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FOREWORD

Statements by government functionaries have been giving a positive spin about a turnaround in Pakistan's economy. However, recent reports by the World Bank and the United Nations Conference on Trade and Development have pictured Pakistan's economy dismally. This despite the fact that Pakistan's economic policy making machinery is currently dominated by IMF. Pakistan has availed over 21 adjustment programmes since its formal membership with IMF. Yet, it has failed to provide respite to continuing economic crises; instead they have obliged only elite sections of society.

A basic factor in the failure of all economic policies is lack of legitimacy, since they have been framed under the framework imposed by the agreement with IMF in 1988, when there was no parliament and no Prime Minister and was signed by a semi-military caretaker government days before an elected government was to take power. The agreement is deemed "unconstitutional".

The analysis of 2018-19 data shows that our debts have risen, imports have become costly due to devaluation of currency, exports are stagnant because of growing input costs and closure of local manufacturing industries, production of major agriculture crops have declined and other economic indicators are quite dismal.

The analysis of Budget 2019-20 by senior researcher Ms. Iffat Ara and a pro-people economist Dr. Kaiser Bengali has questioned the intention behind a budget that has highly unrealistic targets and actually proposes an increased budget deficit. This is an indication that our economy would further deteriorate, unemployment would further increase and inflation would further erode the purchasing power of the working class. And the virtual elimination of allocations for social development sectors like education, health, housing and environment is certain to further lower the standards of living.

Publication of this paper by PILER is an attempt to initiate a public discourse on key economic issues directly affecting the general masses. We firmly believe that that without introducing pro-people reforms in the economy, in the land tenure regime, and in the electoral system, the lives of common people will not improve.

Karamat Ali
Executive Director, PILER

1 INTRODUCTION

Pakistan's economy has been operating on a low level of output for more than a quarter century, characterized by stagnancy and volatility. Key macroeconomic indicators relating to tax collection, current expenditure, exports and debt – domestic and external – have been pointing towards a brewing crisis. For the people at large, the crisis manifests itself in unemployment and poverty and deteriorating housing, education, health and other services. That aspect, however, is now drowned out by the neo-liberal din of priority to be accorded to stabilization at the cost of growth.

Any economy that has been reporting stagnant and volatile growth across all commodity producing sectors over such a long period and where fiscal and current account deficit targets are missed year after year is essentially moribund. That it has been functioning – or rather, appears to be functioning – is on account of large debt infusions, particularly foreign.

The assumption of power by a new political party in August 2018 kindled hope for positive change. One year down the road – a couple of mini-budgets, change of command in key economic and financial institutions, a new IMF programme, and a full-fledged budget later – the judgment is mixed.

One element that stands out for the year 2018-19 is the continued – even worsening – state of stagnancy, reflected in the large number of negatives. The year saw important Crops and Large-scale manufacturing sectors reporting negative 6.6 percent and negative 2.1 percent growth, respectively. That textiles reported negative 33 percent growth in 2018-19 over zero average growth during 2016-18 is profoundly serious, given that the sector is the largest in terms of output, industrial employment, and exports. The state of the economy is also reflected in external sector statistics, with the export-GDP ratio declining to just 7 percent. After all, an economy that does not produce cannot have the needed surplus to sell abroad. The result is yawning trade deficits and the consequent depreciation of the national currency that has just been witnessed.

A more worrisome aspect, perhaps, is the low to negative growth in Gross Domestic Capital Formation, with GDCF in Large-scale manufacturing in 2018-19 recorded at negative 11 percent. Negative growth is equivalent to disinvestment and implies that, *sans* replacement investment, the economic infrastructure has eroded. The impact of such a situation is not just productivity declines, but the inability for the economy to produce. Under the circumstances, efforts to effect growth in GDP, exports or

employment are likely to be in vain and any claims to the contrary would lack credibility.

The federal Budget for 2019-20 paints a dismal picture of fiscal performance during the year 2018-19. Key revenue receipts are below target, with 18 out of 22 tax and non-tax targets having been missed. The only exception is external financing, which is 26 percent above budget. While current expenditure has continued its march forward, development expenditure has seen the heavy cuts.

The federal Budget 2019-20, however, portrays an impressive degree of optimism – and ambition. Tax target, in particular, appear to be heroic. Perhaps, the budget makers are counting on high 2020 growth on the grounds of a lower 2018-19 base or aggressive tax collection or both. A perusal of overall expenditure trends shows a significant leap in current expenditures as well as development expenditure. One bright spot in Budget 2019-20 is the large allocation for Social Protection, increasing from less than Rs. 3 billion in 2018-19 to Rs. 191 billion in 2019-20.

The Budget 2019-20 projects increased fiscal deficits, despite the heroically large tax revenue collection targets. Ostensibly, that is on account of continued expenditure growth, including current expenditure. The year 2018-19 closed with federal and overall fiscal deficits at 7.3 percent and 7.2 percent of GDP. Ironically, the Budget projected federal fiscal deficit at 8.1 percent of GDP for the year 2019-20. New 'Fiscal Operations' figures released by the government in August, however, raises the federal and overall fiscal deficits to -9.2 percent and -8.9 percent of GDP, respectively.

One intriguing element of the new budget is the projected increase of 176 percent in SBP profits in 2019-20 over 2018-19 receipts. SBP profits largely accrue from loans to the government and foreign exchange operations. Reportedly, however, IMF conditions bar borrowing from the SBP. That leaves foreign exchange operations, which are highly volatile. If the projected profits does not materialize and other receipts and expenditure estimates remain constant, the fiscal deficit will rise even further. Or, if recourse is made to cover the deficit via external financing, foreign indebtedness will rise further. One of the two principal conditions obligated by IMF is to bring the fiscal deficit down to manageable levels. However, for a budget prepared under IMF tutelage to actually raise the fiscal deficit target by design raises questions of intent.

Debt payments merits a closer scrutiny. The largest increase in the debt component is in servicing of foreign debt and foreign loan repayment, which together rose by 120 percent in 2018-19 over the average of 2016-18. Resultantly, the share of foreign debt obligations in total debt servicing rose from an average of 31 percent

over 2016-18 to 42 percent in 2018-19, and the share of foreign debt obligations as a percentage of GDP increased from 1.8 percent to 3.2 percent. Correspondingly, domestic the share of domestic debt servicing fell by 11 percentage points from 69 percent to 58 percent.

Box 1.1: Dollarization of Revenue Base

The subject of sources of revenues is important from the perspective of national economic sustainability – and national economic and political sovereignty. In this respect, the rising share of external financing of the budget can be a matter of concern.

	2016-18 (RA)	2018-19 [R]/ 2016-18 (RA)	2018-19 (R)/ 2018-19 (B)	2019-20 (B)
Growth				
• Internal Revenue	6.9	18.7	-1.2	23.4
• External Revenue	19.7	36.4	25.5	116.1
Share of Gross Revenue				
• Internal Revenue	83.7	81.7	71.8	
• External Revenue	16.3	18.3	28.2	
As % of GDP				
• Internal Revenue	16.6	16.3	17.7	
• External Revenue	3.2	3.6	7.0	

Note: (RA) = Revised Average; (R) = Revised; (B) = Budgeted

Source: Government of Pakistan, Ministry of Finance, Pakistan Economic Survey, (various issues).

The above table shows that internal financing growth nearly tripled from 7 percent over 2016-18 to 19 percent in 2018-19; but was one percent below budget in 2018-19. The Budget 2019-20 projects internal revenue growth at 23 percent. External financing growth nearly doubled from 20 percent over 2016-18 to 36 percent in 2018-19 and was 26 percent above budget in 2018-19. The Budget 2019-20 projects external revenue growth at 116 percent!

Resultantly, the share of internal financing has declined from 84 percent over 2016-18 to 82 percent in 2018-19 and projected to fall further to 72 percent in 2019-20. Correspondingly, the share of external financing has risen from 16 percent over 2016-18 to 18 percent in 2018-19 and projected to rise to 28 percent in 2019-20.

Accordingly, the share of internal financing as a percentage of GDP has declined from 16.6 percent over 2016-18 to 16.3 in 2018-19, but projected to rise 1.4 percentage points to 17.7 percent. On the other hand, the share of external financing as a percentage of GDP has risen from 3.2 percent over 2016-18 to 3.6 percent in 2018-19 and projected to nearly double to 7 percent – a rise of 3.4 percentage points.

The IMF's handling of Pakistan's external debt problem is perplexing. The country faces a net foreign exchange deficit of around US\$ 15-20 billion. The IMF bailout, however, offered only US\$ 6 billion over three years, with the balance to be raised from other institutional and (expensive) commercial sources. External borrowing on commercial terms will raise foreign debt burden exponentially – placing its balance of

payments under even greater stress and forcing recourse to yet more external borrowing. The impact on Balance of Payments, exchange rate, etc., can be imagined. The Budget 2019-20 appears to be designed to enhance dependence on external financing. Box 1.1 aptly sums up the situation.

