



BUDGET 2020-21

Highlights and Commentary

PIDE Macroeconomic Section

PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS
Islamabad

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1 Introduction

The federal budget of Pakistan for the year 2020-21 was announced in a unique backdrop of several crises, including the growing COVID-19 numbers, and an imminent threat of widespread locust swarms. The funds kept aside for dealing with the COVID-19 pandemic are already being diverted towards the locust swarms' emergency to avoid a nationwide food shortage. To add to these crises, the artificial shortage of fuel in the country is another developing story after the recent wheat and sugar crises.

The official projected growth for the FY20 is -0.38. The government expects a positive recovery in the next fiscal year; therefore, estimates the growth to be 2.1% for the FY21. However, since the coronavirus is still spreading in the country, one would expect the budget for the FY21 to accommodate the fluidity of the situation in the coming months.

Pakistan Institute of Development Economics (PIDE), in a recent report, projected growth for the next fiscal year under different scenarios.¹ In the best-case scenario (the baseline scenario), which assumes that the lockdown would come to a complete end in the FY20, confining the COVID related economic disruption to Q4-FY20. Based on this assumption, the annual growth rate for FY21 was projected to bounce back to 2.16%. This growth rate is aligned with the government's target for the next fiscal year. However, with the peak in the confirmed cases yet to come, there are fewer chances of this scenario and, therefore, of this growth rate to materialise.

In the worst-case scenario presented in this PIDE report, where the pandemic and the consequent economic disruptions are expected to continue until the third quarter of the next fiscal year, the growth rate is projected to be negligible (0.4%). If this happens, the revenue and other targets set in the budget are going to be missed by a significant margin. This budget, therefore, should have taken the evolving situation of COVID-19 into consideration in setting its objective and targets. In this document, we will also explore if this is indeed the case.

¹ For details see <https://www.pide.org.pk/pdf/COVID-19-and-Pakistans-Economy.pdf>

Summary of the Federal Budget 2020-21

2. Budget Summary

- Total expenditures are budgeted at PKR. 7.137 trillion, and gross revenue receipts are targeted at PKR. 6.573 trillion. The net revenues will be PKR. 3.7 trillion, which is 56.3 per cent of the total expenditure, after adjusting the provincial share of PKR. 2.874 trillion.
- The government is targeting PKR. 5.464 trillion (83.1 %) from taxes and PKR. 1.109 trillion (16.9 %) will be non-tax revenues.
- The targeted revenues for the year 2020-21 are 19.4 % higher than the revised target for the year 2019 -2020
- Total current expenditures for the year 2020-21 are estimated at PKR 6.344 trillion. The major contributors are mark-up payments (PKR. 2.946 trillion), pensions (PKR. 470 billion), defence affairs and services (PKR 1.289 trillion), grants and transfers (PKR. 905 billion), subsidies (PKR. 209 billion), and running the civil government (PKR. 476 billion).
- Total development expenditures for the year 2020-21 are estimated at PKR. 792 billion, out of which PKR. 650 billion are allocated to the federal PSDP.
- The fiscal deficit is budgeted at PKR. 3.195 trillion, which forms 7% of the GDP as compared to 9.1% for FY20's revised estimates.
- The deficit will be financed from external borrowing (PKR. 810 billion), capital receipt (PKR. 1.396 trillion) bank borrowing (889 billion), privatization proceeds (PKR. 100 billion), and surplus from the provinces (PKR. 242 billion).
- The government aims to finance 75% of the deficit from domestic resources.

Revenues

3 Tax and Revenues

Federal Budget 2020-21 has presented an ambitious revenue plan (see Table 3.1). Considering the past performance, it is likely that the targets will be underachieved. Revenue forecasting models, if any, used by the Ministry of Finance and the FBR, always overestimate the expected revenue performance. In their study, for the period 1970 to 2014, Qasim and Mahmood (2016) pointed out that the federal government has large forecast errors for all revenue accounts. Two-thirds of the times, the total federal taxes had been overestimated by more than 5% in the sample period and non-tax revenues by 76 %.²

Table 3.1 shows the composition of tax and non-tax revenue along with performance and target value for the next fiscal year.

