FISCAL POLICY STATEMENT

January 2023

Budget Wing
Finance Division
Ministry of Finance & Revenue

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PREFACE

This policy statement is prepared to meet the requirement laid down under Section 6 of the Fiscal Responsibility and Debt Limitation Act 2005. Finance Division prepares and presents this document on an annual basis. It offers information, actual data, and analyses of the government's fiscal performance. Accordingly, the Fiscal Policy Statement for FY 2021-22 has been compiled based on consolidated quantitative data from all Federal and Provincial Governments. At the time of Budget approval in June 2021, GDP for FY 2021-22 was estimated at Rs. 53,867 billion, whereas this fiscal year witnessed GDP to be Rs. 66,950 billion with economic growth of 5.97 percent.

We are grateful for the strategic input and invaluable policy guidelines provided by the Honorable Minister for Finance and Revenue, Senator Mohammad Ishaq Dar. I would also like to appreciate the contribution of various Ministries, Divisions, and Departments of the Federal Government, especially the Ministry of Planning, Development and Special Initiatives, Federal Board of Revenue, and Economic Affairs Division. The enormous efforts of the officers of the Economic Advisor's Wing, Finance Division, have been critical in preparing this document. At the same time, the support of the Budget Wing, Debt Policy Coordination Office, External Finance Wing, and Inter-Government Finance Wings of the Finance Division must be commended. In Particular, I would loud the hard work done by Dr. Imtiaz Ahmed, Economic Advisor, Mr. Awais Manzur Sumra, Special Secretary. Finance, Mr. Muhammad Tanvir Butt, Additional Finance Secretary (Budget), Dr. S. M. Naeem Nawaz, Director (Fiscal), and other team members in the preparation of this comprehensive document.

Hamed Yaqoob Sheikh
Finance Secretary

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STATEMENT OF RESPONSIBILITY UNDER SECTION 10(1) (A) OF FISCAL RESPONSIBILITY AND DEBT LIMITATION ACT, 2005 18

1. Executive Summary

1.1 The FY 2021-22 has steered the economy to growth of 5.97 percent. However, this growth could have been more sustainable if led by investment rather than consumption. This unproductive nature of growth made the country susceptible to unfavorable domestic and global economic shocks. As a result, FY 2021-22 has witnessed relatively higher twin deficits (fiscal and current account deficits). Therefore, a prudent fiscal policy accompanied by the correct stance of monetary policy is required to rationalize the demand and improve the production base, prioritizing improving fiscal and current account deficit.

1.2 An unsustainable current account deficit, for the FY 2021-22, of USD (-) 17.4 billion has significantly increased the financing requirement for the current fiscal year and put pressure on the foreign exchange reserves. It also puts pressure on the exchange rate, which is beyond fiscal authority's control. As such, it increases the current expenditures by 16 percent related to debt servicing. Further, the sharp increase in interest rates also contributed to the rise in current expenditures that may remain high during the current fiscal year. However, during FY 2021-22, the rise in current expenditure was also largely driven by a non-markup expenditure that grew by 32 percent due to the non-budgeted energy subsidies and circular debt payments.

1.3 Actual non-tax revenue for the FY 2021-22 was Rs. 1,280.2 billion against the budget target of Rs. 2,291.8 billion. Petroleum Levy has witnessed Rs. 482.5 billion gaps in actual petroleum levy collections and its budget target. The other major factors were the Gas Infrastructure Development surcharge and the Surplus Profit of the State Bank of Pakistan, with a gap of Rs 111.4 billion and Rs 176.4 billion, respectively. Also, the actual non-tax provincial revenue remained at only Rs. 128.3 against the budget target of Rs. 247.4 billion. It is paramount to mention that the provincial fiscal surplus is necessary for the current fiscal year, given its implications on fiscal deficit.

1.4 The fiscal sector remained under tremendous pressure in FY2022 due to additional expenditures related to the procurement of the COVID-19 vaccine, IPPs Circular debt payment, and social sector spending. Higher international oil and commodity prices due to the Russia-Ukraine conflict exacerbated the situation further. Against these challenges, the expansionary fiscal policy stance in FY 2021-22 reversed the consolidation gains achieved in the preceding two years. Consequently, the fiscal deficit surpassed the revised target of (-)7.1 percent of GDP and stood at (-)7.9 percent in FY2022. .

