MID- YEAR BUDGET REVIEW REPORT FY 2019-20

GOVERNMENT OF PAKISTAN
FINANCE DIVISION

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LETTER OF REPORT SUBMISSION

21st February, 2020

Dear Mr. Speaker,

In terms of Section 34(1) of Public Finance Management Act 2019, the Mid-Year Budget Review Report outlining the comparison between the budgeted and actual Revenues, Expenditure and Financing for Current Financial Year 2019-20 is hereby submitted to the National Assembly.

With warm regards,

Yours sincerely,

AHShaikh.

(Dr. Abdul Hafeez Shaikh)
Adviser to Prime Minister
on Finance & Revenue

Mr.Asad Qaiser
Speaker
National Assembly
Islamabad

FOREWORD

Mid-Year Budget Review Report FY 2019-20 has been prepared to fulfil the requirement laid down under Section 34 (1) of the Public Finance Management Act, 2019. Under the leadership and policy guidance of Dr. Abdul Hafeez Shaikh, Adviser to Prime Minister on Finance and Revenue, this first ever Mid-Year Budget Review signifies the intent of responsiveness and transparency of the Govt. for better Public Financial Management. I would like to acknowledge the strategic input and apt analysis provided by Special Secretary Finance, Additional Secretaries of Budget, External Finance, Expenditure and Economic Adviser, Finance Division.

Furthermore, I would like to convey my appreciation to all the Principal Accounting Officers of the Federal Govt. for extending cooperation and timely reporting back the reconciled data, in compliance with the Public Finance Management Act, 2019. I would also like to recognize the efforts of the Director General, Debt Policy Coordination Office, and the quality of analysis and data provided by the Federal Board of Revenue, while inputs received from the Planning, Development & Special initiatives Division also deserve appreciation. This report is one amongst the many other steps taken by the Govt. to assure and report the transparent utilization of public finances to the legislature.

Naveed Kamran Baloch
Finance Secretary
Government of Pakistan

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EXECUTIVE SUMMARY

The National Assembly while passing the Finance Bill for FY 2019-20 (Annual Budget), also enacted the Public Finance Management Act 2019, as per requirements of the Article 79 of the Constitution of Pakistan. The Act is applicable with effect from 1st July, 2019 and has been enforced to strengthen the management of public finances and improving implementation of fiscal policies for better macroeconomic and budgetary management. In compliance with the section 34(1) of the Public Finance Management Act 2019, Mid-Year reporting of the budget developments has been introduced for the first time in Pakistan.

During the Mid-Year FY 2019-20, Pakistan's economy moved progressively along the stabilization and adjustment path. A steady policy mix has appeared to adequately address the macroeconomic imbalances. Structural adjustment process picked up momentum with the initiation of the IMF's Extended Fund Facility program. The Monetary Policy, being consistent with the medium term inflation targets, was continued by SBP. Consolidation efforts on the fiscal front were visible, both on the revenue and expenditure sides. FBR has actively pursued improvement in documentation efforts, including asset revaluations, tight financial scrutiny and introduction of structured mechanisms to formalize business value chains. The success of documentation measures hinges upon the policy consistency and would manifest in revenue mobilization over the medium term. However, the payoff from the ongoing stabilization efforts has become visible in the form of declining twin deficits *i.e.* Current Account & Fiscal.

During July-December FY 2019-20; Current Account Deficit (CAD) was reduced by 75.0%, Exports increased by 4.5%, rise in worker's remittances by 3.3%, FDI grew by 68.3%, Fiscal deficit was contained at 2.3 %, Primary balance posted surplus of 0.6%. Significant increase of almost 16% in FBR tax revenues was witnessed taking them to Rs.2093 bn. "Ease of doing business" ranking was improved by 28 ranks, improving the country's ranking from 136 to 108. The up-gradation of Pakistan's credit rating outlook by Moody's from "Negative" to 'Stable' is a strong validation of its sound macro-economic policies.

Total expenditure of Mid FY 2019-20 has remained within the budgeted estimates. Current spending for running of civil Govt. was curtailed by rationalization and austerity measures. Due to the re-profiling of the payment structure into longer maturities, space was create to increase development spending without undermining the overall consolidation efforts. Priority has been given to development spending, in particular Ehsaas Program, Tourism Promotion initiatives and erstwhile FATA.

The Govt. has strictly adhered to its commitment of no borrowing from the State Bank. The maturity structure of the additional domestic debt has been equally balanced between short-term and long-term securities and the overall share of short-term debt has declined substantially. The pace of external debt accumulation has been slower during mid-year as compared to previous year in the wake of revaluation gains due to depreciation of other currencies against the US dollar.

Govt. is committed to put the fiscal situation in specific and economy as a whole on the right path and the favourable mid-year indicators are the reflection of the this intent and commitment. However, it is essential to be stated that the second half of the current fiscal year imposes certain challenges and risks. These include; imposing revenue target, fiscal and debt sustainability, expenditure discipline and development spending.

MID-YEAR FISCAL OPERATIONS
FY 2019-20

1. Mid-Year Fiscal Operations FY 2019-20

For the Financial Year 2019-20, Federal fiscal deficit target is estimated to be 7.1% of the GDP. Mid-Year Fiscal indicators have recorded promising results. A strong growth in revenue collection (both tax and non-tax) and containment of current expenditure have helped restrict the fiscal deficit to 2.3% of the GDP compared to 2.7% last year. The revenue deficit has also contracted sharply, whereas surplus was recorded in the primary balance for two consecutive Quarters of FY 2019-20.

