

# Fiscal Development

The magnitude and impact of the COVID-19 pandemic are unprecedented and have posed formidable challenges for countries around the world. Since the beginning of the pandemic, countries around the globe are dealing with the virus's socio-economic consequences by massive fiscal measures totalling \$16 trillion as of March 17th, 2021<sup>1</sup>(Box-I). While the global fiscal response has lessened the miseries of pandemic on the general population and the economy, it has placed public finances under tremendous strain. Government deficits and debts have risen to levels not seen since the global financial crisis (2008). Overall global fiscal deficit remained at 10.8 percent of GDP in 2020, while it is projected to narrow down to 9.2 percent of GDP in 2021<sup>2</sup>.

Prior to COVID-19, Pakistan's economy was transitioning from stabilization to growth as a result of series of policy measures introduced in FY2019. These measures addressed the economic imbalances and paved the way for better economic outcomes in the subsequent year. In particular, the fiscal sector witnessed a considerable improvement during the first three quarters of FY2020 on account of various policy interventions to improve the revenues and prudent expenditure management. However, the downturn in economic activity and higher COVID-related expenditures made fiscal management difficult in the last quarter of FY2020. Despite significant challenges, better fiscal performance in early FY2020 enabled the government to withstand the pandemic shock and helped in containing the overall fiscal deficit to 8.1 percent of GDP in FY2020, down from 9.0 percent in FY2019. Similarly, the primary balance posted a deficit of 1.8 percent of GDP during FY2020 against the deficit of 3.6 percent of GDP in FY2019.

The outbreak of COVID-19 in the second half of FY2020 forced the government to reprioritize its policies to keep the economy afloat and provide relief to the people. In addition to pandemic containment measures, the government devised an extensive set of policies (Box-II). The aspiration behind these measures was to minimize the negative impact of the pandemic on the economy and to protect the most vulnerable segments of society.

Although the quick response returned the economy to its pre-COVID trajectory in the fiscal year 2021, the additional relief related expenditure put a strain on the budget. In the backdrop of these challenges, the fiscal performance remained satisfactory due to the government's efforts at fiscal consolidation, prudent expenditure management and

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<sup>1</sup> Fiscal Monitor April 2021. IMF

<sup>2</sup> Fiscal Monitor April, 2021.IMF

effective resource mobilization. These initiatives have had a strong carry-over effect in the current fiscal year where the fiscal deficit contained at 3.5 percent of GDP during July-March, FY2021 against 4.1 percent of GDP in the same period of last year. On the other hand, the primary balance posted a surplus of Rs 451.8 billion during July-March, FY2021 against the surplus of Rs 193.5 billion last year. Likewise, FBR achieved double-digit growth in the first ten months of the current fiscal year and surpassed the target by more than 100 billion. The net provisional collection grew by 14.4 percent to Rs 3,780.3 billion during July-March, FY2021 against Rs 3,303.4 billion last year.

#### Box-I: Global Fiscal Response to COVID-19

Since the start of COVID-19, a large number of countries have implemented substantial fiscal assistance to mitigate the devastating effects on the economy and people's livelihoods. Fiscal support has taken different forms and covers both above- and below-the-line interventions, as well as contingent liabilities with varying consequences for public finances in the short and long term. The size, composition and duration of assistance vary across countries depending upon the impact of a pandemic. The \$16 trillion in global pandemic-related fiscal response till March 17, 2021, includes \$10 trillion in additional spending and forgone revenues, as well as \$ 6 trillion in government loans, guarantees and capital injections. Job security and household income support received half of the above-the-line assistance in the G-20 advanced economies, while public works and job safety received the most support in emerging economies. The fiscal response in terms of GDP for selected countries have been mentioned in Table I:

In one of the studies conducted by Chudik, Mohaddes and Raissi (2021), it is estimated that the government's revenue and spending measures have prevented the global economy from a more severe contraction in 2020 by 2 percentage points. Fiscal assistance has also helped to lessen the pandemic's negative impact on private demand, consumption and unemployment.

On the social protection side, additional spending was 0.6 percent of GDP on average during the first three quarters of 2020. It has prevented around 10 million people from falling into extreme poverty around the world (October 2020 Fiscal Monitor). The strength of the recovery depends on the suppression of pandemic and the continuity of policy support. To combat the pandemic, it is critical that the global healthcare systems must be adequately resourced and global cooperation on producing and distributing vaccines to all countries at affordable rates must be strengthened, particularly since many low-income countries depend on external grants to fund their vaccination programs.

Source: Fiscal Monitor, April 2021. IMF

**Table I: Fiscal Response in Selected Economies (% of GDP)**

	Additional Spending & Foregone Revenues
Bangladesh	1.4
China	4.8
India	3.3
Italy	8.5
Pakistan	2.0
Spain	7.6
Saudi Arabia	2.2
Turkey	1.9
U.K	16.2
U.S.A	25.5
Vietnam	1.4

Source: Fiscal Monitor Database of Country Fiscal measures in Response to COVID-19 Pandemic (IMF).

The budget strategy for the current fiscal year strikes a careful balance between supporting the economy and commitment to fiscal consolidation. In this regard, the fiscal policy measures are largely focused on relief measures to support businesses and to protect vulnerable segments of society. Simultaneously, the government is concentrating on containing the fiscal deficit at a manageable level and keeping the primary balance at a sustainable level.

**Box: II- Pakistan's Response**

In the backdrop of significant challenges posed by the COVID-19 pandemic, the government focused on reducing economic losses and maintaining the social and economic well-being of the affected and vulnerable segments. At the initial stage, the government developed a comprehensive strategy to prevent the spread of the COVID-19 through early detection, contact tracing and surveillance, risk communication, social distancing, quarantine and isolation. Similarly, Pakistan has adopted a smart lockdown strategy to continue the business activities. On the other hand, the Economic Stimulus Package of Rs 1,240 billion was announced to sustain the socio-economic progress made through the reform agenda for economic recovery. The summary of the package and its utilization till March 2021 is explained in Table II.

<b>Description</b>	<b>Package</b>	<b>Utilized*</b>
Emergency Response	190	124
Relief to Citizens	570	298
Support to Business & Economy	480	432
<b>Total</b>	<b>1,240</b>	<b>854</b>

\* As of end March, 2021

Source: Budget Wing, Finance Division

- i. Emergency Response (Rs 190 billion): It includes an allocation for National Disaster Management Authority, medical equipment, emergency relief fund and tax relief on food & health.
- ii. Support to Business (Rs 570 billion): The intervention consists of, relief to the exporters (refunds), SMEs (bill deferment) and support to agriculture. In addition, relief on petrol/diesel was also provided under this head.
- iii. Relief to Citizens (Rs 480 billion): It covers relief to daily wage workers, vulnerable families and panagah, funding to utility stores, power and gas subsidy and payment to farmers (wheat).

The balanced package after utilization of Rs 335 billion in FY2020 has been provisioned in FY2021 through supplementary grant approval amounting to Rs 540 billion. During FY2020, an amount of Rs 700 billion was utilized under the package, while during July-March, FY2021, an amount of Rs 154 billion has been provided to combat the pandemic including the purchase of vaccine amounting to Rs 25 billion. Up till March 2021, Rs 854 billion has been utilized which is 69 percent of the total package. The government's efforts in lessening the adverse impact of the pandemic have been well acclaimed at the global level.

In order to meet the financing needs for COVID-related expenditures, substantial emergency financing from the international community has also been mobilized including the IMF's Rapid Financing Instrument (RFI) and G20 Debt Services Suspension Initiative (DSSI).

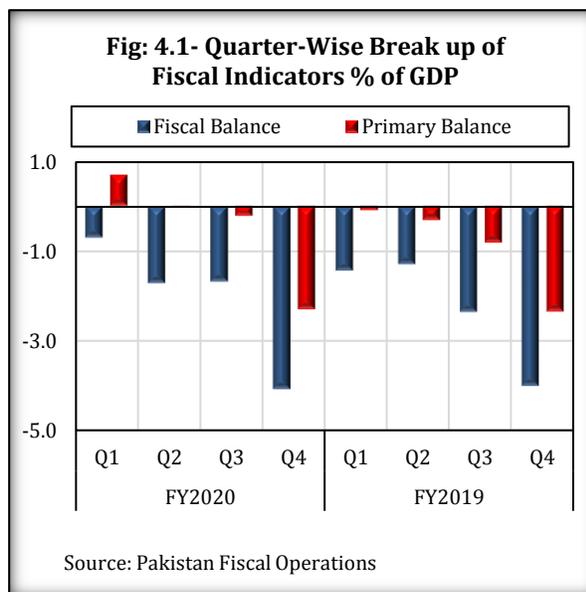
**Fiscal Performance FY2020**

A cursory look into the major fiscal indicators reveals better-than-expected results in FY2020, owing to careful expenditure management and improved collection under tax and non-tax revenue. The overall fiscal deficit exceeded the target set for FY2020, however, it was contained at 8.1 percent of GDP against 9.0 percent of GDP recorded in FY2019.

The fiscal accounts came under significant pressure during the fourth quarter of FY2020 due to COVID-19 related expenditures. The quarter-wise breakup shows that the fiscal deficit was 4.0 percent of GDP up to Q3, while the last quarter of FY2020 alone registered the deficit at 4.1 percent of GDP. On the other hand, the primary balance which accumulated a surplus of Rs 286.5 billion in the first two quarters, turned into a deficit during the second half of FY2020, however, the first three quarters ended up with a cumulative surplus of Rs 193.5 billion (0.5 percent of GDP). The primary balance was

restricted to the deficit of Rs 756.6 billion (-1.8 percent of GDP) for the entire year against the deficit of Rs 1,353.8 billion (-3.6 percent of GDP) in FY2019.

The total revenue increased by 15.1 percent of GDP in FY2020 thus surpassed its revised target of 14.3 percent of GDP for the year. In terms of growth, it grew by 28.0 percent in FY2020 against the negative growth of 6.3 percent recorded in the preceding year. The increase in revenues in FY2020 is largely attributed to a sharp rise in non-tax revenue and modest growth in tax collection. Non-tax revenue posted a historical impressive growth of 256.7 percent during FY2020 against the negative growth of 43.8 percent realized in FY2019. The increase stemmed from a sharp rise in SBP profit, PTA profit and mark-up (PSEs & others).



The total tax collection grew by 6.1 percent in FY2020 against the meagre growth of 0.1 percent in the comparable period of FY2019. In absolute terms, tax collection stood at Rs 4,747.8 billion in FY2020 against Rs 4,473.4 billion in FY2019. Within the total, federal tax collection increased by 6.4 percent and provincial tax collection grew by 2.9 percent in FY2020 over the preceding year. Out of total federal tax collection, FBR tax revenue posted a growth of 4.4 percent during FY2020 against the negative growth of 0.3 percent registered in FY2019. FBR Tax revenue rose by 17.5 percent until February 2020, but due to the pandemic, revenue growth slowed sharply.

