An overview of the fiscal policy of pakistan 2000-2007

Abstract Pakistan's socio-political front has always been a cause of limelight, be it due to changing political scenarios or implementation, enactment or revival of new economic policies. This report is an overview of the fiscal policy of Pakistan from the years 2000 to 20007.

It focuses fiscal policy trends in the past few years from policy changes such as introduction of new taxes, abolition of a few, change in the ratio of direct and indirect tax, the number of people falling under tax brackets, data documentation and the shift from a volatile budget deficit to an improvement in evenue collection, tax receipts, curtail expenditures and in short a movement towards a steady and more progressive economy.
Introduction Fiscal policy primarily deals with the levels and composition of taxation, spending and borrowing by the Government.

A sound fiscal policy is essential for preventing macroeconomic imbalances and realizing the full growth potential. In order to address the structural problems in the tax system and tax administration, the government has been introducing wide-ranging tax and tariff reforms, as well as reforms in tax administration. These reforms have already started yielding handsome dividends. During the last seven years, tax collection by the CBR has increased by 130. 0 percent - that is, more than doubled.

Fiscal Policy For Year 2000 to 2001 FYOI witnessed the implementation of strong fiscal management along with structural reforms in almost all key sectors of the economy. The reforms were focused on documentation aimed at improving tax compliance. Other measures included a tax amnesty scheme, the extension of GST to services, fiscal transparency, measures to arrest the overrun of expenditures, and several other steps intended to romote fiscal discipline and correct macroeconomic imbalances.

Despite weaker than expected economic growth on account of the drought, these measures helped the government realize a significant increase in tax revenue and contain expenditure growth. This Jointly resulted in an impressive reduction of 1. 1 percent in the budget deficit to 5. 3 percent of GDP in FYOI . Consolidated Fiscal Developments in FYOI The primary balance has remained in surplus for the last three years in a row, showing that the fiscal deficit is primarily driven by interest payments.

Another easure of the fiscal position is the revenue deficit, which also shows signs of improvement in FYOI; this was the outcome of exerted efforts to control government spending, which was sharply curtailed by 1. 7 percent of GDP over the last year. This was mainly on account of lower interest payments, reduction in other expenditures and a cut in the public sector development program of provincial governments. Despite lower than anticipated economic growth, consolidated tax revenues recorded healthy growth of 13. 8 percent over FYOO, mainly on account of higher tax collection by CBR.

However, this increase was eclipsed by lower non-tax revenues (consolidated), which slowed the overall growth in revenues to 4. 7 percent in FYOI, from 15. 6 percent last year. On the expenditure side, a deteriorating balance between productive and current spending over the past decade has continued to exacerbate the composition of the fiscal balance. Government borrowing to finance current expenditures has not increased the productive capacity of the economy. the revenue balance remained in deficit, indicating that the government is not only borrowing to finance development but also current expenditure.

This has enhanced indebtedness of the country and stilted productive capacity. An interesting feature this year, was the reduction in interest payments, realized primarily on account of lower T-bills rates, lower returns on NSS, and smaller amounts of prize money carried by Prize Bonds. Spending on social and economic services also declined, which may be the upshot of better accountability and improved governance. Despite a significant decline in overall expenditures, development spending (consolidated) recorded a healthy increase of 16. 4 percent over FYOO, indicating government efforts o reprioritize such spending.

The compositio n of deficit financing during FYOI , marked a significant shift from domestic to external sources, as external financing stood at Rs 128. 8 billion against Rs 66. 5 billion in FYOO. This change is the result of higher inflows from international financial institutions (IF's) as a result of the SBA, which in turn allowed the government to reduce its dependence on bank borrowings. Fiscal Operations of Federal Government in FYOI Recap of Major Fiscal Policy Measures The existing fiscal reforms date back to mid-December 1999, when the government nnounced its Economic Revival Program (ERP), which envisaged a self-reliant economy