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PIDE's GUIDE TO POLICY & RESEARCH

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PIDE Policy & Research is a guide to policy making and research. Each issue focuses on a particular theme, but also provides a general insight into the Pakistani economy, identifies key areas of concern for policymakers, and suggests policy action. The publication offers a quick orbit of the country's economy and is a hands-on and precise go-to document for the policymaker, businessperson, academic, researcher, or student who seeks to remain updated and informed. This issue is themed around PIDE's recent research efforts regarding the diagnostic of growth. We welcome contributions from within PIDE as well as from any external contributors.

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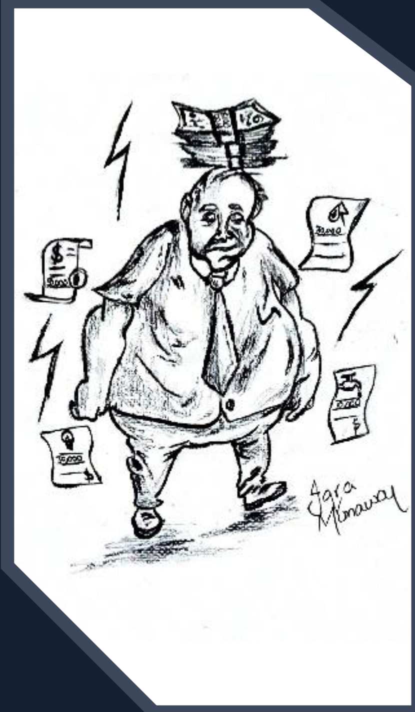
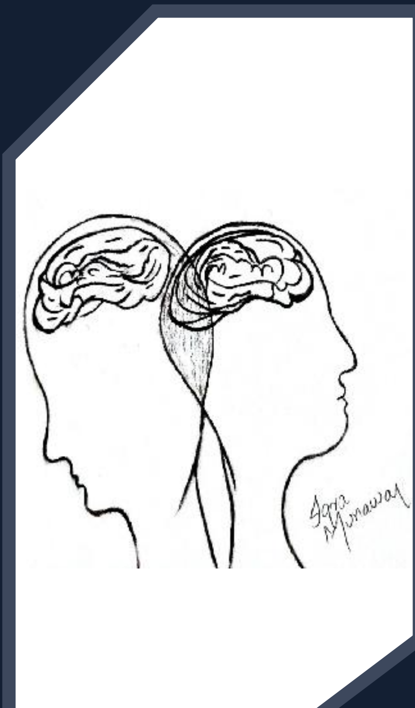




BUDGET 20-21

Commentary on Federal Budget

PTI government has presented its third budget. The incumbent Finance Minister was expected to spell out new directions of the government which are pro-growth and reflected with fiscal allocations that are in agreement with the Fund while encouraging the existing and new enterprises. At least from the Budget speech it appears he has been successful. However, a critical appraisal is required to qualify this stance.

Government has faced numerous economic challenges, aggravated by the Covid 19 Pandemic but the Government has successfully progressed from recovery and stabilization to sustainable growth. Provisional GDP growth rate for FY 2021 is estimated to be 3.94% against the targeted growth of 2.1%. The Current account balance during Jul-Apr, FY 2020-21 had been in surplus of $0.8 bn (0.3 % of GDP) against a deficit of $4.7 bn (-2.1 % of GDP) in the corresponding year. This had been possible both by an increased export of 6.5% to $21.0 bn and remittances significantly growing by 29.0% to $24.2 bn. FBR tax collection grew by 14.4% to Rs.3,780 bn during Jul-Apr FY 2020-21 against Rs.3,303 bn last year and is expected to post a healthy Rs. 4,691 collection by the end of FY 2020-21. Government has posted a primary surplus for the first three quarters of FY 2020-21. This has enabled the government to resume the $6bn Extended Fund Facility and completed the second to fifth review under the program with IMF.

However the journey to growth from stabilization along with unwarranted risks of Covid-19 is tough and requires an out of the box thinking. This is recognized by the government; Federal Minister for Finance and Revenue Mr. Shukat Tarin stated in his interview for PIDE Pre-Budget P & R Volume II, Issue VI Tax, Expenditures, And Debt: Trica of Budget Challenges "…Well I'm very impressed with the work that PIDE has done. We are making broad use of the recommendations which we have found over there. For instance, the growth areas, productivity, investment, vibrant cities, markets, openness, creativity, internet access and technology usage, those are the areas of growth and those are the, I would say, engines of growth". While the growth enablers are understood the approach towards these enablers still needs to step-up. PIDE Growth Commission has presented a detailed report titled "The PIDE Reform Agenda" to unleash Productivity, Investment, Vibrant Cities, Markets, Openness, Creativity, Internet Access, and Technology Usage.

2.1 Current Expenditures

- Total current expenditures for the year 2021-22 are estimated at Rs 7,523 billion (see Table 4.1).
- As last year, the mark up in the current year is still driving the current expenditures with a 7.3 percent increase in 2021-22. The mark-up payments for the year 2021-22 have been estimated at Rs 3,059 billion, out of which Rs 2,757 billion would be paid on domestic debt and Rs 302 billion on foreign debt.
- The major component of the current expenditures is defense-related expenditure. This has increased to Rs 1370 billion. The growth in allocation for 2021-22 (5.7 percent) is less than the last year (11.3 percent).
- Regarding subsidies, there is a sharp rise of 58 percent for 2021-22. This is a huge burden for the government.

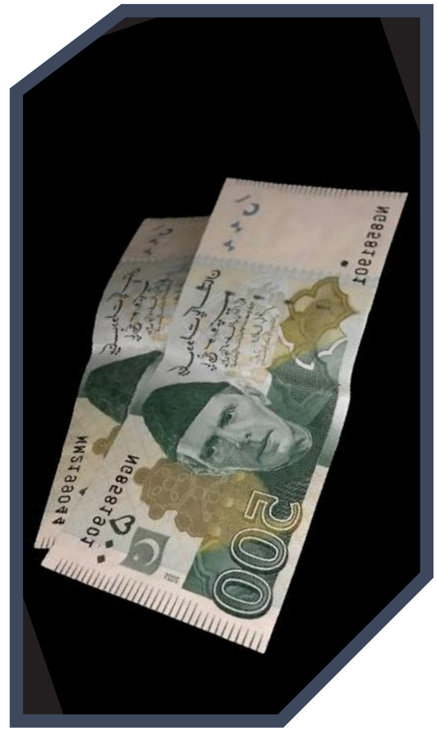
Table 2.1 Classification of Current Expenditures (Rs. Billion)

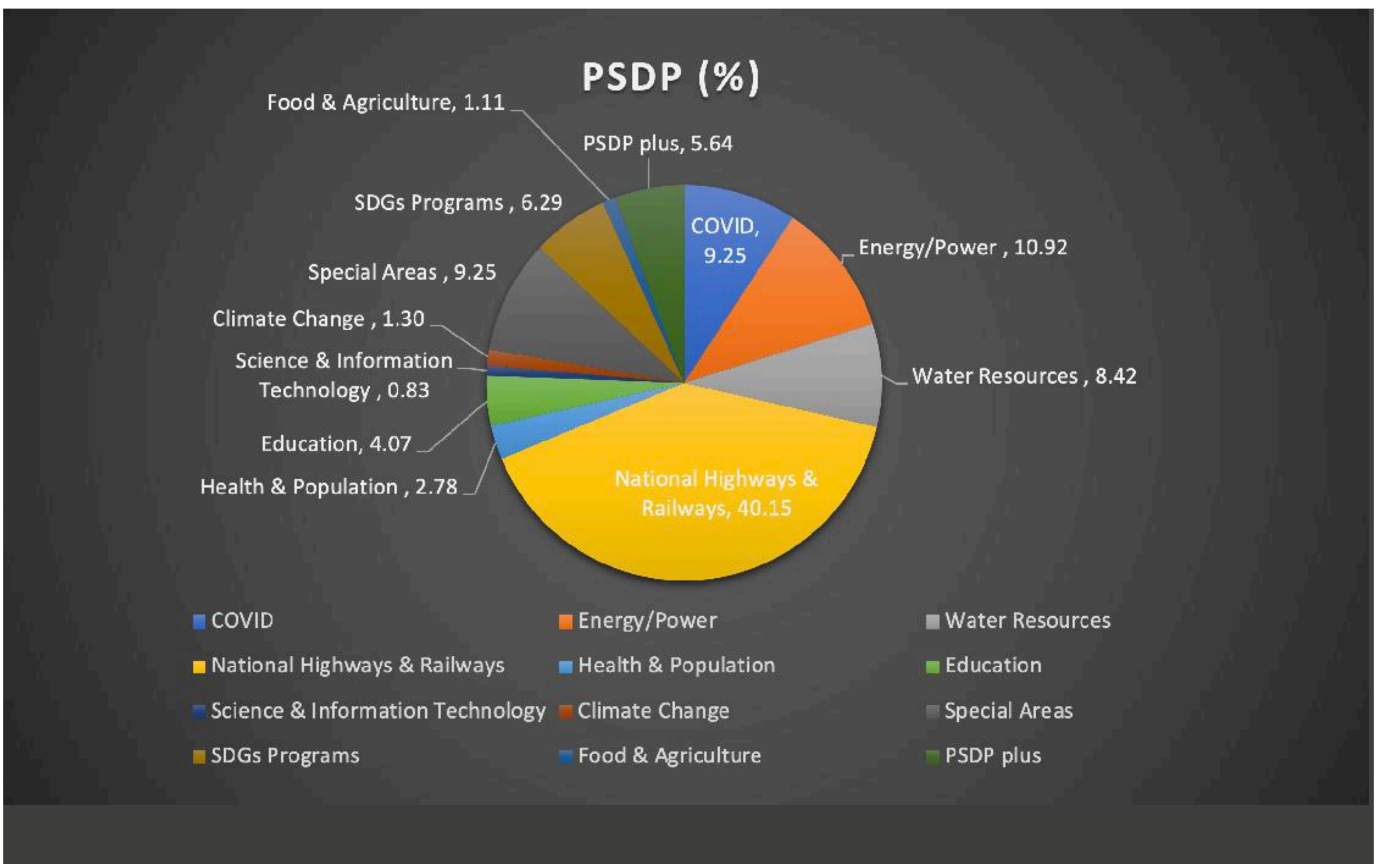
		Budget 2020-21	Revised 2020-21	Budget 2020-22
(i)	**Mark-up Payment**	2,946	2850	3059
	Domestic Debt	2,631	2611	2757
	Foreign Debt	315	239	302
(ii)	**Pension**	470	470	480
	Military	359	359	360
	Civil	111	111	120
(iii)	**Defense Affairs and Services**	1,286	1295	1370
(iv)	**Grants and Transfers**	904	932	1167
(v)	**Subsidies**	209	430	682
(vi)	**Pay and Pension**	0	158.4	160
Vii)	**Provision for Contingencies**	50		25
(viii)	**Running of Civil Government**	476	487	479
(ix)	**Provision of Disaster / Emergency/Covid**			100
	CURRENT EXPENDITURE (i to ix)	6,345	6560	7523

- Grants and transfers, Rs 1167 billion, have been estimated against a revised estimation of Rs 932 billion for the year 2020-21.
- For running the business of government, a lesser amount of Rs 479 billion have been estimated for the fiscal year 2021-22 against revised expenditures of Rs 487 billion in 2020-21.

2.2 PSDP Expenditures

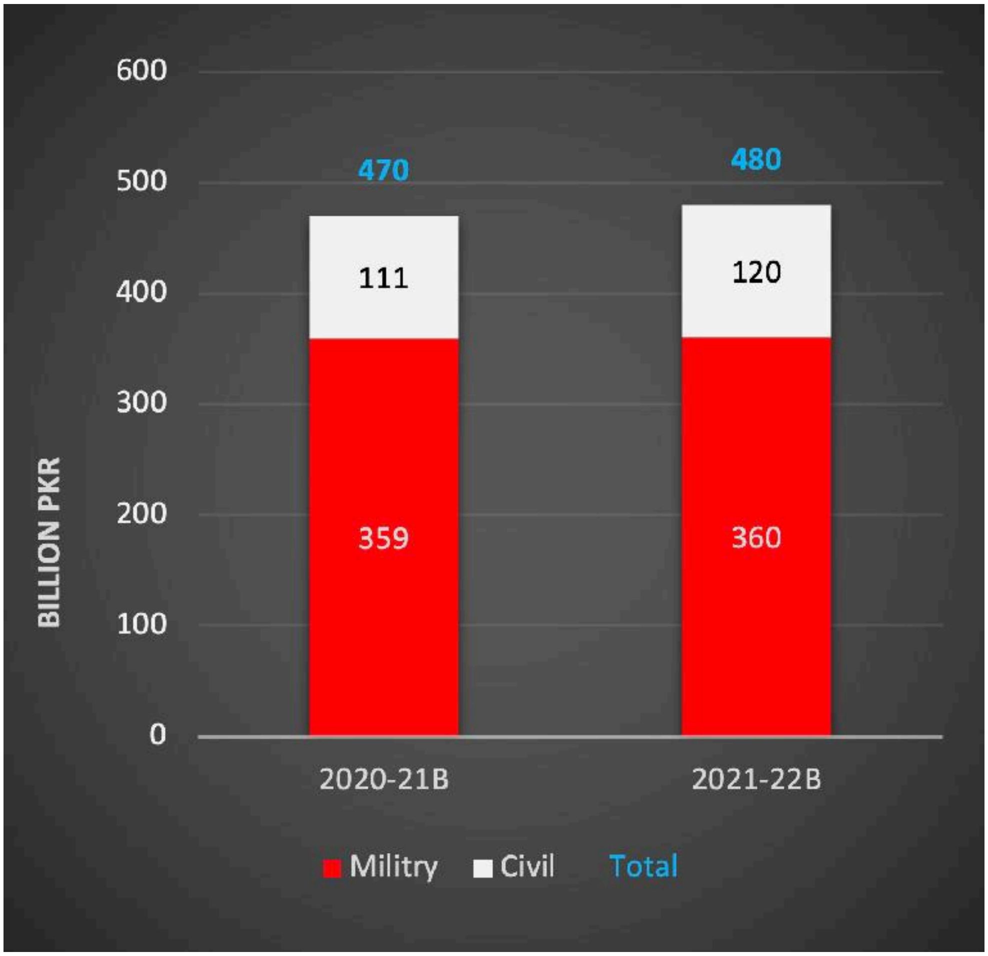
- This is a development Budget. The government has allocated Rs. 900 billion under PSDP. This is an increase of 40 %.
- The figure presents the sectoral priorities for next year's PSDP allocations.
- The focus this year will be on food security (12 bn). These include locust emergency fund (1 bn), rice, wheat, cotton (2 bn) and olives (1 bn).
- Rs 91 billion for water resources which include Daso hydro power project (57 bn), diameter bhasha dam (23 bn), mehmand dam (6 bn) , neelum jehlum (14 bn).
- Public private partnership and PSDP plus has been introduced. This would involve the private sector in 50 projects worth Rs 2000 billion. Government will contribute Rs 61 billion as grant through viability gap fund. These will include roads, railways, logistics, science and technology, water etc.
- Though it is ideal allocation under given circumstances, there must be a cost-benefit analysis of the assigned projects.
- The government should prioritize projects of soft infrastructure, including health and education, for inclusive economic growth momentum.
- Currently, the allocation to the education sector is only 4 percent, and the health and population sector is 3 percent of total PSDP allocation.

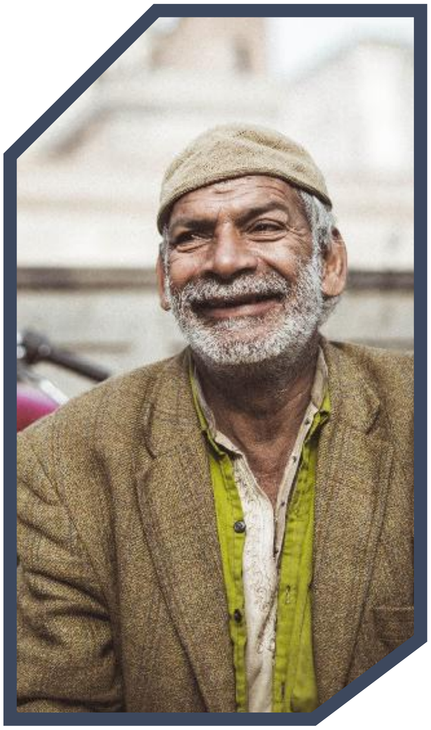




2.3 Pension

- There is a considerable burden of pension on the government budget.
- The budget allocation for pension increased by 12 percent in 2019-20. This year the allocation has slightly increased from 470 billion in 2020-21 to 480 billion in 2021-22 with the slight growth of 2.1 percent.
- The pay and pension commission is working on a sustainable pension model.





2.4 Social Protection

- The government has increased budget allocation for the Ehsaas program from 208 billion to 260 billion. The government has also allocated 68 billion to provide subsidies in energy, food, and other sectors with the focus to target the vulnerable segments only.
- To carry forward the stimulus package, the government in the current budget earmarked Rs 100 billion for Coronavirus-related schemes. The SME sector has been provided Rs 12 billion for loans and other schemes.

Taxes & Revenues

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. The total tax collection grew by 6.1 percent in FY2020 against the meagre growth of 0.1 percent in the comparable period of FY2019. In absolute terms, tax collection stood at Rs 4,747.8 billion in FY2020 against Rs 4,473.4 billion in FY2019. Tax Revenue target for the FY2021 has been set at RS 5.83 trillion. 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 Trillion	2018-19 BE	2018-19 RE	2019-20 BE	2019-20 RE	2020-21 BE	2020-21 RE	2018-19	2019-20	2020-21	2021-22
Total revenues	5.66	5.03	6.72	5.50	6.57	8.49	-11.11	-18.05	-16.43	-2.7
Share of total revenues										
Total taxes	86.36	87.33	86.68	76.46	83.13	68.69	-10.12	-27.72	-9.49	17.44
Total non-tax revenues	17.40	14.38	20.17	29.22	25.00	23.57	-17.37	44.89	-1.68	29.17

- The revenue collection target has been set at Rs 5.83 trillion for the upcoming fiscal year 2022 and is less than the IMF recommendations of Rs6 trillion. This collection, if achieved, would be a 24 percent increase in YoY on the Rs4.7 trillion target surpassed by the revenue collection agency FBR. The non-tax collection target will be set at Rs1.42tr, an increase of 22 percent. The proportion of provincial taxation would be Rs3.41tr, thus an increase of 25 percent revenue given to provinces. The government spending would increase to Rs.8.497tr from Rs.7.341tr, an increase of 15 percent in the Fiscal Year 2021-22.
- The share of the total taxes in the revenues is around 75%. Last year it went exceptionally high to around 84 % due to the increase 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.

