Chapter 04

Fiscal Development

Fiscal Development

Fiscal policy is an effective tool for resource mobilisation that works through appropriate changes in government expenditures and revenues. It additionally assumes an important part in making economic growth more inclusive. However, maintaining fiscal sustainability is also necessary for achieving macroeconomic stability and empowering the nation to react well in times of economic crisis.

Pakistan's economy has faced enormous challenges in the past owing to longstanding structural issues. Particularly, problems in the energy sector, security related issues and difficult investment climate coupled with persistent fiscal imbalances widely contributed to hampering economic growth of Pakistan. Consequently, the average growth rate remained less than 3 percent between FY2009 and FY2013. However, during the period of incumbent government, the country has been successful in revitalising the economy through a combination of stabilisation and structural reforms.

Following nearly four years of wide-ranging agenda of economic reforms, Pakistan's economy has witnessed a complete turnaround. The economic growth which was at 3.68 percent in FY2013 has noticeably increased to 4.51 percent in FY2016. For FY2017 the GDP growth is 5.28 percent (Provisional). Encouragingly, it is the 4th year in a row when the country has witnessed a higher growth momentum with an average growth rate of over 4 percent since FY2014, while fiscal deficit continued to fall for the fourth year in a row and stood at 4.6 percent of GDP in FY2016.

Similarly, better energy supplies, receding security concerns, strong domestic demand, significant rise in development spending, contained inflation at 2.86 percent which is the lowest in 47 years, historically low policy rate at 5.75 percent, improving FDI, remarkable performance of PSX, stable exchange rate and strong reserves augur well for a bright economic outlook.

Fiscal sustainability has always remained a crucial objective of present government's economic agenda. Therefore, when the present government stepped in, it focussed on correcting the fiscal imbalances by adopting prudent expenditure management and revenue mobilisation strategy. Under expenditure management strategy, wide-ranging restructuring plan of key Public Sector Enterprises (PSEs), as well as power sector reforms, are under execution (Box-1). These reforms have not only supported in improving the service delivery together with reducing the huge losses but also helped in creating more fiscal space for more growth-oriented projects.

On the other hand revenue mobilization strategy particularly, through formulating an effective tax system is also underway. In this regard the government has initiated a comprehensive reforms program encompassing both policy and administrative dimensions. The aspiration behind all these efforts is to strengthen the fiscal accounts with an aim to create sufficient fiscal space for various development activities. This in turn will help in reducing economic vulnerabilities, fostering sustainable growth, and providing employment opportunities.

The performance of key fiscal indicators over the past 3 years underlines government's efforts to improve the fiscal accounts such as overall tax to GDP ratio increased to 12.6 percent in FY2016 from 9.8 percent of GDP in FY2013. FBR tax collections witnessed a growth of 20.2 percent and stood at 10.7 percent of GDP in FY2016 against 8.7 percent of GDP in FY2013. FBR tax collections have seen a remarkable improvement as it has recorded a growth of 60 percent between FY2013 and FY2016. On the other hand, total expenditures reduced from 21.5 percent of GDP in FY2013 to 19.9 percent of GDP in FY2016, while total revenues increased from 13.3 percent of GDP in FY2013 to 15.3 percent of GDP in FY2016.

During the first nine months of current fiscal year, fiscal deficit has been recorded at 3.9 percent of GDP against 3.5 percent of GDP during the corresponding period of FY2016 on account of less than expected tax revenues owing to tax relief measures to promote investment and boost economic activity along with higher development & security related expenditures. During July-April, FY2017 FBR tax collection stood at Rs.2,518.7 billion against Rs.2,332.1 billion in the same period of FY2016, thus posting a growth of 8.0 percent.

Box-1
Power Sector Reforms

- The government has undertaken broad based power sector reforms under the framework of the National Power Policy 2013. Implementation of these reforms has pushed forward the structural reforms agenda, with the power sector distribution companies showing improvement both in terms of reduction in line losses and collection from consumers.
- The power sector line losses have reduced to 17.9 percent during FY 2016 from 18.7 percent during FY 2015 and collection from consumers has improved to 94.6 percent during FY 2016 as compared to 89.2 percent in FY2015. During the first half of FY2017, the line losses have declined further to 17.2 percent.
- The government has also substantially brought down power subsidies and has significantly contained the accumulation of new payable arrears in the power sector by (i) improving DISCOs' performance, (ii) rationalizing tariffs, and (iii) reducing delays in tariff determination. A Circular Debt Capping Plan has been finalized to effectively manage the power sector financial flows, stocks and subsidy budget.
- Overhauling of financial and management system in Distribution Companies (DISCOs) and Generation Companies (GENCOs) is being carried out to improve their performance to sustainable levels. The government has rehabilitated the existing generating plants and has thus reduced the cost.
- Efforts are underway to improve power sector fuel mix in the country to reduce price of power basket and improve financial viability. Under the reforms, large capacity addition is ongoing from wind, solar, nuclear, hydel and coal power projects in the medium term, for ensuring sustainable and affordable energy supply.

Public Sector Enterprise Reforms

- Implementation of Government's multi-faceted reforms for revival of Public Sector Enterprises (PSEs) is based on a number of pillars, which include divestment through strategic partnership and public offerings, strengthening enforcement of corporate governance rules, implementation of restructuring plans and regulatory reforms.
- The divestment program, which was resumed after a significant gap has helped raise Rs. 173 billion, including over US$ 1.1 billion from foreign investors. Transactions included the sale of minority stakes in United Bank Limited (UBL), Allied Bank Limited (ABL), Habib Bank Limited (HBL) and Pakistan Petroleum Limited (PPL), and the strategic sale of National Power Construction Co. (NPCC).
- The government is currently working on nine transactions that include PSM, PIAC, GEPCO, KAPCO, SLIC, SME Bank, HEC and MPCL. The initial public offering for GEPCO is expected to be completed by Mid-May 2017. KAPCO, SME Bank and MPCL are also at an advanced stage. Additionally, due diligence of nine DISCOs and five GENCOs has been conducted through international financial advisors. The SME

Bank transaction is expected to be finalized soon. Two new transactions including FWBL and HBFC have been added for early privatization.

☞ **Pakistan Railways**

- Railway Revitalization Strategy is being implemented, which envisages improvements in business processes and the institutional framework, financial stability, and service delivery.
- As a result, Pakistan Railways (PR) has been making progress since FY2014 as reflected in its operational and financial data for FY2014, FY2015 and FY2016. Revenue in FY 2015 and FY 2016 has improved by 45 and 15 percent, respectively, through rationalization of tariffs, expenditure controls, and improved occupancy rates.
- Revenues during first half of FY 2017 were 5 percent higher at Rs. 18.46 billion compared to Rs. 17.58 billion during the same period last year. During FY 2016, PR added 39 new locomotives for freight service and is in the process of procuring 55 locomotives for coal transportation for Sahiwal and Jamshoro coal power plants, delivery of which has started in December 2016.

☞ **Pakistan International Airlines**

- PIAC has been converted into a company under Companies Ordinance 1984 in order to improve corporate governance and help in attracting strategic private sector partnership in the core airline operations, and move PIA under a more efficient and up to date legal framework. The government will attract private sector participation, while maintaining majority shares and management control, for which the process of separation of PIA's core and noncore activities is ongoing.
- The transaction structure for offering a minority stake to a strategic partner and/or the general public will be approved by June 2017 and the bidding process will be completed by March 2018. The PIA management is working to further limit financial losses by: (i) increasing performance by route rationalization and fleet modernization and expansion, (ii) reducing financial and operational costs, and (iii) providing better services to gain customers' confidence.

