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FISCAL DISCIPLINE IN PAKISTAN: A COMPARATIVE ANALYSIS OF IMPORT TAXES AT A FIXED EXCHANGE RATE FROM 2015 TO 2023

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Abstract

Aims

This study investigates the fiscal discipline in Pakistan by analyzing the performance of import taxes, particularly customs duties, from 2015 to 2023. It aims to evaluate the real growth in customs duty collection by adjusting for exchange rate fluctuations, using 2015 as the base year.

Method

A quantitative approach was employed. The study uses secondary data on customs duty collections and exchange rate movements over the period 2015–2023. By recalculating the customs duty in real terms using the 2015 exchange rate as a constant, the study compares the nominal versus real growth of import tax revenues.

Result

The findings reveal that reported customs duty collections are significantly overstated during periods of exchange rate devaluation. The analysis shows that the percentage difference between reported and real customs duty collections becomes substantial when nominal figures are not adjusted for currency depreciation.

Conclusion

The study concludes that assessing the performance of import tax collection in Pakistan solely based on nominal figures can be misleading. It recommends that policymakers and customs authorities evaluate tax collection performance using real terms adjusted for exchange rate fluctuations to ensure accurate fiscal assessment and planning.

Keywords:
Devaluation, Tax Collection, Exchange Rate, Customs Duty Collection
JEL Classification: F31 (Devaluation, Exchange Rate), H26 (Tax Collection, Customs Duty Collection).

Introduction

Pakistan, a South Asian nation, has faced significant economic challenges over the years. These challenges include a growing population, high inflation rates, low tax collection, and a heavy reliance on remittances. Pakistan has a history of fiscal mismanagement, with governments often running budget deficits. High levels of public debt, both internal and external, have been a recurring issue. The country's fiscal situation has been marked by budgetary constraints, with limited resources available for social and development spending. This has hampered progress in areas such as education, healthcare, and infrastructure.

Pakistan's taxation system has faced challenges related to tax evasion, a large informal economy, and a narrow tax base. These issues have hindered the government's ability to generate sufficient revenue. Pakistan has relied on external loans and aid from international institutions and countries to address its fiscal deficits. This reliance on external sources has sometimes led to economic vulnerabilities and dependence on foreign assistance. The energy crisis, characterized by frequent power outages and energy shortages, has added to the fiscal woes. Subsidies on energy have strained the budget, while inadequate energy supply has hampered industrial growth.

Pakistan's security challenges, particularly terrorism and political instability, have had an impact on the economy and fiscal discipline. Resources have been diverted to security-related expenses, affecting other development priorities. The country's central bank, the State Bank of Pakistan, plays a crucial role in implementing monetary policy. Managing inflation and stabilizing the currency exchange rate are important aspects of fiscal discipline. The government has initiated various fiscal and economic reforms over the years to improve fiscal discipline. These reforms aim to increase revenue collection, reduce wasteful spending, and enhance economic stability.

Pakistan has been vulnerable to external economic shocks, such as fluctuations in global oil prices and changes in international trade policies. These external factors can impact the country's fiscal health. The COVID-19 pandemic posed significant challenges to Pakistan's economy and fiscal discipline. The government had to allocate resources for healthcare and economic relief while dealing with the economic impact of lockdowns and reduced economic activity.

Pakistan's fiscal discipline has been influenced by a combination of internal and external factors, including economic challenges, budgetary constraints, tax system issues, security concerns, and reform efforts. Addressing these challenges is essential for achieving sustained economic growth and stability in the country.

Customs duty is a vital component of Pakistan's tax collection system, contributing both to government revenue and the regulation of international trade. It helps the government manage its finances, protect domestic industries, and ensure a balanced trade environment. The specific contribution of customs duty to the total tax collection in Pakistan can vary from year to year depending on economic conditions, trade policies, and other factors. During 2023, customs duty contribute 12 percent in overall tax collections and 21 percent in indirect tax collections. The specific share of customs duty in total collections can vary from year to year based on economic conditions, trade volumes, and government policies. However, it is a notable source of income for the Pakistani government, helping to finance public expenditures and support various economic and trade-related objectives.