**Table: 4.1 Fiscal Indicators as Percent of GDP**

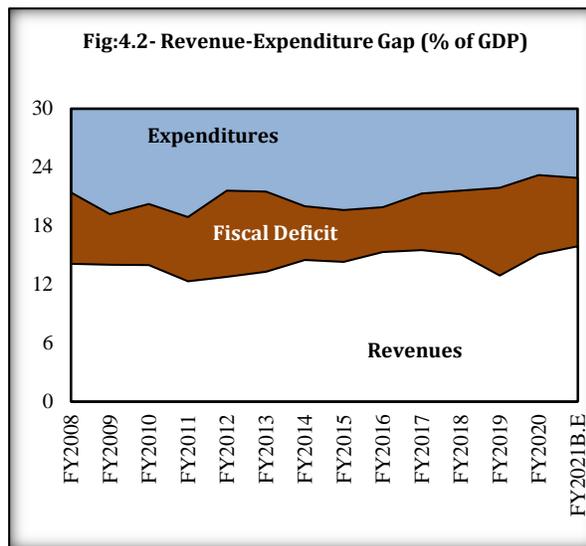
Year	Overall Fiscal Deficit	Expenditure			Revenue		
		Total	Current	Development <sup>1</sup>	Total Rev.	Tax	Non-Tax
FY2008	7.3	21.4	17.4	4.0	14.1	9.9	4.2
FY2009	5.2	19.2	15.5	3.5	14.0	9.1	4.9
FY2010	6.2	20.2	16.0	4.4	14.0	9.9	4.1
FY2011	6.5	18.9	15.9	2.8	12.3	9.3	3.0
FY2012	8.8	21.6	17.3	3.9	12.8	10.2	2.6
FY2013	8.2	21.5	16.4	5.1	13.3	9.8	3.5
FY2014	5.5	20.0	15.9	4.9	14.5	10.2	4.3
FY2015	5.3	19.6	16.1	4.2	14.3	11.0	3.3
FY2016	4.6	19.9	16.1	4.5	15.3	12.6	2.7
FY2017	5.8	21.3	16.3	5.3	15.5	12.4	3.0
FY2018	6.5	21.6	16.9	4.7	15.1	12.9	2.2
FY2019*	9.0	21.9	18.7	3.2	12.9	11.7	1.1
FY2020*	8.1	23.2	20.5	2.9	15.1	11.4	3.7
FY2021 B.E	7.0	22.9	20.0	2.9	15.9	12.1	3.9

<sup>1</sup> including net lending

\*: On the basis of revised GDP numbers

Source: Budget Wing and Economic Adviser Wing's Calculations, Finance Division

The total expenditures observed a significant rise due to higher current expenditures, while development spending decreased during FY2020. Total expenditures grew by 23.2 percent of GDP in FY2020 as compared with 21.9 percent in FY2019. Within the total, current expenditures stood at 20.5 percent of GDP in FY2020 against 18.7 percent of GDP recorded in FY2019. Development expenditures and net lending on the other hand, reduced to 2.9 percent of GDP in FY2020 from 3.2 percent recorded in FY2019.



The fiscal sector performed admirably in the first three quarters of FY2020, due to higher tax revenue, prudent expenditure management and strict fiscal discipline. Nevertheless, the strong fiscal position was challenged due to the outbreak of the pandemic in the last quarter of FY2020, resulting in simultaneous pressures on both expenditures and revenues.

### Review of Public Expenditures

Prior to COVID-19, steps to strengthen fiscal discipline assisted the government in accumulating much-needed funds for social and development spending. However, additional spending requirements for economic revival, health and social relief built significant pressure on the public finances and triggered increase in the total spending. In FY2020, total expenditure grew by 15.6 percent to Rs 9,648.5 billion (23.2 percent of GDP) against Rs 8,345.6 billion (21.9 percent of GDP) in FY2019. Although, development spending declined in FY2020, however, a sharp increase in current spending led to a substantial increase in total spending. The current expenditures accounted for 88.4 percent of overall expenditure, compared to 85.1 percent share in FY2019.

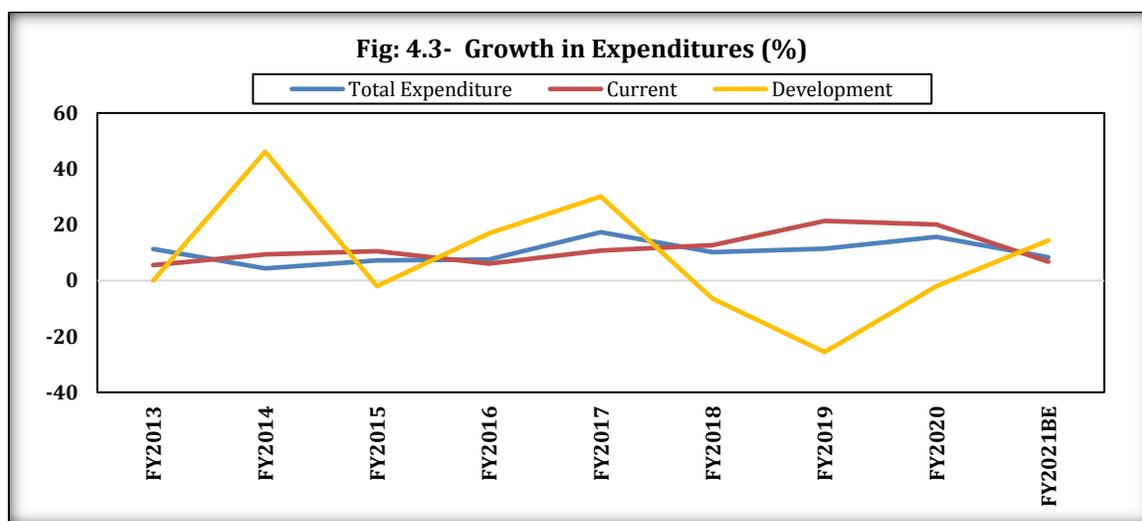
**Table 4.2: Trends in Components of Expenditure** (As % of GDP)

Year	Total Expenditure	Current Expenditure	Mark-up Payments	Defence	Development Expenditure*	Non-Interest Non-Defence Exp	Fiscal Deficit	Revenue Deficit/Surplus	Primary Balance
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

Year	Total Expenditure	Current Expenditure	Mark-up Payments	Defence	Development Expenditure*	Non-Interest Non-Defence Exp	Fiscal Deficit	Revenue Deficit/Surplus	Primary Balance
FY2013	21.5	16.4	4.4	2.4	3.5	14.7	8.2	-3.0	-3.8
FY2014	20.0	15.9	4.6	2.5	4.5	12.9	5.5	-1.5	-1.0
FY2015	19.6	16.1	4.8	2.5	4.1	12.3	5.3	-1.8	-0.6
FY2016	19.9	16.1	4.3	2.6	4.5	13.0	4.6	-0.9	-0.3
FY2017	21.3	16.3	4.2	2.8	5.3	14.3	5.8	-0.8	-1.6
FY2018	21.6	16.9	4.3	3.0	4.6	14.3	6.5	-1.8	-2.2
FY2019	21.9	18.7	5.5	3.0	3.1	13.4	9.0	-5.8	-3.6
FY2020	23.2	20.5	6.3	2.9	2.8	14.0	8.1	-5.4	-1.8
FY2021BE	22.9	20.0	6.5	2.8	2.9	13.7	7.0	-4.1	-0.5

\* excluding net lending

Source: Budget Wing and Economic Adviser Wing's Calculations, Finance Division



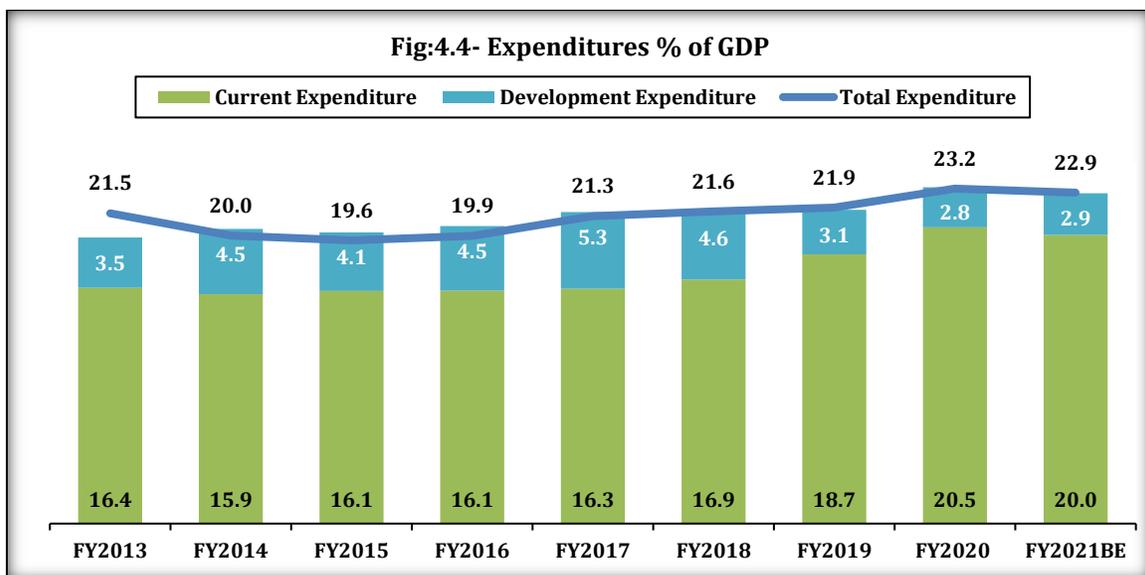
Within the total, current expenditure grew by 20.1 percent in FY2020, however, it remained below the growth of 21.3 percent recorded in FY2019. In absolute terms, current expenditure stood at Rs 8,532.0 billion (20.5 percent of GDP) during FY2020 as compared to Rs 7,104.0 billion (18.7 percent of GDP) in FY2019. The bulk of the increase in current expenditure in FY2020 was due to higher mark-up payments which grew by 25.3 percent to Rs 2,619.7 billion from Rs 2,091.1 billion in FY2019. The rise in mark-up payments was driven by higher servicing on domestic debt due to a higher level of interest rates. During FY2020, the contribution of mark-up payments in total and current expenditure increased to 27.2 and 30.7 percent from 25.1 and 29.4 percent, respectively in FY2019.