☞ **Pakistan Steel Mills**

- In the absence of an agreement with the Government of Sindh, which was earlier offered transfer of PSM’s ownership, the process to attract strategic private sector participation has been restarted, with a view to concluding the process by September 2017.The transaction structure, in this regard, has been approved in January 2017.In the interim, PSM management and the government are working to ensure that financial losses remain contained.

Fiscal Policy Developments

Sustainable public finances are important to achieve fiscal discipline. Further, it supports fiscal policy to maintain macroeconomic stability and reduce vulnerabilities. However, it is equally important to deal on both revenue and expenditure side.

In previous years, Pakistan’s fiscal sustainability faced challenges from all directions including tax evasion, untargeted subsidies, resource depletion through PSEs, high and persistent fiscal deficit combined with low tax to GDP ratio and narrow tax base. These issues coupled with delays in the implementation of key structural reforms for revenue mobilisation created an irregular and low fiscal capability.

Table 4.1: Fiscal Indicators as Percent of GDP

Year	Real GDP Growth	Overall Fiscal Deficit	Expenditure			Revenue		
			Total	Current	Develop-ment/1	Total Rev.	Tax	Non-Tax
FY2008	4.99	7.3	21.4	17.4	4.0	14.1	9.9	4.2
FY2009	0.36	5.2	19.2	15.5	3.5	14.0	9.1	4.9
FY2010	2.58	6.2	20.2	16.0	4.4	14.0	9.9	4.1
FY2011	3.62	6.5	18.9	15.9	2.8	12.3	9.3	3.0
FY2012	3.84	8.8	21.6	17.3	3.9	12.8	10.2	2.6

Table 4.1: Fiscal Indicators as Percent of GDP

Year	Real GDP Growth	Overall Fiscal Deficit	Expenditure			Revenue		
			Total	Current	Development[/1]	Total Rev.	Tax	Non-Tax
FY2013	3.68	8.2	21.5	16.4	5.1	13.3	9.8	3.5
FY2014	**4.05**	**5.5**	**20.0**	**15.9**	**4.9**	**14.5**	**10.2**	**4.3**
FY2015	**4.06**	**5.3**	**19.6**	**16.1**	**4.2**	**14.3**	**11.0**	**3.3**
FY2016	**4.51**	**4.6**	**19.9**	**16.1**	**4.5**	**15.3**	**12.6**	**2.7**
FY2017 B.E	**5.70**	**3.8**	**19.8**	**15.0**	**4.7**	**16.0**	**12.9**	**3.1**

[/1] including net lending

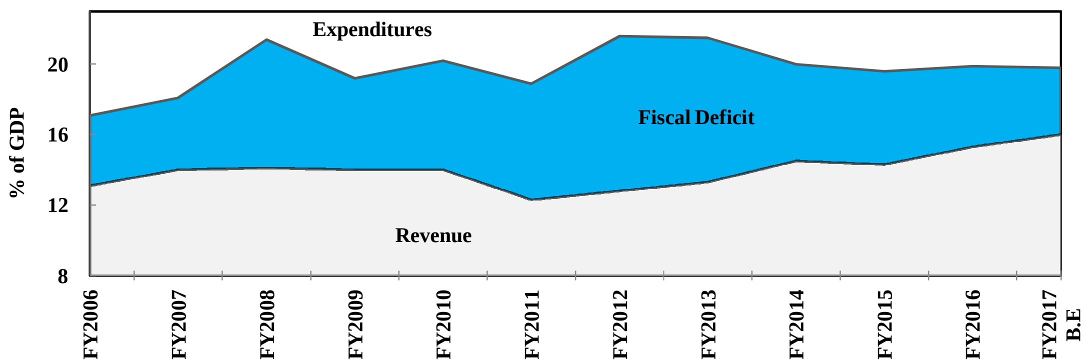
Note: Estimated growth during FY2017 is 5.28 percent.

Nevertheless, in recent years a fiscal discipline can be seen to be emerging as not only government expenditures are efficiently allocated towards development and social sector programs but overall tax collections have also improved.

Table 4.1 depicts how Pakistan's economy has shown its move on the fiscal front. It additionally substantiates that with fiscal sustainability, Pakistan's economic growth is set on a high growth trajectory. After having peaked at 8.8 percent of GDP in FY2012 followed by 8.2 percent of GDP in FY2013, overall fiscal deficit narrowed to 4.6 percent of GDP in FY2016, reflecting sustained and substantial consolidation since FY2013. It was the smallest deficit since FY2007.

The successful containment of fiscal deficit has been achieved on the back of sharp decline in total expenditures, significant rise in tax revenues and higher provincial surplus. During FY2017, fiscal deficit was budgeted to remain at 3.8 percent of GDP, however, it is likely to be higher than the target. Similarly primary deficit is continuously declining as it reduced from 3.8 percent of GDP in FY2013 to 0.3 percent of GDP in FY2016. Significant reduction in primary deficit shows that the fiscal consolidation efforts are on track.

Fig-1: Revenue-Expenditure Gap (% of GDP)



Total expenditures reduced from 21.5 percent of GDP in FY2013 to 19.9 percent of GDP in FY2016. Of which current expenditures reduced to 16.1 percent of GDP in FY2016 from 16.4 percent of GDP in FY2013, while development expenditures (excluding net lending) increased to 4.5 percent of GDP in FY2016 as compared to 3.5 percent of GDP recorded in FY2013. It is worth mentioning that total expenditures witnessed a downward trajectory without compromising the expenditures on development projects and social assistance. Particularly, expenditures under Public Sector Development Program (PSDP) have been raised adequately in order to meet the investment requirements of a growing economy. During FY2017, the size of Federal PSDP has increased to Rs.800 billion. It was Rs.348 billion in FY2013, showing a cumulative increase of over 129 percent. On the other hand, the allocation under BISP (development expenditure outside

PSDP) witnessed an increase of 64.3 percent and stood at Rs.115.0 billion in FY2017 against Rs.70.0 billion in FY2013.

Similarly, total revenues have grown strongly and stood at 15.3 percent of GDP in FY2016 against 13.3 percent of GDP recorded in FY2013. The significant growth is supported by considerable increase in overall tax collection as it rose to 12.6 percent of GDP in FY2016 from 9.8 percent of GDP in FY2013. As an immediate outcome of significant increase in total revenues and tax to GDP ratio, government's reliance on loans particularly from domestic sources has reduced significantly during the period under review.

Contrary to it, non-tax revenues registered a decline and stood at 2.7 percent of GDP in FY2016 against the collection of 3.5 percent of GDP recorded in FY2013.Particularly, during FY2016, a sharp decline in non-tax revenues is primarily attributed to decline in surplus profit of SBP and lower receipts under CSF funds.

