

Federal Budget Bulletin 2022-23



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Budget Bulletin 2022-23

The Coalition government presented its first budget on June 10, 2022. While drafting the budget, the government has faced numerous economic challenges characterised by an aggravated increase in fuel prices, delays in negotiations with IMF for budgetary support, free fall of rupee in the recent weeks and the subsequent rising cost of living. However, the growth indicators presented by the Economic Survey of Pakistan are not very disappointing. The GDP growth rate for FY 2021-22 is estimated at 5.97% against 3.94% for the previous year. The revenue has increased by 17.7%. The FBR tax revenue targets were estimated at PKR 5829 bn at the start of the year and are now revised at PKR 6000 bn. But some other indicators have already started sending danger signals. The current account deficit was recorded at USD 13.2 bn which could not be controlled even with an increase of 7% in workers' remittances. In the first nine months of the FY 2021-22 (July-Mar), the goods export

increased by 26.6% to USD 23.7 bn. The increase in the service sector export during the same period was 17.1%, amounting to USD 5.1bn. The increasing trends in imports subsided this increase, and the trade deficit has grown to 55.5% or USD 30.1bn, and the current account deficit is now at USD13.2bn. The Current account balance during Jul-Apr, for 2020-21 had been in surplus of \$0.8 bn. The most exorbitant problem is the rising burden of debt servicing on the fragile economy. The amount of debt has already crossed the permissible limit of 60% of the GDP as set by the Fiscal Responsibility and Debt Limitation Act, 2005. The total debt servicing for the next year will be PKR 3,950 bn. Another PKR 2632 bn will be required to repay the debt due during the next year. Combined, these two expenditures on Federal consolidated Funds are 9.7% more than the FBR's target of 6000 bn for 2021-22 and are 94% of the FBR's target of 7004bn for 2022-23.

The taxes and revenue

The FBR Tax revenue target for 2022-23 is PKR 7004, a 16.7 % increase from the Revised targets of 2021-22. No extra effort will be required to meet this target as salaries and commodity prices are already increased by 15-20%, and the amount of direct and indirect tax will automatically increase. The finance minister claimed during the budget speech about PKR 3000 bn leakage of the funds means that the target should have been increased by at least PKR 3000 bn particularly when he claims that he has already planned to check this leakage.

The indirect tax to direct tax ratio has remained constant for the Revised Targets of 2021-22 and the Target for 2022-23. This ratio for both the years is 1.7. That signifies that no tax reform to increase the horizontal base for direct tax is forthcoming during the year. This also nullifies the Finance Minister's claim that they are protecting the poor and taxing the rich.

The 52% increase in non-Tax revenue signifies that the government has decided to collect a levy on POL products and sooner or later people must bear this burden. The government next year is eyeing collecting PKR 750bn petroleum levy against the revised target of PKR 135 bn for 2021-22. This is an increase of 455%. A further PKR 8 bn would be collected from the petroleum levy on LPG. In non-tax revenue, the Government is also

hoping for PKR 200 bn from Gas Infrastructure Development Cess. The revised target for this cess for 2021-22 is PKR 25 bn. After making the usual provision for reserve funds, the surplus profit of the State Bank of Pakistan is transferred to the Federal Government in light of Section 42 of SBP (Amendment) Act, 2022. The target for 2022-23 is PKR 300 bn which is 174 bn less than the revised targets of 2021-22.

PKR in Million

| Receipts | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | Explanation |
|--|-------------|-------------|-------------|-------------|-------------|--|
| Tax Revenue Receipts | 4,393,876 | 4,208,459 | 4,690,999 | 6,000,000 | 7,004,000 | Tax Collected by FBR (Both Direct and Indirect) |
| Non-Tax Revenue Receipts | 637,751 | 1,296,030 | 1,704,443 | 1,315,149 | 1,999,896 | Levies, Income from Property and Enterprise, Receipt from Civil Administration |
| Capital Receipts | 953,501 | 755,579 | 1,701,184 | 2,507,711 | 2,407,680 | Recovery of loans, Domestic debt (Non-bank), |
| External Receipts | 1,403,156 | 2,272,920 | 2,286,859 | 3,114,355 | 3,166,333 | Loans, grants, project loans. Loans from IMF are accounted here. |
| Public Account Receipts* | 282,652 | 421,274 | (81,318) | (244,564) | (125,197) | Deferred liabilities, Deposits and Reserves |
| Provincial Share in Federal Taxes | (2,462,651) | (2,402,080) | (2,704,164) | (3,511,961) | (4,099,773) | The provincial share of revenues from the divisible pool taxes is governed in accordance with the provisions of 7th National Finance Commission Award. |