1.5 The current account deficit has significantly improved from USD (-)9.1 percent to USD (-)3.7 percent year-on-year basis during the first two quarters of the current fiscal year. The demand compression policies in Pakistan to correct the imbalances, tame-down inflation, and damages incurred by the flood led to a negative (year-on-year) 2.9 percent growth during the current fiscal year. On the other hand, the flood adversely affected cotton and rice production, decreasing from 8.3 million bales to 6.3 million bales and 9.3 million tons to 5.5 million tons, in year-on-year comparison, respectively.

1.6 A few critical global factors are challenging the country's fiscal situation. These factors include the rise in oil demand due to the opening of the Chinese economy after the lockdown, and the compromised supply chain due to Russia Ukraine conflict. These factors can not only increase import bill but also lead to further inflationary pressure.

2. Provisions of Fiscal Responsibility and Debt Limitation Act 2005 (FRDLA 2005)

This fiscal statement is presented to fulfill the requirement of Section 6 of FRDLA 2005, which stipulates that:

(1). Federal Government shall cause to be laid before the National Assembly a fiscal policy statement by the end of January each year.

(2). The fiscal policy statement shall, inter alia, analyze the following key macroeconomic indicators, namely: -

(a) total expenditures;

(b) total net revenue receipts;

(c) total fiscal deficit;

(d) total Federal fiscal deficit excluding foreign grants;

(e) total public debt; and

(f) debt per capita.

(3) The Federal Government shall explain how fiscal indicators accord with the principles of sound fiscal and debt management.

(4) The fiscal policy statement shall also contain:

(a) the key measures and rationale for any major deviation in fiscal measures pertaining to taxation, subsidy, expenditure, administrated pricing and borrowing.

(b) an update on key information regarding macroeconomic indicators;

(c) the strategic priorities of the Federal Government for the financial year in the fiscal area;

(d) the analysis to the fullest extent possible of all policy decisions made by the Federal Government and all other circumstances that may have a material effect on meeting the targets for economic indicators for that fiscal year as specified in the medium-term budgetary statement; and

(e) an evaluation as to how the current policies of the Federal Government are in conformity with the principle of sound fiscal and debt management and the targets set forth in the medium-term budgetary statement.

3. Medium Term Budget Strategy Paper

3.1 The budget strategy for FY 2021-22 emphasized boosting economic growth, as outlined in the Medium-Term Budget Strategy Paper for FY 2021-22 to FY 2023-24 which offered strategic priorities and revenue-spending policies of the Government. It was approved by the Federal Cabinet and issued by Finance Division in April, 2021. Accordingly, for FY 2021-22, the main priorities of the Federal Government were to keep primary balance at a sustainable level, striking a balance between fiscal deficit due to Covid-19 and boosting growth of economy, resource mobilization with required changes in tax structure and austerity measures and control of non-productive expenditures.

3.2 The Strategy Paper highlighted that in the medium term, the focus of the fiscal policy will be on sustainable, inclusive and equitable growth, job creation, protection of vulnerable segments of the population, inflation control and higher development spending. The envisaged economic growth will be driven by a sustained increase in the aggregate supply backed by a strong forex reserves position. The medium-term fiscal framework stated gradual reduction of overall fiscal deficit from (-)7.4% of GDP during FY 2020-21 to (-)4.4% in FY 2023-24. This reduction will correspondingly bring down the debt to GDP ration and ensure sustainability of debt.

3.3 The total outlay of the FY 2021-22 budget was Rs. 8,487 billion, with gross Federal revenues at Rs. 7,909 billion; FBR tax revenues were pitched at Rs. 5,829 billion, Non-tax Federal Revenues at Rs. 2,080 billion and net Federal Revenue at Rs. 4,497 billion. Current and Development expenditures and net lending were estimated at Rs. 7,523 billion and Rs. 964 billion, respectively. Interest payments were projected at Rs. 3,060 billion, the Federal budget deficit at Rs. (-)3,990 billion (-)7.4% of GDP and the primary balance at Rs. (-)930 billion (-)1.7% of GDP. The overall fiscal deficit was estimated at Rs. (-)3,420 billion (-)6.3% of GDP. The primary balance was budgeted at Rs. (-)360 billion (-)0.7% of GDP.