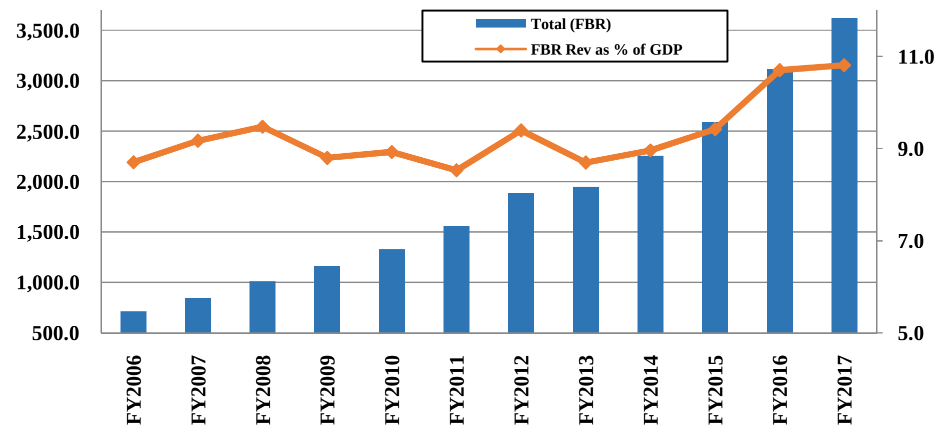
According to provincial fiscal operations, all the four provinces presented a better fiscal performance in FY2016 as the cumulative surplus stood at Rs.207.4 billion against the surplus of Rs.87.3 billion in FY2015. Higher surplus is largely attributed to significant rise in tax collection combined with better control over current expenditures.

Structure of Tax Revenues

Tax revenues are the most efficient and effective way to boost country's domestic resource mobilisation efforts through which the state raises its income to meet compulsory public expenditures. In addition, it supports the government in increasing its capacity to direct the resources for development, reducing poverty and delivering public services. However, to achieve these objectives, it is important to build an efficient, equitable and growth-oriented tax system.

Over the years, Pakistan has faced several political, economic and administrative challenges along with inherent structural problems, such as a narrow tax base, massive tax evasion and administrative weaknesses in developing an efficient tax system. Consequently, it failed to boost tax collection necessary to create enough fiscal space essential for infrastructure, education, healthcare and social assistance. Until FY2015, the overall tax to GDP ratio varied between 9.1 and 11.0 percent of GDP, however, by FY2016 overall tax collection as percentage of GDP improved significantly and reached 12.6 percent of GDP. Significant rise in total tax collection during FY2016 is largely attributed to improved collection under Gas Development Surcharge (GDS), Gas Infrastructure Development Cess (GIDC) and Petroleum Levy. The collection under these heads scaled up on account of higher sales of oil and gas products. Of total tax revenue, FBR tax collection as percentage of GDP has also witnessed a remarkable improvement and stood at 10.7 percent of GDP in FY2016. The improvement in FBR tax to GDP ratio has been on account of considerable reduction in tax concessions and exemptions, increased withholding taxes on non-filers of income tax returns and improvements in tax compliance and enforcement.

Fig-2: FBR Tax Collection



Like many other developing countries, Pakistan's tax structure is heavily reliant on indirect taxes. Nevertheless, in recent years, Pakistan's tax structure has seen a great transition from indirect to direct tax system as a result of various tax reforms.

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

Year	Total (FBR)	Tax Rev as % of GDP	Direct Taxes	Indirect Taxes			
				Customs	Sales	Excise	Total
FY2006	713.5	8.7	225.0	138.4	294.8	55.3	488.5
			[31.5]	{28.3}	{60.3}	{11.3}	[68.5]
FY2007	847.2	9.2	333.7	132.3	309.4	71.8	513.5
			[39.4]	{25.8}	{60.3}	{14.0}	[60.6]
FY2008	1,008.1	9.5	387.9	150.7	377.4	92.1	620.2
			[38.5]	{24.3}	{60.9}	{14.9}	[61.5]
FY2009	1,161.1	8.8	443.5	148.4	451.7	117.5	717.6
			[38.2]	{20.7}	{62.9}	{16.4}	[61.8]
FY2010	1,327.4	8.9	526.0	160.3	516.3	124.8	801.4
			[39.6]	{20.0}	{64.4}	{15.6}	[60.4]
FY2011	1,558.2	8.5	602.5	184.9	633.4	137.4	955.7
			[38.7]	{19.3}	{66.3}	{14.4}	[61.3]
FY2012	1,882.7	9.4	738.4	216.9	804.9	122.5	1,144.3
			[39.2]	{19.0}	{70.3}	{10.7}	[60.8]
FY2013	1,946.4	8.7	743.4	239.5	842.5	121.0	1,203.0
			[38.2]	{19.9}	{70.0}	{10.1}	[61.8]
FY2014	**2,254.5**	**9.0**	**877.3**	**242.8**	**996.4**	**138.1**	**1,377.3**
			[38.9]	**{17.6}**	**{72.3}**	**{10.0}**	**[61.1]**
FY2015	**2,589.9**	**9.4**	**1,033.7**	**306.2**	**1,087.8**	**162.2**	**1,556.2**
			[39.9]	**{19.7}**	**{69.9}**	**{10.4}**	**[60.2]**
FY2016	**3,112.7**	**10.7**	**1,217.3**	**404.6**	**1,302.7**	**188.1**	**1,895.4**
			[39.1]	**{21.3}**	**{68.7}**	**{9.9}**	**[60.9]**
FY2017	**3,621.0**	**10.8**	**1,558.0**	**413.0**	**1,437.0**	**213.0**	**2,063.0**
B.E			**[43.0]**	**{20.0}**	**{69.7}**	**{10.3}**	**[57.0]**

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

In FY2006, indirect taxes constituted 68 percent of total FBR tax collection, while the direct taxes accounted for only 32 percent.

Fig-3a: % of Total FBR Tax (FY2006)

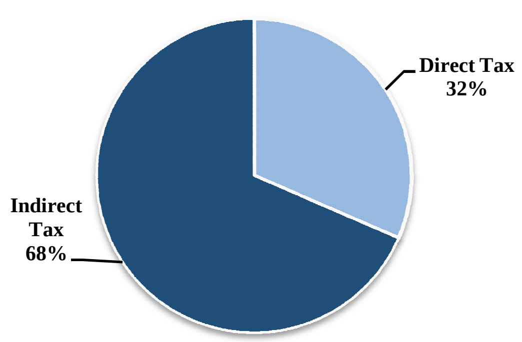
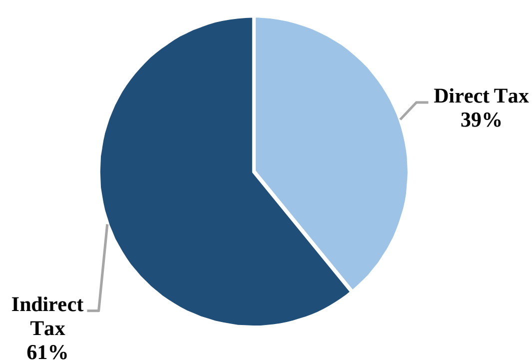


Fig- 3b: % of Total FBR Tax (FY2016)



The proportion of direct taxes in total FBR taxes has increased steadily to 39.1 percent in FY2016, whereas the share of indirect taxes has reduced to 61.0 percent during FY2016. During the current fiscal year, the share of direct taxes is expected to increase further to 43 percent on account of various tax measures initiated by the government.