2 STATE OF THE ECONOMY IN 2018-19

The SZABIST Report on the State of the Economy¹, covering a quarter century period from 1990 to 2015, highlighted stagnancy and volatility in every sector of the economy – including all major crops and all major industries. The present Report shows that the pattern of stagnancy has not only continued but worsened. The economy is locked in a low growth trap and worsening, with many sectors reporting negative growth. The situation is akin to a recession and the commodity producing sectors certainly so.

Commodity producing sectors – agriculture and manufacturing – are the backbone of the economy and it is these sectors that have been performing significantly below par for almost three decades. Any economy that has been reporting stagnant growth over such a long period is essentially moribund. That it has been functioning – or rather, appears to be functioning – is on account of large debt infusions. That option too has run its course. Mere remedial patchwork can only be at the risk of compromising the country's economic and political sovereignty.

¹ Bengali, Kaiser, *"Economy on a Roller Coaster – And Stuck in the mud"*, SZABIST, 2018

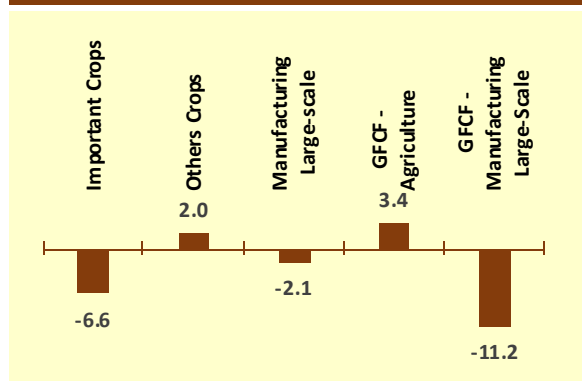
State of commodity-producing sectors

An overview of major commodity producing sectors presents a bleak picture (see Table 2.1). The Important Crops sector growth has plummeted from a low average of 2.8 percent over 1990-2015 to almost zero over 2016-18 and to negative 6.6 percent in 2018-19. Other Crops sector has remained locked in a low 2 percent or less growth path. Large-scale manufacturing growth has declined from an average of about 5 percent over 1990-2018 to negative 2 percent in 2018-19. Gross Fixed Capital Formation (GFCF), which depicts investment, is constant in agriculture at a low average of less than 4 percent since 1990 and showing no improvement. GFCF growth in large-scale manufacturing reported zero average growth over the 25-year period 1990-2015, recovered to 6 percent over 2016-18, and has crashed to negative 11 percent in 2018-19, indicating significant disinvestment.

Table 2.1: Performance of key sectors – Growth (%)

Sector	1990-2015	2016-18	2018-19
Important crops	2.8	0.1	-6.6
Other crops	1.9	1.3	2.0
Manufacturing	5.0	4.6	-2.1
Large-scale			
GFCF			
• Agriculture	3.6	3.7	3.4
• Manufacturing	0.0	6.2	-11.2
Large-scale			

Chart 2.1: Performance of key sectors – 2018-19 Growth (%)



Note: GFCF = Gross Fixed Capital Formation

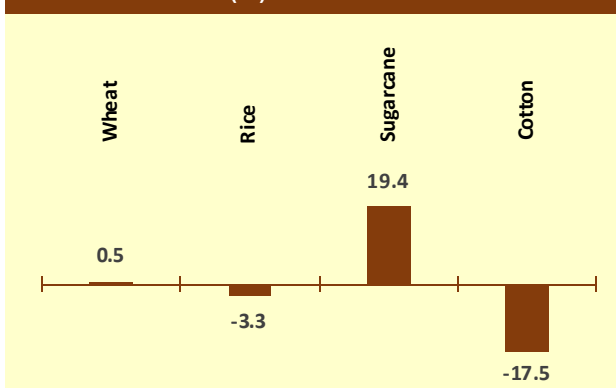
Source: Government of Pakistan, Ministry of Finance, Pakistan Economic Survey, (various issues).

The crop sector performance is indicative of abjectly serious long-term crisis, with the Important Crop sector downturn underlined by the poor performance of individual crops (see Table 2.2). Wheat output growth is down from a low average of 2.4 percent over 1990-2015 to nearly zero growth over the last four years, 2016-19. Rice output growth has declined from a low average of 4 percent over 1990-2015, halving to 2 percent over 2016-18 and declining further to negative 3 percent growth in 2018-19. Sugarcane growth rose from a low average of 2.7 percent over 1990-2015 to 10 percent over 2016-18, collapsing to negative 19 percent in 2018-19; indicating volatility. Cotton output growth declined from a low average of 3 percent over 1990-2015 to negative 3 percent over 2016-2018 and has caved in to negative 18 percent in 2018-19 (see Table 2.2).

Table 2.2: Performance of major crops – Growth (%)

Crops	1990-2015	2016-18	2018-19
Wheat	2.4	0.1	0.5
Rice	4.0	2.2	-3.3
Sugarcane	2.7	10.0	19.4
Cotton	3.2	-3.1	-17.5

Chart 2.2: Performance of major crops – 2018-19 Growth (%)



Source: Government of Pakistan, Ministry of Finance, Pakistan Economic Survey, (various issues).

The performance of the large-scale manufacturing sector is also dismal, with the sample of 14 industries showing average growth of just 5 percent over 1990-2018 and crashing to negative 6.6 percent in 2018-19 (see Table 2.3). An industry-wise overview over the period 1990-2015 shows that, out of 14 industrial sectors, only paints & varnishes and paper & board reported double digit average growth at 12.5 percent and 10 percent, respectively. Seven industries reported average growth at above 5 percent, four below 5 percent, and one – bicycles – reported negative growth at 2.8 percent (see Table 2.3).

Table 2.3: Performance of key industrial sectors – Growth (%)

	1990-2015	2016-18	2018-19
Beverages	7.3	5.6	-2.4
Bicycles	-2.8	-1.6	-12.4
Cement	6.3	8.6	-5.4
Chemicals	3.6	6.2	6.5
Cigarettes	3.3	7.2	7.2
Fertilizers	3.2	1.9	4.2
Paints & Varnishes	12.5	2.6	-3.9
Paper & Board	9.7	5.8	-3.8
Steel	5.5	20.4	-24.7
Sugar	5.7	10.1	-13.4
Textiles: Yarn	6.1	0.6	-33.3
Textiles: Cloth	5.6	0.2	-33.1
Tyres & Tubes	6.0	-16.5	12.0
Vegetable Ghee	2.8	9.0	0.8

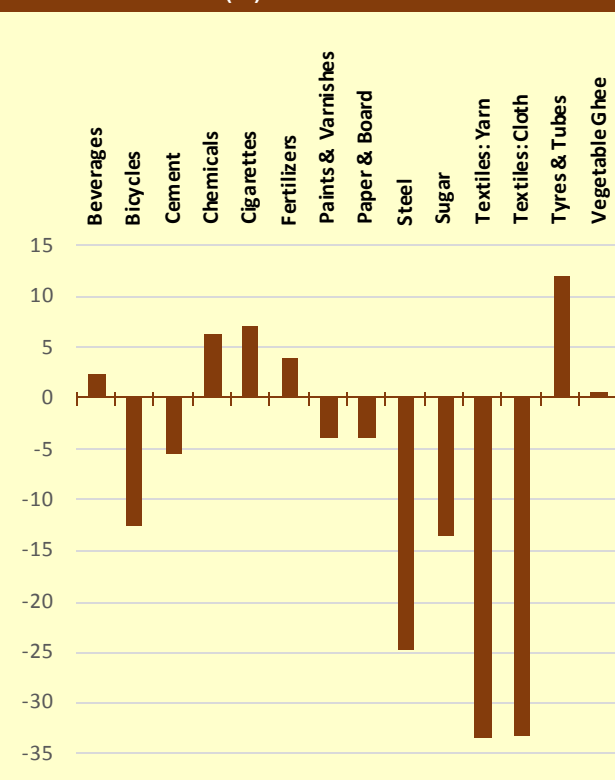
Source: Government of Pakistan, Ministry of Finance, Pakistan Economic Survey, (various issues).

The years 2016-18 showed mixed performance, with steel and sugar reporting double digit average growth, led by steel at 20 percent. Modest improvements were reported in cement, chemicals, cigarettes, and vegetable ghee and declines were reported in beverages, fertilizers, paints & varnishes, and paper & board. Average growth in textiles – yarn and cloth – was reduced to zero and to negative in tyres & tubes and bicycles. In fact, it appears that the domestic bicycles industry is on the verge of extinction.