To analyze the impact of changes in import taxes on government revenue during 2015-2023. The study tries to investigate the real growth of customs duty collection considering the continued depreciation of Pakistan Rupee during the period and its real contribution. By analyzing relationship between customs duty and exchange rate variation, the study will highlight the fiscal discipline and economic stability in economy. The study compares the trends in import taxes and real performance of custom duty collections in overall tax collections. The study will discuss some issues and policy recommendations for enhancing fiscal discipline and optimizing import tax policies in Pakistan.

II. Literature Review :

The concept of fiscal discipline, defined as the prudent management of government finances to ensure economic stability and sustainability, is of paramount importance in the realm of public finance (Reinhart & Rogoff, 2010). This literature review delves into the theoretical foundations and empirical evidence surrounding fiscal discipline and its relevance in the context of Pakistan, with a specific focus on the comparative analysis of import taxes during the period from 2018 to 2023.While going through literature on fiscal discipline, import taxes, and their relationship with economic stability, focusing on the Pakistani context and similar economies. Fiscal discipline refers to the prudent management of government finances to achieve sustainable economic stability. It is an indispensable component of sound economic governance (Bird & Mandilaras, 2018). The literature has consistently emphasized the importance of fiscal discipline in emerging economies like Pakistan (Ahmed & Butt, 2019).

Import taxes, also known as tariffs or customs duties, play a pivotal role in a country's revenue generation and trade dynamics. These policies not only affect government revenues but also influence trade competitiveness and the balance of payments. The literature on import taxes underscores their significance in shaping a nation's economic landscape (Dong & Whalley, 2019). Several studies have examined the intricate interplay between fiscal discipline and import taxes. Research has demonstrated that sound fiscal discipline often translates into effective management of import tax policies (Khan, 2017). This relationship is of particular relevance in Pakistan, where maintaining fiscal stability and optimizing revenue collection are persistent challenges (Khan & Khan, 2020). Import taxes, including tariffs and duties, play a pivotal role in a country's economic development strategy. A well-structured import tax policy can serve multiple objectives, including revenue generation, protection of domestic industries, and promotion of export-led growth (Baldwin & Krugman, 1989). For Pakistan, a country highly dependent on trade, the efficiency and fairness of import tax policies are central to its economic progress (Ali, 2017).

In the Pakistani context, various policy initiatives have been undertaken to enhance fiscal discipline and reform import tax policies. These initiatives aim to address fiscal deficits, reduce revenue leakages, and promote economic stability (World Bank, 2021). The effectiveness of such policies, especially during the period from 2018 to 2023, forms a crucial aspect of this study. Pakistan has experienced fluctuations in import tax policies over the years. Research by Ahmad (2018) examined the impact of tariff reductions on Pakistan's revenue and trade balance. Iqbal et al. (2016) analyzed the efficiency and effectiveness of Pakistan's import tax collection system.

Comparative studies have explored the import tax policies of countries with economic characteristics similar to Pakistan. These studies offer valuable insights into the potential impact of import tax policies on trade, government revenues, and overall economic stability (Ali & Shahbaz, 2018). The nexus between fiscal discipline and import tax policies is intricate. Fiscal discipline measures, such as reducing budget deficits, can influence the government's reliance on import tax revenues (Shahbaz et al., 2020). Conversely, the stability of import tax policies can impact government revenue and, in turn, fiscal discipline (Baskaran et al., 2015). Examining this relationship is vital for understanding how fiscal policies affect import taxes and vice versa in the Pakistani context. A comparative perspective is valuable for assessing the effectiveness of Pakistan's import tax policies. Studies comparing Pakistan's import tax structure with those of similar economies, such as India and Bangladesh, provide insights into areas for improvement (Akram et al., 2018).The global trade landscape has witnessed significant shifts in recent years. Changes in international trade agreements, the rise of protectionism, and the effects of global events like the COVID-19 pandemic have all influenced trade dynamics and import tax policies worldwide (UNCTAD, 2020). Understanding these trends is essential when analyzing Pakistan's import tax policies in a global context. Several studies have explored fiscal discipline in Pakistan. Ahmad and Arby (2007) assessed fiscal sustainability in Pakistan and highlighted the importance of prudent fiscal management. Qayyum et al. (2019) examined the impact of fiscal discipline on economic growth in Pakistan and found a positive association.