Table 3.2 : Revenue Performance and Revenue Targets

		Target Achievements			Targeted Growth %
	Description of Revenue Source	2018-19	2019-20	2020-21	2021-22
Tax Revenues					
A.	FBR Revenues	-6.43	-29.65	-5.48	17.44
i.	Direct Taxes	-4.38	-22.04	-12.43	6.80
	Taxes on Incomes	-3.41	-21.95	-12.42	6.85
	Workers Welfare Fund	-77.54	-49.54	81.22	102
	Capital Value Tax (CVT)	-49.73	-38.00	-81.57	-79.3
ii.	Indirect Taxes	-7.74	-34.21	-0.61	24.89
	Custom Duties	0.00	-45.43	9.37	22.65
	Sales Tax	-12.35	-32.30	0.41	30.58
	Federal Excise	0.38	-14.48	-23.83	-1.38
B.	Other Taxes	-46.24	12.46		
	Other Indirect Taxes		90.64		
	Mobile Handset Levy	-80.05	33.33	-13.79	55.17
	Airport Tax	-66.67	-51.43	20	100
	GIDC	-75.00	-63.33	66.66	766
	Natural Gas Development Surcharge	-50.00	0.00	170	260
	Petroleum Levy	-32.22	20.36	11.11	35.55
Non-Tax Revenue	-1737	44.89	5.85	29.17	
A.	Income From Property and Enterprise	20.37	-9.79	-15.9	26.16
Out Of Which	Pak. Telecommunication Authority	0.00	544.90	25.21	70.46
	Total Markup	2.46	-57.59	-16.82	4.44
	Dividends	-20.75	-26.97	-33.86	48.18
B.	Receipts from Civil Administration and Other Functions	-44.21	87.87	12.68	5.96
Out of Which	Surplus Profit of SBP	-47.36	93.32	12.90	4.83
C.	Miscellaneous	-20.58	25.40	7.38	51.25

Table 3.3: Interprovincial Fiscal Relations

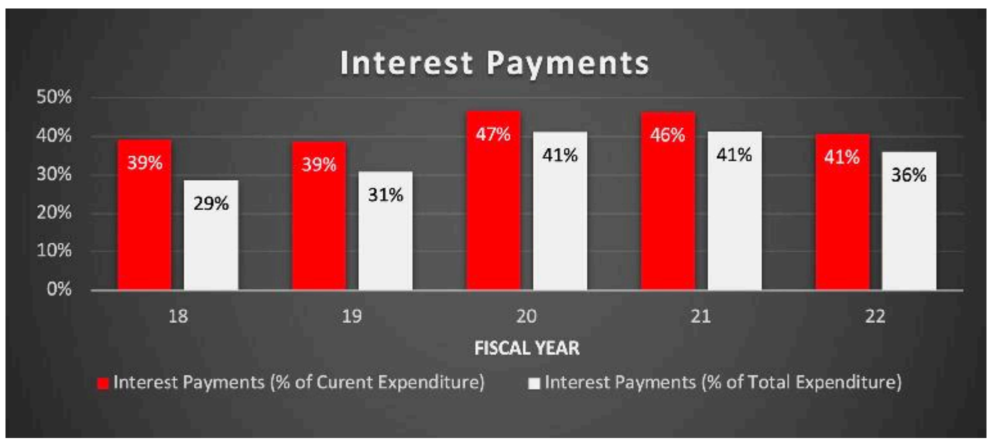
	Yearly Profile					Target Achievements (%)		Growth (%)
	2019-20 BE	2019-20 RE	2020-21 BE	2020-21 RE	2021-22 BE	2019-20 MT	2020-21 MT	2020-21RE
FBR Revenues (PKR. Trillions)	5.56	3.91	4.96	-5.48	17.44	-29.65		
Provincial Share in Federal Taxes %	58.59	61.47	57.90	-5.9	18.72	-26.19		

- Provinces get around 59% of the FBR revenues as fiscal transfers. Such a small figure has resulted in the underperformance of FBR in the past two consecutive years. The provinces suffer immensely if the federal transfer is lower than expected. In case of lower federal transfers and limited or no options of borrowing Provincial service delivery suffers badly.
- This year the FBR revenue targets are expected to grow to RS 5.8 trillion that is 23 percent higher as compared to the estimated collection of Rs 4.7 trillion in FY 20-21

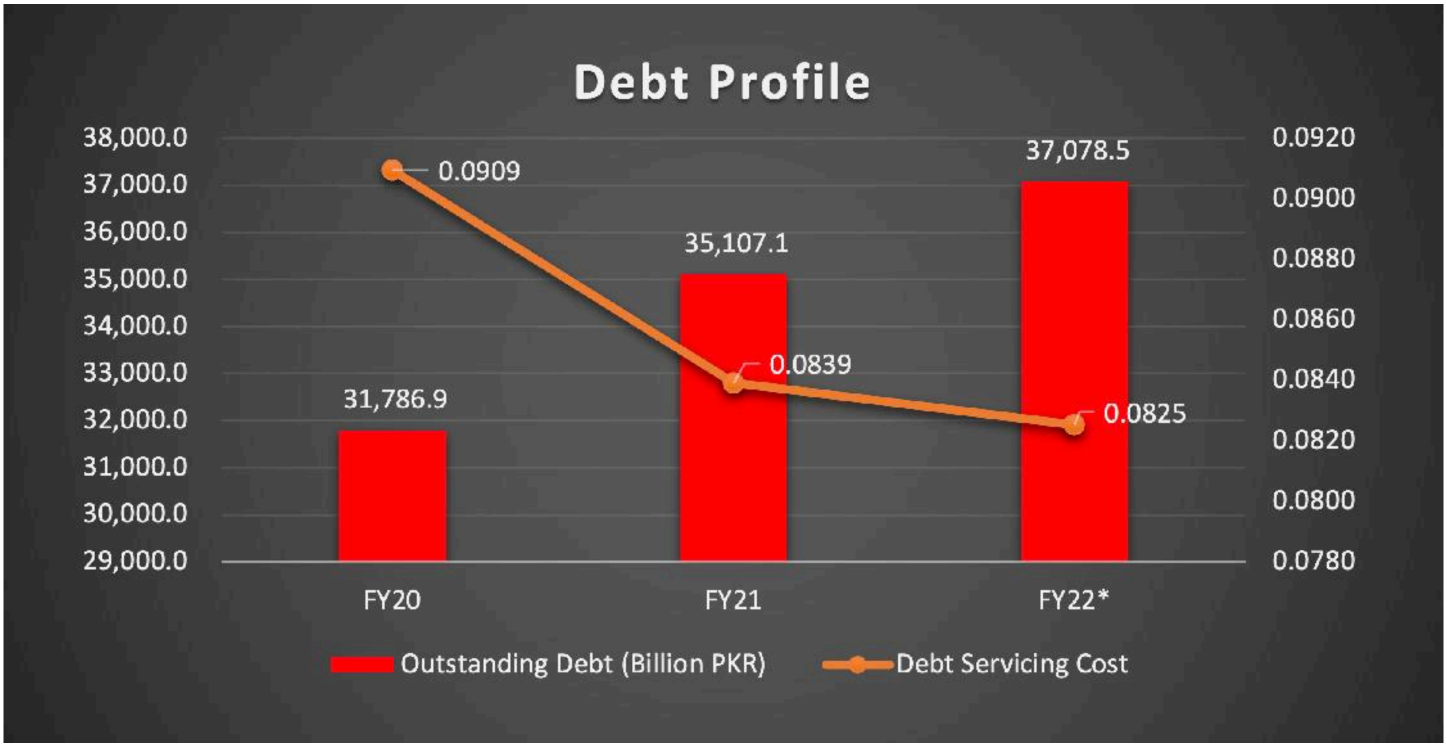
Salient Features

- On the revenue front, targets are once again ambitious and stringent, possibly leading to an increased debt burden. The government is expected to achieve this by focusing on broadening the tax base through augmented documentation as opposed to introducing various new major taxes.
- The government has reduced sales tax on locally manufactured cars from 17% to 12.5%. The government has also exempted Federal Excise Duty (FED) on 850cc cars and will slash duty on electric cars.
- The government was introducing third-party audits which would thwart the FBR harassing any individual or business entity. Those who are found guilty of evading taxes or deliberately hiding their income will be fined severely.
- Through the Finance Bill, 2021, the threshold of monthly electricity bill has been reduced from Rs75,000 to Rs25,000 for the purpose of levying withholding tax at the rate of 7.5 percent. However, this tax will not be applied on persons who filed their annual income tax returns and are on the ATL issued by the Federal Board of Revenue.
- The finance bill proposed to tax profit on the debt component of GP fund and other such funds. The finance bill also proposed to withdraw personal income tax exemptions.
- The specified goods when supplied within the limits of the Border Sustenance Markets, established in cooperation with Iran and Afghanistan, will be completely exempted from the sales tax.
- withholding taxes on mobile phones, will be reduced to 10% at first and then 8% later from 12.5%
- The rich will be asked to pay taxes in accordance with their wealth, So the salaries class will not be burdened with additional taxes.
- Custom duty from vaccine and medicines of livestock abolished to promote the livestock sector.
- Tax exemption on paper used for Quran publication, auto-disable syringe, and oxygen cylinders.
- Tax collections saw an 18 percent increase last year as the country crosses the limit of Rs4000 tax collection. 75 percent more tax refunds were made this year.
- Provincial share in the federally collected taxes to stand at Rs3,411 billion. Provinces share in NFC increased, to receive extra Rs707bn.
- Sugar included in the third schedule of sales tax act, helping in the elimination of artificial hike in prices of the commodity.
- The Federal Board of Revenue (FBR) has been tasked to collect an additional revenue of over Rs1 trillion in budget 2021-22 over the current fiscal year's collection. This additional revenue will be achieved through the withdrawal of exemptions in sales tax, income tax, minimising concessionary tax rates as well as through growth in economy and inflation.

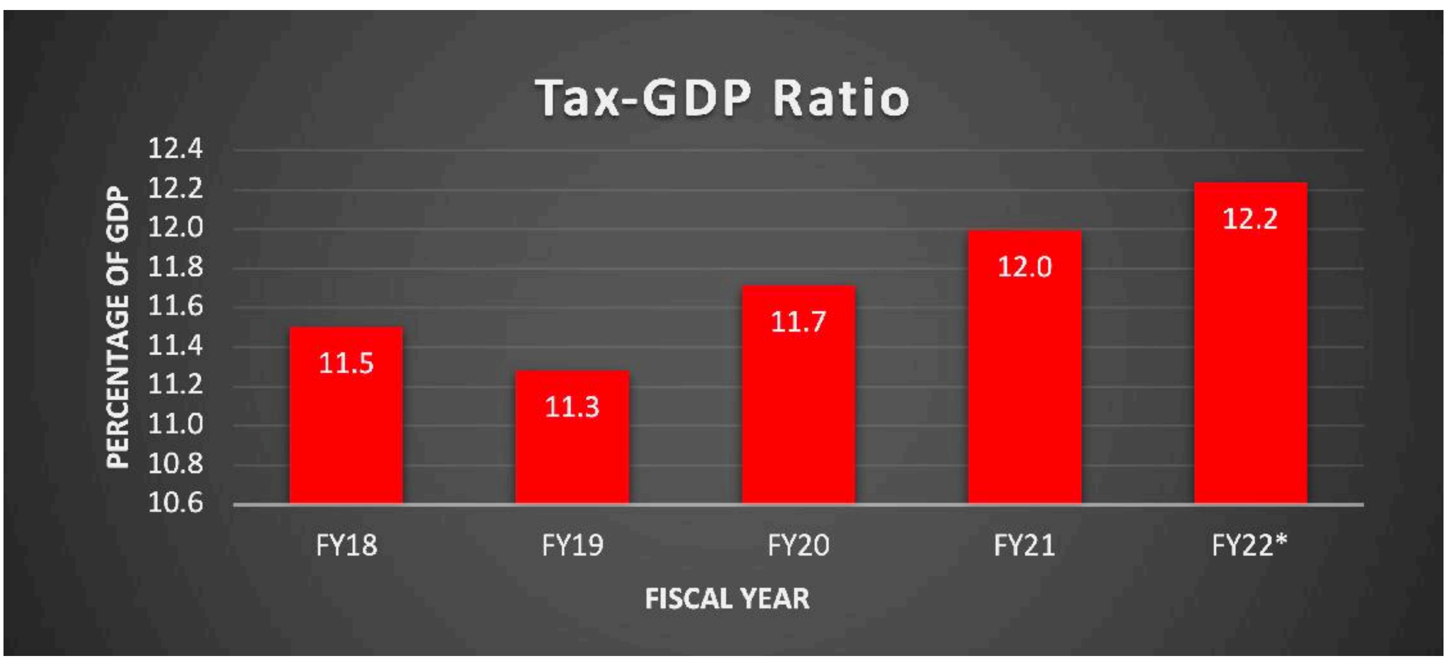
- The federal government's total debt and liabilities reached a staggering PKR 37,078.5 billion by the end of April 2021. This is just an under PKR 2000 billion increase from June 2020, when the federal government total debt and liabilities amounted to PKR 35107.1 billion.
- Against the total planned expenditure of PKR 8487 billion in Fiscal year 22, PKR 3060 billion have been allocated for interest payments. As a result, 41% of the government's Current Expenditure (PKR 7523 billion) will be spent on interest payments. This equals 36% of the total expenditure for the year.
- Interest payments take up a massive portion of the budget expenditure, however, a 5 percentage point proposal of decrease can be seen in interest payments share in current expenditure as well as a 5 percentage point decrease as a share of total expenditure, as shown in figure 4.1 for the upcoming budget FY 2021-22. This will allow the federal government a fiscal space to allocate more funds on development expenditures and other growth-oriented measures of the budget. However, given our debt now has significant long term commitments the interest cost may not fall. Last year saw a substantial decrease owing to G20 relief and lowered interest rates.



- The federal government expects to raise over PKR 2.7 trillion from external resources, including PKR 2.69 trillion from external loans. This will increase the gross external resources in the upcoming fiscal year by over PKR 0.5 trillion.
- 55% of the external resources raised will, however, be used for repayment of foreign loans and credits. This represents a 9-percentage point decrease in external resources share set aside for foreign loans and credit repayments. Although it is still higher than the share in Fiscal Year 2020, when 40% of external resources were used for foreign loans and credit repayments. That was possible primarily due to rescheduling of debt payments following the coronavirus pandemic. (Figure 4.2).
- This also is an indicator of better fiscal space available to the government in the upcoming fiscal year, which is evident through other policy reliefs provided in the budget as well as an increased development expenditure.

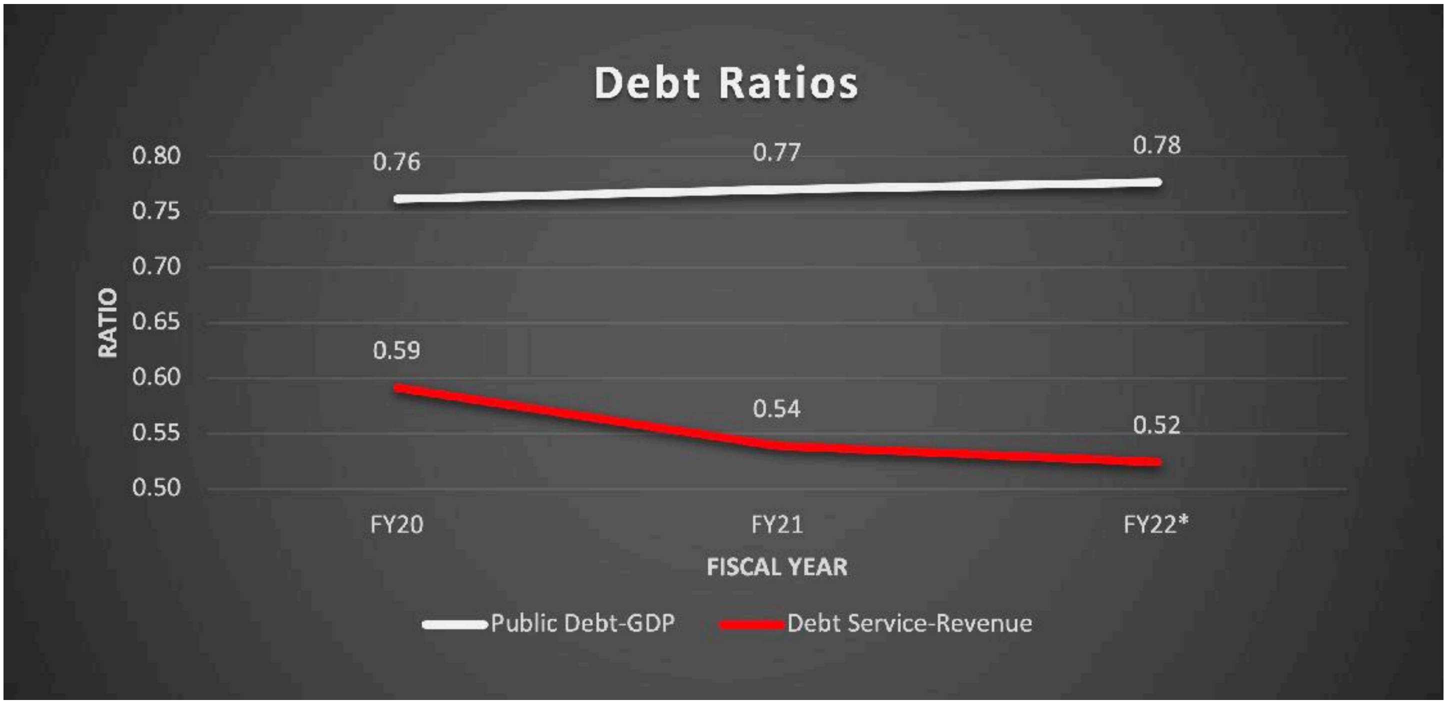


- Tax Revenue-GDP Ratio has remained constant over the past few years, as shown in Figure 4.4.
- Tax Revenue target has been set at PKR 5839 billion, while the GDP is expected to grow at 4.8%. This will take the nominal GDP to PKR 47, 709 billion by the end of the upcoming financial year.
- If both these are achieved, the tax-revenue-GDP ratio is expected to increase to 12.2.