The year 2018-19 is particularly disheartening, with nine out of fourteen sectors reporting negative growth and bicycles, cement, steel, sugar, yarn and cloth all reporting negative growth in double digits. That textiles reported negative 33 percent growth in 2018-19 over zero average growth during 2016-18 is profoundly serious, given that the sector is the largest in terms of output, industrial employment, and exports. The double digit growth in tyres & tubes is statistical, given the high negative growth in the previous three years.

The more worrisome aspect is the low to negative growth in GFCF in agriculture and manufacturing. Negative growth is equivalent to disinvestment and implies erosion of economic infrastructure. The impact of such a situation is not just declining productivity, but also the inability for the economy to produce. Efforts to effect growth in GDP are likely to be in vain and any claims to the contrary would lack credibility. The Pakistan economy is trapped in a low growth equilibrium.

Chart 2.3: Performance of key industries – 2018-19 Growth (%)



Source: Government of Pakistan, Ministry of Finance, Pakistan Economic Survey, (various issues).

State of Trade Balance

The state of the economic base is reflected in external sector statistics. Export growth declined from 7 percent over 2000-15 to 6 percent over 2016-18 and to negative one percent in 2018-19 (see Table 2.4). Textiles, Pakistan's largest export, registered one percent negative growth and the second largest manufactured export – leather goods, sports goods and footwear – also fell about 10 percent (see Table 2.5). Exports of food, carpets and cement also show negative growth at 4 percent, 11 percent, and 3 percent, respectively. The export to GDP ratio has crashed from an average of 12 percent over 2000-15 to 7 percent 2016-18, recovering marginally to 8 percent in 2018-19. After all, an economy that does not produce cannot have the needed surplus to sell abroad.

Import growth, recorded at a low average of 8 percent over 1990-2015, surged to 17 percent over 2016-18, and plummeted to negative 10 percent in 2018-19 (see Table 2.5). The year 2018-19 saw negative growth in all import categories: Food (-8 percent), machinery (-23 percent), transport equipment (-30 percent), and textiles (-12 percent). Petroleum imports recorded zero growth. Machinery and mining equipment recorded 53 percent and 40 percent declines, respectively, on account of completion of power projects in Punjab and of mining infrastructure in Block 2 in Tharparkar. Yet, however, the overall declines are indicative of the weakening of economic activity in the country.

Given the growing adverse gap between exports and imports, the trade deficit has surged from 5 percent over 2000-15 to 10 percent over 2016-18 and to 11 percent in 2018-19., with implications for the exchange rate.

Table 2.4: Performance of key external economy indicators (%)

Indicators	1990-2015	2016-18	2018-19
Export growth	6.9	6.0	-1.0
Import growth	8.3	16.7	-9.9
Imports/Exports ratio	123.3	245.9	238.5
Export/GDP ratio	11.8	7.2	7.9
Import/GDP ratio	16.8	17.6	18.8
Trade/GDP ratio	4.9	10.4	10.9

Source: Government of Pakistan, Ministry of Finance, Pakistan Economic Survey, (various issues).

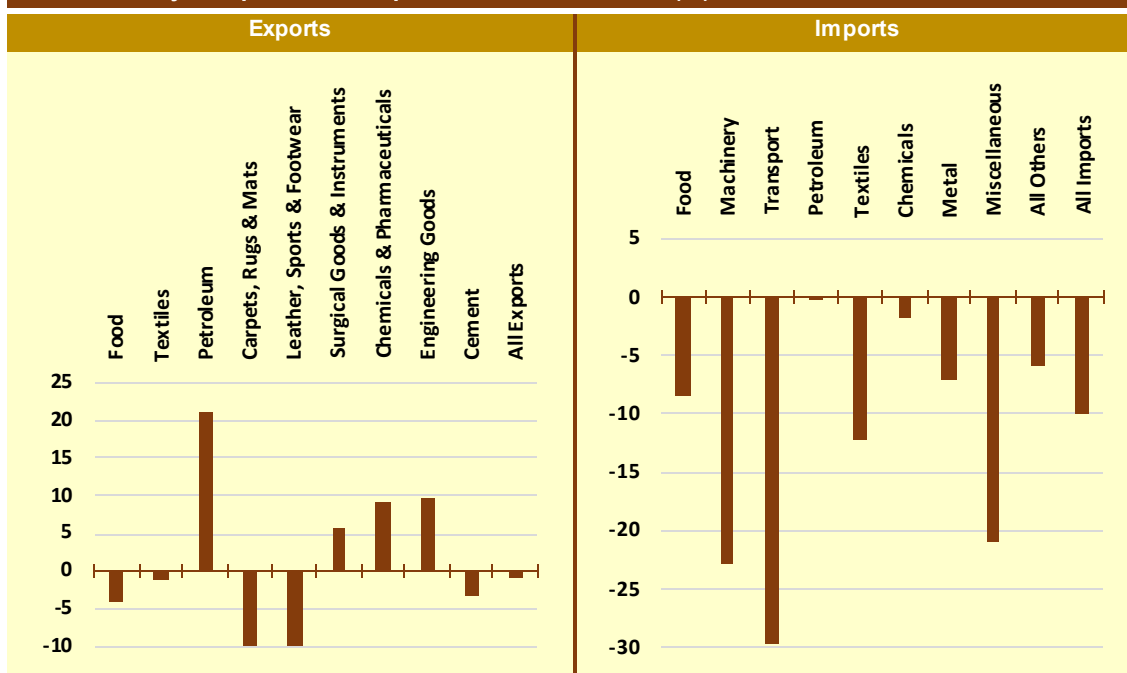
Table 2.5: Major exports and imports – Growth (%)

Exports			Imports		
Commodity Group	2016-18 (RA)	2018-19 (R)/ 2016-18 (R)	Commodity Group	2016-18 (RA)	2018-19 (R)/ 2016-18 (R)
Food	11.2	-3.9	Food	7.3	-8.3
Textiles	4.3	-1.4	Machinery	17.7	-22.8
Petroleum	62.9	21.2	Transport	22.1	-29.7
Carpets, Rugs & Mats	-1.7	-11.3	Petroleum	37.6	0.1
Leather, Sports & Footwear	-2.7	-10.4	Textiles	7.9	-12.1
Surgical Goods & Instruments	2.4	5.7	Chemicals	11.3	-1.8
Chemicals & Pharmaceuticals	9.0	9.2	Metal	14.2	-7.1
Engineering Goods	-16.7	9.6	Miscellaneous	8.0	-20.8
Cement	21.9	-3.2	All Others	6.0	-5.8
All Exports	6.0	-1.0	All Imports	16.7	-9.9

Note: (RA) = Revised Average; (R) = Revised.

Source: Government of Pakistan, Ministry of Finance, Pakistan Economic Survey, (various issues).

Chart 2.5: Major exports and imports – 2018-19 Growth (%)



Source: Government of Pakistan, Ministry of Finance, Pakistan Economic Survey, (various issues).

State of service and income balances

A major emerging component of Balance of Payments deficits is profit remittance outflow. This new phenomenon is on account of the nature of privatization and foreign direct investment (FDI). State enterprises that have been privatized are largely service sector entities and FDI is also concentrated in service sectors. All such units gross their revenues in rupees and remit their profits in dollars, with no corresponding dollar inflow. This situation is unlike that of China, where FDI in export manufacturing earned net dollar income for the host country as well.

Table 2.6: Profile of services and income balances

Year	Services	Income	Aggregate	Share (%) [*]
2009	-3,381	-4,407	-7,788	56.6
2010	-1,690	3,282	-4,972	66.0
2011	-1,940	3,017	-4,957	60.9
2012	-3,305	3,245	-6,550	49.5
2013	-1,564	-3,669	-5,233	70.1
2014	-2,650	-3,955	-6,605	59.9
2015	-2,963	-4,595	-7,558	60.8
2016	-3,406	-5,347	-8,753	61.1
2017	-4,339	-5,048	-9,387	53.8
2018	-6,068	-5,484	-11,552	47.5
2019	-2,534	-3,887	-6,421	60.5

Average **58.8**

* Share of Income Balance in Aggregate Balance.

Source: Government of Pakistan, Ministry of Finance, Pakistan Economic Survey, (various issues).

Historically, profit remittance – inflow and outflow – was recorded as part of the Services Balance. However, profit remittance outflow became so large that the State Bank of Pakistan created a new category of Income Balance and the income deficit

now comprises nearly 60 percent of the aggregate services and income deficit (see Table 2.6).

3 BUDGETARY PERFORMANCE: 2015-16 to 2019-20

This section presents a review of trends in the federal budget over a 5-year period from 2015-16 to 2019-20. Performances of both resources and expenditures are provided by considering averages (growth rates and shares) for the 3-year period 2015-16, 2016-17 and 2017-18 in order to smooth over year-to-year fluctuations and to form the base for comparison. The inference is then drawn by judging revised estimates for 2018-19 against the three year average for 2016-18; revised estimates against budgeted estimates for the year 2018-19; and budgeted estimates of 2019-20.

