

# Chapter 4

## Fiscal Policy

*Increase in tax revenues and restraint on non-interest current spending underpinned a reduction in fiscal deficit to 7.1 percent of GDP during FY21, from 8.1 percent last year. This improvement for the second year in a row was also helped by a combined provincial surplus that exceeded the budget target for FY21. The seasonal spending pressures during the last quarter of the year pushed the primary surplus seen during Jul-Mar FY21 into a deficit during FY21. However, the recovery in revenues kept the level of primary deficit at a two-year's low. The increase in tax revenue was contributed by both federal and provincial governments. The growth in FBR tax revenues was driven by a rebound in economic activity, surge in imports, tax administration efforts, and the impact of a low base of last year. On the spending side, federal non-interest current expenditures remained contained, while development spending posted a recovery during FY21, after a consistent decline in last three years. The government was able to create fiscal space for undertaking spending on social safety nets, Economic Stimulus Package (ESP) and provision of targeted support to various sectors of the economy to mitigate the recessionary impact of the pandemic. At the same time, the country made payment to partially settle the circular debt of Independent Power Producers (IPPs) and Power Holding Private Limited (PHPL), while loss making Public Sector Enterprises (PSEs) continued to strain fiscal accounts during the year.*



## 4 Fiscal Policy

### 4.1 Fiscal Policy Review

The country successfully continued to implement fiscal consolidation during FY21 and witnessed a notable reduction in the fiscal deficit to 7.1 percent of GDP from 8.1 percent last year (**Figure and Table 4.1**). This improvement was driven by a large increase in tax collection and a slowdown in non-interest current spending. Moreover, a greater than target provincial surplus of 0.7 percent of GDP further supported this outcome.<sup>1</sup>

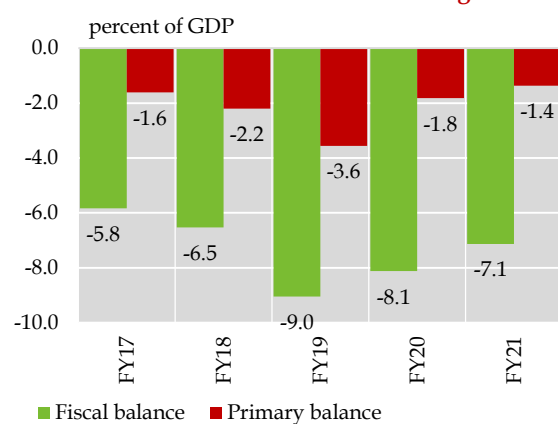
Tax revenue edged up by 19.5 percent during FY21, compared to 4.3 percent last year. This improvement was contributed by both the federal and provincial governments. Specifically, FBR taxes posted a five years' high growth of 18.4 percent and surpassed the revised target by Rs 41.0 billion. This growth was underpinned by a sustained recovery in economic activity, along with a strong increase in imports, FBR's administrative efforts to streamline the audit procedures, anti-smuggling measures, and steps taken to reduce informality. In overall terms, these reforms led to a slight uptick in FBR tax-to-GDP ratio during FY21, in the absence of any major increase in tax rates (**Figure 4.2**). The impact of these measures was compounded by the effect of a low base from the Covid-led contraction during the last four months of

FY20. To put things into perspective, FBR taxes posted 6.5 percent YoY increase during Jul-Feb FY21, however a 49.3 percent YoY surge in tax collection during Mar-Jun FY21, pushed the growth to 18.4 percent for the whole year.

The expansion in provincial revenue collection stemmed from the increase in GST collection on services and higher profits from hydro-electricity. The non-tax revenues, on the other hand, declined in FY21. This fall primarily came from lower SBP and PTA profits compared to last year. To partially offset the decline in non-tax receipts, the authorities resorted to increase the rates of petroleum development levy (PDL) during the year, which rose to a historic high in November 2020, before edging down with an increase in the international oil prices. However, since non-tax revenues are not necessarily recurring items with constant growth, they are not considered a stable source for financing expenditures.

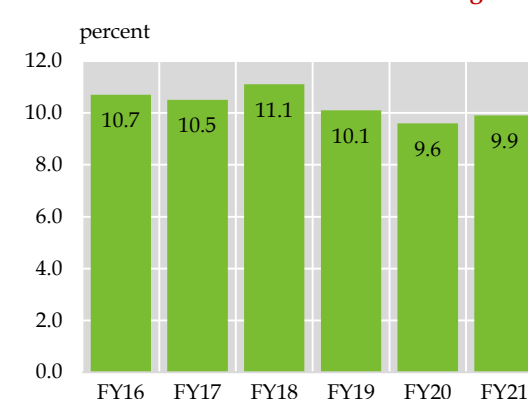
On the expenditure side, the government created fiscal space for undertaking spending on social safety nets, Economic Stimulus Package (ESP) and provision of targeted support to various sectors of the economy by restraining non-interest current spending. Specifically, the expenditures on running of civil government and pensions contracted in

**Fiscal Indicators** **Figure 4.1**



Source: Ministry of Finance

**FBR Tax to GDP Ratio** **Figure 4.2**



Source: Ministry of Finance

<sup>1</sup> The target for provincial surplus was set at 0.5 percent of GDP at the start of the year.

**Consolidated Fiscal Indicators****Table 4.1**

billion Rupees, growth in percent

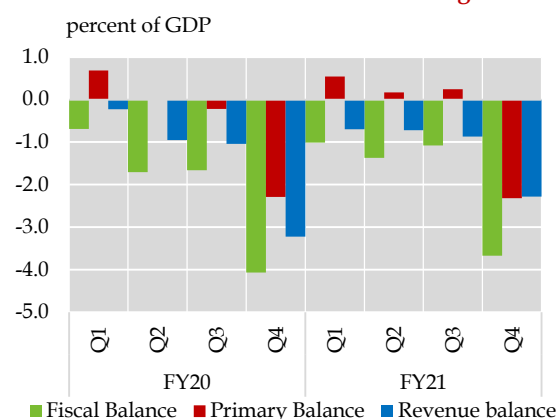
	FY20	FY21	YoY growth		Q4	
			FY20	FY21	FY20	FY21
<b>1. Total revenue (a+b)</b>	<b>6,272.17</b>	<b>6,903.37</b>	<b>28.0</b>	<b>10.1</b>	<b>1582.3</b>	<b>1910.8</b>
(a) Tax revenue	4,411.54	5,272.70	4.3	19.5	1046.0	1507.7
Federal	3,997.92	4,764.30	4.4	19.2	953.6	1369.4
Provincial	413.617	508.397	2.9	22.9	92.4	138.3
(b) Non-tax	1,860.63	1,630.67	177.9	-12.4	536.3	403.1
Federal	1,758.24	1,480.40	201.5	-15.8	513.5	335.0
Provincial	102.389	150.275	18.6	46.8	22.8	68.1
<b>2. Total expenditure (a+b+c)</b>	<b>9,648.49</b>	<b>10,306.6</b>	<b>15.6</b>	<b>6.8</b>	<b>3272.4</b>	<b>3662.1</b>
(a) Current expenditure	8,532.02	9,084.01	20.1	6.5	2920.5	2998.6
Of which : Mark-up payments	2,619.74	2,749.73	25.3	5.0	740.0	645.9
Non-markup expenditure	7,028.75	7,556.96	12.4	7.5	2532.4	3016.2
Defense	1213.281	1316.418	5.8	8.5	410.8	532.5
Subsidies	359.9	425.0	84.2	18.1	n.a.	220.8
(b) Development expenditure & net lending	1203.741	1315.7	-1.3	9.3	422.3	592.7
(c) Statistical discrepancy	-87.273	-93.0	-	-	-70.4	70.8
<b>3. Overall budget balance</b>	<b>-3,376.32</b>	<b>-3403.3</b>	<b>-2.0</b>	<b>0.8</b>	<b>-1690.1</b>	<b>-1751.3</b>
percent of GDP	-8.1	-7.1			-4.1	-3.7
<b>4. Primary balance</b>	<b>-756.6</b>	<b>-653.6</b>	<b>-44.1</b>	<b>-13.6</b>	<b>-950.1</b>	<b>-1105.4</b>
percent of GDP	-1.8	-1.4			-2.3	-2.3
<b>5. Revenue balance</b>	<b>-2259.9</b>	<b>-2180.6</b>	<b>2.6</b>	<b>-3.5</b>	<b>-1338.2</b>	<b>-1087.8</b>
percent of GDP	-5.4	-4.6			-3.2	-2.3
<b>6. Financing (a+b)</b>	<b>3,376.3</b>	<b>3,403.32</b>	<b>-2.0</b>	<b>0.8</b>	<b>1690.1</b>	<b>1751.3</b>
(a) External (Net)	895.5	1338.090	114.9	49.4	213.1	775.9
(b) Domestic (Net)	2,480.8	2,065.23	-18.1	-16.8	1477.0	975.3
Non-Bank	540.2	196.189	-29.4	-63.7	138.2	-95.9
Bank	1,940.6	1869.041	-14.3	-3.7	1338.7	1071.3

Source: Ministry of Finance

FY21, compared to last year. On the other hand, development expenditures staged a recovery after showing a consistent decline during the past three years. This rebound primarily came from a hike in provincial PSDP spending, while federal expenditures remained muted. Interest payments stood at 57.7 percent of FBR tax revenues, despite witnessing a slowdown amid lower interest rates during the year.