4. Fiscal Position (FY 2021-22)

4.1 A snapshot of consolidated fiscal performance (Federal and Provincial Governments) during FY 2021-22 remains as under:

Table 1: Consolidated Fiscal Position for FY 2021-22

(Rs. Billion)

Description	B.E. FY 2021-22	Actual FY 2021-22	Actual % of GDP FY 2021-22	Actual as % of B.E. FY 2021-22
1. Total Revenue (a+b)	**8,775.7**	**8,035.4**	**12.0**	**91.6**
a. Tax Revenue	**6,483.9**	**6,755.2**	**10.1**	**104.2**
Federal	5,829.0	6,142.8	9.2	105.4
Provincial	654.9	612.4	0.9	93.5
b. Non-Tax Revenue	**2,291.8**	**1,280.2**	**1.9**	**55.9**
Federal	2,044.4	1,151.9	1.7	56.3
Provincial	247.4	128.3	0.2	51.9
2. Total expenditure (a+b+c+d)	**12,195.6**	**13,295.3**	**19.9**	**109.0**
a. Current Expenditure	**10,320.7**	**11,521.4**	**17.2**	**111.6**
Federal	7,417.0	8,354.1	12.5	112.6
Provincial	2,903.7	3,167.3	4.7	109.1
b. Development Expenditure	**1,953.7**	**1,617.1**	**2.4**	**82.8**
Federal	753.7	400.4	0.6	53.1
Provincial	1,200.0	1,216.6	1.8	101.4
c. Net Lending	**-78.8**	**40.4**	**0.1**	**-51.2**
d. Statistical Discrepancy	**0.0**	**116.5**	**0.2**	
Overall Fiscal Balance	**-3,419.9**	**-5,259.9**	**-7.9**	**153.8**
Percent of GDP	-6.3%	-7.9%	**0.0**	
Primary Balance	**-360.0**	**-2077.5**	**-3.1**	**577.1**
Percent of GDP	-0.7%	-3.1%		
GDP	**53,867**	**66,950**		**124.3**

Source: Budget Wing, Finance Division.

5. Total Federal Expenditures

Total Expenditures are the aggregate of two current and development expenditures. The Federal government expenditures remained 10.2 percent above the budget estimates, primarily due to a rise in current expenditures.

Table 2: Total Federal Expenditures for FY 2021-22

(Rs. Billion)

Description	B.E. FY 2021-22	Actual FY 2021-22	Actual as % of B.E.
Current Expenditure	7,523	8,452	112.3
Development Expenditure (including net lending+ Statistical Discrepancy)	964	899	93.3
Total	**8,487**	**9,351**	**110.2**

Source: Budget Wing, Finance Division.

5.1 Federal Current Expenditures

The Federal current expenditures primarily constitute mark-up payments on domestic and foreign debt, subsidies, defence expenditures, running of civil government, pensions and others. The total Federal current expenditures (12.6 percent of GDP) remained at 110.2 percent of the budget estimates. This 10.2 percent rise is primarily contributed by subsidies to the energy sector. Year-on-year comparison shows an overall increase of 33.1 percent growth in federal current expenditures.

Table 3: Comparative Statement of Federal Current Expenditures

(Rs. Billion)

Expenditure	FY2020-21	FY2021-22	% Y-o-Y increase
Defence	1,316.40	1,411.60	107.2%
Mark-up on Domestic Debt	2,523.80	2,828.60	112.1%
Mark-up on Foreign Debt	225.9	353.9	156.7%
Subsidies	425	1,529.60	359.9%
Others	1,857.57	2,327.86	125.3%
Total	6,348.67	8,451.56	133.1%

Source: Budget Wing, Finance Division.

The budget estimates for energy subsidies for FY 2021-22 were Rs. 622 billion, with Rs. 596 billion for the power sector and Rs. 20 billion for the petroleum sector. However, the actual expenditures for the provision of total subsidies remained at Rs. 1,529.6 billion (359.9 percent of budget estimates).