The share of sales tax in total FBR tax collection has increased to 41.9 percent in FY2016 from 41.3 percent in FY2006. However, the share is likely to reduce to 39.7 percent during the current fiscal year. On the other hand, the proportion of sales tax in total indirect tax has increased from 60.3 percent in FY2006 to 68.7 percent in FY2016. Sales tax as percentage of indirect tax is targeted to reach at 69.7 percent during FY2017. In contrast, customs duty as percentage of indirect tax has reduced from 28.3 percent in FY2006 to 21.3 percent in FY2016, while its share is expected to reduce further to 20 percent during FY2017. Similarly, excise duty as percentage of indirect tax has reduced to 9.9 percent during FY2016 from 11.3 percent recorded in FY2006 due to the shrinking base over the years. During FY2017, its share in indirect tax is expected to remain at10.3 percent.

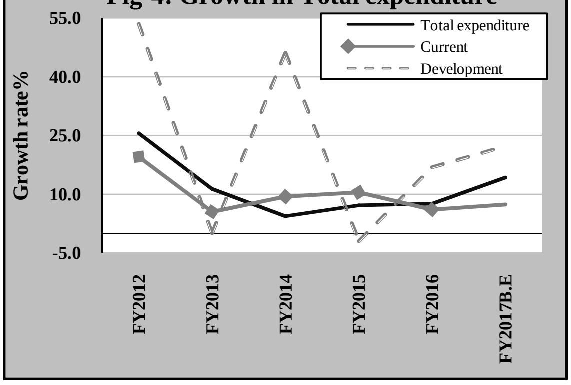
Review of Public Expenditures

The role of public expenditure is highly significant in developing countries with regard to poverty alleviation and reducing income inequalities, particularly its effective utilization is vital to meeting development objectives.

In Pakistan, the public expenditures in the past have been undermined by unproductive and reckless priorities. A significant amount of fiscal resources were consumed by high interest payments, untargeted subsidies, loss-making PSEs, energy subsidies and security related issues. Accordingly, the country was not able to direct sufficient resources in critical areas of the economy. On the other hand, less than expected revenues were not adequate to finance the expenditures. Consequently, the country witnessed an unprecedented rise in fiscal deficit. However, in recent years, the country has been successful in achieving sizeable fiscal consolidation on the back of prudent expenditure management and resource mobilization strategy.

As discussed earlier, the successful containment in fiscal deficit is largely attributed to controlled expenditures over the past three years. Total expenditures grew at 7.6 percent to stand at Rs.5,796.3 billion in FY2016 against Rs.5,387.8 billion in FY2015. Nevertheless, the growth in total expenditures has witnessed a visible decline since FY2012 (from 25.5 percent in FY2012 to 7.6 percent in FY2016). Viewed from a GDP perspective, total expenditures stood at 19.9 percent during FY2016 against 19.6 percent in FY2015. In FY2017, it is expected to be at 19.8 percent of GDP.

Fig-4: Growth in Total expenditure



The growth in current expenditures has witnessed a sharp decline during FY2016, as it grew at 6.1 percent against the growth of 10.5 percent registered in FY2015. In absolute term, it amounted to Rs.4,694.3 billion (16.1 percent to GDP) in FY2016 against Rs.4,424.7 billion (16.1 percent of GDP) in FY2015. Decline in the growth of current expenditures has been attained mainly on account of a significant fall in expenditures on markup payments and subsidies. Current expenditures are expected to be maintained at 15.0 percent of GDP in FY2017. On a positive note, the proportion of current expenditures in total expenditures has declined from 82.1 percent in FY2015 to 81.0 percent in FY2016 owing to decline in share of subsidies and mark-up payments in current expenditures. It is expected to decline further by 4.9 percentage point to 76.1 percent in FY2017.

Encouragingly, markup payments have reduced significantly during FY2016 and stood at Rs.1,263.4 billion (4.3 percent of GDP) against Rs.1303.8 billion (4.8 percent of GDP) during FY2015, thus registered a decline of 3.1 percent. During FY2017, markup payments are budgeted to reduce further to 4.1 percent of GDP.

The defence expenditures stood at 2.6 percent of GDP in FY2016 against 2.5 percent of GDP in FY2015. It rose to Rs.757.7 billion during FY2016 from Rs.697.8 billion in FY2015, thus registered a growth of 8.6 percent on account of ongoing security related spending. It is expected to remain at 2.6 percent of GDP in FY2017.

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

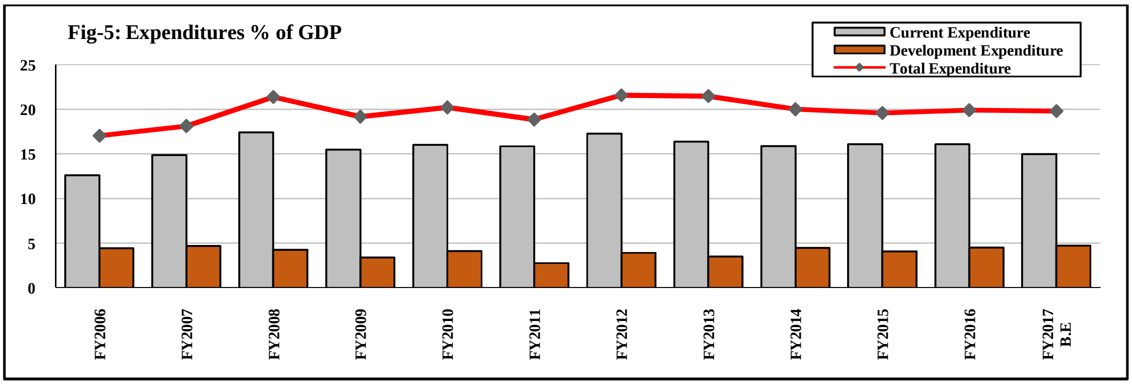
Year	Total Expenditure (A)	Current Expenditure	Markup Payments (C)	Defence (D)	Development Expenditure*	Non Interest Non-Defence Exp (A-C-D)	Fiscal Deficit	Revenue Deficit/Surplus (TR-Total CE)	Primary Balance (TR-NI Exp)
FY2006	17.1	12.6	2.9	2.9	4.4	11.2	4.0	0.5	-1.1
FY2007	18.1	14.9	4.0	2.7	4.7	11.4	4.1	-0.8	-0.1
FY2008	21.4	17.4	4.6	2.6	4.2	14.2	7.3	-3.3	-2.7
FY2009	19.2	15.5	4.8	2.5	3.4	11.8	5.2	-1.4	-0.3
FY2010	20.2	16.0	4.3	2.5	4.1	13.4	6.2	-2.1	-1.9
FY2011	18.9	15.9	3.8	2.5	2.8	12.6	6.5	-3.5	-2.7
FY2012	21.6	17.3	4.4	2.5	3.9	14.6	8.8	-4.5	-4.3
FY2013	21.5	16.4	4.4	2.4	3.5	14.7	8.2	-3.0	-3.8
FY2014	**20.0**	**15.9**	**4.6**	**2.5**	**4.5**	**12.9**	**5.5**	**-1.5**	**-1.0**
FY2015	**19.6**	**16.1**	**4.8**	**2.5**	**4.1**	**12.3**	**5.3**	**-1.8**	**-0.6**
FY2016	**19.9**	**16.1**	**4.3**	**2.6**	**4.5**	**13.0**	**4.6**	**-0.8**	**-0.3**
FY2017B.E	**19.8**	**15.0**	**4.1**	**2.6**	**4.7**	**13.1**	**3.8**	**0.9**	**0.3**

*** excluding net lending**

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

Similarly, current subsidies have registered a considerable decline and stood at Rs.207.2 billion in FY2016 against Rs.241.6 billion in FY2015. Expenditures on subsidies have witnessed a decline both in absolute and growth terms owing to substantial decline in power subsidies and containment in the accumulation of new payable arrears in the power sector by improving DISCO's performance, rationalizing tariffs and reducing delays in tariff determination. In FY2017, current subsidies are budgeted to stay at Rs.140.6 billion in FY2017.