Table 3.1: Tax Profile

Yearly Profile						Missed Targets (%)		Targeted Growth (%)
(Rs in trillions)	2018-19 BE	2018-19 RE	2019-20 BE	2019-20 RE	2020-21 BE	2018-19	2019-20	2020-21
Total Revenues	5.66	5.03	6.72	5.50	6.57	-11.11	-18.05	19.42
Share of Total Revenues								
Total Taxes	86.36	87.33	86.68	76.46	83.13	-10.12	-27.72	29.84
Total Non-Tax Revenues	17.40	14.38	20.17	29.22	25.00	-17.37	44.89	-14.44
FBR Revenues	78.35	82.48	82.71	71.00	75.50	-6.43	-29.65	27.00

The above shows that:

- Overall revenue target was missed by 11% in 2018-19 and 18% in 2019-20 whereas the target for the FY21 is 19% higher than the previous year. Mistargeting is present in both the tax and non-tax revenues. However, these are more volatile in case of non-tax revenues. FBR revenues are relatively less mistargeted, but the rate is still high (-6.43% for 2018-19 and -30% for 2019-20)
- The share of the total taxes in the revenues is around 85%. Last year it went exceptionally low to 77% due to the slowing down of economic activity. The FBR contributes around 80% of the total revenues of the federal government; therefore, any miscalculation or miss-targeting can severely cripple the budget, not just of the federal but the provincial governments as well.

² Qasim Muhammad Ali and Mahmood Khalid (2016), "Accuracy of Revenue Forecast: Analysis of Pakistan's Federal Revenue Receipts", *Forman Journal of Economic Studies*, Vol. 12, 2016 (January–December) pp. 41-56

Table 3.2 : Revenue performance and Revenue Targets

	Description of Revenue Source	Target Achievement		Targeted Growth
		2018-19	2019-20	2020-21
Tax Revenues		-10.12	-27.72	29.84
A.	FBR Revenues	-6.43	-29.65	27.00
i.	Direct Taxes	-4.38	-22.04	25.88
	Taxes on Incomes	-3.41	-21.95	25.88
	Worker's Welfare Fund	-77.54	-49.54	25.86
	Capital Value Tax (CVT)	-49.73	-38.00	25.92
ii.	Indirect Taxes	-7.74	-34.21	27.79
	Custom Duties	0.00	-45.43	17.22
	Sales Tax	-12.35	-32.30	34.48
	Federal Excise	0.38	-14.48	15.71
B.	Other taxes	-46.24	12.46	66.84
	Other Indirect Taxes		90.64	32.59
	Mobile Handset Levy	-80.05	33.33	45.00
	Airport Tax	-66.67	-51.43	47.06
	GIDC	-75.00	-63.33	36.36
	Natural Gas Development Surcharge	-50.00	0.00	0.00
	Petroleum Levy	-32.22	20.36	73.08
Non-Tax Revenue		-17.37	44.89	-14.44
A	Income From Property and Enterprise	20.37	-9.79	-13.36
Out of Which	Pak. Telecommunication Authority	0.00	544.90	-68.99
	Total Markup	2.46	-57.59	90.69
	Dividends	-20.75	-26.97	26.59
B	Receipts from Civil Administration and Other Functions	-44.21	87.87	-20.26
Out of Which	Surplus Profit of SBP	-47.36	93.32	-21.02
C	Miscellaneous	-20.58	25.40	3.88

Table 3.2 presents some highlights of past performance and growth targets for tax and non-tax revenue heads, and it shows:

- Overall tax revenue targets were underachieved by 10% and 28% in 2018-19 and 2019-20, respectively, whereas for FY21, these are set 30% higher from the last year's outcome.
- FBR tax targets are expected to grow at 27%, whereas other taxes are expected to grow by a rate as high as 66%. Tax growth is mainly expected from the petroleum development levy, that is an expected growth of 73%. All direct taxes are expected to have a uniform growth rate of 26% in FY2021.
- Non-tax revenues were resilient in FY20 and showed an amazing growth of 45% despite the worsening of the economy due to the COVID-19 outbreak. However, it is surprising to see that for the year FY21, these are expected to contract by 15%. The contraction is mainly attributed to the expected fall in receipts from the Pakistan Telecommunication Authority

and surplus profits from the State Bank of Pakistan. However, higher receipts from these two sources may again result in over-achievement in this head.

Table 3.3: Interprovincial Fiscal Relations

	Yearly profile					Target achievement (%)		Growth (%)
	2018-19 BE	2018-19 RE	2019-20 BE	2019-20 RE	2020-21 BE	2018-19 MT	2019-20 MT	2019-20 RE
FBR Revenues (PKR. Trillions)	4.44	4.15	5.56	3.91	4.96	-6.43	-29.65	27.00
Provincial Share in Federal taxes %	58.40	59.34	58.59	61.47	57.90	-4.92	-26.19	19.63

Provincial transfers are dependent on FBR revenues. Table 3.3 is a snapshot of these transfers. The Table also shows that:

- Provinces get around 60% of the FBR revenues as fiscal transfers. Due to the underperformance of the FBR in 2018-19 and 2019-20, these were severely hit. The provincial budget making is severely compromised if the federal transfer is lower than expected. In 2018-19 provinces got about 5% less than the total commitment, and in 2019-20 this went down by 26%. With limited borrowing options to provinces and already set expenditure outlays, provincial service delivery is badly compromised in case of lower federal transfers.
- This year the FBR revenue targets are expected to grow by 27%; however, provincial transfers are kept at a growth of 20%, indicating the possible differences in the federal and provincial governments related to a reconsideration of the NFC.
- In Table 3.4, we have reproduced the outlook for revenue based on the Post COVID-19 Recovery Scenarios for Pakistan’s Economy estimated by PIDE and compared these with the FBR projections about growth and targeted revenues.³

³ For details see Special Report “Post-COVID-19 Recovery Scenarios for Pakistan’s Economy; Projections for Fiscal Years 2020 and 2021*” available at www.pide.org.pk.