(Rs. Billion)

Description	Budget Estimate	Mid-Year Actual
Gross Revenue Receipts	**6717**	**2970**
Less: Provincial Share	3255	1326
Net Federal Revenue Receipts	**3462**	**1644**
Total Expenditure	**7022**	**2987**
Re-current	6193	2692
Development and Lending	829	295
Federal Budget Deficit	**(3560)**	**(1343)**
Provincial (Deficit) / Surplus	423	348
Overall Fiscal Deficit	**(3137)**	**(995)**
Financing of Fiscal Deficit	3137	995
Net External Financing	1829	514
Net Domestic Financing	1308	481
GDP	**44003**	**44003**
Fiscal Deficit (% of GDP)	**-7.1%**	**-2.3%**
Primary Balance	**(246)**	**286**
Primary Balance (% of GDP)	**(0.6%)**	**0.7%**

The Fiscal Deficit of 7.1% was based on initial estimated provisional surplus of Rs. 423 billion of provincial Govt.s. Later on, after passing of provincial budgets by the respective provincial assemblies, provincial surplus was revised from Rs. 423 to Rs. 278 billion, which has resulted into consolidated Fiscal Deficit of 7.5%.

REVENUE RECEIPTS FY 2019-20

2. Revenue Receipts FY 2019-20

Federal Revenue Receipts are broadly categorized as Tax Revenue and Non-Tax Revenue. Both the revenue streams are administered, collected and reported by the respective Ministries/Divisions/Departments. FBR taxes constitute major component of revenue collection followed by Non-Tax revenue and Non-FBR taxes.

2.1. FBR Tax Revenue

Federal Board of Revenue (FBR) is the main tax collecting agency as substantial portion of tax revenue is administered and collected by it. Tax Revenue collected by FBR constitutes the Divisible Pool Taxes to be distributed amongst the Provinces in accordance with the provisions of National Finance Commission (NFC) Award. FBR taxes may also be categorized as Direct Taxes and Indirect Taxes. Direct Taxes comprise Income Tax, Workers Welfare Fund and Capital Value Tax. Indirect Taxes include Sales Tax, Federal Excise Duty and Customs Duty.

The status of Budget Estimates FY 2019-20 and Mid Year Actual FBR taxes receipts are as under:-

(Rs. Billion)

Description	Budget Estimates	Mid-Year Actual Receipts
FBR Taxes (A)	**5555**	**2093**
i- Direct Taxes	**2082**	**784**
Taxes on Income	2073	779
Workers Welfare Fund	05	4.0
Capital Value Tax	04	1.0
ii- Indirect Taxes	**3473**	**1309**
Customs Duties	1001	328
Sales Tax	2108	859
Federal Excise	365	122

During July-December, FY 2019-20, FBR has been able to collect around Rs. 2,093 billion as provisional tax revenues reflecting a growth of 16.6 percent. The overall achievement during the first 6 months has been 95% of the targets as set by the FBR. The head-wise target achievement has been depicted in the following table:

(Rs. Billion)

Heads	Targets Jul-Dec	Collection July-Dec
Direct Taxes	824	784
Sales Tax	887	859
FED	149	122
Customs	338	328
Total	2,198	2,093

The major contributors of income tax are withholding tax, voluntary payments and collection on demand. The collection of sales tax during first six months has increased by 24%, collection of federal excise duties has recorded 29.8% growth, while customs duty has registered negative growth of (2.4%) mainly due to imports compression. The overall FBR revenue growth tax-wise is given below:-

2.2. Reasons for Shortfall:

Some of these factors are given below:-

i. Unprecedented compression in imports.

ii. Less consumption of petroleum products.

iii. Decline in Auto & Auto Parts Sector.

iv. Less growth in Airline Sector.

v. Overall economic slowdown.

vi. Very challenging and un-precedented Revenue targets.

2.3 Other Taxes

According to Annual Budget Statement for FY 2019-20 and the Chart of Account issued by CGA, Other Taxes comprise Gas Infrastructure Development Cess (GIDC), Natural Gas Development Surcharge (GDS), and Petroleum Levy, which are administered by Petroleum Division. Besides, various taxes are collected by Islamabad Capital Territory (ICT) Administration *i.e* Motor Vehicle Tax, Land revenue, Stamp duty, Property Tax, Professional tax etc. Moreover, Airport Tax is administered by Civil Aviation Authority. In fact these receipts excluding ICT Taxes are Non-Tax in nature. Therefore accounting treatment is being corrected accordingly.

A brief description of budget estimates and mid-year actual are as under:-

(Rs. Billion)

Description	Original Budget 2019-20	Mid-Year Actual Receipts
Non-FBR Tax Revenues (B)	**267**	**158**
GIDC	30	05
PDL	216	138
Mobile Handset Levy	03	01
Natural Gas Development Surcharge	10	05
ICT Taxes	08	09