This literature review underscores the significance of fiscal discipline and import tax policies in Pakistan's economic context. It sets the stage for a comprehensive analysis of fiscal discipline and import taxes in Pakistan from 2018 to 2023, offering a foundation for understanding their interconnectedness and implications for economic stability and growth. This literature review highlights the critical role of fiscal discipline and import tax policies in shaping Pakistan's economic landscape. It provides the foundation for investigating the impact of fiscal discipline on import taxes and their role in promoting economic stability during the specified period. This study focusing the performance of impot duty collection in real term as the continue depreciation of currencies reflect positive impact on custom duty only in nominal term while this effort will highlight the real term progress of customs duty collection keeping fix the devaluation of currency impacts.

III. Methodology:

For data collection, gather data from reputable sources, including the Federal Board of Revenue (FBR), Economic Survey of Pakistan different issues, and the State Bank of Pakistan's website. The collected data for the period from 2015 to 2023 is on the variables, total Collection of customs duty and total value of imports exchange rates have arrange some calculations as below:

To calculate the effective rate of customs duty for each year using the formula:

Effective Rate (%) = Customs Duty / Value of Imports) * 100

To create a new column for real collection of customs duty for each year. By keeping the exchange rate fixed at the 2015 rate for all years to calculate customs duty collections in constant terms (Exchange rate base year 2015)

- Real Collection of Customs Duty = CD / EXc. *EXb

CD: Total Collection of Customs Duty for the year

EXc : Exchange Rate of the year
Exb: Exchange Rate of Base Year (2015)
The annual increase or decrease in customs duty collections by comparing each year's reported collection of customs duty with the real collections of Customs duty .
Increase/Decrease = Reported CD – Real / Calculated CD

Reported CD: Actual collection of Customs duty

Reported during the Financial year

Real CD: Real collections of Custom duty as per calculated on basis of Fixed exchange rate and real import value during the year , using same effective rate of the year .

To calculate the annual growth rate in customs duty collections as a percentage change.

Growth (%) = [(Real Collection (Year N) - Real Collection

(Year N-1)) / Real Collection (Year N-1)]

* 100

Utilize Excel or statistical software to perform descriptive statistical analysis on the calculated variables, including:

- Real Collection of Customs Duty
- Trends and patterns in Effective Rate of Customs Duty
- Year-wise changes in customs duty collections
- Interpret the results to draw meaningful insights into the impact of fixed exchange rates on import tax revenue and fiscal discipline in Pakistan.

Than organize the results in tables and charts to visually represent the trends and patterns identified and discuss the implications of the findings and their relevance to fiscal discipline in Pakistan.

IV. Data Analysis and Discussion:

The table provided presents data related to imports, the collection of customs duty, exchange rates, effective rates, real import values, and various growth metrics over a span of 2015-2023 financial years.

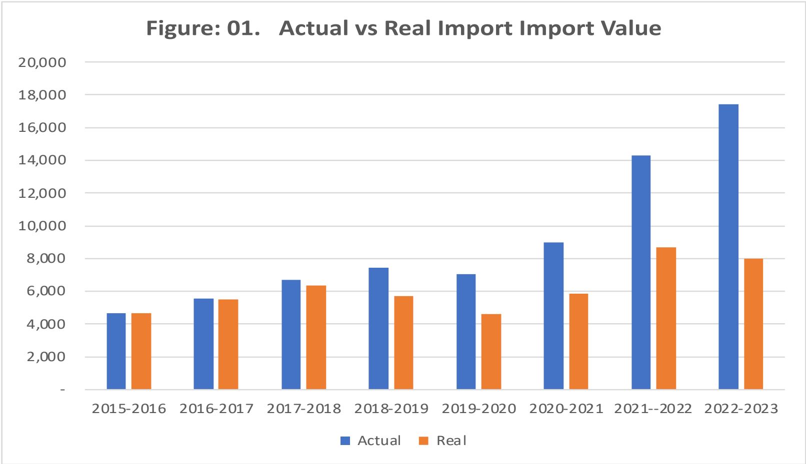
The "Reported Customs Duty" column shows the customs duty collections as reported by the Federal Board of Revenue . It demonstrates a consistent upward trend, with year-on-year increases, highlighting what is conventionally considered positive performance. The "Real Customs Duty" column represents customs duty collections adjusted for exchange rate fluctuation. This column shows a different pattern, with fluctuations not directly mirroring the reported customs duty. It reflects the actual value collected, irrespective of exchange rate changes.