RESOURCES

Looking back: performance in 2018-19 over 2016-18

Profile of resources

Growth in gross resources in 2018-19 stood at 22 percent depicting a healthy picture compared to the average of 9 percent over 2016-18 (see Table 3.1). Growth in internal resource in 2018-19 was 19 percent compared to the average of 7 percent over 2016-18 (12 percentage points higher). However, the higher growth has come almost wholly from capital receipts (107 percent) and public accounts receipts (118 percent). Growth in credit from the banking sector, already high at 126 percent over 2016-18, increased further to 167 percent in 2018-19.

Table 3.1: Profile of resources – (Rs. Billion)

Classification	2016-18	2018-19	2018-19	2019-20
	(RA)	(B)	(R)	(B)
Internal Resources	5,278.9	6,346.3	6,267.8	7,733.6
• Revenue Receipts	4,687.5	5,660.5	5,031.6	6,716.6
• Capital Receipts	461.5	559.1	953.5	766.2
• Public Accounts Receipts (Net)	129.9	126.7	282.7	250.8
External Resources	1,028.6	1,118.0	1,403.2	3,032.3
Gross Resources	6,307.5	7,464.3	7,670.9	10,765.9
Classification	Growth (%)			
	2016-18 (RA)	2018-19(R)/ 2016-18 (R)	2018-19(R)/ 2018-19(B)	2019-20(B)/ 2018-19(R)
Internal Resources	6.9	18.7	-1.2	23.4
• Revenue Receipts	7.4	7.3	-11.1	33.5
• Capital Receipts	126.7	106.6	70.5	-19.6
• Public Accounts Receipts (Net)	-26.3	117.6	123.1	-11.3

External Resources	19.7	36.4	25.5	116.1
Gross Resources	8.9	21.6	2.8	40.3

Note: (RA) = Revised Average; (R) = Revised; (B) = Budgeted.

Source: Government of Pakistan, Ministry of Finance, Budget in Brief (various issues); percentages computed

Capital receipts and public accounts receipts and disbursements are records of debt accruals, recoveries, payouts, etc., and, growth therein, does not reflect the performance of the economy during the year. That is reflected by revenue receipts, which is flat at 7 percent. External financing, currently the Achilles heel of the national economy, grew from the average of 20 percent over 2016-18 to 36 percent in 2018-19; enhancing external dependence. Growing external dependence is also reflected in terms of its share in gross resources (up from 16 percent to 18 percent) and in GDP (up from 3.2 percent to 3.6 percent), as shown in Table 3.2. The increasing external dependency merits serious concerns.

The share of internal resources in gross resources has declined from the average of 84 percent over 2016-18 to 82 percent in 2018-19, with the share of revenue receipts falling from 89 percent to 80 percent. Similarly, the share of internal resources as a percentage of GDP dropped from the average of 16.6 over 2016-18 to 16.3 percent in 2018-19 and the corresponding share of revenue receipts fell from 14.7 percent to 13 percent. The fall in the share of internal resource generation, particularly of revenue receipts, warrants serious concerns about the general health of the economy.

Table 3.2: Composition of resources

Classification	2016-18 (RA)	2018-19 (R)	2019-20 (B)
As % of Gross Resources			
Internal Resources	83.7	81.7	71.8
• Revenue Receipts	88.8	80.3	86.8
• Capital Receipts	8.7	15.2	9.9
• Public Accounts Receipts (Net)	2.5	4.5	3.2
External Resources	16.3	18.3	28.2
Gross Resources	100	100	100
As % of GDP			
Internal Resources	16.6	16.3	17.7
• Revenue Receipts	14.7	13.0	15.4
• Capital Receipts	1.4	2.5	1.8
• Public Accounts Receipts (Net)	0.4	0.7	0.6
External Resources	3.2	3.6	7.0
Gross Resources	19.8	19.9	24.7

Note: (RA) = Revised Average; (R) = Revised; (B) = Budgeted.

Sources: Government of Pakistan, Ministry of Finance, Budget in Brief (various issues); percentages computed

Pattern of revenues

Taxes are the major source of revenue, accounting for about 70 percent of internal revenues. Non-tax revenues account for 10 percent and about 20 percent is accounted for by capital and public accounts receipts. Tax revenues are classified as FBR, non-FBR and non-tax revenues. FBR taxes account for 93 percent of all tax revenues. Within FBR taxes, direct taxes account for 40 percent and indirect taxes 60 percent of receipts. Income tax accounts for 99 percent of direct tax receipts and sales tax accounts for two-thirds of indirect tax receipts. Income tax and sales tax revenues account for 80 percent of tax revenues. It needs to be noted, however, that two-thirds of income tax receipts are estimated to accrue via withholding taxes and which are in effect indirect in character.

Table 3.3: Pattern of revenue – (Rs. Billion)

Classification	2016-18 (RA)	2018-19 (B)	2018-19 (R)	2018-19 (P)	2019-20 (B)
TAX REVENUE (I+II)	3,797.4	4,888.6	4,393.9	4,071.6	5,822.2
I. Tax Revenue (FBR)	3,519.9	4,435.0	4,150.0	3,829.5	5,555.0
Direct Taxes	1,421.9	1,735.0	1,659.0	1,445.6	2,081.9
Taxes on Income	1,404.0	1,709.9	1,651.6	1,431.1	2,073.0
Indirect Taxes	2,098.0	2,700.0	2,491.0	2,383.9	3,473.1
Customs duty	479.9	735.0	735.0	685.4	1,000.5
Sales Tax	1,407.4	1,700.0	1,490.0	1,464.9	2,107.7
Federal Excise	210.7	265.0	266.0	233.6	364.8
II. Tax Revenue (Other than FBR)	277.5	453.6	243.9	242.2	267.2
Gas Infrastructure Development Cess	80.0	100.0	25.0	21.5	30.0
Natural Gas Development Surcharge	40.0	16.0	8.0	5.3	10.0
Petroleum Levy	153.3	300.0	203.4	206.3	216.0
III. Non-Tax Revenue	890.0	771.9	637.8	363.9	894.5
Income from Property & Enterprise	236.2	236.9	285.1	137.1	269.6
Receipts from Civil Admin etc.	351.6	305.8	170.6	28.2	431.0
SBP Profit	256.0	280.0	147.4	12.5	406.1
Defence Services Receipts	86.4	16.0	14.7	15.6	15.5
GROSS REVENUE RECEIPTS	4,687.5	5,660.5	5,031.6	4,435.6	6,716.6
Growth (%)					
Classification	2016-18 (RA)	2018-19 (R)/ 2016-18 (RA)	2018-19 (R)/ 2018-19 (B)	2019-20 (B)/ 2018-19 (R)	2019-20 (B) 2018-19 (P)
TAX REVENUE (I+II)	10.1	15.7	-10.1	32.5	43.0
I. Tax Revenue (FBR)	12.6	17.9	-6.4	33.9	45.1
Direct Taxes	8.7	16.7	-4.4	25.5	44.0
Taxes on Income	8.6	17.6	-3.4	25.5	44.8
Indirect Taxes	15.5	18.7	-7.7	39.4	45.7
Customs duty	31.5	53.2	0.0	36.1	46.0
Sales Tax	12.3	5.9	-12.4	41.5	43.9
Federal Excise	5.9	26.3	0.4	37.1	56.2
II. Tax Revenue (Other than FBR)	-17.0	-12.1	-46.2	9.5	10.3
Gas Infrastructure Development Cess	-63.0	-68.8	-75.0	20.0	39.7
Natural Gas Development Surcharge	19.3	-80.0	-50.0	25.0	88.5
Petroleum Levy	12.2	32.6	-32.2	6.2	4.7
III. Non-Tax Revenue	-3.7	-28.3	-17.4	40.3	145.8
Income from Property & Enterprise	1.9	20.7	20.4	-5.5	96.7

Receipts from Civil Admin etc.	-20.3	-51.5	-44.2	152.6	1,430.1
SBP Profit	-2.3	-42.4	-7.7	175.6	3,143.4
Defence Services Receipts	-67.8	-83.0	8.5	4.9	-1.2
GROSS REVENUE RECEIPTS	7.4	7.3	-11.1	33.5	51.4

Note: (RA) = Revised Average; (R) = Revised; (B) = Budgeted; (P) Provisional.

Source: Government of Pakistan, Ministry of Finance, Budget in Brief (various issues), & Fiscal Operations (2018-19); percentages computed.

Tax revenue growth in 2018-19 was higher at 16 percent compared to the average growth of 10 percent over 2016-18 (see Table 3.3). Within direct taxes, income tax growth almost doubled from an average of 9 percent over 2016-18 to 17 percent in 2018-19. Indirect taxes grew at 19 percent in 2018-19 compared to an average 16 percent over 2016-18 and is led by receipts from customs duty (from the average of 31.5 percent to 53 percent) and federal excise duty (from the average of 6 percent to 26 percent). On the other hand, sales tax growth has halved from an average of 12 percent over 2016-18 to 6 percent in 2018-19.