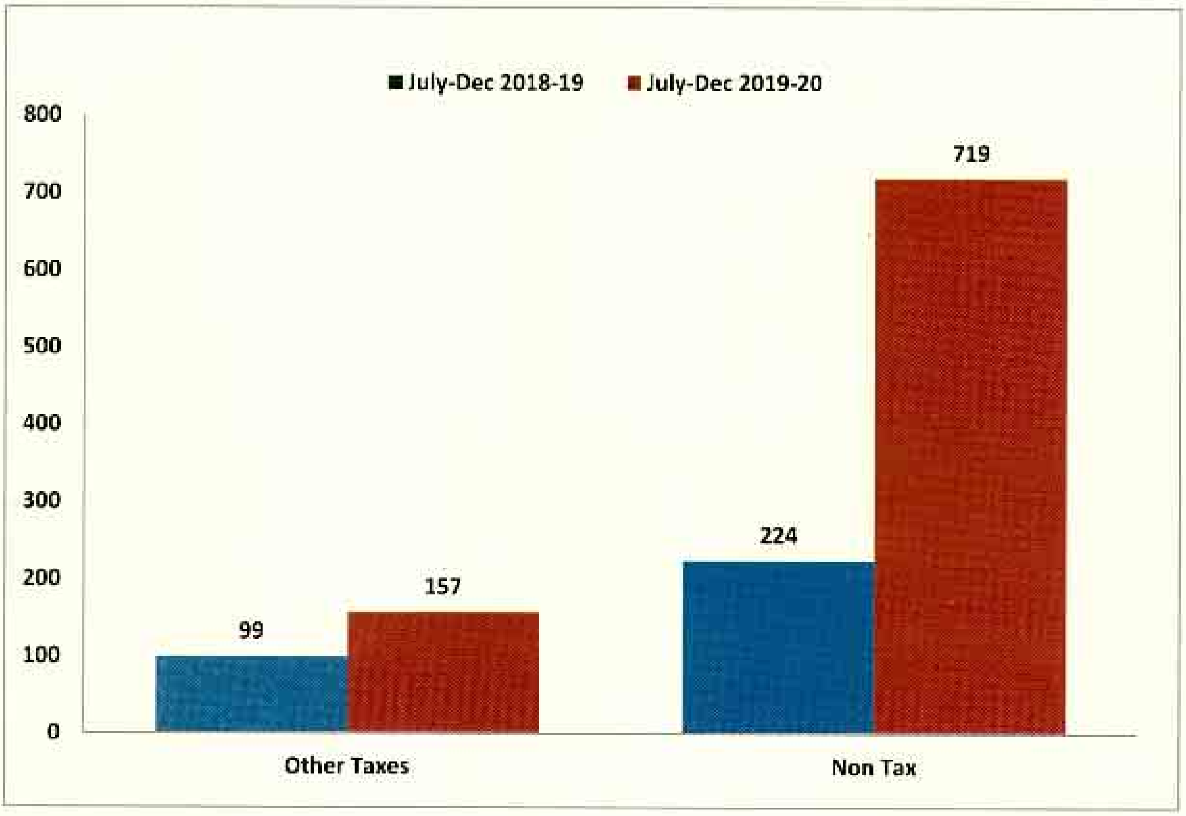
2.4 Non-Tax Revenues

Non-Tax revenue represents the recurring income earned by the Federal Govt. from sources other than taxes. The major sources and their budget estimates and actual half year receipts are stated below:-

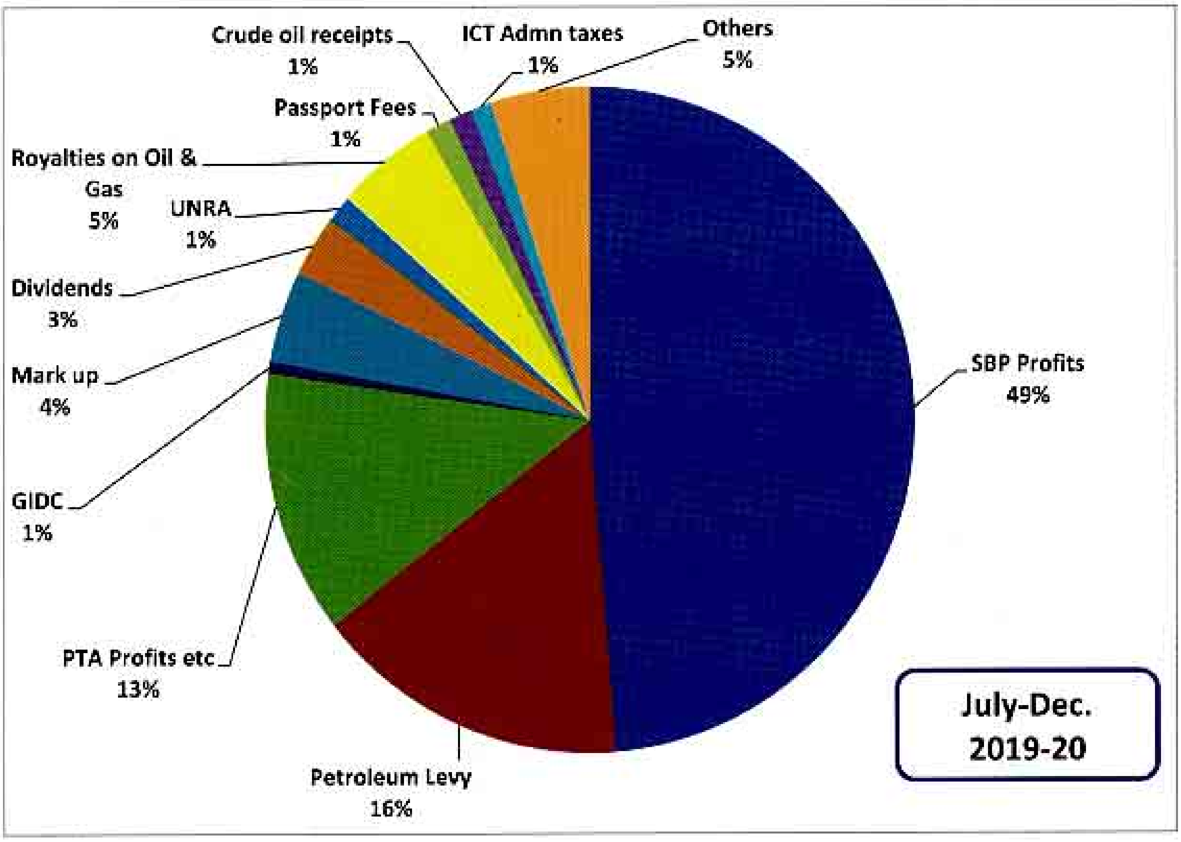
(Rs. Billion)