Table: 01. Real and Actual Customs Duty Collections during 2015-2023

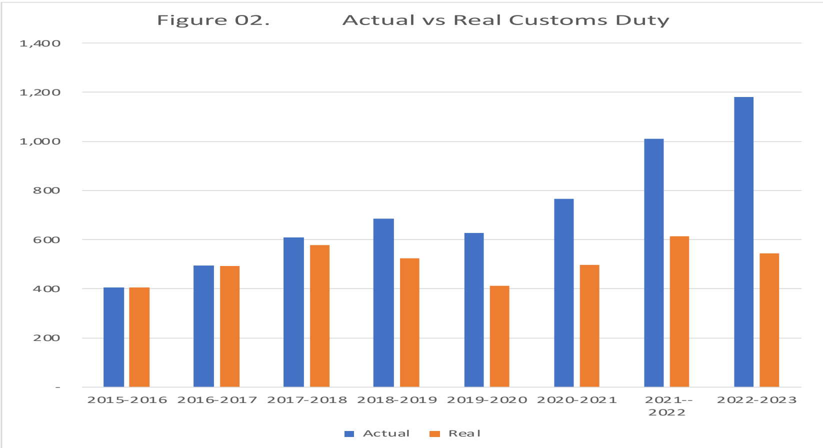
(Rs. In Million)

Financial Year	Imports Value	Collection of Customs duty	Exchange Rate	Effective Rate	Real Import Value	Real Customs Duty	INC. / DEC OVER REPORTED	%age	Reported growth rate	Real growth rate
2015-16	4,658,749	404,600	104.23	9%	4,657,408	404,484	116	0%		
2016-17	5,539,721	496,018	104.67	9%	5,514,846	493,791	2,227	0%	22%	23%
2017-18	6,694,897	608,325	109.84	9%	6,351,131	577,089	31,236	5%	17%	23%
2018-19	7,443,253	685,397	136.09	9%	5,699,074	524,788	160,609	31%	-9%	13%
2019-20	7,029,819	626,378	158.25	9%	4,628,797	412,440	213,938	52%	-21%	-9%
2020-21	8,982,441	765,184	160.02	9%	5,849,084	498,264	266,920	54%	21%	22%
2021--22	14,273,394	1,009,498	171.67	7%	8,663,643	612,744	396,754	65%	23%	32%
2022-23	17,413,010	1,181,112	226.53	7%	8,009,692	543,292	637,820	117%	-11%	17%

The actual and real import values from 2015 to 2023, considering both the nominal values and the values adjusted for inflation and currency depreciation. It's important to note that the real import values have been adjusted for the depreciation of the rupee and inflation, which allows for a more accurate comparison of import values over the years in terms of purchasing power. Actual import values have consistently increased over the years, indicating a growth in the volume of imports. Real import values, which account for the depreciation of the rupee and inflation, show a different trend. While they increased in the early years (2015-2018), they decreased significantly in later years (2018-2023). The sharp increase in nominal (actual) import values from 2020-2021 to 2022-2023 is notable. However, when adjusted for inflation and currency depreciation (real values), this increase is less pronounced The significant drop in real import values from 2019-2020 to 2022-2023 suggests that, despite the higher nominal values, the actual purchasing power of imports has decreased. To assess the implications of these changes, it would be important to consider the broader economic context, including factors such as trade policies, exchange rate fluctuations, and the overall health of the economy. The decrease in real import values in recent years could be a cause for concern, as it may indicate challenges related to currency stability and inflation.



The real import values have not increased at the same rate as the nominal import values. This suggests that even though the nominal import values have been increasing over the years, the real purchasing power of these imports has not kept up with inflation and currency depreciation. The significant increase in nominal import values in recent years (from 2020-2021 to 2022-2023) may be due to factors such as increased demand for imports, changes in trade policies, or changes in exchange rates. However, when adjusted for inflation and currency depreciation, the real import values have not increased as dramatically



Similarly, the real customs duty values take into account the depreciation of the rupee and inflation, allowing for a more accurate comparison of the customs duty collections across the years. The "real" values essentially adjust the nominal customs duty values for the purchasing power of the rupee. It's important to note that the real customs duty values have decreased significantly from 2017-2018 to 2022-2023, which indicates that even though the nominal customs duty collection has increased over the years, the actual purchasing power of these collections has not kept up with inflation and currency depreciation.