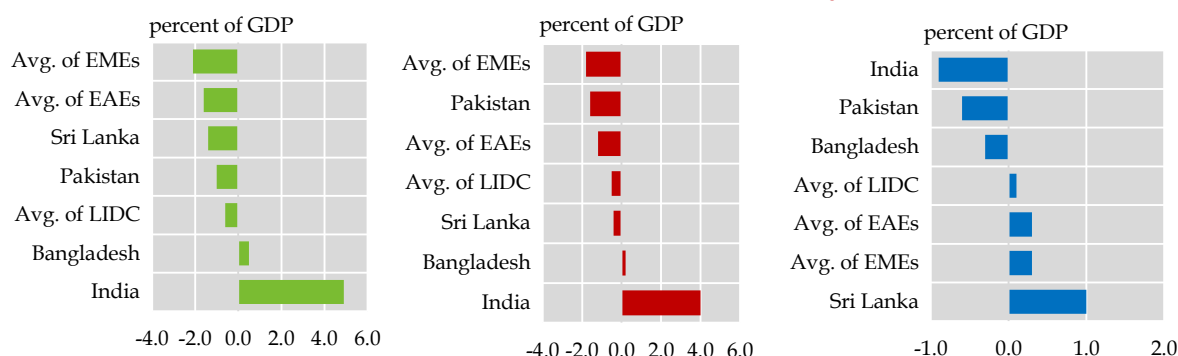
The quarterly analysis indicates a seasonal increase in the fiscal deficit during the fourth quarter of the year (**Figure 4.3**). This increase was seen despite a large expansion in revenues (Rs 328.5 billion) during the quarter, which was outpaced by a yet strong increase (Rs 389.7 billion) in expenditures. This spending pressure mainly came from a recovery in development expenditures, substantial increase in subsidies to the power sector, sustained burden of interest payments, and social protection grants. With this expansion in spending in Q4-FY21, the

primary balance for FY21 slipped into a deficit, after remaining in surplus during Jul-Mar FY21. Similarly, revenue deficit that shows the difference between total revenues and current expenditures also remained at an elevated level in FY21.

**Fiscal Indicators** **Figure 4.3**

Source: Ministry of Finance

**Addition in Fiscal Deficit in 2021**      **Change in Expenditure in 2021**      **Change in Revenue in 2021**      **Figure 4.4 in 2021**



AE:Advanced economies; EMEs: emerging market economies; EAEs: Emerging Asian economies; LIDC: Lower income developing economies. Note: The data is reported on calendar year basis for all countries except India,Bangladesh, and Pakistan. Projections are used for 2021 except Pakistan.

Source: IMF Fiscal monitor, MoF

Specifically, the disbursement of power sector subsidies increased considerably during the year compared to the budget estimates set at the start of the year. This was in addition to the fiscal burden stemming from the need to cover losses of Public Sector Enterprises (PSEs) during the year. However, the accompanying recovery in tax revenues helped to contain the level of fiscal and primary deficit for FY21 – lower than the last two years.

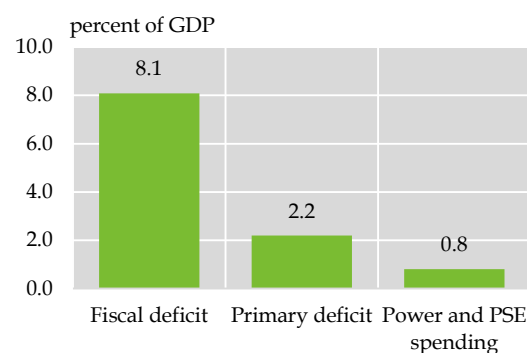
In overall terms, the improvement in the fiscal account stemmed from both the revenue and the expenditures side. The increase in tax revenues was driven by a large base effect from last year along with the economic rebound and FBR policy efforts. On the other hand, the prudent management of non-interest current spending amid fiscal pressures arising from power sector subsidies, provision of economic stimulus, and pandemic management was instrumental in achieving a reduction in the fiscal imbalance.

A large part of the deficit financing requirements were met through domestic commercial banks in FY21. However, external financing also rose sharply particularly in the fourth quarter as country tapped funds from international capital markets, Naya Pakistan Certificates (NPCs) in addition to the loan inflows from bilateral and multilateral creditors.

The fiscal performance of the country, remained strong compared to some of the peer economies and other regional averages during FY21 as seen from the change in fiscal deficit, tax revenues and expenditures in terms of GDP during the year. (Figure 4.4). The country was able to contain fiscal deficit, because of reduction in non-priority current spending in FY21.

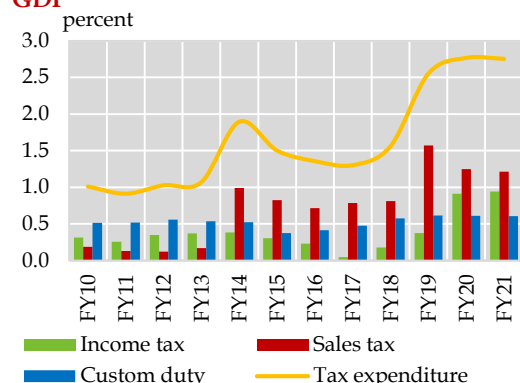
While the government's efforts to implement fiscal adjustment measures remained on track during FY21, there is a need to address some emerging risks to fiscal sustainability. Specifically, subsidies to power sector rose sharply during FY21. This, in addition to the fiscal support to some large loss making PSEs such as PIA, Pakistan Steel and Pakistan Railways reached 0.9 percent of GDP in FY21, compared to 0.8 percent last year. The fiscal burden of these entities reached close to half of

**Fiscal Indicators and Power Sector Non-development Spending (FY19-21)**      **Figure 4.5**



Source: Ministry of Finance

**Tax Expenditure as Percent of GDP** **Figure 4.6**



Source: Economic Surveys, Ministry of Finance

the primary deficit seen during FY19-FY21 on average (Figure 4.5). This highlights the need to expedite reforms in the power sector and PSEs to contain pressures on scarce fiscal resources. The process may also include advancing the process of privatization of the loss making entities.

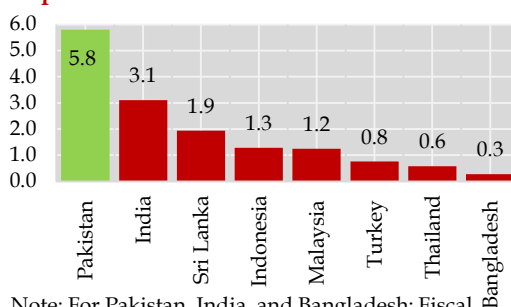
Furthermore, there is a need to fast-track implementation of Public Financial Management (PFM) reforms such as transition to Treasury Single Accounts (TSA) to improve spending efficiency. The adoption of TSA will enhance cash management of the government by providing consolidated information on the availability and movement of funds and will lower the cost of borrowing. This will strengthen the government's control over budget execution, and lower transaction costs by eliminating delays emerging from the involvement of commercial banks for collection of tax and non-tax revenues.<sup>2</sup>

On the revenues side, the ongoing reforms aimed at broadening of the tax base such as stepping up tax administration efforts, phasing out of income tax exemptions have helped strengthen tax receipts. However, despite these policy efforts the volume of tax exemptions as measured by tax-expenditures-to-GDP, has remained at an elevated level for the past few years (Box 4.1 and Figure 4.6).

This hints at the need to pace up the efforts to

widen the tax base through elimination of exemptions, improvement in tax design, etc. A sustained increase in tax collection is instrumental in ensuring sustainability of the country's fiscal position.

**Interest Expenditures as percent of GDP in 2021** **Figure 4.7**



Note: For Pakistan, India, and Bangladesh: Fiscal year basis; for rest of the countries projections on calendar year basis

Source: IMF Fiscal Monitor; MoF, Government of Pakistan and India

In addition, Pakistan's debt servicing payments are considerably high compared to some peers (Figure 4.7). During FY21, the ratio of interest payments-to- FBR tax revenues stood at 57.7 percent. This implies that over half of the tax revenue collections are utilized for debt servicing, squeezing the space for undertaking development expenditures. A consistent strain on development spending has dampened the country's growth prospects as well as its debt repayment capacity.

## 4.2 Revenues

The overall revenues grew by 10.1 percent in FY21 compared to 28.0 percent last year. This growth entirely came from tax collections, while the non-tax revenue (NTR) declined due to lower SBP profits and absence of one-off GSM license renewal fee. The collection from petroleum levy showed a marked increase compared to last year, which partly neutralized the decline in NTRs during the year. The increase was driven by an uptick

<sup>2</sup> I.F. Yaker and S. Pattanayak (2010). *Treasury single account: concept, design and implementation issues*. Working Paper/10/143. Fiscal Affairs Department. Washington D.C.: IMF.

