

Fiscal Development

4.1 Introduction

The severity of the macroeconomic imbalances in the last fiscal year once again reinforces the importance of fiscal prudence for sustainable economic growth. The hangover from 2007-08 continued to haunt adjustment efforts. The fiscal consolidation efforts faced headwinds such as the deteriorating security environment and the domestic political uncertainties along with the deepening of the global financial crisis and the overall depressed macroeconomic environment. The unanticipated persistence of inflationary pressures on the economy kept fiscal policy options under check. Shrinking revenues constricted the government's ability to pursue counter cyclical policy. However, macroeconomic stability crucially hinges upon sustainable level of fiscal deficit. It is due to this that the government has placed fiscal consolidation at the top of macroeconomic stabilizing agenda for 2008-09. This fiscal consolidation includes; substantial reduction in overall fiscal deficit from 7.6 percent of GDP in 2007-08 to 4.3 percent of GDP in 2008-09 and attainment of net zero government budgetary borrowings from SBP at the end of each quarter.

It is evident that one year of fiscal indiscipline has led to severe macroeconomic imbalances in terms of sharp deceleration of economic growth, rise in unemployment and poverty, widening of fiscal and current account deficit, a loss of foreign exchange reserves, rise in public and external debt burden, above all high inflation and associated rise in interest rates. The government has taken several budgetary measures to restore the fiscal balance, e.g. oil subsidies have already been removed while government is committed to remove power

subsidies by June 2009. In the future unproductive subsidies will be avoided and this instrument will only be used to provide social safety nets.

There has been significant improvement in fiscal performance during 2008-09 due to the policy shift, with the overall fiscal deficit estimated to have dropped to 4.3 percent of the annual GDP. The resource constraint is constricted by revenue slippages on the back of a massive growth slowdown in large scale manufacturing and imports (the combined stake of both is more than three-fourth of the revenue base). The fiscal improvement in 2008-09 has been largely based on reduction of oil subsidies and a slash on development spending. Going forward, Pakistan needs a substantial increase in its resource base to augment its development efforts. Fiscal consolidation efforts have to come from an enhanced revenue base because we have already exhausted options for expenditure cuts. Pakistan's future economic development crucially hinges upon additional resource mobilization and for this end extending the tax base to unexplored sectors is crucial.

4.2 Fiscal Policy Development

The main objective of Pakistan's fiscal policy is sustained economic growth in unison with declining debt services, poverty alleviation, the creation of job opportunities and investment in physical and human infrastructure. It is unfortunate that fiscal space available during the last seven years (2000-07) was not used to provide support to structural reform; instead, painful structural reforms were delayed. The fiscal comfort level available during the period of 2000-07 was not used aptly for initiating crucial structural reforms

which placed policy making in a fix during 2008-09. The government's all-out efforts for introducing a wide range of structural reforms which are crucial for future prospects of the economy are likely to face numerous challenges.

The overall fiscal balance has recovered from a sizeable slippage of 2007-08 amidst substantial decline in revenues and elimination of some subsidies like those on petroleum products. However, major contribution should come from additional resource mobilization.

Table 4.1: Fiscal Indicators as Percent of GDP

Year	Real GDP Growth	Overall Fiscal Deficit	Expenditure			Revenue		
			Total	Current	Development	Total Rev.	Tax	Non-Tax
FY91	5.4	9.5	25.6	19.2	6.4	16.9	12.7	4.2
FY92	7.6	8.7	26.5	19	7.5	19.2	13.7	5.5
FY93	2.1	8.1	26.2	20.5	5.7	18.1	13.4	4.7
FY94	4.4	5.9	23.4	18.8	4.6	17.5	13.4	4.1
FY95	5.1	5.6	22.9	18.5	4.4	17.3	13.8	3.5
FY96	6.6	6.5	24.4	20	4.4	17.9	14.4	3.5
FY97	1.7	6.4 [†]	22.3	18.8	3.5	15.8	13.4	2.4
FY98	3.5	7.7	23.7	19.8	3.9	16	13.2	2.8
FY99	4.2	5	22	18.6	3.3	15.9	13.3	2.7
FY00	3.9	5.4	18.9	16.4	2.5	13.4	10.6	2.8
FY01	1.8	4.3 [†]	17.4	15.3	2.1	13.1	10.5	2.6
FY02	3.1	4.3 [†]	18.5	15.7	2.8	14	10.7	3.3
FY03	4.7	3.7	18.8	16.2	2.6	14.8	11.4	3.4
FY04	7.5	2.3	16.5	13.7	2.8	14.2	11	3.2
FY05	9	3.3 [†]	16.8	13.3	3.5	13.8	10.1	3.7
FY06	5.8	4.3 ^{*†}	18.4	13.6	4.8	14.1	10.5	3.6
FY07	6.8	4.3 ^{*†}	20.8	15.8	5	14.9	10.2	4.7
2007-08	5.8	7.4	22.1	18	4.4	14.6	10.3	4
2008-09P	2	4.3	18.6	15.8	2.8	14.6	11.3	3.8

Note 1: The base of Pakistan's GDP has been changed from 1980-81 to 1999-2000, therefore, wherever GDP appears in denominator the numbers prior to 1999-2000 are not comparable.

[†] Statistical discrepancy (both positive and negative) has been adjusted in arriving at overall fiscal deficit numbers.

** Include earthquake related expenditure worth 0.8 and 0.5 percent of GDP for 2005-06 and 2006-07 respectively.*

Notwithstanding all lackluster and half hearted attempts to reform tax administration and procedures, the tax to GDP ratio fluctuated in a narrow band of 10 to 11 percent for almost one decade. In the current fiscal year there is a potential risk of a tax-to-GDP ratio below 10 percent of GDP for the first time in the last two decades.

A brief look at table 4.1 shows a change in patterns of revenue and expenditure over the last 18 years. On the revenue side, tax-to-GDP and hence, revenue-to-GDP ratios either remained stagnant or showed secular decline, owing mainly to structural deficiencies in the tax system and administration, both at the federal and provincial government level. The expenditure of the government in relation to GDP exhibited a similar pattern, with

total expenditures showing an overall decline since the beginning of the 1990s. The decline in total expenditure (4 percentage points of GDP) is shared by current expenditure (1.5 percentage points) and development expenditure (2.1 percentage points) during the last 18 years. However, in 2008-09 total revenue as percentage of GDP recovered slightly due to a marginal improvement in non-tax revenues as a percentage of GDP. Total revenue is expected to reach Rs. 1910 billion, as compared to Rs. 1499.5 billion during 2007-08.

