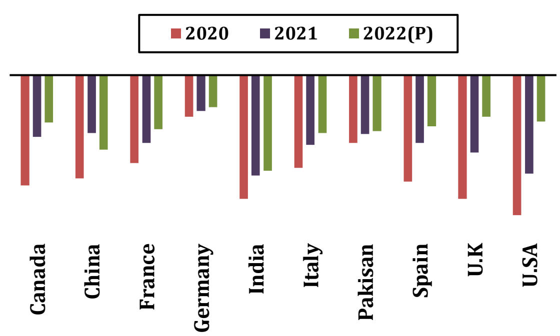
Chapter 4

Fiscal Development

Agile fiscal policy has played a decisive role in macroeconomic stabilization in the backdrop of the COVID-19 pandemic. When prices and demand plunged and the central banks in advanced countries were unable to lower interest rates any further, fiscal policy became more important. It provided significant impetus to businesses, assistance to vulnerable households, and minimized the impact of business closures on economic activity and employment. However, it did so at the cost of massive deficits, which added to the world's already high debt levels.

After a steep expansion in 2020, the fiscal deficit contracted in 2021, owing to economic recovery and the withdrawal of emergency aid from governments around the world (Fig:4.1). Deficits are projected to contract further in advanced countries, following the recovery's speed. Emerging markets and low-income developing countries are predicting a gradual shrink in their deficits in the medium term.

Fig: 4.1- General Government Overall Balance % of GDP



Source: IMF Fiscal Monitor, 2022

Currently, the fiscal policy at the global level is functioning in a highly volatile environment and Pakistan is no exception. Importantly, the uncertainty associated with COVID-19 was still not fully faded away, and the risks for the global economy renewed through the Russia-Ukraine conflict. The significant increase in international prices of commodities especially energy and food is intensifying pressure both on external accounts and public finances. Governments across the world are currently taking steps to protect their economies from the recent surge in international energy and food prices. While such measures would benefit the most vulnerable members of society and preserve social cohesiveness, they would incur high fiscal costs as well.

The conflict between Russia and Ukraine has potentially serious economic consequences for Pakistan's economy. In the second half of the current fiscal year, Pakistan faced greater inflationary pressures being an importer of crude oil and food commodities as well as palm oil, etc. The negative economic consequences of the conflict have exacerbated difficult policy choices for the country. Thus, controlling inflation, strengthening the economic recovery, supporting the vulnerable, and rebuilding fiscal buffers, all became significantly important. In striking a balance between these policy choices, the fiscal accounts have come under significant pressure during the current fiscal year.

A quick review of fiscal indicators shows that FY2021 witnessed a strong performance in fiscal indicators with a sizeable decline in fiscal deficit to 6.1 percent of GDP against 7.1 percent of GDP in FY2020. Nevertheless, additional spending under COVID-19 funds for vaccine procurement, IPPs circular debt payment, social sector spending, and higher development expenditures have kept the strain on this performance for the current fiscal year. Nonetheless, the sector fared well during the first half of the current fiscal year. The deficit contained to 2.0 percent of GDP which was similar to the deficit recorded in the last year. However, during the second half of the current fiscal year, the global economic challenges due to the Russia-Ukraine conflict and resultantly its impact on international commodities prices, especially energy and food brought a plethora of challenges to Pakistan's economy. Particularly, the fiscal accounts came under further pressure to provide relief to the masses. To offset the impact of increasing oil prices, tax relief to the masses was provided in the shape of a reduction in the Petroleum Development Levy (PDL) and the elimination of the sales tax on all POL goods. These measures, combined with energy subsidies, have posed significant risks to fiscal sustainability in an already constrained fiscal environment.

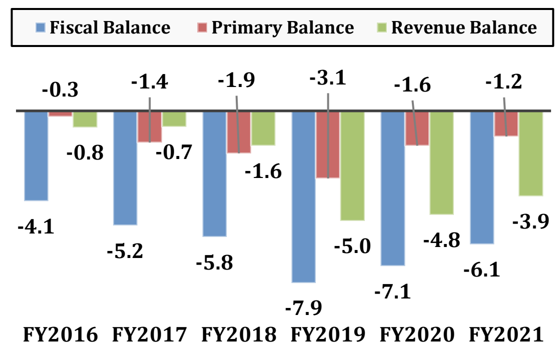
Although tax collection grew significantly during the period under review, however, higher current and development expenditures widened the fiscal deficit by 55.3 percent in July-March FY2022. In terms of GDP, the deficit has increased to 3.8 percent during the period, up from 3.0 percent in the previous period. Similarly, the primary balance posted a deficit of Rs 447.2 billion (0.7 percent of GDP) during July-March FY2022 as compared to a surplus of Rs 451.8 billion (0.8 percent of GDP) last year. On the revenue side, FBR was able to boost the collection by 28.5 percent to reach Rs 4,855.8 billion during July-April FY2022 against Rs 3,777.7 billion collections in the same period of last year. Total expenditure, on the other hand, increased by 27.0 percent and reached Rs 8,439.8 billion during July-March FY2022, against Rs 6,644.6 billion in the comparable period of last year.

Despite significant challenges on the fiscal side, the government is striving hard to restore fiscal sustainability by reducing the fiscal deficit in the medium to long term. However, this can only be done through effective revenue mobilization and a prudent expenditure strategy. In this regard, key priorities are to increase the tax to GDP ratio through various tax policy and administration reforms and to curtail unnecessary expenditures by adopting austerity measures. Furthermore, the focus is on the rationalization of untargeted subsidies and reducing the losses of public sector enterprises through better governance. These measures would provide significant support to control the slippages in expenditures and increase the revenues, hence lowering the fiscal deficit.

Fiscal Performance (FY2021)

In the fiscal year 2021, the fiscal deficit was reduced to 6.1 percent of GDP, down from 7.1 percent recorded in the preceding year, marking the second consecutive year of effective consolidation. Similarly, the primary balance was restricted to the deficit of Rs 653.6 billion (-1.2 percent of GDP) during FY2021 against the deficit of Rs 756.6 billion (-1.6 percent of GDP) in the same period of last year. Considerable growth in tax revenues, the slowdown in current spending, and a higher-than-expected provincial surplus were the driving forces behind this improvement.

Fig-4.2: Fiscal Indicators % of GDP



Source: Budget wing & EA Wing's calculations

Overall, the total revenue receipts grew at a slower pace of 10.1 percent in FY2021, compared to the significant increase of 28.0 percent in FY2020. This slowdown in revenue growth was attributed to the sharp decline in non-tax collection relative to tax revenues during the period under review.

Table: 4.1 Fiscal Indicators as percent of GDP

Year	Overall Fiscal Deficit	Expenditure			Revenue		
		Total	Current	Development/1	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
Year	**Overall Fiscal Deficit**	**Expenditure**			**Revenue**		
		Total	**Current**	**Development/1**	**Total Rev.**	**Tax/2**	**Non-Tax/1**
FY2016	4.1	17.7	14.3	4.0	13.6	10.4	3.2
FY2017	5.2	19.1	14.6	4.7	13.9	10.4	3.5
FY2018	5.8	19.1	14.9	4.1	13.3	10.8	2.5
FY2019	7.9	19.1	16.2	2.8	11.2	9.7	1.5
FY2020	7.1	20.3	17.9	2.5	13.2	9.3	3.9
FY2021	6.1	18.5	16.3	2.4	12.4	9.4	2.9
FY2022B.E	6.3	22.6	19.2	3.5	16.3	12.0	4.3

/1 including net lending

Note: Beginning from FY2016, Pakistan's GDP was rebased at 2015-16 prices from the old base of 2005-06. Therefore, wherever, GDP appears in the denominator the number prior to FY2016 are not comparable.

/2: During FY2021, the fiscal accounts have been reclassified in line with the implementation of PFM procedures. According to the reclassification, federal taxes other than FBR have now been included in non-tax revenue. To make the data comparable, the fiscal indicators since FY2016 have also been reclassified.

