Public Finances

4

Against a backdrop of the most severe global economic and financial crises in the last 70 years, fiscal policy has made a strong comeback around the world as an instrument of counter-cyclical policy. A dramatic expansion of government and central bank balance sheets has taken place in the aftermath of the global financial crisis, as governments were forced to recapitalize banks, take over a large part of the debts of failing financial institutions and introduce large stimulus programs to revive the economy (Table 4.1).

Table 4.1: Stimulus Packages (est.)

Country	USD (Billions)
China	585.3
Germany	80.5
India	38.4
Japan	297.5
United Kingdom	29.2
United States	787

Source: UNDP, March 2010

As a result, over the past three years public debt has grown sharply in countries, even where it had remained relatively low before the crisis (Table 4.2), because many governments not only had to bail out ailing banks, but also pay for rising unemployment benefits in addition to providing stimulus to the economy. According to the IMF, public debt in advanced economies is expected to grow further, because employment and growth are unlikely to return to their pre-crisis levels. Consequently, employment and other benefits will need to be paid for several years. Strengthening the negative feedback loop, a worsening of public debt sustainability could be transmitted back to the banking system.

In the case of Pakistan, a low, and declining, Tax-to-GDP ratio, and an elevated - and rising – public debt stock has imposed a hard constraint on the size of fiscal stimulus that can be provided to the economy. Countries like China, Germany, UK and US entered the crisis with greater fiscal space to expand, including more favourable levels of deficits, public debt, contingent liabilities and interest rates.

Table 4.2: General Government Debt (Gross, % of GDP)

Country	2007 (pre-crisis)	2009
Australia	8.5	13.7
Canada	64.2	75.6
China	20.2	20.9
France	63.8	77.4
Germany	63.6	79.8
India	80.5	83.7
Pakistan	55.5	58.1
Japan	187.7	217.4
United Kingdom	44.1	68.6
United States	63.1	88.8

Source: IMF, World Economic Outlook, April 2010

With the slowdown in Pakistan's economy coming in the wake of a macroeconomic crisis in 2008 that resulted from policy-induced imbalances of the past, the prudent course for policymakers has been to adopt a path of stabilization. This course has proved to be more appropriate, with inflation subsiding from a historic peak of 25% in October 2008, to around 13% in April 2010. Persistently high inflation over this period has also limited the options for the central bank in the conduct of its monetary policy.

The nexus between low tax revenue collection, the fiscal deficit, the stock of public debt, and the future path of growth in the economy needs to be examined further. With Pakistan's tax collection amounting to around 9-10% of GDP at best, as compared to 12.9% for India, and 14.2% for Sri Lanka, for example, the additional expenditure absorbed in the budget on account of any fiscal stimulus measure, would necessarily imply an increase in the stock of public debt. Each 1% increase in the size of the fiscal deficit increases the public debt stock by at least 1.08%, at the current effective interest rate on public debt. In actual effect, the increase is likely to be larger, after taking into account the impact on the external imbalance, and the incremental borrowing needed to be undertaken on that front.

On the end-March 2010 outstanding stock of public debt, the above working would imply an increase of *at least* Rs. 88.2 billion in public debt, for every one percentage point increase in the fiscal deficit – with the impact on growth less than clear. This incremental debt stock would generate an annual debt servicing liability of over Rs. 7 billion.

Looking at the structure of budgetary expenditure, debt servicing (including repayment of foreign loans) is expected to account for 27% of total expenditure for the current fiscal year. Given the rigidity of some of the other large expenditure heads, such as security spending, any increase in debt servicing requirements will necessarily encroach on other areas of spending, including possibly development spending, or expenditure on vulnerable segments of the population. Clearly, this would be an undesirable situation, as it could lead to *reducing* Pakistan's longer term growth prospects, or *reducing* support for the most vulnerable groups in society – the exact opposite of the intended result.

In any case, the notion that growth in the economy leads to autonomous, and at the very least, proportionate growth in government revenue, is misplaced. This argument is neither borne out by the sources of growth and revenue in the economy, nor by Pakistan's historical experience in this regard (see Table 4.3). In fact, for many of the past several years, tax elasticity and buoyancy *combined* have yielded a close to unitary value, indicating the mismatch between the sources of growth in the economy and the tax revenue base.

Table 4.3: Sources of Growth and Tax

	Contribution to (in percent):		
	GDP*	**Growth***	**Taxes**
Agriculture	22	10	1
Industry	25	30	63
Services	53	60	26

For 2009-10

Source: Federal Bureau of Statistics, Federal Board of Revenue

A final point to note regards the durability of the growth that can potentially be delivered through a fiscal stimulus. Historically, Pakistan's high-growth periods have lasted a maximum of around 4 to 5 years – with or without a stimulus. Hence, the absence of policy stimulus does not appear to explain the short – and increasingly infrequent – spells of high growth in Pakistan's economy.

To remove structural impediments to sustained economic growth in the long run, such as the abysmally low tax revenue collection, Pakistan has embarked on a meaningful program of economic reform. The lynchpin of this reform program is enhancing Pakistan's capacity to mobilise domestic resources, with efficiency as well as equity. This will be discussed in a subsequent section, after a short review of recent developments with regards to public finances.