| Receipts | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | Explanation |
|---|------------------|------------------|------------------|-------------------|-------------------|-------------|
| Cash Balance built up by the provinces | 58,987 | (80,664) | 242,000 | 570,000 | 800,000 | |
| Privatization Proceeds+ | | 150,000 | | | 96,410 | |
| Credit from Banking Sector | 1,356,315 | 1,723,815 | 649,256 | 872,999 | 1,171,821 | |
| Total | 6,623,587 | 8,345,333 | 8,489,259 | 10,623,689 | 12,421,170 | |

Table 1: Revenue and Capital Receipts of the federal government 2018-19 to 2022-23

All figures from 2018-19 to 2021-22 in table 1 are Revised Targets.

Source: Budget Books of Various years <https://www.finance.gov.pk>

* Public Account Receipts may be categorized as Deferred Liabilities and Deposit Receipts. Negative sign indicates deferred liabilities. Deferred liabilities are the net proceeds of various savings schemes launched by the Government. Deposits and Reserves represent all monies forming part of the Public Account of the Federation as per Article 78(2) of the Constitution of Islamic Republic of Pakistan.

+According to Section 16(2) of The Privatization Commission Ordinance, 2000, ten percent of the privatization proceeds shall be used for poverty alleviation programs ; and the remaining ninety percent for retirement of the Federal Government debt

The Current Budget

The functional classification categories expenditure according to the purposes and objectives for which they are intended. For example, Public Service, Environment protection etc. the table below gives the functional allocation of the current budget for the five years. The economic or object classification identifies the type of expenditure incurred, for example, salaries, goods and services, transfers and interest payments, or capital spending.

The current expenditure is budgeted at 11,397 bn which is 11.8 % higher than the revised estimates for 2021-22. Out of this PKR 11,397 bn, the current expenditure on the revenue account is PKR 8,663 bn, and the rest of PKR 2,734 bn will be on the capital account. The current expenditure on the capital account will mainly be used to repay foreign loans.

The estimates are based on one central supposition that negotiations with IMF will be successful, and Pakistan will receive budgetary support for the next year. The government has claimed that it has fulfilled or is fulfilling all the necessary conditions of IMF, including the increase in POL prices and utility charges. Pakistan requires PKR 6582 bn for debt servicing and repayment for the next financial year. The finance minister believes an IMF deal will help secure agreements with other multilateral financial institutions like World Bank and friendly nations, including China. The government claims that 'on the external front, various policy actions were undertaken including bilateral and multilateral arrangements, IMF program continuity and exchange rate The budget allocated against 'Defence Affairs and Services' is PKR 1526 bn, out of which PKR 1523 bn will go to the Defence Services. This defence services expenditure is 17.6% of the total current budget on Revenue Account. This allocation is 11.1% higher than the Budget Estimates of 2021-22 and 2.9% of the

stability", but it has set a zero target for Budgetary support from IMF during 2022-23. The target of PKR 3115 bn external receipts will be achieved through loans from Islamic Development Bank, Euro Bonds, Saudi Arabian oil facility, commercial banks, and project grants for PSDP. Most of these loans are subjected to a green signal from IMF. This also shows where the government is currently standing in its negotiations with the IMF.

As expected, a significant part of the current expenditure on the revenue account will go into debt servicing. The 76% (PKR 3950 of the PKR 5197 bn) of the allocation to the Functional head of 'General Public Services' will go to debt servicing. This includes PKR 510 bn for foreign debt servicing and PKR 3439 bn for domestic debt servicing. This debt servicing is 45.6 % of the total current expenditure on the Revenue Account (PKR 8663 bn). The other significant cost from this functional head is civil and military pension. The total pension expenditure of the federal government is PKR 530 bn.