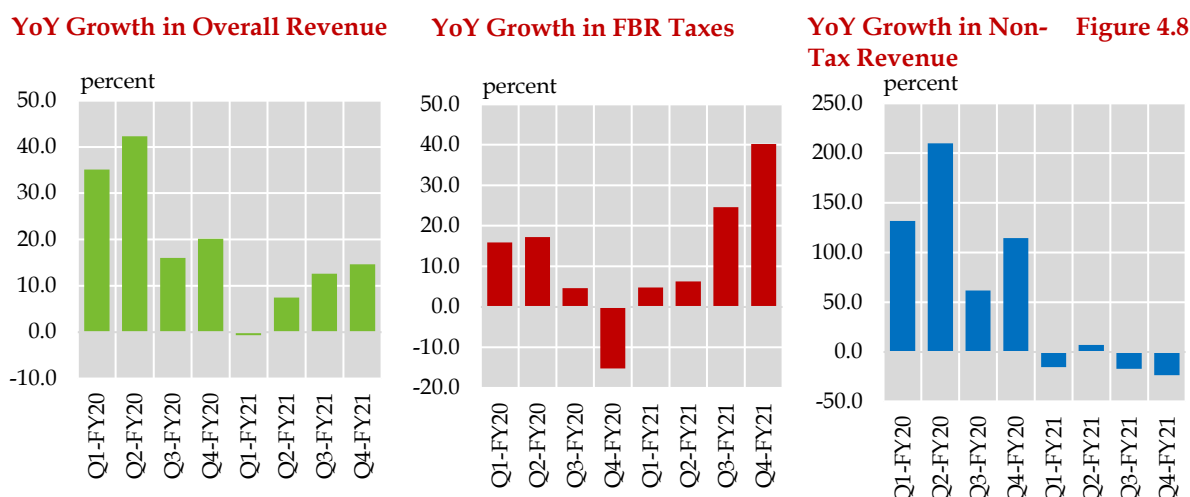
#### Box 4.1: Tax Policy Reform to Mobilize Additional Revenues Amid Covid Pandemic

Governments across the globe prompted unprecedented policy support to mitigate the economic and health fallout of the Covid pandemic. The ability of various countries to continue this policy support and its magnitude hinges on the availability of fiscal space. Countries with limited fiscal resources will need to strengthen revenue generation capacity to ensure fiscal and debt sustainability, amid persistent financing needs for large-scale vaccinations and provisions of targeted support. In this backdrop, a brief survey of literature presents several tax policy reforms to ensure high revenue mobilization amid the Covid pandemic. To address the issues of widening fiscal imbalance and declining tax-to-GDP ratio Pakistan has initiated tax policy reforms since past few years. These efforts were further streamlined under the IMF-EFF program in FY20. In overall terms, the ongoing tax policy reforms in the country, like eliminations of preferential GST rates, phasing out income tax exemptions, using third party data sources, etc., are in line with the best practices identified in the literature. However, there is a need to widen the scope of these efforts to ensure a sustained increase in tax base, as discussed in the following.

Taxes	Literature	Pakistan's Tax Reforms
<b>Corporate Income Taxes (CIT)</b>	(i) Excess profit taxes may be imposed; (ii) do not use CIT as an investment incentive; (iii) use CIT for providing R&D incentives, implemented through tax credits; (iv) avoid special tax incentives for SMEs as these restrict firm growth; (v) to encourage investment, countries may resort to measures like investment tax credits, accelerated depreciations, etc.	<b>Corporate incomes tax reforms.</b> To improve the base for direct taxes, Pakistan introduced wide ranging reforms in CIT in March 2021. These included: (i) withdrawal of tax exemptions on 36 categories; (ii) reversal of reduced tax rates to normal rates on various categories; and (iii) conversion of investment and income tax exemptions to tax credits, for instance, persons engaged in coal mining, start-ups certified by Pakistan Software Export Board, export of computer software or IT exports etc. These measure are likely to add around Rs 140 billion in the overall FBR taxes in FY22. To give further support to revenues, excess profit taxes may be imposed on selected sectors on the basis of profitability.
<b>Personal Income tax (PIT)</b>	(i) Adopting a progressive PIT rate schedule; (ii) setting exemptions threshold below per capita income or average wage, as a high PIT threshold reduces the tax base; (iii) introducing temporary surcharge.	<b>Personal income taxes:</b> PIT in Pakistan are collected through progressive rates on various income slabs. The tax rates on salaried and non-salaried individuals were also increased in FY20 and were kept unchanged in FY21. The revenue in this category may be propped up by increasing the tax rates on highest slabs or by introduction of temporary surcharge.
<b>Consumption Taxes</b>	(i) Reduce exemptions and preferential rates; (ii) improve FED design and enforcement; (iii) introduce / raise carbon taxes; (iv) introduce a single VAT rate; (v) implementing VAT on e-commerce.	<b>Consumption taxes:</b> FBR has introduced various reforms aiming at Simplification of GST, and elimination of preferential rates including: (i) replacing GST zero rating regime on five export oriented sectors (textile, leather, carpets, sports goods and surgical goods) with normal tax rates in FY20; (ii) eliminating preferential GST rates for sectors like sugar and steel in FY20; (iii) extending GST to e-commerce sales transactions through Finance Act 2021. This step was taken after the surge in sales through e-commerce platforms during the lockdowns. Although currently the contribution of this head in total collection is negligible, this is expected to grow with expanding size of digital transactions. <sup>1</sup> The tax base can be further enhanced by curtailing exemptions and improving tax design. Specifically, the tax incentives given during Covid can be gradually rolled back once the economic recovery takes hold.
<b>Capital Incomes Taxes</b>	(i) Neutral taxation of all corporate incomes (interest, dividends and capital gains), as differential treatment of corporate incomes creates distortions; (ii) can be imposed in withholding tax form; (iii) reasonable rate to improve equity; (iv) can use third party information to discourage evasion.	<b>Capital income taxes:</b> To minimize tax evasion, FBR has initiated use of third party data sources through <i>Maloomat Tax-Ray</i> from September 2020. This system collects third party information (such as banks) for individual's assets and withholding deductions, which help in determining accurate tax liabilities. Moreover, it also facilitates the tax-payer in evaluating the accurate tax liability while filing the tax returns.
<b>Property Taxes</b>	(i) Raise property tax rates; (ii) update property values to market prices; (iii) strengthen administration, gift and inheritance taxes; (iv) strengthening property registry and administrative capacity	<b>Property taxes:</b> Need to expand revenue by aligning the property values with market prices. In this regard, FBR has revised the valuation of immovable property rates in July 2019 for various cities. There is a need to ensure continuity in this exercise to remove disparity between the property values and market rates

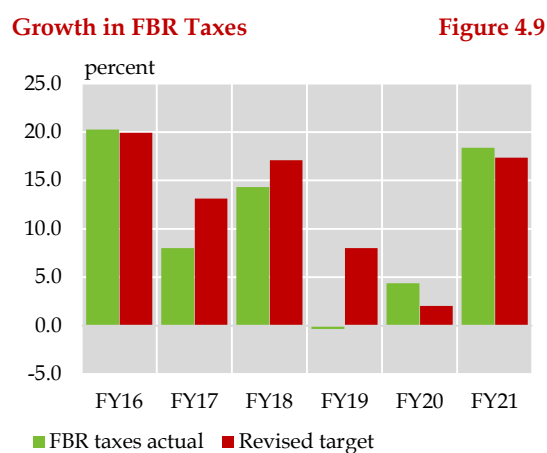
Sources: De Mooij., FenoChioffo R., Hebous S., Leduc S., Osorio Buitron C. (2020); IMF Fiscal Monitor (April 2021); A summary of the Responsible Tax roundtable discussions on potential tax policy responses to the COVID-19 pandemic – KPMG; Tax Laws (Second Amendment), 2021

<sup>1</sup> Non-filers to be charged 2 percent of tax on gross value of supplies by the online retailer (effective from the date as notified by the FBR).



Source: Ministry of Finance

in PDL rates and a surge in sales of POL products during the year. Notably, most of the increase in revenues (52.0 percent of total) was seen in H2-FY21, because of a surge in tax collection during the last four months of the year (Figure 4.8). This increase came from a low base of last year when the outbreak of the pandemic halted economic activities amid strict lockdowns.



Source: Ministry of Finance

**FBR Tax Collection** **Table 4.2**  
billion Rupees, growth in percent

	Collection		Growth		Growth Cont.	
	FY20	FY21	FY20	FY 21	FY20	FY21
<b>Direct taxes</b>	1,523.4	1,726.0	5.4	13.3	2.0	5.1
<b>Indirect taxes</b>	2,474.0	3,008.3	3.8	21.6	2.4	13.4
Custom duty	626.6	747.3	-8.6	19.3	-1.5	3.0
Sales tax	1,596.9	1,981.0	9.4	24.1	3.6	9.6
Imports	876.3	1,118.2	8.1	27.6	0.5	6.1
<b>Domestic</b>	720.5	863.2	7.6	19.8	1.6	3.6
FED	250.5	276.6	5.2	11.6	0.3	0.7
<b>Total taxes</b>	<b>3,996.7</b>	<b>4,734.2</b>	<b>4.4</b>	<b>18.4</b>	<b>4.4</b>	<b>18.4</b>

Cont.: contribution

Source: Federal Board of Revenue,

### FBR Taxes

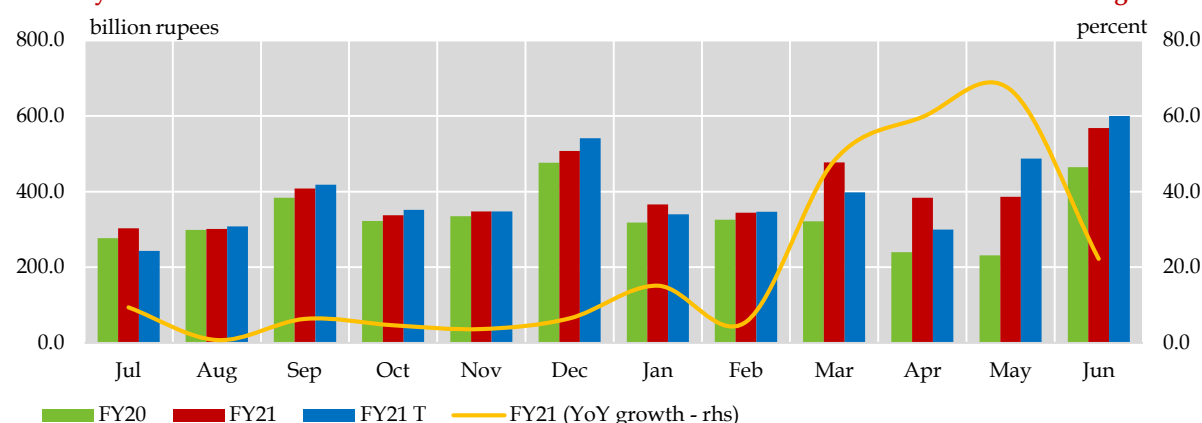
FBR taxes registered a 5-years' high growth of 18.4 percent in FY21 and surpassed the revised collection target by a slight margin (Figure 4.9). The tax collection target was set at Rs 4.96 trillion at the start of the year, which was revised down to Rs 4.69 trillion, in March 2021 amid the third wave of the pandemic (Table

4.2). The actual collection stood at Rs 4.73 trillion during FY21.