The total expenditures have registered an increase during FY2016 on account of significant increase in development expenditures. Overall, development expenditures and net lending increased from Rs.1,140.6 billion in FY2015 to Rs.1,314.1 billion in FY2016, thus growing at 15.2 percent. According to the breakup, total development expenditures grew at 16.9 percent in FY2016 against the negative growth of 2.0 percent recorded in FY2015. PSDP spending registered a growth of 20 percent during FY2016 and amounted to Rs.1,185.8 billion against Rs.987.8 billion in FY2015. Federal PSDP rose to Rs.602.1 billion (Including Rs.8.7 billion on account of development grants to provinces) during FY2016 against Rs.502.2 billion (including Rs.13.3 billion development grants to provinces) in FY2015, thus registering a growth of 19.9 percent over previous year.



Fiscal Performance (July-March, FY2017)

According to the consolidated revenue and expenditure statement, the fiscal deficit has increased, rising from 3.5 percent of GDP during July-March, FY2016 to 3.9 percent of GDP in the same period of FY2017. Fiscal deficit has increased on account of higher development & security related expenditures and lower growth in tax revenues.

Total revenues grew at 6.2 percent to stand at Rs.3,145.5 billion during July-March, FY2017 against Rs.2,961.9 in the comparable period of FY2016. Low growth in total revenues came from 8.6 percent growth in tax revenue and 6.2 percent decline in non-tax revenues.

During July-March, FY2017, the tax revenues were at Rs.2,694.3 billion against Rs.2,481.0 billion in the same period of FY2016. Of tax revenues, federal and provincial tax revenues witnessed an increase of 7.4 and 23.5 percent respectively during the first nine months of the current fiscal year. Under federal tax revenues, FBR tax collections stood at Rs.2,260.5 billion during July-March,FY2017 against Rs.2,103.0 billion in the comparable period of FY2016, thus registered a growth of 7.5 percent. While as a percentage of GDP, it grew at 7.1 percent during July-March, FY2017 against 7.2 percent of GDP in the same period of FY2016. Less than required growth in tax revenues is primarily attributed to the relief measures provided in five zero-rated sectors, fertilizers and pesticides combined with lower rates on petroleum.

On the other hand, the collection under non tax revenues posted a negative growth of 6.2 percent and stood at Rs.451.2 billion during July-March, FY2017 against Rs.480.9 billion in the comparable period of FY2016. Of the total non-tax revenues, Rs.144.8 billion were collected as a surplus profit of State Bank of Pakistan followed by Rs.64.4 billion under defence, Rs.40.3 billion under Royalties on Oil/Gas and Rs.22.1 billion under Dividend. Encouragingly, the collection of non-tax revenues has improved on account of receipts under CSF during the second half of current fiscal year.

Table 4.4: Consolidated Revenue & Expenditure of the Government

	FY2017 B.E	July-March (Rs. billion)		Growth
		FY2017	FY2016	
A. Total Revenue	**5,347.1**	**3,145.5**	**2,961.9**	**6.2**
% of GDP	**16.0**	**9.9**	**10.2**	
a) Tax Revenue	**4,306.1**	**2,694.3**	**2,481.0**	**8.6**
% of GDP	**12.9**	**8.5**	**8.5**	
Federal	**3,956.1**	**2,463.8**	**2,294.3**	**7.4**
of which FBR Revenues	3,621.0	2,260.5	2,103.0	**7.5**
other Federal	335.1	203.3	191.3	6.3
Provincial Tax Revenue	350.0	230.5	186.7	**23.5**
b) Non-Tax Revenue	**1,041.0**	**451.2**	**480.9**	**-6.2**
% of GDP	**3.1**	**1.4**	**1.7**	
B. Total Expenditure	**6,623.1**	**4,383.6**	**3,971.3**	**10.4**
% of GDP	**19.8**	**13.8**	**13.6**	
a) Current Expenditure	**5,041.2**	**3,605.1**	**3,407.0**	**5.8**
% of GDP	**15.0**	**11.3**	**11.7**	
Federal	**3,360.2**	**2,439.3**	**2,368.9**	**3.0**
Markup Payments	1,360.0	1,094.5	1,079.4	**1.4**
% of GDP	4.1	**3.4**	**3.7**	
Defence	860.2	535.7	482.9	**10.9**

Table 4.4: Consolidated Revenue & Expenditure of the Government				
	FY2017 B.E	July-March (Rs. billion)		Growth
		FY2017	FY2016	
% of GDP	2.6	**1.7**	**1.7**	
Provincial	**1,681.0**	**1,165.8**	**1,038.0**	**12.3**
b) Development Expenditure & net lending	**1,582.0**	**769.6**	**710.2**	**8.4**
% of GDP	**4.7**	**2.4**	**2.4**	
PSDP	**1,434.9**	**746.6**	**623.4**	**19.8**
Other Development	**156.6**	**57.2**	**76.0**	**-24.7**
c) Net Lending	**-9.6**	**-34.2**	**10.8**	
e) Statistical discrepancy	**-**	**8.8**	**-145.8**	
C. Overall Fiscal Deficit	**1,276.0**	**1,238.0**	**1,009.4**	**22.6**
As % of GDP	3.8	**3.9***	**3.5***	**8.3**
Financing of Fiscal Deficit	**1,276.0**	**1,238.0**	1,009.4	**22.6**
i) External Sources	234.4	220.2	222.9	**-1.2**
ii) Domestic	**1,041.6**	**1,017.9**	**786.5**	**29.4**
- Bank	452.9	694.7	538.0	**29.1**
- Non-Bank	538.7	323.2	248.4	**30.1**
GDP at Market Prices	33,509	**31,862**	**29,103**	**9.5**

***: On the basis of revised GDP**
Note: On the basis of GDP at Rs.33,509 billion (previous estimates) fiscal deficit for July-March FY2017 was recorded at 3.7 percent against 3.4 percent in the comparable period of FY2016
Source: Budget Wing, Finance Division

In contrast, total expenditure has gone up by 10.4 percent and reached Rs.4,383.6 billion (13.8 percent of GDP) during July-March, FY2017 against Rs.3,971.3 billion (13.6 percent of GDP) in the comparable period of FY2016.

In total expenditures, development expenditure and net lending stood at Rs.769.6 billion during July-March, FY2017 as compared to Rs.710.2 billion during the same period of FY2016, thus growing at 8.4 percent. On the other hand, development expenditure (excluding net lending) grew at 14.9 percent and stood at Rs.803.8 billion during first nine months of current fiscal year as against Rs.699.4 billion in the same period of FY2016.

Within development expenditure, the spending under PSDP has posted a growth of 19.8 percent to reach Rs.746.6 billion during July-March, FY2017 against Rs.623.4 billion in the same period of FY2016. The federal government has spent Rs.324 billion (excluding development grants of Rs.3.2 billion to provinces) on federal development projects and the provincial government spending remained at Rs.422.7 billion.