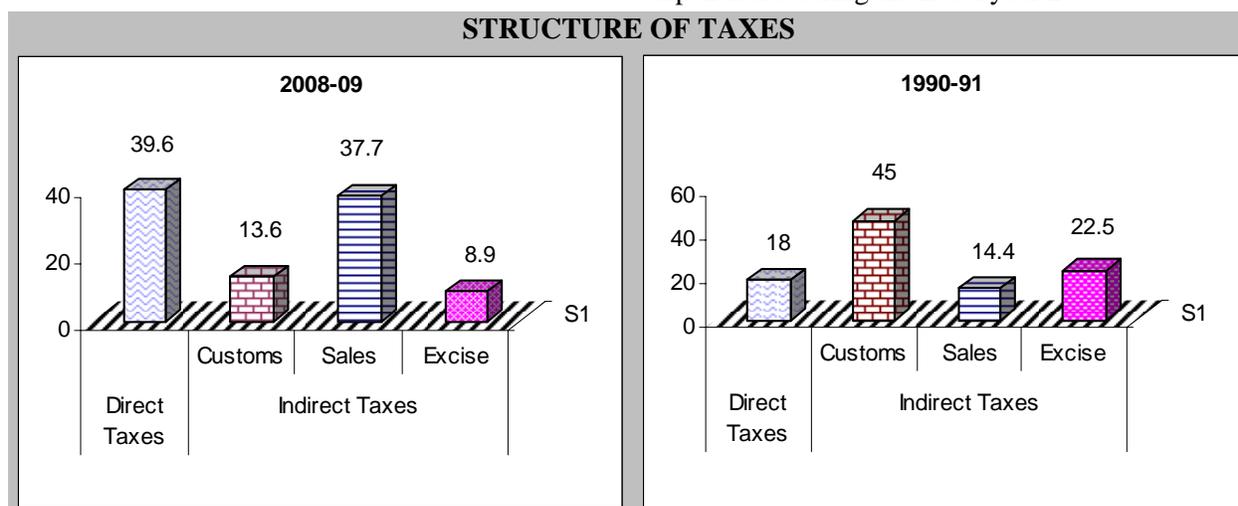
Fiscal deficit as a percentage of GDP has recovered from the exceptional spikes of 1990s in 2000-07. The overall fiscal deficit witnessed a sharp decline until 2006-07, except for 2007-08 when the pendulum swung to other extreme. This declining trend in fiscal deficit was due to falling

expenditures rather than rising revenues in the past. However, since 1999-2000, fiscal deficit has been contained partly due to improvement in total revenues and partly due to the rationalization of expenditures. The shifting of expenditure from current expenditure to development expenditure while leaving total expenditures stagnant mostly at around 18 percent of GDP has helped to improve the fiscal position. While the reduction in fiscal deficit in 2008-09 occurred mainly through a drastic cut in development expenditures, revenues fell short of the target.

4.3 Outcomes of Reforms: 2008-09

The fact that taxation is an important source of resources and distribution plays a significant role

in shaping economic development in developing countries. Taxation systems are used as a principal policy instrument to allocate resources among various segments of society and provide incentives for industrial development. Structural patterns of taxation are instrumental for incentivizing economic activity. As far as Pakistan's structure of taxation is concerned, it has changed considerably as a result of a number of tax and tariff reforms that were started in the 1990s though much of the scope of these reforms remained unexplored. The composition of tax collections has been modernized with a gradual decrease in the dependence on foreign trade taxes and a concurrent increase in GST and direct tax collections. This section reviews the performance of revenue and expenditure during the fiscal year 2008-09.



The gradual decline in excise duty is attributed to the removal of its incidence on selected items. With excise comprising of 9 percent of total FBR revenues, Pakistan's tax revenue-to-GDP stood at around 9 percent of GDP during 2008-09. It remained stagnant at around 10 to 11 percent over many years primarily due to several structural weaknesses in Pakistan's tax system. In tax regime, indirect tax in general and sales tax in particular depicted a relatively high share within the overall tax revenues. The indirect tax-to-GDP ratio stood at around 5 percent, and direct tax-to-GDP ratio at around 4 percent during 2008-09. This indicates that substantial tax policy measures are still needed to broaden the tax base and strengthen tax administration. To achieve a tax-to-

GDP ratio of around 15 percent, it is important to extend coverage of the tax net to under-taxed and un-taxed sectors of the economy in order to promote judicious distribution of the tax burden among the various sectors.

The average growth of FBR tax collections was calculated at around 16 percent during the period 2000-09 as compared to the growth rate of 12 percent during the preceding decade of the 1990s. If we see this increase in isolation of the nominal GDP growth rate, the growth rate from 12 to 16 percent shows the positive impact of tax reforms. However, the falling tax-to-GDP ratio implies that nominal GDP grew at a faster pace than tax growth. The FBR taxes in relation to GDP need

serious review and efforts must be made to extend the tax base to unexplored areas. The current fiscal year is yet another reflection of the dismal performance of the FBR. The target of Rs.1250 billion was consistent with a nominal GDP growth

rate of 17.5 percent. However, notwithstanding nominal a GDP growth rate of around 24 percent, the FBR revenue grew by just 19 percent thus leading to substantial downward adjustment of FBR tax revenue-to-GDP.

Table 4.2: Structure of Federal Tax Revenue (Rs. Billion)

Year	Total (FBR)	Tax Rev as percent of GDP	Direct Taxes	Indirect Taxes			Total
				Customs	Sales	Excise	
1990-91	111	11	20 [18.0]*	50 (54.9)^	16 (17.6)^	25 (27.5)^	91 [82.0]*
1996-97	282	12	85 [30.1]	86 {43.6}	56 {28.4}	55 {27.9}	197 [69.9]
1997-98	293.7	11	103.3 [35.0]	74.5 {39.1}	53.9 {28.3}	62 {32.6}	190.4 [65.0]
1998-99	308.5	10	110.4 [35.8]	65 {33}	72 {36.3}	60.8 {30.7}	198.1 [64.2]
1999-00	346.6	9.1	112.6 [32.5]	61.6 {26.4}	116.7 [49.9]	55.6 {23.7}	234 [67.5]
2000-01	392.3	9.4	124.6 [31.8]	65 {24.3}	153.6 {57.4}	49.1 {18.3}	267.7 [68.2]
2001-02	403.9	9.2	142.5 [35.3]	47.8 {18.3}	166.6 {63.7}	47.2 {18}	261.6 [64.7]
2002-03	460.6	9.6	148.5 [32.2]	59 {18.9}	205.7 {65.9}	47.5 {15.2}	312.2 [67.8]
2003-04	518.8	9.2	165.3 [31.9]	89.9 {25.4}	219.1 {62}	44.6 {12.6}	353.6 [68.1]
2004-05	588.4	8.9	176.9 [30.1]	117 {28.5}	235.5 {57.2}	58.7 {14.3}	411.4 [68.9]
2005-06	713.4	9.4	224.6 [31.5]	138 {28.3}	294.6 {60.4}	55 {11.3}	487.9 [68.5]
2006-07	847.2	9.7	333.7 [39.4]	132.3 {25.8}	309.4 {60.3}	71.8 {13.9}	513.5 [60.6]
2007-08 (R.E)	1025	10.0	408.2 [39.6]	154 {24.7}	375 {60.3}	91 {14.6}	622.3 [60.4]
2008-09P	1250	9.5	496 [39.6]	170 {22.5}	472 {62.5}	112 {14.8}	755.5 [60.4]

*as percent of total taxes

^ as percent of indirect taxes

Source: Federal Board of Revenue

The share of direct taxes in federal tax receipts has increased from 18 percent in the early 1990s to 32 percent in 2000-01 [Table 4.2]. The share further increased to 39.6 percent in 2008-09. However, direct tax-to-GDP accounts for only 4 percent in comparison with 7 percent for other developing countries at the same level of development. The indirect taxes currently account for 60 percent of total revenues, but in terms of percent of GDP, they compare poorly with peer countries. General sales tax accounts for more than 60 percent of the indirect taxes, which makes it the second major

source of federal tax revenues after direct taxes accounts for 38 percent of total tax collections. This indicates that there is enormous potential for GST to convert it to full value added tax.