Table 4: Subsidies for FY 2021-22

(Rs. Billion)

Sectors/Subsidies	B.E. FY 2021-22	Actual FY 2021-22	Actual as % of B.E.
Energy	**622.0**	**1,439.9**	**231.5**
Power	**596.0**	**1,071.2**	**179.7**
TDS WAPDA + KESC	330.0	596.7	180.8
PHPL	130.0	129.7	99.8
IPPs	136.0	344.8	253.5
Petroleum	**20.0**	**368.6**	1843.2
PM Package on Petroleum	**0.0**	241.4	
Asia Petroleum & PSO	10.0	9.9	**99.2**
Zero Rated Industries (LNG)/SNGPL	10.0	117.3	**1173.4**
Fertilizer Plants	6.0	40.5	**675.0**
Food USC	21.0	24.4	**116.4**
PASSCO & GB Wheat	10.0	16.4	**164.3**
Naya Pakistan Housing	33.0	1.3	**3.8**
Metro Bus	6.0	1.0	**16.7**
Others	0.0	6.1	
Total	**682.0**	**1529.6**	**224.3**

Source: Budget Wing, Finance Division.

5.2 Federal Development Expenditures (PSDP)

Actual federal government development expenditure (PSDP) was Rs. 558.1 billion which remained well below the budget estimates of Rs. 900 billion, whereas the actual net lending was Rs. 143.0 billion.

Table 5: Total Federal Development Expenditures for FY 2021-22

(Rs. Billion)

Description	B.E. FY 2021-22	Actual FY 2021-22	Actual as % of B.E.
PSDP	900.0	558.1	62.0
Net Lending	64.0	143.0	223.4
Total	**964.0**	**701.1**	72.7

Source: Budget Wing

6. Total Net Federal Revenue Receipts

Total revenue receipts of the Federal Government are bifurcated into tax and non-tax revenue. The Federal Board of Revenue collects a major portion of tax revenues. The tax collections by the FBR remained satisfactory, with an actual collection of Rs. 6,142.8 billion against the budget estimate of Rs. 5,829.0 billion. However, the gross revenue of the Federal Government remained at Rs. 7,328.2 billion. As per provisions of the 7th National Finance Commission (NFC) award, the revenues collected by the Federal Government are transferred to the provinces. After the deduction of transfers to the provinces, the total net revenue remained with the Federal Government was Rs. 3,739.2 billion.

Table 6: Total Net Federal Revenue Receipts for FY 2021-22

(Rs. Billion)

Description	B.E. FY 2021-22	Actual FY 2021-22	Actual as % of B.E.
Tax Revenue (FBR)	5,829.0	6,142.8	105.4
Non-Tax Revenue	2,080.0	1,185.4	57.0
Gross Revenue	**7,909.0**	**7,328.2**	**92.7**
Transfers to Provinces	3,411.9	3,589.0	105.2
Total Net Revenue	**4,497.1**	**3,739.2**	**83.1**

Source: Budget Wing, Finance Division.

7. Total Fiscal Deficit

In FY 2021-22, the total fiscal deficit increased due to widening of gap between revenue collections and expenditures. Resultantly, it ended up with a total fiscal deficit of 7.9 percent of GDP, whereas the primary deficit remained at 3.1 percent of GDP. However, nominal GDP has been 24.3 percent more than its budget estimate.

Table 7: Total Fiscal Deficit for FY 2021-22

(Rs. Billion)

Description	B.E. FY 2021-22	Actual FY 2021-22	Actual as % of B.E.
Total Revenue	8,775.7	8,035.4	91.6
Total Expenditures	12,195.6	13,295.3	109.0
Fiscal Deficit	**-3,419.9**	**-5,259.9**	**153.8**
Percent of GDP	-6.3%	-7.9%	-
Primary Balance	**-360.0**	**-2077.5**	**577.1**
Percent of GDP	-0.7%	-3.1%	-
GDP	**53,867**	**66,950**	**124.3**

Source: Budget Wing, Finance Division

8. Total federal fiscal deficit

After the transfer of resources to provinces, Net Federal Revenue of Rs. 3,739.2 billion (against a budget estimate of Rs. 4,497.1 billion) is used to meet the Federal Expenditures. Accordingly, the federal budget deficit remained at (-)8.4 percent of GDP. Furthermore, the mark-up payments have been relatively higher than the budget estimates, and the Primary deficit closed at (-)3.6 percent of GDP.