On the contrary, defence expenditure grew by 5.8 percent to Rs 1,213.3 billion in FY2020 (2.9 percent of GDP) as compared to Rs 1,146.8 billion (3.0 percent of GDP) in the preceding year. Its contribution in total and current expenditure has reduced from 13.7 and 16.1 percent in FY2019 to 12.6 and 14.2 percent, respectively during FY2020

COVID-related spending accounted for most of the increase in subsidies and grants in FY2020. Within subsidies, power, food and agriculture sectors made a significant

contribution. In addition, a subsidy to the LNG industry for providing lower-cost gas to the industry further added to the overall increase. Thus, the rise in subsidies has been realized both in terms of growth and its contribution to current expenditure. In absolute terms, subsidies increased to Rs 359.9 billion during FY2020 against Rs 195.3 billion in FY2019, posting a growth of 84.3 percent. Similarly, its contribution within current expenditure grew by 4.2 percent in FY2020 as compared to the share of 2.7 percent in FY2019.

The government expanded the cash transfer program in response to COVID-19 in the last quarter, particularly, Benazir Income Support Program (BISP) under Ehsaas. Thus, the grants to others witnessed a noticeable increase owing to social protection spending. In addition, other major contributing factors are grants for contingent liabilities, Railways, AJK, Gilgit Baltistan and encashment of sales tax and income tax refunds, etc.



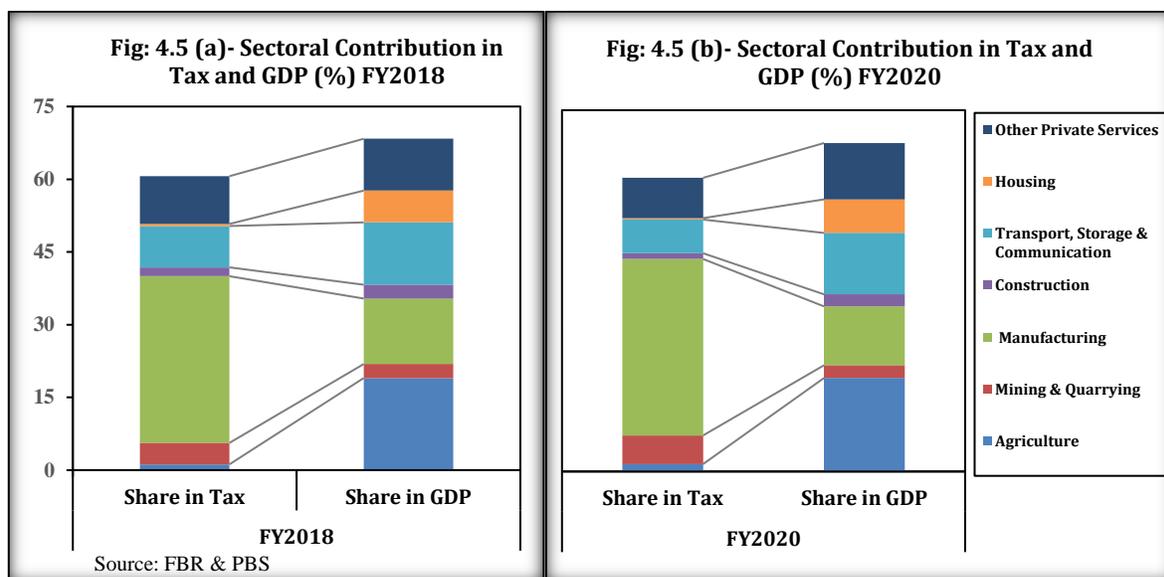
Development expenditure and net lending reduced by 1.3 percent during FY2020 and stood at Rs 1,203.7 billion against Rs 1,219.2 billion in FY2019. Similarly, development expenditure (excluding net lending) reduced to Rs 1,155.2 billion during FY2020 from Rs 1,178.4 billion in FY2019, thus registered a decline of 2.0 percent. The decline in development expenditure is largely stemmed from a reduction in federal PSDP spending and other development expenditure. Total PSDP expenditure grew by 8.1 percent to Rs 1,089.7 billion in FY2020 against Rs 1,008.2 billion in the comparable period of FY2019. The growth in PSDP during the year has been realized on account of 22.9 percent growth in provincial PSDP. Within total PSDP, federal PSDP (excluding development grants to provinces) stood at Rs 467.7 billion, while provincial PSDP recorded at Rs 622.0 billion in FY2020 against Rs 502.1 billion and Rs 506.2 billion, respectively in FY2019.

### Structure of Tax Revenue

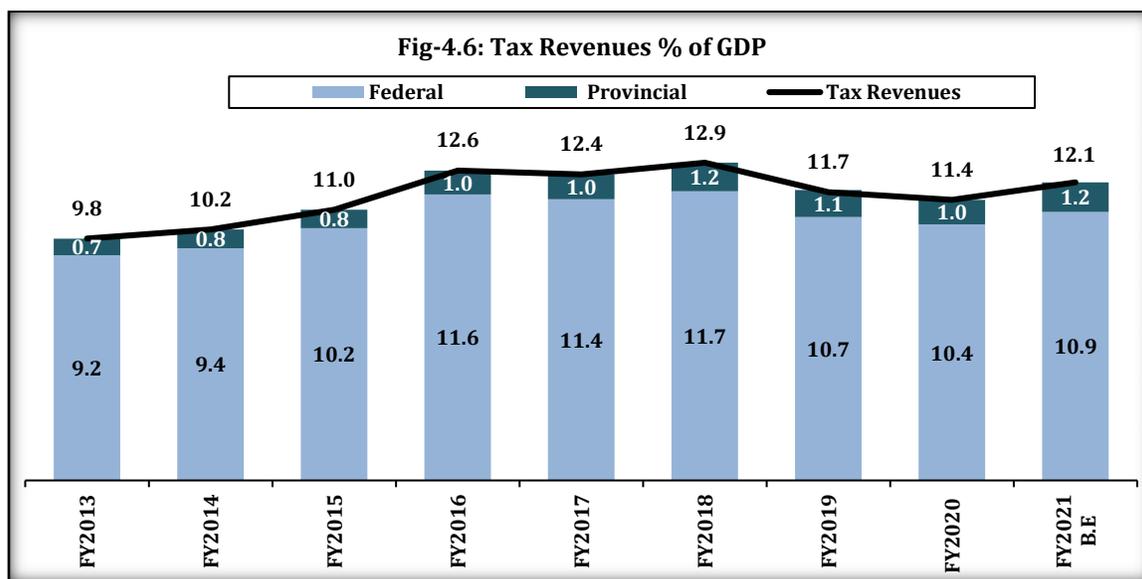
The most effective way to boost a country's domestic resource mobilization effort is to develop an efficient tax system. An efficient tax system not only enables the government

to finance its spending for key areas such as education, health and infrastructure but at the same time it increases the revenues and thereby reduces the fiscal imbalances.

Over the years, distortionary exemptions, concessions, weak enforcement, low compliance by taxpayers, reliance on indirect taxes and issues in improving tax administration have adversely affected the tax to GDP ratio. Historically, Pakistan has a narrow tax base due to the fact that few sectors are under-taxed and some are not taxed at all. There are three major sectors of Pakistan’s economy i.e agriculture, industry and services (in terms of their share in GDP), however, their tax contributions are not proportionate to their economic contribution. For instance, the agriculture sector accounts for 19.4 percent in GDP during FY2020 while contributing less than 2 percent in tax. In services, transport, storage & communication, housing and other private services contributes 12.7 percent, 7.0 percent and 11.7 percent, respectively in GDP, while their contributions in taxes is 7.0 percent, 0.3 percent and 8.4 percent, respectively. In contrast, the manufacturing, mining & quarrying sectors are contributing the most in taxes relative to their share in GDP i.e manufacturing accounts for 12.2 percent, mining & quarrying 2.6 percent and construction 2.5 percent in GDP, while their share in taxes is 37.0 and 6.0 and 1.2 percent, respectively during FY2020. This represents that tax in the respective sectors are not equitable with reference to their contribution in GDP. Consequently, the tax to GDP ratio remained low. Thus, there is need to improve tax to GDP ratio by increasing contribution of tax revenues from the sectors having more potential to pay taxes.



During the last five years, overall tax-to-GDP ratio (federal & provincial) remained within a range of 11.4 percent and 12.9 percent. This ratio fell to 11.4 percent in FY2020, down from 11.7 percent in FY2019. The economic downturn caused by the COVID-19 pandemic resulted in a further drop in the tax-to-GDP ratio during FY2020.



Within total tax collection, FBR collects a sizeable portion of tax revenue. During FY2020, FBR tax revenue reduced to 9.6 percent of GDP. In net terms collection stood at 3,997.4 billion against Rs 3,828.5 billion in FY2019, thus posted a growth of 4.4 percent. This growth seems much better as compared to negative growth during FY2019. Within FBR tax collection, direct taxes increased by 5.4 percent in FY2020. Sales tax which is the top revenue generating source of federal tax receipts after direct taxes, posted a growth of 9.4 percent. The domestic sales tax collection grew by 11.0 percent and collection of sales tax on imports increased by 8.1 percent during the same period. Similarly, the collection under federal excise duty (FED) grew by 5.2 percent, while customs duty posted a negative growth of 8.6 percent in FY2020 due to a decline in imports.