Description	**Original Budget 2019-20**	**Mid-Year Actual Receipts**
Non-Tax Revenues (C)	**894.5**	**718.8**
Surplus of PTA/3G&4G	53.7	110.1
Regulatory authorities (surplus/penalties)	1.3	2.0
Mark-up (Provinces)	24.1	12.0
Interest from PSEs and others	124.5	27.4
Dividends from PSEs	66.0	26.2
SBP Profit	406.1	426.5
Defence	15.5	6.5
Foreign Grants	18.8	11.5
UNO Receipts	30.0	11.9
Citizenship & Passport Fee	25.0	11.4
Windfall Levy on Crude Oil	7.0	3.3
Petroleum Levy on LPG	4.0	1.7
Discount Retained On Local Crude Oil	16.0	7.2
Royalties on Oil & Gas	76.2	43.8
Others	26.3	17.3

During first six months of the current financial year, an upsurge in collection of revenue (other than FBR) has been witnessed *vis-à-vis* corresponding period of last financial year 2018-19, owing to increased SBP profits, receipt of outstanding cellular licenses renewal fees and a steady flow of other receipts from all streams as per projections. A comparative analysis of collection (in Rs. Billion) is presented as under;



The **major contributors** of other than FBR revenue during the period is depicted as under;



EXPENDITURE FY 2019-20

3. Expenditure FY 2019-20

3.1. Current Expenditure

Federal Govt. comprises of 34 Ministries, 44 Divisions and more than 300 allied entities including Attached Departments, Autonomous Bodies, Companies, Boards and Councils etc. Currently, Federal Govt. governance apparatus is being run through 72 Principal Accounting Officers, who have comprehensive administrative and financial autonomy to run the business of the federation. Expenditure of running of Civil Govt. does not include the Domestic and External debts—Principal and interest payments, Civil and Military pensions, Grants and subsidies and PSDP and outside PSDP expenditures.

On the whole, current expenditure of Federal Ministries is well within the budgetary control after completion of half year. Federal Divisions through Principal Accounting Officers have been allocated a budget of Rs. 440.5 billion during CFY 2019-20. Almost 54.5 % (Rs. 240.5 billion) have been allocated under ERE, whereas, remaining 45.5 % (Rs. 200.06 billion) have been allocated for operational (non- ERE) expenses. After half year, Rs. 183.6 billion has been consumed against the allocation, reflecting 42% utilization. Further split of Rs. 183.6 Billion reflects 49% utilization under ERE and 33% utilization under Non- ERE expenses.

The position of Budget Estimates and Mid-Year Expenditure are as under:-

(Rs Billion)

Description	B.E 2019-20	Mid Year 2019-20
Interest Payments	2891	1281
Defence	1153	530
Running of Civil Govt.	431	220
Pension	421	219
Grants / Transfer	831	282
Subsidies	272	104

Major reform measures to curtail and control expenditure on running of civil Govt. include, no Supplementary Grant issued to any Ministry/Division during first half of CFY, all additional needs have been met through Technical Supplementary Grants from within allocated budget (current expenditure) and primary reliance on re-appropriation within PAO's ERE and Non-ERE Budgets. It is experienced that the existing trend of less utilization in non-ERE expenditure is generally offset by last quarter accelerated disbursements owing to bulk payments in contracts, procurements and recruitments. This shall be endeavoured to be curtailed.

Comprehensive diagnostic study has been conducted to spell out verified accrued liabilities of various Federal Divisions. Moreover, an assessment has been made regarding probability of unforeseen expenditure needs, by various Federal Ministries/ Divisions related to potential crisis events or contingent financial demand.

Offices of the President and Prime Minister of Pakistan have led the Govt.'s campaign of austerity from the front, where Mid-Year expenditure of both the offices witnessed a decline of 20% & 16% respectively as compared to previous year. Furthermore, both the offices utilized 39 % and 36 % respectively of allocated funds, less than the mid-year proportionate share (*i.e.* 45%), during the first half of CFY 2019-20.

The Information received from the PAOs is stated below:-

(Rs. Million)

S.#	PRINCIPAL ACCOUNTING OFFICER(PAO)	BUDGET ALLOCATION	MID-YEAR ACTUAL	MID –YEAR % UTILIZATION
1	CABINET DIVISION	8,707	4,129	47%
2	ERRA	325	136	42%
3	AVIATION DIVISION	8,737	4,264	49%
4	ESTABLISHMENT DIVISION	5,628	1,892	34%
5	CIVIL SERVICE ACADEMY	603	262	43%
6	NATIONAL SCHOOL OF PUBLIC POLICY	857	430	50%
7	NATIONAL SECURITY DIVISION	51	17	33%
8	POVERTY ALLEVIATION AND SOCIAL SAFETY DIVISION	2,250	3,213	143%