This may be due to the fact that the rupee's value has depreciated over time, making the real value of the customs duty collections

lower. In most years, there is a positive growth in reported customs duty collection (e.g., 17% to 65%) compared to the previous year, suggesting an increase in the reported figures. However, when we consider the "Real growth rate" based on the real customs duty values, the picture is different. There are years with negative growth rates (e.g., -9% to -11%), indicating a decline in customs duty collection when accounting for exchange rate fluctuations

The "Actual" customs duty values represent the nominal customs duty collected for each fiscal year, while the "Real" customs duty values take into account the depreciation of the rupee, meaning they are adjusted for inflation or currency devaluation. The "Actual" customs duty collection has generally increased over the years, with some fluctuations. The "Real" customs duty collection, which adjusts for the depreciation of the rupee, shows a more mixed trend. In 2015-2016 and 2016-2017, the "Real" customs duty is very close to the "Actual" customs duty, indicating that the rupee depreciation did not have a significant impact during these years. In 2017-2018, there is a notable gap between the "Actual" and "Real" customs duty, with the "Real" value being lower. This suggests that the rupee depreciation had a negative effect on customs duty collections. In 2018-2019, the gap between "Actual" and "Real" customs duty continues to widen, indicating that the impact of rupee depreciation has grown. In 2019-2020, the "Real" customs duty is significantly lower than the "Actual" customs duty, suggesting a substantial impact of rupee depreciation. The trend of "Real" customs duty being lower than "Actual" customs duty continues in 2020-2021 and 2021-2022, indicating a consistent effect of rupee depreciation on customs duty collections. In 2022-2023, there is a further increase in "Actual" customs duty, but the "Real" customs duty remains lower, emphasizing the continued impact of rupee depreciation. The data shows that the depreciation of the rupee has affected the real value of customs duty collections over this period. While the nominal customs duty has generally increased, the real customs duty, adjusted for currency devaluation, has not kept pace with inflation, indicating potential challenges in maintaining the purchasing power of customs revenue.

Both nominal (actual) and real (adjusted for inflation and currency depreciation) figures for both customs duty and import values. This will help us understand how changes in the rupee's value have impacted these two key economic indicators.

The nominal customs duty collections have generally increased from 2015-2016 to 2022-202. The real customs duty collections, which account for inflation and currency depreciation, show a different trend. They increased until 2017-2018 but then started decreasing. The real customs duty collections in 2022-2023 are lower than those in 2017-2018, indicating a decline in real purchasing power despite the increase in nominal values. The nominal import values have consistently increased over the years, indicating a growth in the volume of imports. The real import values, which adjust for inflation and currency depreciation, show a different trend. They increased until 2017-2018 but then started decreasing significantly. The real import values in 2022-2023 are lower than those in 2017-2018, indicating a decline in real purchasing power despite the increase in nominal values. While customs duty collections have increased in nominal terms, the real purchasing power of these collections has decreased since 2017-2018. Import values have increased in nominal terms, but their real purchasing power has also decreased significantly since 2017-2018. The depreciation of the rupee is evident in the decreasing trend of real values for both customs duty and import values after 2017-2018. The decline in real values suggests that the rupee's depreciation has eroded the purchasing power of customs duty collections and import values, making it more challenging to maintain the same level of revenue and imports in real terms. The decrease in real customs duty collections may indicate challenges in maintaining government revenue levels adjusted for inflation and currency depreciation. The decrease in real import values suggests that the ability to purchase goods and services from abroad has been constrained by the declining purchasing power of the rupee. The comparative analysis shows that while there has been growth in nominal customs duty collections and import values, the depreciation of the rupee has had a significant impact on their real purchasing power. This underscores the importance of considering inflation and currency fluctuations when evaluating economic indicators like customs duty and import values. It also highlights the need for policy measures to address the effects of currency depreciation on trade and government revenue

The effective rate of customs duty remains relatively stable at around 9%. This indicates that the customs department adapts to maintain a consistent effective rate despite exchange rate variations. The "INC. / DEC. OVERREPORTED" column shows years of overreporting (positive values) or underreporting (negative values) of customs duty. These discrepancies align with periods of significant exchange rate fluctuations, underscoring the impact of devaluation. Exchange rate fluctuations can significantly impact the customs duty collection, as demonstrated by the difference between "Collection of Customs Duty" and "Real Customs Duty."

In 2021-2022 and 2022-2023, while the reported customs duty collection continues to grow at a substantial rate (23% and 117%, respectively), the real growth rates are more modest (32% and 17%, respectively), indicating that the reported figures might not accurately represent the actual economic situation.