**Table 4.3: Structure of Federal Tax Revenue**

(Rs billion)

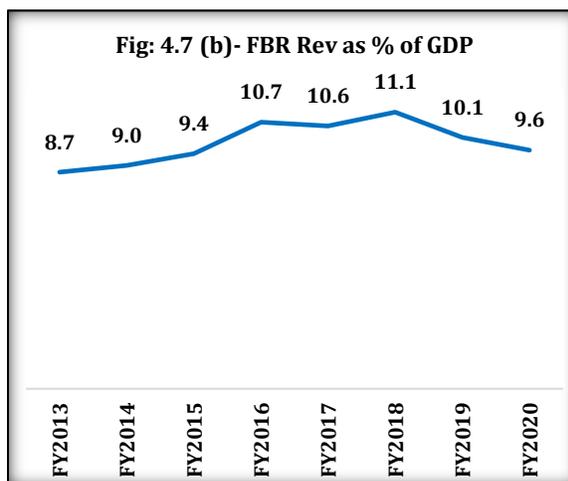
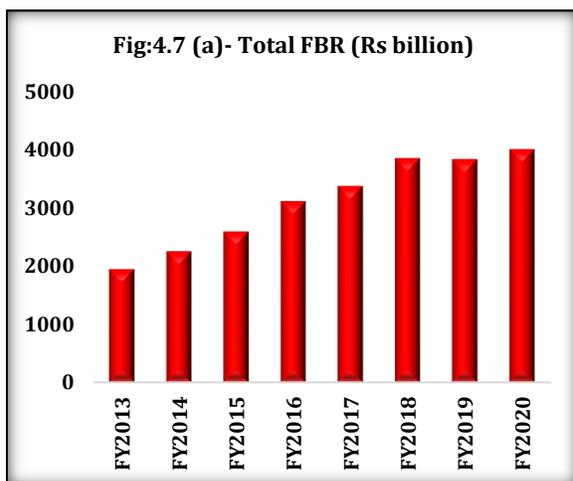
Year	Total (FBR)	Tax Rev. as % of GDP	Direct Taxes	Indirect Taxes			Total
				Customs	Sales	Excise	
FY2006	713.5	8.7	225.0	138.4	294.8	55.3	488.5
			[31.5]	{28.3}	{60.3}	{11.3}	[68.5]
FY2007	847.2	9.2	333.7	132.3	309.4	71.8	513.5
			[39.4]	{25.8}	{60.3}	{14.0}	[60.6]
FY2008	1,008.1	9.5	387.9	150.7	377.4	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

Year	Total (FBR)	Tax Rev. as % of GDP	Direct Taxes	Indirect Taxes			Total
				Customs	Sales	Excise	
			[38.9]	{17.6}	{72.3}	{10.0}	[61.1]
FY2015	2,589.9	9.4	1,033.7	306.2	1,087.8	162.2	1,556.2
			[39.9]	{19.7}	{69.9}	{10.4}	[60.2]
FY2016	3,112.7	10.7	1,217.3	404.6	1,302.7	188.1	1,895.4
			[39.1]	{21.3}	{68.8}	{9.9}	[60.9]
FY2017	3,367.9	10.6	1,344.2	496.8	1,329.0	197.9	2,023.7
			[39.9]	{24.5}	{65.7}	{9.8}	[60.1]
FY2018	3,843.8	11.1	1,536.6	608.4	1,485.3	213.5	2,307.2
			[39.7]	{26.4}	{64.4}	{9.3}	[60.0]
FY2019	3,828.5	10.1	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	9.6	1,523.4	626.6	1,596.9	250.5	2,474.0
			[38.1]	{25.3}	{64.5}	{10.1}	[61.9]
FY2021B.E	4,963.0	10.9	2,043.0	640.0	1,919.0	361.0	2,920.0
			[41.2]	{21.9}	{65.7}	{12.4}	[58.8]

B.E: Budget Estimates,

[ ] as % of total taxes, { } as % of Indirect taxes

Source: Federal Board of Revenue



FBR tax revenue increased by 17.5 percent until February 2020, but due to the pandemic, the revenue growth slowed significantly and annual growth remained lower than anticipated. Despite substantial challenges, the FBR was able to meet its revised target of Rs 3,908 billion by 2.3 percent, which is encouraging.

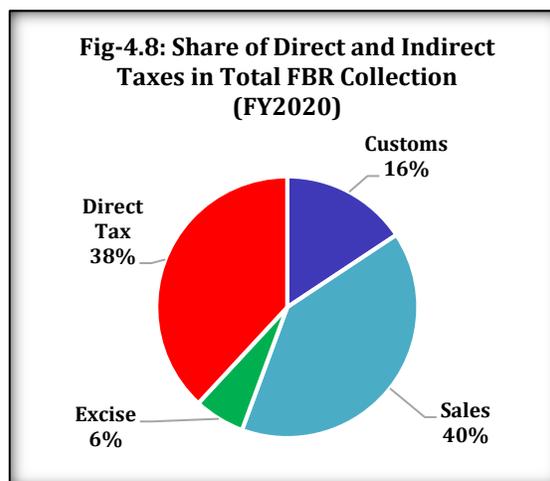
Historically, the tax revenue collection mainly depended on indirect taxes, especially customs. With the passage of time, the share of direct taxes has started to improve. Currently, the sales tax constitutes 39.9 percent of the total collection followed by direct taxes with 38.1 percent share and customs by 15.7 percent and FED 6.3 percent. The share of customs duty declined in FY2020, while the contribution of direct tax, FED and sales tax has witnessed a slight increase during the same period.

To improve the tax to GDP ratio, the government is making all-out efforts to enhance tax collection through comprehensive tax reforms. Although in budget 2021, the government has not introduced any new tax, however, the emphasis is on strict enforcement and monitoring, broadening of tax base, documentation of economy and deployment of technology to identify risk areas to support risk-based audit.

### Fiscal Performance (July-March, FY2021)

The fiscal sector continues to perform better on account of effective revenue mobilization and expenditure management strategy. A recovery in domestic economic activity and a slowdown in expenditures other than mark-up payments and COVID-related spending improved the fiscal accounts during the first three quarters of FY2021. The revenue side, in particular, performed better as a result of increased tax collection both at the federal and provincial levels. In addition, the cumulative surplus of all the four provinces was higher than the previous year. The fiscal deficit thus remained on the lower side during July-March, FY2021 over the same period last year.

According to the consolidated fiscal operations, the fiscal deficit during the first nine months of FY2021 contained at 3.5 percent of GDP against 4.1 percent of GDP in the comparable period of FY2020. Similarly, the primary balance posted a surplus of Rs 451.8 billion (0.9 percent of GDP) during July-March, FY2021 against the surplus of Rs 193.5 billion (0.5 percent of GDP) in the same period of FY2020.



**Table 4.4: Consolidated Revenue & Expenditure of the Government**

	FY2021 B.E.	July-March (Rs billion)		Growth FY2021
		FY2021	FY2020	
<b>A. Total Revenue</b>	<b>7,261.0</b>	<b>4,992.6</b>	<b>4,689.9</b>	<b>6.5</b>
% of GDP	15.9	10.5	11.3	-
<b>a) Tax Revenue</b>	<b>5,498.0</b>	<b>3,765.0</b>	<b>3,365.5</b>	<b>11.9</b>
% of GDP	12.1	7.9	8.1	-
<b>Federal (FBR Taxes)</b>	<b>4,963.0</b>	<b>3,394.9</b>	<b>3,044.3</b>	<b>11.5</b>
% of GDP	10.9	7.1	7.3	-
Provincial Tax Revenue	535.0	370.1	321.2	15.2
<b>b) Non-Tax Revenue</b>	<b>1,763.0</b>	<b>1,227.6</b>	<b>1,324.4</b>	<b>-7.3</b>
% of GDP	3.9	2.6	3.2	-
<b>B. Total Expenditure</b>	<b>10,455.0</b>	<b>6,644.6</b>	<b>6,376.0</b>	<b>4.2</b>
% of GDP	22.9	13.9	15.3	-
<b>a) Current Expenditure</b>	<b>9,113.0</b>	<b>6,085.4</b>	<b>5,611.6</b>	<b>8.4</b>
% of GDP	20.0	12.8	13.5	-
<b>Federal</b>	<b>6,261.0</b>	<b>4,157.3</b>	<b>3,887.7</b>	<b>6.9</b>
Mark-up Payments	2,946.0	2,103.9	1,879.7	11.9
% of GDP	6.5	4.4	4.5	2.5
Defence	1,289.0	784.0	802.4	-2.3
% of GDP	2.8	1.6	1.9	-

**Table 4.4: Consolidated Revenue & Expenditure of the Government**

	FY2021 B.E.	July-March (Rs billion)		Growth FY2021
		FY2021	FY2020	
<b>Provincial</b>	<b>2,853.0</b>	<b>1,928.1</b>	<b>1,723.9</b>	<b>11.9</b>
<b>b) Development Expenditure &amp; net lending</b>	<b>1,342.0</b>	<b>722.9</b>	<b>781.4</b>	<b>-7.5</b>
<b>% of GDP</b>	<b>2.9</b>	<b>1.5</b>	<b>1.9</b>	<b>-15.3</b>
<b>PSDP</b>	<b>1,252.0</b>	<b>653.9</b>	<b>722.5</b>	<b>-9.5</b>
<b>Other Development</b>	<b>70.0</b>	<b>14.1</b>	<b>29.2</b>	<b>-51.9</b>
<b>c) Net Lending</b>	<b>20.0</b>	<b>55.0</b>	<b>29.7</b>	<b>-</b>
<b>d) Statistical discrepancy</b>	<b>-</b>	<b>-163.8</b>	<b>-16.9</b>	<b>-</b>
<b>C. Overall Fiscal Balance</b>	<b>-3,194.0</b>	<b>-1,652.0</b>	<b>-1,686.1</b>	<b>-2.0</b>
<b>% of GDP</b>	<b>-7.0</b>	<b>-3.5*</b>	<b>-4.1**</b>	<b>-</b>
<b>D. Primary Balance</b>	<b>-248</b>	<b>451.8</b>	<b>193.5</b>	<b>-</b>
<b>% of GDP</b>	<b>-0.5</b>	<b>0.9</b>	<b>0.5</b>	<b>-</b>
<b>Financing</b>	<b>3,194.0</b>	<b>1,652.0</b>	<b>1,686.2</b>	<b>-2.0</b>
<b>i) External Sources</b>	<b>810.0</b>	<b>562.2</b>	<b>682.4</b>	<b>-17.6</b>
<b>ii) Domestic</b>	<b>2,384.0</b>	<b>1,089.9</b>	<b>1,003.8</b>	<b>8.6</b>
- Bank	889.0	797.8	601.8	32.6
- Non-Bank	1,395.0	292.1	402.0	-27.3
Privatization Proceeds	100.0	0.0	0.0	-
<b>GDP at Market Prices</b>	<b>45,567</b>	<b>47,709</b>	<b>41,556</b>	<b>14.8</b>

\* On the basis of provisional GDP estimate for FY2021

\*\*On the basis of revised GDP number for FY2020

Note: During the current fiscal year, the fiscal accounts have been reclassified in line with the implementation of PFM procedures. According to the re classification, federal taxes other than FBR have now been included in Non-tax revenue.