Table 3.4: Outlook for Revenue: FBR and PIDE

Yearly profile				PIDE estimates for Revenue based on COVID-Scenarios		
	2019-20 BE	2019-20 RE	2020-21 BE	2020-21-I	2020-21-II	2020-21-III
Real GDP Growth %	2.40	-0.40	2.10	1.63	1.03	0.41
Inflation %	12.00	11.50	6.50	6.00	6.70	5.50
As A % of GDP						
Total Revenue	16.70	14.30	15.90	15.70	14.20	13.20
Total Taxes	14.40	11.00	13.20	10.50	9.20	8.40
Total FBR	12.60	9.40	10.90			
Non Tax Revenue	2.30	3.30	2.80			

The table shows that:

- Considering the fluidness of the post-COVID-19 recovery scenarios, PIDE has estimated different growth rates depending on the type of scenario the economy can go through. If economic growth falls, then considerable revenue loss will occur.
- In Scenario-I, if economic growth falls to 1.63%, then overall revenue to GDP can be 15.75, and tax to GDP ratio could be 10.5%. Since these are in per centage of GDP, the loss in absolute terms would be significant.

Salient Features and Recommendations

Some of the salient features of the budget FY21 vis-à-vis revenue are:

- The Finance Bill seeks to remove the additional customs duty on tariff lines for which the customs duty is 0%. It also proposes the reduction of custom duties on 40 raw materials for various industries. Furthermore, on 90 tariff lines, the custom duty is reduced from 11% to 3% and 0%.
- An extension for exemption from CD on import of 61 COVID-19 related items has also been granted. This is appreciable, especially because of the expected continuation of the COVID-19 outbreak in the next fiscal year as well.
- To achieve simplification of the withholding tax regime and reduce the cost of compliance, the bill proposes the deletion of 9 withholding tax provisions. These are from the list of revenue non-spinners (contribute less than 1% cumulatively to revenue). There are another 24 out of 71 provisions in the income tax withholding regime which should be deleted.
- Duty on 2,000 tariff lines or items has been suspended. Pakistan ranks low in the Cost of Doing Business Index, and the government has prioritized it as a key area to address. In this

connection, regulatory duty on a number of industrial inputs has been reduced, making them easier to import.

- Tax structure and administration is being simplified by having rebates credited directly to bank accounts, having a fixed tax scheme for small and medium enterprises, and bringing about improvements in the 11th schedule of sales tax. Tax refunds have been brought under one centralized system. These measures are expected to ease the burden of taxation in the business community.
- The retail sector will be supported during the year by decreasing sales tax by 2% to offset the decrease in economic activity due to the pandemic.
- To move towards digitization and documentation, the budget proposed a reduction in GST from 14% to 12% for POS integration with FBR.
- The reduction in FED on cement from PKR. 2.00 to 1.75 would help the cement sector and, consequently, the construction sector.

Although certain good steps have been taken for further improvement, we suggest that:

- To kick-start industries that are severely affected by the COVID-19 outbreak, we propose that all those revenue non-spinner CDs (37 out of 95) and the sales tax on imports (42 out of 97), which contribute less than 1% in the revenue of their respective tax category, should be completely removed.
- Using the same principle as followed in the simplification of the withholding tax regime in the new budget, we propose that 9 out of 37 Federal Excise Duties should also be removed. The removal of all these revenue non-spinners will have a multiplier effect on growth and employment in the country.
- The minimum threshold of purchases by retailers for obtaining CNIC of the buyers is proposed to be increased from PKR 50,000 to PKR 100,000. This is a step in the right direction. However, unnecessary data should not be required from the withholding agents. It is an overhead which kills transactions and puts an unnecessary burden on businesses (acting as withholding agents).
- Another appreciable measure is the reduction in the frequency of filing the Withholding Statements under section 165 from a monthly to quarterly basis. From the standpoint of compliance costs, FBR should simplify filing requirements as well.
- We propose a gradual move to the adoption of a single, harmonized and integrated VAT based sales tax regime. It will improve efficiency, reduce evasion and problem of jurisdiction. Doing so, it is expected that both the provincial and the federal governments would get additional revenue.