The growth pattern of FBR taxes can be distinguished in two phases during FY21: (i) an average monthly YoY growth of 6.5 percent during Jul-Feb FY21; and (ii) a significant growth of 49.3 percent during Mar-Jun FY21. The increase in FBR taxes during Jul-Feb FY21 was driven by a rebound in economic activity, surge in imports, FBR efforts to strengthen tax administration, and higher prices in some categories such as sugar and electricity. The impact of these factors became more pronounced during the last four months of the year because of a substantial low base effect (Figure 4.10). Importantly, this surge was achieved despite no major increase in the tax rates, rationalization of custom duties on

## Monthly FBR Tax Collections

Figure 4.10



Source: Federal Board of Revenue

various tariff lines,<sup>3</sup> and higher payments of tax refunds during FY21.<sup>4</sup>

In terms of composition, the expansion in FBR taxes mainly came from indirect taxes during FY21, with major share of sales tax on imports. This was attributed to a surge in imports as well as higher commodity prices globally.<sup>5</sup>

#### ***FBR scaled up tax administrative efforts during FY21.***

FBR's efforts were largely aimed at scaling up tax regulations, procedures and evaluation processes to broaden the tax base. Some of the important measures introduced during FY21 included: (i) improvement in audit procedures, for which FBR approved a new audit policy in August 2020. This policy focused on ensuring transparency and fairness while conducting audit of taxpayers. Some of the major reforms included electronic balloting of taxpayers to be audited, introduction of e-hearing portal for tax audit and assessment cases to minimize the interaction of the officials with the taxpayers; (ii) intensification of crack-down against

smuggled goods. Specifically, during FY21 FBR seized smuggled goods worth Rs 57.7 billion, compared to Rs 36 billion in FY20; (iii) to improve formality and increase the tax base, FBR initiated integration of the tier-I retailers with the centralized database of FBR.<sup>6</sup> For this purpose 11,000 Point of Sales (POS) terminals were integrated during FY21, in the first phase; iv) to encourage filing of income tax returns, FBR revised the rate of penalties.<sup>7</sup> Consequently, income tax returns during FY21 increased to 3.01 million from 2.67 million in FY21. While the tax deposited with returns increased to Rs 52 billion during the year compared to Rs 34.3 billion in FY20; and (v) to comply with Financial Action Task Force (FATF) recommendation, FBR filed 71 complaints under Anti Money Laundering Act involving a sum of Rs 62 billion.

#### ***Indirect taxes grew mainly due to increasing imports***

Indirect taxes witnessed a broad-based growth of 21.6 percent in FY21, compared to 3.8 percent last year.

<sup>3</sup> These tariff lines include materials used in chemical, leather, textile, and fertilizer industries.

<sup>4</sup> Faster Plus system was introduced to ensure quick transfer of refunds to the export oriented sectors, to improve liquidity position of the exporting firms. The amount of refunds disbursed stood at Rs. 222.6 billion in FY21, compared to Rs. 173.5 billion paid last year.

<sup>5</sup> Domestic prices of non-energy and energy products increased by 22.7 and 9.7 percent respectively during FY21.

<sup>6</sup> Tier-I retailers include: retailer operating as a unit of a national or international chain of stores, or operating in air conditioned malls, or having a cumulative (12 months) electricity bill of Rs. 1,200,000, or operating in shop of 1000 square feet or more.

<sup>7</sup> Chargeable late filing penalty was increased to Rs 5,000 for the taxable income of up to Rs. 800,000 in FY21, from 0.1 percent of the taxable income earlier.

**Import Related Taxes****Table 4.3**

billion rupees, growth in percent

	FY20	FY21	Growth	Growth Cont.
<b>Sales tax</b>	<b>876.3</b>	<b>1,118.2</b>	<b>27.6</b>	<b>27.6</b>
POL	231.3	255.7	10.6	2.8
Iron and steel	82.9	110.8	33.7	3.2
Vehicles	42.9	81.4	89.6	4.4
Edible oil	52.0	75.2	44.7	2.7
Plastic	55.2	70.9	28.5	1.8
Machinery	52.0	55.6	6.9	0.4
<b>Custom duty</b>	<b>626.6</b>	<b>747.3</b>	<b>19.3</b>	<b>19.3</b>
Vehicles	56.9	110.9	95.0	8.6
POL	83.2	94.3	13.3	1.8
Iron and steel	45.4	55.6	22.3	1.6
Machinery	59.9	59.7	-0.3	0.0
Edible oil	29.4	34.4	17.0	0.8

Cont.: Contribution

Source: Federal Board of Revenue

Import related taxes (sales tax on imports and custom duty) contributed the most in the indirect taxes during FY21. The revival in economic activity translated into higher imports of POL, iron & steel, vehicles, edible oil and machinery, which augmented these receipts. The increase in global commodity prices further inflated tax receipts (Table 4.3 &

**Sales Tax (domestic)****Table 4.4**

billion rupees, percent

	FY20	FY21	Growth	Growth Cont.
Electrical energy	91.8	127.2	38.6	4.9
POL	231.4	300.9	30.1	9.7
Sugar	39.8	62.8	57.8	3.2
Cement	20.8	37.3	71.2	2.5
Cotton yarn	25.8	44.1	317.1	1.7
Motor cars	3.8	15.7	19.8	0.1
Beverages	12.9	15.4	19.8	0.4
Cigarettes	20.3	27.9	37.2	1.1
Others	250.8	199.1	-20.6	-7.2
<b>Total</b>	<b>720.5</b>	<b>863.2</b>	<b>19.8</b>	<b>19.8</b>

Cont.: Contribution

Source: Federal Board of Revenue

**Figure 4.11).**

Similarly, the GST on domestic sales propped up with a revival in domestic demand for POL, automobiles, cement, electricity, etc. The increase in prices of some categories such as electricity, sugar, power tariffs provided further impetus to collection (Table 4.4).<sup>8</sup> In

<sup>8</sup> Prices of electricity and sugar surged by 10.8 and 23.4 percent in FY21, respectively.

**Direct Taxes****Table 4.5**

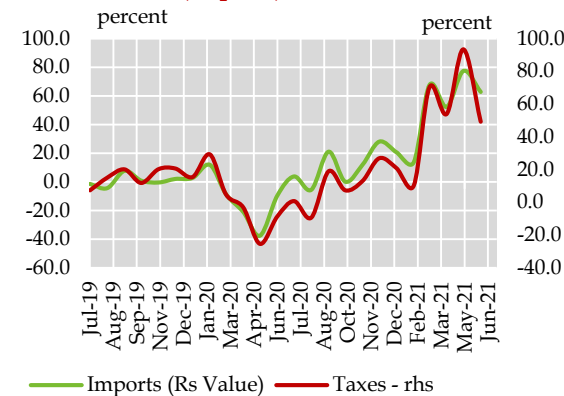
billion rupees, growth in percent

	FY20	FY21	Grow th	Growth Cont.
<b>Collection on demand</b>	<b>60.8</b>	<b>80.1</b>	<b>31.8</b>	<b>1.3</b>
<b>Voluntary payments</b>	<b>404.6</b>	<b>465.8</b>	<b>15.1</b>	<b>4.0</b>
<b>Withholding taxes</b>	<b>1,091.7</b>	<b>1,237.1</b>	<b>13.3</b>	<b>9.5</b>
Imports	199.7	218.5	9.4	1.2
Salaries	129.4	151.8	17.3	1.5
Dividends	55.1	63.7	15.6	0.6
Bank interest and securities	128.3	134.8	5.1	0.4
Contracts	237.4	272.1	14.6	2.3
Export	38.5	42.2	9.9	0.2
Cash withdrawals	15.2	15.1	-0.2	0.0
Electric bills	45.4	51.3	12.8	0.4
Telephone	54.6	63.2	15.6	0.6
<b>NET DT</b>	<b>1,523.4</b>	<b>1,726.0</b>	<b>13.3</b>	<b>13.3</b>

Cont.: Contribution

Source Federal Board of Revenue

addition, the strict enforcement of anti-smuggling measures switched the demand for certain categories such as cigarettes to domestic substitutes that bolstered the collection from this category.

**YoY Growth in Imports and Sales Tax Collection (Imports)****Figure 4.11**

Sources : FBR and PBS

**A broad-based increase was witnessed in direct taxes.**

Direct taxes also posted a significant increase of 13.3 percent in FY21 compared to 5.4 percent last year. This growth mainly came from withholding taxes followed by voluntary payments and collection on demand (CoD) (Table 4.5).