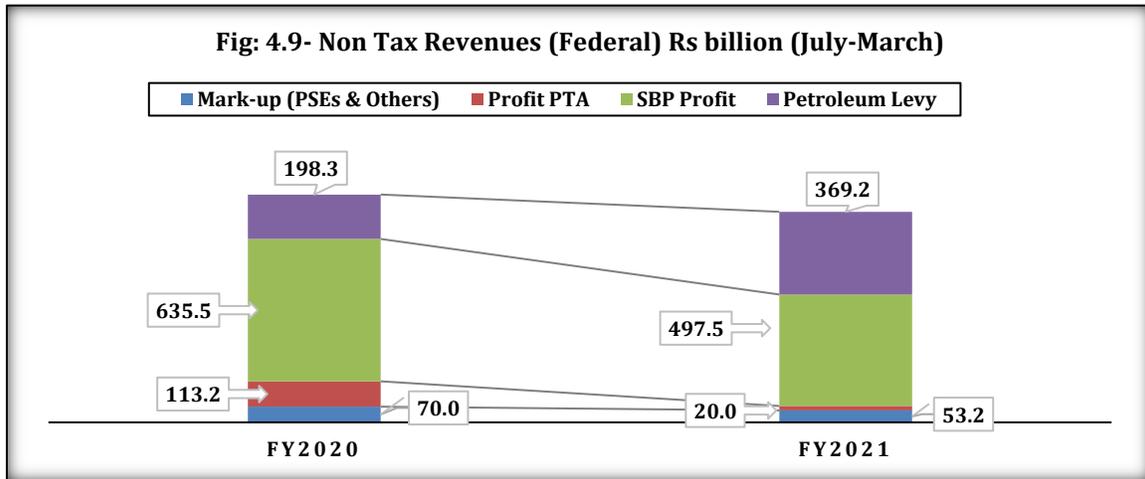
Source: Budget Wing, Finance Division

During July-March, FY2021, total revenue grew by 6.5 percent against the growth of 30.9 percent in the same period of last year. In absolute terms, total revenue increased to Rs 4,992.6 billion during July-March, FY2021 from Rs 4,689.9 billion in the same period of FY2020. A major impetus in revenue increase came entirely from double-digit growth in tax revenue which compensated for the decline in non-tax revenues.

Total tax revenue (federal & provincial) grew by 11.9 percent during July-March, FY2021 and stood at Rs 3,765.0 billion against Rs 3,365.5 billion in the comparable period of FY2019. Within the total, federal tax collection witnessed a significant rise as it grew by 11.5 percent to stand at Rs 3,394.9 billion during July-March, FY2021 against Rs 3,044.3 billion in the same period of FY2020. The revenue performance is not only a reflection of growing economic activities without any disruption even in the wake of the third wave of COVID-19, but it also suggests that the efforts to improve the tax collection through various policy and administrative reforms are fruitful.

In contrast, the non-tax revenue fell sharply during July-March, FY2021 after witnessing strong growth in the same period of last year. Non-tax revenue, stood at Rs 1,227.6 billion during July-March, FY2021 against Rs 1,324.4 billion in the corresponding period last year, showing a decline of 7.3 percent. Out of the total, federal non-tax revenue recorded a decline of 8.0 percent to Rs 1,145.4 billion during July-March, FY2021 against

Rs 1,244.8 billion in the same period last year. The decline is mainly attributed to the absence of a one-off renewal fee for GSM licenses from telecommunication companies. In addition, lower receipts from a surplus profit of SBP and mark-up (PSEs & others) have also attributed to an overall decline in federal non-tax collection. On the other hand, receipts from Gas Infrastructure Development Cess (GIDC), Natural Gas Development Surcharge and petroleum Levy have witnessed an increase during July-March, FY2021 over the same period last year.



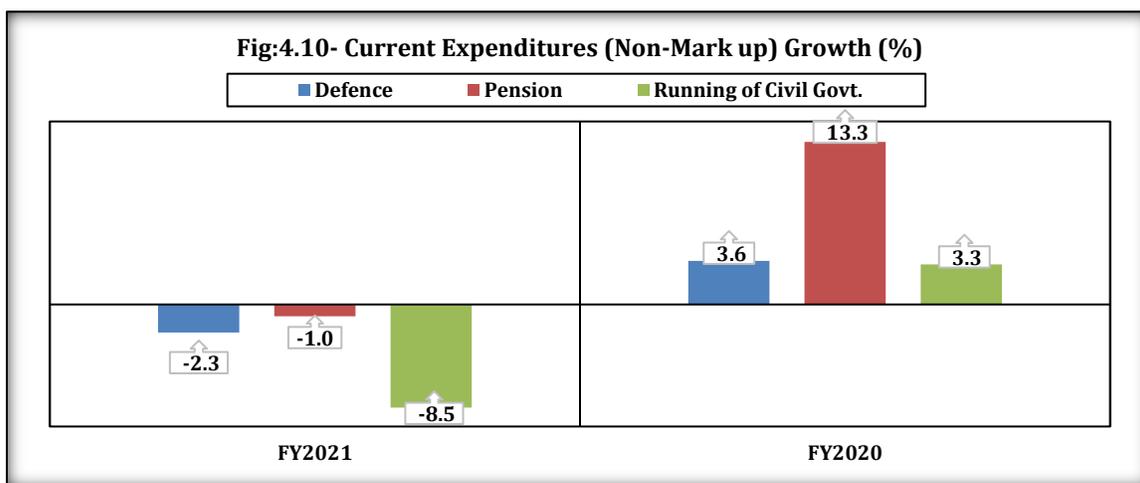
The breakup shows that out of the total, Rs 497.5 billion were collected from SBP profit followed by Rs 369.2 billion from petroleum levy, Rs 53.3 billion from Royalties on Oil/Gas, Rs 53.2 billion from mark-up receipts (PSEs & others), Rs 20.0 billion from PTA profit, Rs 17.2 billion from natural gas development surcharge and Rs 15.4 billion from GIDC etc.

On the expenditure side, total expenditure grew by 4.2 percent during July-March, FY2021 as compared to 15.8 percent growth observed in the same period of FY2020. The efficient expenditure management helped in curtailing the overall expenditure during the current fiscal year. In absolute terms, the expenditures stood at Rs 6,644.6 billion (13.9 percent of GDP) during July-March, FY2021 against Rs 6,376.0 billion (15.3 percent of GDP) in the comparable period of last year. The current expenditure contained at 8.4 percent during July-March, FY2021 against 16.9 percent growth recorded in the same period of last year. In absolute terms, it stood at Rs 6,085.4 billion in July-March, FY2021 against Rs 5,611.6 billion in the same period of FY2020. Although higher mark-up payments, increase in subsidies and grants to others, contributed significantly to the current fiscal year's growth in current expenditure, the decline in other expenditures like defence, pensions and running of civil government slowed the pace of growth.

The mark-up payments grew by 11.9 percent during July- March, FY2021 on account of higher growth in domestic debt servicing. In absolute terms, the mark-up payments increased to Rs 2,103.9 billion during July-March, FY2021 from Rs 1,879.7 billion as

compared to same period of last year. Higher domestic debt servicing was observed during the first nine months of the current fiscal year as a result of Rs 1,502 billion in domestic borrowing that was raised to finance the federal fiscal deficit. Most of the previous year's short-term debt was issued through 12-month T-Bills, the interest on which was paid in the current fiscal year. On the other hand, the foreign debt servicing witnessed a significant decline during July-March, FY2021 owing to refixing of floating rate debt at much lower rates due to substantial decrease in international reference rates i.e., Libor, exchange rate appreciation (Rupee strengthening) and interest servicing deferment to the tune of USD 278 million through Debt Service Suspension Initiative (DSSI-I).

In contrast to higher mark-up payments, the consolidated non-mark-up current expenditure grew by 6.7 percent in July-March, FY2021, mainly because the federal non-interest current expenditure increased by only 2.3 percent against the growth of 16.6 percent in the same period of last year. The contained spending during the said period has been observed on the back of a decline in defence, pension and running of civil government expenditure. During the current fiscal year, the implementation of austerity measures aided in the reduction of expenditures under the running of civil government.



Other components, such as subsidies and grants to others, grew at a slower pace during July-March of FY2021, compared to the same period of the previous year. Subsidies increased by 20.5 percent in the first nine months of the current fiscal year, compared to a 75.1 percent increase in the same period of FY2020. Similarly, grants to others, which grew at a faster rate in July-March of FY2020, i.e., around 60 percent, reduced to around 17 percent in the same period of the current fiscal year. Most of the increase in both subsidies and grants covered COVID-related spending, which continued during the current fiscal year.

In absolute terms, subsidies increased to Rs 204.3 billion during July-March, FY2021 from Rs 169.5 billion in the same period of last year. According to the breakup of subsidies, Rs 197.3 billion were provided for power and petroleum, Rs 3.6 billion to

PASSCO including GB wheat, Rs 2.1 billion for fertilizer plants (Engro, Fatima) and Rs 1.0 billion for PM package for rabi crops, etc. Similarly, grants to others stood at Rs 424.3 billion in July-March, FY2021 against Rs 363.1 billion in the comparable period of FY2020. Under this head, total spending against the BISP under Ehsaas increased by 13.6 percent to Rs 71.2 billion during July-March, FY2021 against Rs 62.7 billion in the same period of last year.

The total development expenditure (excluding net lending) stood at Rs 668.0 billion during July-March, FY2021 as compared to Rs 751.7 billion in the same period of FY2020, showing a decline of 11.1 percent. During the period, PSDP spending (federal and provincial) reduced by 9.5 percent to reach Rs 653.9 billion against Rs 722.5 billion in the same period of last year. The decline in expenditure under PSDP has been observed on account of a decline in federal PSDP (net excluding development grants to provinces) which reduced by 22.5 percent, while provincial PSDP registered a modest growth of 2.1 percent in July-March, FY2021 over the same period of last year.

As the fiscal deficit was kept on the lower side year on year (y-o-y) in July-March of FY2021, total financing was reduced by 2 percent in the same period. Domestic and external resources generated Rs 1,089.9 billion and Rs 562.2 billion, respectively, to finance the fiscal deficit in July-March FY2021. Within domestic sources, financing from bank stood at Rs 797.8 billion and from non-bank, it amounted to Rs 292.1 billion during the period under review.

It is worth mentioning that despite additional spending due to COVID-19, the government was able to adhere to the fiscal discipline in an effort to achieve its fiscal consolidation targets. Healthy growth in tax revenue and efficient expenditure management would pave the way to maintain the fiscal deficit within reasonable limits in the coming months.

### **FBR Tax Collection (July-April, FY2021)**

The economic recovery that started to unfold during the first quarter of FY2021 further accelerated in the subsequent months. The government's unprecedented measures in the wake of COVID-19 along with sector-specific support policies helped in the revival of domestic economic activity during the current fiscal year. Particularly, the industrial sector gained significant momentum on the back of rising construction activities. All these developments along with the ongoing comprehensive tax measures and administrative reforms have paid off in a substantial rise in FBR tax collection.