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

Fig-4.3(a): Revenue Growth (%)

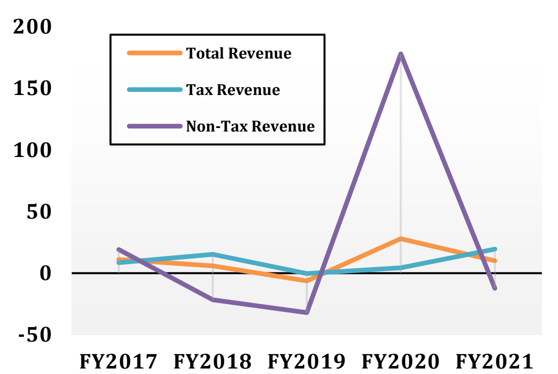
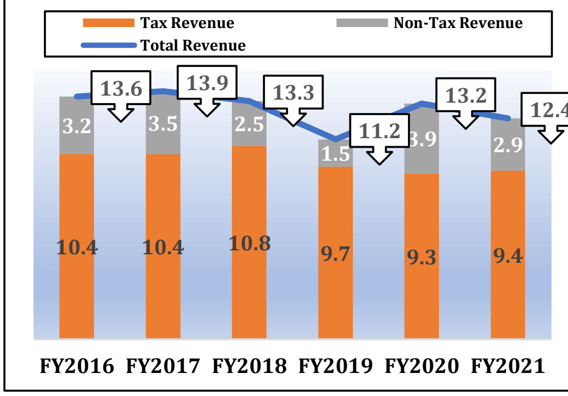


Fig-4.3(b): Revenues % of GDP

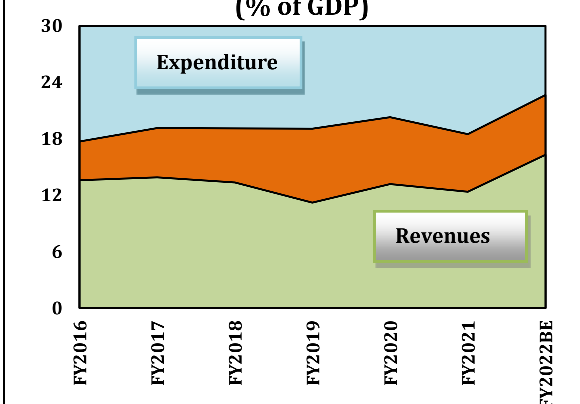


Note: In this chapter graphical representation of fiscal indicators as a percentage of GDP is based on revised data since FY2016

Tax collection increased by 19.5 percent (9.4 percent of GDP) in FY2021, up from 4.3 percent (9.3 percent of GDP) in FY2020. Both the Federal and Provincial Governments contributed to this improvement. Overall tax collection benefited from a revival in domestic economic activity during FY2021. Specifically, various policy and administrative measures to improve the tax collection, higher imports, and anti-smuggling measures supported FBR to achieve higher than expected revenue growth during FY2021. Non-tax revenues, on the other hand, fell by 12.4 percent in FY2021, primarily due to a decline in receipts from PTA profits, SBP profits, windfall levy against crude oil, and mark-up (PSEs and others).

During FY2021, total expenditures grew by 6.8 percent (18.5 percent of GDP) against the significant growth of 15.6 percent (20.3 percent of GDP) in the comparable period of FY2020. The slower pace in expenditure growth was realized on the back of 6.5 percent growth in current spending during FY2021 against a sharp rise of 20.1 percent in FY2020. In contrast, total development expenditures grew by 7.2 percent during FY2021 against a 2.0 percent decrease in FY2020. Overall, the expenditure management during FY2021 enabled the Government to use additional funds for spending on social safety nets, the Economic Stimulus Package, and targeted assistance to various sectors of the economy.

Fig-4.4: Revenue-Expenditure Gap (% of GDP)



On the provincial side, all the four provinces posted a cumulative surplus of Rs 313.6 billion in FY2021 against Rs 224.9 billion, posting a growth of 39.4 percent. Thus, a higher-than-expected provincial surplus combined with double-digit growth in tax collection and contained current spending resulted in narrowing down the revenue expenditure gap during FY2021(Fig-4.4).

Review of Public Expenditures

In developing countries, Governments find it difficult to sufficiently allocate resources for development purposes and to create employment opportunities due to limited resources. It is, therefore, important to adopt a prudent expenditure management strategy that not only meets revenue shortfalls and creates ample fiscal space for priority sectors, but also aids in reducing pressures on public finances.

Historically, public spending in Pakistan always remained under pressure due to unproductive and rigid expenditures. During the last two years, unprecedented spending requirements for economic revival, health, and social relief to mitigate the impact of COVID-19 put additional strain on already constrained public finances. However, the cautious expenditure management strategy improved the fiscal accounts in FY2021. The fiscal year 2021 was the second consecutive year of consolidation that paid off in reducing the fiscal deficit to 6.1 percent of GDP against 7.1 percent of GDP recorded in FY2020.

The fiscal year 2021 witnessed a significant slowdown in expenditures growth as it grew by 6.8 percent against a 15.6 percent increase in FY2020. The slow pace in expenditure growth was largely attributed to sluggish growth in current expenditures, while development expenditures, after three years of consecutive decline, saw a significant improvement in FY2021. During the year, the current expenditures accounted for 88.1 percent of total expenditures.

Fig-4.5: Growth in Expenditure (%)

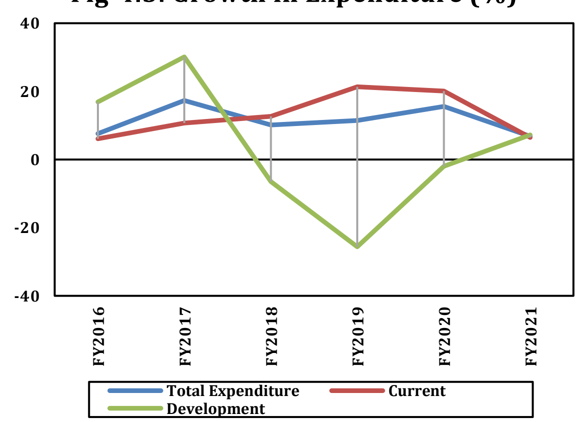


Table 4.2: Trends in Components of Expenditure (% of GDP)

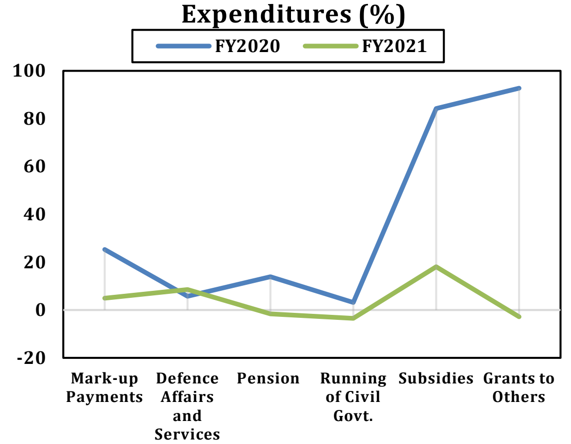
Year	Total Expen-diture	Current Expen-diture	Markup Payments	Defence	Development Expenditure*	Non Interest Non-Defence Exp	Fiscal Deficit	Revenue Deficit/ Surplus	Primary Balance
FY2008	21.4	17.4	4.6	2.6	4.2	14.2	7.3	-3.3	-2.7
FY2009	19.2	15.5	4.8	2.5	3.4	11.8	5.2	-1.4	-0.3
FY2010	20.2	16.0	4.3	2.5	4.1	13.4	6.2	-2.1	-1.9
FY2011	18.9	15.9	3.8	2.5	2.8	12.6	6.5	-3.5	-2.7
FY2012	21.6	17.3	4.4	2.5	3.9	14.6	8.8	-4.5	-4.3
FY2013	21.5	16.4	4.4	2.4	3.5	14.7	8.2	-3.0	-3.8
FY2014	20.0	15.9	4.6	2.5	4.5	12.9	5.5	-1.5	-1.0
FY2015	19.6	16.1	4.8	2.5	4.1	12.3	5.3	-1.8	-0.6
FY2016	17.7	14.3	3.9	2.3	4.0	11.5	4.1	-0.8	-0.3
FY2017	19.1	14.6	3.8	2.5	4.8	12.8	5.2	-0.7	-1.4
FY2018	19.1	14.9	3.8	2.6	4.0	12.7	5.8	-1.6	-1.9
FY2019	19.1	16.2	4.8	2.6	2.7	11.7	7.9	-5.0	-3.1
FY2020	20.3	17.9	5.5	2.6	2.4	12.2	7.1	-4.8	-1.6
FY2021	18.5	16.3	4.9	2.4	2.2	11.2	6.1	-3.9	-1.2
FY2022 B.E	22.6	19.2	5.7	2.5	3.6	14.4	6.3	-2.9	-0.7

* excluding net lending

Note: Indicators since FY2016 are based on revised GDP on a new base (2015-16). Therefore, the numbers prior to FY2016 are not comparable.
Source: Budget Wing, Finance Division, and EA Wing's Calculations

In FY2021, current expenditures increased by 6.5 percent down from 20.1 percent growth in the preceding year. Within total current expenditures, federal spending increased by only 4.1 percent in FY2021, compared to 26.0 percent growth in FY2020. The federal government was able to restrict the growth in non-mark-up expenditures to 7.1 percent in FY2021 from 17.9 percent in FY2020. Provinces, on the other hand, saw a significant rise in current spending, which increased by 12.1 percent in FY2021 from 8.1 percent in FY2020.