***Projected for upcoming financial year.**

- Government's debt policy statement identifies sustaining Public Debt-GDP and Debt Service-Revenue ratios important for sustained growth.
- It aims to do the above by a combination of measures including revenue mobilization, rationalization of current expenditure and efficient utilization of debt.
- As shown in Figure 4.5, the Public Debt-GDP ratio is rather constant, but the Debt Service-Revenue ratio is showing a downward trajectory. This, coupled with a slightly improving tax-GDP ratio along with a falling debt servicing cost is a good beginning to sustain debt levels in coming years.



***Public Debt-GDP Estimated using data up till April 2021.**

- The government has indicated not only aiming to sustain the growth, but to also aim for high levels of growth rate in the economy. PIDE's Reform Agenda for Accelerated and Sustained Growth also highlights the need to grow at higher rates to be able to sustain debt levels as well as create opportunities for the new entrants in the labor force.
- While there is still a lot to be done to achieve a sustainable high level of growth for a longer period, on the debt front the initial indicators suggest that we are moving in the right direction and must

Conclusion

Government has faced numerous economic challenges, aggravated by the Covid 19 Pandemic but the Government has successfully progressed from recovery and stabilization to sustainable growth. Provisional GDP growth rate for FY 2021 is estimated to be 3.94% against the targeted growth of 2.1%. The Current account balance during Jul-Apr, FY 2020-21 had been in surplus. The FBR tax collection grew by 14.4% during Jul-Apr FY 2020 and is expected to post a healthy collection by the end of FY 2020-21. Government has posted a primary surplus for the first three quarters of FY 2020-21. This has enabled the government to resume the $6bn Extended Fund Facility and completed second to fifth review under the program with IMF. However, the journey to growth from stabilization along with unwarranted risks of Covid-19 is tough and requires an out of the box thinking.

Punjab

Introduction

Provincial Finance Minister Makhdoom Hashim Jawan Bakht presented Punjab's budget for the fiscal year 2021-22, with a special focus on "Social Development, Economic Growth & Regional Equalization." The total budget outlay for the upcoming fiscal year in set at PKR 2653 billion, up from PKR 2259 billion in the concluding year. Punjab is also expected to receive PKR 1684 billion in the upcoming fiscal year as its share of NFC award. This amount will be 18% more than what the province received last year. However, it is dependent on successful achievement of federal revenue target of PKR 5829 billion. The federal revenue targets are highly optimistic and will need a much-improved performance from all revenue departments are federal and provincial level to accumulate the targeted revenue. Reducing evasions and improving compliance will be the key in this aspect. Punjab has also set itself a target of raising PKR 404.6 billion in own revenue. The total revenue target is almost 13% higher than last year's target. Table 1 below shows the breakdown of revenue targets for the upcoming year in Punjab.

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Table 1: Punjab own revenue targets

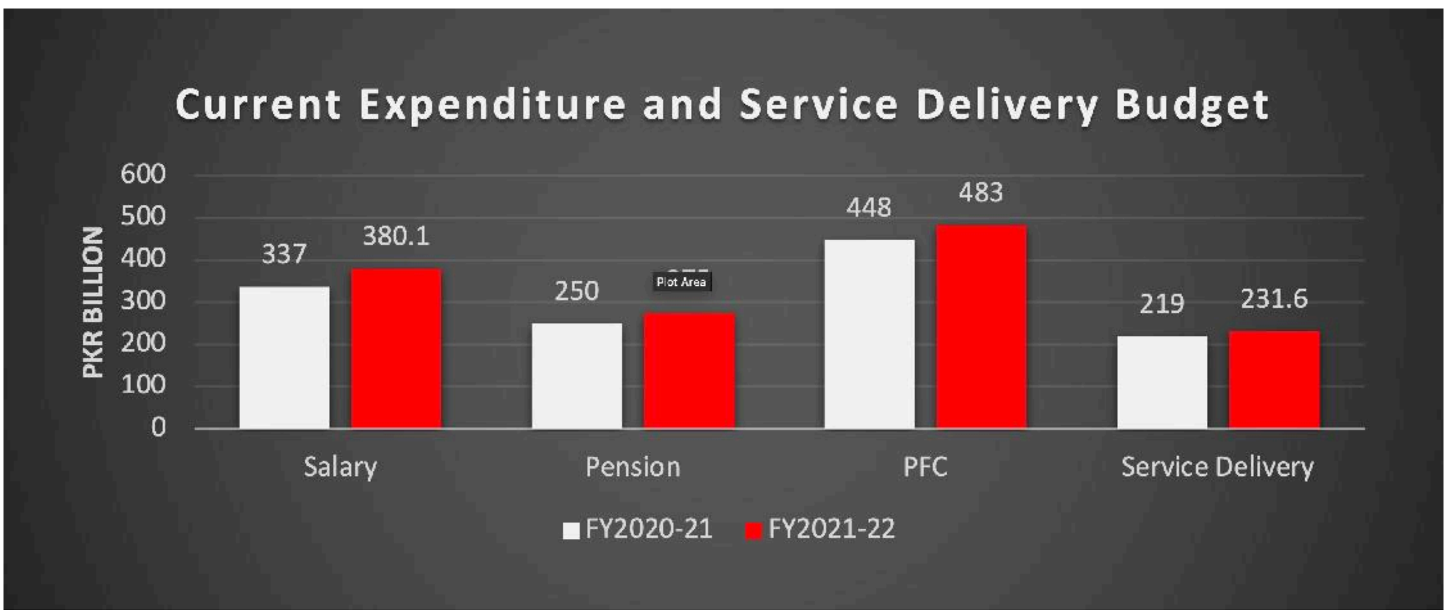
Departments	Revised Targets 2020-21 (PKR Billion)	Budget Estimate 2021-22 (PKR Billion)	Growth in Revenue
PRA	141.15	155.90	10.45%
BOR	56.20	66.95	19.13%
Excise & Taxation	30.50	42.80	40.33%
Energy + Transport	0.800	7.95	893.75%
Non-Tax	129.914	132	1.61%
Total	358.564	404.60	12.8%

As the table 1 shows above, non-tax revenue targeted increase is quite incremental and should be easily achievable, as the federal government expects the country's economy to grow further by over 4% in the upcoming fiscal year. On the other hand, the tax-revenues growth will be a challenging task for the Punjab government, especially the increase in revenue from Excise & Taxation and Energy + Transport departments. After a slight slump in car sales due to COVID outbreak and the increased taxes on purchase of new cars in past couple of years, the new car sales took an upward trend in the last two quarters nationwide, primarily due to the introduction of new vehicles by new entrants in the market. Increased competition in the auto industry has helped increase sales and the 40% revenue increase target suggests the provincial government expects it to further increase. This optimism also stems from the reduction in taxes for small vehicles proposed in the federal budget. The Energy and Transport department revenue though has been targeted at PKR 7.95 billion in the upcoming fiscal year. It is important to note that last year the estimate for Energy and Transport was set at PKR 7.522 billion but later revised to PKR 0.8 billion. As a result, if any similar revisions are made, crossing the PKR 400 billion revenue mark might not be possible in the current fiscal year either for the provincial government.

Targeted Relief

Ever since the PTI took over the federal government in 2018, and then with the beginning of the IMF program later, significant contractionary policies were put in place. Demand contraction measures were adopted while austerity especially in government expenditures became a norm. Similar actions were followed by the PTI provincial governments including that of Punjab. Moreover, increased inflation further reduced the purchasing power of the general public which impacted not just the end consumers' daily life, but also proved detrimental for the business community due to reduced activity in the markets. The COVID-19 pandemic made matters even worse, as local lockdowns and international trade suspensions drastically impacted the demand and supply of goods while prices went further up. In such times, it was important that government took necessary steps to provide targeted relief to various segments of the society.

The Punjab government in this budget has imposed no new taxes, maintaining the total number of provincial taxes to 73 and this will directly benefit all segments of the provincial population. The provincial government aims to increase its revenue collection to PKR 404.6 billion in the upcoming year, and with no new taxes imposed it seems the focus will be on better compliance and effective monitoring. Leakages in forms of tax evasions etc. are due to lack of effective and efficient monitoring and evaluation mechanisms. It is essential that the province's own departments improve their working systems as well as increase inter-provincial and federal coordination. Only then the federal and provincial revenue targets can be successfully achieved without putting any additional burden on the economic agents. After continuous austerity measures over the past couple of years, the Punjab government has this time decided to open its pockets. The Current Expenditure and Service Delivery budget has been increased by 8.3% compared to last year from PKR 1318.3 billion to PKR 1427.9 billion. Figure 1 shows how allocations in the Current Expenditure and Service Delivery budget have been increased.



The Federal government is targeting an inflation rate of 8% in the upcoming year. If achieved, it will be lower than the over 10% inflation rate during last couple of years. Punjab government, following in the federal government footsteps has announced increasing the salaries and pensions of the government employees by 10%. If the government manages to keep inflation around its target, the beneficiaries of increased salaries and pensions will at least not be in a worse position, if not better in terms of purchasing power. This increase was particularly necessary, as the government increased the salaries and pensions of government employees by a minimal amount only in 2019-20 i.e., 10% for Grade 1-16, 5% for Grade 17-19 and not at all for Grade 20 and above while due to COVID-19 impact on the economy government made no changes in salaries and pensions in the year 2020-21. With rampant inflation and minimal increase over the past two years, government employees had demanded a decent increase in salaries and pensions.

Although there is severe criticism regarding increasing pension bill in the country, it must be noted that the incremental increase in pension rates is not what is creating a financial nuisance. As it could be seen in the figure 1, despite a 10% increase in pensions, the overall pension bill for the year is estimated to increase by just PKR 25 billion. The issue of pension bill needs structural reforms, and they must begin immediately. KPK has taken the lead by eliminating multiple tiers from the pension structure, while also increasing the age of pension eligibility through early retirement. The Punjab government must also work on coming up with a similar plan and help reduce the pension bill. This will eventually benefit the province itself as reduced pressure on pension affairs will give more fiscal space for other current and development expenditures.

Moreover, the Punjab government has approved a 25% Special Allowance for financially distressed employees. It will be applicable to employees of government institutions who have not received any additional allowances before and thus have their pays left much behind some other departments. This will decrease the disparity among various government departments and reduce transfer and deputation requests from existing employees due to financial reasons. Additionally, the applicants will not be tempted towards only a select few departments and not consider others due to a further reduced package. Instead, all departments at least on the financial front can now be expected to receive similar interest from relevant applicants.

Besides, as mentioned above, the business community has suffered a lot due to the demand contractionary policies initially and then the situation surrounding the COVID-19 pandemic. The Punjab government had extended a Tax Relief Package of PKR 50 billion for ease of business in the COVID-19 affected economy. This was a huge sigh of relief for the business community, and it has proven beneficial not just for the business community but for the province as well. Due to this package, the economic activity received encouraging push during the last financial year. As a result, the Punjab Government's revenue estimates for fiscal year 2020-21 have been revised to PKR 358.564 billion instead of the initial PKR 317.067 billion estimated while presenting the budget in June 2020. This includes a 3.5% higher tax revenue totaling PKR 228.65 billion compared to initial estimated tax revenue of PKR 220.886 billion.

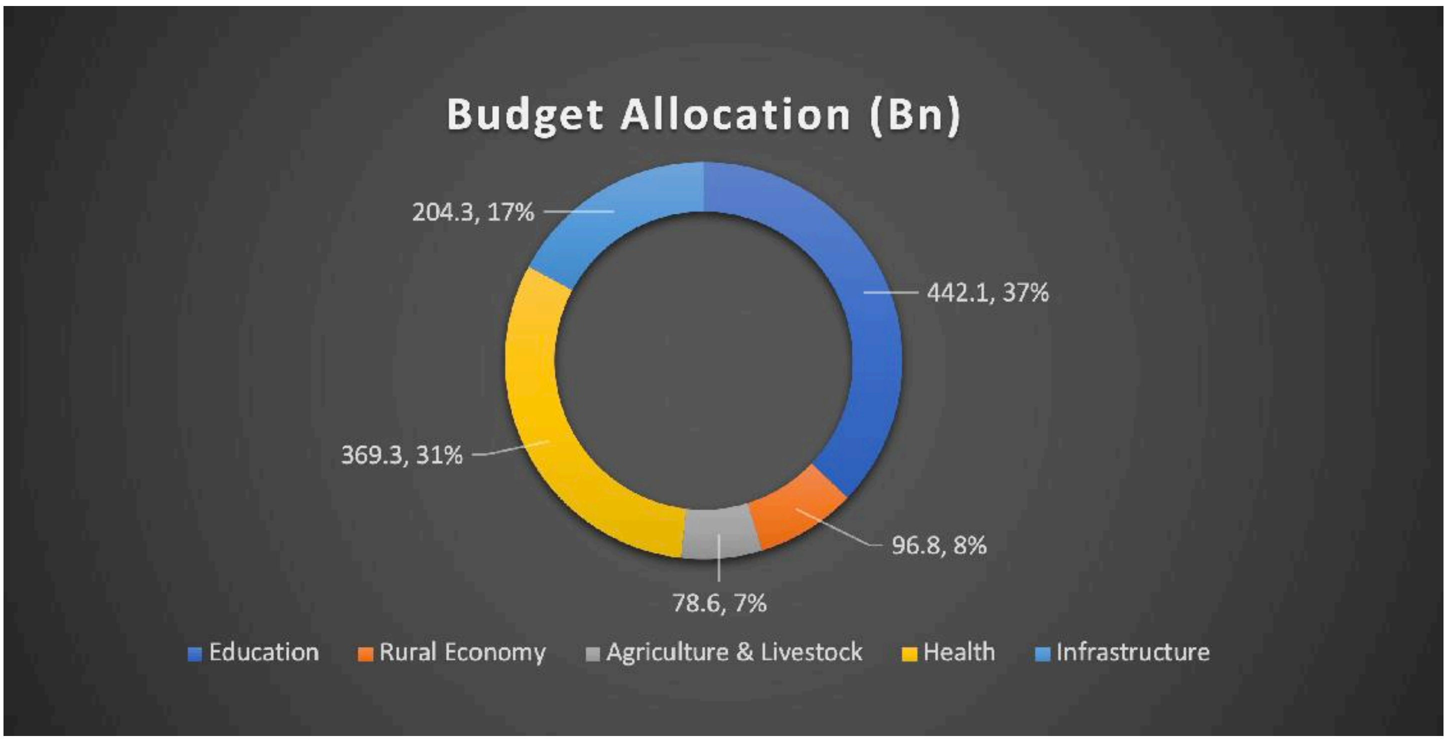
This shows that the business community has responded positively to the ease in taxation last year and taken full benefit. This helped the government raise higher revenues as well. As a result, the Punjab government has decided to extend the same ease of business in the COVID-19 affected economy Tax Relief Package of PKR 50 billion for the upcoming fiscal year 2021-22 as well. Given the impact last year, the government expects to encourage greater economic activity in the markets through this relief package, which eventually will help achieve the province's own revenue targets as markets take a few steps forward towards achieving full potential.

Furthermore, the Punjab government, just like the federal government has decided to increase the minimum wage per month to PKR 20,000. This is a PKR 2500 increase from PKR 17,500. The minimum wage had remained at the same level for the past two fiscal year since a PKR 2500 increase from July 2019 which brought the minimum wage from PKR 15000 to PKR 17500. Minimum wage is applicable on unskilled and juvenile workers. These are employees primarily in various industries and factories or also the support staff in various private organizations. Increase in minimum wage setting will benefit thousands of workers across the province. Implementation, however, remains a major concern as there is a lack of monitoring on firms and organization by the government regarding payments to minimum wage employees.

Expenditure For Growth

The federal government has set a target of 4.8% GDP growth for the fiscal year 2021-22. Considering this, the Punjab government has set itself a target of 5.2% provincial growth. While other steps with the aim to encourage and facilitate economic activity in the province have been undertaken as mentioned above, emphasis has been put on expenditure induced growth through various development projects. As a result, the development budget for the province has been set at PKR 560 billion, a 66.2% increase from the concluding fiscal year's development budget of PKR 337 billion. 34% of the development expenditure has been allocated for the districts in South Punjab. This is a welcome step by the government for the development and growth of areas that have been in the past ignored and left behind as compared to areas in Central and Northern Punjab. With the South Punjab secretariat established, this development expenditure if utilized efficiently and effectively will prove essential in decentralization of South Punjab matters and eventually also for the formation of a separate province, as part of the ruling party's electoral manifesto.

Through feedback from the provincial citizen's[1], the provincial government identified five priority sectors i.e., Education, Rural Economy, Agriculture & Livestock, Health, and Infrastructure. These five priority sectors have been the primary focus of sectoral allocations in the budget for upcoming year from the government as a total of PKR 1191.1 billion have been allocated for these sectors as shown in Figure 2. Important to note that these are the complete allocations of these sectors and not just the development expenditures. Higher total allocations though, obviously, indicate a higher development expenditure as well, which are shared later in this section.



While total allocations as shown above have increased, development allocations in various sectors have also increased in this budget. The major focus for increases has been on five different sectors, with up to 58% development budgets increased in sectors. The allocations and increase in the development budget of these sectors have been mentioned in Table 2 below:

[1] The feedback was obtained through the Citizen's portal. The five sectors received a total of 68% votes from the respondents. Education: 23%, Rural Economy: 15%, Agri & livestock: 12%, Health: 10%, Infrastructure: 8%.