Expenditures

4. Expenditures

4.1 Current Expenditures

- Total current expenditures for the year 2020-21 are estimated at PKR 6,345 billion (see Table 4.1).
- The highest share in the current expenditures was/is of mark-up payments, which raised by 39.4% owing to an increase in the domestic interest rate. Mark-up payments for the year 2020-21 have been estimated at PKR 2,946 billion, out of which PKR 2,631 billion would be paid on domestic debt and PKR 315 billion on foreign debt.
- The major component of the current expenditures is the defence-related expenditure, which grew by 11.3 per cent to PKR 1,146.8 billion in 2019.
- Subsidies witnessed a sharp rise in FY2019 both in absolute and growth terms. It increased from PKR 114.2 billion in FY2018 to PKR. 195.3 billion in 2019.

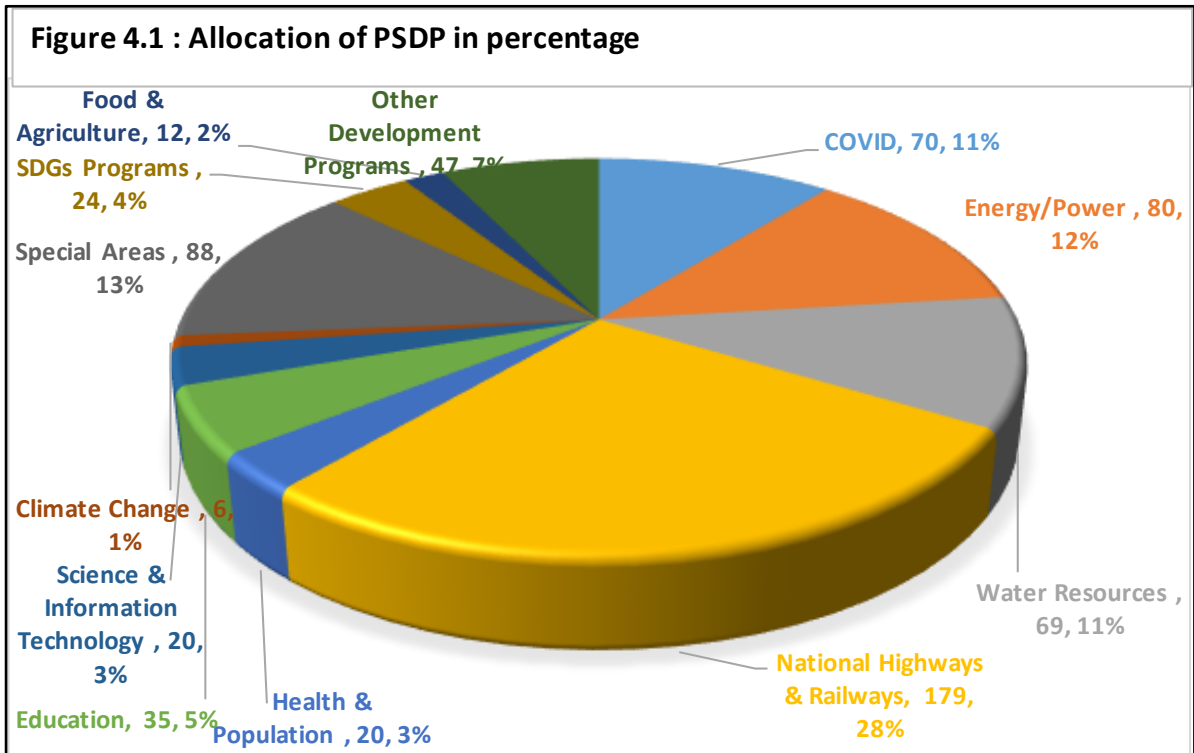
Table 4.1 Classification of Current Expenditures (PKR. Billion)

		Budget	Revised	Budget
		2019-20	2019-20	2020-21
(i)	Mark-up Payment	2,891	2,709	2,946
	Domestic Debt	2,532	2,374	2,631
	Foreign Debt	360	335	315
(ii)	Pension	421	463	470
	Military	327	355	369
	Civil	94	108	111
(iii)	Defense Affairs and Services	1,153	1,227	1,289
(iv)	Grants and Transfers	835	1,177	905
(v)	Subsidies	272	350	209
(vi)	Pay and Pension	79	--	0
Vii)	Provision for Contingencies	115	--	50
(viii)	Running of Civil Government	431	446	476
CURRENT EXPENDITURE (i to viii)		6,197	6,373	6,345

- PKR 905 billion have been allocated for Grants and transfers against the revised allocation of PKR 1,177 billion for the year 2019-20.
- For running the government, PKR 475.7 billion have been estimated for the fiscal year 2020-21 against revised expenditures of PKR 445.8 billion in 2019-20.