Within WHT, major contributors were telecom services, imports, bank interest & securities and contracts. The increased usage of telecom services due to online educational activities and virtual meetings during the pandemic, helped increase the collections from telecom services (Figure 4.12). Similarly, the rebound in construction activities, increased saving deposits and surge in imports shored up WHT receipts.

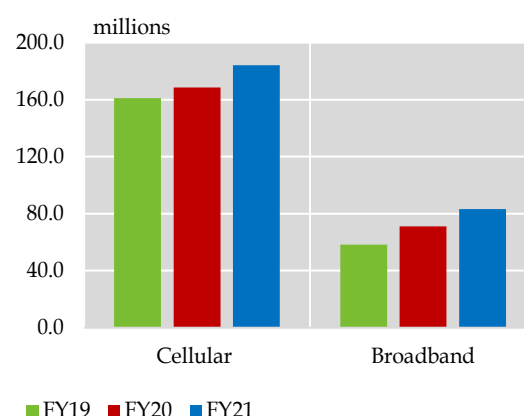
Voluntary payments showed a notable increase during the period. As mentioned earlier, FBR revised the penalty structure for non-filers, which prompted an increase in the number of filers. The deposited amount with the returns increased to Rs 52 billion during the year compared to Rs 34.3 billion in FY20.

### 4.3 Non-Tax Revenue Declined due to Lower SBP and PTA Profits

The overall non-tax revenues witnessed a 12.4 percent contraction in FY21 compared to a large increase last year. This decline was seen main categories of non-tax revenues with major contributions from transfers of SBP and PTA profits during the period. The markdown of Rs. 372.9 billion in these two components more than offset the expansion of Rs. 131.0 billion in collection from PDL during FY21 (Figure 4.13).

The transfer of SBP profits posted 30.5 percent decline in FY21, compared to a large increase

**Number of Subscribers** **Figure 4.12**



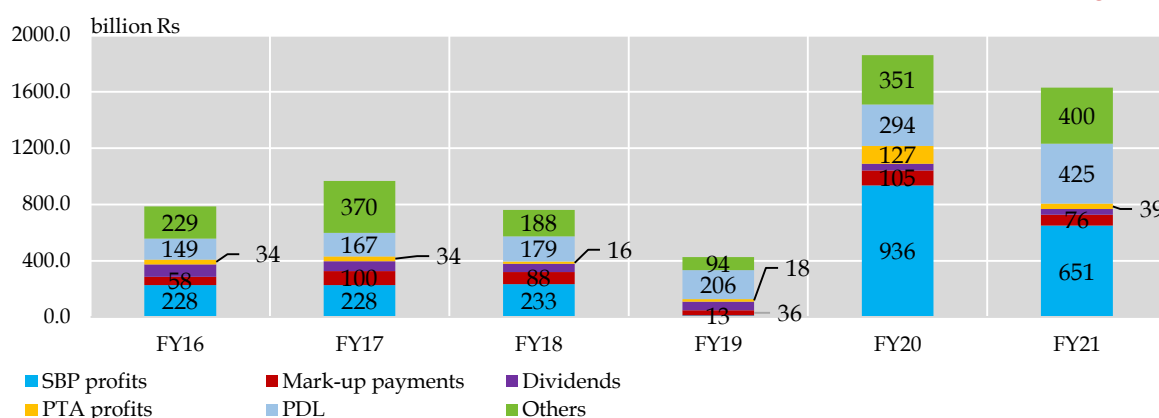
Source: Pakistan Telecommunication Authority

seen last year. The sharp reduction in interest rates that was announced in Mar-June 2020 and maintained through FY21 was mainly responsible for this contraction. Moreover, the government debt stock with SBP also edged down by 0.6 trillion during FY21 amid its commitment of zero borrowing from SBP that further dampened these earnings.<sup>9</sup>

PTA profits declined to Rs 39 billion in FY21, from Rs 127 billion in FY20, in the absence of the one-off payments for GSM license renewal fees. It may be recalled that last year telcos made payments for the renewal of the GSM licenses (half of their total renewal fee). The remaining amount has to be paid in 5-year installments in a staggered manner. Taking into account this factor, the government had envisaged a target of only Rs. 36 billion in the

**The State of Non-Tax Revenue for Last 5-Years**

**Figure 4.13**



Source: Ministry of Finance

<sup>9</sup> However, SBP witnessed Rs 13.3 billion profits on loans under Covid-19 schemes.

budget estimates for FY21, compared to Rs. 136 billion last year.

Mark-up receipts fell by 27.5 percent in FY21 against a large increase last year.<sup>10</sup> The contraction in payments by National Highway Authority was mainly responsible for this decline. The government had set a target of Rs 41.2 billion in the form of mark-up payments from NHA, however only Rs 13.1 billion was realized, according to the revised estimates for FY21. This can be attributed to inability of this organization to generate adequate stream of revenues to support debt servicing.<sup>11</sup>

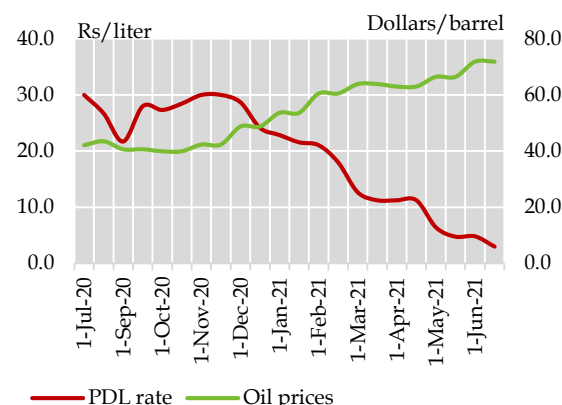
Similarly, the dividend income of the government fell short of target by 28.0 percent in FY21. This shortfall mainly came on account of lower payments by OGDCL that constitutes over 60 percent share in the total receipts in this head.<sup>12</sup>

OGDCL witnessed a lackluster financial performance during Jul-Mar FY21, with 20.1 percent YoY decline in profits that led to a slump in dividend payments.<sup>13</sup> This slack mainly came from a respective 3.4 and 5.6 percent YoY fall in crude oil and gas extraction by this entity during the period. Receipts from PDL almost doubled during FY21, on account of higher PDL rates as well as a strong revival in the sales of POL products. Specifically, to benefit from the lower international oil prices fiscal authorities increased the PDL rates during first few months of FY21, which reached an all-time peak of Rs. 30 per liter in November 2020 (**Figure 4.14**).

However, with the recovery in international oil prices, the PDL rate was revised downwards to minimize the adverse impact of the price increase on consumer in the domestic market.

It is important to note that the fiscal authorities have changed the practice of adjustment in local oil prices (with international oil prices) from monthly basis to fortnightly, from September 2020. This step has enhanced the alignment of local POL prices and PDL rates with the international trend.

**PDL Rates on Petrol during FY21 Figure 4.14**



Source: State Bank of Pakistan

#### 4.4 Federal Expenditures<sup>14</sup>

The federal expenditures rose by 4.7 percent during FY21 compared to 21.8 percent last year. This slowdown emanated from a restraint on non-interest current spending, while development expenditures & net lending posted a recovery during the year.

##### Federal Current Expenditures

The federal current spending grew by 4.2 percent during FY21, compared to 26.8 percent last year. Major contribution in this increase came from the higher domestic markup payments, defense, and subsidies, while the expenditure on running of the civil government, pensions and grants declined

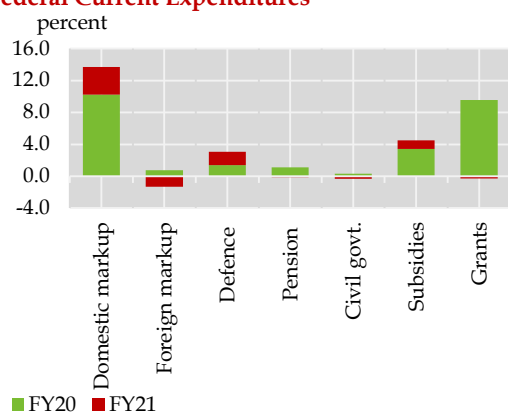
<sup>10</sup> Federal government advances loans to the public sector enterprises, local bodies and others to carry out their development and social initiatives. A mark-up rate is charged on these advances, determined by Finance Division every year. The interest earning from this is being reflected in NTRs.

<sup>11</sup> MoF (2021). *State-Owned Enterprises Triage: Reforms and Way Forward*. Islamabad: MoF

<sup>12</sup> Dividend represents return on the federal government's shareholding of commercial enterprises. This vary each year based on the profitability of these enterprises.

<sup>13</sup> [www.ogdcl.com/sites/default/files/Chronology%20of%20Dividends%20updated%20D-78.pdf](http://www.ogdcl.com/sites/default/files/Chronology%20of%20Dividends%20updated%20D-78.pdf)

<sup>14</sup> The discussion in this section is based on federal expenditures excluding statistical discrepancy.

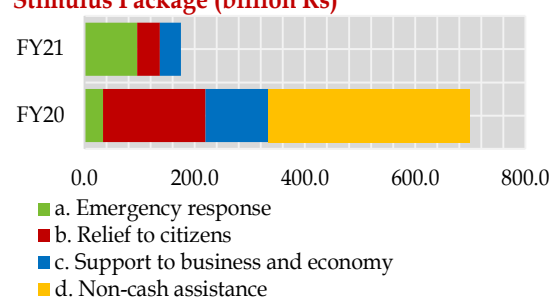
**Growth Contribution in the Federal Current Expenditures****Figure 4.15**

Source: Ministry of Finance

during FY21 (**Figure 4.15**). However, in terms of GDP, federal current expenditures fell from 14.5 percent in FY20 to 13.1 percent in FY21.

