Fiscal Strategy in the Medium Term

The fiscal operations of Government are framed by the Fiscal Management (Responsibility) Act, No. 3 of 2003 and subsequent amendments to the Act, which provide a legal framework to phase out fiscal deficits and associated debt to support the broad-based development objectives in the Medium Term Macro Fiscal Framework (MTMFF). The Government's major medium term fiscal objectives, among others, are to contain the fiscal deficit to 4.8 percent of GDP by 2025 while reducing debt to GDP ratio to 89.2 percent by 2025.

The Government provided an unprecedented level of monetary and fiscal support to revive businesses and protect vulnerable people despite the limited fiscal space. The fiscal position will be further strengthened while managing expenditure responsibly in the medium term on a path to recovery from the pandemic. Economic support provided to households and businesses continued and it will be targeted with the successive drive of vaccination. The fiscal space will be expanded in the medium term enabling more public investment to increase economic growth, reduce unemployment, and maintain inflation at a mid-single-digit level while reducing debt to a sustainable level.

Medium Term Macro Fiscal-Framework from 2021 to 2025

As a percentage of GDP

Indicator	Provisional	Revised Est.	Estimate	Projections		
	2020	2021	2022	2023	2024	2025
Total Revenue and Grants	**9.2**	**9.1**	**12.4**	**13.6**	**14.4**	**15.5**
Total Revenue	**9.1**	**9.1**	**12.3**	**13.5**	**14.4**	**15.5**
Tax Revenue	**8.1**	**8.0**	**11.2**	**12.2**	**13.0**	**13.9**
Income Taxes	1.8	1.8	2.9	2.7	2.9	3.3
Taxes on Goods and Services	3.9	3.9	5.7	6.2	6.6	7.1
Taxes on External Trade	2.4	2.3	2.6	3.3	3.5	3.6
Non-Tax Revenue	**1.0**	**1.0**	**1.1**	**1.3**	**1.4**	**1.6**
Grants	**0.04**	**0.03**	**0.05**	**0.05**	**0.04**	**0.04**
Total Expenditure	**20.3**	**20.2**	**21.2**	**20.9**	**20.5**	**20.4**
Recurrent Expenditure	**17.0**	**16.7**	**16.2**	**15.4**	**14.5**	**13.7**
Salaries and Wages	5.3	5.1	5.3	5.1	4.8	4.5
Goods and Services	1.2	1.1	1.0	1.0	0.9	0.8
Interest	6.5	6.4	6.1	6.1	5.8	5.5
Subsidies & Transfers	4.8	4.1	3.7	3.3	3.0	2.8
Capital Expenditure and Net Lending	**3.3**	**3.5**	**5.0**	**5.6**	**6.0**	**6.7**
Public Invetments	5.4	3.5	5.1	5.6	6.1	6.7
Current Account Balance	**-7.9**	**-7.7**	**-3.9**	**-1.8**	**-0.1**	**1.8**
Primary Balance	**-4.6**	**-4.7**	**-2.7**	**-1.3**	**-0.3**	**0.7**
Budget Deficit	**-11.1**	**-11.1**	**-8.8**	**-7.3**	**-6.1**	**-4.8**
Deficit Financing	**-11.1**	**-11.1**	**-8.8**	**-7.3**	**-6.1**	**-4.8**
Foreign Financing (Net)	-0.6	-0.3	-1.0	0.4	0.0	-0.3
Domestic Financing (Net)	11.7	11.4	9.8	6.9	6.1	5.2
Central Government Debt (% of GDP)	**101.0**	**102.8**	**101.7**	**98.7**	**94.4**	**89.2**

Fiscal Space available to incur the required expenditure was limited due to the pandemic. Tax and non-tax revenue both in terms of GDP and in absolute terms has further weakened over the years. This declining trend was heightened in 2020 and 2021 with the outbreak of the pandemic with the fragile global economic condition providing great stress to the public finances.

The fiscal strategy statement is governed by the fiscal policy framework specified in the FMRA. A workable fiscal path has been prepared with the aim of containing the fiscal deficit while achieving a surplus budget in 2028. The Government is expected to take prudent fiscal measures through an aggressive fiscal consolidation by the enhancement of revenue while rationalizing and limiting unproductive government expenditure. This roadmap for fiscal consolidation in line with fiscal rules specified in the FMRA provides a direction for achieving fiscal discipline in the medium term.

The fiscal policy path for 2022-2025 and macroeconomic direction in line with the broad based fiscal rules are detailed below:

Fiscal Path:

- Maintaining a surplus in the current and primary accounts in the fiscal sector by 2025 and thereafter through fiscal consolidation.
- Reducing fiscal deficit to GDP ratio to 7.3 percent and 6.1 percent in 2023 and 2024, respectively from 8.8 percent in 2022 and thereafter gradually contain to 4.8 percent in 2025 and achieving a surplus Budget by 2028.
- Enhancing tax to GDP ratio to 11.2 percent in 2022 from 8.0 percent in 2021 and further increase to 13.9 percent by 2025 with relevant tax revenue enhancement and tax administrative measures.
- Containing recurrent expenditure to GDP ratio to 13.7 percent in 2025 from 16.2 percent in 2022 through the rationalization and management of expenditure while improving quality of expenditure to increase fiscal space for development activities.
- Increasing allocation of funds for the most vulnerable segments of the society to uplift their livelihoods.
- Enhance public investment to GDP ratio to 5-7 percent in order to accelerate economic growth.
- Improving the financial viability, competitiveness and governance of the SOEs including energy, water, transport and aviation sectors.
- Formulating a sustainable debt management strategy to achieve a debt to GDP ratio to 60 percent by 2030 with a target driven action plan.

Macroeconomic Path:

- Achieving economic growth over 5.0 percent in 2022 and 6.0-7.0 percent thereafter.
- Maintaining unemployment below 5.0 percent.
- Retaining inflation at a range of 4-6 percent and ensuring a single-digit interest rate.
- Maintaining a stable exchange value of the rupee