On the other hand customs collection reduced sharply over the past decade, mostly induced by trade liberalization. It increased sharply from 2002-03 as a result of tremendous surge in imports owing to spike in aggregate demand. Customs collection as a percentage of GDP declined from 3.4 percent in 1993-94 to 1.2 percent in 2008-09.

Custom duties accounted for 22.5 percent of the total indirect taxes as compared to 25 percent last year. The current year has unique distinction as it witnessed massive fall in imports in response to demand compression measures as well as a fall in international oil and commodity prices.

4.4 Trends in Expenditure

Fiscal year 2008-09 has been a difficult year for Pakistan's economy due to many unexpected events on both the domestic and external fronts. Notwithstanding, difficulties being faced by the economy during the current fiscal year (2008-09), better fiscal discipline and improving expenditure management can lead to substantial improvement in the fiscal outlook. Total expenditure has fluctuated between 17 to 20 percent of GDP during the last six years. Total expenditure as a percentage of GDP stood at 18.6 percent as compared to 22.1 percent last year. The spike in 2007-08 was mainly due to huge unprecedented expenditures incurred on account of subsidies and political expediency on the part of the outgoing government. The current year witnessed correction on this count and expenditure control measures brought significant downward adjustment in expenditure. Total expenditure increased to Rs.1085.0 billion during the first half of 2008-09 which is higher by 10.5 percent in the comparable period of last year. Interest payments declined from as high as 6.8 percent of GDP or Rs262 billion in 1999-000 to 4.8 percent of GDP or Rs 624 billion for 2008-09. The intensification of war on terror in some parts of Pakistan has placed a burden on security related expenditure.

Growth in total expenditure witnessed significant decline at the expense of a substantial fall in development spending to the extent of 15.1 percent. Elimination of oil subsidies and a decline in development spending led to a significant reduction in public expenditure growth during the first half of 2008-09. As a share of GDP, development expenditures dropped to 1 percent in the first half of 2008-09 which is the lowest level of development spending in the last 5 years. Current expenditure grew by 18.3 percent as compared to 33.3 percent increase in the same period of last year. However, the first half current

expenditure growth is still high and it needs to be brought down for sustained fiscal consolidation. The main reason for this rise is a tremendous rise in security related expenditure. Table 4.3 (a+b) describe that both development and non-interest-non-defense spending have gone up since 2000-01. It shows that the government must keep the budget deficit at a lower level to provide more fiscal space for investment in physical infrastructure and human development for a sustainable growth and poverty reduction. The narrowing of this gap is likely to come from additional resource mobilization rather than expenditure curtailment. At this critical juncture, the economy needs fiscal stimulus and compression of the revenue-expenditure gap at the expense of growth enhancing expenditure could prove counterproductive.

The share of current expenditure in total expenditure has declined from 88 percent in 1999-000 to 81.4 percent in 2007-08, mainly because of an enormous fall in interest related expenditure (current expenditures for the fiscal year 2008-09 are budgeted at 85 percent). In absolute terms, current expenditure stood at Rs 1858 billion in 2007-08 and are budgeted at Rs 2066 billion for 2008-09 [See Table 4.3 a +b].

On the other hand development expenditures rose from 13.5 percent to 19.8 percent during the same period. During the last nine years, development expenditure increased from 2.1 percent of GDP or Rs.89.8 billion in 2000-01 to 4.4 percent of GDP or Rs. 452.4 billion in 2007-08. In 2008-09 development expenditures are budgeted at 2.8 percent of GDP or Rs 365 billion.

Defence, the second largest component of the current expenditure, remained stagnant at around 3 percent of GDP during the last six years. In 2008-09 it stood at Rs. 313 billion or 2.4 percent of GDP. Non-defense-non-interest expenditure has improved from 8 percent of GDP or Rs 337.4 billion in 2000-01 to 11.4 percent or Rs.1494 billion in 2008-09. Although in relative terms (percent of GDP), non-interest expenditure is lower than 2007-08, in absolute terms it is still high.

Table 4.3 a): Trends in Components of Expenditure (As percent of GDP)

Year	Total Expenditure	Current Expenditure	Interest Payments	Defence	Develop-ment Expenditure	Non Interest Non-Defence Exp	Fiscal Deficit	Revenue Deficit/ Surplus	Primary deficit
1980-81	22.9	13.6	2.1	5.5	9.3	15.3	-6	3.3	-3.9
1984-85	24.7	17.7	3.5	6.7	7	14.5	-8.3	-1.3	-4.8
1988-89	26.1	19.9	5	6.6	6.3	14.5	-8.1	-1.8	-3.1
1989-90	25.9	19.3	5.5	6.9	6.5	13.6	-7.3	-0.8	-1.9
1990-91	25.6	19.2	4.9	6.3	6.4	14.3	-9.5	-3.1	-4.6
1991-92	26.5	19	5.2	6.3	7.5	15.1	-8.7	-1.1	-3.5
1998-99	20.9	18.6	7.5	4.9	3.3	8.6	-5	-2.7	2.5
1999-2000	18.5	16.4	6.8	3.9	2.5	7.7	-5.4	-3	1.7
2000-01	17	15.3	5.9	3.1	2.1	8	-4.3	-2.2	2
2001-02	18.5	15.7	6.1	3.3	2.8	9	-4.3	-1.7	1.6
2002-03	18.4	16.2	4.8	3.3	2.6	10	-3.7	-1.4	1.2
2003-04	16.9	13.7	4	3.3	2.8	9.7	-2.3	0.3	1.1
2004-05	17.2	13.3	3.4	3.2	3.5	10.5	-3.3	0.5	0.04
2005-06	18.4	13.6	3.4	3.2	4.8	11.8	-4.3	0.5	-0.8
2006-07	20.6	15.8	4.4	2.9	5	13.3	-4.3	-0.9	-1.3
2007-08	22.1	18	4.8	2.7	4.4	14.7	-7.4	-3.4	-2.8
2008-09 P	18.6	15.8	4.8	2.4	2.8	11.4	-4.3	-1.2	0.8

*P: Projected**Note: The GDP was rebased w.e.f 1999-2000, so figures thereafter may not be comparable with earlier years*

Table 4.3a and 4.4b illustrate a major progression in expenditure patterns over the last three decades. The salient features suggest that the rising trend in current expenditure has been arrested, mainly on account of declining trends in interest payments and to some extent in defence spending until 2005-06. However, it bounced back since then owing to a substantial surge in interest payments. However, the current fiscal year 2008-09 has witnessed a decline in current expenditure from 18 percent in

2007-08 to 15.8 percent. Interest payments have declined from a peak level of 7.5 percent of GDP in 1998-99 to 4.8 percent of GDP during 2007-08 and remained intact at this level in 2008-09. On the other hand, defence spending was at a very high level in 1989-90 at 6.9 percent of GDP, but gradually it declined to less than 3 percent today. Consequently, the government now has more fiscal space for directing expenditures towards the development side.