The FBR tax collection achieved double-digit growth in the first ten months of the current fiscal year and surpassed the target by more than 100 billion. The provisional net collection grew by 14.4 percent to Rs 3,780.3 billion during July-April, FY2021 against Rs 3,303.4 billion in the same period last year. The tax collection has witnessed a broad-based increase in all its revenue heads during the period under review. Details are presented in Table 4.5:

Tax Heads	FY2020 Actual	July-April		% Change
		FY2020	FY2021*	
A. DIRECT TAXES	1,523.4	1,225.0	1,362.4	11.2
B. INDIRECT TAXES	2,474.0	2,078.4	2,417.9	16.3
SALES TAX	1,596.9	1,348.8	1,592.5	18.1
FEDERAL EXCISE	250.5	206.1	223.4	8.4
CUSTOM	626.6	523.5	602.0	15.0
TOTAL TAX COLLECTION (A+B)	3,997.4	3,303.4	3,780.3	14.4

\*: Provisional-Likely to change after reconciliation

Source: Federal Board of Revenue/PRAL

### Direct Taxes

The net collection of direct taxes has registered a growth of 11.2 percent during the first ten months of FY 2021. The net collection has increased from Rs 1,225.0 billion to Rs 1,362.4 billion. The bulk of the tax revenue of direct taxes is realized from income tax. The major contributors of income tax are withholding tax, voluntary payments and collection on demand.

### Indirect Taxes

The net collections of indirect taxes have witnessed a growth of 16.3 percent. It is accounted for 64 percent of the total FBR tax revenue.

#### i. Sales Tax

The net sales tax collection during July-April, FY2021 remained at Rs 1,592.5 billion, showing healthy growth of 18.1 percent. In fact, around 56 percent of total sales tax was contributed by sales tax on import during July-April, FY2021, while the rest was contributed by the domestic sector.

#### ii. Federal Excise Duty

The collection of federal excise duties (FED) during July-April, FY2021 has recorded a growth of 8.4 percent. The net collection has stood at Rs 223.4 billion during July-April, FY2021 as against Rs 206.1 billion during the same period last year. The major revenue spinners of FED are cigarettes, cement, services and beverages.

#### iii. Customs Duty

Customs duty has registered a growth of 15.0 percent in net revenues. The net collection has increased from Rs 523.4 billion during July-April, FY2020 to Rs 602.0 billion during July-April, FY2021. The major revenue spinners of customs duty have been vehicles, mineral fuels, iron and steel, electrical machinery, plastic, edible fruits, etc.

### Impact of COVID-19 on FBR Collection

COVID-19 pandemic had a significant impact on the national economy and the revenue collection efforts of FBR. Keeping in view the negative impact of COVID-19 on the economy the yearly target of the current fiscal year has been reduced downward from

Rs 4,963 billion to Rs 4,691 billion, which means Rs 272 billion lesser than the original target.

During the first ten months of FY 2021, FBR has collected Rs 3,780.3 billion i.e.14.4 percent higher than the previous year. However, it is expected that the situation would likely get better further during the coming months. Table 4.6 shows tax-wise revenue collection for the period July-April FY2021 along with the expected collection during May-June FY2021:

Tax Heads	Collection		Growth		Expected Collection	
	(July-April)		Absolute	%age	May-June FY2021	
	FY2020	FY2021*			May-June	July-June
<b>Direct Tax</b>	1,225.0	1,362.4	137	11.2	427	1,789
<b>Sales Tax</b>	1,348.8	1,592.5	244	18.1	335	1,927
<b>FED</b>	206.1	223.4	17	8.4	52	275
<b>Customs Duty</b>	523.5	602.0	79	15.0	98	700
<b>Total</b>	<b>3,303.4</b>	<b>3,780.3</b>	<b>477</b>	<b>14.4</b>	<b>911</b>	<b>4,691</b>

(\*) Provisional

Source: Federal Board of Revenue/PRAL

## Relief Measures

In order to mitigate the impact of the pandemic and to boost the economy, the FBR has taken various relief measures to facilitate commerce, trade, industry and social sector in the country. Following relief measures have been taken in this regard:

- i. The construction industry in Pakistan was severely impacted due to COVID-19. The initiation of extensive construction activity in the country has the potential to contribute significantly towards the revival of the national economy by addressing the issue of increased unemployment anticipated in the aftermath of the pandemic, enhancing tax revenues, supporting businesses and propelling economic growth and development. Envisioning the desired objectives, the Tax Laws (Amendments) Ordinance, 2020 was promulgated on 17<sup>th</sup> April 2020 encapsulating an incentive package for the construction industry. The same was subsequently incorporated in the Finance Act, 2020.
- ii. The COVID-19 Prevention of Smuggling Bill, 2020 was promulgated. The Bill sought to curb the menace of smuggling of food and other essential commodities with exemplary punishments to create an effective deterrence in the emergent situation resulting from the outbreak of the Pandemic.
- iii. Federal Board of Revenue believes in the liquidation of genuine tax refunds of all industries, especially the export-oriented sector. Keeping in view the seriousness of the issue in the COVID-19 scenario, FBR issued / adjusted refunds of around Rs 253.0 billion in the first ten months of FY2021, which is 66.5 percent higher than Rs 151.8 billion in FY2020. In absolute terms, Rs 101.0 billion more have been paid as a refund during the period under consideration. Speedy clearance of tax refunds of genuine refunds claimants resolved the liquidity crunch of industries and they were able to

pay the salaries to their employees on time, apart from catering to their business needs.

- iv. All COVID-19 related health equipment (61 items,) have been exempted from Sales Tax, Income Tax and Customs Duty on recommendation of the health sector.
- v. FBR exempted customs duties on import of highly essential items which were needed to be imported for the prevention and treatment of COVID-19 as proposed by the Ministry of National Health Services.

Apart from the above, to fight the challenge of COVID-19 some other measures are under consideration to ensure maximum tax revenue on the one hand and to promote economic activities on the other. In this regard, a two-pronged approach will be adopted to address the issue of a narrow tax base and tax gap in various sectors. Automation and expeditious disposal of refunds will be actively pursued. The FASTER system is in force and sale tax refunds are being transferred through it. Efforts are being made to increase the share of direct taxes in revenue collection. Documentation of the economy to increase the taxation in services, real estate, wholesale and retail is top priority.

Automation of all business processes starting from registration to assessment has also been initiated. Installation of Track and Trace, Point of Sale integration retailer with FBR's system, audit, e-appeal are at various stages of implementation. Corporate tax references, personal Income Tax Reform, reducing the dependency of withholding taxes, rationalization of minimum tax, removal of anomalies and unnecessary exemption, sales tax harmonization and promotion of ease of doing business are certain policy measure to be adopted for revenue mobilization to mitigate the negative impact on revenue collection. Further, FBR envisioned several reforms / special initiatives which are expected to yield positive results in the form of increased revenue collection, in line with efforts to facilitate the taxpayers for the best outcome (Box-III).

**Box-III: Measures Undertaken to Boost Tax Collection**

**A. Inland Revenues**

- i. **Income tax Return Filing:** Number of income tax return filers for TY 2020 has crossed 3.0 million.
- ii. **Utilization of data obtained from DISCOs & Gas Companies:** More than 650,000 notices have been issued on the basis of data obtained from DISCOs and in lieu of these notices 129,541 returns have been enforced so far.
- iii. **Tax Asaan:** Mobile Application, **Tax Asaan**, has been launched which provides for basic verification features like ATL, Online NTN/STRN inquiry, exemption certificates and sales tax registration.
- iv. **High Net-Worth Individuals (action through third party data utilization):** In order to develop 360 degree view of tax payers, data sources like banks, vehicles and real estate transactions have been captured and a Data Bank has been developed. Based on this data bank, notices to more than 200,000 high net-worth un-registered persons have been issued.
- v. **Point of Sales (POS) Integration of Tier-1 retailers:** FBR has embarked on a plan to integrate all sales outlets of tier-1 retailers with FBR's central computerized system.
- vi. **Agreement with Traders:** The market committees shall not only resolve contentious issues but also ensure registration of un-registered traders.

- vii. **Track & Trace System:** FBR has decided to implement Track and Trace System for specified goods/ products i.e. Tobacco, Cement, Sugar, Fertilizer and Beverages imported into or manufactured in Pakistan.
- viii. **Assessment & Processing (A&P) Units:** Sectoral analysis of huge business concerns has been conducted across the country by Assessment & Processing Units in all field formations of IRS. Sectors like cement, sugar, cotton and tobacco remained under focus.
- ix. **Investigation & Prosecution (I&P) Units:** Legal actions (attachment of properties, arrests and seizures) has been made against huge tax-defaulters to create deterrence against tax-evaders.
- x. **IREN and Joint Anti-smuggling field intelligence exercise:** Establishment of Inland Revenue Enforcement Network (IREN) to check smuggling and counterfeit products. Inland Revenue Service and Pakistan Customs Service have joined hands for anti-smuggling field intelligence exercise.
- xi. **Maloomat:** FBR has launched Maloomat (tax profiling system) on its web portal, containing data of 53 million citizens, giving access to the filers and non-filers to the information about their assets and bank accounts.

#### B. Measures Taken by Customs Authorities

- i. Automation of Customs procedures/processes to facilitate trade by reducing cost of doing business.
- ii. Rationalization of customs tariffs to promote trade and investment.
- iii. Ensuring consistency and transparency in the valuation regime, keeping in view the continuously evolving international market
- iv. Building human resource capacity.
- v. Providing facility of e-payments, greater induction of technology to improve trade /logistic performance indicators; a recent example is deployment of e-payments platform.
- vi. Building National Single Window (WINPAK) for increased efficiency, timely/informed decision making and integrating all stakeholder i.e. private sector and government.
- vii. EDI – electronic Data Interchange with China
- viii. Anti – Smuggling Strategy

#### C. Audit Related Initiatives

- i. **Risk based Audit:** FBR has developed a centralized Risk based Audit Management System (RAMS) for selection of audit cases centrally on the basis of pre-determined risk parameters. Subsequently, in September 2020, through Audit Policy, 2019, a total number of 12,533 cases were selected for audit for Tax Year 2018 through Risk based Audit Management System (RAMS).
- ii. **Transformation of traditional audit processes through e-Audits:** FBR is also moving for instituting data analytics for E-Audit through transformation in the traditional audit processes. In this system, the correspondence between taxpayers and the tax department would totally be electronic till the conclusion of audit proceedings.
- iii. **Automation of audit monitoring system:** A software solution is under process to provide continuous monitoring of the audit cases with sufficient documentation and assistance to the auditors.

Source: Federal Board of Revenue

## Provincial Budget

According to the provincial budget, overall expenditure in all four provinces is expected to rise by 19.1 percent to Rs 4,192.7 billion in FY2021, compared to revised projections of Rs 3,521.6 billion in FY2020. A higher development budget in comparison to current spending is likely to make a significant contribution. Total provincial development

spending is budgeted to grow by 46.2 percent to reach Rs 1,006.1 billion during FY2021 as compared to revised estimates of Rs 688.1 billion in FY2020. In contrast, current expenditure are expected to stand at Rs 3,186.6 billion in FY2021 against the revised estimates of Rs 2,833.5 billion, reflecting a growth of 12.5 percent. The current and development spending account for 76.0 and 24.0 percent of the total expenditure, respectively.

