314	450,189	974,001	1,362,353	940,278	1,681,088	2,268,527
C.	Total Debt Servicing (A+B)	1,892,749	1,950,111	3,065,127	3,982,092	3,690,007	4,863,520	5,850,974
MEMORANDUM ITEMS		(As Percent of GDP)						
	Servicing of Domestic Debt	3.4	3.4	4.2	4.9	4.5	4.2	3.7
	Servicing of Foreign Debt	0.4	0.5	0.6	0.6	0.4	0.5	0.6
	Repayment/Amortization of Foreign Debt	1.5	1.1	2.2	2.9	1.7	2.5	2.7
	Total Debt Servicing	5.3	5	7	8.4	6.6	7.3	6.9

P: Provisional

Source: Budget Wing, Finance Division