A line chart reveals a consistent upward trend in both reported and real customs duty collections over the years. Reported collections tend to increase, but the actual impact on customs duty collection is more nuanced.

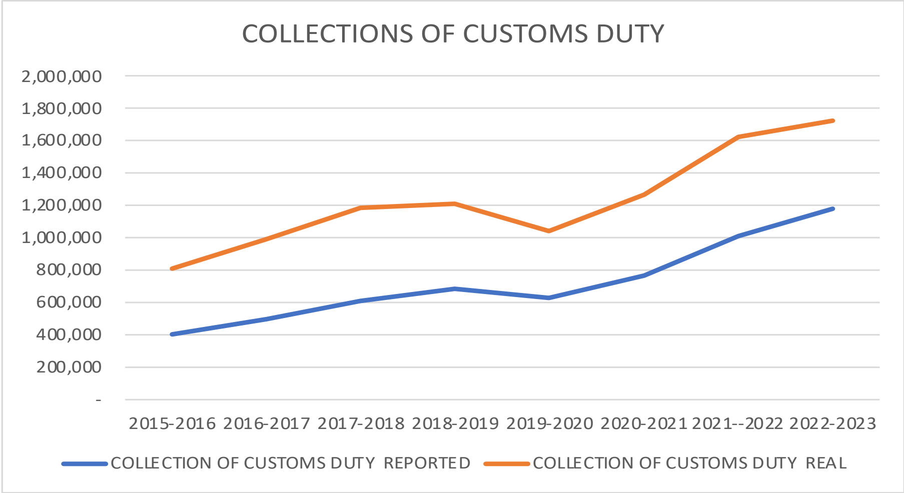


Table 02 : Correlation Coefficients

CORRELATION Coefficients (CD, EX)	0.9296
CORRELATION Coefficients (IV,EX)	0.9181

The correlation coefficient between exchange rates and reported customs duty collections is moderate, suggesting a certain degree of influence. However, it is essential to consider other factors contributing to collection growth**.** This value of 0.9296 indicates a very strong positive correlation between Customs duty (CD) and Exchange rate (EX). A positive correlation means that as one variable (Customs duty) increases, the other variable (Exchange rate) tends to increase as well, and vice versa. The high value of 0.9296 suggests that there is a strong linear relationship between these two variables, and they tend to move in the same direction.

This suggests that changes in customs duty are closely related to changes in the exchange rate. value of 0.9181 indicates a very strong positive correlation between an unspecified variable IV (which is not defined in your provided information) and Exchange rate (EX). Similar to the first correlation, this also suggests a strong positive linear relationship between the unspecified variable IV and the exchange rate. Again, this implies that changes in IV are closely related to changes in the exchange rate. In both cases, when correlation coefficients are close to 1 (either positive or negative), it suggests a very strong linear relationship between the variables. However, correlation does not imply causation, so while these variables may be strongly correlated, it does not necessarily mean that one causes the other. Additional analysis would be needed to determine any causal relationships between these variables or to understand the economic factors driving these correlations.

TABLE 03. Regression analysis , Actual Custom duty as dependent Variable.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	146452.9	79528.99	1.841504	0.1249
EX	896.9377	1016.164	0.882670	0.0178
IV	0.049341	0.009508	5.189173	0.0035

This indicates that the regression model was fitted using the least squares method, which is a common technique for estimating the parameters of a linear regression model. The coefficient for the variable EX (Exchange Rate) is 896.9377. This represents the estimated change in the dependent variable for a one-unit change in the exchange rate. The t-statistic is 0.8827, and the associated probability (Prob) is 0.0178, indicating that the exchange rate variable is statistically significant at a typical significance level (e.g., 0.05). In other words, it appears that changes in the exchange rate have a significant effect on the dependent variable.

The coefficient for the variable import value and actual Customs duty is 0.049341. This represents the estimated change in the dependent variable for a one-unit change in the actual customs duty. The t-statistic is 5.1892, and the associated probability (Prob) is 0.0035, indicating that the unspecified independent variable is highly statistically significant. Its effect on the dependent variable is significant.

