Fiscal Policy in Pakistan

Government Receipts

The Government receipts consist of the following four sources:

1. **Revenue Receipts (Net of Provincial Shares):** In Pakistan, the heavy dependence is upon revenue receipts, about 65-70% of the revenue is estimated to be drawn from revenue receipts. It includes tax revenue, non-tax revenue, and surcharges.

   (a) **Tax Revenue:** In taxes we have direct taxes such as income tax, and wealth tax. Indirect taxes such as central excise, sales tax, and custom duty. Direct tax comprises about 70% of Pakistan's total tax revenue.

   (b) **Non-Tax Revenue:** It includes income from government property and enterprises and receipts from Civil Administration and other functions.

   (c) **Surcharges:** Surcharges on natural gas and petroleum fall under this category.

2. **Capital Receipts:** Capital receipts include external borrowing and internal non-bank borrowings consisting of unfunded debt, public debt, treasury and deposit receipts besides the revenue account surplus and the surplus generated by public sector, etc.

3. **External Resources:** External resources are loans and grants which come from various sources. These sources include consortium, non-consortium and Islamic sources of aid:

   (a) **Consortium:** Consortium provides aid at both bilateral and multilateral levels:

      (i) Sources of **consortium bilateral aid** are Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Norway, Sweden, United Kingdom and United States.

      (ii) **Consortium multilateral aid** comes from Asian Development Bank (ADB), International Bank for Reconstruction and Development (IBRD), Int. Development Association (IDA), Int. Finance Corporation (IFC), and Int. Fund for Agricultural Development (IFAD).

   (b) **Non-Consortium:** Non-consortium sources of loans and grants mostly provide bilateral aid. These include Australia, China, Czech Republic, Denmark, Finland, Rumania, Switzerland, Russia and Yugoslavia.

   (c) **Islamic Aid:** Bilateral aid from Islamic countries come from Saudi Arabia, Kuwait, Qatar, United Arab Emirates, Turkey, Lebanon, Libya

and Iran. While multilateral Islamic sources of aid are OPEC Fund, and IDB.

Loans and grants received by Pakistan can be classified into 'project' and 'non-project aid'. Non-project aid can be further decomposed into food, non-food, BOP and Relief aid.

4. **Self-Financing by Autonomous Bodies:** This is actually the surplus left after meeting all the expenses of these bodies. This surplus is available to government for revenue and development expenditures.

Government Expenditure

Government expenditure is classified into current expenditure and development expenditure:

1. **Current Expenditure:** It comprises mainly debt servicing, defence, general administration, social services, law and order, subsidies, community services, economic services, grants to Azad Jammu and Kashmir, Railway and others.
2. **Development Expenditure:** Public Sector Development Program (PSDP) is another name given to Government's development expenditure. The priority areas are transport and communication, power and water. These three sectors combined cover about 50% of total allocation of PSDP.

   The share of current expenditure is always remain substantial, it constituted around 70-80% of total Government expenditure. Non-development expenditure is generally regarded as being excessive and therefore subjected to persistent public criticism. With sharp increase in population, constant threat from the enemies and increasing cost of corruption, non-development expenditure is subjected to a rising trend which could only be controlled by rapid economic development. On the other hand, negligence of non-development expenditure may result into ill-equipped and under-staffed hospitals, dispensaries and educational institutes, and arrears in maintenance of roads, dams, bridges, electricity and forests. Non-development expenditure should be economically managed in order to ensure the economic development of Pakistan.

   There are six major heads of current expenditure of Federal Government of Pakistan:

   1. Defence,
   2. Debt servicing,
   3. Subsidies and grants,
   4. General administrative,
   5. Social services, and
   6. Others.

Tax Structure of Pakistan

1. The narrow base enigma has been a base in Pakistan's tax structure from the beginning.
2. In 1987 when population of the country was more than a hundred million, the total number of taxpayer was just over a million.
3. The main base taxes imposed are direct and indirect taxes.
    a. Direct tax of the Federal Government comprises of income tax, wealth tax and corporate tax
    b. Indirect tax, on the other hand, consists of custom duty, excise duty, sales tax, import duty and all others.
4. Indirect tax contributes the predominant share to the total tax collection. Direct taxes have persistently dropped their share in total tax revenue.
5. Indirect tax, on the other hand, contributes more than 70% of the total tax revenue. Indirect tax is regressive. It may cause the inflation to rise and its incidence is fall on poor class of the economy.

Deficit Financing in Pakistan

Following are the sources of deficit financing in Pakistan:

1. Printing new currency notes
2. Public borrowings
3. Foreign loans, aid and grants
4. Using previous balances, and
5. Borrowings from banks including from the central bank.

Dr. Mahboobul Haq defines deficit financing in the following words:

(i) Net borrowings by the government from the banking system which includes the State Bank of Pakistan (SBP) and commercial banks but excludes non-banking institutions and individuals, and

(ii) Net borrowings by the Government from the SBP only.

But the public debt does not only constitute the above sources, it also includes money lent to Government out of the balances of the banks which would have been held if the Government had not borrowed them.

Deficit financing is a sound and necessary instrument of the Government finance and its role, its desirability and limitations of its use in mobilising revenue, must be properly analysed in the context of its broad implications on the economy and compared to the adequacy of other techniques of resource mobilisation.

It was planned in Third Five-Year Plan that there will be no deficit financing during the said plan but the government had to revise the plan. In the Fourth Five-Year Plan there were annual plans and major upsets in the economy. In the Fifth and Sixth Five-Year Plans, though there were very large amounts of foreign remittances but there was not remarkable reduction in deficit financing.

A well-managed deficit financing could be a key to greater economic achievements especially for a less developed country. A wise finance minister has to keep an eye on all the factors of the economic development and spent the public fund in the manner that is most beneficial to the nation.