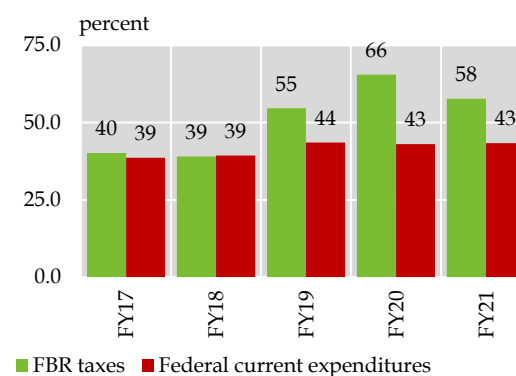
#### **Interest payments stood at 57.7 percent of FBR taxes**

The interest payments grew by 5.0 percent during FY21 as compared to 25.3 percent last year. The country benefitted from lower interest rates and debt relief under the Debt Service Suspension Initiative (DSSI) during FY21.<sup>15</sup> Despite this slowdown, the ratio of interest payments-to-FBR taxes stood at 57.7 percent during FY21. On average, more than half of the FBR taxes are utilized for interest payments since past three years (**Figure 4.16**).

**Disbursements under Economic Stimulus Package (billion Rs)****Figure 4.17**

a. Funds released for National Disaster Management Authority (NDMA), health sector, and emergency relief fund; b. Relief provided to the daily wage workers and poor families and support was provided in terms of food and energy sectors; c) Support to exporters, SMEs, and agriculture sectors; d) Tax exemptions and guarantees for the food, health, energy, and agriculture sectors.

Source: Ministry of Finance

**Share of Interest Payments in Fiscal Indicators****Figure 4.16**

Source: Ministry of Finance

#### **Spending on Economic Stimulus Package (ESP) in FY21**

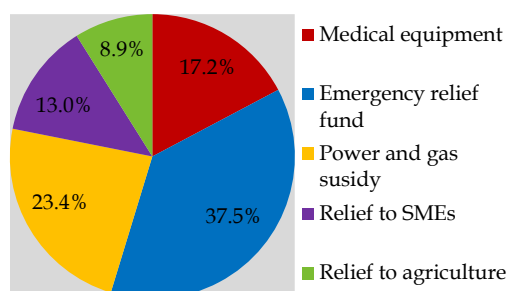
To mitigate the recessionary impact of Covid, the government announced an Economic Stimulus Package worth Rs 1.2 trillion in the second half of FY20. This was primarily designed to help the most vulnerable sectors such as daily wage earners and small businesses by providing cash assistance, lock down management and emergency relief for the purchase of Covid vaccine, management of hospital services. In addition, the package also provided relief to various segments of economy including exports, SMEs and agriculture.

During FY20, the government spent Rs 700.0 billion under this package, and the remaining amount was carried forward to FY21. Out of this amount, Rs 175.0 billion were spent in FY21 (**Figure 4.17**). The focus areas were lock down administration during the second and third waves of the pandemic, purchase and administration of Covid vaccine, awareness campaigns, and provision of hospital equipment and services for the Covid patients.

Furthermore, government provided relief to various sectors such as the power sector, SMEs, and agriculture for reviving economic activity (**Figure 4.18**).

<sup>15</sup> For details, see Chapter 5 on "Domestic and External Debt."

**Figure 4.18**  
**Detail of Disbursements under Economic Stimulus Package (ESP) during FY21**



Source: Ministry of Finance

### Social protection spending in FY21

The government introduced Ehsaas Emergency Cash Program under the ESP and provided immediate financial support to the vulnerable, covering 15 million households all across the country with the total disbursement of almost Rs 179.2 billion.<sup>16</sup>

Furthermore, the spending on social protection (under BISP) for helping the vulnerable, stood at Rs 194.9 billion in FY21, compared to 242.3 billion in FY20.

### Spending on running of civil government declined during the year

The running of civil government spending posted a decline of 3.5 percent during FY21, in contrast to a rise of 3.2 percent increase last year. This reduction was helped by various measures introduced by the fiscal authorities to keep a lid on spending by the federal ministries. The austerity drive which was

initiated in the beginning of FY21 encompassed a complete ban on the purchase of all vehicles (except motorcycles) in current expenditures; the creation of new vacancies; and restrictions on other official protocols – such as the entitlement of magazines and newspapers; rationalization of utility consumption; and constrictions on other operational expenditures.<sup>17</sup>

### Power sector subsidies rose during the year

The government provided Rs 339.0 billion subsidies to power sector during FY21 in various heads, compared to Rs 269.8 billion last year and a budget estimate of Rs 139.5 billion for FY21. This amount also included payment made to Independent Power Producers (IPPs) and Power Holding Private limited (PHPL) to partially settle some of the payments related to circular debt. Because of this payment, the spending on power sector subsidies increased considerably compared to the budget estimates (Box 4.2).

### Federal Development Expenditures

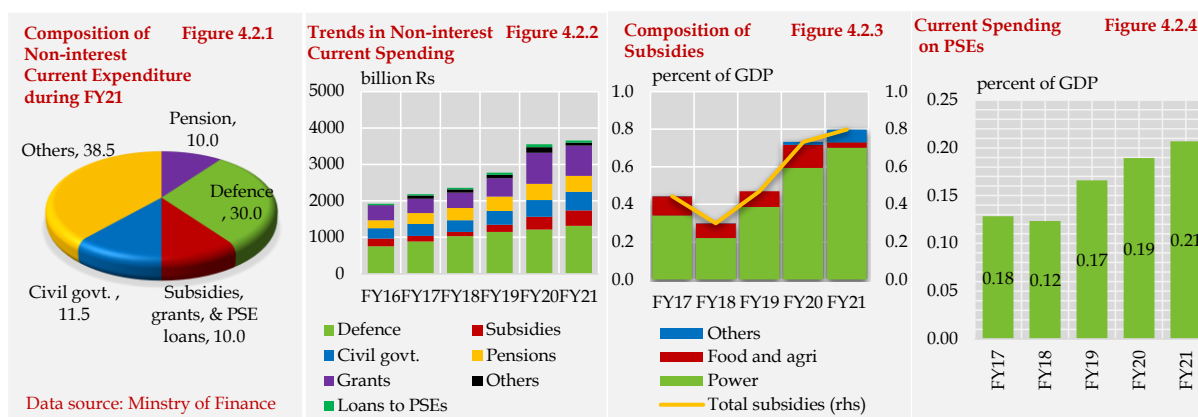
The federal development expenditures ticked up by 1.0 percent during FY21 as compared to a 6.0 percent decline last year. Federal development spending remained downbeat for most part of Jul-Mar FY21. This slack emerged from a number of factors including the government efforts to contain fiscal deficit, Covid-led disruptions in economic activity, and implementation of Public Financial Management (PFM) reforms.

#### Box 4.2: Fiscal Burden of the Power Sector and Public Sector Enterprises (PSEs)

Subsidies, grants, and loans to PSEs constituted a major share in the non-interest current expenditures of the federal government during FY21 (Figure 4.2.1). This share has been increasing overtime, adding increasing burden on the fiscal account (Figure 4.2.2). The major part of the subsidies is directed to power sector, capturing around 80.0 percent share in total subsidies (Figure 4.2.3). As a result, the share of power sector subsidies, loans and grants to PSEs reached close to half of the primary deficit in terms of GDP for the last three years, on average. In addition, the fiscal support to PSEs has also been increasing in terms of GDP (Figure 4.2.4).

<sup>16</sup> Poverty Alleviation and Social Safety Division ([www.pass.gov.pk/NewsDetailWerFf65%5ES23d\\$gH2a3c9cbf-2f66-47d3-a386-4ce516d8bdc30ecFf65%5ES23d\\$Pdf](http://www.pass.gov.pk/NewsDetailWerFf65%5ES23d$gH2a3c9cbf-2f66-47d3-a386-4ce516d8bdc30ecFf65%5ES23d$Pdf)).

<sup>17</sup> Circular No. 7(1) Exp. IV/2016-430, dated August 6, 2020, Expenditure Wing, Finance Division.



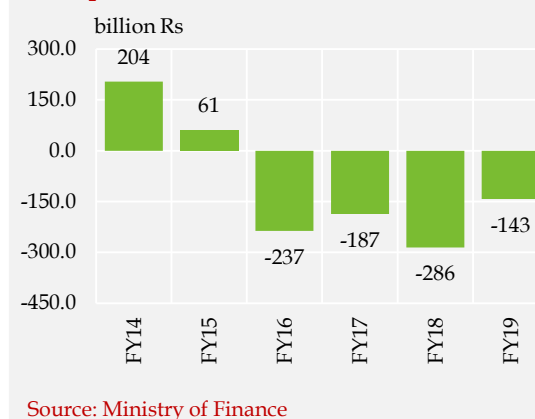
The Circular debt of the power sector rose to Rs 2,280.2 billion in FY21,<sup>18</sup> amounting to 4.8 percent of GDP. The major drivers of the accumulation of arrears included delays in adjustment of power tariffs, DISCO's operation losses, and un-paid subsidies. To arrest the accumulation of power sector arrears and ensure a sustained decline in the circular debt stock, the government has prepared a Circular Debt Management Plan (CDMP) in consultation with the World Bank, ADB and the IMF. The plan included short and medium term measures to achieve the reduction in the debt stock such as automatic quarterly adjustment of power tariffs; rationalizing subsidies by improving targeting; and renegotiating power purchase agreements with IPPs.

