MID-YEAR
BUDGET REVIEW REPORT

FY 2023-24

GOVERNMENT OF PAKISTAN
FINANCE DIVISION

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Government of Pakistan
Finance Division

Letter of Report Submission

16th April, 2024

Dear Mr. Speaker,

In terms of Section 34(1) of the Public Finance Management Act, 2019, the Mid-year Budget Review Report for FY2023-24 is hereby submitted for placement before the National Assembly. The report provides budgeted and actual comparison of revenues, expenditures and financing besides a brief economic update and outlook.

Best regards,

Muhammad Aurangzeb
Minister for Finance and Revenue

The Speaker
National Assembly
Islamabad

Foreword

The Mid-year Budget Review Report for FY2023-24 has been prepared in compliance to Section 34(1) of the Public Finance Management Act, 2019 which calls upon the Federal Government to lay before the National Assembly a report providing budgeted and actual comparison of revenues, expenditures and financing. This report apprises the House of the six-month fiscal performance of the Government as against the FY2023-24 budget passed by the National Assembly in June 2023. Briefly, the Government remains steadfast on fiscal consolidation path with focus of maximizing revenues and curtailing expenditures through prudent fiscal discipline. The report also evidences the commitment of the Government towards transparency, openness and accountability.

I would like to appreciate the efforts of all Federal Government offices and principal accounting officers for their support in achieving budgetary targets and for exercising prudence in managing public money. I also extend gratitude to the Ministry of Planning, Development & Special Initiatives, the Federal Board of Revenue, and to the officers of Finance Division for preparing this report.

(Imdad Ullah Bosal)
Finance Secretary

Contents

Executive Summary

Despite persistent global turmoil in post-Covid times, Pakistan's economy continues to show resilience and recovery with a promising GDP growth of 2.13 percent in quarter one of FY2023-24. A rebounding stock exchange is reflective of investors' confidence as external sector vulnerabilities subside. Revenue mobilization stays strong, with the Federal Board of Revenue well placed mid-year to achieve its challenging year-end target. The six-month fiscal performance of the Government has been on track and as per the FY2023-24 budgetary outlay as evidenced by the successful completion of the first review of the ongoing Stand-by Arrangement.

On the external side, the current account deficit has been reduced significantly to USD 831 million as compared to a deficit of USD 3.6 billion in the previous year. The improvement was primarily driven by reducing imports (14.7 percent) while enhancing exports (7.5 percent), a considerable achievement in view of challenging global environment. The trade deficit narrowed to USD 9.9 billion compared to USD 15.4 billion last year.

The Government's fiscal performance remained strong on the back of impressive revenue collection. The general government primary surplus stood at 1.7 percent of GDP surpassing the IMF target by a wide margin. FBR collection increased by 30.3 percent during the first half of CFY on y-o-y basis. In a similar fashion, non-tax revenue grew by 117 percent with substantial SBP profit inflows, petroleum levy collection, receipt of dividends from SOEs, and recoveries of markup and royalties on oil and gas. Expenditures of the Federal Government grew by 58 percent to Rs. 6,710 billion as against Rs. 4,247.7 billion last year primarily on account of rising mark-up payments. As a significant policy matter and to control non-essential expenditures, the caretake setup vigorously pursued austerity measures approved by the Federal Cabinet and remained well within set fiscal target. Development spending was focused on projects having a bearing on economic growth and social wellbeing. Maintaining regional balance remained pivotal.

This report gives a mid-year comparison of the budgeted and actual revenues, expenditures and financing undertaken in the first half of FY2023-24. Fiscal and other data in the report is however subject to reconciliation at the end of the financial year.

1. Mid-year Economic Update

Despite a 0.17 percent GDP contraction in FY2022-23, Pakistan's economy showed recovery in the first half of FY2023-24 with a promising growth of 2.13 percent in the first quarter. The stock exchange showcased a strong sustained performance indicating an improvement in economic health and outlook.

The real sector experienced mixed performance. The prospects of achieving agriculture sector production targets remain positive as rabi season wheat cultivation met planned area with Punjab exceeding wheat sowing target by 2 percent. Farm inputs observed an upward trend as tractor production and sales exhibited a growth of 60.7 and 98.2 percent respectively during July-November FY2023-24 compared to the corresponding period of last FY. Similarly, there was a 5.6 percent increase in urea and 42 percent increase in DAP offtake in July-October period in comparison to last year.