Table 4.3 b): Trends in Components of Expenditure (Rs Billion)

Year	Total Expenditure	Current Expenditure	Interest Payments	Defence	Development Expenditure	Non Interest Non-Defence Exp	Fiscal Deficit	Revenue Deficit/ Surplus	Primary deficit
1980-81	63.6	37.8	5.9	15.3	25.8	42.4	-16.6	9.2	-10.7
1984-85	116.8	83.7	16.5	31.8	33.1	68.5	-39.4	-6.4	-22.9
1988-89	201.2	153.1	38.1	51.1	48.1	112	-62.1	-14	-23.9
1989-90	221.6	165.6	46.7	58.7	56.1	116.2	-62.8	-6.8	-16.1
1990-91	260.9	195.7	50	64.6	65.3	146.3	-97.1	-31.8	-47.1
1991-92	321.5	230.1	62.4	75.7	91.3	183.4	-104.9	-13.6	-42.5
1998-99	647.8	547.3	220.1	143.5	98.3	284.2	-179.2	-78.7	40.9
1999-00	709.1	626.4	262.2	150.4	95.6	296.5	-206.3	-114	65.6
2000-01	717.9	645.7	249.3	131.2	89.8	337.4	-179.7	-92.7	84.4
2001-02	826.3	700.2	273.9	149.3	126.2	403.1	-190.4	-76.1	71.7
2002-03	898.2	791.7	235.3	159.7	129.2	503.2	-180.6	-70.9	57.9
2003-04	956	775	226.2	184.9	161	544.9	-130	19	64.2
2004-05	1117	864.5	219.7	211.7	228	685.6	-217	35.5	2.7
2005-06	1401.8	1034.7	260	241.1	365.1	900.7	-325.3	41.9	-65.2
2006-07	1800	1375.3	387.1	249.9	433.6	1163	-377.5	-77.3	-114.9
2007-08	2279	1858	489.7	277	452.4	1509.3	-777.2	-354	-286.8
2008-09 P	2431	2066	624	313	365	1494	-562	-156	103

P Projected

4.5 Trends in Real Expenditure

The nominal monetary value of expenditure is a direct charge on the budget but the composition of expenditure in real terms (adjusted for inflation) provides a comprehensive analysis in real expenditure growth patterns. Total real expenditure grew at a brisk pace of 7.7 percent per annum on average in the 1980s owing to sharp acceleration of 10.5 percent in real current expenditure (Table

4.4). Development expenditure grew by a modest 2.7 percent on average in real terms but interest payments grew by 18.1 percent, reflecting the tremendous pace of accumulation of public debt. Interestingly real defense spending followed a higher growth path and grew by 8.9 percent on average. This level of fiscal indiscipline in the past forced Pakistan to undergo a painful period of structural adjustment in the 1990s.

Table 4.4: Trends in Real Expenditure(1999-2000=100) (percentGrowth)

Period	Total Expenditure	Current Expenditure	Development Expenditure	Interest payment	Defense	Non-Defense Non-Interest Expenditure
1980's	7.7	10.5	2.7	18.1	8.9	4.9
1990's	2.8	4.5	-2.6	8.9	0.4	0.9
1990-I	2.4	3.9	-1.7	4.2	0.7	3
1990-II	3.1	5	-3.5	13.7	0.1	-1.2
2000-04	2.2	0.1	9.4	-8.3	0.4	10.5
2004-08	12.8	13.1	16.6	15	0.9	15.3
2008-09*	-13.1	-9.3	-29.6	2.8	-5.7	-19.6

* Quick estimate for 2008-09

Source: EA Wing, Finance Division

The pace of growth slowed down in the first half of the 1990s but at the expense of development expenditures, which declined by 1.7 percent on average and thus contributed to a decline in real expenditure growth in the period to 2.4 percent. However, current expenditure grew by 3.9 percent thanks to a marginal increase of 0.7 percent in defense spending and a relatively slower growth of 4.2 percent witnessed in interest payments. Non-defense-non-interest expenditure also grew by 3 percent in real terms. Even the sharp fall in real development expenditure which contracted sharply by 3.5 percent in the second half of the 1990s could not restrict current expenditure to grow at a faster pace of 5.0 percent, mainly because of a massive 13.7 percent on average growth in interest payments. Consequently, total expenditure grew by 3.1 percent per annum in the period; however, non-interest non-defense expenditure contracted by 1.2 percent per annum. The second major item, defense spending, inched up marginally by 0.1 percent per annum.

During the first four years (2000-04) of the current decade, total expenditure grew by 2.2 percent, but expenditure grew at a much faster pace of 12.8 percent in the last four years (2004-08). The

current year is likely to witness massive contraction in real incidence of expenditure to the extent of 13.1 percent contributed equally to by a 9.3 percent fall in current expenditure and a massive contraction of 29.6 percent in development expenditure. A high inflation rate has benefited the government to lower real incidence of expenditure. Interestingly, interest payments are likely to post a positive growth of 2.8 percent; however, non-interest and non-defence spending is likely to depict a 19.6 percent contraction.

4.6 Fiscal Performance: 2008-09.

FBR revenue collection for the fiscal year 2008-09 was targeted at Rs.1250 billion at the time of presentation of the Federal Budget 2008-09. Tax collection during the first ten months (July-April) of the current fiscal year amounted to Rs.898.6 billion, which is 17.7 percent higher than the net collection of Rs.763.6 billion in the corresponding period of last year. Net and gross collections have increased by 17.7 and 17.1 percent respectively (Table 4.6). The overall refund/rebate payments during first ten months of the current fiscal year have been Rs.61.3 billion as compared to Rs.55.8 billion paid back during the corresponding period of the last fiscal year.

Table 4.6 Fiscal Performance					
Change	2007-08 (Actual)	2008-09 (R.E)	July-April		Percent Change Over2007-08
			2007-08	2008-09	
A. DIRECT TAXES					
Gross			277.9	333.5	20.0
Refund/Rebate			20.3	27.4	35
Net	408.2	496	284.5	332.5	16.9
B. INDIRECT TAXES					
Gross			452.6	533.7	17.9
Refund/Rebate			30	26	-13.3
Net	622.3	755.5	479	566.1	18.2
B.1 SALES TAX					
Gross			279.5	340.7	21.9
Refund/Rebate			20.6	19.2	-6.8
Net	375	472	293.6	358.9	22.2
B.2 FEDERAL EXCISE					
Gross			61.8	80.6	30.4
Refund/Rebate			0.026	0.024	-7.7
Net	91	112	70.6	90	27.5
B.3 CUSTOM					
Gross			111.2	112.3	1.0
Refund/Rebate			8.4	6.3	-25
Net	154	170	114.8	117.2	2.1
TOTAL TAX COLLECTION					
Gross			730.4	867.2	18.7
Refund/Rebate			50.5	53.6	6.1
Net	1025	1250	763.6	898.64	17.7

Tax collection performance felt the heat of the slowing economy and falling imports. Customs duty collection deviated from its recent past track record of high growth mainly because of the fact that dutiable imports have undergone negative growth. Notwithstanding its meager share even in indirect taxes, federal excise duty collections registered a vibrant growth of 27.6 percent. Sales tax collections also rely heavily on imports and the sales tax at import stage witnessed marginal growth. On the other hand a 47 percent growth in sales tax on domestic economic activity has helped it to grow overall by 22.2 percent. When viewed in the backdrop of a 23 percent growth in national income, the growth of 16.9 percent in direct tax looks dismal. The overall FBR tax collection remained less than satisfactory and actually witnessed deceleration in real terms. Consequently, the FBR tax collection to GDP ratio is likely to

deteriorate around 9 percent of GDP against the target of bringing it in to the vicinity of 10 percent of GDP. Apart from FBR revenue, total tax revenue growth also lagged behind growth in nominal GDP; it exhibits a decline in tax-GDP ratio from 10.3 percent in 2007-08 to around 10 percent in 2008-09.