Fig-4.6: Growth in Federal Current Expenditures (%)



The component-wise analysis shows that the markup payments grew by 5.0 percent in FY2021 against a sharp rise of 25.3 percent in the year earlier. The major contribution to 5.0 percent growth during the year entirely came from 9.1 percent growth in domestic payments, while foreign payments contracted by 26.3 percent in the same period. Lower interest rates and debt relief through the Debt Service Suspension Initiative (DSSI) were the main reasons for the limited growth in markup payments in FY2021. Mark-up payments contributed 26.7 percent of total expenditures in FY2021, down from 27.2 percent in FY2020, while their share of current expenditure remained nearly the same at 30.3 percent in FY2021, down from 30.7 percent in the previous year.

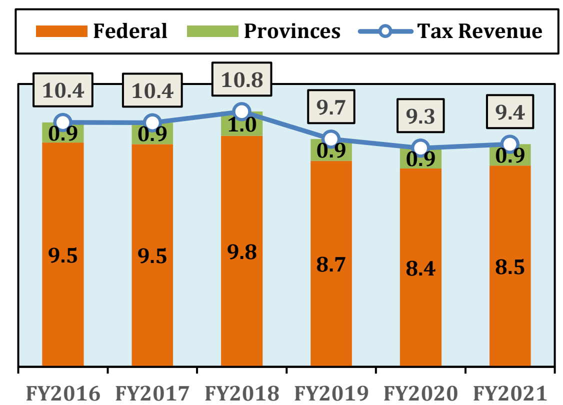
Defence expenditures grew by 8.5 percent in FY2021 against 5.8 percent growth in FY2020. Its contribution to total and current spending increased to 12.8 percent and 14.5 percent in FY2021 from 12.6 percent and 14.2 percent in FY2020, respectively. The running of civil government expenditures witnessed a decline of 3.5 percent in FY2021 against a 3.2 percent increase recorded in FY2020. The decline under this head is the outcome of various austerity measures that were adopted during the year. In FY2021, the expenditures under subsidies increased by 18.1 percent down from 84.2 percent recorded in FY2020. During FY2021, the power sector continued to be the largest beneficiary of high subsidies, receiving Rs 339.0 billion compared to Rs 269.8 million during the same period in FY2020. The contribution of subsidies to current expenditure increased to 4.7 percent in FY2021 from 4.2 percent in FY2020.

The development spending grew by 7.2 percent after witnessing a significant contraction for the past three consecutive years. Within total development expenditures, PSDP spending increased by 11.2 percent mainly due to higher provincial development expenditures which posted a significant growth (23.8 percent) during the second consecutive year. Federal PSDP (Net excluding development grants to provinces), on the other hand, was reduced by 5.7 percent during the year.

Structure of Tax Revenues

Tax revenue is an important and primary source of income for the Government to meet planned expenditures and achieve growth targets. In this regard, an effective tax system is imperative because it provides countries with the necessary fiscal space to finance various social and physical infrastructures required for achieving higher inclusive and sustainable economic growth.

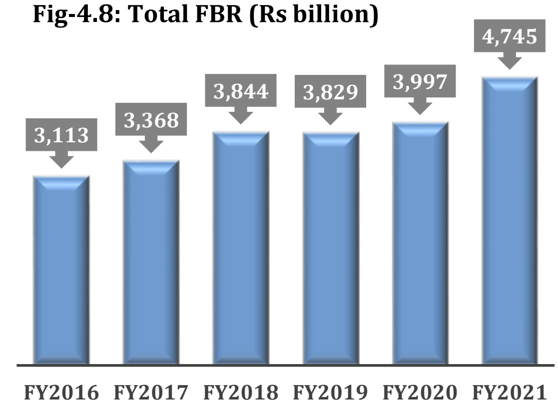
Fig-4.7: Tax Revenues % of GDP



The tax-to-GDP ratio is the real index for measuring tax compliance, capacity, and efficiency in the tax system. A higher tax-to-GDP ratio allows the government to rely more on domestic resources rather than external sources of revenue, while also ensuring the availability of sufficient funds to meet a country's development and social expenditures. Unfortunately, the tax-to-GDP ratio in Pakistan remains low over the years. There are a variety of factors responsible for the low tax to GDP ratio including a narrow tax base particularly agriculture contributing minimally to the tax collection, tax evasion, poor documentation, the informal economy, exemptions/concessions, smuggling, weak audit & enforcement, a lack of automation, and lengthy litigation[1]. As a result of insufficient tax revenues, the country has faced numerous challenges over the years in providing much-needed fiscal space for priority areas such as infrastructure, education, health, and targeted social assistance.

Overall tax revenues (federal & provincial) increased to 9.4 percent of GDP in FY2021 against 9.3 percent of GDP recorded in FY2020 (Fig-4.7). In total, FBR which collects a major part of tax revenues was able to increase the tax to GDP ratio to 8.5 percent in FY2021 against 8.4 percent of GDP in FY2020.

Fig-4.8: Total FBR (Rs billion)



Total tax collection has been severely impacted over the last two years: first in FY2019 due to a slowdown in economic activity because of stabilization measures, a low tax rate on major petroleum products, import compression, suspension of withholding tax collection on mobile top-ups, and a reduced rate on salary income. Second, during FY2020, the COVID-19 crisis hampered tax collection. However, FBR's measures to improve the tax collection helped it to achieve a growth of 19 percent in FY2021 against a 4.4 percent rise in the preceding year. It is worth mentioning that FBR tax collection crossed the Rs 4 trillion mark for the first time

[1] FBR Biannual Review Jan-Jun 2020-21

in history. Nonetheless, during the last six years, the tax to GDP ratio remained lower within a range of 8.4 percent and 9.8 percent.

Table 4.3: Structure of Federal Tax Revenue (Rs billion)

Year	Total (FBR)	Tax Rev as % of GDP	Direct Taxes	Indirect Taxes			
				Customs	Sales	Excise	Total
FY2008	1,008.1	9.5	387.9	150.7	377.4	92.1	620.2
			[38.5]	{24.3}	{60.9}	{14.9}	[61.5]
FY2009	1,161.1	8.8	443.5	148.4	451.7	117.5	717.6
			[38.2]	{20.7}	{62.9}	{16.4}	[61.8]
FY2010	1,327.4	8.9	526.0	160.3	516.3	124.8	801.4
			[39.6]	{20.0}	{64.4}	{15.6}	[60.4]
FY2011	1,558.2	8.5	602.5	184.9	633.4	137.4	955.7
			[38.7]	{19.3}	{66.3}	{14.4}	[61.3]
FY2012	1,882.7	9.4	738.4	216.9	804.9	122.5	1,144.3
			[39.2]	{19.0}	{70.3}	{10.7}	[60.8]
FY2013	1,946.4	8.7	743.4	239.5	842.5	121.0	1,203.0
			[38.2]	{19.9}	{70.0}	{10.1}	[61.8]
FY2014	2,254.5	9.0	877.3	242.8	996.4	138.1	1,377.3
			[38.9]	{17.6}	{72.3}	{10.0}	[61.1]
FY2015	2,589.9	9.4	1,033.7	306.2	1,087.8	162.2	1,556.2
			[39.9]	{19.7}	{69.9}	{10.4}	[60.2]
FY2016	3,112.7	9.5	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	9.5	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	9.8	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	8.7	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	8.4	1,523.4	626.6	1,596.9	250.5	2,474.0
			[38.1]	{25.3}	{64.5}	{10.1}	[61.9]
FY2021	4,745.0	8.5	1,731.3	748.4	1,988.3	277.0	3,013.7
			[36.5]	{24.8}	{66.0}	{9.2}	[63.5]
FY2022 B.E	5,829.0	10.8	2,182.0	785.0	2,506.0	356.0	3,647.0

B.E: Budget Estimate
Note: FBR tax to GDP ratio since FY2016 is calculated on the basis of the revised GDP at the new base 2015-16.
[]as % of total taxes, {} as % of indirect taxes
Source: Federal Board of Revenue

Within FBR net tax collection, sales tax posted the highest growth of 24.5 percent followed by customs duty 19.4 percent, direct taxes 13.6 percent, and federal excise duty (FED) 10.6 percent in FY2021 against 9.4 percent, negative 8.6 percent, 5.4 percent, and 5.2 percent, respectively in FY2020. The share-wise analysis implies that Pakistan's tax system is mostly reliant on indirect taxes. For instance, sales tax remained the top revenue-generating source with a 42 percent share in total tax collection. Whereas direct taxes contributed 36.5 percent, customs duty 16 percent, and FED 6 percent in

FBR tax collection. It implies that indirect taxes, which are regressive in nature, account for the majority of tax revenue in Pakistan, contributing to more than 60 percent of total FBR tax collection. Direct taxes, on the other hand, are a more equitable way of increasing revenue because they make the system more progressive by narrowing down the inequality gap.