R-squared, 0.9787, this represents the proportion of the variation in the dependent variable that is explained by the independent variables. In this case, about 97.87% of the variation in the dependent variable is explained by the model. The Adjusted R-squared, this is a modified version of R-squared that takes into account the number of independent variables in the model. It is slightly lower than R-squared but still high. Overall, the regression model seems to explain a large portion of the variability in the dependent variable, and both the exchange rate (EX) and import value appear to be statistically significant predictors of the dependent variable.

- Exchange rate fluctuations, particularly devaluation, can create a disconnect between reported and real customs duty collections.
- The effective rate of customs duty tends to rise during periods of currency devaluation, contributing to an increase in reported collections.
- This phenomenon may lead to an inaccurate assessment of the customs department's performance, as reported collections may be inflated due to exchange rate effects.

The reported customs duty collections consistently increase over the years, suggesting consistent growth in revenue as reported by the department. Real customs duty collections exhibit a different pattern, showing fluctuations in line with exchange rate movements. This indicates that the actual revenue collected varies with currency valuation. Exchange rate devaluation has a notable impact on reported customs duty, as it often leads to an increase in reported collections. This is reflected in the "Effective Rate (%)" column. The growth rates in reported customs duty tend to be higher than those in real customs duty, particularly during periods of exchange rate devaluation.

The "Reported Customs Duty" typically shows an increasing trend over the years, suggesting a consistent growth in reported revenue by the customs department. In contrast, "Real Customs Duty" displays more fluctuation. While it generally follows an upward trajectory, there are periods of both growth and decline. The key difference between these two figures is the influence of exchange rate fluctuations. "Reported Customs Duty" tends to be more affected by exchange rate devaluation, resulting in apparent increases during such periods. “Real Customs Duty" is adjusted for exchange rate changes, providing a more stable representation of the actual customs duty collected. During years of significant exchange rate devaluation, "Reported Customs Duty" may overstate the customs department's performance. The increase in reported collections might not reflect an actual increase in revenue but rather the impact of currency devalue. "Real Customs Duty," on the other hand, offers a more accurate picture of the customs department's performance, as it filters out the effects of exchange rate fluctuations. To assess the actual performance of the customs department, it is advisable to focus on "Real Customs Duty" collections. This figure represents the true customs duty revenue collected, unaffected by currency devaluation Policymakers and stakeholders should use "Real Customs Duty" as a more reliable basis for evaluating the customs department's performance and making informed decisions regarding revenue management and allocation.

Conclusion:

This analysis aims to compare the performance of reported customs duty collections and real customs duty collections, it has been analyzed that how exchange rate fluctuations impact the reported figures and whether real customs duty offers a more accurate representation of performance. It is analyzed that collections of customs duty and their relationship with actual, or "real," customs duty collections in the context of exchange rate devaluation. The reported customs duty collections may not accurately reflect the performance of the customs department, especially when exchange rate devaluation significantly impacts these collections.

The findings support the hypothesis that reported customs duty collections are influenced by exchange rate devaluation. Key points to consider:

- Customs duty collections are impacted by exchange rate fluctuations, particularly devaluation.
- Reported collections may not fully reflect the customs department's performance as they can be influenced by external factors.
- The effective rate of customs duty remains stable, indicating the department's adaptability to changing exchange rates.

To compare the customs duty and import values with reference to the depreciation of the rupee over the given time period (2015-2023).The nominal (actual) customs duty collections increased steadily from 2015-2016 to 2022-2023. However, when adjusted for inflation and the depreciation of the rupee (real customs duty), the values show a different trend. Real customs duty values increased until 2017-2018, after which they started to decline. This decline continued until 2022-2023.The nominal (actual) import values also increased consistently from 2015-2016 to 2022-2023.Similar to customs duty, when adjusted for inflation and currency depreciation (real import values), the trend differs. Real import values increased until 2017-2018, then started decreasing significantly, especially in the years from 2018-2019 to 2022-2023.The depreciation of the rupee had a different impact on customs duty and import values. While both nominal customs duty and import values increased, indicating an increase in trade activity, the real values show a decline in purchasing power. Real customs duty values decreased steadily after 2017-2018, reflecting that the government's revenue from customs duties did not keep up with inflation and currency depreciation. Real import values also showed a significant decline from 2018-2019 onwards, indicating that the increase in nominal import values was offset by the weakening purchasing power of the rupee. The divergence between nominal and real values suggests that even though there was growth in customs duty collections and imports, the actual impact on the economy's purchasing power and trade balance was not as favorable due to currency depreciation and inflation.