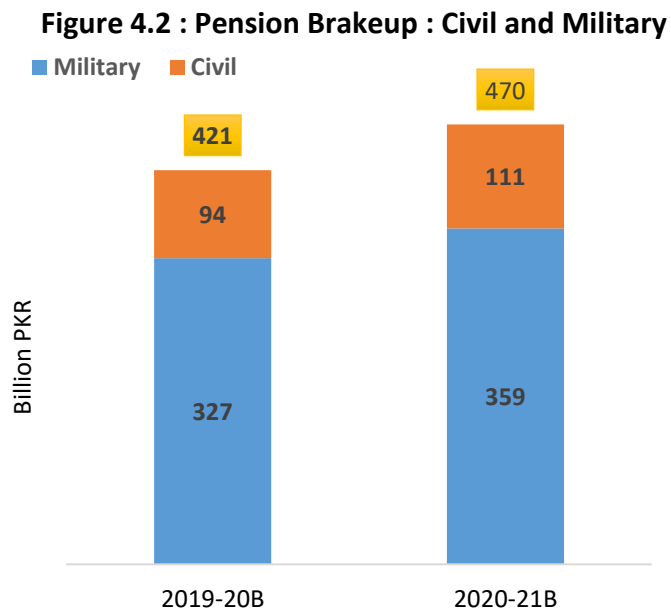
4.2 PSDP Expenditures

- The government has allocated PKR. 650 billion under PSDP to achieve development objectives with the focus on social sector projects.
- The figure presents the sectoral priorities for next year's PSDP allocations.
- Though it is an ideal allocation under given circumstances, there must be a cost-benefit analysis of the assigned projects.
- The government should prioritise projects of soft infrastructure, including health and education, to regain economic growth momentum.
- Currently, the allocation for the education sector is only 5%, and for the health and population sector, it is 3% of the total PSDP allocation.



4.3 Pension

- There is a considerable burden of pension on the government budget.
- The budget allocation for pension has increased from 421 billion in 2019-20 to 470 billion in 2020-21, showing an increase of 12%.
- The increasing pension burden will create huge fiscal implications in the coming years.
- In this budget, it cannot be avoided, but eventually, the government will have to think of a fully funded pension system to create a sustainable financial model because the current pension model is not sustainable. PIDE has been working on this issue.
- The government should have proposed some legal changes in the budget document to start the reform process in the pension system.



4.4 Social Protection

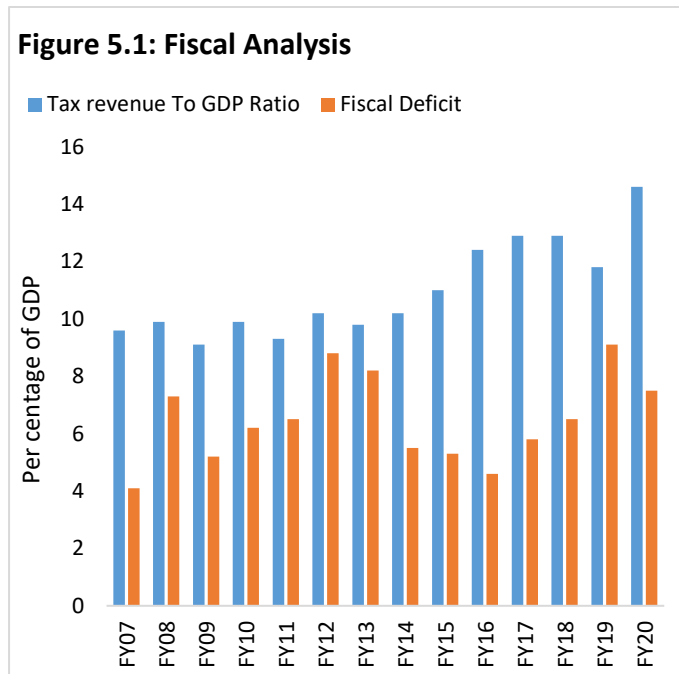
- The government has increased the budget allocation for the Ehsaas program from 187 billion to 208 billion. The government has also allocated PKR 179 billion to provide subsidies to energy, food, and other sectors, which targets the vulnerable segments only.
- To continue the COVID-19 stimulus package, the government in the current budget has earmarked PKR 70 billion for coronavirus-related schemes
- This allocation is particularly crucial for socially-excluded and deprived segments of the society, especially after the ongoing pandemic. This population includes the poor, persons with disabilities, migrants, refugees, internally displaced people, slum-dwellers, women, and children. These groups have fewer opportunities for economic, social, and human development and remain caught in a vicious cycle of poverty.
- This allocation may not be enough if the COVID situation worsens (it may extend to at least the next two quarters). Under this scenario, the government needs a bigger package to support the livelihood of 10 to 12 million families across Pakistan. The government should work on alternative financing arrangements to expand the social protection

Deficit and Financing

5 Deficit and Financing

5.1 Deficit

- An ambitious tax target of PKR. 5.5 trillion was set in the Budget 2019-20 for the FBR. However, it became impossible to achieve the target after a sharp fall in economic growth and protests from the business community against the documentation requirements.
- According to the revised target, the FBR will only be able to collect PKR 3.9 trillion in FY20, which is a shortfall of PKR 1.6 trillion from the actual target.
- It is also important to mention that the latest tax target of PKR. 3.9 trillion means that in the last three fiscal years, i.e., FY18, FY19, and FY20. It implies that the revenue collected by Pakistan's FBR has remained almost identical.