Table 1 put title here

Sector	Allocation FY 21-22 (PKR Bn)	Increased from FY 2020-21
Health	369.3	30%
Education	442.1	12.9%
Infrastructure	204.3	57.9%
Rural Economy	96.8	57%
Local Government	162.1	15.6%

Moreover, Punjab government has also announced flagship development projects and initiatives, which it sees as the selling points of its development budget in the upcoming fiscal year. Additionally, such a categorization of projects also indicates the message of priority from the government side. This allows for better accountability from the public of the government by being able to compare the government priority areas and projects with their election manifesto. It also showcases the government priority going forward in the next fiscal years. While there could be differing opinions on the initiatives chosen as flagship projects as well as the allocations for them, the idea of highlighting such projects should be a norm in all budgets not just for Punjab but for all provincial and federal budgets. The initiatives summary is as follows:

1. **District Development Package- PKR 360 billion**
2. **Universal Healthcare Insurance for entire population of Punjab – PKR 80 billion**
3. **Road Rehabilitation and Development – PKR 105 billion**
4. **5 Mother and Child Healthcare Hospitals**
5. **Agriculture Economy – PKR 31.5 billion**
6. **South Punjab Development Portfolio – PKR 189 billion**
7. **Upgradation of over 8,500 schools – PKR 6.5 billion**
8. **Special Initiatives for Economic Stimulus and Growth – PKR 10 billion**
9. **Punjab Rural Sustainable Water Supply & Sanitation Projects – PKR 86 billion**

The provincial government has set a medium-term deadline for its new initiatives, aiming to complete majority if not all of them in three years. The three-year timeframe is not too short to be unrealistic, while also not too long to further push up the development budget throw-forward. Development expenditure throw-forward ahs become a nuisance even at the federal level, and just like the pension bill needs immediate addressing. Punjab government's medium-term timeframe for development projects will prove beneficial to restrict the provincial throw-forward, while also giving more fiscal space in upcoming budgets for new initiatives. Furthermore, through medium-term projects the government will be able to provide greater development to more areas in less time period. The successful implementation and completion of these projects though depends on proper monitoring and evaluation of project progress alongside timely support in shape of fund releases, necessary approvals etc.

Conclusion

As shown above, the Punjab government has put forward an expansionary budget, with great emphasis on increased expenditure while also providing relief to various segments of the population to encourage economic activity. The 5.2% provincial growth target is highly optimistic and will be a big challenge, but it remains a possibility if the correct decisions are made. The budget document is a financial plan for the year, and the success of this plan depends on the effective implementation of it. Additionally, reforms to remove barriers of entry in markets and aimed at encouraging more activity are of utmost important not just for growth but also for successful implementation of the budget in the upcoming fiscal year. If the Punjab government manages to support its subjects with necessary reforms, as also highlighted in the PIDE Reform Agenda for Accelerated and Sustained Growth, this budget has the potential to fulfill the "**Social Development, Economic Growth & Regional Equalization**" objectives as laid down by the provincial government.

Khyber Pakhtunkhwa

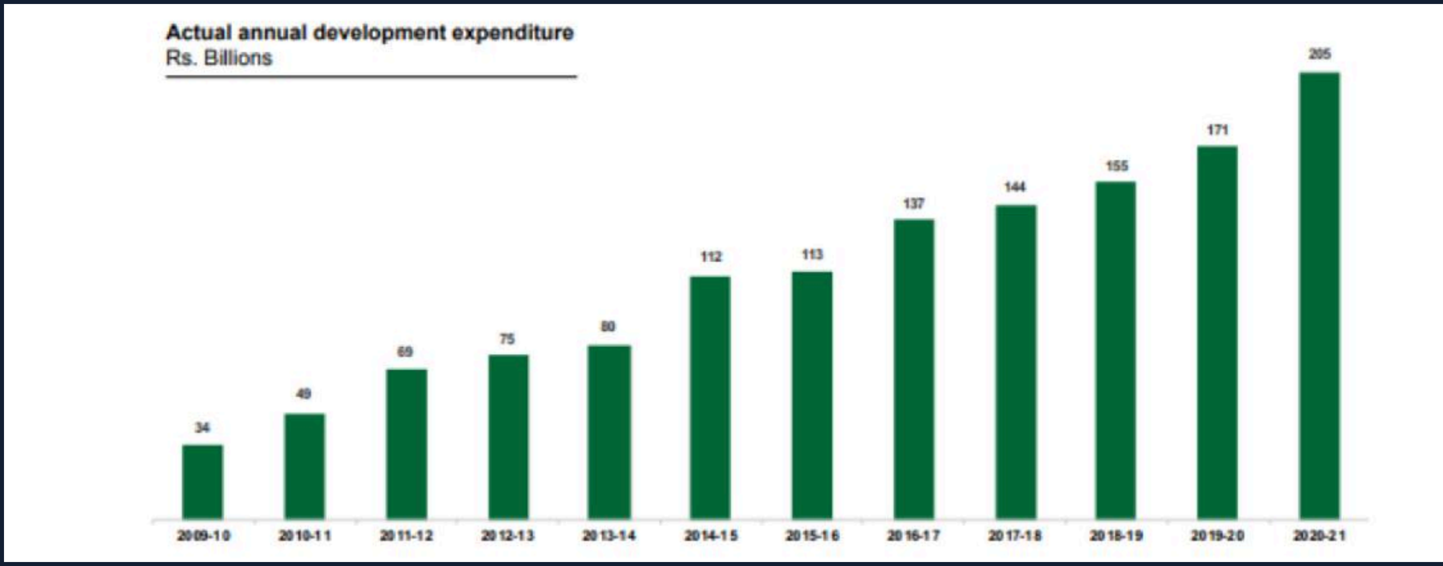
Introduction

Hania Afzal
Lecturer, PIDE

Khyber Pakhtunkhwa government on Friday presented a Rs1,118.3 billion balanced budgets for the financial year 2021-22, with a record allocation of Rs371 billion for the annual development programme (ADP) and Rs747.3 billion for current budget expenditure. The KpK budget is greater in proportion than either Sindh or Punjab, to fuel economic growth. The Provincial finance minister mentioned that current budget is based on five pillars that included.

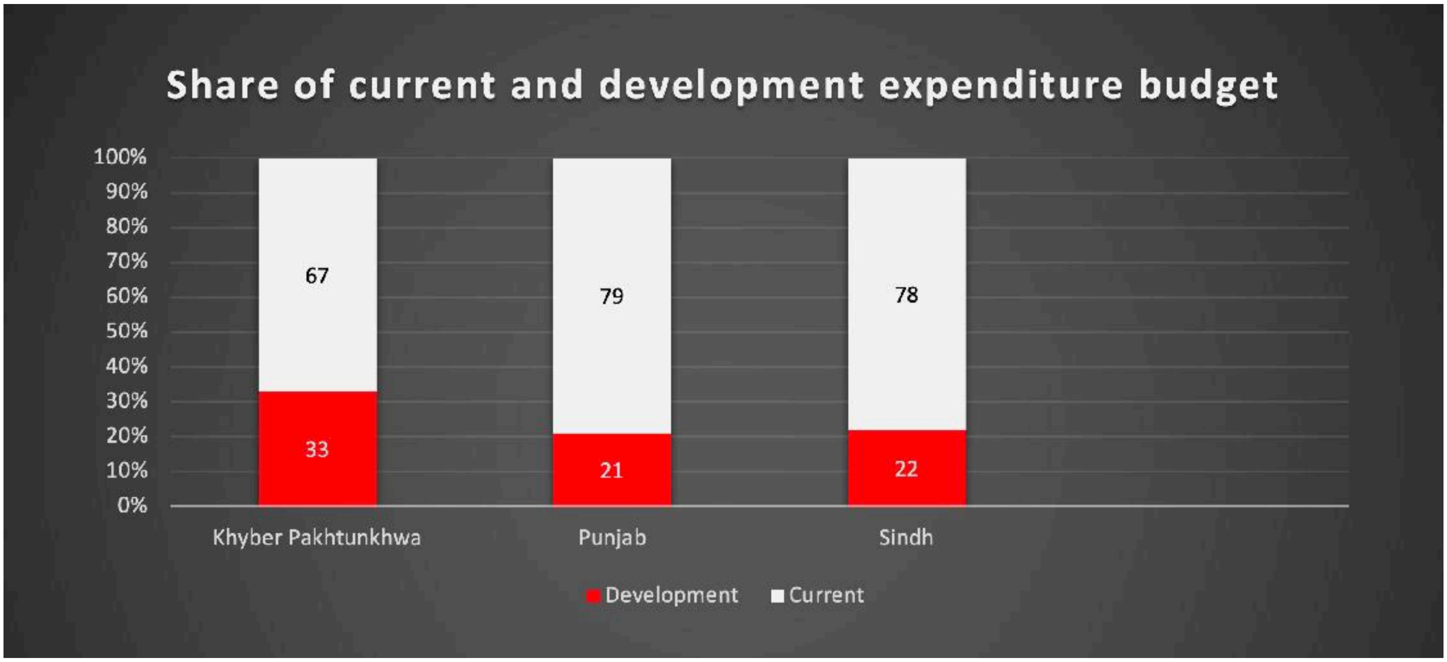
1. Record increase in salaries of Government Employees,
2. Development Budget
3. Devoted service to people
4. Increasing resource revenue generation capacity
5. Introduction of goal-oriented reforms and innovation in the overall governance system

1. Development Expenditure



Development expenditure is the most important part of the government's budget. The Government of Khyber Pakhtunkhwa is keen to spend a hefty amount on the development of the province and structuring of it in a systematic way. Efforts have been made over past two years, to streamline and enhance Annual Development Programme (ADP) allocations. Certain reforms need to be implemented that includes multiple initiatives of introducing a new ADP policy, issuing new ADP guidelines, reducing the throw-forward through ADP rationalization. All these above-mentioned steps must be taken in order to ensure that spending is done in a more responsible manner across the year.

The provincial government's actual development expenditure shows that it has increased by over 6 times over the past decade. The total amount of budget allocated by KpK Government for FY2021-22 is RS 118.3 billion. Current year fiscal budget is almost 21 percent higher than last year's budget allocation. The current budget for the fiscal year 2021-22 includes the record development outlay of Rs371 billion to mitigate the impact of Covid-19 and boost economic development. KpK is the only province that has kept the highest percentage of its budget on development. The share of development budget for KpK is 33% of its total budget that is 10 percentage points greater than



Expenditure on Healthcare

KpK will become the first province for providing the healthcare facility to its every citizen. RS 23 billion ha been allocated for FY2021-22 budget in which 7 million households in 35 districts will receive healthcare services. Every citizen will have equal access to empanelled public and private hospitals. Around 160000 people have used the new sehat Card since its launch and costing Rs 4.3 billion to Kpk government in FY 2020-21.

Expenditure on Education

Khyber Pakhtunkhwa The government of Khyber Pakhtunkhwa has allocated Rs 30.1 billion in 2020-21 for 188 on-going and 61 new development projects. Out of which an amount of Rs 6.3 billion has been allocated for primary education, Rs 9.7 billion for secondary education and Rs 9.0 billion for higher education. This amount is 94 percent higher than the last year allocation. Rs230 million allocated for education scholarship for merged areas in Higher Education Department and Rs100million administrative budget for supply of furniture and other necessary items and 300 colleges would be given premier status and construction of ongoing 40 colleges would be completed. In elementary and secondary education. 10,000 model schools would be constructed under early childhood education program in KP and Rs4.5billion to be spent on supply of furniture to government's schools, 97 IT laboratories equipped with IT equipment's, 276 science laboratories would be constructed while 4,300 school teachers to be recruited in merged areas. Similarly, 20,000 school teachers and 30,000 school leaders would be appointed in Khyber Pakhtunkhwa and that 21000 schools would be constructed, rehabilitated and up-graded that would create enrolment space for 120,000 student.

2. Revenue Generation

For the first time in the history of the province Kpk actual receipts have outperformed the budgeted figures for the fiscal year 2020-21. The Target was set at RS 49 billion, but provincial government was able to receive Rs 53 billion that 8% higher than the set target. The details for the FY 2021-22 receipts have been shared in the below table.

Revenue Heads	Amount (Billion Rupee)
Federal Tax Assignments	Rs 476.5
1% of the divisible pool to the province on war on terror	Rs 57.2
Oil & Gas Royalties Surcharge	Rs 26.5
NHP as per 2015-16 including arrears	Rs 74.7
Provincial Tax and Non Tax Revenue	Rs 75
Foreign Project Assistance (Settled Districts)	Rs 85.8
Foreign Project Assistance (MA)	Rs 3.3
Grants for the merged Tribal Districts	Rs 187.7
Other receipts	Rs 132.5
Total Receipts	Rs 1118.3

Revenue estimates showed that the province will receive Rs559bn from the federal divisible pool, Rs74.5bn net hydel profit on hydroelectricity produced in the province and Rs75bn own revenue. The Centre would provide Rs187.7bn in lieu of federal grants for merged districts with a transfer of Rs34.6bn from the divisible pool. Foreign assistance for development projects has been pitched at Rs85.8 bn.

Tax Reforms

For the budget preparation and forecast of FY 2020-21, every tax head across the province was analysed and scrutinized by the key principles. Following tax reforms were institutionalized after discussion.

1. Sales tax on services (STS) reduced for 26 categories. This was an all-encompassing reduction for sectors where economic activity had dampened directly impacting cash flow and liquidity.
2. Removal of Duplication of Taxes:
    a. Entertainment and Hotel Tax was removed from Excise and Taxation department's portfolio, to encourage recreation and entertainment.
    b. Professional Tax was phased out to Khyber Pakhtunkhwa Revenue Authority dovetailed with tax breaks and concessions for a year to remove duplicity of taxes.
3. Rates for the Urban Immovable Property Tax (UIPT) were rationalized, and compliant taxpayers were offered a rebate of 35%.
4. Board of Revenue reduced both Capital Value Tax and Stamp duty for the construction sector, under the Federal Amnesty Scheme.

Other Key Interventions

As the budget was being formed, public was hoping to get some relief in these tough times of COVID 19. The KpK government therefore announced the increase of 37% for employees not withdrawing any special allowances. The public servants for all grades were provided to withdraw 10% ad-hoc relief allowance with a 20% increase in functional or sectoral allowance for all employees not withdrawing any special allowance. Moreover, the minimum wage was also revised for the provincial laborers and was at at Rs 21000. If completely enforced, it will help in improving the livelihood of many labourers. Relief in heath sector has also been provided by the government in which every individual of the province will be granted with free healthcare facility under sehat card program. Revenue generation capacity of province is also being improved by bringing reform in taxation structure and removing certain taxes.

Relief in times of COVID19

During the last three years of the present Government, has faced numerous economic challenges, aggravated by the Covid 19 Pandemic. The Government has successfully progressed from recovery and stabilization to sustainable growth and to mitigate the socio-economic impact of covid 19 Rs 155billion have been allocated in the current fiscal year. The provincial government has tried to satisfy the growing concern of citizens by salary increase and other healthcare facilities. Government is realizing the impact of covid-19 on individuals lives and is trying to provide relief in terms of tax concessions and extending relief to the most affected sectors.

Conclusion

The KpK governments budget is a true reflection of the budget for common man and that is why the KpK government called it "**The Citizens Budget**". Certain policy intervention has been suggested in the provincial budget but these policies will be translated into sustainable economic growth if followed by immediate targeted reforms.

Balochistan

Introduction

Taimoor Ali Butt

Student, PIDE

On 18th of June 2021, amid chaos of political parties in the Balochistan Provincial Assembly, the, the Finance Minister of Government of Balochistan (GoB), Mir Zahoor Ahmad Buledi, was able to present his government's third budget of PKR 584.08 billion for financial year 2021-22. The current budget added a new sweetener being named as a Development budget as government allocated PKR 237.22 billion for development expenditure (PSDP and other development expenditure included). The present budget promises to focus the attention in the post-pandemic time to development expenditure that would drive more sustainable jobs. This development enthusiastic budget is actually a 126% jump from the previous year's revised figures. This would surely raise a lot of ears as people struck with continuous lockdowns are looking for relief from governments. Balochistan government is expecting to get PKR 499.36 billion in total revenues which involves additional PKR 60 billion through provincial receipts. This would surely add more taxes on masses in order to minimize the budget deficit, which unfortunately isn't the case yet. Federal Divisible pool (NFC award) which is the major source of revenue for Balochistan, the government would be shared PKR 355.94 billion that would provide a breathing space to exchequer of the provincial government.

The cash scarce province faced a budget deficit of PKR 50.03 billion in FY 2020-21 which is quite lesser than what budget estimates were set and for next year, the government is estimating deficit to rise to PKR 84.72 billion with growing current expenditures. The Balochistan government has targeted to generate PKR 34.2 billion in provincial tax revenue which is a 57% increase in taxes as compared to last years (R.E. PKR 21.78 billion). For the upcoming year, government is hopeful to meet tax revenue targets like previous year. During budget sessions, Chief Minister of Balochistan had promised incentives for the people; from additional 5,854 government jobs, to an increase in pay and pension of the provincial government employee, to health card facilities for additional families and many more. All eyes are on the government as it is nearing its tenure end.

The major part of expenditure is the current expenditures of the government. Out of the total current expenditures of PKR 346.86 billion (B.E. 2021-22), 63% would be used to pay salaries and pensions of the employees. This creates an increasing burden on the provincial finances as the government is faced with lesser revenue streams which makes them reliant on the federal pool for revenue. The figure below is a brief on estimated budget for fiscal year 2021-22.

Head of Account	Budget Estimate 2021-22 PKR in billion
Federal Receipts	355.93
Provincial Receipts	103.21
Foreign Project Assistance (FPA)	17.35
Other Receipts	7.37
Cash carry on (already received cash from FPA, etc)	15.48
Total Provincial Consolidated Fund Receipts	483.88
Current Expenditure	346.86
Development Expenditure	237.22
Total Provincial Consolidated Fund Payments	584.08
Net Consolidated Fund Surplus/(deficit)	(84.72)

Moving on, the three areas of the budget will be briefly discussed i.e. Revenue Generation, Government expenditure (Current and Development) and Provincial Debt.