4.3 Recent Developments: 2009-10

4.3-1 FBR Tax Revenues

The FBR revenue target for FY10 was set at Rs. 1,380 billion taking into account expected growth in GDP, the rate of inflation, tax buoyancy and other key economic indicators. The target required a 20 percent increase over last year's collection of Rs. 1,157 billion (see Table 4.4).

Against this target, tax collection during the first ten months of the current fiscal year (July-April) stood at Rs. 1,025.6 billion, net of refunds, which is 14 percent higher than the net collection of Rs. 900.9

billion in the corresponding period of last year. Among the four federal taxes, the highest growth of 16 % has been recorded in the case of *sales tax* receipts, followed by *direct tax* (17 %), *customs* (7.2 %) and *federal excise* (3.0%).

Table 4.4: Tax Collection

Change	2008-09 (Actual)	2009-10 (R.E)	July-April		% Change Over 2008-09
			2008-09	2009-10	
A. DIRECT TAXES					
Gross			367.1	427.2	16.4
Refund/Rebate			34.2	37.6	9.9
Net	440.3	522	**332.9**	**389.5**	17.0
B. INDIRECT TAXES					
Gross			597.4	660.1	10.5
Refund/Rebate			29.4	24.1	-18.0
Net	716.7	874	**568**	**636.1**	12.0
B.1 SALES TAX					
Gross			381.3	435.1	14.1
Refund/Rebate			22.1	19	-14.0
Net	452.3	547	**359.2**	**416**	15.8
B.2 FEDERAL EXCISE					
Gross			91.3	94.3	3.3
Refund/Rebate			0.04	0.025	-37.5
Net	116.1	161	**91.6**	**94.3**	2.9
B.3 CUSTOM					
Gross			124.5	130.7	5.0
Refund/Rebate			7.3	5	-31.5
Net	148.4	166	**117.2**	**125.7**	7.3
TOTAL TAX COLLECTION					
Gross			964.5	1087.3	12.7
Refund/Rebate			63.6	61.7	-3.0
Net	1157	1396	**900.9**	**1025.6**	13.8

Source: Federal Board of Revenue

FBR tax performance with respect to the annual target shows that 73.5 percent of the annual target has been achieved during July-April 2010. A pick up in economic activity, an early resolution of the energy situation, an improvement in internal security, a continuation of the trend of improvement in the global economy, and the restructuring of tax administration undertaken should all contribute in increasing the pace of tax revenue collection in the months ahead. Going forward, the reinstatement of the tax audit regime, which had been unwound in conjunction with the launch of the Universal Self-Assessment Scheme (USAS) a few years ago, should also start yielding results.

Direct Tax

For July-April 2010, direct taxes have been a major source of FBR tax revenue collection, contributing 38 percent of total receipts. Net collection was estimated at Rs. 389.5 billion, while gross and net collection has registered a growth of 16 and 17 percent during July-April 2010. The share of direct taxes in federal tax receipts has increased from 15 percent in the early 1990s to around 38 percent in 2009-10.

Despite the impressive increase, however, the “actual” income tax base is low, since direct tax collection has been boosted since the 1990s by the introduction of the withholding tax (WT) regime.

Indirect Tax

Indirect taxes grew by 12 percent during July-April 10 and accounted for 68.6 percent of the total FBR tax revenue. Within indirect taxes, sales tax increased by 16 percent. The gross and net collection of Sales tax stood at Rs. 435.1 and Rs. 416 billion respectively showing a growth of 14.1 percent and 16 percent respectively over the corresponding period of previous fiscal year. Of net collection, 53.4 percent is contributed by sales tax on domestic production and sales, while the rest originates from imports. Within net domestic sales tax collection, major contribution has come from POL products, telecom services, natural gas, sugar and cigarettes. On the other hand, POL products, edible oil, plastic resins, vehicles, iron and steel and machinery and mechanical appliances have a major contribution in the import stage collection of Sales tax.

Custom duty collections have improved marginally, with collection exhibiting a growth of 7.2 percent, with a collection of Rs. 125.7 billion as compared with Rs. 117.2 billion during the same period last year. Major revenue sources have been POL, automobiles, edible oil, machinery, iron and steel products etc. Indirect taxes have shown a relatively better performance which is largely owed to the noticeable collection from domestic sources under both sales tax as well as federal excise duty.

The net collection of federal excise stood at Rs. 94.3 billion during July-April 2010 against Rs. 91.6 billion in the corresponding period of last year, registering a growth of 3.0 percent. The major revenue spinners are cigarettes, cement, beverages, natural gas, POL products and services.

Despite the economic slowdown, including a decline in both volume of imports as well as landed prices, and the impact of the energy crisis, FBR has been able to exceed the collection of the previous year by a significant margin. This growth is mainly attributed to an increase in domestic sales tax collection under the heads of electrical energy, sugar, services, beverages and motor cars, enhancement of rate of FED on cigarettes, advertisement, banking, insurance services and services provided by stockbrokers during the budget FY10, and increased tax collection from the one percent special excise duty.