Non-FBR tax revenue growth has registered sharp decline since 2015-16, recorded at negative 17 percent on average over 2016-18 and negative 12 percent in 2018-19. Composition of non-FBR revenue indicates that major earners are petroleum levy (55 percent), gas infrastructure development surcharge (29 percent) and natural gas development surcharge (14 percent). Of these, only petroleum levy recorded growth at 33 percent in 2018-19 compared to 12 percent over 2016-18. GIDC growth was negative 63 percent over 2016-18 and negative 69 percent in 2018-19, while GDS growth was positive 19 percent over 2016-18, but negative 80 percent in 2018-19. The volatility is a matter of concern.

Non-tax revenue growth has also been declining from average negative 4 percent over 2016-18 to negative 28 percent in 2018-19. The negative trend is led by 'receipts from civil administration': negative 20 percent over 2016-18 and negative 52 percent in 2018-19. These declines are led by decline in SBP profit and defence services receipts. The former declined by 2 percent and 42 percent over 2016-18 and in 2018-19, respectively and the latter declined by 68 percent and 83 percent, respectively.

In terms of shares, the share of tax revenues in total internal resources increased from an average of 81 percent over 2016-18 to 87 percent in 2018-19 and that of non-tax revenues fell from 19 percent to 13 percent (see Table 3.4). The share of direct tax revenue in FBR tax revenue is more or less constant at about 40 percent across 2016-19. However, the share of customs duty receipts in indirect tax revenues has increased by 7 percentage points from 23 percent over 2016-18 to 30 percent in 2018-19 – indicating increased import dependency – and the share of sales tax receipts has dropped by 7 percentage points from 67 percent over 2016-18 to 60 percent in 2018-19. This is a significant change and is indicative of a slowing down of domestic output.

The shares of non-FBR revenues has dropped from the average of 7 percent over 2016-18 to 5.6 percent in 2018-19, with sharp declines for GIDC and GDS. The former has declined from the average of 29 percent over 2016-18 to 10 percent in 2018-19 and the latter has fallen from the average of 14 percent to 3 percent over the same period. The share of petroleum levy has, however, risen significantly from 55 percent to 83 percent.

Table 3.4: Share of revenue receipts – (%)

Classification		2016-18 (RA)	2018-19 (R)	2019-20 (B)
TAX REVENUE (I+II)	Tax Revenue /Gross Resources	81.0	87.3	86.7
I. Tax Revenue (FBR)	FBR Taxes/Tax Revenue	92.7	94.4	95.4
Direct Taxes	Direct Taxes/FBR Taxes	40.4	40.0	37.5
Taxes on Income	Income Tax/Direct Tax	98.7	99.6	99.6
Others	Other Taxes/Direct Taxes	1.3	0.4	0.4
Indirect Taxes	Indirect Taxes/FBR Taxes	59.6	60.0	62.5
Customs duty	Import Duty/Indirect Taxes	22.9	29.5	28.8
Sales Tax	Sales Tax/Indirect Tax	67.1	59.8	60.7
Federal Excise	Federal Excise Duty/Indirect Taxes	10.0	10.7	10.5
II. Tax Revenue (Other than FBR)	Non-FBR Taxes/Tax Revenue	7.3	5.6	4.6
Gas Infrastructure Development Cess	GIDC/Non FBR Taxes	28.8	10.3	11.2
Natural Gas Development Surcharge	GDS/Non FBR Taxes	14.4	3.3	3.7
Petroleum Levy	Petroleum Levy/Non FBR Taxes	55.2	83.4	80.9
Others	Others/Non FBR Taxes	1.5	3.1	4.2
III. Non-Tax Revenue	Non-Tax/Gross Resources	19.0	12.7	13.3
Income from Property and Enterprise	Income from Property & Enterprise/Non-Tax Revenue	26.5	32.0	30.3
Receipts from Civil Administration	Receipts from Civil Administration/Non-Tax Revenue	39.5	19.2	48.4
General Administration	General Administration/ Civil Administration	1.2	2.4	1.0
SBP Profit	SBP Profit/Civil Administration	72.8	86.4	94.2
Defence Services Receipts	Defence Services Receipts/ Civil Administration	24.6	8.6	3.6
Others	Others/Civil Administration	1.2	2.6	1.2
Miscellaneous Receipts	Miscellaneous Receipts/ Non-Tax Revenue	34.0	20.4	21.8

Note: (RA) = Revised Average; (R) = Revised; (B) = Budgeted

Source: Government of Pakistan, Ministry of Finance, Budget in Brief (various issues); percentages computed

The shares of non-tax revenues have also fallen from the average of 19 percent over 2016-18 to 13 percent in 2018-19. The decline is led by 'receipts from civil administration', falling by half from 40 percent over 2016-18 to 19 percent in 2018-19. And the decline in 'receipts from civil administration' is led by defence services receipts, having fallen from 25 percent over 2016-18 to 9 percent in 2018-19

Tax to GDP ratios have fallen across the board in 2018-19 against the average of 2016-18. For instance, total tax revenue to GDP ratio declined from an average of 11.9 percent to 11.4 percent, FBR tax to GDP ratio (including for direct and indirect taxes) has also declined; albeit marginally by 0.1 percentage point (see Table 3.5). Within indirect taxes, sales tax to GDP ratio declined from 4.4 percent to 3.9 percent, federal excise duty to GDP ratio remained constant, while federal customs duty to GDP ratio rose from 1.5 percent to 1.9 percent. Non-FBR tax to GDP ratio declined from an average of 0.9 percent to 0.6 percent.

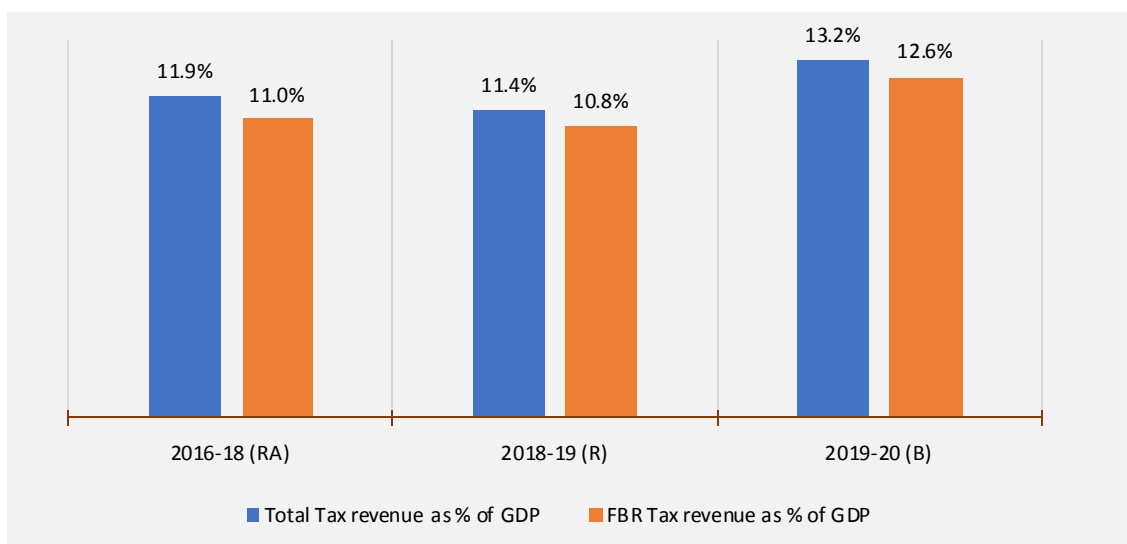
As per Provisional figures, all tax to GDP ratios have declined even further. Total tax revenue to GDP ratio declined to 10.6 percent, FBR tax to GDP ratio (including for direct and indirect taxes) has declined to 9.9 percent. Within indirect taxes, federal customs duty to GDP ratio declined to 0.6 percent, sales tax to GDP ratio declined to 3.8 percent, and federal excise duty to GDP ratio has declined to 0.6 percent. Non-FBR tax to GDP ratio has remained constant at 0.6 percent.

Classification	2016-18 (RA)	2018-19 (R)	2018-19 (P)	2019-20 (B)
TAX REVENUE (I+II)	11.9	11.4	10.6	13.4
I. Tax Revenue (FBR)	11.0	10.8	9.9	12.7
<i>Direct Taxes</i>	4.5	4.3	3.7	4.8
Taxes on Income	4.4	4.3	3.7	4.8
<i>Indirect Taxes</i>	6.6	6.5	6.2	8.0
Customs duty	1.5	1.9	1.8	2.3
Sales Tax	4.4	3.9	3.8	4.8
Federal Excise	0.7	0.7	0.6	0.8
II. Tax Revenue (Other than FBR)	0.9	0.6	0.6	0.6

Note: (RA) = Revised Average; (R) = Revised; (B) = Budgeted; (P) = Provisional.