4.6.i Direct Taxes

Direct tax as a major source of FBR tax revenues for the last two years has contributed 37 percent of total FBR receipts during Jul-April 2008-09. Net collection was estimated at Rs. 332.5 billion against the target of Rs 496 billion. Hence, gross and net collection has registered a growth of 19.3 percent and 16.9 percent during Jul-April 2008-09. The current fiscal year has witnessed a shortfall in collection of direct taxes for the second consecutive year. The entire shortfall will be

difficult to replenish in the remaining months of 2008-09 due to a likely fall in corporate earnings, on account of a realization of impairment losses arising from a decline in the value of financial assets. Improved tax efforts and effective implementation of tax policy and tax administrative reforms have resulted in higher tax collection over the years. The share of direct taxes in federal tax receipts has increased from 15 percent in the early 1990's to around 37 percent in 2008-09.

4.6.ii Indirect Taxes

Indirect taxes grew by 18.2 percent during Jul-April 2008-09 and accounted for 62 percent of the stake in overall tax revenue. Within indirect taxes, sales tax has increased by 22.2 percent. The gross and net collection of sales tax stood at Rs.380.0 billion and Rs.358.9 billion, respectively. Sales tax on domestic production and sales contributes to 54.2 percent of net collection, while the rest originates from imports. Within net domestic sales tax collection major contribution has come from POL products, telecom services, natural gas, sugar and cigarettes. On the other hand, POL products, edible oil, plastic resins, vehicles, iron and steel and machinery and mechanical appliances have major contribution at the import stage collection of sales tax.

Custom duties on a net basis have increased only by 2.1 percent during Jul-April 2008-09, thereby aligning with a negative import growth in dollar terms. Net collection has inched up from Rs.114.9 billion in 2007-08 to Rs.117.2 billion in 2008-09, while gross collection has decreased from Rs 125.9 billion in 2007-08 to Rs 124.5 billion in 2008-09. Refund payment has declined by 34 percent. Major sources of revenue have been the POL, automobiles, edible oil, machinery, iron and steel products etc. These sectors have contributed around 76 percent of the gross custom collection.

The net collection of federal excise stood at Rs 90.0 billion during Jul-April 2008-09 against Rs

70.6 billion in the corresponding period of last year, thereby, showing a higher collection of Rs 19.4 billion in absolute terms in this period. This growth in FED has been generated by six commodity groups that contributed around 80 percent of FED receipts. These are cigarettes, cement, beverages, natural gas, POL product and services. So far FBR has collected Rs. 898.6 billion or 72 percent of the tax target (Rs.1250 billion) set for the current fiscal year and the remaining Rs.351.4 billion or 28 percent of the target has to be collected during the remaining two months of the current fiscal year which implies a likely shortfall in the revenue collections.

4.7 Review of Public Expenditure: 2008-09

The budgeted total expenditure for the fiscal year 2008-09 was Rs.2391 billion, which is 4.9 percent higher than last year's revised estimate. On the other hand current expenditure was envisaged to remain more or less stagnant at Rs.1876 billion. The stake of the federal government in the current expenditure was up to Rs.1359 billion and the remaining Rs. 517 billion were earmarked for provincial governments. Development expenditure (after adjusting for net lending) was targeted at Rs.396 billion in 2008-09 which is up by 7 percent compared to last year. On the basis of revenue and expenditure projections, the overall fiscal deficit is estimated at Rs.562 billion or 4.3 percent of GDP as against 7.4 percent last year.

Interest payments surpassed their budgeted level by a significant margin. A sum of Rs.557 billion was budgeted for interest payments in 2008-09. The year is likely to end with interest payments of Rs.618 billion which are Rs.61 billion over the budgeted amount.

The current expenditure over-run has become the norm because of the intensification of the war on terror and a spike in security related expenditure in the last two years. This is feeding into a significant gap between what is budgeted and the estimates in current expenditure. The current year has

witnessed some deceleration in non-interest, non-defence expenditure, however, to follow fiscal deficit religiously, the government has to go the extra mile by cutting back on development expenditure. Notwithstanding this downturn, the growth in current expenditure remained strong. Pakistan's fiscal adjustment experience over the

years suggests a downward rigidity in current expenditure and much of the effort has to come from either additional revenue mobilization or development expenditure cutbacks. In the case that there is a revenue shortfall, development expenditure is the prospective candidate to bear the brunt of the adjustment.

Table 4.7: Consolidated Revenue & Expenditure of the Government

	Prov. Actual 2006-07	Prov. Actual 2007-08	Budget 2008-09	Q.E 2008-09*
A. Total Revenue	1298	1499.5	1809	1910
a) Tax Revenue	890	1050.7	1318	1372
FBR Revenue	847.2	1009.9	1250	1179
Provincial Tax Revenue	37	41	66	51
b) Non-Tax Revenue	408	448.7	491	538
B. Total Expenditure	1800	2276.5	2391	2431
a) Current Expenditure	1375	1853.1	1876	2066
i) Federal	973	1416	1359	1554
- Interest	387.1	522.7	557	624
- Defense	250	285.1	296.1	313
- Others	354	653.7	505.9	930
ii) Provincial	402	437.1	517	513
b) Development Expenditure & Net Lending	425	423.4	515.6	365
PSDP	434	452	516.6	363
Net Lending	-9	-28	0.97	2
c) Statistical Discrepancy	-125			
C. Overall Fiscal Deficit	377	777.2	582	562
As percent of GDP	4.3	7.4	4.3	4.3
Financing of Fiscal Deficit	377	777.2	582	562
i) External Sources	147	151.3	165.2	158
ii) Domestic	230	626	417	375
- Bank	102	520	149	201
- Non-Bank	57	104	243	174
- Privatization Proceeds	71	0	25.1	0
GDP at Market Prices	8723	10282	12280	13095

4.8 Provincial Budget

The total outlay of the four provincial budgets for 2008-09 stood at Rs.630 billion, which is 25 percent higher than the outlay of Rs.504.1 billion for the last year. NWFP witnessed the highest increase of 15.4 percent in budgetary outlay followed by the Sindh (14.2 percent). Punjab posted an increase of 12.6 percent while Baluchistan has witnessed a decline of 8 percent in its expenditures in the last year. The over-all provincial revenue receipts for 2008-09 are estimated at Rs.738.6 billion, which is up by 21

percent compared to last year. Tax revenue accounting for 8.5 percent of overall revenue receipts amounted to Rs.564.9 billion which is 24.5 percent higher than last year and non-tax revenue is estimated at Rs 53.1 billion which is 10.9 percent lower than the last year. The total budget outlay of Rs.847.4 billion is shared in the ratio of 65.2 and 34.8 percent between current and development expenditures, respectively. Compared to last year, the allocations for development expenditure are higher by 12.5 percent and for current expenditure, by 11.1 percent. The main components of the provincial

budgets 2008-09 in comparison with revised estimates from last year are presented in Table 4.8.