**Table 4.7: Overview of Provincial Budgets (Rs billion)**

Items	Punjab		Sindh		Khyber Pakhtunkhwa		Baluchistan		Total	
	2019-20 RE	2020-21 BE	2019-20 RE	2020-21 BE	2019-20 RE	2020-21 BE	2019-20 RE	2020-21 BE	2019-20 RE	2020-21 BE
<b>A. Tax Revenue</b>	<b>1,380.9</b>	<b>1,653.4</b>	<b>797.5</b>	<b>943.2</b>	<b>404.2</b>	<b>481.5</b>	<b>300.2</b>	<b>272.6</b>	<b>2,882.8</b>	<b>3,350.7</b>
Provincial Taxes	191.1	220.9	235.0	263.5	27.6	28.1	19.0	20.9	472.7	533.4
GST on Services (transferred by federal Govt)	4.3	-	-	-	1.4	-	-	-	-	-
Share in Federal Taxes	1,185.5	1,432.5	562.5	679.7	375.2	453.4	281.2	251.7	2,404.4	2,817.3
<b>B. Non-Tax Revenue</b>	<b>60.3</b>	<b>92.6</b>	<b>66.5</b>	<b>112.4</b>	<b>43.8</b>	<b>45.2</b>	<b>16.2</b>	<b>43.5</b>	<b>186.8</b>	<b>293.7</b>
<b>C. All Others</b>	<b>34.0</b>	<b>86.6</b>	<b>21.7</b>	<b>71.2</b>	<b>85.5</b>	<b>118.1</b>	<b>5.3</b>	<b>30.8</b>	<b>146.5</b>	<b>306.7</b>
<b>Total Revenue (A+B+C)</b>	<b>1,475.2</b>	<b>1,832.6</b>	<b>885.7</b>	<b>1,126.8</b>	<b>533.5</b>	<b>644.8</b>	<b>321.7</b>	<b>346.9</b>	<b>3,216.1</b>	<b>3,951.1</b>
<b>a) Current Expenditure</b>	<b>1,257.9</b>	<b>1,318.3</b>	<b>783.3</b>	<b>969.1</b>	<b>542.7</b>	<b>605.1</b>	<b>249.6</b>	<b>294.1</b>	<b>2,833.5</b>	<b>3,186.6</b>
<b>b) Development Expenditure</b>	<b>255.0</b>	<b>337.0</b>	<b>128.9</b>	<b>232.9</b>	<b>220.5</b>	<b>317.9</b>	<b>83.7</b>	<b>118.3</b>	<b>688.1</b>	<b>1,006.1</b>
<b>Total Exp (a+b)</b>	<b>1,512.9</b>	<b>1,655.3</b>	<b>912.2</b>	<b>1,202.0</b>	<b>763.2</b>	<b>923.0</b>	<b>333.3</b>	<b>412.4</b>	<b>3,521.6</b>	<b>4,192.7</b>

Source: Provincial Finance Wing, Finance Division.

Provincial revenue receipts are expected to increase by 22.9 percent to Rs 3,951.1 billion in FY2021, compared to revised estimates of Rs 3,216.1 billion in FY2020. In FY2021, tax revenue, which account for 85.0 percent of total provincial revenue, are budgeted to stay at Rs 3,350.7 billion, up 16.2 percent from last year's revised estimates of Rs 2,882.8 billion. Non-tax revenue, on the other hand, are budgeted to increase by 57.2 percent to Rs 293.7 billion in FY2021 from revised estimates of Rs 186.8 billion in FY2020.

### Allocation of Revenues between Federal Government and Provinces

According to the distribution of resources under the 7<sup>th</sup> NFC Award, federal transfers to provinces (divisible pool and straight transfers) are expected to increase by 19.6 percent to reach Rs 2,873.7 billion in FY2021 against Rs 2,402.1 billion in FY2020.

**Table-4.8: Transfers to Provinces (Rs billion)**

	FY2020 R.E	FY2021 B.E
<b>A. Divisible Pool</b>	<b>2,300.5</b>	<b>2,817.2</b>
Income Tax	941.6	1,156.2
Capital Value Tax	1.5	1.7
Sales Tax (Excl. GST on Services)	851.9	1,098.9
Federal Excise (excl. Excise Duty on Natural Gas)	174.0	198.4
Customs Duties (excl. Export Development Surcharge)	331.5	362.0
<b>B. Straight Transfers</b>	<b>101.6</b>	<b>106.5</b>
Gas Development Surcharge	9.8	15.9
Royalty on Natural Gas	53.9	52.7
Royalty on Crude Oil	25.1	23.2
Excise Duty on Natural Gas	12.7	14.7
<b>C. Less Tax Refunds</b>	<b>0.0</b>	<b>50.0</b>
<b>Total Transfers (A+B-C)</b>	<b>2,402.1</b>	<b>2,873.7</b>

Source: Budget in Brief 2020-21, Budget Wing, Finance Division

The province-wise share in federal transfers is as follows; Punjab (Rs 1,439.1 billion), Sindh (Rs 742.0 billion), Khyber Pakhtunkhwa (Rs 477.5 billion-inclusive 1 percent war on terror) and Balochistan (Rs 265.1 billion).

## Provincial Fiscal Operations

### Performance FY2020

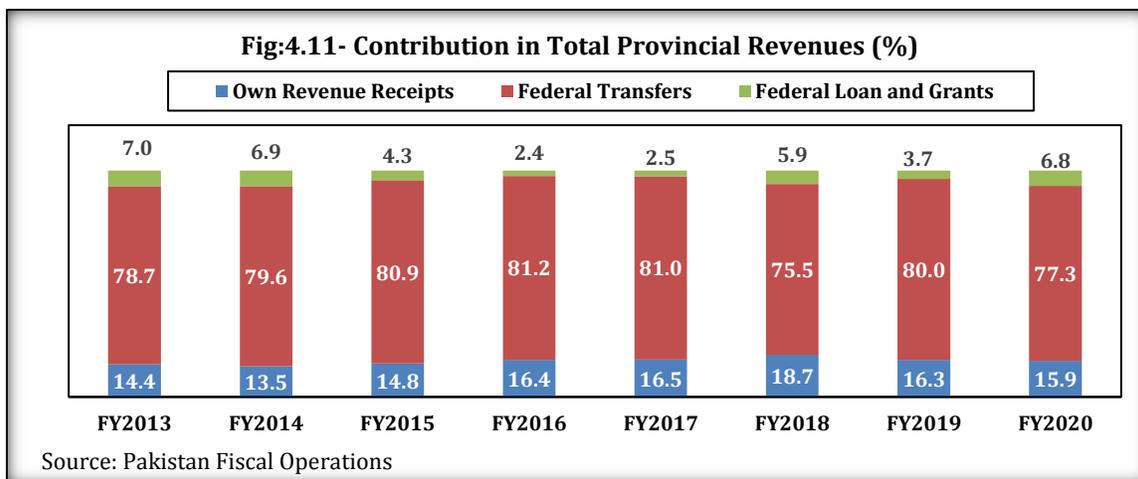
According to the provincial Fiscal Operations, total revenue stood at Rs 3,241.0 billion in FY2020 against Rs 2,995.9 billion, representing a growth of 8.2 percent. Both tax and non-tax revenue have attributed to this rise, however, the collection under non-tax remained higher relative to tax collection. Similarly, the federal loans and grants have also witnessed a sharp increase during FY2020 owing to higher current and development grants.

**Table 4.9: Overview of Provincial Fiscal Operations** Rs billion

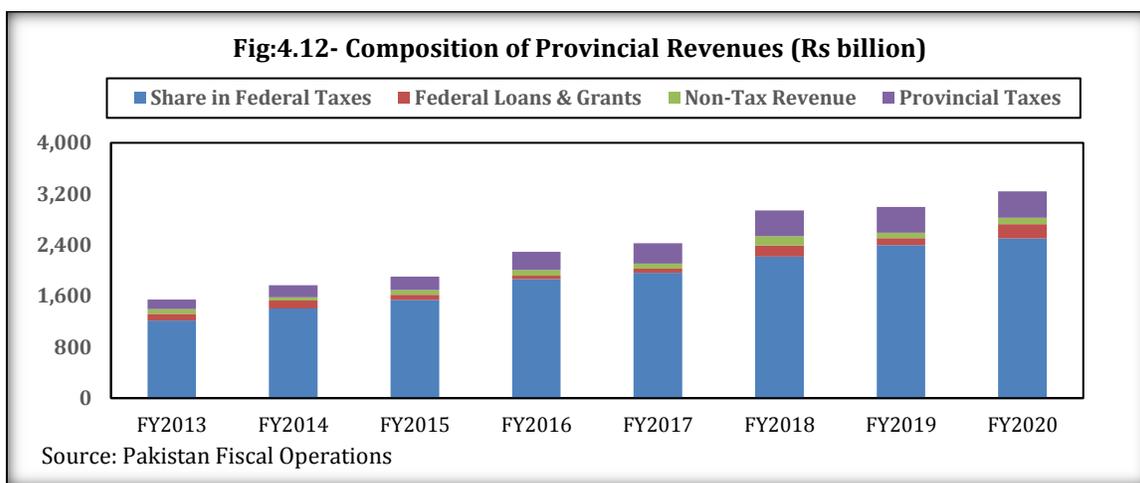
Items	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	July-March	
									FY2020	FY2021
<b>A. Tax Revenue</b>	1,365.7	1,596.2	1,744.5	2,145.4	2,287.6	2,618.8	2,799.6	2,917.6	2,252.8	2,355.9
Provincial Taxes	150.7	190.0	205.8	283.3	321.8	401.4	401.8	413.6	321.2	370.1
Share in Federal Taxes	1,215.0	1,406.3	1,538.7	1,862.2	1,965.8	2,217.4	2,397.8	2,504.0	1,931.6	1,985.8
<b>B. Non-Tax Revenue</b>	71.3	49.4	75.6	93.3	79.5	146.7	86.3	102.4	79.6	82.2
<b>C. All Others</b>	107.4	121.8	82.3	55.1	61.2	173.0	110.0	221.0	134.9	146.3
<b>Total Revenue (A+B+C)</b>	1,544.4	1,767.4	1,902.4	2,293.9	2,428.2	2,938.5	2,995.9	3,241.0	2,467.4	2,584.3
<b>a) Current Expenditure</b>	1,110.0	1,187.4	1,400.1	1,559.8	1,739.3	2,080.7	2,350.8	2,541.9	1,741.8	1,948.4
<b>b) Development Expenditure (PSDP)</b>	371.5	430.5	498.8	592.4	852.2	880.1	506.2	622.0	382.0	390.0
<b>c) Statistical discrepancy</b>	10.1	-47.4	-83.8	-65.7	-147.4	-4.8	-51.1	-147.9	-50.6	-166.8
<b>Total Exp (a+b+c)</b>	1,491.7	1,570.5	1,815.1	2,086.5	2,444.1	2,956.1	2,805.9	3,016.1	2,073.3	2,171.6