FBR has taken various steps over the last many years to increase the contribution of direct taxes in overall tax collection. The maximum statutory rates of customs duty have been reduced from 125 percent in FY1988 to currently 20 percent. Similarly, the contribution of customs duty in the total collection came down from 45.7 percent in FY1991 to 15.8 percent in FY2021. The tax base of FED contracted over the years and now is restricted to only a few commodities like cigarettes, cement, beverages, international travel, etc. The contribution of FED in the total collection also dropped from around 20 percent in FY1991 to 5.8 percent in FY2021. The sales tax was re-structured as a tax on consumption, which is in line with the principles of equity and progressivity.

Over the period, customs duty slabs have been reduced from 7 to 4 and the highest slab has been brought down from 30 percent to 20 percent. Accordingly, customs duty slabs have been reduced to four, i.e., 3 percent, 11 percent, 16 percent, and 20 percent, with a ceiling of 20 percent and a floor of 3 percent, with exception of a few goods like vehicles & alcoholic beverages. This significant reduction in tariff slabs has helped reduce the share of indirect taxes.

The FBR is working hard to increase revenue collection and the tax-to-GDP ratio through various tax policies and administrative reforms. In this regard, efforts are being made through maximum taxpayer facilitation, automation, ease of transactions, reducing human interface, minimizing procedural complications, increasing tax awareness, and improving the overall efficiency of the tax machinery.

Budget Strategy FY2022

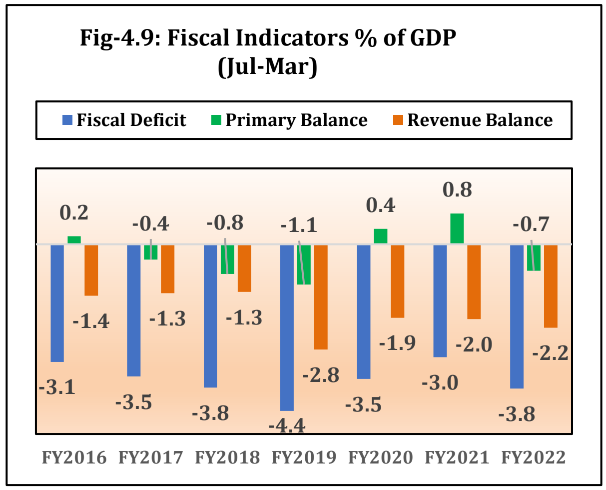
The primary objectives of Budget FY2022 were to strike a balance between fiscal deficits caused by COVID-19 and economic growth, to maintain the primary balance at a sustainable level, to mobilize resources through tax reforms, to keep the development budget at an adequate level to stimulate sustainable economic growth, to implement austerity measures, to limit non-productive spending, etc.

For FY2022, the fiscal deficit is budgeted to remain at 6.3 percent of GDP with total expenditure at 22.6 percent while revenues at 16.3 percent of GDP. Within expenditures, development spending is expected to be at 3.2 percent of GDP while current expenditure is budgeted to be 19.2 percent of GDP. The Budget FY2022 has enhanced the expenditure estimates while directing them towards more productive expenditure. Within revenues, total tax collection (federal and provincial) is expected to rise by 12.0 percent of GDP while non-tax collection is budgeted to be at 4.3 percent of GDP.

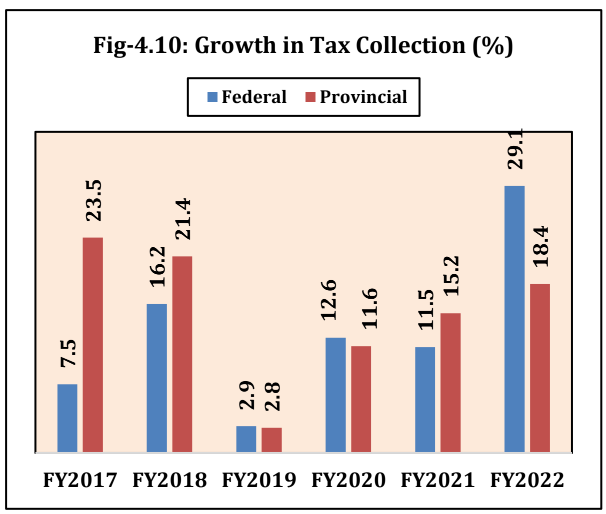
To achieve the set targets, the FY2022 budget introduced several fiscal measures on both the expenditure and revenue sides. However, during the first nine months of the current fiscal year, additional spending under COVID-19 funds for vaccine procurement, IPPs Circular debt payment, social sector spending, and higher development expenditures strained the fiscal sector, thus reversing the consolidation gains made over the last two years. All these factors in confluence with the global economic challenges resulting from the Russia-Ukraine conflict, as well as the impact on international commodities and oil prices, have increased the risk of fiscal slippages during the current fiscal year.

Fiscal Performance (July-March, FY2022)

During July-March FY2022, the fiscal deficit increased to 3.8 percent of GDP (Rs 2,565.6 billion) against 3.0 percent of GDP (Rs 1,652.0 billion) in the same period of last year (Fig-4.9). Similarly, the primary balance posted a deficit of Rs 447.2 billion against the surplus of Rs 451.8 billion during the period under review. While revenue deficit also deteriorated to 2.2 percent of GDP in the first nine months of FY2022 against the deficit of 2.0 percent of GDP in the same period of FY2021.

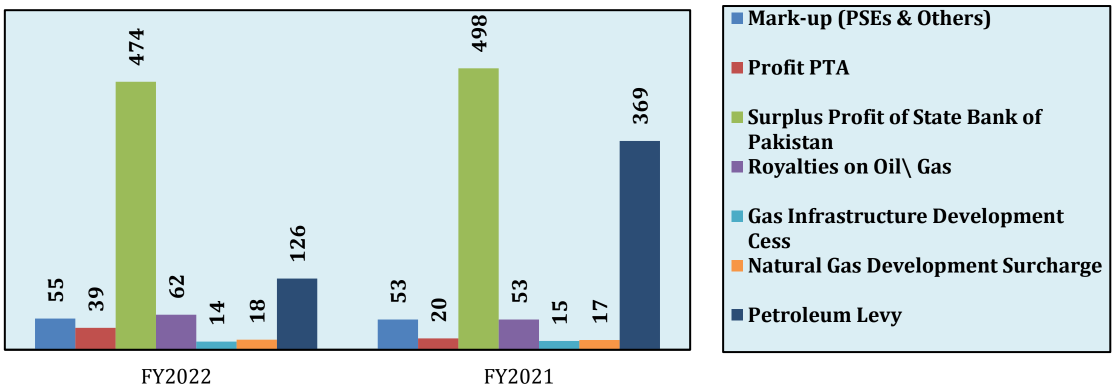


Total revenues increased by 17.7 percent and reached Rs 5,874.2 billion in July-March FY2022 against Rs 4,992.6 billion in the same period of last year. Revenue growth appears to be impressive when compared to the meager 6.5 percent growth recorded in the same period of FY2021. A significant increase in tax collection was a key factor in boosting revenue growth, which more than offset the decline in non-tax revenues during the review period. During the first nine months of the current fiscal year, total tax collection (federal & provincial) grew by 28.1 percent to reach Rs 4,821.9 billion as compared to Rs 3,765.0 billion in the comparable period of last year.



Non-tax revenues, on the other hand, fell 14.3 percent to Rs 1,052.2 billion in July-March FY2022, compared to Rs 1,227.6 billion in the same period the previous year. Within the total, federal non-tax revenue declined by 16.3 percent to Rs 958.5 billion in July-March FY2022 against Rs 1,145.4 billion in the same period of last year.

Fig-4.11: Federal Non Tax Revenues (Rs billion) Jul-Mar



In contrast, provincial non-tax collection increased by 14.1 percent to reach Rs 93.7 billion during July-March FY2022 against Rs 82.2 billion last year. The decline in federal non-tax collection is largely attributed to the significant drop in receipts from petroleum levy, GIDC, and SBP profit. Petroleum levy receipts, in particular, fell by 66.0 percent (Fig-4.11). Due to higher international oil prices during the current fiscal year, the Government reduced the petroleum levy and sales tax to provide relief to the masses.