Revised Estimates of 2021-22. It should be noted that the defence service Budget Estimates for the year 2021-22 were PKR 1370 bn but increased to PKR 1480 bn (8%) during the Revised estimates for 2021-22.

'Public Order and Safety' covers both courts and police. The budget estimates for Law Courts are 9.2 bn which is 12% higher than the revised estimates of 2021-22 and 17% higher than the budget estimates. It must be noted that most of the current budget of the 'Law Court' is the charged budget. The police and Civil Armed forces will get PKR 190 bn which is 7.3% higher than

the Revised Estimates and 15.1 % higher than Budget Estimates of 2021-22. Table 2 presents the functional classification of expenditure over the five years.

PKR in Million

| Functional Head | 2018-19(R.E.) | 2019-20(R.E.) | 2020-21(R.E.) | 2021-22(R.E.) | 2022-23 (B.E.) | What is Included? |
|--|---------------|---------------|---------------|---------------|----------------|--|
| General Public Service | 4,252,820 | 5,748,218 | 5,555,952 | 7,434,270 | 9,023,211 | Servicing Domestic and Foreign Debt, Repayment of Debt (Capital Account) Pension, Provincial transfers |
| Defence Affairs and Services | 1,137,710 | 1,227,388 | 1,299,188 | 1,483,922 | 1,526,698 | Defence services, Defence administration (Ministry) |
| Public Order and Safety Affairs | 133,021 | 153,269 | 168,952 | 191,491 | 208,761 | Courts, Police, Prison, Attorney general, Ombudsperson |
| Economic Affairs | 142,440 | 106,411 | 192,452 | 454,092 | 138,803 | Agriculture, Foor, Irrigation, Transport, Communication, Industries |
| Environmental Protection | 1,271 | 470 | 399 | 452 | 749 | Environment protection, waste water management |

| Functional Head | 2018-19(R.E.) | 2019-20(R.E.) | 2020-21(R.E.) | 2021-22(R.E.) | 2022-23 (B.E.) | What is Included? |
|----------------------------------|------------------|------------------|------------------|-------------------|-------------------|--|
| Housing and Community Amenities | 2,318 | 2545 | 9,997 | 5,463 | 7,850 | Housing Development Community Development |
| Health | 13,991 | 12,023 | 52,325 | 154,889 | 19,582 | Hospital services, Public Health Services, Health Administration, Medical Products |
| Recreation, Culture and Religion | 10,512 | 9,301 | 12,160 | 12,380 | 10,990 | Sports, Culture, Religious Affairs, Information and Broadcasting |
| Education Affairs and Services | 97,155 | 81,253 | 88,090 | 90,861 | 90,556 | Education at all levels and Education Related Administration |
| Social Protection | 2,672 | 245024 | 246,411 | 362,205 | 370,103 | Social Welfare, Flood Protection, Refugees, |
| Total | 5,793,910 | 7,585,902 | 7,625,926 | 10,190,025 | 11,397,303 | |

Table 2: Current Expenditure on Revenue and Capital Accounts of the federal government from 2018-19 to 2022-23
All figures from 2018-19 to 2021-22 in table 1 are Revised Estimates. The figures for 2022-23 are Budget Estimates.
Source: Budget Books of Various years <https://www.finance.gov.pk>

Development Expenditure on Revenue and Capital Account

The Development Expenditure on Revenue account is PKR 453 bn, which is 24% less than the Budget Estimates for 2021-22. The total budget estimates for 2021-22 are 599 billion which are reduced to 190 bn in revised estimates. This shows that fiscal space is shirking rapidly, and the federal government has fewer resources to allocate to development.