The LSM sector showed minor negative growth of 0.8 percent during July-November. The sector had contracted 2.3 percent previous year. At sub-sector level, 12 of the 22 sub-sectors experienced positive growth, including food and beverages, wearing apparel, leather, petroleum products, chemicals, pharmaceuticals, non-metallic mineral products, rubber products, wood products, machinery and equipment, and others. In contrast, negative growth was observed in tobacco, textiles, paper and board, iron and steel products, fabricated metal, computers, electronics and optical products, automobiles, electrical equipment, furniture and other transport equipment.

CPI stood at 28.8 percent against 25 percent in the same period last FY. Major drivers include food and beverages, housing, water, electricity, gas and fuel, and transport.

Fiscal performance of the Government remained strong with consolidation measures leading to significant increase in revenues. Fiscal deficit stood at 2.3 percent of GDP while primary surplus at 1.7 percent. Receipts witnessed a surge of 63 percent, with 117 percent in non-tax revenue and a 30 percent rise in FBR collection. While mark-up payments remained a challenge, non-essential expenditures are curtailed and austerity observed to ensure a sustainable fiscal account.

The external sector saw significant recovery in the first half of CFY as current account deficit reduced to USD 831 million in comparison to USD 3.6 billion in the previous corresponding period. This was driven by an improvement in trade balance as exports increased by 7.5 percent to USD 15.2 billion compared to USD 14.2 billion and imports declined by 14.7 percent to USD 25.2 billion compared to USD 29.6 billion. As a result, the trade deficit narrowed by 35.2 percent to USD 9.9 billion in comparison to USD 15.4 billion July-December period. FDI witnessed substantial increase, reaching USD 862.6 million compared to USD 640 million in the same period of last FY. This represents a growth of 34.8 percent largely attributed to increase in investments from China. A positive trend was also seen in remittances as they increased owing to the structural reforms in exchange companies and convergence of rates between the interbank and open market.

2. Mid-year Fiscal Performance

FY2023-24 budget, unveiled in June 2023, was found on the principles of prudent fiscal and debt management. It was drafted as a guide towards economic recovery and stability, allowing the Government to optimize revenue generation and spend public money on priority areas and sectors.

During the July-December period, receipts improved by 63 percent on the back of impressive increase in both tax (30 percent) and non-tax (117 percent) revenues. In absolute terms, net revenue receipts reached Rs. 4,013 billion as compared to Rs. 2,463 billion last FY corresponding period. Fiscal indicators are given below:

July-December

Rs bn

	Gross Revenue Receipts	Net Revenue Receipts	Total Federal Expenditure	Overall Fiscal Balance	Overall Primary Balance
FY2023-24	6,448	4,013	6,710	(2,408)	1,812
FY2022-23	4,343	2,463	4,248	(1,683)	890

As a significant policy measure, the Ministry of Finance vigorously pursued austerity measures approved by the Federal Cabinet. Non-essential expenditures like import of durable goods and vehicles, and creation of new posts were kept under check. Strict scrutiny and vigilance on expenditures since the very start of current financial year helped better expenditure management thereby contributing to improved fiscal discipline.

The main challenge was rising markup payments in the wake of a high policy rate environment. The Government was however successful in controlling other expenditures as evidenced by an overall primary surplus of Rs. 1,812 billion. The overall fiscal deficit was recorded at 2.3 percent of GDP during the first half of CFY and primary balance at 1.7 percent of GDP. Details of fiscal performance are tabulated below:

Rs bn

	Budget Estimates FY 2023-24	**Jul-Dec Actual FY 2023-24**	**Jul-Dec Actual FY 2022-23**
Gross Federal Revenue Receipts	12,378	6,448	4,343
FBR	9,415	4,469	3,429
NTR	2,963	1,979	914
Less: Provincial Share	5,399	2,435	1,880
Net Federal Revenue Receipts	6,979	4,013	2,463
Total Federal Expenditure	14,480	6,710	4,248
Current	13,340	6,455	4,071
Development and Net Lending	1,140	255	177
Federal Budget Deficit	(7,501)	(2,697)	(1,785)
as % of GDP	-7.1%	-2.5%	-2.1%
Primary Balance	(199)	1,523	788
as % of GDP	-0.2%	1.4%	0.9%
Provincial Surplus	600	289	101
Overall Fiscal Deficit	(6,901)	(2,408)	(1,683)
as % of GDP	-6.5%	-2.3%	-2.0%
Overall Primary Balance	401	1,812	890
as % of GDP	0.4%	1.7%	1.1%
GDP	105,817	105,817	84,102

3. Mid-year Revenue Receipts

Federal revenue receipts are categorized as tax revenues collected by FBR and non-tax revenues comprising of receipts collected by the Federal Government from various sources. All receipts form part of the Federal Consolidated Fund (FCF) maintained with the State Bank of Pakistan.