4.3-3 Review of Public expenditure

In the Federal budget for 2009-10, a total expenditure of Rs. 2,877.4 billion was estimated for the full year, comprising of Rs. 2,260.9 billion of current expenditure (79% of total), and Rs. 616.5 billion of development expenditure, including net lending. Among the major expenditure heads, interest payments of Rs. 647.1 billion were estimated, while Rs. 342.9 billion was earmarked for Defence services. Rs. 132 billion was allocated for subsidies, while the allocation for Grants amounted to Rs. 313.7 billion.

In terms of structure of budgeted expenditure, current expenditure was estimated to account for 79% of total spending, with development and net lending at 21% of the total. Debt servicing accounted for 27% of total expenditure in the federal budget 2009-10, a substantial decline of nearly 5 percentage points over 2008-09 actuals. Share of defence services stood at 17.2%, while subsidies and grants totalled an estimated 11.8% (see Table 4.5).

Table 4.5: Structure of Total Expenditure (TE)					
Years	**Current Exp. as % TE**	**Dev. Exp. as % TE**	**Defence as % TE**	**Subsidies & Grants as % TE**	**Debt Servicing as % TE**
2001-02	84.7	15.3	18.1	3.5	52.5
2002-03	88.1	14.4	17.8	6.4	31.6
2003-04	81.1	16.8	19.3	7.1	36.6
2004-05	77.4	20.4	19.0	6.0	26.2
2005-06	73.8	26.0	17.2	7.2	24.4
2006-07	76.4	24.1	13.9	4.2	25.4
2007-08	81.4	19.9	12.2	18.6	25.4
2008-09	80.7	19.0	20.5*	14.6*	34.8
2009-10 B	78.6	21.1	17.2*	11.8*	27.1

B: Budgeted *Source: Budget Wing*

**Values are not comparable with previous years due to difference in definition used in FY09 & FY10*

The following discussion on expenditure is based on firm data for nine months (July to March).

During the first nine months of 2009-10, substantial outlays on security-related spending as a consequence of the widening as well as intensification of military operations in the north-west of the country during 2009-10, combined with higher than budgeted electricity subsidies, have resulted in some pressure on the budget. Total expenditure during July-March FY10 rose to Rs. 2,027.8 billion, a rise of 19% over the same period in 2008-09 (Table 4.6). Total revenues grew by 7.7 percent and reached Rs. 1402 billion during July-March FY10.

Table 4.6: Consolidated Revenue & Expenditure of the Government						
	Prov. Actual July-June 2007-08	**Prov. Actual July-June 2008-09**	**Budget Estimate 2009-10**	**Prov. Actual July-Mar 2009-10**	**Prov. Actual July-Mar 2008-09**	**Growth July-Mar 2009-10**
A. Total Revenue	**1499.5**	**1850.9**	**2155.4**	**1402**	**1,301.40**	**7.7**
a) Tax Revenue	**1050.7**	**1204.7**	**1593.5**	**1029.6**	**849.2**	**21.2**
FBR Revenue	1009.9	1158.6	1380	909.6	815.1	11.6
Provincial Tax Revenue	40.8	46.1	70	35.4	33	7.3
b) Non-Tax Revenue	**448.7**	**646.2**	**561.9**	**372.4**	**452.2**	**-17.6**
B. Total Expenditure	**2276.5**	**2531.3**	**2877.4**	**2027.8**	**1706.6**	**18.8**
a) Current Expenditure	**1853.1**	**2041.6**	**2260.9**	**1720.9**	**1415.5**	**21.6**
- Interest	522.7	656.3	647.1	473.5	442.8	6.9
- Defense	277.3	329.9	343	269.8	224.2	20.3
- Others	616	509.7	681	540.2	**748.5**	**-27.8**
b) Development Expenditure & Net Lending	**423.4**	**455.7**	**616.5**	**303**	**246.3**	**23.0**
C. Overall Fiscal Deficit	**-777.2**	-680.4	**-722.1**	**-625.8**	**-680.4**	**-8.0**
As % of GDP	7.6	-5.2	-4.9	-4.2	-5.3	-20.8
Financing of Fiscal Deficit	**777.2**	**680.4**	**722.1**	**625.9**	681.4	-8.1
i) External Sources	151.3	149.7	332	92.6	149.7	-38.1
ii) Domestic	**625.9**	**529.5**	**390.5**	**533.3**	**529.5**	**0.7**
- Bank	519.9	305.6	144.1	210.9	305.6	-31.0
- Non-Bank	104	223.8	246.3	322.5	223.8	44.1
- Privatization Proceeds	1.7	1.3	0.1	0.1	1.3	-92.3
GDP at Market Prices	**10284**	**13095**	**14824**	**15039**	**12,739**	**18.1**

Source: Budget Wing

4.3-4 Trend in Real Expenditure

Table 4.7: Trends in Real Expenditure (1999-2000=100) (% Growth)

Period	Total Expenditure	Current Expenditure	Development Expenditure	Interest payment	Defence	Non-Defence Non-Interest Expenditure
1980's	7.7	10.5	2.7	18.1	8.9	4.9
1990's	2.8	4.5	-2.6	8.9	0.4	0.9
1990-I	2.4	3.9	-1.7	4.2	0.7	3
1990-II	3.1	5	-3.5	13.7	0.1	-1.2
2000-04	2.2	0.1	9.4	-8.3	0.4	10.5
2004-09*	7.0	5.7	13.5	7.6	1.3	8.8

** Budget estimate for 2008-09* *Source: EA Wing, Finance Division*

4.4-1 Allocation of Resources between the Federal Government & Provinces

An important development in public finances is the recent agreement between the federal and provincial governments on the 7th National Finance Commission (NFC) Award. Only the fourth successfully concluded in Pakistan's entire 63-year history, and the first in the last nineteen years, the NFC Award lays the basis for resource distribution between the Center and the Provinces (vertical distribution), and between the Provinces (horizontal distribution).