Items	Punjab		Sindh		NWFP		Baluchistan		Total	
	07-08	08-09	07-08	08-09	07-08	08-09	07-08	08-09	07-08	08-09
	RE	BE	RE	BE	RE	BE	RE	BE	RE	BE
A. Total Tax Revenue	256.4	329.9	158	188.7	59.1	76.2	30.7	35.2	504.1	630
Provincial Taxes	30.6	40.4	16.4	19.8	2.4	3.9	0.9	1	50.3	65.1
Share in Federal Taxes	225.8	289.6	141.6	168.9	56.7	72.2	29.8	34.2	453.8	564.9
B. Non-Tax Revenue	42.2	36.6	12.1	10.5	3.1	3.5	2.3	2.5	59.6	53.1
C. All Others	6.2	7.3	8.7	12.8	17.5	20.7	15.8	14.8	48.2	55.5
Total Revenues (A+B+C)	304.7	373.8	178.7	211.9	79.7	100.4	48.8	52.5	611.9	738.6
a) Current Expenditure	232.2	257	163.9	181	61.5	67.3	40	47.5	497.5	552.8
b) Development Expenditure	138	160	62.3	77.3	32.9	41.6	28.8	15.7	262	294.7
i) Rev. Account	79.2	81.1	14.4	35.8	5.5	8	0	0	99.1	124.9
ii) Cap. Account	58.8	78.9	47.9	41.5	27.4	33.6	28.8	15.7	162.9	169.8
Total Exp (a+b)	370.2	417	226.2	258.3	94.4	108.9	68.8	63.3	759.5	847.4

Source: Provincial Finance Wing, Ministry of Finance

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09(B)
Divisible Pool	176.4	204.8	244.6	320.6	391.3	505.7
Straight Transfer	38.5	40.5	56.8	70.3	65.9	62.6
Special Grants/ Subventions	32.8	35.3	63.5	29.3	33.3	38.2
Project Aid	12.9	15.5	17.5	16.8	19.1	25.5
Agriculture Sector Loan-II	12	1.4	2.8	2.6	1.1	0
Japanese Grant	0.1	0.1	0.1	0.1	0.04	0.1
Total Transfer to Province	264.7	297.6	385.2	439.7	510.8	632.1
Interest Payment	26.9	24.3	21.6	18	19.9	17
Loan Repayment	11.8	28.7	14.7	40.2	25.4	16.2
Transfer to Province(Net)	226	244.6	348.9	381.5	465.6	598.9

Source: Budget in Brief, 2007-08

4.9 Allocation of Revenue between the Federal Government and Provinces

The Constitution governs the relationship between the Government and the provinces with respect to the distribution of a divisible pool of taxes. According to the Constitution, every five years, the President forms a National Finance Commission (NFC) consisting of the Minister for Finance of the Federal Government, the Minister of Finance of each of the Provincial governments and other presidential appointees in consultation with the Governors of the provinces. The NFC then recommends to the President the distribution to be made between the Federal Government and the provinces with respect to the divisible pool of taxes consisting of income tax, sales tax, export duties

on cotton, customs duties, excise duties (excluding excise duty on natural gas) and any other tax that may be specified by the President. Soon after receipt of the recommendations of the NFC, the President implements these through a Presidential order specifying the share of the net proceeds of the taxes to be allocated to the provinces and the federal government. [The recommendations of the NFC together with an explanatory memorandum of action taken thereon are required to be sent to both Houses of the Parliament and Provincial Assemblies]. Under the Constitution, the President has the power to amend or modify the distribution of revenues as may be necessary or expedient. Since 1997, the share of the Federal Government in the divisible pool was fixed at 62.5percent while

the share of the provincial governments has been fixed at 37.5 percent. Beginning 2006-07, the share of the provincial governments in the divisible pool will rise annually to 41.5 percent, 42.5 percent, 43.75 percent, 45.0 percent and 46.25 percent thereafter in coming years. An account of transfer to provinces is given in Table-4.9.

The transfer to provinces on a net basis registered a decline of Rs 26.2 billion in the revised estimates of 2007-08, mainly due to pre-payment of federal loans by the provinces during the year. However, these are placed at Rs 598.9 billion in budget estimates 2008-09 (i.e. an increase of 28.6 percent over the revised estimates 2007-08).

TABLE 4.1

FEDERAL GOVERNMENT OVERALL BUDGETARY POSITION

		(Rs Million)	
Fiscal Year/ Item		2007-08 (R.E)	2008-09 (B.E)
A. REVENUE			
1.	<u>Direct Taxes</u>	<u>405,000</u>	<u>405,000</u>
2.	<u>Indirect Taxes</u>	<u>619,636</u>	<u>754,000</u>
	i. Customs	150,545	170,000
	ii. Sales Tax	385,497	472,000
	iii. Federal Excise	83,594	112,000
3.	<u>Total Tax Revenue (1+2)</u>	<u>1,024,636</u>	<u>1,159,000</u>
4.	<u>Surcharges (Gas & Oil)</u>	<u>35,178</u>	<u>53,000</u>
5.	<u>Non-Tax Revenue</u>	<u>370,698</u>	<u>410,776</u>
6.	<u>Total Revenue Receipts Gross (3+4+5)</u>	<u>1,430,512</u>	<u>1,622,776</u>
B. EXPENDITURE			
9.	<u>Current Expenditure*</u>	<u>1,437,166</u>	<u>1,377,153</u>
	i. Defence	277,300	296,077
	ii. Interest	489,681	523,172
	iii. Grants	87,000	87,000
	iv. Economic Services @	78,900	78,900
	v. Subsidies	407,485	295,204
	vi. Other	96,800	96,800
10.	<u>Development Expenditure(PSDP)</u>	<u>238,000</u>	<u>247,000</u>
11.	<u>Total Expenditure (9+10)</u>	<u>1,675,166</u>	<u>1,624,153</u>

RE- Revised Estimate

Source: Budget Wing, Finance Division, Islamabad

Q.E.- Quick Estimates

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

* Current expenditure here includes earthquake related spendings

TABLE 4.2

SUMMARY OF PUBLIC FINANCE (CONSOLIDATED FEDERAL AND PROVINCIAL GOVERNMENTS)