Revenue Generation

Balochistan depends mostly on receipts from federal side in form of Federal Divisible Pool, Straight Transfers and Grants. The share of federal receipts in total receipts is 72% which is as per the 18th Amendment through NFC Awards. It is unlikely that the province is only able to generate around 15% of receipts on its own. For the Fiscal Year 2021-22 the government has targeted to generate PKR 499.36 billion in revenue which will comprise of PKR 323.39 billion from Federal receipts and PKR 103.20 billion from own receipts as shown in table 1 above. The provincial consolidated fund receipts is classified into two heads and sub classified further each will be briefly discussed ahead:

1. Federal Revenue Receipts

Federal revenue receipts received for FY 2020-21 were at PKR 302.31 billion which are targeted to be increased to PKR 355.94 billion. These receipts are sub-classified into:

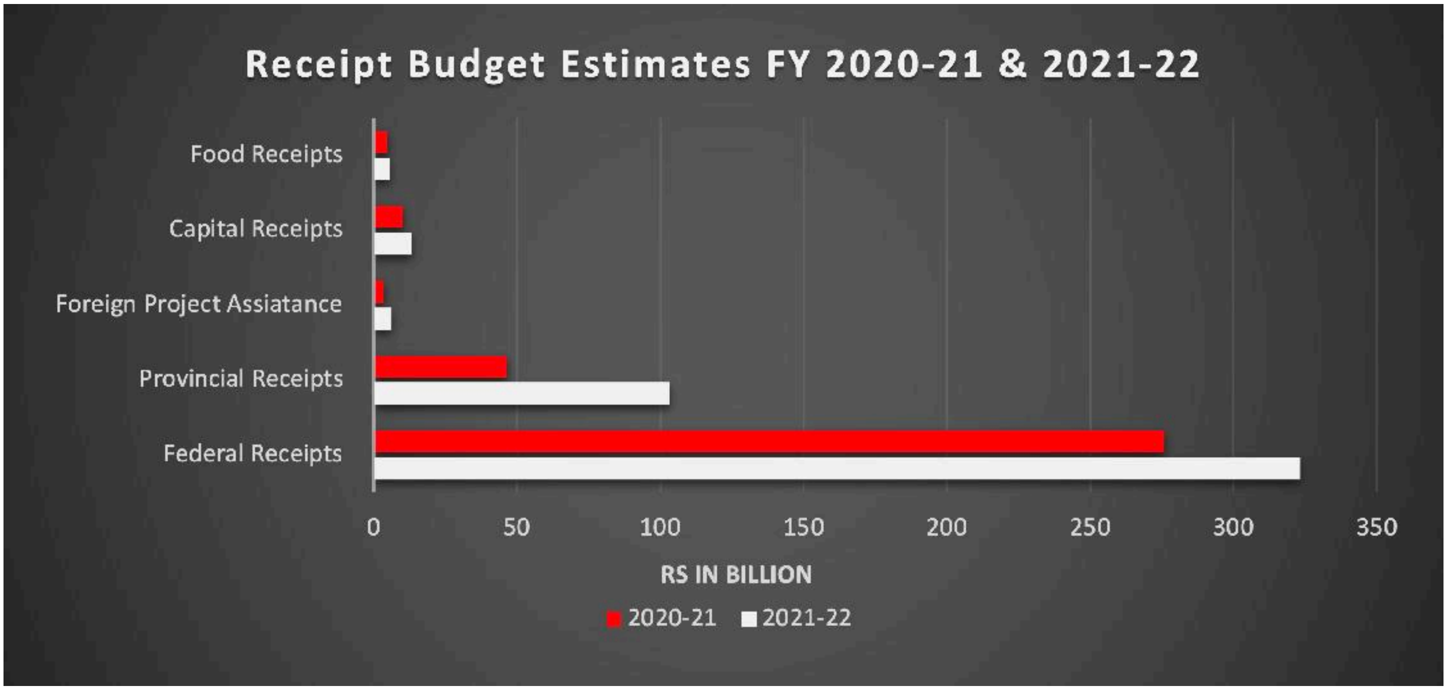
- Federal Divisible Pool (as per NFC Award share received);
- Straight Transfers (Royalties paid on extraction and use of minerals),
- Arrears of Gas Development Surcharge (Under Aghaz-e-Haqooq Balochistan each year PKR 10 billion paid to government of Balochistan) and;
- Federal Development Grants (Federal PSDP Grant and budget support by foreign development partners).

2. Provincial Revenue Receipts

The other source of revenue for the government is through its own sources. That maybe tax revenue or non-tax revenues. Around 122.4% growth has been recorded since last year in provincial receipts. The major share is by non-tax revenue which includes receipts from civil administration or publicly owned property, toll, fee collected by departments or extraordinary receipts, recoveries etc. The other part is the tax revenue which is collected by Excise and Taxation Department, Balochistan Revenue Authority, Transport Department, Energy Department and Board of Revenue. Government plans to collect PKR 103.21 billion from its sources for FY 2021-22 which is quite a hypothetical figure as it would mean 263% increase.

3. Current Capital Receipts

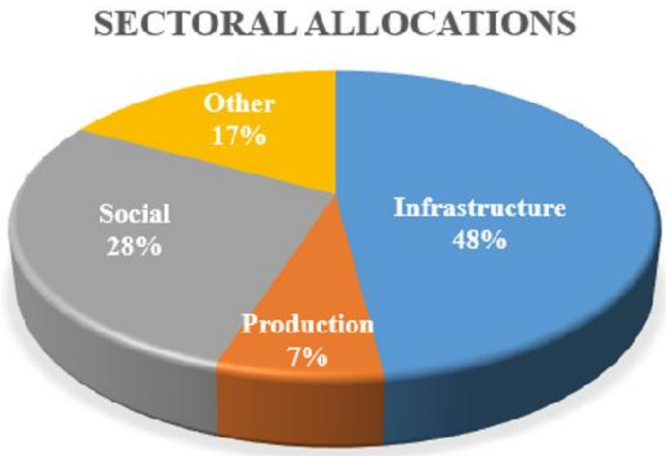
These include receipts from all loans borrowed or raised by the government, or recovery of loans, withdrawal of any investment, and food account which is the food/commodity trading by state. The figure below shows a comparison between budget estimates for revenues for FY 2020-21 and FY2021-22.



Government Expenditures

Article 118 of the Constitution of Pakistan classifies provincial expenditures as Provincial Consolidated Fund and Public Account. The total outlay for the Budget 2021-22 is estimated to be at PKR 584.08 billion. Majority of the estimated allocations under this budget are being made for current expenditure which stands at PKR 346.86 billion of which approx. PKR 218.52 billion is allocated for salaries, pensions and other benefits for the Government of Balochistan employees. On the other hand, the other part of the expenditure is the development expenditure for which the provincial government had allocated PKR 172.53 billion as provincial PSDP or ADP, PKR 16.61 billion is expected through Foreign Project Assistance and PKR 48.02 billion will be allocated through Federal Development Grant.

The government of Balochistan has endorsed a significant feedback-based formulae for provincial PSDP. This is made possible via “bottom to top approach” under which the public identifies the problems and proposes solutions and programs which are then considered under development projects. For this purpose, the Department of Finance had conducted Pre-budget surveys and seminars in different universities. The current PSDP comprises of additional 2286 projects that will cost PKR 76.65 billion (1525 existing projects costing PKR 336.93 billion have been carry forward). The focus of attention for the present government is to expand and develop infrastructure that would create spillover effect in job market. Hence the majority share is in infrastructure development. Preference has been given to the Communication sector in infrastructure development where it holds 24.15% of share in PSDP having 873 projects, then health 14.46% with 976 projects and irrigation occupying 10.58% budget with 262 projects.



Debt Management

Since the 18th amendment of the 1973 constitution, Article 167 allowed provinces to raise domestic or international loans as per their requirement but up to 0.85% of national GDP. As yet, no province had raised debt on its own except Punjab. Balochistan obtained foreign loans that were obtained by the federal government on-lent to Provincial Government basis. Total debt of Balochistan Government will be PKR 48.2 billion as of 30th June 2021. The present provincial government established the Debt Management Unit (DMU) that ensures that the financing received is feasible for the government and portfolios are effectively managed. The majority of the foreign debt is from World Bank (International Development Association, International Bank for Reconstruction and Development) and Asian Development Bank. Looking at the sector-wise distribution of debt, it was found the following are key sectors that absorb most of the provincial debt;

- Education (23.4% i.e. PKR 11.2 billion debt)
- Communication & Works (17.2% i.e. PKR 8.25 billion)
- Water (14.75% i.e. PKR 7.12 billion)
- Agriculture (11.7% i.e. PKR 5.39 billion)

During the FY 2021-22, the government will be repaying PKR 7.28 billion including interest payments which is lesser as compared to last year's PKR 5.72 billion.

Key Interventions

Since the federal government came into power, the austerity drive was initiated to manage the rising fiscal deficits that would curb the rising current expenditures. Covid-19 had an abrupt impact on all segments in society and all sectors of the economy. The focus of government immediately had shifted to working on health and social protection. Due to lockdowns, unemployment rose which lead to more than 3 million people becoming unemployed. Other than that, a PBS survey on the impact of covid-19 found that in Balochistan around 51% of the total household's income was disturbed due to lockdowns. These factors need direct interventions. Since the time government came into power, government officials didn't get any salary raise. Following the footsteps of the federal government, Balochistan Government also announced a 15% rise in salaries of BPS 1-19 employees of the provincial government. Further, the government has also increased allocations to employee retirement benefits in form of pensions and gratuity with additional PKR 7 billion. The government to provide social service to masses has made multiple funds such as:

- KUMAK-Special Person's Support Fund- PKR 2 Billion.
- Balochistan Minority Communities Welfare Fund- PKR 500 million.
- Balochistan Food Security Revolving Fund- PKR 1 billion.
- Balochistan Education Endowment Fund- PKR 1 billion.
- Apna Ghar (Balochistan Employees Housing Finance Fund)- PKR 3 billion.
- Sarsabz Balochistan Scheme (Solarization of Agriculture tube wells)- PKR 2 billion.
- Establishment of Bank of Balochistan.

Further, the government had announced PKR 5.55 billion for health insurance scheme for general public which will include health cards for marginalized. It is to be mentioned that due to pandemic, government's expenditure on the health sector had automatically risen. This year, not only current but development expenditures have increased for health sector of Balochistan. The government has separately allocated PKR 700 million for emergency use for Covid-19 pandemic. For FY 2021-22, the Balochistan Government will be paying Subsidies, provide Grants and Write-off loans worth PKR 54.62 billion.

Review of Fiscal Year 2020-21

The previous fiscal year 2020-21 had been a test phase for all the provinces and federal government as well. With consistent lockdowns, the government had to provide subsidies to multiple sectors to keep them running. But since the industries revival after the second quarter, and with a lower interest rate in the country. There has been increased growth in the economy which had led to 3.94% GDP growth last year. The previous GoB's Budget for FY 2020-21 provided tax reliefs to mitigate the Covid impact on individuals and corporations. It was expected to generate PKR 46.4 billion from its own sources (tax and non-tax revenue) but was only met half-way as per revised estimates, the government was able to collect

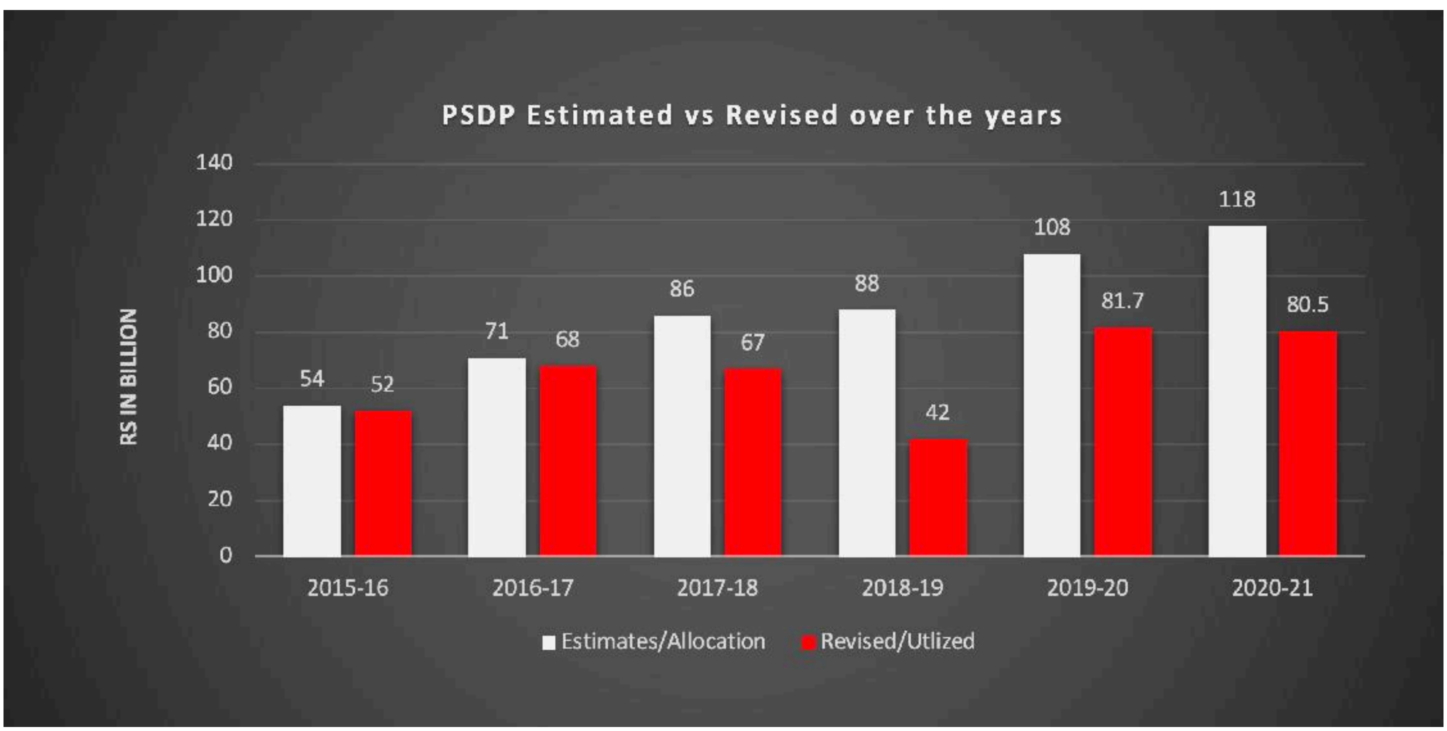
PKR 28.37 billion which is a major fallout in previous years performance. Further, the capital receipts target was also not achieved which remained low; PKR 2.01 billion as compared to a target of PKR 10.04 billion. Overall, the total revenue target was set at PKR 377.9 billion but only PKR 336.98 billion was achieved.

Looking at the expenditure side of the budget 2020-21, the government had reduced its expenditures as compared to the targets/estimates at the start of the year. The government had estimated in Budget 2020-21 to spend PKR 309.03 billion while only PKR 282.37 was spent. Above all, PSDP allocated and revised figures yet again showed a difference as out of PKR 156.50 billion which was supposed to be allocated for development expenditure, only PKR 104.64 billion was utilized. Revised figures show that the provincial government is facing a deficit of PKR 50.03 billion which is expected to add up this FY 2021-22 even with higher revenue collection expectations.

Comment

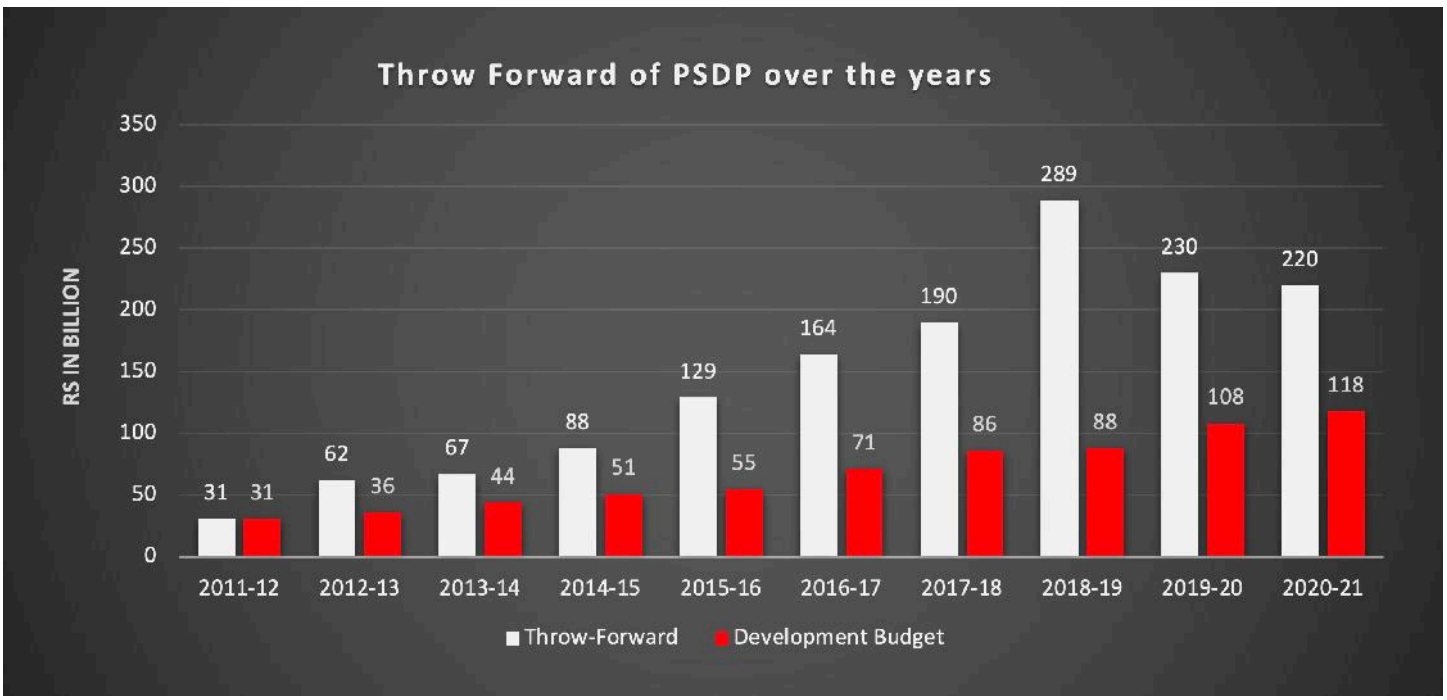
Like always, the first comment on any budget is political in nature which usually comes from the leader of opposition in all assemblies. The goal for every government is to not only ensure that the public, as well as their opposition in assemblies, remain satisfied. For which we can see that the slogan of "Tax-Free Budget" is sold to the people. But what one fails to understand is collecting revenue is the only source that will keep the economy running. With time, expenditures will rise as more development projects would mean more current expenditures, more loans would mean more interest, grants and subsidies are needed to keep the sectors running. The present budget seems to be a try to manage expenditures but also hold the political ground.