The last award was adopted in 1997 for a period of five years. However, after its expiry in 2002, agreement on the award was amended under the Distribution of Revenue and Grant-in-Aid Amendment Order 2006. Under this *ad hoc* arrangement, the share of provincial governments in the federal divisible pool was increased starting 2006-07 annually to 41.5, 42.5, 43.8, 45.0 and 46.4 percent thereafter in coming years.

The distribution of resources and fiscal equalisation transfers are a contentious issue around the world. In Pakistan's case, the NFC award has historically been based on the single criteria of *Population*. The 7th NFC Award marks a watershed since it has adopted by consensus a set of multiple criteria for determining horizontal distribution of resources (see Box).

Box-1: Salient Features of 7th NFC award.

1. The distribution of resources has been made on multiple criteria instead of single criteria of population.
2. The agreed sharing of the divisible pool will now take place on the basis of the following:
   - Population 82.0%
   - Poverty and backwardness 10.3%
   - Revenue collection / generation 5.0%
   - Inverse population density 2.7%
3. Federal Transfers to the provincial governments on the basis of the percentage specified against each:-

	Existing	7th NFC Award
Balochistan	7.17%	9.09%
Khyber Pakhtunkhwa	14.88%	14.62%
Punjab	53.01%	51.74%
Sindh	24.94%	24.55%
Total	100.00%	100%

Source: Provincial Finance Wing, Finance Division.

4. In vertical distribution Federal government has allowed an increase in the share of the provinces with 56 percent for first year and 57.5 percent for the remaining years. The share of the Federal Government in the net proceeds of divisible pool shall be 44 percent during the financial year 2010-11 and 42.5 percent from the financial year 2011-12 onwards.
5. In addition, the Federal government agreed to a reduction of collection charges from 5% to 1%, increasing the pool for distribution by 4%.
6. Baluchistan will receive 9.1 percent instead of 5.1 percent and will receive total Rs. 83 billion for the first year. Any shortfall in this amount shall be made up by the Federal Government from its own resources.
7. One percent of the net proceeds of divisible pool taxes shall be assigned to government of Khyber PakhtunKhwa to meet the expenses on war on terror.
8. Each province shall be paid in each financial year as a share in the net proceeds of the total royalties on crude oil an amount which bears to the total net proceeds the same proportion as the production of crude oil in the province in that year bears to the total production of crude oil.
9. Each Province shall be paid in each financial year as a share in the net proceeds to be worked out based on average rate per MMBTU of the respective province.
10. There shall be charged upon the Federal Consolidated Fund each year, as grants-in-aid of the revenues of the province of Sindh an amount equivalent to 0.66 % of the provincial share in the net proceeds of divisible pool as a compensation for the losses on account of abolition of octroi and zilla tax (OZT).
11. It has also been recommended in NFC award that the Federal government and Provincial governments should streamline their tax collection system to increase their revenues in order to achieve 15 percent tax to GDP ratio by the terminal year i.e. 2014-15.
12. Similarly Federal Government and Provincial governments would develop and enforce mechanism for maintaining fiscal discipline at the Federal and Provincial levels through legislative and administrative measures.

Table 4.8: Transfers to Provinces (NET) **(Rs. Billion)**

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10(B)
Divisible Pool	204.8	244.6	320.6	391.3	477.4	569.8
Straight Transfer	40.5	56.8	70.3	65.9	82.4	85.4
Special Grants/ Subventions	35.3	63.5	29.3	33.3	40.6	52.9
Project Aid	15.5	17.5	16.8	19.1	26.3	26.9
Agriculture Sector Loan-II	1.4	2.8	2.6	1.1	0	
Japanese Grant	0.1	0.1	0.1	0.04	0.02	0.09
Total Transfer to Province	**297.6**	**385.2**	**439.7**	**510.8**	**626.8**	735.1
Interest Payment	24.3	21.6	18	19.9	18.5	16.8
Loan Repayment	28.7	14.7	40.2	25.4	21	20.4
Transfer to Province(Net)	**244.6**	**348.9**	**381.5**	**465.6**	**587.3**	697.9

Source: Budget in Brief: 2008-09

An account of transfer to provinces is given in Table 4.8. The transfers to provinces on net basis registered a decline of Rs. 116 billion in the revised estimates 2008-09 mainly due to lower tax collection by FBR during the year. However, these are placed at Rs. 697.9 billion is budget estimates 2009-10 i.e. an increase of 18.8 percent over the revised estimates 2008-09.