The comparison highlights the importance of considering real values when analyzing economic data, as it provides a more accurate picture of the impact of factors like currency depreciation and inflation on customs duty collections and import values. The declining real values in recent years indicate potential challenges related to currency stability and inflation that may have affected trade and revenue collection.

The reported collections of customs duty are indeed influenced by exchange rate devaluation, which can lead to discrepancies between reported and real customs duty collections. While the customs department consistently reports growth in collections, it is essential to consider the impact of external factors, such as exchange rate movements, when assessing its performance. A more comprehensive evaluation should include real customs duty collections, as they provide a clearer picture of the department's actual performance, independent of exchange rate fluctuations. The reported collections of customs duty are not always a faithful representation of the customs department's performance, especially in the context of exchange rate devaluation. The rise in reported collections during devaluation periods may not reflect an actual increase in customs duty revenue. To gain a more accurate assessment of performance, it is advisable to consider real customs duty collections, which are less influenced by exchange rate fluctuations.

The analysis of reported customs duty and real customs duty reveals a divergence between reported figures and actual revenue collections. While reported customs duty shows consistent year-on-year growth, real customs duty accounts for the impact of exchange rate fluctuations, resulting in a different performance pattern.

To accurately assess the Customs Department's performance, it is crucial to consider both reported and real customs duty collections. Reported figures may be influenced by currency devaluation, making real customs duty a valuable metric for evaluating the actual revenue generated by the department.

In conclusion, comparing reported customs duty to real customs duty collections highlights the extent of overreporting, particularly during years of exchange rate devaluation. When assessing the performance of the Customs Department, it is essential to consider real customs duty collections, as they provide a more accurate representation of revenue collection, free from the influence of currency fluctuations.

Recommendations:

- Implement strategies to mitigate the impact of exchange rate devaluation on reported customs duty collections.
- Consider reporting both reported and real customs duty collections to provide a more accurate representation of performance.
- Monitor and adapt to changes in exchange rates to maintain a stable effective rate of customs duty.
- Policymakers and stakeholders should consider both reported and real customs duty collections when evaluating the customs department's performance.
- Efforts should be made to communicate the impact of exchange rate fluctuations on reported figures to provide a clearer picture of departmental performance.
- Additional research and data analysis could help quantify the precise impact of exchange rate devaluation on customs duty collections and provide a basis for more accurate reporting and evaluation
- Policymakers and stakeholders should consider real customs duty collections as a more accurate representation of the Customs Department's performance, especially when evaluating the impact of exchange rate fluctuations. This will lead to a more informed assessment of the department's revenue generation capabilities.

In summary, while "Reported Customs Duty" may show impressive growth, it is crucial to recognize that this figure can be significantly influenced by exchange rate fluctuations, leading to potential overreporting during periods of currency devaluation. For a more accurate assessment of the customs department's performance, "Real Customs Duty" should be the primary focus, as it provides a clearer reflection of actual customs duty collections.

Policymakers and stakeholders should prioritize the consideration of real customs duty collections when evaluating departmental performance.

Efforts should be made to communicate the impact of exchange rate fluctuations on customs duty reporting to promote transparency and accuracy in performance assessments.

Further analysis and research may be conducted to assess the precise impact of exchange rate devaluation on customs duty collections and explore strategies to minimize reporting discrepancies

The disparities between reported and real customs duty collections have several implications. Relying solely on reported customs duty figures for evaluating the Customs Department's performance may lead to an inaccurate assessment, as these figures are inflated due to exchange rate effects. Understanding the impact of exchange rate fluctuations on reported collections is crucial for maintaining transparency and accountability in customs revenue reporting.

Further Research:

Further research could explore the specific mechanisms through which exchange rate fluctuations affect customs duty collections and assess the customs department's strategies for managing these fluctuations. Additionally, a broader dataset and statistical tests may provide more comprehensive insights into the relationship between exchange rates and customs duty.

The performance of Customs collectorate and region may be judge on the real time performance. This insight provide guideline to custom organization to evaluation of individual and as organization. Every formation may analysis its self. This analysis may further highlight for the performance of each commodity and sectors growth and suggest policy measure for the decision making and improve the collations of customs duty, total federal revenue and fiscal discipline of the economy. It will not only guide the improvement in Customs duty but also all other withholding like sales tax on import, income tax and other surcharges as well.

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