As federal and provincial governments in tenure of PTI had shrunk their spending as an austerity move, but with 2 years remaining in power, it seems that they will be utilizing maximum development budget in upcoming years which will be adding more physical infrastructure to the network. Although it is easier to set targets, yet it is difficult to arrange them. The first major concern to me was the blatant target of PKR 103.21 billion provincial receipts. This is a jump of 122% as compared to the previous year's estimates. The above statement isn't just a sweeping statement that it's hard to manage targets because there is a failed track record of governments at the federal and provincial levels to achieve these goals. Revised estimates for last year show that only half of provincial receipts were collected (PKR 28.37 billion as compared to PKR 46.41 billion) which was a similar case for FY2019-20 (PKR 22.93 billion generated as compared to a target of (PKR 34.18 billion). So it's fair to say that these targets are mere political winning stunts.



The expenditure side for FY 2021-22 looks promising as government has allocated to spend PKR 237.22 billion as development expenditure (Federal, Provincial and Foreign combined). Previous years allocations show a trend of government not able to utilize its development budget allocation completely. The figure here shows how much with years there has been a difference in the estimated/ promised vs what is happening. These have to be addressed rather than being ignored with a possible explanation. Further, every year PSDP throw-forwards are increasing not only at federal level but also at the provincial level. Latest data showed that the throw forward in Balochistan is around three times the original PSDP that year. This always leaves less space for government to add newer projects as the old costs and projects have to be completed in a priority. This shows administrative as well as political failure to complete projects on time. The figure below shows position of throw forward in last 8 years. Comparing previous year (FY2020-21) and current year (FY2021-22) , the ratio of ongoing and new projects has risen from 51:49 to 60:40. This implies that it is expected to rise again putting pressure.

To attain the goal of citizen-friendly budget, these loopholes have to be addressed and matters have to be addressed not politically. Taxes will have to be increased to manage deficits at national and provincial levels. Current expenditure is surely like a shooting star at this at all levels which cannot be addressed easily with austerity measures but with effect reform policy that would mean effective productive taxes to be generated enough to balance the equation.



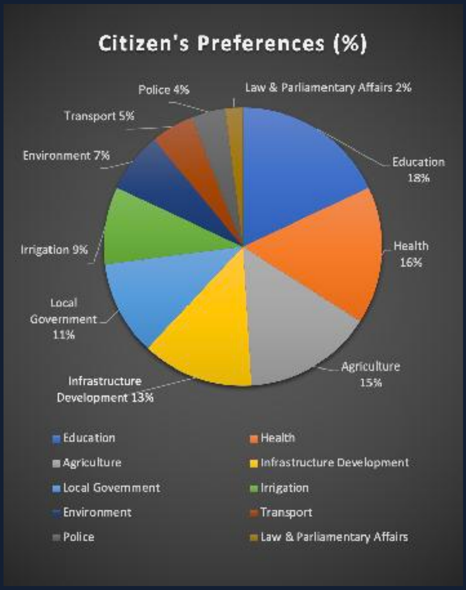
Q: Why should you always try to order rare goods from economists?

A: They can always supply anything on demand.

Sindh

Introduction

The budget cycle of the province starts in October. The entire cycle consists of six phases. These include resource projection, inter sectoral prioritization, review of budget estimates by planning department, budget execution, accounting and reporting, oversight and policy review. In addition to the regular budget exercise, the province also carries out a "citizens' budget" analysis. Unlike the budget document that reflects the priorities of the government, this document reflects the priorities of the citizens. The surveys, questionnaires and consultative sessions with the key stakeholders make the budget more inclusive and pro people. The priorities of the citizens for the year 2021 are education, health, agriculture, infrastructural development and local government.



Saba Anwar

Research Economist, PIDE

Classification	Budget Estimate 2020-21	Revised 2020-21	Budget Estimate 2021-22
Receipts	1,222	1,131	1,452
Expenditure	1,241	1,149	1,477
Net	-19	-18	-25

Expenditures

- The total outlay of the budget is Rs 1477 bn as shown in Table 2. There is 19 % increase in the expenditures as compared to 2020-21.
- The current revenue expenditure has increased by 12 % for the year 2021-22. The share of general public affairs is 24 %, education is 24.92 %, health is 16 %, public order and safety is 12 %, economic affairs is 12 % and social protection is 2.6 %.
- The current capital expenditures are 5 % of the total outlay. There is a colossal increase of 51 % for the year 2021-22.
- The development expenditures are 22 % of the total outlay. There is a substantial increase of 41 % in allocation for development expenditure for 2021-22.
- There is a reduction in share of federal PSDP by 35 % for the year 2021-22.
- Rs 31 bn have been allocated for debt servicing and loan and advances.
- A social protection and economic stability package of Rs 30 bn has been introduced.
- The women development department will receive 64 % improved allocation.
- For employment generation, Sindh Technical Education and Vocational Training Authority pitched allocation has been raised to 54 %.
- Rs 24 bn have been pitched for Covid relief measures.

	Classification	Budget Estimate 2020-21	2019-20	2020-21	2021-22
A.	Current Revenue Expenditure	968	954	1,089	12
B.	Current Capital Expenditure	39	35	59	51
C.	Expenditure	-4.38	-22.04	-12.43	6.80
I.	Provincial ADP (excluding FPA)	155	100	222	43
II.	Foreign Project Assistance (FPA)	54	38	71	30
III.	Other Federal Grants	8	9	5	-35
IV.	District ADP	15	13	30	100
	Provincial Development Expenditure (i+ii+iii+iv)	232	160	329	41
	Total Expenditures of the Province (A+B+C)	1,241	1,149	1,477	19

Introduction

- The total receipts of the province are shown in table 3.
- The federal transfers have increased by 14 % for the year 2021-22. These transfers constitute 65 % of the total receipts. The decline in total collection by the federal government led to decline in the revised federal transfers.
- The provincial receipts are expected to increase by 5 % for 2021-22. These constitute 25 % of the total receipts.
- The sales tax on services and provincial taxes contribute 92 % to provincial receipts.

	Classification	Budget Estimate 2020-21	Revised 2020-21	Budget Estimate 2021-22	Growth (%)
A.	Current Revenue Receipts				
	Federal Transfers				
	Revenue Assignment	679	642	798	17
	Straight Transfers	62	57	49	-20
	Grants to offset losses of abolition of OZT-(0.66% of Provincial Share)- (incl. Others)	18	17	21	17
	Total	760	717	869	14
	Provincial Tax Receipts (excluding GST on Services)	128	105	154	20
	Provincial Sales Tax on Services	135	125	150	11
	Provincial Non-Tax Receipts	49	12	24	-51
	Total	313	242	329	5

	Grand Total	1,073	960	1,198	11
B.	Current Capital Receipts	25	35	50	100
C.	Other Receipts	69	46	86	24
D.	Carry Over Cash Balance	30	65	85	183
E.	Public Accounts of the Province	25	25	32	
	Total	1,222	1,131	1,452	5

Conclusion

The province heavily relies on the federal receipts and generates one fourth of its total receipts. The expenditure is inclined towards capital expenditure followed by development expenditure. These are not aligned with the citizens' preferences with priorities of education and health. However, the provincial allocations to health and education is far greater than the federal allocation. The allocation earmarked for all levels of education has increased. The share of general public affairs in current revenue expenditure indicates a huge government footprint that needs to be addressed. The government aims at increasing revenues for the local governments, this would put pressure on the revenue collection authority. The authority is relying on property taxes, stamp duty and motor vehicle taxes. The agriculture sector has been allocated subsidies for pesticide, fertilizers and export quality rice. The allocation is contradictory with the citizens' preferences for agriculture. The provincial tax receipts are pitched to increase while the non-tax revenue are declining. The public private partnership is sought for the infrastructure development, which is also the citizens' requirement. These also include water and sewage infrastructure.

Seen too many numbers? Use them here

		1				6		9
9				4	7			2
	3							
	9			6		7		
7	2	6						1
							2	
3		8			1			
			3	5			8	4
					2			

Denying right to justice to taxpayers

Ikram ul Haq

In the **Finance Bill, 2021**, a highly lamentable and unconstitutional amendment is proposed to the effect that for availing right to appeal, the aggrieved taxpayer will have to deposit 100 percent of the demand upheld by any appellate authority before exercising the right to appeal to the next available forum under the **Income Tax Ordinance, 2001** ["the Ordinance"]. The adjudicating officers in most of the cases pass harsh, arbitrary, illegal and excessive orders to show performance and/or higher collection. Such orders are quashed at the level of Appellate Tribunal Inland Revenue (ATIR), higher courts and Supreme Court of Pakistan.

The proposed amendment, if adopted, will change section 137 of the **Income Tax Ordinance, 2001** as under (red parts showing amendments proposed):

Section 137. Due date for payment of tax

"(2) Where any tax is payable under an assessment order or an amended assessment order or any other order issued by the Commissioner under this Ordinance, a notice shall be served upon the taxpayer in the prescribed form specifying the amount payable and thereupon the sum so specified shall be paid within thirty days from the date of service of the notice:

Provided that the due date for payment of tax payable under sub-section (7) of section 147 shall be the date specified in sub-section (5) or sub-section (5A) or first proviso to sub-section (5B) of section 147:

Provided further that **due date for payment of tax payable specified in sub-section (2) of this section shall not apply** in case of an assessment order passed **under sub-section (1) or sub-section (4) of section 124** of this Ordinance **and that tax payable as a result of order passed under sub-section (1) or sub-section (4) of section 124 shall be payable immediately"**.

Section 124. Assessment giving effect to an order

"(1) Except where sub-section (2) applies, where, in consequence of, or to give effect to, any finding or direction in any order made under Part III of this Chapter by the Commissioner (Appeals), Appellate Tribunal, High Court, or Supreme Court an assessment order or amended assessment order is to be issued to any person, the Commissioner **shall issue the order within two years from the end of the financial year in which the order of the Commissioner (Appeals), Appellate Tribunal, High Court or Supreme Court, as the case may be, was served on the Commissioner.**

(4) Where direct relief is provided in an order under section 129 or 132, the Commissioner shall issue appeal effect orders within two months of the date the Commissioner is served with the order".

Will FBR also pay refund immediately if order is in favour of taxpayer? No such provision is proposed. It becomes almost impossible in majority of the cases to get relief at the first level of appeal. The Commissioners of Appeals of Inland Revenue work directly under the administrative control of the Federal Board of Revenue (FBR). This is against Article 175(3) of the **Constitution of Islamic Republic of Pakistan** ["the Constitution]. It is elaborated by the Supreme Court of Pakistan in **Government of Baluchistan v Azizullah Memon PLD 1993 SC 31** that **"separation of judiciary from executive is the cornerstone of independence of judiciary"**.

Sub-section (2) of section 137 of the Ordinance provides that where any tax is payable under an assessment or an amended assessment order or any other order issued under the Ordinance, a notice shall be served specifying the amount of tax payable and the sum so specified shall be paid within thirty days from the date of services of notice. **The second proviso intended to be included through Finance Bill, 2021 reproduced above says that time limit of thirty days will not be applicable in case an order is passed in consequence of or to give effect to any findings of any appellate authority and tax shall be payable immediately.**

The proposed amendment, if approved, would be violative of the Constitution—the supreme law of the land. It will also give a free hand to the officers of Inland Revenue Service of FBR to collect 100% of disputed tax demand upheld by the Commissioners of Appeals It will also be in violation of Article 10A of the Constitution which says: **"For the determination of his civil rights and obligations or in any criminal charge against him a person shall be entitled to a fair trial and due process".** Demanding 100% of disputed tax before final adjudication by an independent appellate forum is a gross violation of fundamental right guaranteed by the Constitution of free access to justice.

The right to access to justice is fundamental inalienable and should be unfettered. This right to seek justice is constitutional guarantee [Article 4 & 10A] for every citizen of Pakistan, which the Parliament and/or Government cannot curtail. The Finance Bill, 2021, prepared by a team of FBR approved by the cabinet, exposes their level of competence in understanding the Constitution!

Undoubtedly, the proposed amendment is against the Constitution and binding judgements of Supreme Court and High Court under Article 189 and 201, respectively, that unfettered right of appeal cannot be denied or made conditional. The condition of immediate payment of full disputed tax demand amounts even after appeal effect till the matter has attained finality and stay is obtained amounts to curtailment of fundamental right of citizens and prone to abuse to collect disputed tax through capricious orders creating exorbitant demands. By presenting such amendment, the PTI Government, like its predecessors, has demonstrated disrespect for the supreme law of the land and judgements of the superior courts with impunity.

The Supreme Court in Mehram Ali and Others v. Federation of Pakistan and others PLD 1998 SC 1445, held:

> *"That the right of "access to justice to all" is a fundamental right, which right cannot be exercised in the absence of an independent judiciary providing impartial, fair and just adjudicatory framework i.e. judicial hierarchy. The Courts/Tribunals which are manned and run by executive authorities without being under the control and supervision of the High Court in terms of Article 203 of the Constitution can hardly meet the mandatory requirement of the Constitution."*

All judicial/quasi-judicial organs and appellate authorities as a matter of principle and in consonance with the Constitution should be totally separated from the executive to ensure their independence in the true sense of the word.

In seeking justice, no preconditions can be imposed. The contrary amendment suggested in Finance Bill, 2021 should be recalled. Any law repugnant to fundamental right guaranteed in the Constitution is ultra vires and void ab initio.

The FBR, Ministry of Law and Justice, if vetted it, and the Cabinet have obviously overlooked that in a number of reported cases, such as ***Sonia Silk v. CBR 2001 PTD 1789 and Chenab Cement Products (Pvt.) Ltd v Banking Tribunal, Lahore and others*** *PLD 1996 Lah.672, the superior courts held that condition to deposit a portion of tax to avail the right of appeal, if mandatory, would be violative of fundamental rights of free and unfettered justice guaranteed under the Constitution.*

It is hoped that the PTI Government and all members of opposition in Parliament will take note of the proposed amendment and it will be withdrawn. One hopes that the Attorney General of Pakistan, after reading this article, will advise the PTI Government to immediately take remedial measure of withdrawing the proposed amendment, and abide by the Constitution and judgements of the superior courts as narrated above.

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July 10, 2021

The Mountain Gave Birth to a Mouse

Gonzalo J. Varela

Senior Economist, World Bank

The recent Budget under consideration by the Parliament includes some import duty reforms. These reforms are pro-business, although not necessarily pro-efficiency-based growth. Bolder reforms are needed to put productivity at the forefront of Pakistan's growth agenda.

The FY21/22 Budget presented to Parliament includes import duty reforms that are both wide in coverage, but mild in depth. There are 3,128 tariff lines for which import duty changes are proposed (out of a total of 7,627). In most cases, the duty change implies a reduction. Yet, altogether, the changes make up to an average reduction of import duties of only 5 percent: going from 21.12 percent on average, to 20.07 percent. The mountain gave birth to a mouse.

The import duty changes proposed in the budget are not uniform. Neither by type of good nor by sector. Table 1 shows the before and after FY21/22 Budget average import duty by type of good and by type of import duty (customs, additional customs, or regulatory duty, CD, ACD, RD). The largest reductions are observed for industrial supplies, whose average import duty falls by more than 10 percent. Import duties on food and beverages and on consumer goods are virtually unchanged, with reductions of about 2 percent. Sectorally, the bulk of the import duty reductions focus on inputs for textile and apparel, pharma (mainly with changes in the 5th schedule) and iron and steel.

	Average import duties pre-Budget FY21/22				Average import duties post-Budget FY21/22			
	CD	ACD	RD	Total	CD	ACD	RD	Total
TOTAL	12.78	3.68	4.67	21.12	12.29	3.19	4.60	20.07
Food and beverages	14.68	4.43	12.75	31.87	14.65	4.00	12.71	31.36
Industrial supplies n.e.s.	9.92	3.01	2.34	15.28	8.98	2.45	2.21	13.63
Fuels and lubricants	8.04	2.64	0.07	10.76	7.87	2.37	0.07	10.31
Capital goods (excl. Transport)	8.27	2.51	0.77	11.55	8.16	2.30	0.78	11.24
Transport equipment	35.89	5.97	3.87	45.73	35.89	5.82	3.87	45.58
Consumer goods n.e.s.	17.39	5.96	11.75	35.10	17.32	5.14	11.75	34.21
Goods n.e.s.	14.93	4.55	2.00	21.48	14.93	4.25	2.00	21.18

Source: Authors' elaboration based on FBR, WITS.

What can we expect from this reform?