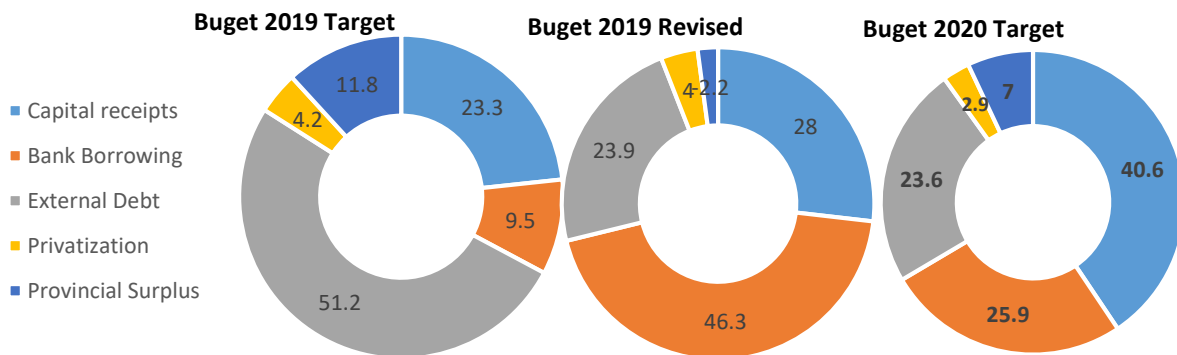
- On the other hand, the expenditures have increased by PKR. 2.6 trillion.
- In FY20, the fiscal deficit was 9.1% of GDP.
- If the PKR 1.2 trillion COVID-19 is factored in, the actual fiscal deficit in FY20 is probably much higher than the estimated 9.1%.
- For FY21, the IMF has projected tax revenue of PKR 5.1 trillion, which is PKR. 1.2 trillion more than what the FBR expected to collect in FY20.
- This target seems ambitious for an economy that is expected to grow by only 2%. Indirect taxes, which are a major chunk of the revenues, depend upon the economic activity.
- In the given scenario, the projected fiscal deficit is 7.5 per cent.

5.2 Deficit Financing

- Net revenue receipts are projected to be PKR. 3.7 trillion, which are 52 per cent of the total expenditures. The remaining 48 per cent are being targeted from external borrowing, domestic borrowing, privatization proceeds, and surplus from the provinces.

- The government has targeted that it will finance 75% of the deficit from domestic sources. That is PKR 1,400 billion (40 %) from capital receipts, PKR 890 billion from bank borrowing (26 %), PKR 100 billion from privatization proceeds, and PKR 242 billion from the provincial surplus.
- In the FY20 budget, the targeted composition of financing the deficit was revised. Initially, the government planned to generate 51 per cent from the external borrowing and 10 per cent from the domestic bank borrowing. However, it ended up with financing 46 per cent from domestic bank borrowing.
- In the FY21 budget, 40 per cent of the deficit is planned to be financed from the capital receipts. A significant chunk is expected from the Sukuk bonds, Pakistan Investment Bonds (PIBs), premium Bonds and T-bills auctions. Therefore, the bond yields should remain sticky in the coming year.
- Furthermore, there remains a heavy reliance on SBP profits. The SBP profit is targeted at PKR 620, which is 56 per cent of total non-tax revenues. It was targeted PKR 406 billion in FY 2019, but SBP surrendered PKR 785 billion.
- Any shortfall in revenues will hit PSDP or may increase the borrowing.
- The composition of bank borrowing will play a crucial role in the coming year. If the government borrows from the SBP, it will translate into inflation. On the other hand, if the government borrows from the commercial banks, then the crowding-out effect will hit the credit to the private sector, investment, and economic growth.