Source: Fiscal Operations (various issues), Budget Wing, Finance Division

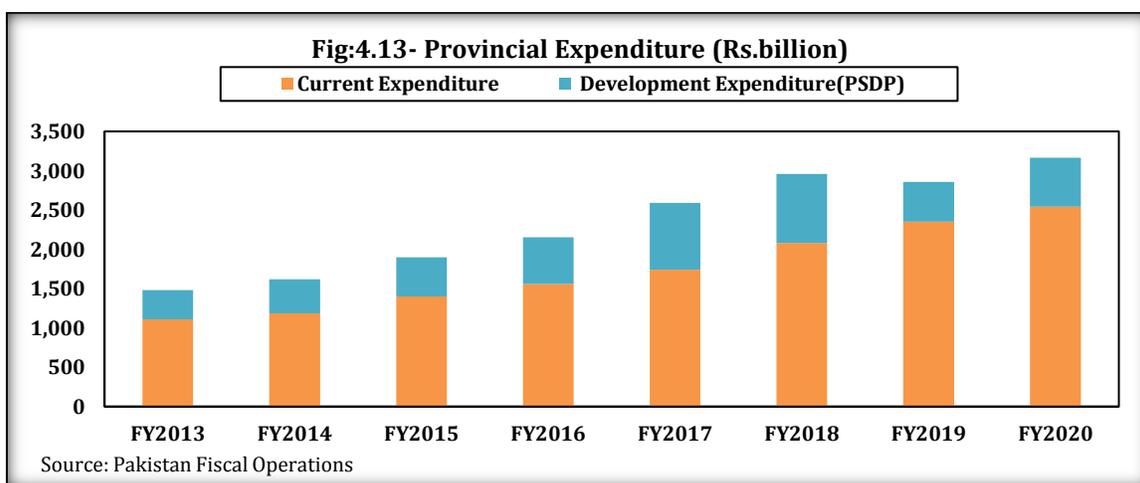
Within the total revenue collection, provincial own receipts grew by 5.7 percent to Rs 516.0 billion in FY2020 against Rs 488.1 billion in FY2019. Whereas the federal transfers to provinces stood at Rs 2,504.0 billion during FY2020 as compared to Rs 2,397.8 billion in FY2019, showing an increase of 4.4 percent. In terms of contribution, the share of federal transfers stood at 77.3 percent while provincial own revenue receipts (tax and non-tax) contributed 15.9 percent in total revenue during FY2020.



Within provincial own revenue receipts, provincial taxes grew by 2.9 percent to Rs 413.6 billion in FY2020 as compared to Rs 401.8 billion in FY2019. The increase in provincial tax collection is largely attributed to 37.4 percent collection from property tax and 14.8 percent from the sales tax on services GST. In contrast, due to a slowdown in economic activity in the aftermath of the COVID-19 pandemic, revenue from excise duty, stamp duty and motor vehicles tax fell sharply over the period under review.



The non-tax revenue registered a growth of 18.6 percent to reach Rs 102.4 billion during FY2020 against the collection of Rs 86.3 billion in the same period of FY2019. A major contribution to this rise is largely emanated from higher collection from irrigation followed by profit from hydroelectricity, which grew by 56.1 percent and 22.1 percent, respectively during the period under review.



The provincial expenditure (excluding statistical discrepancy) grew by 10.7 percent in FY2020, following a 3.5 percent decline in FY2019. In absolute terms, total provincial expenditure increased to Rs 3,164 billion in FY2020 against Rs 2,857 billion in FY2019. Both current and development spending contributed to the rise in total spending during FY2020, however, current spending increased at a slower rate as compared to FY2019. The current expenditure grew by 8.1 percent in FY2020 to stand at Rs 2,541.9 billion against Rs 2,350.8 billion in FY2019. Development spending, on the other hand,

rebounded in FY2020 after a steep decline of 42.5 percent in FY2019. The developing expenditure increased from Rs 506.2 billion in FY2019 to Rs 622.0 billion in FY2020, showing a considerable growth of 22.9 percent. As a result, the provinces posted a cumulative surplus of Rs 224.9 billion in FY2020 against the surplus of Rs 190.0 billion in FY2019, in line with the federal government's fiscal consolidation efforts.

### **Performance (July-March, FY2021)**

During July-March, FY2021, all the four provinces posted a combined surplus of Rs 412.7 billion against Rs 394.1 billion in the same period of last year. Punjab contributed the most to this surplus with Rs 244.8 billion followed by Sindh (Rs 67.4 billion), Balochistan (Rs 65.9 billion) and Khyber Pakhtunkhwa (Rs 34.5 billion).

Total provincial revenue grew by 4.7 percent to Rs 2,584.3 billion during July-March, FY2021 as compared to Rs 2,467.4 billion in the same period of FY2020. Within the total revenue, tax revenue (provincial taxes and federal transfers) increased by 4.6 percent to reach Rs 2,355.9 billion in the first nine months of the current fiscal year against Rs 2,252.8 billion in the same period of last year. In tax revenue, a significant part comes from the federal side in terms of provincial share. Its contribution in total provincial revenue has reduced to 76.8 percent in July-March, FY2021 from 78.3 percent recorded in the same period last year, still all the four provinces remained heavily dependent on federal transfers. On the other hand, the share of provincial taxes in total provincial revenue has been increased from 13.0 percent in July-March, FY2020 to 14.3 percent in the same period of the current fiscal year. In absolute terms, the federal transfer to provinces stood at Rs 1,985.8 billion during July-March, FY2021 against Rs 1,931.6 billion in the comparable period of last year.

Similarly, the provincial own revenue receipts (provincial taxes and non-tax revenue) performed well as its contribution in revenues grew from 16.2 percent to 17.5 percent during the period under review. In absolute terms, provincial own revenue receipts increased to Rs 452.3 billion during July-March, FY2021 from Rs 400.8 billion in the same period of last year, showing a growth of 12.8 percent. The provincial tax collection grew by 15.2 percent during July-March, FY2021 against the growth of 11.6 percent registered in the same period of last year. Within provincial taxes, major revenue spinners were general sales tax on services (GSTS) and motor vehicles tax which grew by 23.6 percent and 22.7 percent, respectively. On the other hand, the growth in non-tax collection slowed down during July-March, FY2021 as it only grew by 3.3 percent against the growth of 21.9 percent recorded in the same period of last year.

On the expenditure side, total provincial expenditure (excluding statistical discrepancy) increased by 10.1 percent to Rs 2,338.4 billion during July-March, FY2021 against Rs 2,123.9 billion in the same period of last year. The increase in expenditure is mainly observed on account of higher current expenditure during the year. The current expenditure increased by 11.9 percent to Rs 1,948.4 billion during July-March, FY2021 against Rs 1,741.8 billion in the same period of last year. COVID-19 related additional spending has put significant pressure on provincial expenditure during the year.

Conversely, development expenditure grew at a slower pace as it increased by 2.1 percent during July-March, FY2021 against the sharp rise of 38.4 percent witnessed in the same period of last year. In absolute terms, development expenditure stood at Rs 390.0 billion in July-March, FY2021 as compared to Rs 382.0 billion in the same period of last year.

### **Public Financial Management Reforms in the Federal Government**

The Public Finance Management (PFM) Act, 2019 provides an effective cash management system for all public entities and special purpose funds leading to Treasury Single Account (TSA). The fundamental objectives and principles are to anticipate the cash needs of the Government, ensure availability of cash when it is required, manage cash balance in the Government bank accounts effectively and neutralize the impact of the Government's cash flows on the domestic banking sector. Moreover, it provides for establishing institutional and administrative arrangements needed to manage an effective cash management system, placement of all public money into the treasury single account, gradual expansion of budgetary and accounting framework to all autonomous entities, usage of idle cash of the autonomous entities and require all principal accounting officers to provide the information deemed necessary for the effective operation of the cash management and treasury single account system.

The PFM Act, 2019 provides a number of measures to ensure its effective implementation. The Federal Government is required to maintain its Federal Consolidated Fund Account and the Public Account of the Federation in the State Bank of Pakistan. No authority shall transfer public money for investment or deposit from a government account to other bank account without prior approval from the Federal Government. In pursuance of these legal provisions, Cash Management and Treasury Single Account (CM&TSA) Rules, 2020 were promulgated in July 2020 which are applicable on Ministries, Divisions, Attached Departments, Sub-Ordinate Offices (MDAS) and other entities of the Federal Government, stipulating that the Existing Bank Accounts being maintained in commercial banks by MDAS will be closed and balances therein will be transferred to Central Account No.1 (Non-Food). Moreover, no new commercial bank accounts will be opened. Furthermore, under the Rules *ibid*, Cash Forecasting on a two-month rolling basis will be undertaken. In this regard, 163 MDAS were notified under Treasury Single Account (TSA) System and Finance Division issued detailed instruction and guidelines to all Ministries/Divisions for closure of bank accounts and transfer of balances as per provision of Act. The implementation is underway.

Similarly, the budget Wing has framed regulation titled "Financial Management and Powers of Principal Accounting Officers Regulations, 2021". These regulations superseded the System of Financial Control and Budgeting (2006). There shall be Chief Finance and Accounts Officer (CFAO) positioned in Ministries/Divisions to assist the PAO in financial management. Another important step is that the position of Chief Internal Auditor (CIA) shall be created who shall work under the direct supervision of the PAO.

## **Conclusion**

Despite significant challenges due to additional expenditures to combat the negative impact of COVID-19, the government's fiscal consolidation efforts contributed in maintaining fiscal discipline, increasing revenues and controlling expenditures, resulting in improved fiscal performance in the first nine months of FY2021. However, there are certain risks to fiscal performance which largely depend on the domestic and international evolution of COVID-19.

During the first three quarters of the current fiscal year, the government has successfully contained the fiscal deficit to 3.5 percent of GDP, down from 4.1 percent of GDP in the same period last year, while the primary balance remained in surplus and stood at Rs 451.8 billion during July-March, FY2021, compared to a surplus of Rs 193.5 billion in the previous year. Similarly, FBR tax collection achieved double-digit growth in the first ten months of the current fiscal year and surpassed the target by more than 100 billion (for first ten month of CFY2021). The effective revenue mobilization and prudent expenditure management strategy would be supportive in maintaining the fiscal deficit within reasonable limits during the current fiscal year.

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