3.1 FBR Tax Revenue

During July-December FY2023-24 period, FBR collected Rs. 4,469 billion showing an impressive increase of 30.3 percent compared to last FY corresponding period. Tax-wise details are as below:

Rs bn

	Budget Estimates FY 2023-24	Jul-Dec Actual FY 2023-24	Jul-Dec Actual FY 2022-23	% Increase
FBR Taxes	9,415	4,469	3,429	30.3 %
Direct Taxes	4,255	2,149	1,526	40.8%
Indirect Taxes	5,160	2,320	1,903	21.9 %
Customs Duty	1,211	541	467	15.8%
Sales Tax	3,411	1,515	1,272	19.1%
FED	538	265	164	61.6%

3.2 Non-Tax Revenue

July-December NTR position is tabulated below. The collection remained well above targets, with 66.8 percent of the CFY target achieved in the first half. 117 percent increase was witnessed compared to corresponding period of last FY.

Rs bn

	Budget Estimates FY 2023-24	Jul-Dec Actual FY 2023-24	Jul-Dec Actual FY 2022-23
NTR	2,963	1,979	914
SBP Profit	1,113	972	371
Petroleum Levy	869	473	178
Mark-up (PSEs and Others)	118	203	78
Royalties on Oil and Gas	125	87	57
Dividends	121.4	50	41
PTA Surplus including License Fee	81.4	4	33
UN Receipts	61	10	17
Mark-up (Provinces)	77.2	39	18
Passport and Citizenship Fee	59	26	16
Defence Receipts	41.2	14	9

	Budget Estimates FY 2023-24	**Jul-Dec Actual FY 2023-24**	**Jul-Dec Actual FY 2022-23**
Discount retained on Local Crude Oil	20	13	11
GIDC	40	1	6
GDS	40	4	11
ICT Taxes	29.4	10	9
Windfall Levy on Crude Oil	35	14	15
Petroleum Levy of LPG	12	2	3
Others	120.4	57	41

4. Mid-year Expenditures

4.1. **Current Expenditure**

The mid-year position of current expenditure is as follows:

Rs bn

	Budget Estimates FY 2023-24	**Jul-Dec Actual FY 2023-24**	**Jul-Dec Actual FY 2022-23**
Interest Payments	7,303	4,220	2,573
Defence	1,804	758	639
Running of Civil Government	714	302	227
Pensions	801	404	321
Grants and Transfers	1,405	395	114
Subsidies	1,064	375	197
Provision	250	-	-
Total	13,340	6,455	4,071

As tabulated above, a major chunk of current expenditure was for meeting interest payments (65.3 percent of total current expenditure) during the July-December period. Of the Rs. 4,220 billion, Rs. 3,718 billion was spent on account of domestic interest payments and Rs. 502 billion on external interest payments.

Rs bn

	Budget Estimates FY 2023-24	**Jul-Dec Actual FY 2023-24**	**Jul-Dec Actual FY 2022-23**
Servicing of Domestic Debt	6,430	3,718	2,273
Servicing of External Debt	872	502	300
Total	7,303	4,220	2,573

Expenditure on running of civil government was at 42 percent of the budget estimates. Similarly, defence expenditure also remained at 42 percent of the

FY2023-24 budget allocation. The Government did not extend any supplementary grants during the period under consideration and unforeseen requirements were addressed through re-appropriations and technical supplementary grants. Function-wise current expenditure details are as follows:

Rs bn

	Budget Estimates FY 2023-24	**Jul-Dec Actual FY 2023-24**	**Jul-Dec Actual FY 2022-23**
General Public Service	10,446	5,251	2,984
Defence Affairs and Services	1,804	758	639
Public Order and Safety	237	125	100
Economic Affairs	211	78	85
Environment Protection	1.2	0.3	0.2
Housing and Community Amenities	23	2	1
Health	24	9	8
Recreation, Culture and Religion	17	7	6
Education	97	36	34
Social Protection	480	189	214
Total	13,340	6,455	4,071

4.2 Development Expenditure (PSDP)

Federal PSDP was approved by the National Economic Council in June 2023 at a size of Rs. 950 billion. Priority was assigned to projects having a bearing on economic growth and to those nearing completion, with regional balance as an underlying principle. Infrastructure projects were allocated a major portion, Rs. 490 billion. Focus was on Energy, transport and communication, water resources and physical planning and housing projects. Social sector was allocated Rs. 236 billion with projects on education/higher education, health, and SDGs.