Significant growth in development expenditure outpaced the growth in current expenditures. As current expenditures grew at 5.8 percent and amounted to Rs.3,605.1 billion during July-March, FY2017 against Rs.3,407.0 billion during the same period of FY2016. Encouragingly, the growth in current expenditures remained lower than the growth of 6.5 percent recorded during the same period of FY2016. The containment in current expenditures primarily stemmed from significant decline in mark-up payments and subsidies. Mark-up payments grew at 1.4 percent and stood at Rs.1,094.5 billion during July-March, FY2017 against Rs.1,079.4 billion in the same period of FY2016. Similarly, current subsidies amounted to Rs.107.8 billion during July-March, FY2017 against Rs.119.5 billion in the same period of FY2016, thus reducing by 9.8 percent.

Defence expenditures increased to Rs.535.7 billion during the first nine months of FY2017 from Rs.482.9 billion in the comparable period of FY2016 growing by 10.9 percent. However, as percentage of GDP it stood at the same level of 1.7 percent as it was recorded during the same period of FY2016.

The financing of the budget deficit was met through domestic and external sources. During July-March, FY2017, financing through domestic sources stood at Rs.1,017.9 billion against Rs.786.5 billion in the same period of last year. Of the domestic sources, Rs.694.7 billion were generated through banks and Rs.323.2 billion through non-banking sector. Contrary to it, financing from external sources registered a decline of 1.2 percent and amounted to Rs.220.2 billion during July-March, FY2017 against Rs.222.9 billion in the comparable period of FY2016.

FBR Tax Collection (July-April, FY2017)

FBR tax collection has witnessed an impressive growth of over 20 percent during FY2016 and stood at Rs.3,112.7 billion against Rs.2590 billion recorded in FY2015. Consequently, FBR tax to GDP ratio improved to 10.7 percent in FY2016 against 9.4 percent recorded in FY2015. FBR tax collection surpassed the target of Rs.3,103.7 billion set for FY2016. The target was achieved without any downward revision which indicates the successful implementation of economic policies by the present government.

Table 4.5: FBR Tax Revenues **(Rs billion)**

Revenue Heads	FY2016	July-April		% Change
	Actual	FY2016	FY2017*	
A. DIRECT TAXES				
Gross		911.0	1,019.9	12.0
Refund/Rebate		23.0	41.0	
Net	1,217.3	**888.0**	**978.9**	10.2
B. INDIRECT TAXES				
Gross		1,486.1	1,575.8	6.0
Refund/Rebate		42.0	36.0	
Net	1,895.4	**1,444.1**	**1,539.8**	6.6
B.1 SALES TAX				
Gross		1,034.0	1,034.9	0.1
Refund/Rebate		32.8	25.8	
Net	1,302.7	**1,001.1**	**1,009.1**	0.8
B.2 FEDERAL EXCISE				
Gross		133.4	144.0	8.0
Refund/Rebate		0.0	0.0	
Net	188.1	**133.4**	**144.0**	8.0
B.3 CUSTOM				
Gross		318.7	396.8	24.5
Refund/Rebate		9.2	10.2	
Net	404.6	**309.5**	**386.6**	24.9
TOTAL TAX COLLECTION				
Gross		2,397.1	2,595.7	8.3
Refund/Rebate		65.0	77.0	
Net	3,112.7	**2,332.1**	**2,518.7**	8.0

***: Provisional**

Source: Federal Board of Revenue

During July-April, FY2017 FBR has been able to collect around Rs.2,518.7 billion as provisional tax revenues against Rs.2,332.1 billion in the same period of FY2016. Thus reflecting a growth of 8.0 percent.

Direct Taxes

According to the tax-wise detail presented in table 4.5, the net collection of direct taxes has registered a growth of 10.2 percent during the first ten months of FY2017. The net collection has gone up from Rs.888.0 billion during July-April, FY2016 to Rs.978.9 billion in the same period of FY2017. Bulk of direct taxes are realized from income tax and major contributors of income tax are withholding tax, voluntary payments & collection on demand.

Indirect Taxes

On the other hand, the gross and net collections of indirect taxes have witnessed growth of 6.0 percent & 6.6 percent respectively. It has accounted for around 61 percent of the total FBR tax revenues. Within indirect taxes, net collection of sales tax increased by 0.8 percent. The gross and net sales tax collection during July-April FY2017 has been Rs.1,034.9 billion and Rs.1,009.1 billion respectively. In fact, around 55 percent of total sales tax was contributed by sales tax on import during July-April FY2017 while the rest was contributed by domestic sector. Within domestic sales tax collection, the major contribution came from POL products, fertilizers, natural gas, cement, other services, electrical energy, beverages, cigarettes, tea, sugar, iron & steel etc. On the other hand, POL products, plastic, edible oil, vehicles, machinery, chemicals, oilseeds etc. contributed significantly to the collection of sales tax from imports.

Custom duty collection has registered growth of 24.5 percent and 24.9 percent in both gross and net terms respectively. The net collection has increased from Rs.309.5 billion during July-April, FY2016 to Rs.386.6 billion during July-April, FY2017. The major revenue spinners of custom duty have been automobiles, edible oil, petroleum products, machinery, plastic, iron and steel, paper and paperboard etc. The collection of Federal Excise Duties (FED) during July-April, FY2017 has recorded 8.0 percent growth. The net collection stood at Rs144.0 billion during July-April, FY2017 as against Rs.133.4 billion during the same period last year. The major revenue spinners of FED are cigarettes, cement, beverages, natural gas, international travel etc.

Box-2: Major Initiatives Taken by FBR

1. Elimination of SRO Culture

In order to ensure level playing field for all taxpayers, SROs/concessions have been withdrawn during last three years worth of more than Rs.290 billion. However, socially sensitive and essential concessions have been transposed to the relevant laws.

2. Rationalization of Import Tariff and Corporate Tax Rates

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

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

3. Benami Transaction Law

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

4. Broadening of Tax Base (BTB)

For broadening of tax base the government has taken several initiatives including use of third party data. Initially, the objective was to incorporate 300,000 new taxpayers in three years. In this regard, more than 465,000 notices have been issued by June, 2016.

BTB Performance Statistics as on 30-6-2016

S.No.	Task	Achievement
1	Notices Issued u/s 114 of the Income Tax Ordinance 2001	465,165
2	Income Tax Returns enforced	132,505
3	Tax paid with returns	Rs. 1.269 billion
4	Orders passed u/s 122 C of the Income Tax Ordinance 2001	101,662
5	Tax demand raised	Rs. 36,473.5 million
6	Tax demand recovered	RS. 921.2 million

5. Queue Management System in Refunds

Abusive system of processing and payment of refunds has been improved with the following features:-

- Queue management for refund claims (first in first out) both at field formations and FBR headquarters level
- Transmission of refund cheques into claimants bank account
- Administrative measures like posting of suitable officers in refund sections to plug the leakages in the process of sanctioning of refund claims

6. Strengthening Tax Audit

An audit plan has been reintroduced to accompany the self-assessment scheme and to overcome weak tax compliance. Substantial progress has been achieved for infrastructure up-gradation and development with the introduction of fully automated and Integrated Tax Management System (Iris), which is available to all the field formations.