The inefficiencies in PSEs are emerging from governance issues, political interventions and other administrative factors. In overall terms, PSEs are showing consistent losses since FY16 (**Figure 4.2.5**), with the sum of the losses of top-10 loss-making PSEs contributing around 90 percent to the total losses each year. NHA, Pakistan Railways, PIA and power sector DISCOs are among the major, top 10 loss-makings PSEs.

Expediting reforms in power sector and PSEs is crucial to lower the fiscal burden arising from their inefficiencies. These reforms should aim at improving governance, transparency and efficiency, strengthening monitoring, advancing privatization, enhancing legal/ regulatory framework, by minimizing government's interference in PSEs' operation, etc. Moreover, the power sector reforms should aim at rationalizing subsidies, boosting antitheft and collection efforts, upgrading generation and transmission infrastructure, expediting privatization of loss making DISCOs.

During FY21 as a part of transition towards Treasury Single Account (TSA), the government introduced some reforms in the procedure of release of development funds to ministries. Specifically, the government introduced a system where various ministries were required to open Assignment Accounts with the National Bank of Pakistan, which is a part of non-food account of the Government of Pakistan maintained by the central bank. The ministries were advised to close all accounts

**Net Profit/Loss of State Owned Enterprises** **Figure 4.2.5**



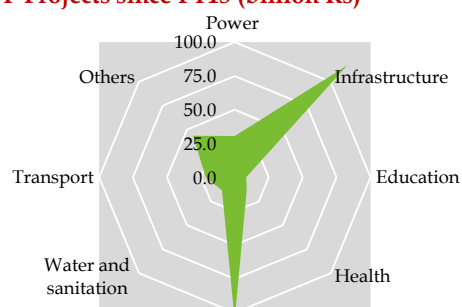
with the commercial banks and shift their balances to these accounts with the underlying objective of consolidation of cash resources by maintaining single account with SBP. The ministries received disbursements from the federal government for undertaking development projects in these accounts. However, anecdotal evidence suggests that delays in adopting to these new procedures led to slowdown in the disbursement of funds to various ministries, which in turn hampered

<sup>18</sup> NEPRA (2021). *State of Industry Report*. Islamabad: NEPRA.

the pace of development spending during Jul-Mar FY21. However, these restrictions were relaxed towards the last quarter of FY21, leading to a 6-years high increase in development spending during Q4-FY21.

An analysis of the last five years reveals that the composition of PSDP projects was mainly tilted towards infrastructure spending such as construction of road, dams, bridges and programs aiming at social and regional development (Figure 4.19). However, various structural and administrative bottlenecks have hindered the timely completion of these projects (Box 4.3).

**Average PSDP Release Authorization of the Major PSDP Projects since FY15 (billion Rs)** Figure 4.19



This analysis is conducted on 70 percent of the PSDP projects for the last five years.

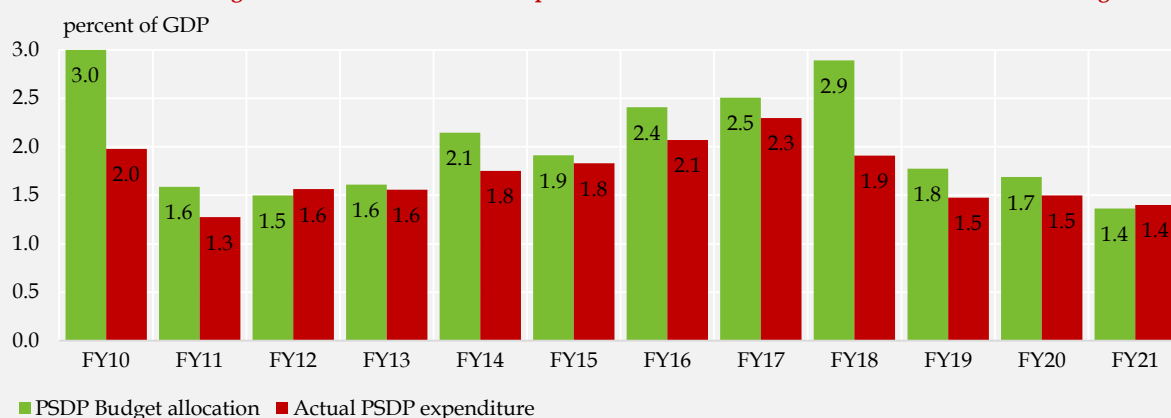
Source: Planning Commission

**Box 4.3: Delays in Execution of Public Sector Development Program (PSDP) in Pakistan**

Public sector spending is instrumental for the development of human and physical capital of a country. Sustained increase in public investment scale up productivity growth and crowd in private investment [Bivens (2012)]. However, these benefits are contingent upon efficient execution of various development projects within stipulated timeframe. The timely completion of projects not only provides fiscal space for new development priorities, this also prevents additional burden on the fiscal resources by avoiding cost overruns, caused by project delays. In this context, Pakistan’s performance during the past few years highlights delays in the timely completion of PSDP projects. The experience of some recent years shows a consistent decline in the budget allocation for PSDP expenditures. However, the actual development expenditures could not keep pace even with the reduced allocations (Figure 4.3.1). This is particularly true for the infrastructure projects such as roads, bridges, and dams and the national development goals including achievement of Sustainable development goals (SDGs) and population welfare programs. The frequent delays result in the accumulation of throw forward liabilities, which squeeze the availability of fiscal resources for executing newer projects.

A number of challenges can be identified including dearth of financial resources, inadequate project management skills and lack of coordination between various government institutions, which has hampered the timely completion of various PSDP projects. The continued gap between the budgeted, released, and actual funding for

**Federal PSDP - Budget Allocation versus Actual Expenditure** Figure 4.3.1



Source: Ministry of Finance and Planning Commission

PSDP projects highlights the need to reform the PSDP implementation process to ensure achievement of planned development agenda of the government. The delays also highlights issues in funding and the impediments in the implementation procedures such as procurement processes, appointment of contractors, land acquisition, etc. Moreover, lack of adequate project execution capacity particularly in the special areas and line ministries also affects the timely completion of the projects [Pasha et al (2012)].

**Bottlenecks of Monitored Projects during 2011-2018 (Sector wise Number of Projects)****Table 4.3.1:**

Sr. No.	Major Issues	Others	Social	Infrastructure	Total
1	Delay in release of funds	113	164	176	453
2	Management capacity	32	236	90	358
3	Delay in procurement	47	35	56	138
4	Co-ordination issues	11	47	40	98
5	Land acquisition	51	27	18	96
6	Delay in recruitment	13	33	47	93
7	Law and order situation	38	12	27	77
8	Governance issues	1	58	12	71
9	Delays in consultants' appointment/designing	27	28	8	63
10	Lack of decision making	5	37	11	53
11	Contractor's problem	11	35	4	50
12	Turnover of project director/staff	9	23	15	47
13	Non-existence of PMUs*	0	32	5	37

\* PMUs: Project Management Units. Note: The above-mentioned 13 issues have been identified from around 500 projects for the time period 2011-2018

Source: Shah, S.A. (2018). Appraisal of PSDP Projects' Implementation.

#### Major factors underlying delays in the completion of PSDP projects<sup>19</sup>

**Lags in the release of funds:** During 2011-2018, delay in release of funds led to a slowdown in completion of around 453 projects out of a total 500 (Table 4.3.1) [Shah (2018)].

**Issues in land acquisition:** Lack of collaboration between various government agencies, and governance issues lead to delays.

**Lack of project management and implementation capacity:** Weak project management and implementation capacity arising from lack of decision making, mismatch between the required and actual skill set of human resources, governance issues, coordination issues, delay in recruitment, absence of Project Management Units (PMUs), are some impediments in the timely completion of projects. The problems regarding management capacity exist particularly in the social sector projects (Table 4.3.1).

**Lack of coordination between federal/provincial/local** leads to wastage of considerable time for settlement of such issues.

**Delay in procurement.** Insufficient knowledge about Public Procurement Rules (PPR) leads to delay in procurement of the machinery and other inputs.

**Weak project design:** Abrupt changes in the planned PSDP program, for instance, by introduction of new projects in the middle of the year also affects the functioning of overall projects.

**Other issues:** Generic problems on the part of project directors and interrelated ministries like, fulfillment of formalities, preparation of progress reports, unexpected delays in procurements, and non-availability of human resource are some other reasons explaining the gaps between authorized/released funds and their actual realization.

Nonetheless, the bottlenecks in the timely and efficient completion of infrastructure PSDP projects can be partially removed by considering the following aspects: (i) various stakeholders across federal, provincial, and local governments should be taken on board to devise some principles for the execution and handling the mega projects, which require higher funds and time. This cooperation should aim to ensure insulation of the project design and implementation from the negative administrative and political influences, guidance of the projects through research based motives and clearly defined goals and targets, well defined alternatives, involvement of citizens support, and establishment of the research organizations for the collection, research, and monitoring of the projects [Haque et al (2020)]; (ii) As suggested by United Nations Department of Economic and Social Affairs (UNDESA), developing guidance material<sup>20</sup> for the local and subnational governments is helpful for

<sup>19</sup> This analysis draws heavily from our discussion with the concerned government representatives.