Reform agenda

A low – and declining - tax-to-GDP ratio, is amongst Pakistan's biggest structural weaknesses. Several possible reasons have been advanced for the low tax to GDP ratio in Pakistan, which include:

a) A narrow tax base
b) Agriculture, large number of services, capital gains is not included in tax net
c) Low tax compliance
d) Wide spread exemptions
e) Large undocumented informal sector
f) Weak audit and enforcement

A number of measures have been planned to redress this shortcoming. FBR is undergoing a major step in tax administration reform, with the establishment of the Inland Revenue Service (IRS). This will serve as a single entity within the FBR by merging the tasks of all domestic taxes, namely the sales tax, income tax and excise tax. Thus the harmonization of tax administration will improve efficiency and help increase the tax-to-GDP ratio in the medium term.

Similarly, to broaden the tax base and to correct the structural shortcomings in Pakistan's tax system and particularly to ensure horizontal equity in the taxation system, a broad based Value Added Tax (VAT) is sought to be implemented in the country. Considerable work has been completed for the planned introduction of the VAT by July 1, 2010, subject to approval of national and provincial assemblies. A full VAT with minimal exemptions, to be implemented by the FBR will include agreement with provinces concerning the treatment of services. The main objective is to increase the tax to GDP ratio to above 14 percent of GDP by 2013/14 (see Box).

Box-2: Value Added Tax (VAT)

Value Added Tax (VAT) is a special type of indirect tax, also known as a goods and services tax (GST) in India, in which a sum of money is levied at a particular stage in the sale of a product or service. Due to its revenue generating capacity, efficiency and ready comprehensibility in many developed countries, the developing nations also motivated to adopt VAT during eighties and nineties.

The VAT deals with many problems quite efficiently, that are often associated with a conventional sales tax system. In sales tax, there is no provision for input tax credit; consequently the end consumer has to pay tax on an input that has already been taxed previously. This is known as *cascading* which leads to an increase in consumer tax and price level, thus increasing the incentive for evasion which can be harmful for economic growth. In VAT system there is no incidence of cascading due to the fact that it is imposed on value addition at every single stage.

Medium Term Budgetary Framework (MTBF)

MTBF is a system for making the budget process more strategic and responsive to the priorities of the government, as it will introduce a medium term (3 year) horizon to the budgetary process.[1] It will support and strengthen the delivery of public services by the federal government. MTBF is consistent with the country's overall macroeconomic framework and legal obligation under Section-5 and 6 of the Fiscal Responsibility and Debt Limitation Act 2005.

The main objective of MTBF is to strengthen the fiscal discipline along with the alignment of budgetary allocation and expenditures with the policies and priorities of the government and to strengthen the process of budgeting and budget resource management within the ministries , thus to ensure the efficiency and cost effectiveness of the use of public sector resources.

To implement the MTBF, the set of innovations have been introduced into the budgeting procedures followed in the line ministries. These are as follows:

1. To increase the predictability of the budgeting process, the medium term budgets will be prepared on a three year basis i.e., for the year immediately ahead to be appropriated, and for two outer years.
2. Modifications to the formats for budget preparation which required a shift towards a more planned approach.
3. The MTBF process also saw the development of a dedicated software application to capture the information prepared by ministries during the preparation of the MTBF budget estimates, including the information on outputs.
4. The preparation of the overall medium term budget estimates in a document which set out the higher level objectives of the ministry and the purposes for which funding is required.

This new budgeting system will help planners and managers to think through logic of their interventions and how they relate to the ministry's overall objectives. However, MTBF procedures for budget preparation require a further round of modifications in order to derive the full benefits of this approach. Although, important modifications to the MTBF budget preparation have already been introduced, this will continue in 2010-11. These modifications are based on an analysis of the experience to date with the implementation of the MTBF with the aim of strengthening the contribution of the MTBF to the wider objective of modernization of the budgetary process.

Major modification to the MTBF budget preparation implemented with effect from 2009-10 include the following:

- Introduction of budget ceilings for all federal ministries.
- Strengthening the strategic process of budget preparation in each federal ministry.
- First step towards result based budgeting
- Clear identification of the cost of services (outputs) to be delivered.
- Preparation of 'Medium Term Budget estimates for Service Delivery' (GREEN BOOK).

[1] Guidelines for preparing Medium term Budget (2010-2013), Budget Wing, Finance Division.