Source: Government of Pakistan, Ministry of Finance, Budget in Brief (various issues), & Fiscal Operations (2018-19); percentages computed.

Chart 3.1: Tax to-GDP ratio



Note: (RA) = Revised Average; (R) = Revised; (B) = Budgeted.

Source: Computed from Government of Pakistan, Ministry of Finance, Budget in Brief (various issues).

Performance 2018-19: revised versus budgeted

A review of revised receipts in 2018-19 with respect to the budgeted estimates for the year shows abjectly dismal performance (see Tables 3.1 to 3.5). Key revenue receipts are below target: overall gross resources is short by 3 percent, internal resources by one percent and revenue receipts by a significant 11 percent. The only exception is external financing, which is 26 percent above budget.

The examination of tax receipts shows that 18 out of 22 tax and non-tax heads targets have been missed. Overall tax revenue is short by 10 percent, FBR tax revenue by 6 percent, direct taxes by 4 percent, taxes on income by 3 percent, indirect taxes by 8 percent and sales tax receipts by 12 percent. Customs duty and federal excise duty collection is on target. Non-FBR revenue target has been missed by 46 percent, with GIDC, GDS and petroleum levy collection reporting shortfalls of 75 percent, 50 percent and 32 percent, respectively. Non-tax revenues are 17 percent below target, with receipts from civil administration short by 44 percent.

Looking ahead: budget estimates 2019-20

Focus of resources

The Budget 2019-20 portrays an impressive degree of optimism – and ambition. Based on revised estimates of 2018-19, internal resources are projected to rise by 23 percent, with revenue receipts growing by an even larger 34 percent (see Table 3.1.). Given that growth in both the variables in 2018-19 were negative, the projections for 2019-20 appear to be heroic. Perhaps, the budget makers are counting on high 2019-20 growth on the grounds of a lower 2018-19 base or aggressive tax collection or both. Capital receipts and public accounts receipts are projected to decline by 20 percent and 11 percent, respectively. External resources

are projected to more than double by 116 percent; indicating substantial and growing reliance on external financing.

Resultantly, the share of internal resources as a percentage of gross resources are projected to fall by 10 percentage points from 82 percent in 2018-19 to 72 percent in 2019-20 and that of external financing to rise by 10 percentage points from 18 percent to 28 percent (see Table 3.2). The share of internal resources as a percentage of GDP is projected to rise from 16 percent in 2018-19 to 18 percent in 2019-20 and corresponding revenues receipts to rise from 13 percent to 15 percent. On the other hand, the share of external resources is projected to nearly double from 3.6 percent to 7 percent.

Pattern of revenues

The degree of optimism for the forthcoming fiscal year 2019-20 is even greater with respect to tax receipts – *and more heroic if based on Provisional figures*². Tax revenue is estimated to expand by one-third and non-tax revenue by 40 percent – *and by 43 percent and 146 percent, respectively, if based on Provisional figures* (see Table 3.3). Taxes on income are projected to grow at 26 percent and customs duty, sales tax and federal excise duty receipts are projected to grow at 36 percent to 42 percent – *and by 44 percent to 56 percent, respectively, if based on Provisional figures*. These projections need to be juxtaposed against an overall tax revenue decline in 2018-19 of 10 percent, income tax receipts decline of 3 percent, and sales tax receipts decline of 12 percent.

Non-FBR revenues are estimated to rise by 9.5 percent, with GIDC and GDS projected to grow at 20 percent and 25 percent, respectively – *GIDC and GDS are projected to rise by 40 percent and 89 percent, respectively, if based on Provisional figures*. Again, these projections need to be weighed against 75 percent and 50 percent declines in 2018-19. Petroleum levy is projected to grow at relatively modest 6 percent against 32 percent decline in 2018-19. Perhaps, the high growth rates are based on the basis of a low base on account of sharp declines. In the event, the increases are merely statistical.

Growth in non-tax revenues are projected at 10 percent against 46 percent decline in 2018-19. 'Receipts from civil administration' are projected to rise by 153 percent, which is itself predicated on a 176 percent rise in SBP profits; *based on Provisional figures, however, the increases are projected at 1,428 percent 3,149 percent, respectively*.

² Government of Pakistan, Ministry of Finance, "*Fiscal Operations*", 2019

Revenue growth is a function of growth in real sectors. Herewith, the major crop sector has grown at a 25-year average of 2.8 percent over 1990-2015, at a three year average of 0.1 percent over 2016-18 and negative 6.6 percent in 2018-19. Large scale manufacturing has grown at an average of 5 percent over the three decade period 1990-2018 and negative 2 percent in 2018-19. Tax and gas-based revenue declines reflect the state of the real sectors and are indicative of a waning economy. Under the circumstances, the credibility of attaining budgeted tax targets is a moot point.

The high growth rates across the board notwithstanding, the shares of different taxes remain more or less the same. A notable exception, though, is the ratio of direct and indirect taxes, which changes from 40:60 to 37.5:62.5; indicating a shift toward higher regressivity. The share of 'receipts from civil administration' also rises from 19 percent in 2018-19 to 48 percent in 2019-20, based on the substantial projected increase in SBP profits. However, given the reported IMF-imposed bar on government borrowing from the State Bank, the source of growth in SBP profits is questionable.

Tax to GDP ratio is projected to rise significantly. Overall, it is estimated to rise from 11.4 percent to 13.4 percent; propped up by the 1.5 percentage points to increase in share of indirect taxes, with sales tax share expected to rise nearly one percentage point from 3.9 percent of GDP to 4.8 percent (see Table 3.5).

EXPENDITURES

Looking back: performance in 2018-19 over 2016-18

Profile of expenditures

A perusal of overall expenditure trends shows a significant leap in current expenditures at the expense of development expenditure. Current expenditure growth registered a 42 percent growth in 2018-19 over the average 10 percent during 2016-18. On the other hand, development expenditures recorded a 14 percent decline in 2018-19 over the average positive 10 percent rise over 2016-18. Resultantly, the share of current expenditure in total expenditure rose from an average of 80 percent over 2016-18 to 87 percent in 2018-19 – a 7 percentage points change. Conversely, the share of development expenditure declined from an average of 20 percent over 2016-18 to 13 percent in 2018-19. Likewise, current expenditure share as percentage of GDP increased from 12 percent to 15 percent and that of development expenditure fell from 3 percent to 2.2 percent over the same period (see Table 3.6).

Table 3.6: Growth in total expenditure (Rs. Billion)					
Classification	2016-18 (RA)	2018-19 (B)	2018-19 (R)	2018-19 (P)	2019-20 (B)
Current Expenditures	3,934.3	4,780.4	5,589.4	5,777.9	7,288.2
Development Expenditures	959.3	1,152.1	829.7	731.9	949.9
Total Expenditures	4,893.6	5,932.5	6,419.1	6,509.8	8,238.1
Growth (%)					
Classification	2016-18 (RA)	2018-19 (R)/ 2016-18 (RA)	2018-19 (R)/ 2018-19 (B)	2019-20 (B)/ 2018-19 (R)	2019-20 (B)/ 2018-19 (P)
Current Expenditures	9.3	42.1	16.9	30.4	26.1
Development Expenditures	10.0	-13.5	-28.0	14.5	29.8
Total Expenditures	9.4	31.2	8.2	28.3	26.5

Note: (RA) = Revised Average; (R) = Revised; (B) = Budgeted; (P) = Provisional.

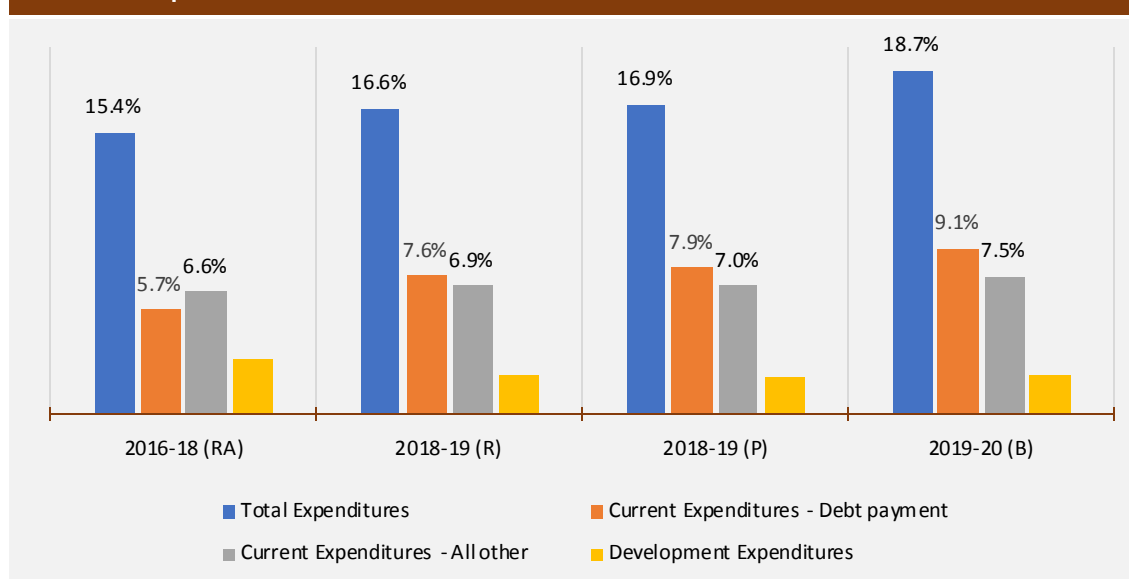
Source: Government of Pakistan, Ministry of Finance, Budget in Brief (various issues), & Fiscal Operations (2018-19); percentages computed.