Fiscal Year/ Item	(Rs Million)									% Change 2008-09/ 2007-08
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 R.E.	2008-09 (B.E)	
<i>Total Revenues (I+ii)</i>	553,000	624,100	720,800	794,000	900,014	1,076,600	1,297,957	1,499,380	1,809,240	20.7
Federal	514,000	584,000	673,600	741,000	842,900	992,200	1,215,730	1,380,599	1,662,238	20.4
Provincial	39,000	40,100	47,200	53,000	57,114	84,400	82,227	118,781	147,002	23.8
I) Tax Revenues	441,600	478,100	555,800	611,000	659,410	803,700	889,685	1,050,696	1,317,857	25.4
Federal	422,500	459,300	534,000	583,000	624,700	766,900	852,866	1,009,902	1,251,462	23.9
Provincial	19,100	18,800	21,800	28,000	34,710	36,800	36,819	40,794	66,395	62.8
ii) Non-Tax Revenues	111,400	146,000	165,000	183,000	240,604	272,900	408,272	448,684	491,383	9.5
Federal	91,500	124,700	139,600	158,000	218,200	225,300	362,864	370,697	410,776	10.8
Provincial	19,900	21,300	25,400	25,000	22,404	47,600	45,408	77,987	80,607	3.4
<i>Total Expenditures (a+b+c)</i>	717,900	826,250	898,200	956,000	1,116,981	1,401,900	1,799,968	2,276,549	2,391,491	5.0
a) Current	645,700	700,200	791,700	775,000	864,500	1,034,700	1,375,345	1,853,147	1,875,832	1.2
Federal	479,000	524,600	599,800	557,000	664,200	789,100	973,130	1,416,015	1,358,832	-4.0
Provincial	166,700	175,600	191,900	218,000	200,300	245,600	402,215	437,132	517,000	18.3
b) Development(PSDP)	89,800	126,250	129,200	161,000	227,718	365,100	433,658	451,896	516,629	14.3
c) Net Lending to PSE's	-17,600	-200	-22,700	20,000	24,763	2,100	-9,035	-28,494	-970	-
d) Statistical Discrepancy	14,800	-11,700	3,200	-32,000	0	-86,307	-124,510	0	0	-
Overall Deficit	-179,700	-190,450	-180,600	-130,000	-216,967	-325,300	-377,501	-777,169	-582,251	-
Financing (net)	179,700	190,450	180,600	130,000	216,988	325,200	377,501	777,169	582,251	-
External (Net)	120,700	83,100	113,000	-5,900	120,432	148,900	147,150	151,311	165,216	-
<i>Domestic (i+ii)</i>	59,000	107,350	67,600	135,900	96,556	176,300	230,351	625,858	417,035	-
i) Non-Bank	92,000	85,000	119,500	61,000	8,050	8,100	56,905	104,302	242,922	-
ii) Bank	-33,000	14,000	-55,600	63,690	60,179	70,900	101,982	519,906	149,007	-
iii) Privatization Proceeds	-	8,350	3,700	11,210	28,327	97,300	71,464	1,650	25,106	-
Memorandum Item										
GDP (mp) in Rs. Billion	4,210	4,453	4,876	5,641	6,500	7,623	8,673	10,284	13,095	27.3
	(As Percent of GDP at Market Price) [£]									
Total Revenue	13.1	14.0	14.8	14.1	13.8	14.1	15.0	14.6	13.8	
Tax Revenue	10.5	10.7	11.4	10.8	10.1	10.5	10.3	10.2	10.1	
Non-Tax Revenue	2.6	3.3	3.4	3.2	3.7	3.6	4.7	4.4	3.8	
Expenditure	17.4	18.3	18.5	16.9	17.2	18.4	20.8	22.1	18.3	
Current	15.3	15.7	16.2	13.7	13.3	13.6	15.9	18.0	14.3	
Development	2.1	2.8	2.2	3.2	3.9	4.8	4.9	4.1	3.9	
Overall Deficit Incl. E. quake Exp.	4.3	4.3	3.7	2.3	3.3	4.3	4.4	7.6	4.4	

B.E Budget Estimate

Source: Budget Wing, Finance Division, Islamabad

R.E. Revised Estimates.

£ Beginning from 1999-2000, Pakistan's GDP was rebased at 1999-2000 Prices from two decades old base of 1980-81

Therefore, wherever, GDP appears in denominator the number of prior to 1999-2000 are not comparable.

TABLE 4.3

CONSOLIDATED FEDERAL AND PROVINCIAL GOVERNMENTS REVENUES

Fiscal Year/ Item	(Rs Million)									% change 2008-09/ 2007-08
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 (R.E)	2008-09 (B.E)	
Total Revenue (I+II)	553,000	624,100	720,800	793,700	900,014	1,076,600	1,297,957	1,499,381	1,809,240	20.7
Federal	514,000	584,000	673,600	743,600	842,900	992,200	1,215,730	1,380,600	1,662,238	20.4
Provincial	39,000	40,100	47,200	50,100	57,114	84,400	82,227	118,781	147,002	23.8
I. Tax Revenues (A+B)	441,600	479,335	555,800	611,000	659,410	803,700	889,685	1,050,696	1,317,857	25.4
Federal	422,500	460,224	534,000	583,000	624,700	766,900	852,866	1,009,902	1,251,462	23.9
Provincial	19,100	19,111	21,800	28,000	34,710	36,800	36,819	40,794	66,395	62.8
A. Direct Taxes (1+2)	128,556	147,403	157,886	171,188	186,473	224,147	337,639	391,350	504,650	29.0
Federal	124,585	142,649	151,976	164,497	176,930	215,000	334,168	387,563	496,000	28.0
Provincial	3,971	4,754	5,910	6,691	9,543	9,147	3,471	3,787	8,650	128.4
B. Indirect Taxes (3+4+5+6+7)	313,044	331,932	397,914	439,812	472,937	579,553	552,046	659,346	813,207	23.3
3. Excise Duty	50,325	48,572	45,437	47,538	60,813	58,702	74,026	86,549	115,290	33.2
Federal	49,000	47,189	44,002	45,823	58,670	55,000	71,575	83,594	112,000	34.0
Provincial	1,325	1,383	1,435	1,715	2,143	3,702	2,451	2,955	3,290	11.3
4. Sales Tax*	153,500	166,618	195,138	220,607	235,533	294,600	309,228	385,497	472,000	22.4
5. Taxes on Interna- tional Trade	65,000	47,817	68,835	90,940	117,243	138,200	132,200	150,545	170,000	12.9
6. Surcharges*	30,200	54,854	68,230	61,381	26,769	50,800	64,546	35,178	53,000	50.7
6.1 Gas	12,300	18,867	21,358	16,770	16,165	26,300	34,888	20,708	53,000	155.9
6.2 Petroleum	17,900	35,987	46,872	44,611	10,604	24,500	29,658	14,470	0	
7. Other Taxes **	14,019	14,071	20,274	80,727	59,348	88,051	36,592	36,755	55,917	52.1
7.1 Stamp Duties	5,230	5,721	6,631	10,329	10,573	10,211	10,268	11,123	16,918	52.1
7.2 Motor Vehicle Taxes	3,121	3,195	3,893	4,722	5,749	7,107	7,719	4,975	9,832	97.6
7.3 Foreign Travel Tax*	1,048	1,097	4,054	4,751	2,050	3,593	3,681	356	3,713	943.0
7.4 Others	4,620	4,058	5,696	60,925	40,976	67,140	14,924	20,301	25,454	25.4
II. Non-Tax Revenues	111,400	146,000	165,000	182,700	240,604	272,900	408,272	448,685	491,383	9.5
Federal	91,500	124,700	139,600	160,600	218,200	225,300	362,864	370,698	410,776	10.8
Provincial	19,900	21,300	25,400	22,100	22,404	47,600	45,408	77,987	80,607	3

* Revenues under these heads are exclusively Federal.

Source: Budget Wing, Finance Division, Islamabad

** Mainly include Provincial Revenues.

B.E Budget Estimate

R.E. Revised Estimates.