TABLE 4.1

FEDERAL GOVERNMENT OVERALL BUDGETARY POSITION

(Rs Million)

Fiscal Year/ Item	2008-09	2009-10 (B.E)
A. REVENUE		
FBR Tax Revenue (1 +2)	1,157,002	1,380,000
1 Direct Taxes	440,271	565,600
2 Indirect Taxes	716,731	814,400
i. Customs	148,382	162,200
ii. Sales Tax	452,294	499,400
iii. Federal Excise	116,055	152,800
Non-Tax Revenue	454,885	483,709
Gross Revenue Receipts **	1,739,497	2,007,207
B. EXPENDITURE		
Current Expenditure*	1,536,441	1,723,863
i. Defence	329,902	342,913
ii. Interest	637,790	647,104
iii. Grants	154,927	366,737
iv. Economic Affairs	136,553	84,926
vi. Other	245,790	232,130
Development Expenditure (PSDP)	308,301	406,000
Total Expenditure**	1,844,742	2,146,952

Source: Budget Wing, Finance Division, Islamabad

B.E.- Budget Estimates

@ : Includes Law and Order, Social, Economic and Community Services

* : Current expenditure includes earthquake related spendings

** : Includes other categories not shown here

TABLE 4.2

SUMMARY OF PUBLIC FINANCE (CONSOLIDATED FEDERAL AND PROVINCIAL GOVERNMENTS)

(Rs Million)

Fiscal Year/ Item	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 (B.E)	% Change 2009-10/ 2008-09
Total Revenues (i+ii)	*720,800*	*794,000*	*900,014*	*1,076,600*	*1,297,957*	*1,499,380*	*1,850,901*	*2,155,387*	*16.5*
Federal	673,600	741,000	842,900	992,200	1,215,730	1,380,599	1,721,028	1,990,387	*15.7*
Provincial	47,200	53,000	57,114	84,400	82,227	118,781	129,873	165,000	*27.0*
i) Tax Revenues	555,800	611,000	659,410	803,700	889,685	1,050,696	1,204,670	1,593,497	*32.3*
Federal	534,000	583,000	624,700	766,900	852,866	1,009,902	1,158,586	1,523,497	*31.5*
Provincial	21,800	28,000	34,710	36,800	36,819	40,794	46,084	70,000	*51.9*
ii) Non-Tax Revenues	165,000	183,000	240,604	272,900	408,272	448,684	646,231	561,890	*-13.1*
Federal	139,600	158,000	218,200	225,300	362,864	370,697	562,442	466,890	*-17.0*
Provincial	25,400	25,000	22,404	47,600	45,408	77,987	83,789	95,000	*13.4*
Total Expenditures (a+b+c)	*898,200*	*956,000*	*1,116,981*	*1,401,900*	*1,799,968*	*2,276,549*	*2,531,308*	*2,877,439*	*13.7*
a) Current	791,700	775,000	864,500	1,034,700	1,375,345	1,853,147	2,041,570	2,260,963	*10.7*
Federal	599,800	557,000	664,200	789,100	973,130	1,416,015	1,495,873	1,670,963	*11.7*
Provincial	191,900	218,000	200,300	245,600	402,215	437,132	545,697	590,000	*8.1*
b) Development (PSDP)	129,200	161,000	227,718	365,100	433,658	451,896	480,282	606,000	*26.2*
c) Net Lending to PSE's	-22,700	20,000	24,763	2,100	-9,035	-28,494	6,911	10,476	
d) Statistical Discrepancy	3,200	-32,000	0	-86,307	-124,510	0	2,545	0	
Overall Deficit	-180,600	-130,000	-216,967	-325,300	-377,501	-777,169	-680,407	-722,052	
Financing (net)	180,600	130,000	216,988	325,200	377,501	777,169	680,407	722,051	
External (Net)	113,000	-5,900	120,432	148,900	147,150	151,311	149,651	331,618	
Domestic (i+ii)	67,600	135,900	96,556	176,300	230,351	625,858	529,466	390,434	
i) Non-Bank	119,500	61,000	8,050	8,100	56,905	104,302	223,846	246,287	
ii) Bank	-55,600	63,690	60,179	70,900	101,982	519,906	305,620	144,147	
iii) Privatization Proceeds	3,700	11,210	28,327	97,300	71,464	1,650	1,290	19,351	
Memorandum Item									
GDP (mp) in Rs. Billion	4,876	5,641	6,500	7,623	8,673	10,243	12,739	14,668	*15.1*
	(As Percent of GDP at Market Price)£								
Total Revenue	14.8	14.1	13.8	14.1	15.0	14.6	14.5	14.7	
Tax Revenue	11.4	10.8	10.1	10.5	10.3	10.3	9.5	10.9	
Non-Tax Revenue	3.4	3.2	3.7	3.6	4.7	4.4	5.1	3.8	
Expenditure	18.5	16.9	17.2	18.4	20.8	22.2	19.9	19.6	
Current	16.2	13.7	13.3	13.6	15.9	18.1	16.0	15.4	
Development	2.2	3.2	3.9	4.8	4.9	4.4	3.8	4.1	
Overall Deficit Incl. E.quake Exp.	3.7	2.3	3.3	4.3	4.4	7.6	5.3	4.9	

B.E : Budget Estimate

Source: Budget Wing, Finance Division, Islamabad

£ : Due to change of base of GDP to 1999-2000 prior years are not comparable

TABLE 4.3

CONSOLIDATED FEDERAL AND PROVINCIAL GOVERNMENT REVENUES

(Rs Million)