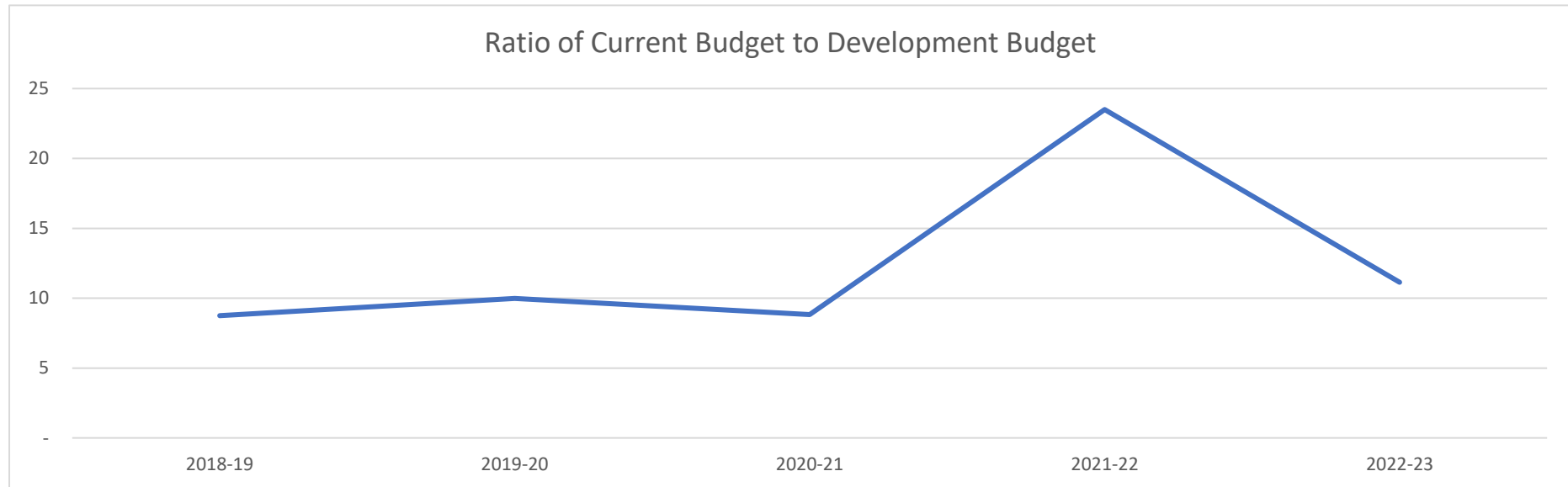
| Functional Head | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | What is Included? |
|---------------------------------|---------|---------|---------|---------|---------|--|
| General Public Service | 583,991 | 529,689 | 716,270 | 309,963 | 713,225 | External affairs, Transfer, General services, Research |
| Defence Affairs and Services | 1,645 | 1,700 | 1,204 | 7,349 | 4,414 | Defence Division, Defence Administration |
| Public Order and Safety Affairs | 3,047 | 3,415 | 4,083 | 3,379 | 2,861 | Courts, Police, Prison, Attorney general, Ombudsperson, Civil Armed forces |
| Economic Affairs | 40,527 | 159,607 | 91,606 | 98,930 | 202,524 | Agriculture, Foor, Irrigation, Transport, Communication, Industries |
| Environmental Protection | 71 | 7573 | 5,000 | 9,573 | 9,750 | Environment protection, waste water management |
| Housing and Community Amenties | 1,626 | 1357 | 2,912 | 48 | 10,434 | Housing Development, Community Development |
| Health | 4,257 | 8134 | 8,437 | 1,326 | 12,463 | Hospital services, Public Health Services, Health Administration, Medical Products |

| Functional Head | 2018-19 | 2019-20 | 2020-21 | 2021-22 | 2022-23 | What is Included? |
|----------------------------------|----------------|----------------|----------------|----------------|------------------|--|
| Recreation, Culture and Religion | 2,273 | 16407 | 247 | 1,399 | 5,036 | Sports, Culture, Religious Affairs, Information and Broadcasting |
| Education Affairs and Services | 24,292 | 31026 | 33,404 | 326 | 44,518 | Education at all levels and Education Related Administration |
| Social Protection | 555 | 522 | 171 | 1,369 | 18,643 | Social Welfare, Flood Protection, Refugees, |
| Total | 662,284 | 759,430 | 863,334 | 433,662 | 1,023,868 | |

Table 3: Development Expenditure on Revenue and Capital Accounts of the federal government from 2018-19 to 2022-23
All figures from 2018-19 to 2021-22 in table 1 are Revised Estimates. The figures for 2022-23 are Budget Estimates.
Source: Budget Books of Various years <https://www.finance.gov.pk>



The development budget figures include development expenditure on the revenue account and capital account.