Table 8: Total Federal Fiscal Deficit for FY 2021-22

(Rs. Billion)

Description	B.E. FY 2021-22	Actual FY 2021-22	Actual as % of B.E.
Net Federal Revenue	4,497.1	3,739.2	83.1
Total Federal Expenditures	8,487.0	9,350.1	110.2
Federal Fiscal Deficit	**-3,989.9**	**-5,610.9**	140.6
Percent of GDP	-7.4%	-8.4%	
Mark-up payments	3,059.7	3,182.4	104.0
Primary Balance	**-930.2**	**-2,428.5**	261.1
Percent of GDP	-1.7	-3.6	
GDP	**53,867**	**66,950**	**124.3**

Source: Budget Wing, Finance Division

9. Total Public Debt

Fiscal Responsibility and Debt Limitation Act 2005 (amended to date) defines Total Public Debt as debt owned by the Government (including Federal Government and Provincial Governments) serviced out of consolidated funds and debts owed by the International Monetary Fund less accumulated deposits of the Federal and Provincial Governments with the banking system. The details are as follows:

Table 9: Total Public Debt

(Rs. Billion)

	June-2021	June-2022
Domestic Debt	26,265	31,036
External Debt	13,601	18,157
Total Public Debt	39,866	49,193
C. Total Debt of the Government FRDLA Definition	**35,669**	**44,353**
Debt Ratios		
Total Public Debt as percentage of GDP	71.5	73.5
Total Debt of the Government FRDLA Definition	63.9	66.2
Government Domestic Debt	47.1	46.4
Memorandum Items		
GDP (current market price)	55,796	66,950
Government Deposits with the banking system	4,198	4,840
US Dollar, last day average exchange rates	157.3	204.4

Source: State Bank of Pakistan and Debt Management Office, Finance Division

10. Debt Per Capita

From June 2021 to June 2022, the total public debt increased from Rs. 39,866 billion to Rs. 49,193 billion. The primary factors responsible for this increase are the increase in the primary deficit, interest payments on debt, and the exchange rate devaluation effect. Accordingly, the Debt Per Capita increased during the FY 2021-22, as shown in Table 10.

Table 10: Debt Per Capita

Description	June 2021	June 2022
Total Public Debt (Rs. Billion)	39,866	49,193
Total Debt of the Government FRDLA Definition (Rs. Billion)	35,669	44,353
Population (in million)	222.6	227.0
Debt per capita (Rs)	**179,093**	**216,709**

Source: State Bank of Pakistan and Pakistan Bureau of Statistics

11. Analysis of the Federal Fiscal Year 2021-22

11.1 Total federal revenue remained at only 92.7 percent of the budget target on the back of less-than-expected revenue collection under non-tax at the federal and provincial levels. Federal non-tax revenues remained at 57 percent of the budget targets, thus reflected in total revenues. On the other hand, total federal expenditures stood 9 percent higher than the budget target, primarily due to higher current expenditures.

11.2 Enormous subsidies to the energy sector and an increase in mark-up payments are primary contributors to this increase in current expenditures. However, during the last quarter of the FY 2021-22, the current Federal Government stocked up key insights of the turning economic crisis and planned to take control measures for fiscal sustainability. Accordingly, key measures include but are not limited to the optimal mobilization of revenue through broadening and deepening the tax base and increase in the tax net, removal of irrational exemptions, simplifying procedures, augmentation of the capacity of revenue administration, and reducing unnecessary spending through austerity measures.

11.4 In addition, a few of the contributing factors that lead to a rise in fiscal deficit are beyond the control of the Federal Government. These factors include the sharp rise in interest rates, exchange rate depreciation, and legal constraints on revenue. Further, settling the circular debt issue, managing debt, creating balanced economic growth considering the Balance of Payments, and rationalizing subsidies and tax exemptions are necessary steps to attempt a sustainable fiscal deficit. Also, there is a need to create a balance between economic growth and fiscal deficit, and all efforts are being put in place during the current fiscal year to deal with this crisis.

11.5 Prioritizing economic growth at the cost of a higher fiscal deficit created a problematic fiscal situation for the country. Another consideration might be the international factors that put the world into a crisis. Economies like Pakistan are more integrated with the world economies and prone to negative influences more sharply than the transmission of positive effects. The Global events are among the primary factors that hurt Pakistan's economy in FY 2021-22, especially during the last quarter. These events include commodity price hikes in response to the Russia-Ukraine conflict, oil price rises due to demand-supply imbalances in the international market, and contractionary monetary policy by the USA. The ongoing fiscal year is also being affected due to these international market dynamics.