Fiscal Year/ Item	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 (B.E)	% change 2009-10/ 2008-09
Total Revenue (I+II)	720,800	793,700	900,014	1,076,600	1,297,957	1,499,381	1,850,901	2,155,387	16.5
Federal	673,600	743,600	842,900	992,200	1,215,730	1,380,600	1,721,028	1,990,387	15.7
Provincial	47,200	50,100	57,114	84,400	82,227	11,878	129,873	165,000	27.0
I. Tax Revenues (A+B)	555,800	611,000	659,410	803,700	889,685	1,050,696	1,312,227	1,593,497	21.4
Federal	534,000	583,000	624,700	766,900	852,866	1,009,902	1,266,143	1,523,497	20.3
Provincial	21,800	28,000	34,710	36,800	36,819	40,794	46,084	70,000	51.9
A. Direct Taxes (1+2)	157,886	171,188	186,473	224,147	337,639	391,350	440,271	565,600	28.5
1 Federal	151,976	164,497	176,930	215,000	334,168	387,563	440,271	565,600	28.5
2 Provincial	5,910	6,691	9,543	9,147	3,471	3,787	0	0	
B. Indirect Taxes (3+4+5+6+7)	397,914	439,812	472,937	579,553	552,046	659,346	844,696	1,027,897	21.7
3. Excise Duty	45,437	47,538	60,813	58,702	74,026	86,549	119,517	152,800	27.8
Federal	44,002	45,823	58,670	55,000	71,575	83,594	116,055	152,800	31.7
Provincial	1,435	1,715	2,143	3,702	2,451	2,955	3,462	0	-100.0
4. Sales Tax*	195,138	220,607	235,533	294,600	309,228	385,497	452,294	499,400	10.4
5. Taxes on International Trade	68,835	90,940	117,243	138,200	132,200	150,545	148,382	162,200	9.3
6. Surcharges*	68,230	61,381	26,769	50,800	64,546	35,178	126,026	141,937	12.6
6.1 Gas	21,358	16,770	16,165	26,300	34,888	20,708	14,015	29,937	113.6
6.2 Petroleum	46,872	44,611	10,604	24,500	29,658	14,470	112,011	112,000	0.0
7. Other Taxes **	20,274	80,727	59,348	88,051	36,592	36,755	20,408	183,560	799.5
7.1 Stamp Duties	6,631	10,329	10,573	10,211	10,268	11,123	11,290	0	-100.0
7.2 Motor Vehicle Taxes	3,893	4,722	5,749	7,107	7,719	4,975	7,534	0	-100.0
7.3 Foreign Travel Tax*	4,054	4,751	2,050	3,593	3,681	356	0	0	
7.4 Others	5,696	60,925	40,976	67,140	14,924	20,301	1,584	1,560	-1.5
II. Non-Tax Revenues	165,000	182,700	240,604	272,900	408,272	448,685	454,885	561,891	23.5
Federal	139,600	160,600	218,200	225,300	362,864	370,698	454,885	466,891	2.6
Provincial	25,400	22,100	22,404	47,600	45,408	77,987	83,789	95,000	13.4

* : Revenues under these heads are exclusively Federal

Source: Budget Wing, Finance Division, Islamabad

** : Mainly includes Provincial Revenues

B.E : Budget Estimate

TABLE 4.4

CONSOLIDATED FEDERAL AND PROVINCIAL GOVERNMENT EXPENDITURES

(Rs million)

Fiscal Year/ Item	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10 (B.E)
Current Expenditure	*700,200*	*791,700*	*775,000*	*864,500*	*1,034,700*	*1,375,345*	*1,853,147*	*2,041,573*	2,260,963
Federal	524,600	599,800	557,000	664,200	789,100	973,130	1,416,015	1,495,876	1,670,963
Provincial	175,600	191,900	218,000	200,300	245,600	402,215	437,132	545,697	590,000
Defence	149,254	159,700	184,904	211,717	241,063	249,858	277,300	329,902	342,913
Interest	275,292	227,810	222,387	234,752	260,021	386,916	509,574	656,259	663,923
Federal	245,763	199,816	196,261	210,196	237,119	368,797	489,681	637,790	647,104
Provincial	29,529	27,994	26,126	24,556	22,902	18,119	19,893	18,469	16,819
Current Subsidies	29,221	57,114	67,920	66,673	101,238	76,039	423,685	225,610	161,843
Federal	25,488	50,000	62,500	57,800	86,300	74,010	407,485	220,352	131,914
Provincial	3,733	7,114	5,420	8,873	14,938	2,029	16,200	5,258	29,929
Gen. Administration*	91,024	100,210	120,023	130,531	163,263	225,120	368,159	349,994	355,109
Federal	56,300	60,900	75,500	81,400	103,100	146,017	175,700	349,994	355,109
Provincial	34,724	39,310	44,523	49,131	60,163	79,103	192,459	0	0
All Others**	155,409	246,866	179,766	220,827	269,115	437,412	274,429	479,808	737,175
Development Expenditure	*126,250*	*129,200*	*161,000*	*227,718*	*365,100*	*433,658*	*451,896*	*480,282*	606,000
Net Lending to PSEs	*-200*	*-22,700*	*20,000*	*24,763*	*2,100*	*-9,035*	*-28,494*	*6,911*	10,476
Total Expenditure	*826,250*	*898,200*	*956,000*	*1,116,981*	*1,401,900*	*1,799,968*	*2,276,549*	*2,531,308*	2,877,439
Memorandum Items:	(Percent Growth over preceding period)								
Current Expenditure	8.4	13.1	-2.1	11.5	19.7	32.9	34.7	10.2	10.7
Defense	13.8	7.0	15.8	14.5	13.9	3.6	11.0	19.0	3.9
Interest	9.9	-17.2	-2.4	5.6	10.8	48.8	31.7	28.8	1.2
Current Subsidies	0.7	95.5	18.9	-1.8	51.8	-24.9	457.2	-46.8	-28.2
General Administration	-9.9	10.1	19.8	8.8	25.1	37.9	63.5	-4.9	1.5
All Others	15.9	58.8	-27.2	22.8	21.9	62.5	-37.3	74.8	4.8
Development Expenditure	40.6	2.3	24.6	41.4	60.3	18.8	4.2	6.3	26.2
Total Expenditure	15.1	8.7	6.4	16.8	25.5	28.4	26.5	11.2	13.7
	As % of Total Expenditure								
Current Expenditure	84.7	88.1	81.1	77.4	73.8	76.4	81.4	80.7	78.6
Defense	18.1	17.8	19.3	19.0	17.2	13.9	12.2	13.0	11.9
Interest	33.3	25.4	23.3	21.0	18.5	21.5	22.4	25.9	23.1
Current Subsidies	3.5	6.4	7.1	6.0	7.2	4.2	18.6	8.9	5.6
General Administration	11.0	11.2	12.6	11.7	11.6	12.5	16.2	13.8	12.3
All Others	18.8	27.5	18.8	19.8	19.2	24.3	12.1	28.6	26.4
Development Expenditure@	15.3	11.9	18.9	22.6	26.2	23.6	18.6	19.2	21.1
Total Expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