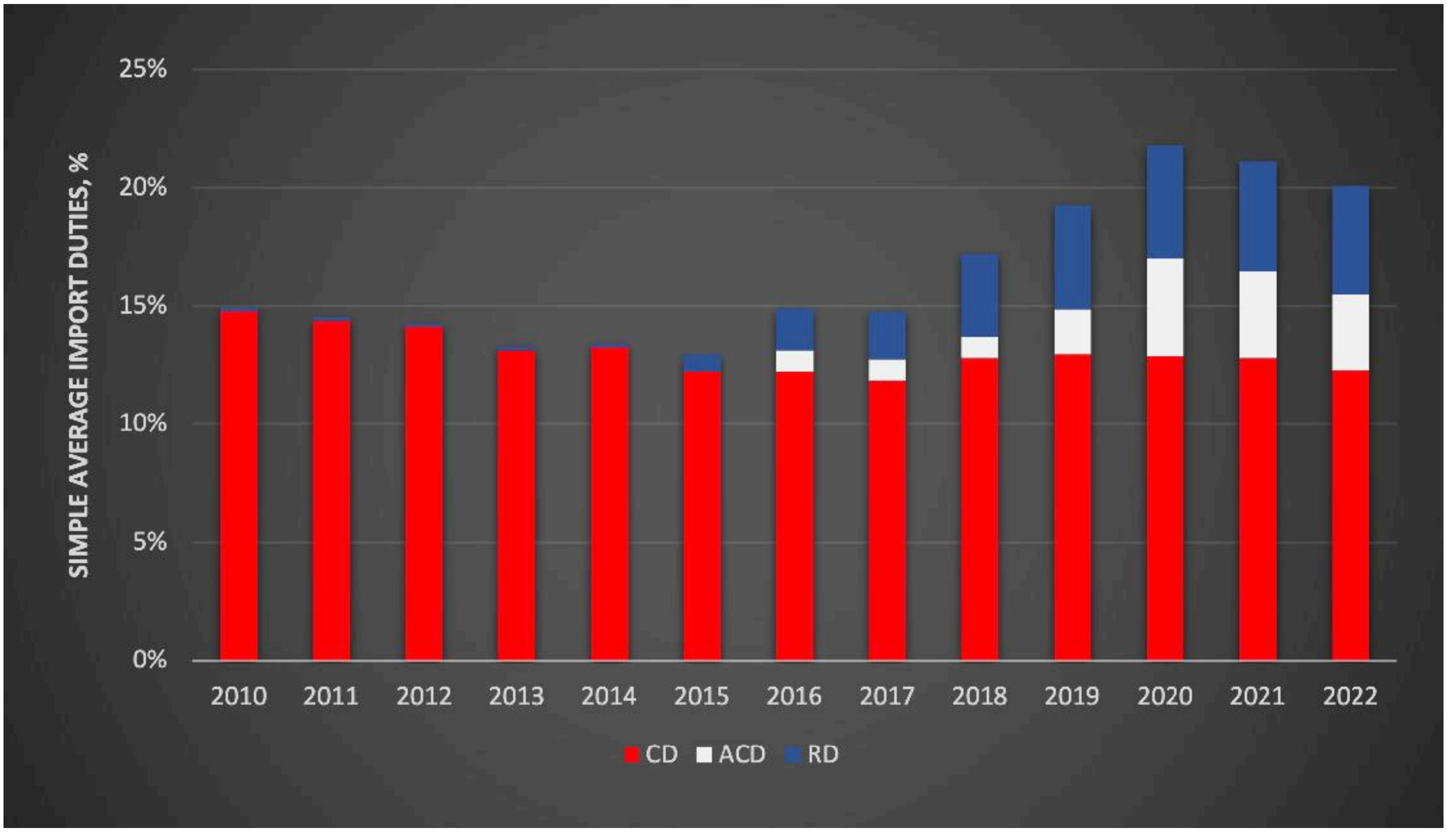
To assess the expected effects of this reform, it is necessary to distinguish its two different dimensions: the size of the change, and its composition.

The size of the change: timid

The most salient feature of the import duty reform is that it is timid. To better understand that, it is important to examine the starting point of import duties in Pakistan. They are high and have been increasing. Import duties have increased substantially since 2015. Mainly because of the introduction of other duties that, just like customs duties, discriminate by origin: RDs and ACDs. So, while there has been an effort to reduce customs duties, which fell from an average of 14.8 percent in 2010 to 12.78 in 2021, this effort has been completely reversed by the introduction of these ad-hoc RDs and ACDs that add to the already high trade frictions. During the same period ACDs increased from 0 to 3.7 percent, while RDs from 0.1 to 4.7 percent. The increased role that ACDs and RDs have on total import duties is troublesome, not just because they add to trade costs, but also because they do not require parliamentary approval to be introduced, and because they add uncertainty to overall protection (for example, unlike for CDs, there are no historical series of RDs and ACDs. The series presented in Figure 1 were constructed after a laborious process of examining all trade related, pdf-recorded, SROs since 2010).

Thus, the 5 percent reduction of average duties in this Budget does not substantially change the fact that Pakistan is among the top 10 most protected economies in the world. It also does not change the fact that protection has increased, rather than decreased in the past luster. If anything, this timid reform stabilizes protection at a level of 20 percent. In practical terms, it means that policies allow prices of tradable goods in Pakistan being, on average, 20 percent more expensive than in the rest of the world. To the expense of firms and households.

Figure 1: Import duties started increasing substantially after 2015, despite a gradual reduction in customs duties, due to the increasing importance of regulatory and additional customs duties



Source: Author's elaboration based on FBR, NTC, WITS

The composition of the change: not giving the best incentives

The import duty reform introduced in the Budget focuses most of the import duty reductions on industrial supplies (intermediates), with specific emphasis on those for textiles and apparel and iron and steel (and some changes in pharmaceuticals in the 5th schedule). In principle, import duty reductions on intermediates are productivity-enhancing because they allow firms to choose inputs from a wider pool of options (not just the domestic versions, but also the imported ones). However, if the import duty on the final good remains high, while that one on the intermediate good falls, the effective rate of protection the industry faces increases, while the incentives to improve efficiency or innovate or export do not. Thus, an import duty reduction that places most of the effort on intermediates is certainly pro-business – in the sense that it will increase their profit margins – but it is not pro-competition, pro-exports, or pro-efficiency.

Indeed, the import duty reforms in the budget do not sufficiently address the marked anti-export, and anti-new biases of tariff policy.
First, because it increases effective protection in domestic markets, the reform reduces the incentive of firms to venture into competitive global markets, in which they do not face protection. Rather, the reform increases relative profits of firms selling domestically, in detriment of those that export, hence the anti-export bias. To put these concepts in perspective: the reduction of import duties on intermediates in this budget is 4.3 times greater than the reduction of import duties on consumer goods (Figure 2). To be sure, the Budget also introduces some mild reductions in import duties on some final, consumer goods, with the reduction of ACDs from 7 to 6 percent for those tariff lines that enjoy the highest level of protection (20 percent custom duty or more). While this is a step in the right direction. It is a very small step, when compared with the reductions introduced for duties on inputs.

Second, because the bulk of the fiscal effort associated with import duty reductions in this Budget focuses on the inputs for well-established sectors, such as textiles and apparel (Figure 3), the reform favors resource re-allocations into these sectors, rather than sectors that would facilitate a process of diversification or innovation, hence, the anti-new bias. Indeed, import duties on intermediates for textile and apparel fall by 19.9 percent, for iron and steel by 9.6 percent, and for all other sectors by about 7.7 percent.

Figure 2: The pronounced and stable cascading of import duties show the anti-export bias of tariff policy

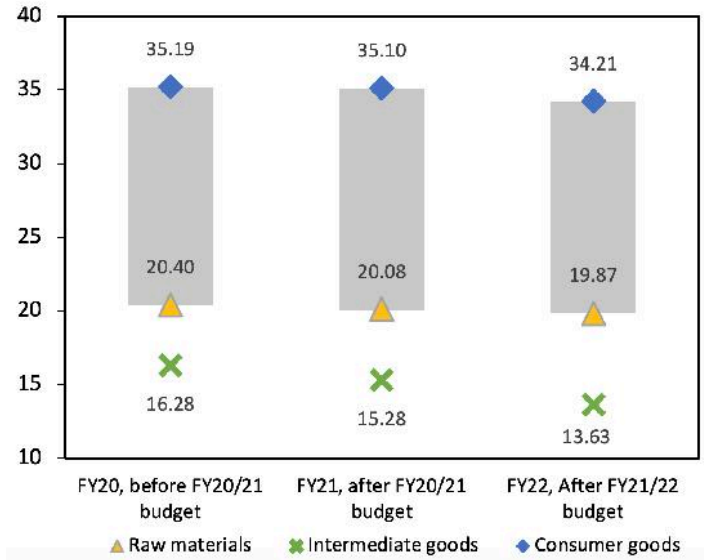
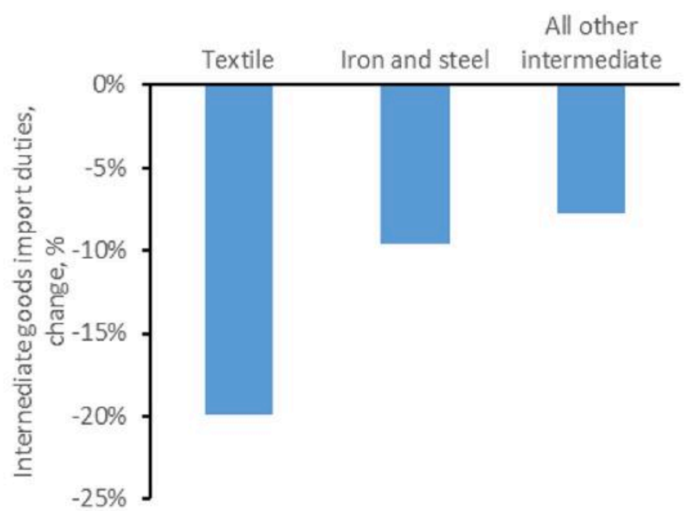


Figure 3: The disproportionate reductions in import duties on intermediates for established sectors show the anti-new bias of tariff policy



Source: Authors' elaboration based on FBR and WITS

Conclusion:

Placing productivity at the forefront of Pakistan's growth agenda requires bold reforms to incentivize technology adoption while gradually increasing competition in the market. Tariff policy can be a useful instrument to those ends, if reforms focused both on reducing duties on intermediates and on final goods: that way, the anti-export bias of tariff policy would gradually fall. The reforms in this budget, however, are too timid in this respect.

Textile Sector Perspective on Budget

The Federal Budget for FY22 was announced on June 11th, 2021. The new economic team has accordingly set goals for the next two years, with an agenda characterized by two points: (i) inflation and (ii) revenue generations to fund social programs for the masses. Out of the current expenditures, the major portion of 72.34% will be spent upon General Public services that include debt repayments, pensions, salaries and perks among other things. 18.2% on Defense, 3.5% on social protection, 2.4% on Public Order & safety, 1.6% on Economic Affairs, 1.2% on Education, 0.5% on Housing, 0.5% on Health, 0.1% on Recreation, Culture & Religion and on last priority only 436 million for pollution control.

Textile exports have served as the mainstay of the economy, comprising the majority of Pakistan's total exports and generating a substantial amount of revenue in the form of taxes, and foreign exchange support for the Balance of Payments. The TERF scheme has led to a substantial increase in investment levels at a time where capacity was already full, presenting a golden opportunity for expansion. In the sector's recent leap towards capacity development, policy support from the government should play a critical role, as it is imperative to support textiles in order to achieve sustainable export-led economic growth.

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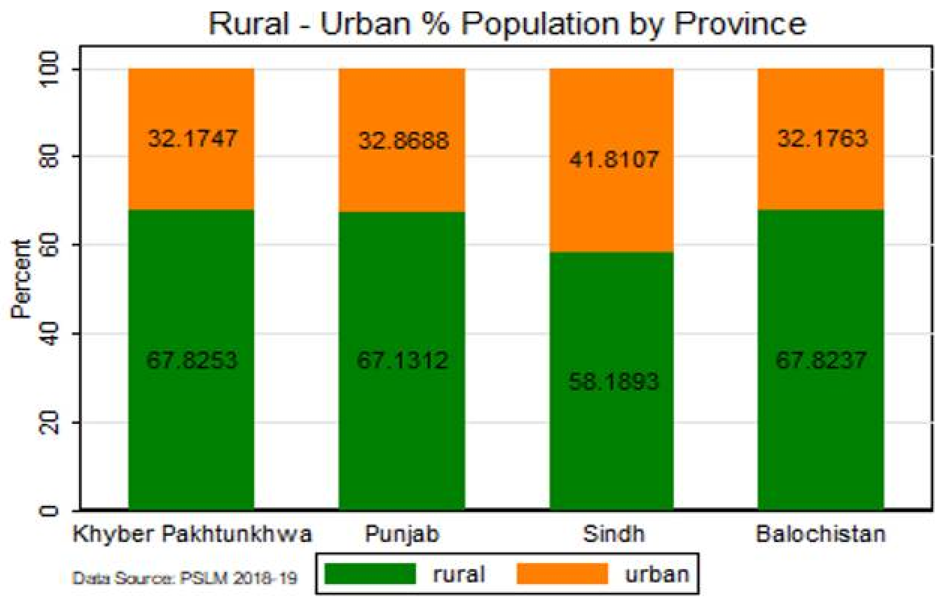

The government has, despite challenges, successfully progressed from "recovery to stabilization to sustainable growth" (PIDE). While there remains a need to continue these efforts for sustained growth in the long-term, the debt indicators are improving overall as the current Public Debt-GDP ratio is being sustained at the present level and Debt Service-Revenue ratio is showing a downward trajectory. The government aims to sustain these trends particularly through revenue mobilization, and supporting the export-oriented sectors is one highly effective method of doing so.

There are several positives in this budget, particularly with respect to continuation of duty-free import of cotton, concessional financing under Long Term Financing Facility (LTFF) & Export Finance Scheme (EFS), and bringing retailers into the tax bracket. However, like every year, the budget leaves several pressing issues unaddressed, particularly those aspects which have potential to adversely affect the export-oriented sectors of Pakistan. Exporting sectors have the ability to lift Pakistan out of its debt cycle, and supporting them to remain profitable and productive should be one of the government's primary concerns. Yet issues of custom duties, sales tax, energy and logistics continue to create hurdles for these sectors, thereby contributing to an anti-export bias which has kept Pakistan behind its regional competitors in exports.

First off, the adverse change in customs duties on Polyester / MMF value chain is a matter of concern. The items of direct immediate concern are those that involve polyester yarns and acrylic yarns. In the case of polyester yarn 5509.2200/2100 where the applicable duty was 11% + 2% ADD + 2% a total of 15% R.D. this has now been reduced to 10+2 for a total of 12%, while the duty on PSF remains at 7% despite the textile industry's repeated submissions and reports on the negative fallout of continued protection. There are also antidumping duties of up to 12% which make matters much worse. With these duties in place the textile sector of Pakistan which is already uncompetitive will face additional stress. Meanwhile, in the case of acrylic spun yarns 5509.3100/3200 produced with acrylic staple fibers, the duty is proposed at 0% which is against the basic principle of cascading whereby the duty differential should be a minimum of 5%.

Sales tax rate has been increased to 17% from 10% on both cotton and import of machinery and plant. This increase will unnecessarily increase the quantum of Working Capital required for operations and increase the capital cost on new projects. The point to note on cotton sales tax is that refund can only be cleared on consumption while cotton has to be bought in bulk tying up the Working Capital for a long period of time. The increase in Sales Tax on plant and machinery increases the cost of putting up new plants as the refund cycle of the Sale Tax will have to await commercial operations which in some cases for many years. Sales Tax Refund on import of plant and machinery by operating units is despite the passage of 2 years is still not streamlined as the Faster System rejects any claims above arbitrary percentage which does not take into account the extraordinary high claims in a particular month on account of machinery imports. These changes in Sales Tax regime will have a negative impact on new investment in the sector as funds that could have been spent on plants and machinery will unnecessarily be blocked. The feasibility of new projects in particular will be severely impacted.

Moving forward, a fundamental concern is the need for regionally competitive energy pricing/tariffs. Our country's energy tariffs have not been commensurate with regionally prevailing tariffs, as shown in the table below:

	Classification	Budget Estimate 2020-21	Revised 2020-21	Budget Estimate 2021-22	Growth (%)
A.	Current Revenue Receipts				
	Federal Transfers				
	Revenue Assignment	679	642	798	17
	Straight Transfers	62	57	49	-20
	Grants to offset losses of abolition of OZT-(0.66% of Provincial Share)- (incl. Others)	18	17	21	17
	Total	760	717	869	14
	Provincial Tax Receipts (excluding GST on Services)	128	105	154	20
	Provincial Sales Tax on Services	135	125	150	11

Despite unreliable energy supply and higher tariffs, the textile sector has been operating at full capacity and receiving increased orders, leading to the revival of non-operational units, and the creation of new jobs. Textiles have been heavily supporting the economy, yet the industry's profitability is being hampered by illogical energy tariff hikes and policies. The export-oriented sector has given detailed reasons time and time again for the provision of a fixed electricity tariff at 7.5cents/KWh and $ 6.5 per MMbtu for RLNG/gas across the value chain to ensure competitive export pricing. Competing countries are already poised to combat highly competitive market conditions through cheaper electricity and gas rates. Energy accounts for 35% of conversion costs in the textile value chain and therefore competitive pricing of exports is highly sensitive to energy pricing. Therefore, the provision of regionally competitive energy tariffs is critical, and any deviation from these rates will derail export targets.

The allocation on account of regionally competitive energy tariffs and the differential for domestic tariffs falls short of the amount needed – Rs. 64 billion is necessary as estimated by the Ministry of Energy. The allocation for differential on account of electricity is Rs. 21 Billion whereas the estimated differential at 9$ per KWh will be Rs. 40 Billion. Furthermore, the allocation for differential on account of gas is Rs. 10 Billion while the estimate at current LNG rates is Rs. 29 Billion. It may be clarified that both these allocations are indicative and any shortfall, it is assumed, will be met through supplementary grants. Therefore, continued supply of gas to the textile industry may be ensured for the sector to sustain production to achieve the target of over $20 billion exports next financial year.

IMF has kept Pakistan's economy in a strait jacket and our exports remain limited to intermediate goods, while we remain an importer of oil, edible oil, tea, pulses, machines, raw materials, and even knowledge. At present, remittances are our saving grace when it comes to foreign debt. It is essential to support exporting industries in order to sustainably combat foreign debt, and to enable growth by diversification of our export bundle, expansion into higher value addition, and investment in human capital in order for Pakistan to compete in today's knowledge-based economy.