Table 4.4: Consolidated Revenue & Expenditure of the Government

	FY2022 B. E	Jul-Mar (Rs billion)		Growth (%)
		FY2022	FY2021	
A. Total Revenue	**8,776.0**	**5,874.2**	**4,992.6**	**17.7**
% of GDP	**16.3**	**8.8**	**8.9**	
a) Tax Revenue	6,484.0	4,821.9	3,765.0	28.1
% of GDP	12.0	7.2	6.7	
Federal (FBR Taxes)	5,829.0	4,383.6	3,394.9	29.1
% of GDP	10.8	6.5	6.1	
Provincial Tax Revenue	655.0	438.3	370.1	18.4
b) Non-Tax Revenue	2,292.0	1,052.2	1,227.6	-14.3
% of GDP	4.3	1.6	2.2	
B. Total Expenditure	**12,196.0**	**8,439.8**	**6,644.6**	**27.0**
% of GDP	**22.6**	**12.6**	**11.9**	
a) Current Expenditure	**10,321.0**	**7,378.0**	**6,085.4**	**21.2**
% of GDP	**19.2**	**11.0**	**10.9**	
Federal	7,417.0	5,209.9	4,157.3	25.3
Markup Payments	2,060.0	2,118.5	2,103.9	0.7
% of GDP	3.8	3.2	3.8	-12.7
Defence	1,370.0	881.9	784.0	12.5
% of GDP	2.5	1.3	1.4	
Provincial	2,904.0	2,168.2	1,928.1	12.4
b) Development Expenditure & net lending	1,875.0	1,051.1	722.9	45.4
% of GDP	**3.5**	**1.6**	**1.3**	**26.1**
PSDP	1,954.0	1,032.7	653.9	57.9
c) Net Lending	-79.0	18.4	55.0	
e) Statistical discrepancy	-	10.7	-163.8	
C. Overall Fiscal Balance	**-3,420.0**	**-2,565.6**	**-1,652.0**	**55.3**

Table 4.4: Consolidated Revenue & Expenditure of the Government				
	FY2022 B. E	Jul-Mar (Rs billion)		Growth (%)
		FY2022	FY2021	
As % of GDP	**-6.3**	**-3.8**	**-3.0**	
Financing	**3,420.0**	**2,565.6**	**1,652.0**	**55.3**
i) External Sources	1,246.0	981.5	562.2	**74.6**
ii) Domestic	**2,174.0**	**1,584.2**	**1,089.9**	**45.4**
Bank	681.0	1,051.7	797.8	**31.8**
Non-Bank	1,241.0	532.4	292.1	**82.3**
Privatization Proceeds	252.0	-	-	
GDP at Market Prices	**53,867**	**66,950***	**55,796****	**15.3**

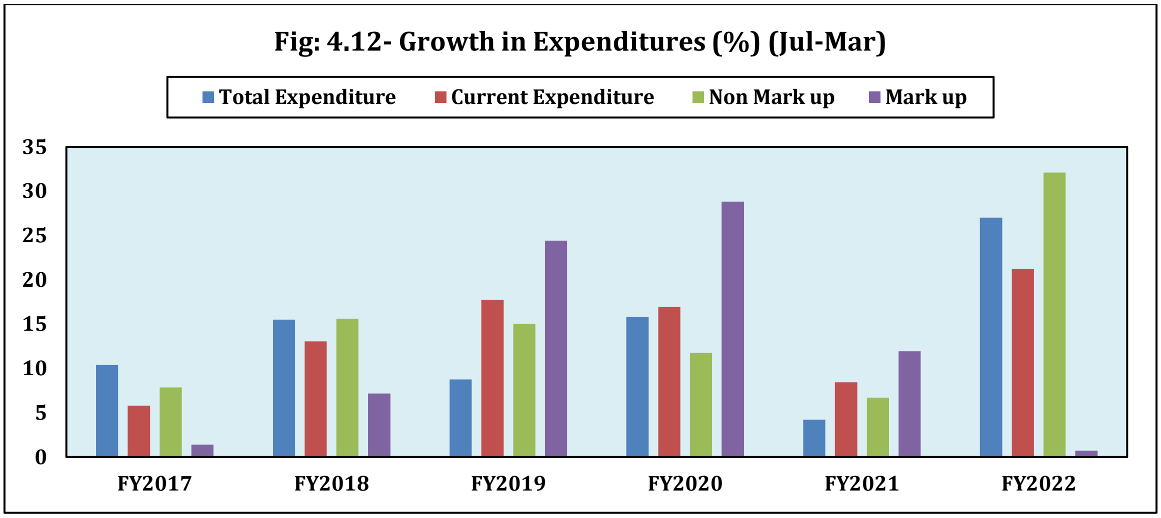
*Provisional GDP estimate for FY2022, **Revised GDP for FY2021

Source: Budget Wing, Finance Division

On the expenditure side, total spending witnessed a sharp increase of 27.0 percent in July-March FY2022 against the contained growth of 4.2 percent in the same period of last year. A significant rise in development and non-markup current spending contributed to an increase in total expenditures during the year. In absolute terms, it stood at Rs 8,439.8 billion during the first nine months of FY2022 against Rs 6,644.6 billion in the comparable period of last year.

Within the total expenditures, current expenditures grew by 21.2 percent to Rs 7,378.0 billion during July-March FY2022 as compared to Rs 6,085.4 billion in the comparable period of last year. Higher growth in non-markup expenditures lifted up the total current spending. During July-March, FY2022 non-mark-up expenditures grew by 32.1 percent to stand at Rs 5,259.5 billion against the contained growth of 6.7 percent (Rs 3,981.6 billion) last year. Under this head, subsidies and grants witnessed a sharp rise.

Mark-up payments, on the other hand, witnessed a restricted growth of 0.7 percent during July-March FY2022 against an 11.9 percent increase in the preceding year. In absolute terms, it stood at Rs 2,118.5 billion in July-March FY2022 as compared to Rs 2,103.9 billion in the comparable period of FY2021. The restricted growth in mark-up payments is largely attributed to the shift in a major portion of the PIB portfolio from fixed to floating rate bonds which were contracted at T-bill rate plus spread within a range of 30-90 Bps and is lower than the corresponding fixed-rate bonds. The issuance of floating-rate bonds also includes quarterly coupon payment frequencies. Moreover, almost Rs 1 trillion worth of additional Sukuks were issued during FY2022 majority of which are below the T-bill rate. In addition, considering the impact of the policy rate, more than Rs 350 billion worth of PIB at fixed rates were issued during July-March FY2021 while the policy rate remained lower, and the portion of their interest servicing was reflected in the year July-March FY2022 because the interest servicing/coupon payment for PIB fixed-rate bonds reflected with a lag of 6 months due to Semi-Annual Coupon Payment Frequencies.



The break-up of non-markup expenditures shows that defence expenses registered a growth of 12.5 percent to the tune of Rs 881.9 billion during July-March FY2022 against Rs 784.0 billion in the same period last year. Similarly, current subsidies amounted to Rs 575.2 billion in July-March FY2022 up from Rs 204.3 billion in the same period the previous year, representing a growth of 181.6 percent. During the first nine months of FY2022, the Government provided Rs 518.2 billion to the power sector which is 167.1 percent higher than Rs 194.0 billion in the same period last year. In the power sector, Rs 159.6 billion was provided for the settlement of IPPs circular debt and Rs 207.1 billion for inter DISCO tariff differential. Further break-up of subsidies shows that Rs 21.3 billion was provided for petroleum and Rs 11.0 billion for a fertilizer plant.

Another key component that has contributed to a sharp rise in non-mark up current expenditure is grants to others. During July-March FY2022, grants to others increased by 116.8 percent to reach Rs 920 billion against Rs 424.3 billion in the same period of FY2021. A major impetus in grants came from grants for COVID-19 vaccine procurement, HEC, DLTL (a drawback of taxes), BISP, and contingent liability.

Total development expenditure increased significantly by 54.6 percent during July-March FY2022 after a contraction of 11.1 percent in the same period of last year. In absolute terms, it increased to Rs 1,032.7 billion in July-March FY2022 against Rs 668.0 billion in the comparable period of last year. The federal PSDP (including development grants to the provinces) grew by 28.1 percent to Rs 452.3 billion during July-March FY2022 against Rs 353.0 billion last year.

With the widening of the fiscal deficit during July-March FY2022, total financing needs increased by 55.3 percent. Domestic and external resources fetched Rs 1,584.2 billion and Rs 981.5 billion, respectively, during July-March FY2022. Out of total domestic resources, financing from banks stood at Rs 1,051.7 billion and from non-bank Rs 532.4 billion.

FBR Tax Collection (July-April, FY2022)

In FY2021, FBR was able to collect Rs 4745.0 billion while exceeding the revised target of Rs 54 billion. Despite significant challenges, FBR not only maintained this momentum during the current fiscal year but outperformed the revenue target during the first ten months of FY2022. During July-April, FY2022, FBR has been able to collect Rs 4,855.8 billion as provisional tax revenues reflecting a growth of 28.5 percent. However, tax relief measures have impacted revenue collection by approximately Rs 73 billion during the month of April 2022. The Sales Tax on all POL products has been reduced to zero which cost FBR Rs 45 billion in April. In the month of April 2022, FBR provisional tax collection remained Rs 4.6 billion lower than the target of Rs 484.7 billion. The provisional net collection grew by 25.1 percent to Rs 480.1 billion against Rs 384.0 billion last year. By adding Rs 73 billion in April, the net provisional collection is 553.1 billion with a growth of 44 percent. Tax-wise details are presented in Table 4.5.