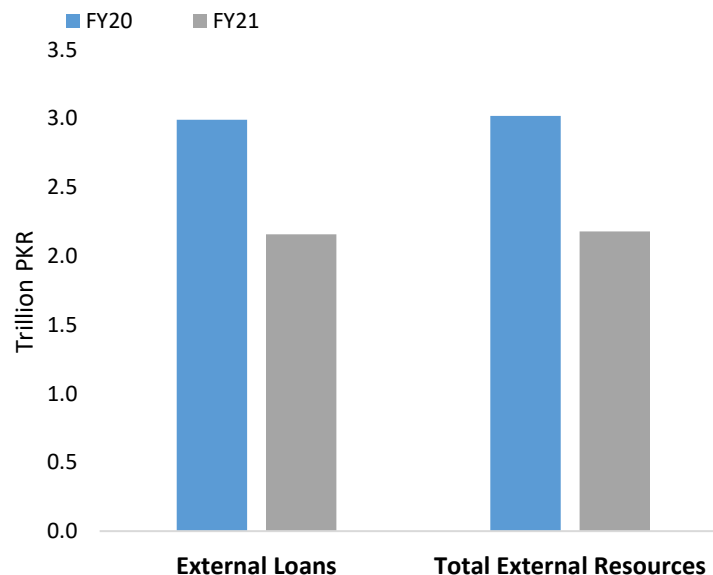
Figure 5.2: Sources of Deficit Financing (% age)



5.3 External Financing

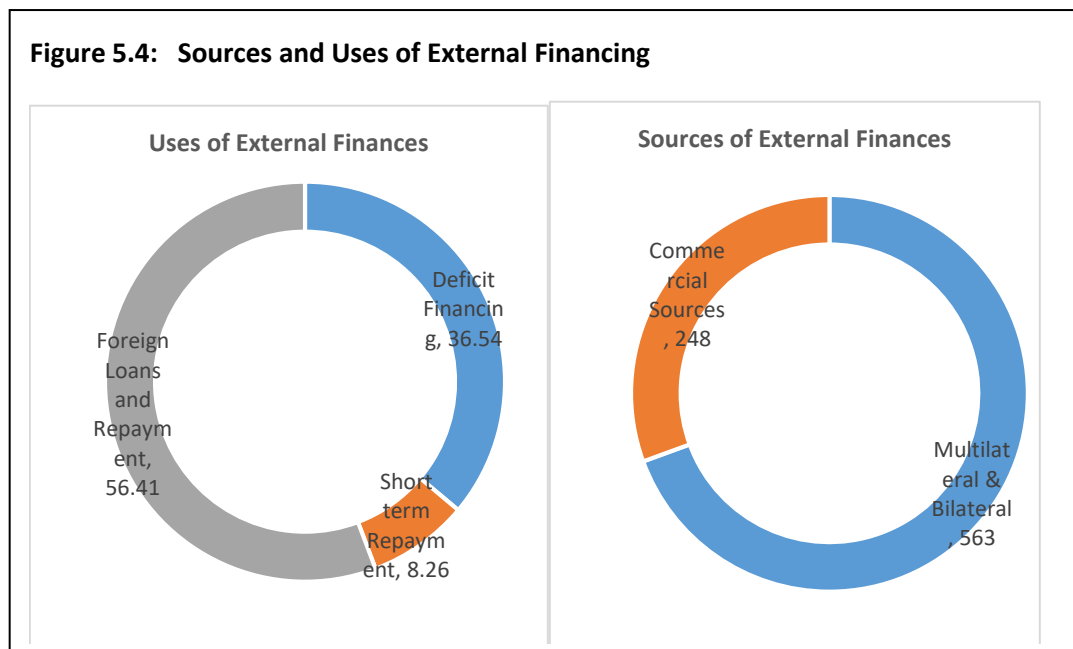
- To bridge the spending and revenue gap, Pakistan is expected to access PKR 2.2 trillion in gross external finances. This includes loans, aid, and grants. A large proportion of these external requirements will be used for the repayment of outstanding external credit.
- As shown in the figure, in budget FY21 government has reduced the reliance on external loans by about 28 per cent. Almost all of the total external resources, that is 99 per cent, depend on the external loans and only 1 per cent is received in grants.
- There is a massive reduction in multilateral and bilateral loans and commercial loans.
- The World Bank and IMF studies have projected that the Capital Account would shrink during FY21. The PIDE special report on COVID-19 has also made projections that FDI will decline during FY21. Despite the recovery in exports and a reduction in imports, FDI will not pick up in the post-COVID-19 period. In this scenario, the government will have to depend on foreign loans. This tentative reduction external aims to reduce the imports further to sustain the current account balance position
- The total debt and liabilities are estimated to be 65 % of the total external resources. The remaining 35 per cent is expected to be used for the financing of fiscal deficit. In FY20, the debt and liabilities were 72 per cent of total external resources.
- Given the current level of exports, FDI, and the external grant progress, it likely that the external financing will jump in the third and fourth quarter of FY21

Figure 5.3: External Loans and External Resources



5.4 Public Debt

- Total debt and liabilities increased from PKR. 29.9 trillion in FY18 to PKR. 42.8 trillion in March 2020.
- This increase was mainly due to a sharp rise in domestic interest rates and exchange rate depreciation.
- The total gross public debt as a per centage of revenue went up from 447% to 667% between FY18-FY19
- The debt servicing as a per centage of revenue increased from 37.3% to 62.5% between FY18 and FY19.
- The government targeted net public debt PKR. 1.178 trillion next year.
- Though the cost of borrowing is low due to the lower interest rate even though the debt servicing on the domestic debt will be increased by 11 per cent from PKR. 2.37 trillion to PKR. 2.61 trillion.