9	PRIME MINISTER OFFICE (PUBLIC)	474	161	34%
10	PRIME MINISTER OFFICE (INTERNAL)	389	151	39%
11	NDMA	309	141	46%
12	BOARD OF INVESTMENT	280	120	43%
13	PRIME MINISTER'S INSPECTION COMMISSION	62	33	53%
14	PNRA	969	480	50%
15	PAEC	9,339	4,578	49%
16	CLIMATE CHANGE DIVISION	502	163	32%
17	COMMERCE DIVISION	11,080	1,364	12%
18	TEXTILE DIVISION	385	159	41%
19	COMMUNICATION DIVISION	10,876	3,931	36%
20	DEFENCE DIVISION	1,163,471	532,865	46%
21	DEFENCE PRODUCTION DIVISION	651	268	41%
22	POWER DIVISION	226,766	94,213	42%
23	PETROLEUM DIVISION	25,045	9,456	38%
24	FED. EDUCATION & PROF. TRAINING DIVISION	13,327	7,105	53%
25	NAVTEC	382	140	37%
26	FINANCE DIVISION	1,344,567	483,922	36%
27	CONTROLLER GENERAL OF ACCOUNTS	5,958	2,832	48%
28	HIGHER EDUCATION COMMISSION	59,100	22,630	38%
29	ECONOMIC AFFAIRS DIVISION	7,003	249	4%
30	REVENUE DIVISION	26,933	40,636	151%
31	FOREIGN AFFAIRS DIVISION	21,145	5,931	28%
32	HOUSING AND WORKS DIVISION	4,278	1,922	45%
33	HUMAN RIGHTS DIVISION	513	276	54%
34	INDUSTRIES AND PRODUCTION DIVISION	8,358	7,526	90%

35	INFORMATION & BROADCASTING DIVISION	9,247	3,834	41%
36	NATIONAL HISTORY AND LITERARY HERITAGE DIVISION	1,171	512	44%
37	IT & TELECOMMUNICATION DIVISION	4,433	1,825	41%
38	INTERIOR DIVISION	139,861	64,757	46%
39	INTER-PROVINCIAL COORDINATION DIVISION	1,713	504	29%
40	KASHMIR AFFAIRS AND GILGIT BALTISTAN DIVISION	1,013	450	44%
41	LAW AND JUSTICE DIVISION	4,124	1,897	46%
42	FEDERAL SHARIAT COURT	450	238	53%
43	FEDERAL OMBUDSMAN AGAINST HARASSMNT OF WOMEN	56	17	30%
44	COUNCIL OF ISLAMIC IDEOLOGY	137	64	47%
45	ISLAMABAD HIGH COURT	1,002	538	54%
46	NATIONAL ACCOUNTABILITY BUREAU	4,424	1,944	44%
47	MARITIME AFFAIRS DIVISION	911	365	40%
48	NARCOTICS CONTROL DIVISION	2,691	1,373	51%
49	NATIONAL ASSEMBLY	4,605	1,871	41%
50	THE SENATE	3,226	1,444	45%
51	NATIONAL FOOD SECURITY & RESEARCH DIVISION	4,468	1,962	44%
52	NATIONAL HEALTH SERVICES, REGULATIONS AND COORDINATION DIVISION	10,774	5,019	47%
53	OVERSEAS PAKISTANIS AND HUMAN RESOURCE DEVELOPMENT DIVISION	1,541	444	29%
54	PARLIAMENTARY AFFAIRS DIVISION	410	203	50%
55	PLANNING, DEVELOPMENT & SPECIAL INITIATIVES DIVISION	3,736	1,540	41%
56	POSTAL SERVICES DIVISION	19,653	12,372	63%

57	PRIVATISATION DIVISION	161	75	47%
58	RAILWAYS DIVISION	97,100	49,649	51%
59	RELIGIOUS AFFAIRS AND INTER-FAITH HARMONY DIVISION	1,104	410	37%
60	SCIENCE AND TECHNOLOGY DIVISION	8,190	3,784	46%
61	SAFRON	2,554	1,312	51%
62	WATER RESOURCES DIVISION	277	127	46%
63	PRESIDENT OFFICE (PUBLIC)	395	142	36%
64	PRESIDENT OFFFICE (PERSONAL)	597	249	42%
65	AUDITOR GENERAL OF PAKISTAN	5,365	2,312	43%
66	SUPREME COURT	2,095	988	47%
67	ELECTION COMMISSION	6,849	1,085	16%
68	WAFAQI MOHTASIB	719	305	42%
69	FEDERAL TAX OMBUDSMAN	253	95	37%
70	FEDERAL PUBLIC SERVICE COMMISSION	650	320	49%
71	BISP	180,000	27,193	15%
72	PAKISTAN BAIT-UL-MAL	5,653	2,261	40%

3.2. DEBT INTEREST EXPENDITURE

Prudent utilization of debt leads to higher economic growth and helps the Govt. to accomplish its social and developmental goals. However, comprehensive debt management is required on part of the Govt. to not only keep current levels of debt under control but to also fulfil its future repayment obligations. The management of public debt requires effective coordination with macro-economic policies, including reserve management and exchange rate policy.

Domestic and external debts are treated separately owing to their different dynamics. Domestic debt has a charge on budget and must be serviced through Govt. revenues and/or additional borrowings whereas external debt, in addition to charge on revenues, also carry a charge on balance of payments and must be serviced from foreign exchange earnings, reserve drawdown and/or additional borrowings. Therefore, the two are managed separately to ensure fiscal and external account solvency. Each of these types of debt has its own benefits and drawbacks, with a trade-off between costs of borrowing and exposure to various types of risks that need to be balanced in order to ensure sufficient and timely access to cost efficient funding.

The position of Budget allocations & Mid-year actual utilization are as under:-

(Rs. Billion)

S.#	DESCRIPTION	BUDGET ALLOCATION	MID-YEAR ACTUAL
1	SERVICING OF DOMESTIC DEBT	2,532	1,121
2	SERVICING OF FOREIGN DEBT	360	160
	TOTAL	**2,892**	**1,281**

3.3. Development Expenditure (PSDP)

Public Sector investment performs a key role in mobilization of resources in an economy. It is not only the investment of public resources for economic gains but also provides impetus for the private sector investment which is considered as the engine of growth. Public Sector Development Programme (PSDP) is an integral part of public investment. Implementation of development programmes and projects through PSDP is an effective design to transform the agenda of the Govt. into realities by adopting a change in priorities from centred growth to spreading public investment all over the country particularly to the less developed areas.