The increasing ratio means that government has less fiscal space to allocate budget for development expenditure. For example, in 2021-22, for every 23.3 spent on the current budget, the government has only one rupee for the development budget. As can be seen from the graph, the trend is similar apart from 2020-

21. In this year, a lesser allocation could be made for the development budget. The data for 2021-22 also suggest that government may not be able to spend much on development expenditure in 2022-23 as is estimated, and this ratio might be different at the Revised Estimates stage.

How has Debt Accumulated over the years?

Since 2013-14, Pakistan's Total Public Debt has been more than 60% of the GDP. This is against Principles of Sound Fiscal and Debt management as enshrined in Section 3 of the Fiscal Responsibility and Debt Limitation Act, 2005 (amended 2016), which states that Section 3(b): beginning from the financial year 2016-17, the total public debt shall be reduced to sixty per cent of the estimated gross domestic product.

Section 3(c): within a period of five financial years, beginning from the financial year 2018-19, total public debt shall be reduced by 0.5 per cent every year and from 2023-24 and going up to the financial year 2032-33 a reduction of 0.75 per cent every year to reduce the total public debt to fifty per cent of the estimated gross domestic product and thereafter maintaining it to fifty per cent or less of the estimated gross domestic product

PKR in Million

| Year | Domestic Debt | Foreign Debt | Govt Deposits with Banking System | Total Public Debt | Total Government Debt | GDP | Total Public Debt as Percentage of GDP | Total Government Debt as Percentage of GDP |
|---------|---------------|--------------|-----------------------------------|-------------------|-----------------------|--------|--|--|
| 2013-14 | 10,906 | 5,085 | 1,367 | 15,991 | 14,624 | 25,169 | 63.5% | 58.1% |
| 2014-15 | 12,193 | 5,187 | 1,394 | 17,380 | 15,986 | 27,443 | 63.3% | 58.2% |
| 2015-16 | 13,626 | 6,051 | 1,853 | 19,677 | 17,824 | 29,076 | 67.7% | 61.3% |
| 2016-17 | 14,849 | 6,560 | 1,773 | 21,409 | 19,636 | 31,922 | 67.1% | 61.5% |
| 2017-18 | 16,416 | 8,537 | 1,929 | 24,953 | 23,024 | 34,619 | 72.1% | 66.5% |

| Year | Domestic Debt | Foreign Debt | Govt Deposits with Banking System | Total Public Debt | Total Government Debt | GDP | Total Public Debt as Percentage of GDP | Total Government Debt as Percentage of GDP |
|----------|---------------|--------------|-----------------------------------|-------------------|-----------------------|----------|--|--|
| 2018-19 | 20,732 | 11,976 | 3,187 | 32,708 | 29,521 | 38,559 | 84.8% | 76.6% |
| 2019-20 | 23,283 | 13,116 | 3,146 | 36,399 | 33,253 | 42,427 | 85.8% | 78.4% |
| 2020-21 | 26,165 | 13,595 | 4,108 | 39,760 | 35,652 | 55,488 | 71.7% | 64.3% |
| 2021-22* | 26,444 | 15,050 | 4,306 | 41,494 | 37,188 | 58,800** | 71% | 63% |

Table 4: Total Public and Government Debt as a percentage of GDP

All figures in the above table from 2013-14 to 2021-22 are Revised Estimates.