Table 3.7: Composition of total expenditures (%)

Classification	2016-18 (RA)	2018-19 (B)	2018-19 (R)	2018-19 (P)	2019-20 (B)
As % of total Expenditures					
Current Expenditures	80.4	80.6	87.1	88.8	88.5
Development Expenditures	19.6	19.4	12.9	11.2	11.5
Total Expenditures	100.0	100.0	100.0	100.0	100.0
As % of GDP					
Current Expenditures	12.3	12.5	14.5	15.0	16.6
Development Expenditures	3.0	3.0	2.2	1.9	2.2
Total Expenditures	15.4	15.5	16.6	16.9	18.7

Note: (RA) = Revised Average; (R) = Revised; (B) = Budgeted; (P) = Provisional.

Source: Government of Pakistan, Ministry of Finance, Budget in Brief (various issues), & Fiscal Operations (2018-19); percentages computed.

Chart 3.3: Expenditure-to-GDP ratio

Note: (RA) = Revised Average; (R) = Revised; (B) = Budgeted.

Source: Budget in Brief, Ministry of Finance, (various issues).

Pattern and priorities of current expenditures

The year 2018-19 has seen significant escalations in major current expenditure heads. Compared with respect to the average 2016-18 growth rates, debt servicing (shown as part of general public service) growth is recorded at 60 percent compared to 10 percent; other general public service (excluding debt repayment) expenditure is 30 percent against 14 percent; public order and safety expenditure is 20 percent against 13 percent; economic affairs expenditure is 81 percent against 10 percent. The major component of the increase in economic affairs is on account of fuel and energy (see Table 3.8).

Table 3.8: Current expenditures – (Rs. Billion)				
Classification	2016-18 (RA)	2018-19 (B)	2018-19 (R)	2019-20 (B)
General Public Service (Debt payment)	1,818.5	2,222.0	2,916.1	3,986.7
General Public Service (All Other)	940.6	1,118.4	1,132.2	1,620.3
Defence Affairs and Services	872.2	1,100.3	1,137.7	1,152.5
Public Order and Safety Affairs	111.4	132.3	133.0	152.9
Economic Affairs	78.5	80.8	142.4	84.2
Environment Protection	1.2	1.3	1.3	0.5
Housing and Community Amenities	2.4	2.3	2.3	2.3
Health Affairs & Services	12.2	13.9	14.0	11.1
Recreation, Culture and Religion	10.6	9.2	10.5	9.8
Education Affairs and Services	83.7	97.4	97.2	77.3
Social Protection	2.9	2.4	2.7	190.6
TOTAL:	3,934.3	4,780.4	5,589.4	7,288.2
Growth (%)				
Classification	2016-18 (RA)	2018-19 (R)/ 2016-18 (RA)	2018-19 (R)/ 2018-19 (B)	2019-20 (B)/ 2018-19 (R)
General Public Service (Debt payment)	9.5	60.4	31.2	36.7
General Public Service (All Other)	5.7	20.4	1.2	43.1
Defence Affairs and Services	13.6	30.4	3.4	1.3
Public Order and Safety Affairs	12.8	19.5	0.6	15.0
Economic Affairs	10.2	81.4	76.4	-40.9
Environment Protection	7.5	3.7	0.8	-63.0
Housing and Community Amenities	4.3	-3.2	-0.9	-1.1
Health Affairs & Services	6.5	14.3	0.7	-21.0
Recreation, Culture and Religion	13.5	-0.8	13.7	-6.4
Education Affairs and Services	9.7	16.1	-0.3	-20.5
Social Protection	17.9	-7.6	11.5	7,033.0
TOTAL:	9.3	42.1	16.9	30.4

Note: (RA) = Revised Average; (R) = Revised; (B) = Budgeted.

Source: Government of Pakistan, Ministry of Finance, Budget in Brief (various issues); percentages computed.

Current expenditures priorities are quite skewed in 2018-19, with over 90 percent consumed by debt repayment, civil administration, and defence. Debt repayment alone accounts for half the total current expenditure – and rising (see Table 3.9). General public service (excluding debt payments) and defence account for about one fifth each. Public order and safety, economic affairs, and education account for about 2 percent each. Other expenditure heads – environmental protection, housing and community amenities, health, and recreation and culture account for less than half a percent each.

Table 3.9: Current expenditure priorities (%)

Classification	2016-18 (RA)	2018-19 (B)	2018-19 (R)	2019-20 (B)
General Public Service (Debt payment)	46.2	46.5	52.2	54.7
General Public Service (All Other)	23.9	23.4	20.3	22.2
Defence Affairs and Services	22.2	23.0	20.4	15.8
Public Order and Safety Affairs	2.8	2.8	2.4	2.1
Economic Affairs	2.0	1.7	2.5	1.2
Environment Protection	0.0	0.0	0.0	0.0
Housing and Community Amenities	0.1	0.0	0.0	0.0
Health Affairs & Services	0.3	0.3	0.3	0.2
Recreation, Culture and Religion	0.3	0.2	0.2	0.1
Education Affairs and Services	2.1	2.0	1.7	1.1
Social Protection	0.1	0.1	0.0	2.6
TOTAL:	100.0	100.0	100.0	100.0

Note: (RA) = Revised Average; (R) = Revised; (B) = Budgeted.

Source: Government of Pakistan, Ministry of Finance, Budget in Brief (various issues); percentages computed.

Debt payments and defence expenditures have also recorded increases in terms of share of GDP. The share of debt payments increased from the average of 5.7 percent over 2016-18 to 7.6 percent in 2018-19 and that of defence rose nominally from 2.7 percent to 3 percent (see Table 3.10).

Table 3.10: Composition of current expenditures (%)

Classification	2016-18 (RA)	2018-19 (B)	2018-19 (R)	2018-19 (P)	2019-20 (B)
As % of total Expenditures					
Debt Payment	46.2	46.5	52.2	53.0	54.7
Defence Affairs & Services	22.2	23.0	20.4	19.8	15.8
All Other	31.6	30.5	27.5	27.1	29.5
Current Expenditures	100.0	100.0	100.0	100.0	100.0
As % of GDP					
Debt Payment	5.7	5.8	7.6	7.9	9.1
Defence Affairs & Services	2.7	2.9	3.0	3.0	2.6
All Other	3.9	3.8	4.0	4.1	4.9
Current Expenditures	12.3	12.5	14.5	15.0	16.6

Note: (RA) = Revised Average; (R) = Revised; (B) = Budgeted; (P) = Provisional.

Source: Government of Pakistan, Ministry of Finance, Budget in Brief (various issues), & Fiscal Operations (2018-19); percentages computed.

Performance 2018-19: revised versus budgeted

Revised 2018-19 expenditures against budgeted estimates show current expenditure growth exceeding budget estimates by 17 percent and development expenditure growth below budget by 28 percent (see Tables 3.6 to 3.8). Accordingly, share of current expenditure in total expenditure and as percentage of GDP shows growth from 87 percent to 89 percent and 14.5 percent to 16.7 percent, respectively. The share of development expenditure in total expenditure shows decline from 13 percent to 11.5 percent, while as percentage of GDP has remained constant at 2 percent.

The increase in current expenditures is on account of debt payments and economic affairs; with the former overshooting by 31 percent and the latter by 76 percent. For other heads of expenditure, the revised estimates are generally on target. A major positive development in 2018-19 is the 12 percent increase in social protection; however, its share in total current expenditures remains at less than 0.1 percent.

Looking ahead: budgeted estimates 2019-20***Focus of total expenditures***

The Budget 2019-20 projects continued growth in current expenditure, estimated at 30 percent – *26 percent if based on Provisional figures* – compared to 17 percent growth in 2018-19. Resultantly, the share of current expenditure in total expenditure is projected to rise from 87 percent in 2018-19 to 88.5 percent in 2019-20 and as a percentage of GDP is projected to rise from 14.5 percent to 16.7 percent.