TABLE 4.4

CONSOLIDATED FEDERAL AND PROVINCIAL GOVERNMENTS EXPENDITURES

Fiscal Year/ Item	(Rs million)								
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08 RE	2008-09 (B.E)
Current Expenditure	645,700	700,200	791,700	775,000	864,500	1,034,700	1,375,345	1,853,147	1,875,832
Federal	479,000	524,600	599,800	557,000	664,200	789,100	973,130	1,416,015	1,358,832
Provincial	166,700	175,600	191,900	218,000	200,300	245,600	402,215	437,132	517,000
Defence	131,200	149,254	159,700	184,904	211,717	241,063	249,858	277,300	296,077
Interest	249,252	273,894	235,304	226,256	219,744	260,021	387,119	522,698	557,596
Federal	234,500	245,300	209,700	202,500	210,196	237,119	369,000	489,681	523,172
Provincial	14,752	28,594	25,604	23,756	9,548	22,902	18,119	33,017	34,424
Current Subsidies	29,028	29,221	57,114	67,920	66,673	101,238	76,039	423,685	299,995
Federal	19,900	25,488	50,000	62,500	57,800	86,300	74,010	407,485	295,204
Provincial	9,128	3,733	7,114	5,420	8,873	14,938	2,029	16,200	4,791
Gen. Administration*	100,981	91,024	100,210	120,023	130,531	163,263	225,120	368,159	368,159
Federal	70,700	56,300	60,900	75,500	81,400	103,100	146,017	175,700	175,700
Provincial	30,281	34,724	39,310	44,523	49,131	60,163	79,103	192,459	192,459
All Others**	135,239	156,807	239,372	175,897	235,835	269,115	437,209	261,305	354,005
Development Expenditure	89,800	126,250	129,200	161,000	227,716	365,100	433,656	451,896	516,629
Net Lending to PSEs	-17,600	-200	-22,700	20,000	24,763	2,100	-9,035	-28,494	-970
Total Expenditure	717,900	826,250	898,200	956,000	1,116,981	1,401,900	1,799,966	2,276,549	2,391,491
Memorandum Items:	(Percent Growth over Preceding period)								
Current Expenditure	3.1	8.4	13.1	-2.1	11.5	19.7	32.9	34.7	1.2
Defence	-12.8	13.8	7.0	15.8	14.5	13.9	3.6	11.0	6.8
Interest	-5.0	9.9	-14.1	-3.8	-2.9	18.3	48.9	35.0	6.7
Current Subsidies	24.9	0.7	95.5	18.9	-1.8	51.8	-24.9	457.2	-29.2
General Administration	9.6	-9.9	10.1	19.8	8.8	25.1	37.9	63.5	0.0
All Others	37.4	15.9	52.7	-26.5	34.1	14.1	62.5	-40.2	35.5
Development Expenditure	-6.1	40.6	2.3	24.6	41.4	60.3	18.8	4.2	14.3
Total Expenditure	1.2	15.1	8.7	6.4	16.8	25.5	28.4	26.5	5.0
	As % of Total Expenditure								
Current Expenditure	89.9	84.7	88.1	81.1	77.4	73.8	76.4	81.4	78.4
Defence	18.3	18.1	17.8	19.3	19.0	17.2	13.9	12.2	12.4
Interest	34.7	33.1	26.2	23.7	19.7	18.5	21.5	23.0	23.3
Current Subsidies	4.0	3.5	6.4	7.1	6.0	7.2	4.2	18.6	12.5
General Administration	14.1	11.0	11.2	12.6	11.7	11.6	12.5	16.2	15.4
All Others	18.8	19.0	26.7	18.4	21.1	19.2	24.3	11.5	14.8
Development Expenditure@	10.1	15.3	11.9	18.9	22.6	26.2	23.6	18.6	21.6
Total Expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Budget Wing, Finance Division

* Also include law & order, social, Economic and Community Services.

** Include mainly Provincial Expenditures.

@ Include net lending

Note: Variation in figures of interest payments of table 4.4 and 4.5 is on account of different methodology and sources of data collection used by Budget Resource Section and Debt Management Section of Finance Division.

B.E Budget Estimate

R.E. Revised Estimates.

TABLE 4.5

DEBT SERVICING

Fiscal Year/ Item	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	(Rs million)	
									2008-09 QE	%Change 2008-09/ 2007-08
A. Interest Payments	254,234	278,671	241,678	236,849	250,611	276,565	358,780	527,849	650,280	23.2
A.: Federal	239,482	250,077	216,074	202,940	216,042	244,648	335,880	502,470	624,000	24.2
Interest on Domestic Debt	188,482	189,477	166,874	161,540	176,342	202,548	287,463	443,117	551,000	24.3
Interest on Foreign Debt	51,000	60,600	49,200	41,400	39,700	42,100	48,417	59,353	73,000	23.0
Foreign Loans	40,355	68,134	45,571	111,258	35,030	63,603	50,651	53,251	54,379	2.1
IMF Drawings	2,909	2,483	0.0	1,295	423	0	0	0	0	-
Food Credit/										
Short Term Borrowings	4,187	2,483	1,840	288	445	814	1,213	385	0	-100.0
Euro Bonds	4,690	4,812	3,609	2,242	4,720	5,774	7,762	9,365	11,823	26.2
\$ Denomination Bonds	-	-	429	265	198	264	265	265	265	0.0
A.: Provincial	14,752	28,594	25,604	33,909	34,569	31,917	22,900	25,379	26,280	3.6
B. Repayments/Amortization of Foreign Debt	96,160	164,905	64,234	69,765	55,724	85,411	67,304	88,383	96,574	9.3
Foreign Loans	74,623	68,134	46,207	45,978	54,258	63,603	54,040	61,686	96,185	55.9
Food Credits	21,537	96,771	18,027	23,787	1,466	21,809	13,264	26,697	389	-98.5
C. Total Debt Servicing (A+B)	350,394	443,576	305,912	306,614	306,335	361,976	426,084	616,232	746,854	21.2
MEMORANDUM ITEMS	(As Percent of GDP)									
Interest on Domestic Debt (Federal)	4.5	4.3	3.4	2.9	2.7	2.7	3.3	4.3	4.2	
Interest on Foreign Debt	1.2	1.4	1.0	0.7	0.6	0.6	0.6	0.6	0.6	
Repayment of Foreign Debt	2.3	3.7	1.3	1.2	0.9	1.1	0.8	0.9	0.7	
Total Debt Servicing	8.3	10.0	6.3	5.4	4.7	4.7	4.9	6.0	5.7	

- nil

Source: D.M. Section, Finance Division, Islamabad

Q.E Quick Estimate

Note: Variation in figures of interest payments of table 4.4 and 4.5 is on account of different methodology and sources of data collection used by Budget Resource Section and Debt Management Section of Finance Division.

TABLE 4.6

INTERNAL DEBT OUTSTANDING (AT END OF PERIOD)

Fiscal Year/ Type of Debt	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	(Rs million)	
									2008-09 Q.E.	% Change 2008-09/ 2007-08
Permanent Debt	349,212	424,767	468,768	570,009	526,179	514,879	562,540	616,766	682,554	10.7
Floating Debt	737,776	557,807	516,268	542,943	778,163	940,233	1,107,655	1,589,587	2,033,489	27.9
Un-funded Debt	712,010	792,137	909,500	914,597	873,248	881,706	940,007	1,020,378	1,213,032	18.9
Total	1,798,998	1,774,711	1,894,536	2,027,549	2,177,590	2,336,818	2,610,202	3,226,731	3,929,075	21.8
(Percent Share in Total Debt)										
<u>Memorandum Items:</u>										
Permanent Debt	19.4	23.9	24.7	28.1	24.2	22.0	21.6	19.1	17.4	
Floating Debt	41.0	31.4	27.3	26.8	35.7	40.2	42.4	49.3	51.8	
Un-funded Debt	39.6	44.6	48.0	45.1	40.1	37.7	36.0	31.6	30.9	
Total Debt as % of GDP (mp)	42.7	39.9	38.9	35.9	33.5	30.7	30.1	31.4	30.0	

Q.E Quick Estimate

Source: D.M. Section, Finance Division, Islamabad