Table: 4.5- FBR Tax Collection (Rs million)

Revenue Heads	FY2021	July-April		% Change
	Actual	FY2021	FY2022 (P)	
Direct Tax				
Gross		1,375,445	1,754,218	27.5
Refund/Rebate		12,873	10,484	-18.6
Net	**1,731,254**	**1,362,572**	**1,743,734**	**28.0**
Indirect Tax				
Gross		2,605,403	3,365,740	29.2
Refund/Rebate		190,249	253,704	33.4
Net	**3,013,744**	**2,415,154**	**3,112,036**	**28.9**
Sales Tax				
Gross		1,766,905	2,289,151	29.6
Refund/Rebate		170,606	224,945	31.9
Net	**1,988,308**	**1,596,299**	**2,064,206**	**29.3**
Federal Excise				
Gross		223,432	256,052	14.6
Refund/Rebate		0	4	-
Net	**277,046**	**223,432**	**256,048**	**14.6**
Customs				
Gross		615,066	820,537	33.4
Refund/Rebate		19,643	28,755	46.4
Net	**748,390**	**595,423**	**791,782**	**33.0**
Total Tax Collection				
Gross	0	3,980,848	5,119,958	28.6
Refund/Rebate	0	203,122	264,188	30.1
Net	**4,744,998**	**3,777,726**	**4,855,770**	**28.5**

P: Provisional
Source: FBR

I. Direct Tax

The net collection of income tax has registered a growth of 28 percent during the first ten months of FY2022. The net collection has increased from Rs 1,362.8 billion to Rs 1,743.7 billion. The major contributors to income tax are withholding tax, voluntary payments, and collection on demand.

II. Sales Tax

The gross and net sales tax collection during July-April, FY2022 has been Rs 2289.2

billion and Rs 2064.2 billion, respectively, showing healthy growths of 29.6 percent and 29.3 percent respectively. Around 71.2 percent of total sales tax was contributed by sales tax on imports during July-April, 2021-22, while the rest was contributed by the domestic sector.

III. Federal Excise Duty

The collection of federal excise duties (FED) from July-April, FY2022 has recorded a growth of 14.6 percent. The net collection has stood at Rs 256.0 billion during July-April, FY2022 as against Rs 223.4 billion during the same period last year. The major revenue spinners of FED are cigarettes, cement, services, and beverages.

IV. Customs Duty

Customs duty has registered a growth of 33.4 percent and 33.0 percent in gross and net revenues, respectively. The net collection has increased from Rs 595.4 billion during July-April, FY2021 to Rs 791.8 billion during July-April, FY2022. The major revenue spinners of customs duty have been vehicles, mineral fuels, iron and steel, electrical machinery, plastic, edible fruits, etc.

To maintain the growth momentum and to further improve the revenue collection, FBR has initiated various measures to facilitate the taxpayers in order to create a congenial environment and to fetch sufficient tax revenues. (Box-I)

Box-I: Major Reforms Initiatives

A. <u>Inland Revenue</u>

i. **The Track and Trace System:** Track and Trace Solution has been rolled out for Tobacco & Sugar sectors and it's rolling out for Cement, Beverages, and Fertilizer sectors are in progress. The system is aimed at enhancing tax revenue, reducing counterfeiting, and preventing the smuggling of illicit goods through the implementation of a robust, nationwide, electronic monitoring system through the affixation of tax stamps on various products at the production stage. This enables FBR to trace the entire supply chain of manufacturing goods.

ii. **Point of Sales (POS):** Point of Sales (POS) Invoicing system is a pathway toward digitization. Responding to the growing need for digitization of economic transactions in Pakistan, FBR has launched POS Invoicing, which is a computerized system for recording sales data, managing inventory, and maintaining customer data. It is a real-time sales documentation system that links the electronic systems at the outlets of all tier-1 retailers with the FBR via the internet. The system is aimed to ensure that all sales are reported in real-time to FBR and are duly accounted for in the monthly sales tax returns of such retailers.

iii. **Automated Issuance of Refunds:** To facilitate taxpayers, a centralized automated refund system has been introduced with no requirement for manual application and verification. The system-based verification system issues refund directly into the bank accounts of taxpayers without any requirement for face-to-face interactions with tax authorities. Enabling legal framework has also been provided through the insertion of relevant provisions in tax laws.

iv. **Single Sales Tax Portal/Return:** Building further on its vision to facilitate taxpayers and ensure ease of doing business through automation, digitization, and minimization of human interaction with taxpayers, FBR has launched Singles Sales Tax Portal. This facility will enable taxpayers to file single monthly Sales Tax returns instead of multiple returns on different portals; thereby, significantly reducing the time and cost of compliance. The system will automatically apportion input tax adjustment as well as tax payments across the sales tax authorities, therefore eliminating the need for reconciliation and payment transfers.

v. **E-hearing:** To provide faceless tax administration, reduce compliance costs, and save precious time for the taxpayers the mechanism of E-hearing has been devised. Enabling legal provisions for admissibility of evidence collected during E-hearing has been introduced through 227E of the Income Tax Ordinance.

vi. **Electronic Filing of an Appeal:** The mechanism of online filing of appeals has been made available to the taxpayer. However, enabling legal provisions were lacking which have been introduced through section 127 of the Income Tax Ordinance.

vii. **Tax Asaan:** A mobile application to facilitate taxpayers, available free of cost for Android as well as iOS-based smartphones. It offers the following facilities for taxpayers:

- **a.** Registration of Income Tax
- **b.** Registration of Sales Tax
- **c.** Returns filing for Salaried Individuals
- **d.** Recovery of Password
- **e.** Creation of Tax payments PSIDs
- **f.** POS Invoice Verification

viii. **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 an anti-smuggling field intelligence exercise.

ix. **Risk-based Audit:** FBR has developed a centralized Risk-based Audit Management System (RAMS) for the selection of audit cases centrally on the basis of pre-determined risk parameters. Selection of scientific matrix allowing allocation and distribution of weightage to different parameters in Risk Grid will segregate the potential and high-risk cases for audit through parametric computer balloting. Subsequently, in September 2020, through Audit Policy, 2019, a total number of 12,533 cases were selected for audit for Tax Year 2018 through the Risk-based Audit Management System (RAMS).

x. **Transformation of Traditional Audit Processes through E-Audits:** FBR is also moving toward **Instituting Data analytics for E-Audit** through a 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. The process will be technology-driven with the least human interference and system-based controls for ensuring transparency of the process.

xi. **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.

B. Customs

i. **Pakistan Single Window (PSW):** To achieve trade facilitation in an automated environment, reduce clearance times for legitimate trade, and improve compliance through increased access to regulatory information and functions, the system of Pakistan Single Window (PSW) has been launched. This ensures greater collaboration and coordination between Customs and other border regulatory agencies at the national and international level for coordination of border management and increases transparency in regulatory processes and decision-making.

ii. **Automated Process for Scanning of Cargo:** FBR's Pakistan Customs Wing has introduced a new automated process in the WeBOC system for scanning containerized import consignments of industrial raw materials for their speedy clearance at ports. The introduction of the Non-Intrusive Inspection System by Customs was a long-awaited initiative aimed at replacing the physical inspection of cargo and reducing the dwell time at ports by using the latest scanning technology in line with international practices.

iii. Removal of Requirement for I-form, E-form: Removal of the requirement for I-form, E-form, and other documents implemented since 31st December 2021. It would help reduce compliance time and documentation.

iv. Virtual Assessment Module: This is a system-based automated assessment of GD on the basis of selectivity criteria. The module has been developed and deployed. It will significantly facilitate the assessment process of GDs by reducing the clearance time.

v. Development of Authorized Economic (AEO) Module: The AEO Module has been developed. It will help to reduce port dwell time and customs clearance.

vi. The Threshold for Electronic/Digital Mode of Payment: The Threshold for Electronic/Digital Mode of Payment has been lowered from Rs 500,000 to Rs 200,000. The Module has been developed. It will streamline the payment process and would reduce the time.

vii. Common Bonded Warehousing Module: The Module developed and deployed will help streamline the matters relating to Common Bonded Warehouse.

Source: FBR

Provincial Budget

According to the overview of the provincial budget, total expenditures are expected to rise by 24.5 percent to reach Rs 5,010.7 billion in FY2022 against the revised estimates of Rs 4,023.7 billion in FY2021. During FY2022, the share of current and development expenditures in total expenditures is expected to remain at 71.1 percent and 28.9 percent, respectively. While provincial revenue receipts are budgeted to rise by 26.6 percent to stand at Rs 4,737.0 billion in FY2022 as compared to the revised estimate of Rs 3,740.6 billion in FY2021.