The total size of PSDP for FY 2019-20 was finalized at Rs.701 billion. Federal Govt. has emphasized on sectoral development and major chunk of funds were reserved for the areas including Communication/NHA, Water Resources, Railways and National Health. Federal Govt. has taken various steps to streamline the development process and expedite/maximize the utilization of allocated funds in order to realize the envisaged development objectives.

The release procedure has been simplified and made more accessible as funds are being authorized to Ministries/Divisions/Agencies without originating demand Finance Division has also revised the quarterly ceilings during current financial year *i.e.* 20% each in 1st & 4th quarters and 30% each in 2nd & 3rd quarters. Ways & means clearance by the Finance Division has also been relaxed for first three quarters. In the first three quarters Ministries/Division are advised to provide adequate justification in case the amount needed for any project exceeds the percentage prescribed in the Release Strategy.

Special Packages under the name of Karachi Package and merged areas (erstwhile FATA) Development Plan are also underway for uplifting quality of life in mega city of Karachi and under privileged population of Tribal Districts of Khyber Pakhtunkhwa respectively. The allocation of funds and expenditure illustrates the very fact that the focus of the Govt. has been on the development of infrastructure and therefore, substantial amount has so far been released in favour of the NHA so as to keep it working effectively on its various projects.

Another sector which required immediate attention was Water Resources and Energy Production. Govt. is cognizant of the fact that Pakistan is amongst those countries which are under a grave danger of water scarcity. An amount equal to Rs. 28.2 billion has been released in favour of Water Resources Division, so as to enhance the water augmentation and conservation projects that fall under its domain. Third Division which has received a large share in funds allocation is the Railways Division as it has been provided with an amount equal to Rs. 6.0 billion for uplift of its ailing systems.

Keeping in view the above stated facts, it would be suffice to state that the Govt. has given the Public Sector Development a sectoral focus wherein the sectors significant to Public Sector Development have been provided with ample funds in the ongoing year, so as to produce profound effect in the Public Sector Development. The details are as under:-

(Rs. Million)

S.#	Principal Accounting Officer (PAO) Description	Budget Allocation FY 2019-20	Mid-Year Actual FY 2019-20			Mid -Year % Utilization
			Authorization	**Sanction**	**Utilization**	
1	AVIATION DIVISION	1,267	328	248	134	11%
2	BOARD OF INVESTMENT	100	50	20	16	16%
3	CABINET DIVISION	39,986	19,303	5,531	1,607	4%
4	CLIMATE CHANGE DIVISION	7,579	3,790	3,798	1,477	20%
5	COMMERCE DIVISION	100	50	-	-	0%
6	COMMUNICATION DIVISION (NHA)	154,967	86,998	86,998	82,727	53%
7	COMMUNICATION DIVISION (OTHER THAN NHA)	248	124	122	20	8%
8	DEFENCE DIVISION	456	119	86	53	12%
9	DEFENCE PRODUCTION DIV.	1,700	850	850	636	37%
10	ESTABLISHMENT DIVISION	333	102	55	27	8%
11	FED. EDUC & PROF TRAINING DIV.	4,741	2,262	2,073	570	12%
12	FINANCE DIVISION	12,835	5,006	2,729	2,862	22%
13	FOREIGN AFFAIRS DIVISION	30	20	20	-	0.0%
14	HIGHER EDUCATION COMMISSION	29,047	14,058	14,058	3,689	12%
15	HOUSING & WORKS DIVISION	3,435	1,437	1,437	907	26%
16	HUMAN RIGHTS DIVISION	199	127	123	0.47	0.2%
17	INDUSTRIES & PRODUCTION DIVISION	2,343	732	682	34	1.5%

18	INFORMATION & BROADCASTING DIVISION	441	195	195	26	6%
19	IT & TELECOM DIVISION	7,342	2,074	1,844	205	3%
20	INTER –PROVIN. COORDINATION DIVISION	390	196	9	-	0.0%
21	INTERIOR DIVISION	9,848	4,559	4,042	1,687	17%
22	KASHMIR AFFAIRS & GILGIT BALTISTAN DIV.	44,849	20,064	19,321	19,858	44%
23	LAW & JUSTICE DIVISION	1,340	649	554	198	15%
24	MARITIME AFFAIRS DIVISION	3,600	525	490	170	5%
25	NARCOTICS CONTROL DIV.	135	59	59	3	2%
26	NATIONAL FOOD SECURITY DIV.	12,048	5,763	3,501	1,699	14%
27	NATIONAL HEALTH SERVICE, REG & COORD DIV.	13,377	4,717	4,530	1,619	12.%
28	NAT HISTORY & LIT HERITAGE DIV.	204	93	49	6	3.0%
29	PAEC	24,457	12,039	12,039	10,035	41.%
30	PNRA	301	151	151	146	48%
31	PETROLEUM DIVISION	582	288	72	0.12	0.0%
32	PLANNING, DEV. & SPECIAL INIT. DIVISION	6,713	932	331	76	1.1%
33	POVERTY DIVISION	200	80	72	11	6%
34	POWER DIVISION	42,531	3,969	6,671	2,733	6%
35	RAILWAYS DIVISION	16,000	6,433	5,954	5,954	37%
36	RELIGIOUS AFFAIRS DIVISION	1,000	-	-	-	0.0%