7. Addressing inadmissible input adjustment and illegal refunds in Sales Tax

Since VAT is primarily a tax based on value addition at source and exports are zero-rated, there is an inbuilt need for the documentation of transactions involved in entire supply chain. While textiles cater for major exports of Pakistan, various intermediary manufacturing and processing activities are largely carried out in the unorganized and undocumented sector. This gap is filled by fake invoicing to inflate refunds and suppress local supplies, the refund issue consequently assumed staggering dimensions posing challenges for the VAT administration in Pakistan. In order to resolve these issues FBR has successfully prepared and implemented Computerized Risk Based Evaluation of Sales Tax (CREST) and Sales Tax Real-Time Invoice Verification System (STRIVe) for risk based analysis of sales tax returns. The purpose of STRIVe is to halt the false claims of tax input.

8. Anti-Smuggling Strategy

Following steps have been taken to control the smuggling:

i. Frontiers Corps (KPK) has been entrusted to carry out anti-smuggling checking within 20 K.M of the international borders. Joint efforts are undertaken between Customs and other Law Enforcement Agencies.

ii. Anti-smuggling powers have been entrusted to Pakistan Coast Guards and Pakistan Maritime Security Agency to check the smuggling of contraband goods.

iii. Similarly, the Political Administration in Tribal areas has also been entrusted with anti-smuggling powers.

iv. Pakistan has signed an agreement with Afghanistan (Afghan-Pakistan Transit Trade Agreement). The importers as well as the carrier of Afghan cargo have to submit bank guarantees which are released only on verification that the goods have reached Afghanistan and were not pilfered inside Pakistan.

v. FBR has chalked out a comprehensive anti-smuggling strategy to effectively curb the menace of smuggling. In this regard available resources have been pooled for optimal use under the supervision of Directorate General of Intelligence & Investigation-FBR. Choke points have been strengthened, in co-ordination with other Law Enforcement Agencies to check smuggling. Moreover, new chokepoints are also being identified.

vi. Major entry points/smuggling routes in the country are being monitored through establishment of check posts manned by Pakistan Customs with the assistance of other LEAs.

vii. FBR is in the process of recruitment of fresh Human resources in all cadres which will not only cater for the current shortage of force especially on the enforcement side but induction of the young lot will result in reinvigoration of the force.

viii. Special attention will be given to proper training of the enforcement force to enable them to face the challenges in the field of anti-smuggling.

9. Whistleblowers

The Federal Board of Revenue (FBR) has initiated a drive in order to trace tax evaders. Under this initiative FBR may sanction reward to whistleblowers or informers in cases of concealment or evasion of Income Tax, Sales Tax, or Federal Excise. For this purpose, an application on FBR's website has been introduced for informants to communicate tax evasion and concealments.

10. Behavioral Change

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

a. Tax Directory of Parliamentarians

b. Establishment of Financial Investigation Cell

c. Campaign against Tax Evaders

11. Integrity Management Cell:

An Integrity Management Unit has been established in FBR to examine complaints of misuse of authority and develop effective vigilance within organization. FBR has resolved that there will be zero tolerance for corruption. The unit will monitor annual declaration of assets of employees and will generate periodical vigilance reports.

11. Taxpayers Facilitation and End-To-End Automation

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

i. Web Based One Customs (WeBOC) System of Clearance
ii. EDI – Electronic Data Interchange:
iii. Inland Revenue Information System (Iris)

With the help of these initiatives, FBR would move towards a more efficient tax system; facilitating taxpayers, promoting investment and broadening the tax base in the years to come.

Source: Federal Board of Revenue (FBR)

Provincial Budget

During FY2017, the total expenditure of all the four provincial budgets amounted to Rs.2,988.5 billion which is 20.5 percent higher than the revised outlay of Rs.2,479.2 billion of FY2016.

Table 4.6: Overview of Provincial Budgets (Rs. billion)

Items	Punjab		Sindh		KP		Baluchistan		Total	
	FY2016 RE	FY2017 BE	FY2016 RE	FY2017 BE	FY2016 RE	FY2017 BE	FY2016 RE	FY2017 BE	FY2016 RE	FY2017 BE
A. Tax Revenue	**1,033.5**	**1,223.8**	**545.6**	**602.2**	**295.0**	**346.9**	**160.8**	**184.9**	**2,034.9**	**2,357.8**
Provincial Taxes	142.9	184.4	123.0	109.0	13.1	18.0	4.3	2.3	**283.3**	**313.7**
GST on Services (transferred by federal Govt)	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	**0.1**	**0.0**
Share in Federal Taxes	890.6	1,039.4	422.6	493.2	281.9	329.0	156.5	182.6	**1,751.6**	**2,044.2**

Table 4.6: Overview of Provincial Budgets										(Rs. billion)
Items	Punjab		Sindh		KP		Baluchistan		Total	
	FY2016 RE	FY2017 BE	FY2016 RE	FY2017 BE	FY2016 RE	FY2017 BE	FY2016 RE	FY2017 BE	FY2016 RE	FY2017 BE
B. Non-Tax Revenue	**37.2**	**85.9**	**69.6**	**78.3**	**65.2**	**48.5**	**21.6**	**18.6**	**193.6**	**231.3**
C. All Others	**5.5**	**0.8**	**44.4**	**60.9**	**14.6**	**30.6**	**38.0**	**47.0**	**102.5**	**139.3**
Total Revenues (A+B+C)	**1,076.2**	**1,310.6**	**659.6**	**741.4**	**374.8**	**426.1**	**220.4**	**250.5**	**2,331.0**	**2,728.6**
a) Current Expenditure	**746.9**	**849.9**	**502.8**	**572.8**	**280.9**	**333.0**	**163.2**	**184.8**	**1,693.8**	**1,940.5**
b) Development Expenditure	**422.9**	**550.0**	**175.6**	**266.0**	**135.1**	**161.0**	**51.9**	**71.2**	**785.5**	**1,048.2**
Total Exp (a+b)	**1,169.8**	**1,399.9**	**678.3**	**838.7**	**416.0**	**494.0**	**215.1**	**255.9**	**2,479.2**	**2,988.5**

Source: Provincial Finance Wing, Finance Division.

The proportion of current and development expenditures in total expenditures is 65 percent and 35.1 percent respectively. During FY2017, the allocation of development expenditures is 33.4 percent and current expenditures is 14.6 percent higher than last year.

Allocation of Resources between the Federal Government and Provinces

In accordance with the 7th NFC award, the net transfers to the provinces are estimated at Rs.2,210 billion for FY2017 which is 15.3 percent higher than the revised transfers of Rs.1,916.8 billion estimated for FY2016.

Table 4.7: Transfers to Provinces (net)						(Rs. billion)
	FY2012	**FY2013**	**FY2014**	**FY2015**	**FY2016R.E**	**FY2017B.E**
Divisible Pool	1,063.1	1,117.5	1,287.4	1,476.6	1,751.5	2,044.1
Straight Transfer	145.6	103.5	124.4	97.4	100.4	91.7
GST on services	-	83.7	1.5	0.7	0.1	
Special Grants/ Subventions	53.9	61.2	53.8	33.7	32.6	40.0
Project Aid	47.8	71.3	85.2	61.9	60.2	86.1
Program Loans	4.6	4.2	59.1	18.1	29.6	8.3
Japanese Grant	0.1	0.0	0.0	0.0		0.1
Total Transfers to Provinces	1,315.0	1,441.5	1,611.5	1,688.4	1,974.3	2,270.2
Interest Payment	12.9	14.8	14.1	13.3	9.8	13.5
Loan Repayment	36.1	32.1	38.7	38.6	47.8	46.7
Transfers to Provinces(Net)	1,266.0	1,394.5	1,558.8	1,636.6	1,916.8	2,210.0

Source: Various issues of Budget in Brief.