11.6 Pakistan has been facing an unprecedented flood in summer 2022. Therefore, it requires re-ideating its policies and resources toward its management to rehabilitate flood victims and reconstruct damaged infrastructure.

12. An Update on Key Macroeconomic Indicators

12.1 Several shocks have hit a world economy already weakened by the pandemic higher-than-expected inflation worldwide, especially in the United States and major European economies, triggering tighter financial conditions, the higher-than-expected slowdown in China due to COVID-19 outbreaks and lockdowns, and further negative spill-overs from Russia-Ukraine conflict.

12.2 The contractionary policy stance of the Federal Reserve made the dollar more appealing to investors worldwide. This situation has created problems for other economies around the globe by making their imports, especially essential items like food and fuel, more expensive. A contraction in global GDP is a real possibility amid the rapid deterioration of growth prospects coupled with rising inflation and tightening financing conditions.

12.3 As in many other countries, Pakistan's economic activity remains below potential, implying a negative output gap. At the same time, as in many other countries, inflation remains substantially above targets. Furthermore, as in several other emerging economies, the global energy crises have pushed global commodity prices and put downward pressure on official international reserves.

12.4 During the first two quarters of FY2023, Pakistan's economy showed signs of resilience to domestic and global challenges. Despite facing inflationary pressures, trade and current account deficits continuously show improvement, which is a relief for financing challenges. The goods trade balance has shown an improvement of USD 5.6 billion during the first two quarters of the current fiscal year against the same period of the last fiscal year. Against the backdrop of a decline in remittances, primarily attributed to the slowdown of the global economy, the current account deficit improved during the first two quarters of this fiscal year to USD (-)3.7 billion against USD (-)9.1 billion for the same period of the last year. However, the country is facing the challenge of managing foreign exchange reserves due to meeting the financing pressures.

12.5 For FY2023, economic growth is likely to remain below the budgeted target due to the devastation created by floods. This combination of low growth, high inflation, and low official reserves is particularly challenging for policymakers. Against the actual CPI inflation of 12.2 percent during the last fiscal year, the budget target is set to achieve enormously challenging (due to ongoing stagflation in the world) CPI inflation of 11.5 percent. The demand compression policies in Pakistan to correct the imbalances and tame-down inflation along with damages incurred by the flood have muted large-scale manufacturing production that has witnessed a slowdown with a negative (year-on-year) 3.6 percent growth during July-November of this fiscal year. Flood has significant negative implications on the agricultural produce of all major Kharif season crops. Cotton and rice production decreased from 8.3 million bales to 6.3 million bales and 9.3 million tons to 5.5 million tons, respectively.

Table 11: Update on Key Macroeconomic Indicators

Items	Actual 2021-22	Targets 2022-23	Jul-Dec 2021-22	Jul-Dec 2022-23
Fiscal Sector (Rs. Billion)				
Tax Collection (FBR) (July Dec)	6,148	7,470	2,929	3,429
PSDP (Jul-Dec)	558	727	252	130
Provincial ADP (Jul-Sep)	1,217	1,432	153.8	152.2
Fiscal Deficit (Jul-Nov)	5,260	3,797	951	1,169
-As % of GDP	7.9	4.9	1.4	1.4
Primary Balance (Jul-Nov)	(2,077)	153	(36)	511
-As % of GDP	(3.1)	0.2	0.3	0.2
Agriculture Sector (Production) (Million Ton)				
Cotton (Million Bales)	8.3	11.0	8.3	6.3
Rice	9.3	8.5	9.3	5.5
Sugarcane	88.7	76.9	88.7	81.6
Maize	9.5	7.2	9.5	9.2
Wheat	26.4	28.4	26.4	
Real Sector (%)				
Large Scale Manufact. Y-o-Y (Jul-Nov)	11.6	7.4	7.4	(3.6)
CPI-Inflation-Y-o-Y	12.2	-	11.5	23.8
External Sector ($ Billion)				
Current Account	(17.4)	(9.0)	(9.1)	(3.7)
-As % of GDP	(4.6)	(2.2)	-	-
Trade Balance (Goods)	(39.7)	(34.0)	(20.9)	(15.3)
Exports	32.5	32.4	15.2	14.2
Imports	72.2	66.4	36.1	29.5
Remittances	31.3	32.5	15.8	14.1
FOREX Reserves (18 Jan)	15.5	-	23.1	10.26
Exchange Rate (30 Dec)	204.8	-	177.5	226.2
Foreign Investment (Total)	1,788.9	-	542.5	397.2
Policy Rate (%)	9.8	-	8.75	16.0
Credit to Agriculture Sector	1,418.9	1,800	488.5	663.9