<sup>20</sup> The term refers to the procedures which are used to improve monitoring and reporting capacities, strengthening data utilization, data informed decisions and improvement in the knowledge and awareness of policy makers.

operationalizing the existing projects and facilitating their timely completion; (iii) The implementation of Public Financial Management (PFM) reforms will help streamline PSDP projects' identification and implementation by facilitating PSDP release strategy, technical approvals, etc.; (iv) The quality of project management should be improved by providing training to the relevant staff and by ensuring appointment of project managers with the required skills and expertise; and (v) Simplification of land acquisition process. The government has already introduced various reforms for improving the ease of doing business. The continued thrust of these reforms in simplification of land acquisition process will introduce efficiency in the implementation of PSDP projects.

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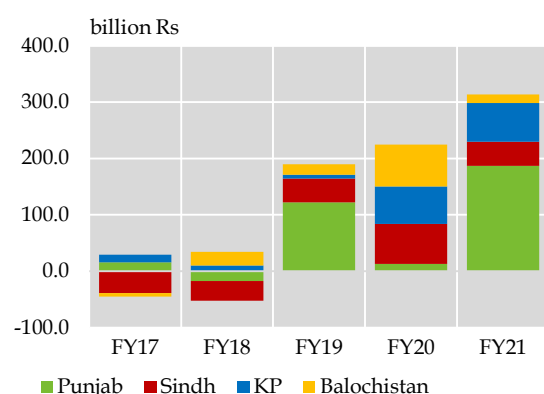
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### 4.5 Provincial Fiscal Operations

Provinces posted a combined surplus of Rs 313.6 billion during FY21, exceeding the annual target of Rs 242.0 billion. Major contribution came from Punjab and KP. This was achieved by a higher growth in total provincial revenue that surpassed the increase in total expenditure during the year (Figure 4.20).

#### Provincial Revenue

Provincial Surplus Figure 4.20



Source: Ministry of Finance

The provincial revenues rose by 15.0 percent in FY21 as compared to 8.2 percent last year (Table 4.6). All provinces recorded a double-digit growth in total revenues except Balochistan.

#### Provincial own revenues remained upbeat during FY21

The provincial own revenue collection went up by 27.7 percent during FY21 compared to 5.7 percent last year. The major impetus came from GST on services, and motor vehicle tax (Figure 4.21). A revival in the economic activity, higher imports, and turnaround in automobile sales primarily explain this increase.

This improvement was seen despite tax relief measures announced by the provincial governments in the FY21 budgets to support the economic activity. Specifically, Punjab government reduced GST on services from 16.0 percent to 4.0 percent for around 20 services including hotels, wedding halls, IT service providers, property dealers, agriculture service providers, and tax consultant agents etc.<sup>21</sup> Furthermore, the

<sup>21</sup> Tax Relief Measures by Punjab Revenue Authority ([www.pra.punjab.gov.pk](http://www.pra.punjab.gov.pk)).

**Provincial Fiscal Operations****Table 4.6**

billion Rupees; growth in percent

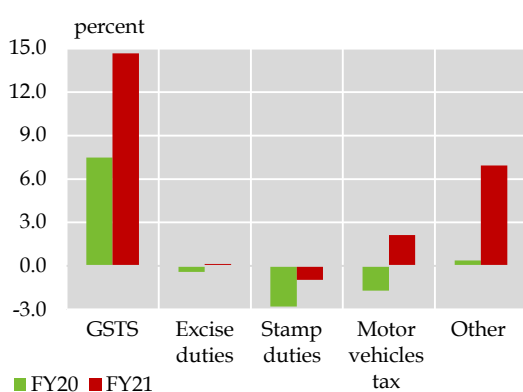
	FY20	FY21	YoY Growth	
			FY2	FY2
A. Total revenue	3241.0	3728.0	8.2	15.0
a. Provincial share in	2504.0	2741.9	4.4	9.5
b. Fed loans and	221.0	327.5	100.9	48.2
c. Provincial own	516.0	658.7	5.7	27.7
<i>Taxes</i>	413.6	508.4	2.9	22.9
<i>Non-taxes</i>	102.4	150.3	18.6	46.8
B. Total expenditures	3163.9	3614.4	10.7	14.2
<i>a. Current</i>	2541.9	2844.2	8.1	11.9
<i>b. Development</i>	621.9	770.2	22.9	23.8
Statistical discrepancy	-147.8	-200.0	-	-
Overall balance (A-B)	77.06	313.62	-44.5	307.0

Source: Ministry of Finance

services for health insurance, medical consultation, and bedroom charges for hospitals were tax exempted in the budget for FY21. Similarly, Sindh government provided GST exemptions to various services such as export of call centers, health insurance services.

The tax collection in Punjab grew by 18.3 percent in FY21, against a 1.5 percent reduction last year. The collection primarily came from GST on services and motor vehicle tax. Moreover, cross-input tax adjustment between FBR and the Punjab Revenue Authority during FY21 also contributed to the province's tax revenue collection.

Sindh's revenue performance also remained strong during FY21. The recovery in imports and telecom sector mainly explains the increase in collection from GST on services in

**Growth Contribution of Provincial Own Revenue Collection** Figure 4.21

Source: Ministry of Finance

Sindh during FY21. The categories with major contributions were port, airport, and terminal operations followed by franchise, banking, telecom, and insurance services.

Provincial non-tax revenues increased by 46 percent in FY21 compared to 18.6 last year. KP had the largest contribution in this growth emanating from higher hydel electricity generation that led to an increase in profits.

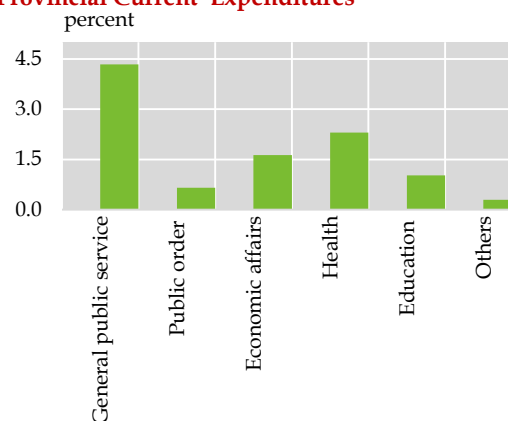
**Provincial Expenditures**

Provincial current spending rose by 11.9 percent during FY21 compared to 8.1 percent last year. Major areas of spending were general public service including transfers to district and local governments, financial, fiscal, and legislative affairs; economic affairs which mainly covers agriculture, food, construction, transport; and health (Figure 4.22).

The provincial development expenditures surged by 23.8 percent during FY21 compared to 22.9 percent last year. Broadly, all provinces contributed to this upswing during the year.

Provincial health spending saw a significant expansion for facilitating measures to handle pandemic induced disruptions. These expenditures were mostly directed towards improvement of hospital and public health services.

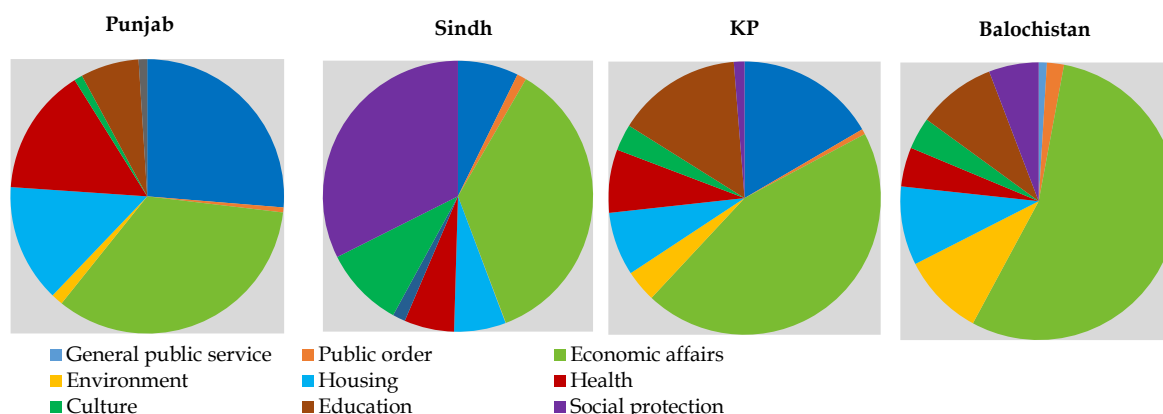
KP government focused on higher health spending during the year by providing better hospital services (Figure 4.23). The 'Sehat

**Growth Contribution of Provincial Current Expenditures** Figure 4.22

Source: Ministry of Finance

Provincial Development Priorities during FY21 (billion Rs)

Figure 4.23



General public services includes the financial, legislative, and fiscal affairs of the provincial governments. Economic affairs constitute transport, construction, food, agriculture, energy, and other industries.

Source: Ministry of Finance

Sahulat Program’ was initially launched in KP in 2015 to provide health insurance services to the masses. The coverage of this program was enhanced in the subsequent years and was transformed into a universal health coverage in FY21.

The development priorities of Punjab remained uniform across sectors such as housing, health, education, social protection during the year. The province’s development expenditures grew by 35.0 percent in FY21 against 9.4 percent last year. Specifically, the health spending of the province doubled to Rs 53.8 billion in FY21 compared to Rs 26.1 billion

last year. Following KP’s experience, Punjab also launched ‘Sehat Sahulat Program’ in FY21 with coverage across the whole province (registered with NADRA), aiming at providing free health facilities.

Sindh also showed a growth of 19.6 percent during the year compared to a reduction last year. Social protection, food and agriculture constituted a major portion of development expenditures. The main focus of social protection was on women and childhood development. The development spending in Balochistan mainly focused on education, culture, housing, and social protection.