With balanced regional development in view, Rs. 108 billion was earmarked for AJ&K, Gilgit Baltistan and erstwhile FATA. Other sectors include science and IT, governance, food and agriculture, and industries and production.

In line with funds release strategy for FY2023-24, the Ministry of Planning, Development & Special Initiatives authorized rupee allocation of Rs. 306 billion for the first two quarters of CFY (Rs. 280 billion local component and Rs. 26 billion against foreign aid component). The procedure for release of development funds was simplified to expedite development work. Quarterly reviews as well as a mid-year review was undertaken to ensure smooth execution and timely completion of projects. Against the funds released, expenditure stood at Rs. 158 billion (51.6 percent). Projects Wing of Planning Commission conducted field monitoring of 106 projects to track actual progress on ground. PC-IVs (completion reports) of 17 projects were evaluated. A recent addition is the institutionalization of a Third-Party Monitoring (TPM) system, which has so far monitored 26 projects.

Existing software like PMES, SAP, iPAS are being integrated for a more efficient and coherent approach towards entire project cycle. Similarly, a dashboard using latest technology is also being developed for real-time monitoring of physical and financial progress of projects.

5. Financing

The composition of domestic and external debt as of end-December 2023 is as follows:

DOMESTIC DEBT		EXTERNAL DEBT	
PIBs	60%	Multilateral	53%
T Bills	20%	Bilateral	31%
Government Ijara Sukuk	10%	Eurobonds	9%
NSS/Others	10%	Commercial/Others	7%

Highlights of financing operations during the first half of FY2023-24 were:

i. Interest expense stood at around Rs. 4.2 trillion, of which 88 percent was interest on domestic debt;

ii. Around 77 percent of financing of federal fiscal deficit was through domestic sources;

iii. Government retired short-term T Bills by around Rs. 1 trillion;

iv. Gross issuance of fixed-rate PIBs was Rs. 840 billion against maturity of Rs. 1.2 trillion. Gross issuance of floating-rate PIBs was Rs. 5 trillion against repayment of Rs. 2 trillion;

v. Gross issuance of Government Ijara Sukuk was Rs. 1.3 trillion against no maturity;

vi. Rs. 30 billion was raised successfully from first ever Ijara Sukuk (one-year fixed rate Ijara Sukuk) auction on PSX. Participation stood at Rs. 478 billion, with 90 percent contribution from non-banking sector;

vii. NSSs flows remained subdued;

viii. External budgetary disbursements were USD 5.4 billion – USD 2.2 billion from multilaterals, USD 2.7 billion from bilaterals, and USD 0.5 billion from Naya Pakistan Certificates. External budgetary repayments were USD 3.3 billion;

ix. USD 1 billion China SAFE deposit and USD 3 billion KSA deposits were rolled over for one year in July and December 2023 respectively; and

x. USD 1.2 billion was received under the IMF Stand-by Arrangement and USD 1 billion as UAE deposit for balance of payments support.

Financing details of federal fiscal deficit during the first half of CFY are as follows:

Rs bn

	FY 2023-24 Budget	**Jul-Dec Actual FY 2023-24**
Total Financing	7,505	2,697
Domestic	4,781	2,088
External	2,724	608

To ensure that financing operations are competitive, transparent and diverse, the Government undertook amendments in the T Bills Rules, 1998 and the Ijara Sukuk Rules, 2008. These amendments allow the Government to (i) have flexibility in specifying the features (tenor, coupon rate, coupon frequency, repayment of principal etc) of Government securities, and (ii) follow multiple mechanisms for raising domestic financing e.g. capital market institutes like PSX, CDC, NCCPL etc.

6. Conclusion

This report highlights the July-December 2023 six-month fiscal performance of the Government against targets set forth in FY2023-24 budget. While pressures remain on few fronts, it is evident that the country’s marco-fiscal framework remains on track with revenue collection exceeding year-start projections and spending remaining well within budgetary limits. The economic outlook is bright as the Government is committed towards fiscal consolidation and structural reforms geared towards economic recovery, and sustained inclusive growth beyond.

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