Source: Budget Books and Debt Reports, Different Years, Ministry of Finance, https://www.finance.gov.pk/dpco_publications.html

*Sep 21

**Estimated

As per the Fiscal Responsibility and Debt Limitation Act, 2005 amended in June 2017,

Total Debt of the Government=Debt of the Government + Debt owed to IMF-Government Deposits to the banking system



Cost of Debt Servicing

PKR in Million

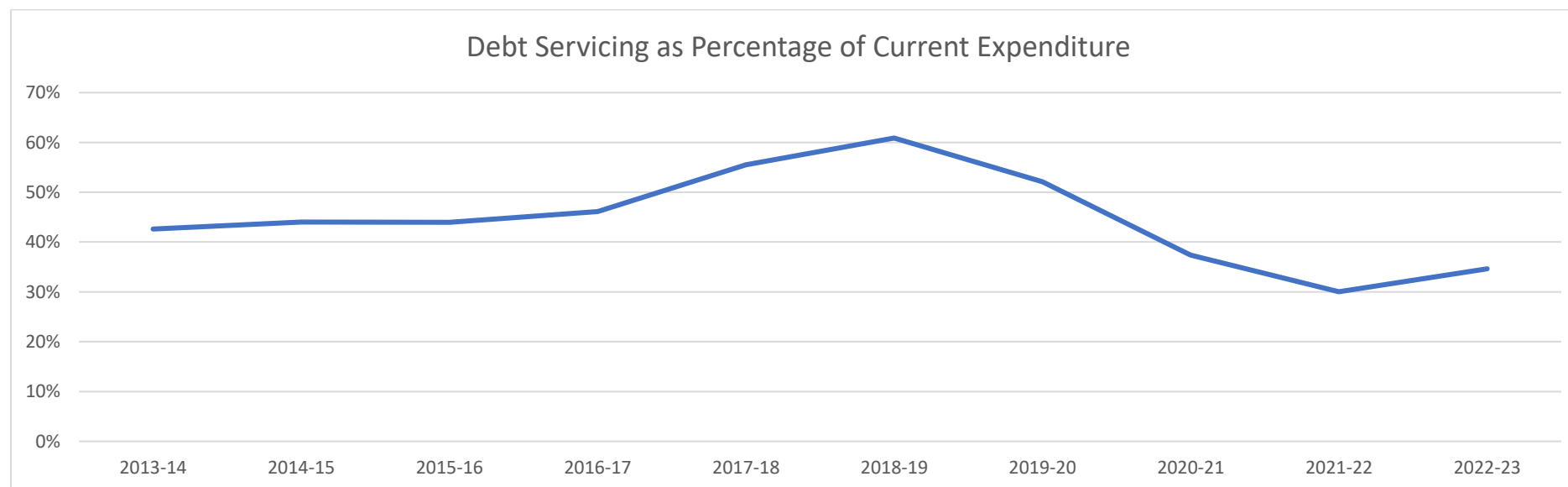
| Year | Current Expenditure | Development Expenditure | Total Expenditure | Debt Servicing | Debt Servicing as Percentage of Current Expenditure |
|---------|---------------------|-------------------------|-------------------|----------------|---|
| 2013-14 | 3,403,801 | 858,707 | 4,262,508 | 1,450,851 | 43% |
| 2014-15 | 3,558,328 | 754,322 | 4,312,650 | 1,565,623 | 44% |
| 2015-16 | 3,713,916 | 751,118 | 4,465,034 | 1,633,139 | 44% |
| 2016-17 | 4,049,477 | 936,443 | 4,985,920 | 1,868,131 | 46% |
| 2017-18 | 4,450,165 | 1,062,760 | 5,512,925 | 2,470,428 | 56% |
| 2018-19 | 5,793,909 | 829,679 | 6,623,588 | 3,527,477 | 61% |
| 2019-20 | 7,585,902 | 759,430 | 8,345,332 | 3,954,695 | 52% |
| 2020-21 | 7,625,924 | 863,335 | 8,489,259 | 2,850,688 | 37% |

| Year | Current Expenditure | Development Expenditure | Total Expenditure | Debt Servicing | Debt Servicing as Percentage of Current Expenditure |
|---------|---------------------|-------------------------|-------------------|----------------|---|
| 2021-22 | 10,190,025 | 433,664 | 10,623,689 | 3,059,681 | 30% |
| 2022-23 | 11,397,303 | 1023868 | 12,421,171 | 3,950,062 | 35% |

Table 5: Debt servicing as a percentage of the current budget

All figures in the above table from 2013-14 to 2021-22 are Revised Estimates.

Source: Budget Books and Debt Reports, Different Years, Ministry of Finance, https://www.finance.gov.pk/dpco_publications.html



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