37	REVENUE DIVISION	1,918	801	785	222	12%
38	SUPARCO	6,033	1,333	1,535	1,333	22%
39	SCIENCE & TECHNOLOGY DIVISION	7,407	2,115	712	110	1.5%
40	TEXTILE DIVISION	203	81	81	5	3%
41	WATER RESOURCES DIV.	85,727	33,567	28,159	13,136	15%
42	ERRA	5,000	1,250	1,085	1,084	22%
	Total	**551,013**	**237,287**	**211,071**	**155,077**	**28%**
43	BLOCK MANAGED BY FINANCE DIV.	149,987	38,780	12,000	12,000	8%
	Grand Total	**701,000**	**276,067**	**223,071**	**167,078**	**24%**

3.4. Development Expenditure (Outside PSDP):

Under the head of Development Expenditure outside PSDP, an amount of Rs. 80,231 million has been allocated in the Budget for FY 2019-20 as per the following the sub-heads.

1. Grant for Reconstruction in Afghanistan
2. Subsidy to TCP for import of Urea Fertilizers
3. Crop Loan Insurance Scheme
4. Livestock Insurance Scheme
5. Credit Guarantee Scheme for Small Farmers
6. World Bank (WB) Programme for Results (P for R)
7. Public Finance Management & Accountability (Federal Govt.)
8. Public Finance Management & Accountability (Provinces)
9. Textile Policy 2009-2014
10. Duty Draw-Back of Local Taxes & Levies

3.5 TECHNICAL SUPPLEMENTARY GRANT

Major reform measures have been opted to curtail and control expenditure where needed, by the Govt. that includes:

- No regular Supplementary Grant has been issued during first half of CFY.
- All additional needs have been met through Technical Supplementary Grants, duly approved by EEC/Cabinet from within allocated budget.
- Primary tool has been re-appropriation within PAO's ERE and Non-ERE Budgets. Brief data is as under:-

(Rs. Billion)

MINISTRY	Surrendered Amount (Rs.)	Surrendered From	Technical Supp. (Rs.)	TSG to
ENERGY	**1,882**		**1,882**	
	1,882	Petroleum	1,882	Petroleum
FINANCE	**31,644**		**31,644**	
	30,128	Subsidies and Misc.	30,128	FBR
	1,516	Subsidies and Misc.	1,516	D/E outside PSDP
HUMAN RIGHTS	**706**		**706**	
	650	Federal Education	650	Human Rights
	56	D/E Education	56	D/E of Human Rights
INDUSTRIES	**6,419**		**6,419**	
	6,419	Finance	6,419	Industries
INFORMATION	**255**		**255**	
	255	O/E of Information	255	National History
INTERIOR	**771**		**771**	
	100	Subsidies and Misc.	100	ICT Islamabad
	671	Against Foreign Grant	671	D/E Interior
NARCOTICS CONTROL	**10**		**10**	
	10	Against Foreign Aid	10	Narcotics Control
PLANNING	**2,000**		**2,000**	
	2,000	D/E of Cabinet	2,000	D/E Planning,
Total	**43,687**		**43,687**	

BUDGET FINANCING

4. Budget Financing

Public debt has two main components, namely domestic debt (incurred principally to finance fiscal deficit) and external debt (raised primarily to finance development expenditure). Domestic debt mainly includes Govt. securities and National Savings Schemes. Whereas, external loans are mainly obtained from multilateral, bilateral sources, Eurobonds, Commercial Banks, and the IMF.

Govt. issues two broad types of marketable Govt. securities in order to raise domestic debt *i.e.* Treasury Bills (T-bills) and Pakistan Investment Bonds (PIBs). T-bills are considered short-term securities and have maturities of 12 months or less at the time of issuance. PIBs are considered long-term securities and have maturities of more than 12 months at the time of issuance. Govt. currently issues fixed-rate PIBs with 3-year, 5-year, 10-year and 20-year maturities and floating-rate PIBs with 10-year maturity. All of these PIBs pay profit on semi- annual basis. In addition, variety of savings instruments are offered under National Savings Schemes (NSS) with maturities ranging from 3 months to 10 years.

External loans are obtained to diversify the borrowing sources, expand the investor base, lower the cost of borrowing, build foreign exchange reserves, finance large development expenditures (*e.g.* dams, canals, motorways, transportation projects, power generation projects, etc.), finance social expenditures or to provide general budgetary support. External borrowing also reduces Govt.'s reliance on domestic market and prevents crowding out of the private sector in domestic market.

BORROWING OPERATIONS (JULY - DECEMBER 2019)

- Total Public Debt was recorded at Rs. 33,707 billion at end December 2019, compared with Rs. 32,708 billion at end June 2019, registering an increase of only 3% during first six months of FY 2019-20. It is important to state that though the Govt. borrowing during this period was Rs. 1,546 billion, total Public Debt increased by only Rs. 999 billion. This saving/differential of Rs. 547 billion is attributable to exchange rate appreciation of Pak Rupee against US Dollar.