B.E : Budget Estimate

Source: Budget Wing, Finance Division

* : Also includes Law & Order, Social, Economic and Community Services.

** : Includes mainly Provincial Expenditures.

@ : Include Net Lending

TABLE 4.5

DEBT SERVICING

Fiscal Year / Item	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10*
A. Interest Payments	227,810	222,387	234,752	260,021	386,916	509,574	656,259	485,319
A.1 Federal	199,816	196,261	210,196	237,119	368,797	489,681	637,790	473,517
Interest on Domestic Debt	160,481	154,817	170,466	195,006	318,939	430,189	558,729	428,512
Interest on Foreign Debt	39,335	41,444	39,730	42,113	49,858	59,492	79,061	45,005
A.2 Provincial	27,994	26,126	24,556	22,902	18,119	19,893	18,469	11,802
B. Repayment/Amortization of Foreign Debt	56,304	127,276	57,702	81,394	69,615	68,662	224,576	166,700
C. Total Debt Servicing (A+B)	284,114	349,663	292,454	341,415	456,531	578,236	880,835	652,019
MEMORANDUM ITEMS	(As Percent of GDP)							
Interest on Domestic Debt	3.3	2.7	2.6	2.6	3.7	4.2	4.4	2.9
Interest on Foreign Debt	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.3
Repayment/Amortization of Foreign Debt	1.2	2.3	0.9	1.1	0.8	0.7	1.8	1.1
Total Debt Servicing	5.8	6.2	4.5	4.5	5.3	5.6	6.9	4.4

*July 2009-March 2010

Source: Budget Wing, Finance Division

TABLE 4.6

INTERNAL DEBT OUTSTANDING (AT END OF PERIOD)

(Rs million)

Fiscal Year/ Type of Debt	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10*	%Change 2009-10/ 2008-09
Permanent Debt	317,402	325,569	349,212	424,767	468,768	570,009	526,179	514,879	562,540	616,766	685,939	779,182	13.6
Floating Debt	561,590	647,428	737,776	557,807	516,268	542,943	778,163	940,233	1,107,655	1,637,370	1,903,487	2,299,737	20.8
Un-funded Debt	573,945	671,783	712,010	792,137	909,500	914,597	873,248	881,706	940,007	1,020,379	1,270,513	1,411,690	11.1
Total	1,452,937	1,644,780	1,798,998	1,774,711	1,894,536	2,027,549	2,177,590	2,336,818	2,610,202	3,274,515	3,859,939	4,490,609	16.3
	2,938,379	#REF!	4,209,873	4,452,654	4,875,648	5,640,580	6,499,782	7,623,205	8,673,007	10,243,000	12,739,000	14,668,000	
Memorandum Items:									(Percent Share in Total Debt)				
Permanent Debt	21.8	19.8	19.4	23.9	24.7	28.1	24.2	22.0	21.6	18.8	17.8	17.4	
Floating Debt	38.7	39.4	41.0	31.4	27.3	26.8	35.7	40.2	42.4	50.0	49.3	51.2	
Un-funded Debt	39.5	40.8	39.6	44.6	48.0	45.1	40.1	37.7	36.0	31.2	32.9	31.4	
Total Debt as % of GDP (mp)	49.4	#REF!	42.7	39.9	38.9	35.9	33.5	30.7	30.1	32.0	30.3	30.6	

* end-March 2010

Source: Budget Wing, Finance Division