Development expenditure is projected to rise by 14.5 percent in 2019-20 – *30 percent if based on Provisional figures* – against 28 percent decline in 2018-19; however, its share in total expenditure is projected to fall from 13 percent to 11.5 percent and as a percentage of GDP is estimated to remain constant at 2.2 percent.

Pattern and priorities of current expenditure

Examination of the composition of current expenditures shows that debt servicing and repayment is projected to grow by 37 percent in 2019-20 compared to 31 percent in 2018-19 and its share in current expenditure is projected to rise from 52 percent to 55 percent (see Table 3.7 and 3.8). Other General Public Service expenditure is also projected to rise by 43 percent, raising its share from 20 percent to 22 percent. Defence affairs and services expenditure is projected to grow at a modest one percent; thus, reducing its share from 20 percent to 16 percent. Expenditure on Public Order and Safety Affairs is projected to rise by 15 percent; however, its share declines from 2.4 percent in 2018-19 to 2.1 percent in 2019-20.

There are also major declines across the board. Expenditure related to Economic Affairs, Environment Protection, Health, and Education are projected to decline by 21

percent to 63 percent. Declines are also projected in Housing and Community Amenities and Services, and Recreation, Culture and Religion. The cumulative share of these sectors in current expenditure is projected to halve from 1.2 percent to 0.6 percent and their share in GDP from 0.7 percent to 0.4 percent. It appears that these sectors are being eliminated as federal fiscal responsibilities.

One bright spot in Budget 2019-20 is the large allocation for Social Protection, increasing from less than Rs. 3 billion in 2018-19 to Rs. 191 billion in 2019-20; representing an over 7,000 percent increase and raising its share in current expenditure from virtually zero to 2.6 percent in and in GDP from zero to 0.2 percent.

FISCAL DEFICIT

Ensuring that the fiscal deficit is within manageable limits is one of the two key objectives of ensuring macroeconomic stability; the other being current account deficit. Fiscal deficits can be seen in two ways: federal fiscal deficit and overall fiscal deficit. The former relates to net total federal revenues and expenditures and the latter incorporates provincial surpluses or deficits.

Table 3.11: Fiscal Deficit as percentage of GDP

Classification	2016-18 (RA)	2018-19 (B)	2018-19 (R)	2018-19 (P)	2019-20 (B)
Federal fiscal deficit	-5.7	-5.7	-7.3	-9.2	-8.1
Overall fiscal deficit	-4.7	-4.9	-7.2	-8.9	-7.2

Note: (RA) = Revised Average; (R) = Revised; (B) = Budgeted; (P) = Provisional.

Source: Government of Pakistan, Ministry of Finance, Budget in Brief (various issues), & Fiscal Operations (2018-19); percentages computed.

A review of the fiscal deficit scenario shows that, over the years 2016-18, the average federal and overall fiscal deficits were 5.7 percent and 4.7 percent of GDP, respectively (see Table 3.11). The Budget 2018-19 projected the two deficits at similar levels. However, the revised 2018-19 estimates show that both the deficits shot up to over 7 percent of GDP. *The Provisional figures released in August 2019 show the show deficits at 9.2 percent and 8.9 percent of GDP, respectively.* The sharp increase in fiscal deficit ratios – over 60 percent in the case of federal deficit and nearly 90 percent in the case of overall deficit – is worrisome. Even more problematic is the budgeted deficits at 8.1 percent and 7.2 percent of GDP, respectively, for 2019-20. This is despite the massive rise in revenues projected for 2019-20. One of the two principal conditions obligated by IMF is to bring the fiscal deficit down to manageable levels. However, for the IMF-imposed budget managers to actually raise the fiscal deficit – ostensibly by design – raises questions of intent.

COMPOSITION OF DEBT

Debt payments merits a closer scrutiny. Average growth in total debt payment over 2016-18 was 9.5 percent, foreign debt obligation 22 percent and domestic debt servicing 6 percent (see Table 3.12). The same jumped to 60 percent in 2018-19 for total debt payment over the average of 2016-18. *If Provisional figures are taken into account the increase is 69 percent.* For foreign debt obligation, the corresponding increase was 118 percent and, *based on Provisional figures, 120 percent.* For domestic debt servicing the corresponding increase was 34 percent and, *based on Provisional figures, 45 percent.*

Assessing the performance of budgetary year 2018-19, total debt payment was 31 percent above budget and, based on Provisional figures, 38 percent. Expenditure on foreign debt obligation was about 49 percent above budget, based on Revised as well as Provisional figures. Expenditure on domestic debt servicing was 21 percent in excess of budgeted amount and, based on Provisional figures, 31 percent.

It is clear that payments for foreign debt liabilities dominated total debt liabilities over the years 2016 to 2019. The Budget 2019-20, however, reverses the priorities. Growth in expenditure on foreign debt obligation is shown at about 17 percent, based on Revised as well as Provisional figures, while the same for domestic debt has risen to 51 percent and, based on Provisional figures to 39 percent.

Table 3.12: Debt Payments – (Rs. Billion)

Classification	2016-18 (RA)	2018-19 (B)	2018-19 (R)	2018-19 (P)	2019-20 (B)
Total Foreign	566.3	831.0	1,234.6	1244.3	1,455.1
Servicing of Foreign Debt	148.5	229.2	305.8	270.3	359.8
Foreign Loans Repayment	417.8	601.8	928.8	974.0	1,095.3
Servicing of Domestic Debt	1,252.3	1,391.0	1,681.6	1,820.8	2,531.7
Total Debt payment	1,818.5	2,222.0	2,916.1	3,065.1	3,986.7

Growth (%)							
Classification	2016-18 (RA)	2018-19 (R)/ 2016-18 (RA)	2018-19 (P)/ 2016-18 (RA)	2018-19 (R)/ 2018-19(B)	2018-19 (P)/ 2018-19(B)	2019-20 (B)/ 2018-19 (R)	2019-20 (B)/ 2018-19 (P)
Total Foreign	21.9	118.0	119.7	48.6	49.7	17.9	16.9
Servicing of Foreign Debt	29.2	105.9	82.0	33.4	17.9	17.7	33.1
Foreign Loans Repayment	21.9	122.3	133.1	54.3	61.8	17.9	12.5
Servicing of Domestic Debt	5.5	34.3	45.4	20.9	30.9	50.6	39.0
Total Debt payment	9.5	60.4	68.5	31.2	37.9	36.7	30.1

Note: (RA) = Revised Average; (R) = Revised; (B) = Budgeted; (P) = Provisional.

Source: Government of Pakistan, Ministry of Finance, Budget in Brief (various issues), & Fiscal Operations (2018-19); percentages computed.

The above trend is reflected in relative shares of foreign and domestic debt obligations. On the whole, the ratio of foreign to domestic debt obligations is one-third to two-thirds. However, the foreign debt share rose from an average of 31 percent over 2016-18 to about 41 percent in 2018-19, but falls to 36 percent as per

the Budget 2019-20. Correspondingly, the domestic debt share declined from an average of 69 percent over 2016-18 to about 58 percent in 2018-19, but rises to 63 percent as per the Budget 2019-20.

Debt obligations as a percentage of GDP also reflect the above trend. The burden of debt payments has increased from an average of 5.7 percent of GDP over 2016-18 to over 7.5 percent in 2018-19 and projected to rise to 9 percent in 2019-20. Foreign debt obligation has risen from 1.8 percent of GDP over 2016-18 to 3.2 percent of GDP in 2018-19 and is projected to rise marginally to 3.3 percent in 2019-20. Domestic debt obligation has risen from 3.9 percent of GDP over 2016-18 to 4.5 percent of GDP in 2018-19 and is projected to rise 5.8 percent in 2019-20.

Table 3.13: Composition of debt

Classification	2016-18 (RA)	2018-19 (R)	2018-19 (P)	2019-20 (B)
As a % of Total Debt				
Total Foreign	31.1	42.3	40.6	36.5
Servicing of Foreign Debt	8.2	10.5	8.8	9.0
Foreign Loans Repayment	23.0	31.9	31.8	27.5
Servicing of Domestic Debt	68.9	57.7	59.4	63.5
Total Debt payment	100.0	100.0	100.0	100.0
As a % of GDP				
Total Foreign	1.78	3.20	3.23	3.34
Servicing of Foreign Debt	0.47	0.79	0.70	0.83
Foreign Loans Repayment	1.31	2.41	2.53	2.51
Servicing of Domestic Debt	3.93	4.36	4.72	5.81
Total Debt payment	5.71	7.56	7.95	9.15

Note: (RA) = Revised Average; (R) = Revised; (B) = Budgeted; (P) = Provisional.

Source: Government of Pakistan, Ministry of Finance, Budget in Brief (various issues), & Fiscal Operations (2018-19); percentages computed.