12.6 On the fiscal front, fiscal consolidation is the topmost priority to achieve the targeted fiscal deficit despite the government facing the unprecedented challenge of providing relief to people in flood-hit areas. Despite the economy's slowdown, tax collections have improved from Rs. 2,929 billion in July-December 2021 to Rs. 3,429 billion in the same period of 2022. Further, all efforts are being put in place to close the fiscal deficit within manageable limits during the current fiscal year.

12.7 In the short run, demand management policies by the State Bank of Pakistan and the Government are designed to fight inflation, protect official reserves, and protect inclusive growth. But in the long run, the Government aims to stimulate the supply side to elevate the long-run potential growth rate of the economy. Increasing the long-run growth trends of output, per capita real incomes, and employment can only be achieved by stimulating investments in new production capacities and improving overall productivity.

13. CONCLUSION

13.1 The sharp (V-shaped) economic recovery after the control of COVID-19, coupled with the international market dynamics in response to the Russia-Ukraine conflict, has put the country into a crisis in terms of higher fiscal deficit. Furthermore, the unattended issues of the energy sector and a sharp rise in domestic and external debt during the last few years put fiscal sustainability at risk. To put the country on the right track, revenue mobilization through broadening and deepening the tax base, rationalizing exemptions, and simplifying procedures would be critical factors. Looking into the challenges for large deviations of non-tax revenue collections should be the Government's priority. Further, on the expenditures side, there is a need to curtail the total expenditures, especially the current expenditures, within the budget estimates. It requires rationalization of subsidies to the energy sector.

13.2 Though the devastating flood has negatively affected agricultural production, the Government is putting efforts into achieving sustainable growth in industrial and services sectors, including agriculture. However, global and domestic demand reduction is being witnessed, which is expected to hurt economic growth and revenue collections. But all efforts are being put in place to achieve a sustainable fiscal deficit. Government is also committed to dealing with the long-standing financial issues of the energy sector. The financially viable resolution of this issue is expected to mature in the coming month or so, which will further create policy space for a permanent solution.

Government of Pakistan
Finance Division
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Subject: **STATEMENT OF RESPONSIBILITY UNDER SECTION 10(1) (A) OF FISCAL RESPONSIBILITY AND DEBT LIMITATION ACT, 2005**

Stated that all policy decisions with material economic or fiscal implications that the Federal Government has made before January 2, 2023, the day on which the contents of the Fiscal Policy Statement were finalized, and all other circumstances with material economic or fiscal implications of which I was aware before that day have been communicated to the Secretary of Finance;

The statement, to the best of our knowledge, provides for:

i. The integrity of the disclosure contained in the economic policy statements;

ii. The consistency with the requirements of this Act of the information contained in the economic policy statements: and

iii. The omission from the economic policy statement of any decision or circumstances specified in sub-section (3) of section 8.

(Senator Mohammad Ishaq Dar)
Minister for Finance and Revenue

Government of Pakistan
Finance Division
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Subject: **STATEMENT OF RESPONSIBILITY UNDER SECTION 10(1) (A) OF FISCAL RESPONSIBILITY AND DEBT LIMITATION ACT, 2005**

Stated that Ministry has supplied to the Minister, using its professional judgment based on economic and fiscal information available before January 2, 2023, the day on which the contents of the Fiscal Policy Statement were finalized, a Fiscal Policy Statement incorporating the fiscal and economic implications of those decisions and circumstances, but any decision or circumstances that the Minister has determined under sub-section (3) of section 8 of the Fiscal Responsibility and Debt Limitation Act, 2005, have not been incorporated in the Fiscal Policy Statement.

(Hamed Yaqoob Sheikh)
Secretary Finance

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