During FY2016, the fiscal performance of all the four provinces remained reasonably well. Overall provincial surplus increased to Rs.207.4 billion in FY2016 against Rs.87.3 billion recorded in FY2015 on the back of sharp rise in tax revenues and stringent control over current expenditures. While during first nine months of current fiscal year, provincial surplus amounted to Rs.227.6 billion against 221.2 billion in the comparable period of FY2016.

Provincial tax revenues stood at Rs.283.3 billion during FY2016 against Rs.205.8 billion in FY2015. Despite an impressive growth of 37.7 percent in provincial tax revenues during FY2016, all the four provinces remained heavily dependent on federal transfers as it soared up by 21.0 percent in FY2016 and stood at Rs.1,862.2 billion against Rs.1,538.7 billion in FY2015. Federal transfers constituted 81.2 percent and provinces own revenue receipts contributed 12.4 percent in total revenues during FY2016.

Table 4.8: Overview of Provincial Fiscal Operations **(Rs. billion)**

Items	FY2012	FY2013	FY2014	FY2015	FY2016	July-March	
						FY2016	FY2017
A. Tax Revenue	1,197.1	1,365.7	1,596.2	1,744.5	2,145.4	1,439.9	1,652.6
Provincial Taxes	107.2	150.7	190.0	205.8	283.3	186.7	230.5
Share in Federal Taxes	1,089.9	1,215.0	1,406.3	1,538.7	1,862.2	1,253.2	1,422.1
B. Non-Tax Revenue	48.0	71.3	49.4	75.6	93.3	44.7	59.3
C. All Others	88.6	107.4	121.8	82.3	55.1	42.0	24.2
Total Revenues (A+B+C)	1,333.7	1,544.4	1,767.4	1,902.4	2,293.9	1,526.6	1,736.1
a) Current Expenditure	980.6	1,110.0	1,187.4	1,400.1	1,559.8	1,047.2	1,175.9
b) Development Expenditure(PSDP)	375.4	371.5	430.5	498.8	592.4	372.1	422.7
Total Exp (a+b)	1,356.0	1,481.6	1,617.9	1,898.9	2,152.2	1,419.3	1,598.5

Source: Fiscal Operations (various issues), Budget Wing

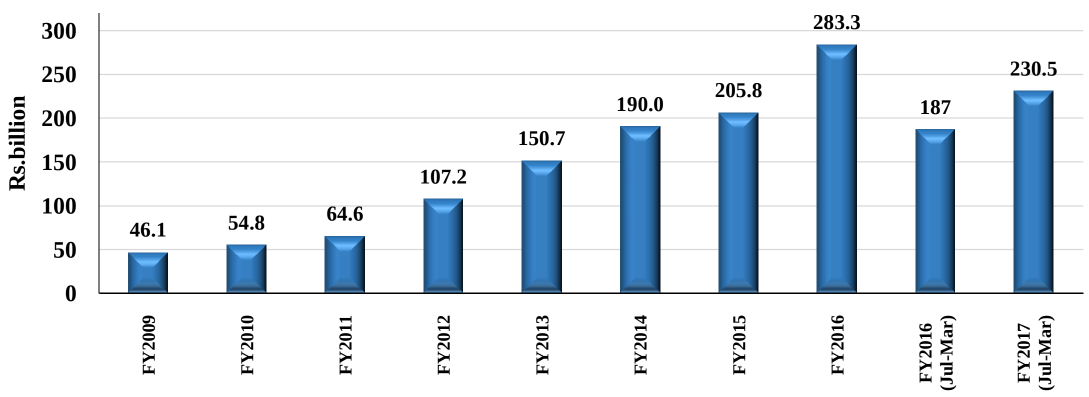
Major contributor in tax revenue was GST on services as it stood at Rs.129.8 billion during FY2016. Overall tax revenues (provincial tax and federal transfers) increased from Rs.1,744.5 billion in FY2015 to Rs.2,145.4 billion in FY2016, thus posting a growth of 23.0 percent.

The share of provincial tax revenues in total revenues is constantly rising since FY2011 from 5.3 percent to 12.4 percent in FY2016. During July-March, FY2017, overall tax revenues grew at 14.8 percent to reach Rs.1,652.6 billion as compared to Rs.1,439.9 billion in the same period of FY2016. Within tax revenues, provincial tax revenues posted a healthy growth of 23.5 percent and federal transfers to provinces grew at 13.5 percent.

On expenditure side, total expenditures were successfully contained at 13.3 percent in FY2016 against 17.4 percent in FY2015 on account of strict control over current expenditures. As current expenditures grew at 11.4 percent and amounted to Rs.1,559.8 billion during FY2016 against Rs.1,400.1 billion in the same period of FY2015. In contrast, development expenditures (PSDP) rose to Rs.592.4 billion during FY2016 as against Rs.498.8 billion during FY2015, thus posting a growth of 18.8 percent.

Going forward, total expenditures of all the four provinces contained at 12.6 percent during the first nine months of current fiscal year. Within total expenditures, current expenditures grew at 12.3 percent and stood at Rs.1,175.9 billion during July-March, FY2017 against Rs.1,047.2 billion in the comparable period of last year. On the other hand development expenditures (PSDP) posted a growth of 13.6 percent and amounted to Rs.422.7 billion during the first nine months of current fiscal year as against Rs.372.1 billion in the corresponding period of FY2016.

Fig-6: Provincial Taxes



Medium Term Budgetary Framework (MTBF)

The Medium-Term Budgetary Framework (MTBF) reform initiative is entering its seventh year of implementation. The reform programme has introduced three innovations; 1) The budget making is now top-down driven through the introduction of macro-fiscal framework, indicative budget ceilings and a Cabinet approved Budget Strategy Paper, 2) The detailed budget is linked with performance indicators through performance budgeting initiative, and 3) Performance monitoring system is piloted. This system is leading to improved budget management in the federal government.

In the current year, emphasis is being placed on further embedding and institutionalising the reform initiative. A new computer system called 'Business Planning and Consolidation' is being configured and pilot tested. In addition, capacity building for performance budgeting, and performance monitoring is being regularly provided to offices of the Principal Accounting Officers across the government.

In addition, a comprehensive Public Financial Management Strategy is being drafted. Consultations have been held with various stakeholders to identify key reforms that will be undertaken over the short, medium and long-term.

Conclusion

Pakistan's economy has witnessed a remarkable recovery through a combination of stabilization and structural reforms which has been duly acknowledged by well reputed international credit rating agencies, international financial institutions and financial publications.

Most importantly, the reduction in fiscal deficit during the past 3 years has been attained with a cautious mix of reduction in total expenditure and improvement in overall tax revenues as a percentage of GDP. Fiscal deficit has been reduced from 8.2 percent of GDP in FY2013 to 4.6 percent of GDP in FY2016. While during July-March, FY2017 fiscal deficit stood at 3.9 percent of GDP as compared to 3.5 percent of GDP in the comparable period of FY2016. Moreover, FBR tax revenues increased from 8.7 percent of GDP in FY2013 to 10.7 percent of GDP in FY2016 and are expected to increase further to 10.8 percent of GDP in FY2017.

Better fiscal performance is a testament of effective implementation of comprehensive agenda of economic reforms. It clearly shows that the economy is performing reasonably well and consolidation efforts are on track. Furthermore, it has also helped in creating adequate fiscal space for development spending and social safety nets.