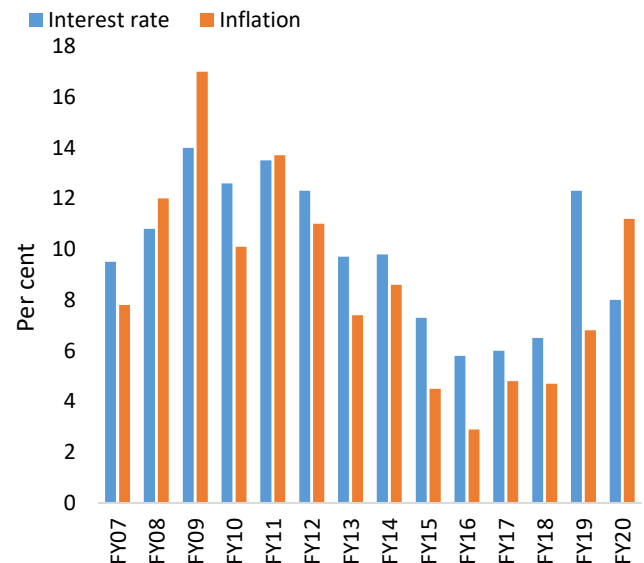
5.5 Public Debt Sustainability:

- The COVID-19 pandemic has not only worsened the economic prospects of the already struggling economy but has also dented the debt sustainability outlook of the country.
- The total gross public debt to GDP ratio is expected to be as high as 86%. Nevertheless, without imposing new taxes and yet expecting to meet the revenue target is an unachievable goal. Also, when a low-growth year is expected, with reduced trade and other

economic activities, setting a high revenue target probably hints towards a possibility of either further taxation in a mini-budget or accumulation of more debt.

- The IMF and the Paris Club have provided a deferred payment facility to the low-income economies, and as a result, Pakistan has also received some relaxation on the front of debt repayment. Although this will bring some relief, it does not mean that it will provide a solution to all debt-related problems. We have compiled a large stock of debt, and the current situation indicates an increase in the coming year as well.
- If the lockdown persists or if the COVID-19 situation gets worse for a longer duration, this would result in a loss both in remittances and export receipts. Therefore, an alternative strategy, either in the form of exploring new avenues of external funding or raising funds through fund means, should be devised before time.

Figure 5.5: Monetary Policy



5.5 Inflation

- The average consumer price index for FY20 is expected to settle at 10.7%, down from the earlier projection of 11.8%.
- However, for June 2020, the YOY inflation is expected to be 8% after reaching a peak of 14.6 % in January 2020.
- Lower demand, due to COVID-19, of key commodities is a primary reason for the decline in inflation.
- Furthermore, the slashed oil prices contributed directly and indirectly to ease the inflationary pressure.
- Meanwhile, the government is targeting 6.5% inflation for FY21. The budget is more or less neutral in terms of inflation. Some of the sectors like tobacco, beverage, and construction will fuel inflation. On the other hand, the cut in sales tax will decrease inflation.
- However, the composition of bank borrowing, which is targeted around PKR 900 billion, will be important. If it comes from the SBP, then it will be inflationary.
- The PIDE Special Report also predicts lower inflation for the coming year. However, single-digit inflation could only be possible if the supply chain of critical commodities such as wheat, sugar, milk, rice, vegetables, pulses, and fresh fruits is not disturbed. Otherwise, the supply shock may increase the inflationary pressure.

6 Conclusions

The government made an appreciable effort to come up with a decent budget within the constraints and circumstances. Several measures indicate that the government tried to move in the right direction of facilitating growth and rationalize tariff policy. For example, it aims to reduce the cost of the industry, to lower the subsidies, to rationalize the withholding tax regime, and to provide personal protective equipment for frontline healthcare workers.

There are several risks involved, which may lead to a deviation from the revenue and expenditure targets. These include the risk of worsening of the situation linked to the COVID-19 outbreak and a delayed and slow recovery of the domestic markets. The low economic activity will surely hit the revenue side. Then the locust emergency may also disturb the agriculture output. There are also substantial uncertainties regarding the budget surpluses of the provinces.

Furthermore, the expenditure side is already very tight and tricky. The government has not been able to accommodate an increase in the salaries of its employees. This freeze in salaries is an indication of the tight financial condition of the government. In addition to this, there are issues with regard to achieving the targets set by the IMF. The next IMF staff report will also be an essential guideline for the policymakers. Therefore, it is highly likely that there will be some adjustments in the proposed budget in the coming days. However, the government must stick with the expenditure cut measures and reforms in any such adjustments.