- Out of total financing of Rs. 1,567 billion raised during the first half, Rs. 21 billion were raised in the form of External Grants, Rs. 494 billion were raised in the form of External Debt and remaining Rs. 1,053 billion were raised in the form of Domestic Debt.
- All of the net External Debt raised during this period was from multilateral and bilateral sources on concessional terms. This is in line with the strategy to meet most of the external financing needs through long-term concessional loans.
- In-spite of large external financing needs, the External Debt operations are on track. During the current financial year, a large of amount of USD 11.6 billion is due on account of repayments of External Debt obtained in the past. The repayment obligations of USD 3.8 billion during first half of the year have been successfully met and adequate external inflows are in the pipeline to meet the repayments of USD 7.7 billion becoming due in the second half.
- Domestic Borrowing operations remained quite successful despite a challenging macro-economic situation.
    - All of the net Domestic Debt raised during this period was through long-term Govt. Securities (PIBs) and National Saving Schemes.
    - The cost of borrowing through long-term Govt. bonds declined by 2 to 3% p.a. In fact, the Govt. was able to borrow in long tenors at rates well below the policy rate of State Bank of Pakistan (SBP). The decline in borrowing costs is expected to result in savings.

Downward shift in PIB yields during this period is summarized below:

Yield (% p.a.)

PIB tenure	Jun-19	Dec-19
3 Years	13.9	11.6
5 Years	13.9	10.9
10 Years	13.7	11.0

- The market's willingness to lend to the Govt. for long tenors at rates below the policy rate reflects the general confidence in macro-economic policies of the Govt..
- Interest Expense remained significantly less than the budgeted amount during this period. Against budget estimate of Rs. 1,400 billion, actual interest expense was recorded at Rs. 1,281 billion. This was achieved partly due to re-profiling of short-term debt into long-term debt and partly due to sharp decline in cost of borrowing in longer tenors.
- In line with the Govt.'s commitment, no new borrowing was made from SBP during this period. In fact, there was a net retirement of Rs. 285 billion in the outstanding debt obtained from SBP in previous years.
- Maintaining strict financial discipline, no new sovereign guarantee was extended.

OUTLOOK FOR FY 2019-20

5. OUTLOOK FOR FY 2019-20

Fiscal consolidation measures have brought financial discipline and increased revenue growth by bringing about stability in the economy and it is expected that a path of sustainable economic growth can be achieved. The positive trend in ease of doing business, stable exchange rate, improved current account and better fiscal and monetary management, denote that the economic outlook seems promising.

However, there are certain risks in achieving this fiscal sustainability which can compromise the desired results. The Major Fiscal Risks are as under:

- Substantial Shortfall in Tax Revenue
- Unexpected volatility in exchange rate
- Losses and circular debt in energy sector
- Increase in Pension Expenditure & Liabilities
- Unexpected Public Debt and Financing of Fiscal Deficit

5.1. REVENUE OUTLOOK

The FBR revenue target for FY 2019-20 is very challenging, unprecedented and all time high, keeping in view previous year's allocations and actual collections. The performance of FBR in the first half of the FY 2019-20 is very encouraging. However in order to achieve the annual revenue target, a lot of efforts have to be taken by the tax functionaries. Though, number of tax filers has reached to around 2.7 million, an increase of almost 40% in the first half has been witnessed, which is record high in the history of FBR. This has enhanced the chances of higher revenue generation, albeit increased enforcement and monitoring measures are required to achieve the annual targets. Any shortfall in achievement of these targets in tax revenue collection will have adverse consequences for the projected fiscal position of the Govt.. One of the consequences of falling short on revenue targets would be curtailment in development expenditure.

5.2. EXPENDITURE OUTLOOK

Tight fiscal discipline has resulted in keeping a check over the current expenditure side of the Govt. The historical trend has been that the demand for non-development expenditure increases many folds in the second half of the financial year, especially in the fourth quarter. As there had been rationalized cuts in the budgets of various Divisions, nevertheless there is likelihood that the demand for supplementary grants will occur. The Govt will have to be cognizant of this. On the development expenditure side, the unprecedented budget release strategy adopted by the Finance Division this year has provided a lot of fiscal space for utilization of the PSDP funds. Accordingly, it is expected that development expenditure will be high resulting in timely completion of approved schemes and projects. This should aid to foster growth and create employment.

5.3. FINANCING OUTLOOK

It is evident that the external financing needs are higher over second half of ongoing fiscal year. Any shortfall in external financing would require the Govt. to bridge the gap through domestic debt market. However, the current favourable trends being witnessed in the domestic debt profile signify that the domestic debt profile is projected to improve considerably by the end of the current financial year. The proportion of debt held by SBP is also projected to decline and the proportion of debt raised through long-term instruments is likely to improve. Interest Expense for the full year is expected to be lower than the budgeted amount.

Supported by lower-than-budgeted borrowing costs and fiscal deficit, and a stable exchange rate, the Debt to GDP Ratio is projected to decline from 84.8% at the beginning of the current financial year to below 83% by the end of the year. This is a welcome development considering the emergent need to lower the Debt to GDP ratio over the next few years and bring it below the ceiling of 60% set by the Fiscal Responsibility and Debt Limitation Act, 2005.

It is imperative to continue with the adjustment process to further gain from the visible stability seen in terms of the falling twin deficits. The policy continuation is warranted given the lingering vulnerabilities in the economy and the chronic nature of the structural weaknesses. As it is evident that the fiscal indicators have remained favourable in the first half and it has always been the second half that has been critical in keeping up with the good trends throughout the Financial Year. The issues ranging from extra budgetary measures and supplementary allocations for over shooting pension bill and wage bill, to haphazard transfers and utilization of development funds, all had affected the fiscal discipline in the second half of the last fiscal year. Keeping this in view, the Govt. is committed to ensure the sanctity of the budget approved by the parliament by strictly adhering to the fiscal discipline enshrined in the Public Finance Management Act, 2019.

It is essential to mention that to address multiple challenges faced by the economy, the Govt. has initiated various measures. The impact of these measures has started to emerge in terms of better performance of key economic indicators. Keeping in view the positive developments in major sectors, the economy is likely to achieve better growth prospects.

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