Table 4.6: Overview of Provincial Budgets (Rs billion)

Items	Punjab		Sindh		Khyber Pakhtunkhwa		Baluchistan		Total	
	2020-21 RE	2021-22 BE	2020-21 RE	2021-22 BE	2020-21 RE	2021-22 BE	2020-21 RE	2021-22 BE	2020-21 RE	2021-22 BE
A. Tax Revenue	**1,566.1**	**1,955.9**	**857.1**	**1,103.6**	**451.2**	**576.0**	**273.5**	**329.9**	**3,147.9**	**3,965.4**
Provincial Taxes	228.7	272.6	230.4	304.9	31.8	43.2	21.8	34.2	**512.6**	**654.9**
GST on Services (transferred by federal Govt)	16.6				1.3				**17.9**	
Share in Federal Taxes	1,320.8	1,683.3	626.7	798.7	418.1	532.8	251.7	295.7	**2,617.3**	**3,310.5**
B. Non-Tax Revenue	**90.3**	**130.0**	**74.2**	**73.9**	**47.3**	**58.3**	**18.1**	**86.6**	**229.9**	**348.8**
C. All Others	**84.8**	**83.7**	**66.5**	**82.3**	**193.2**	**220.0**	**18.3**	**36.8**	**362.8**	**422.9**
Total Revenues (A+B+C)	**1,741.2**	**2,169.6**	**997.8**	**1,259.8**	**691.7**	**854.3**	**309.9**	**453.3**	**3,740.6**	**4,737.0**
a) Current Expenditure	**1,314.9**	**1,427.9**	**954.4**	**1,089.4**	**619.3**	**724.9**	**269.0**	**319.5**	**3,157.7**	**3,561.7**
b) Development Expenditure	**375.2**	**560.0**	**160.3**	**329.0**	**250.0**	**370.8**	**80.5**	**189.2**	**866.0**	**1,449.0**
Total Exp (a+b)	**1,690.1**	**1,987.9**	**1,114.7**	**1,418.4**	**869.3**	**1,095.7**	**349.5**	**508.7**	**4,023.6**	**5,010.7**

Source: Provincial Finance Wing, Finance Division.

Allocation of Revenues between Federal Government and Provinces

According to the distribution of resources under the 7th NFC Award, federal transfers to provinces (divisible pool and straight transfers) are expected to increase by 26.2 percent to Rs 3,411.9 billion in FY2022 against the revised estimates of Rs 2,704.2 billion in FY2021. The province-wise share in federal transfers is as follows; Punjab (Rs 1,691.1

billion), Sindh (Rs 848.2 billion), Khyber Pakhtunkhwa (Rs 559.3 billion inclusive 1 percent war on terror), and Balochistan (Rs 313.3 billion).

Table: 4.7-Transfers to provinces (Rs billion)

	FY2021R.E	FY2022B.E
A. Divisible Pool	**2,600.0**	**3,310.5**
Income Tax	993.4	1,232.9
Capital Value Tax	0.4	0.3
Sales Tax (Excl. GST on Services)	1,063.1	1,435.6
Federal Excise (excl. Excise Duty on Natural Gas)	155.9	197.3
Customs Duties (excl. Export Development Surcharge)	387.2	444.4
B. Straight Transfers	**104.1**	**101.4**
Gas Development Surcharge	24.2	16.5
Royalty on Natural Gas	50.1	51.6
Royalty on Crude Oil	19.7	21.6
Excise Duty on Natural Gas	10.2	11.7
Total Transfers (A+B)	**2,704.2**	**3,411.9**

Source: Budget in Brief 2021-22

Provincial Fiscal Operations

Performance (FY2021)

Provincial revenues increased by 15 percent in FY2021, compared to 8.2 percent growth during FY2020. In absolute terms, total revenues in FY2021 were Rs 3,728.0 billion, up from Rs 3,241.0 billion in FY2020. Higher growth in revenues is stemmed from a sharp rise in both tax and non-tax collection, however, non-tax collection recorded a higher growth of 46.8 percent relative to 22.9 percent growth in provincial taxes. Within total revenues, provincial own revenue receipts grew significantly by 27.6 percent to reach Rs 658.7 billion in FY2021 against Rs 516.0 billion in FY2020. While transfers from the Federal Government under the NFC award increased by 9.5 percent to Rs 2,741.9 billion in FY2021 as compared to Rs 2,504.0 billion in the preceding year. Despite increased provincial revenue receipts, federal transfers remained higher in terms of contribution to total provincial revenues (Fig 4.13b).

Fig:4.13 (a)-Own revenues and Federal transfers (Growth %)

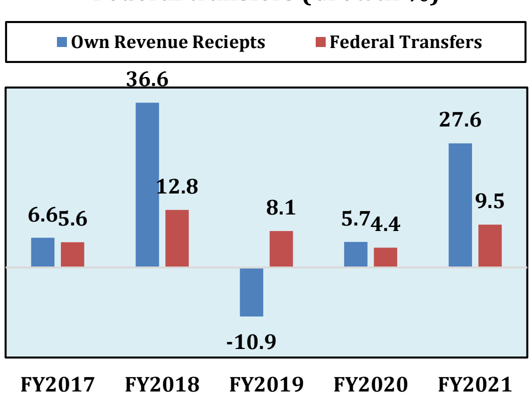
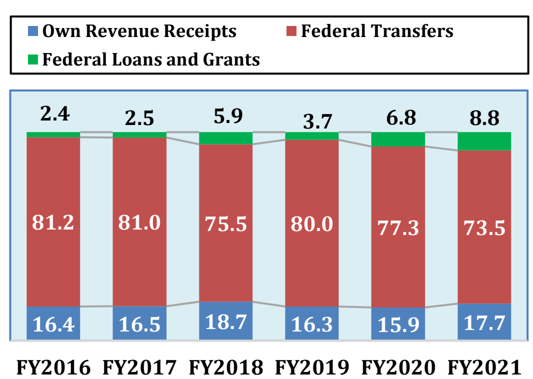


Fig: 4.13 (b)-Contribution in Total Provincial Revenues (%)



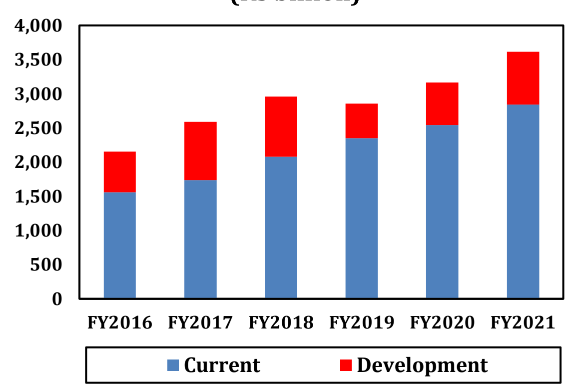
Within provincial own revenue receipts, tax collection stood at Rs 508.4 billion in FY2021, up from Rs 413.6 billion in FY2020, representing a 22.9 percent increase. A significant boost in tax collection came from a 26.0 percent increase in sales tax on services and motor vehicle tax, owing to a rebound in domestic economic activity, higher imports, and a rise in automobile sales. Similarly, non-tax collection reached Rs 150.3 billion during FY2021 against Rs 102.4 billion in FY2020, posting a growth of 46.8 percent. Significant growth in non-tax collection has been realized largely due to higher receipts from mark up and profits from hydroelectricity, during the period under review.

Table 4.8-Overview of Provincial Fiscal Operations (Rs billion)

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	Jul-Mar FY2022	Jul-Mar FY2021
A. Tax Revenue	2,145.4	2,287.6	2,618.8	2,799.6	2,917.6	3,250.3	3,022.5	2,355.9
Provincial Taxes	283.3	321.8	401.4	401.8	413.6	508.4	438.3	370.1
Share in Federal Taxes	1,862.2	1,965.8	2,217.4	2,397.8	2,504.0	2,741.9	2584.2	1985.8
B.Non Tax Revenue	93.3	79.5	146.7	86.3	102.4	150.3	93.7	82.2
C.All Others	55.1	61.2	173.0	110.0	221.0	327.5	278.9	146.3
Total Revenue (A+B+C)	**2,293.9**	**2,428.2**	**2,938.5**	**2,995.9**	**3,241.0**	**3,728.0**	**3,395.2**	**2,584.3**
a. Current Expenditure	1,559.8	1,739.3	2,080.7	2,350.8	2,541.9	2,844.2	2192.4	1948.4
b. Development Expenditure	592.4	852.2	880.1	506.2	622.0	770.2	724.1	390.0
c. Statistical Discrepancy	-65.7	-147.4	-4.8	-51.1	-147.9	-200.0	-121.1	-166.8
Total Expenditure (a+b+c)	**2,086.5**	**2,444.1**	**2,956.0**	**2,805.9**	**3,016.1**	**3,414.4**	**2,795.4**	**2,171.6**
Overall Balance	**207.4**	**-15.9**	**-17.5**	**190.0**	**224.9**	**313.6**	**599.8**	**412.7**

In FY2021, provincial expenditure grew by 13.2 percent against the 7.5 percent growth recorded in FY2020. In absolute terms, the provincial expenditure stood at Rs 3,414.4 billion in FY2021 against Rs 3,016.1 billion in FY2020. Both current and development expenditures increased by 11.9 percent and 23.8 percent, respectively, in FY2021, compared to 8.1 percent and 22.9 percent growth recorded in FY2020. The spending priorities for the year remained focused on general public service, economic affairs, health, education affairs, housing and community, and public orders and safety.

Fig-4.14: Provincial Expenditure (Rs billion)

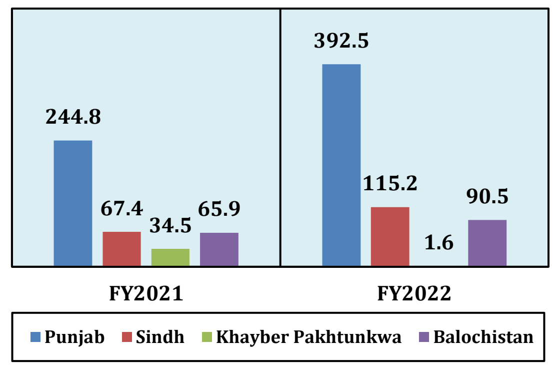


Overall, provinces posted a cumulative surplus of Rs 313.6 billion in FY2021, compared to Rs 224.9 billion in FY2021, which is not only higher than the estimated provincial surplus of Rs 242 billion but also represents a 39.4 percent increase over the previous year.

Performance (July-March FY2022)

During the first nine months of the current fiscal year, provinces recorded a combined surplus of Rs 599.8 billion against Rs 412.7 billion in the same period of last year. Punjab contributed the most to the surplus, followed by Sindh, Balochistan, and Khyber Pakhtunkhwa. A higher surplus was achieved because of strong growth in total

Fig: 4.15- Province-wise Surplus (Rs billion)



revenues, which increased by 31.4 percent in July-March FY2022, compared to 4.7 percent in the same period last year. In absolute terms, provincial revenues stood at Rs 3,395.2 billion during July-March FY2022 against Rs 2,584.3 billion in the comparable period of last year. In total provincial revenues, tax collection (federal transfer and provincial tax) grew by 28.3 percent to Rs 3,022.5 billion in July-March FY2022 against Rs 2,355.9 billion in the same period of last year. Despite an increase in provincial taxes, transfers from the Federal Government under the NFC award remained the primary source of revenue for the provincial government, accounting for 76.1 percent of total provincial revenues.

Provincial tax grew by 18.4 percent during July-March FY2022 to reach Rs 438.3 against Rs 370.1 in the same period of last year. Higher growth in the collection from stamp duties and motor vehicle tax was largely attributed to raising the provincial tax collection drive during the period under review. Similarly, non-tax revenues grew by 14.1 percent to stand at Rs 93.7 billion during July-March FY2022 as compared to Rs 82.2 billion in the same period of last year. The main impetus in non-tax collection is stemmed from significant growth in a collection from hydro-electricity profits. Consequently, the province's own revenue receipts increased to Rs 532.0 billion in July-March FY2022 against Rs 452.3 billion in the same period of last year, representing a growth of 15.7 percent.

Total provincial expenditure increased by 28.7 percent to Rs 2,795.4 billion during July-March, FY2022, compared to Rs 2,171.6 billion during the same period last year. Higher expenditures were observed due to a sharp increase in provincial development spending that outpaced growth in current expenditures during the period under review. Development expenditures grew by 85.7 percent during July-March FY2022 to Rs 724.1 billion, compared to Rs 390.0 billion in the same period last year. While current expenditure increased by 12.5 percent to Rs 2,192.4 billion during July-March FY2022 against Rs 1,948.4 billion in the comparable period of last year. The significant rise in development expenditures has been witnessed mainly in the areas of health, recreational culture & religion, housing & community, economic affairs, social protection, environment protection, and general public services etc.

Public Financial Management Reforms (PFM)

Public Finance Management Act was promulgated in 2019 to strengthen the management of public finances with a view to improve the definition and implementation of fiscal policy for better macroeconomic management, clarify institutional responsibilities related to financial management, and strengthen budgetary management. Major development regarding the implementation of PFM Act during the year are mentioned below:

i. Financial Management and Powers of Principal Accounting Officers Regulations, 2021 was issued wherein the financial advisor's organization of the Finance Division has been disbanded. Now on completion of the transitory period, the Joint Secretaries or Deputy Secretaries Expenditures, Finance Division shall be reassigned official duties to be performed for various Ministries or Divisions forthwith.
ii. The office of Chief Finance and Account Officer headed by a senior level officer has been established who is responsible for assisting and supporting the Principal Accounting Officer in managing the financial affairs of the Division concerned or more Divisions if so allocated and all the organizations or departments or offices under the administrative control of that Division.
iii. Principal Accounting Officer has been empowered to utilize his one-liner Budget grant without endorsement by the Finance Division.
iv. Amendments have been made in Federal Treasury Rules to facilitate the pensioners.
v. Amendment in GFR 130(3) has been made to empower the head of an office to authorize any gazetted officer serving under him, or such other officials as are authorized by the Finance Division on this behalf, to incur expenditure.
vi. Amendment has been made in GFR 130, sub-rule 3 to authorize Police House Station Officers (SHOs) of Islamabad Capital Territory (ICT) as Drawing and Disbursing Officers (DDOs) for their respective jurisdictions in ICT.
vii. Receipt and Payment Rules, Grant in Aid Rules, and General Financial Rules have been drafted in consultation with stakeholders and are at final stage.
viii. Established TSA phase-I system in Ministries, Divisions, Attached Departments, and Sub-Ordinate Offices (MDAS).
ix. 163 Ministries, Divisions, Attached Departments, and Sub-Ordinate Offices (MDAS) have been notified under Treasury Single Account.
x. Closed over 4500 Commercial Bank Accounts of Government entities.
xi. Conducted awareness workshop on TSA phase-II system for Public Entities including Autonomous bodies, Regulatory Authorities, Funds, Civil Armed Forces, and Defence.
xii. Cash Forecasting Unit (CFU) has been established under the Budget Wing of the Finance Division to forecast Cash Flows and anticipate the cash needs of the Federal Government for improved liquidity management.
xiii. Special Assignment Account Procedure for Public Account of the Federation 2020 has been devised and circulated for the opening and operation of Public Account.
xiv. Financial Management and Powers of Principal Accounting Officers Regulations, 2021 has been reviewed in consultation with stakeholders for the incorporation of amendments in the said regulations.
xv. Amendment in Sr. No 24 & Sr. No.42 of the schedule of Financial Powers delegated to PAOs, Heads of Departments, and Sub-Ordinate Offices, have been made to enhance the powers of the PAOs, Heads of Departments, and Sub-Ordinate Offices.
xvi. Amendment in Sr. No. 4,41,43 & 81 of the schedule of Financial Powers delegated to PAOs, Heads of Departments, and Sub-Ordinate Offices have been made.

Conclusion

Despite a significant rise in tax collection during July-March FY2022, higher current and development expenditures widened the fiscal deficit to 3.8 percent of GDP against 3.0 percent in the previous period. Similarly, the primary balance posted a deficit of Rs 447.2 billion against a surplus of Rs 451.8 billion. Due to additional spending under COVID-19 funds for vaccine procurement, IPPs Circular debt payment, social sector spending, and higher development expenditures, the fiscal sector remained under tremendous pressure. All these factors, along with the global economic challenges posed by the Russia-Ukraine conflict, as well as the impact on international commodities and oil prices, have increased the risk of fiscal slippages during the current fiscal year. To offset the inflationary pressure, the government initially tried to provide relief to the masses by maintaining domestic oil prices. However, as international commodity and energy prices continued to rise, providing relief acted as a double-edged sword, potentially increasing the fiscal deficit, and reducing fiscal space. To avoid severe fiscal imbalances and to ensure that fiscal consolidation would remain on track, the government has reduced the subsidy by raising the price of petroleum products. At the same time, the government is providing targeted subsidies to protect vulnerable segments of society from rising oil and commodity prices.

The Government is determined to restore fiscal sustainability through effective revenue mobilization and prudent spending. In this regard, key priorities include increasing the tax-to-GDP ratio through various tax policy and administration reforms, as well as reducing unnecessary spending through austerity measures. Furthermore, the emphasis is on rationalizing untargeted subsidies and reducing the losses of public sector enterprises through improved governance. These measures would provide significant assistance in controlling expenditure slippages and increasing revenues, thereby lowering the fiscal deficit in the medium to long term.