Considering the rapid expansion being undertaken by the textile sector, whereby the industry is on track to meet next year's target of $20 billion, it is to crucial to acknowledge that this is a substantial increase of $5-6 billion. Such an increase will be accompanied by a pressing rise in requirement for working capital. The manufacturing chain takes around 6 months to export, and without simultaneously increasing working capital to remain at par with the requirements of an expanding sector, progress in the industry will come to a halt. The most efficient way to ensure that working capital needs are met could be by reducing the GST rate down to half, or even better, restoring zero-rating. This will be an instrumental step in Pakistan's journey to meet and exceed the $20 billion export target set for the next year, and for $26 billion by 2023.

An acknowledgment of the critical issues highlighted in this article would not only make the budget's revenue and growth targets achievable, but would additionally keep the expansion of mills on track and generate employment for one and half million people. We request the government's urgent attention for correction of these issues for the continued growth of exports in line with the vision of achieving $20 billion exports next year and growth beyond.

Rural Support Programmes, AKHUWAT and the budget

By Pervez Tahir

Pervez Tahir

Former Chief Economist, MoPDSI

It seems there is more action outside the budget than inside. At the post-budget presser, the finance minister went out of the budgetary box to assert that he would not wait for growth to trickle down, something that could take about 20 years even with high growth. His plan is to reach the bottom directly to help them help themselves. Decades of work – by the iconic Shoaib Sultan Khan in Rural Support Programmes (RSPs) and, more recently, the disarmingly charming Amjad Saqib under the banner of AKHUWAT – has demonstrated that it is possible. While at Habib Bank, the finance minister himself tasted its success by wholesaling substantial sums to the National Rural Support Programme (NRSP), the largest of the seven RSPs spread across the country, and to AKHUWAT, with recovery rates of around 98%.

The intention is to scale up. The RSPs and AKHUWAT can't do it on their own. These are non-government organisations whose declared goal is to work with the government. In fact, the NRSP was created by the government itself in the 1990s, but then abandoned for no good reason. It survived and has now its own microfinance bank with a portfolio of around Rs17 billion, the bulk of it to women. Years of economic mismanagement has brought the country to a stage where even the government does not have the resources required to scale up. This is where the banks, awash with profits made from lending to the government, come in. Who better to make the tripartite arrangement than a banker? Banks are too big to lend small. Lack of collateral and the outreach costs are the well-known reasons. In rural areas, the RSPs can provide the outreach and social capital developed in the form of grassroots community organisations can be the collateral. The NRSP has now combined the social and technical aspects for better credit appraisal. AKHUWAT, on the other hand, concentrates on interest-free lending mostly in urban areas. The model is based on government grants and donations for interest-free lending to small borrowers. The role of the government will be three-fold. First, it will provide guarantees to the comfort of the participating banks. Secondly, the banks will enjoy a credit insurance at the rate of 10%. Thirdly, interest cost will be subsidised to the tune of Rs75-100 billion. The loan portfolio could be as large as a trillion rupees.

Within the target group of four million households at the bottom of the Ehsaas database, there will be interest-free business loans of Rs0.5 million, farm loans of Rs0.25 million and Rs0.2 million for tractors and machineries. Housing loans of up to Rs2 million will be given on concessional basis. All will receive the Sehat Card and one person from every household will be provided free technical training. As with many other pronouncements made by the finance minister, the budget may have to be rewritten before his winding up speech. At the moment, the budget shows credit guarantee scheme for small farmers of Rs100 million, crop loan insurance of Rs600 million, Kamyab Jawan/Kissan Programme of Rs 10 billion and mark-up subsidy of Naya Pakistan housing loans of Rs3 billion. This is a far cry from the Rs75-100 billion billed by the finance minister.

Done properly in consultation with the stakeholders, the plan gives hope for bottom-up growth for the non-poor segment of the target group. The poorest of the poor will still need what RSPs call community investment funds lending small amounts to those with meagre or no means.

Published in The Express Tribune, June 25th, 2021.

Macro-economic targets

By Pervez Tahir

The proposed measures include withdrawal of exemptions in sales tax and income tax; and reduced concessionary tax rates, besides growth in nominal GDP.

A provisional estimate of a GDP growth rate of 3.94 percent in the fiscal year 2021 (by the National Accounts Committee against the National Economic Council target of 2.1 percent) – and even lower projections of international finance institutions and the State Bank projection of 3 percent – has injected the policymakers with an unbounded enthusiasm. They have pitched the growth target for the next year at 4.8 percent and spun a macroeconomic framework that ought to be laid bare to maintain a sense of realism. In an environment where, in a first, the ruling party legislators are seen throwing budget documents at the opposition in the parliament, the future is hard to predict. Add the risk of an adverse development on the western border, rising world commodity prices and the ambiguity around the IMF programme, and the achievability of the growth target becomes that much harder.

Good intentions alone are not enough for a transition from stabilisation to growth. Extensive research undertaken at the Pakistan Institute of Development Economics (PIDE) has conclusively suggested that accelerated and sustained growth to absorb the country's massive youth bulge and debt dependence requires a reset of the software. More than investment and consumption, the traditional drivers of growth that have landed the economy into a boom and bust cycle, growth requires root and branch reform of the stunted systems of policy, governance and regulation. Sadly, the official macroeconomic framework fails to reflect even a first step in this direction. Worse, inflation is targetted to decline to 8 percent from 9 percent. A push up has already been signalled by the recent raise in the prices of petroleum products.

Even in the traditional macroeconomic framework, growth in successful developing economies is driven by investment, especially private investment. In Pakistan, the targetted growth of 4.8 percent in FY22 is expected to come largely from consumption, (like FY21). In nominal terms, consumption grew by 16.1 percent in FY21 against 6.3 percent in FY20 when growth had become negative for the first time since the 1950s. The boost came from accelerated growth of workers' remittances and rapid cash transfers under the Ehsaas Programme. At 13.9 percent, the growth rate of total investment was lower. Within this, despite the attractive Rs 2 trillion worth of credit incentives provided by the State Bank, the growth of private investment was only 6.6 percent. It had to be supplemented by a growth of 38.1 percent in public investment that itself had grown negatively over the previous two years. The pattern continues in FY22. Although a higher growth rate, 18.9 percent is projected for investment compared to 11.9 percent for consumption, it required a doubling of the growth rate of public investment (30.4 percent) compared to the private investment (15.3 percent). As a percentage of GDP, private investment is expected to increase by a mere 0.2 percentage points. What, then, is the point of the plethora of tax concessions being granted to the private sector? As always in our economic experience, investment as a percentage of GDP exceeds the national saving rate by 0.7 percentage of GDP. In other words, the perennial deficit will resume after the aberration of a surplus in current account in FY21. There will be net borrowing from abroad of the order of Rs 377 billion. This is an under-projection as it presumes that the IMF will look the other way on the foot-dragging on some of the key conditionalities. Tax projections are also unrealistic, which raises the spectre of rising domestic debt. Tax collection rose by 18 perecent in FY21. The FBR target for the next year is to add more than a trillion rupees. The proposed measures include withdrawal of exemptions in sales tax and income tax; and reduced concessionary tax rates, besides growth in nominal GDP.

In an environment where, in a first, the ruling party legislators are seen throwing budget documents at the opposition in the parliament, the future is hard to predict.

The FBR collection is expected to increase from Rs 4.7 trillion to Rs 5.8 trillion, or by 23 percent as compared to the estimated collection in FY21. It is claimed that no new taxes have been levied and any additional revenue will be mobilised by expanding the base and through greater documentation. However, taxes increased and reduced/withdrawn seems to have an even division. For the purpose of the 7.5 percent withholding tax on non-filers, the Finance Bill has reduced the threshold of monthly electricity bill from Rs 75,000 to Rs 25,000. Sales tax on locally manufactured cars has been reduced from 17 percent to 12.5 percent. There will be no excise duty on 850cc cars. In addition, concessions will be given on electric cars. To make the environment business friendly and contain harassment, third-party audits and self-assessment have been introduced. Other measures include taxing profit on the debt component of pension funds. Many personal income tax exemptions stand withdrawn. Specified goods supplied in the border sustenance markets on the western border will enjoy exemption from sales tax. From 12.5 percent, withholding taxes on mobile phones are being reduced to 10 percent immediately and to 8 percent eventually. The rich will be made to pay according to their ability and the fixed income groups will be spared any additional burden. To incentivise the livestock sector, custom duty on vaccines and medicines is being removed. The paper used for the publication of Quran, auto-disable syringes and oxygen cylinders are now on the exemption list. Sugar has been put under the third schedule of Sales Tax Act to prevent arbitrary pricing.

According to a PIDE study, the federal government's total debt and liabilities had reached a staggering Rs 37,078.5 billion by the end of April 2021, a nearly R 2,000 billion increase since June 2020. Out of the total budgeted expenditure of Rs 8,487 billion in FY22, 36 percent will go towards interest payments. A five percentage point proposal of decrease creates space for enhancing development expenditures. But the recent re-profiling into long term debt may not allow this. The Covid-related relief provided by G20 countries has also ended.

The federal government expects to raise over Rs 2.7 trillion from external resources, including Rs 2.69 trillion from external loans. This will increase the gross external resources in the upcoming fiscal year by over Rs 0.5 trillion. 55 percent of the external resources raised will, however, be used for repayment of foreign loans and credits. This represents a nine percentage point decrease in external resources share set aside for foreign loans and credit repayments. It is still higher than the share in FY21, when 40 percent of external resources were used for foreign loans and credit repayments. This was primarily due to rescheduling of debt payments following the coronavirus pandemic.
Pakistan's debt and liabilities increased by nearly by Rs 2 trillion in the 10-month period from July 20-Apr 21. These are expected to further increase by the end of the current fiscal year on June 30. Despite increasing debt and liabilities, Pakistan's debt servicing cost is on a downward trend. The final debt servicing cost for the upcoming year should further drop once the debt and liabilities figures for the entire FY21 are known. This represents a decreasing cost of debt despite an increase in debt, providing some relief. Public debt-GDP ratio is rather constant, but the debt service-revenue ratio is showing a downward trajectory. This, coupled with a slightly improving tax-GDP ratio and a falling debt servicing cost represent a good beginning to sustain debt levels over the coming years.

If the aim is not merely to sustain growth, but to also go for high levels of growth to provide opportunities for the new entrants in the labour force and manage debt, the PIDE's Reform Agenda for Accelerated and Sustained Growth is the handbook to carry. It's time the government consulted its own rather than be indebted in money as well as intellect.

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Making Automobiles Affordable for the Middle Class

By Muhammad Shaaf Najib

In March, 2019, the government introduced the Finance Supplementary Second Amendment Act, 2019. Among other things, through the act government introduced a 10% Federal Excise Duty (FED) on cars with engine capacity of 1,700cc and above. Later on, in the annual budget for fiscal year 2019-2020, the government decided to further expand the FED regime in the automobile sector. As a result, multiple tax slabs were introduced as listed in Table 1.

Table 1: FED on vehicles imposed from July 1, 2019.

Engine Capacity (cc)	FED
0-1,000	2.5%
1,001-2,000	5%
2,001 and above	7.5%

In addition to this, a 17% sales tax on the value of vehicles was also collected from the owners. As a result, from July 2019 owners had to pay a minimum of 19.5% of the vehicle's value as a tax to the government which went up to 24.5% depending upon engine capacity as mentioned above. This resulted in a significant increase in the total price of the vehicles, making it even more difficult for people to buy a new car, especially the middle class.

Proposed Change in Budget 2021-2022

The financial budget for the year 2021-2022 has recently been presented in the parliament. As per the budget proposal, locally assembled vehicles up to engine capacity of 850cc were exempted from Federal Excise Duty, while the sales tax on the same was reduced from 17% to 12.5%. This will directly impact the prices of small vehicles, and has been termed as a welcome move by the automobile industry as well. Table 2 shows the vehicles that will now become slightly cheaper once the finance bill is approved by the parliament.

Table 2: Vehicles current assembled in Pakistan with engine capacity up to 850cc

Manufacturer	Vehicle	Engine Capacity (cc)	Category
Suzuki	Alto	658	Passenger Vehicle
	Bolan	796	MPV
	Ravi	796	LCV
United	Bravo	796	Passenger Vehicle
Prince	Pearl	796	Passenger Vehicle

While reducing the taxes on smaller vehicles to make them more affordable for the general public is a welcome move, the data shows that limiting the relief to vehicles up to 850cc provides a very small range of option to choose from to the general public. Out of the above 5 vehicles mentioned, only 3 are passenger cars that could be used primarily for family use. Among the other two, one (Suzuki Ravi) is a light commercial vehicle while Suzuki Bolan is a mini Multi-Purpose Vehicle that can and is often also used for commercial use, including transport services. In addition to the small range of passenger vehicles available in the range to consumers, this also provides an unfair advantage to one manufacturer with three vehicles in the under 850cc category.

Policy Recommendation

Instead of limiting the recently awarded tax relief for vehicles up to engine capacity of 850cc, the government should expand the scope of this relief for vehicles up till the engine capacity of 1050cc. This will help bring down prices of all small vehicles being locally assembled, while also extending benefit to multiple manufacturers. This will therefore, increase the competition in small vehicles manufacturers as consumers will have a greater range of vehicles to choose from as per their budget.

Moreover, consumers whether for family or commercial use, will have more than one options in all vehicle categories i.e. passenger vehicles, light commercial vehicles (LCVs) and Multi-Purpose Vehicles (MPV). If the government extend the limit to vehicles with engine size up to 1050cc for reduction of sales tax to 12.5% and removal of FED, the vehicles that will become less expensive for the general public are listed in the table 3 below

Table 3: Vehicles current assembled in Pakistan with engine capacity up to 1050cc

Manufacturer	Vehicle	Engine Capacity (cc)	Category
Suzuki	Alto	658	Passenger Vehicle
	WagonR	998	Passenger Vehicle
	Cultus	998	Passenger Vehicle
	Ravi	796	LCV
	Bolan	796	MPV
United	Alpha	993	Passenger Vehicle
	Bravo	796	Passenger Vehicle
Prince	Pearl	796	Passenger Vehicle
FAW	X-PV	970	MPV
	Carrier	970	LCV
Changan	M8	999	LCV
	M9	999	LCV
	Karavan	999	MPV
Kia	Picanto	998	Passenger Vehicle

Conclusion

As evident, making this change will extend a fairer benefit to the manufacturers while also giving the consumers a wider range of vehicles to choose from. This increased competition will eventually benefit the automobile industry as well as the general public as well. The government, therefore, shall make this amendment in the finance bill to extend the same policy for vehicles with engine capacity up to 1050cc, in light of its vision to promote the automobile sector as well as making vehicles more affordable for the general public, especially the middle class.

Critical Evaluation of Pakistan's Budget Making Process

Saddam Hussein

Research Economist, PIDE

The budget of a country depicts the picture of its financial, fiscal, economic, social, and welfare objectives. It also gauges the policies of the government; both in the domestic arena and international domain. It projects a vision for the future of its people. The decisions made in the budget and their allocations accordingly have a strong influence on the socio-economic outlook of the society. Unfortunately, the budget process in Pakistan is mostly off-track and take a detour via bureaucracy, excluding the factor of inclusiveness. Many experts and think-tanks have been raising the flaws in the budget process for many years. Though, there is mum for quite some time on the issue; eventually getting the issue of the agenda. Therefore, there is a need to keep the issue alive on the policy radar.

Pakistan's legislative experience indicates that there is a restricted role of the parliament in the whole process of budget. The deliberation held on national budgets is habitually concluded just within a few days. The process seems more to be a ritualistic one. It is by no means technical or policy reflective or has no significant input from the legislature.

The key constraints regarding parliamentary contribution in the budget process in Pakistan are the dearth of time, absence of committee involvement, and research capacity of the parliament. Thus, the budget formulation process remains an exclusive dominion of the shrewd bureaucracy which off course is not the elective representative of the people.

It is very obvious that the technicalities of the budgets and numbers game have to be done by the bureaucrats and everybody agrees upon this, but the broad policy choices and course of the budget need to reflect the policy of an elected government. This is the point where extensive participation of the elected representatives is vital to make the budget inclusive process and not the entitlement of the few.

Among the elected executives, only the Finance Minister and Minister of State in some cases are somewhat involved in budget making. Even the cabinet which has to take the collective responsibility of all the government decisions is made to bless the budget as a decorum just a few hours before the budget is formally presented in the parliament.

The present parliamentary budget process which hardly runs for around two weeks offers very little time to the elected representatives to either shape or meritoriously review the budget. The parliament and more precisely the National Assembly are apparently used by the bureaucracy as a rubber stamp on this significant job of the legislature. The current process does not provide any opportunity for the parliamentarians for their meaningful inputs. There is a solemn need for lawmakers to take part in the budget-making process at its various stages. As representatives of the people, legislators should set their priorities reflecting in the budget as per the wishes of their voters.

Moreover, the standing committee on finance may also undertake a comprehensive exercise of holding pre-budget public discussions in several cities of the country. The Finance Committee ought to invite various experts to present their viewpoints. Grounded on this exercise, the committee may prepare its report and forward it to the Ministry of Finance for possible incorporations in the budget. This exercise would not only strengthen the position of the parliament as the supreme body that would articulate public views and concerns on subjects of public and national concern but shall also make available very useful insight into public issues.

As of current practice, the annual budget statement is generally presented at the National Assembly during the second week of June every year and is passed at the beginning of the last week of June, which leaves around 12 to 17 working days for the various stages of the budget debate in the National Assembly. Hence, the budget debate is an exercise to make parliament answerable for something it knows nothing of and has had no role in the formulation or reviewing.

Likewise, parliamentarians are provided roughly like 1500 to 2000 pages of finely-typed printed papers bunged with figures which are hard to decode even by experts on the day the budget is presented. They have no institutional or individual backing to get briefed on the budget and they get just 02 days to start debating the issue. This does not let even the parliamentary parties enough time to study the budget, establish their corresponding positions, and brief individual members on the considerations of the deliberation. The entire budget debate continues for an average of 12 days which averages around 34 hours. At no point, any part of the budget is referred to a committee for detailed review. Thus, as a result, budget speeches cover nearly anything and everything under the sun, but hardly any logical or thoughtful appraisal of the budget.

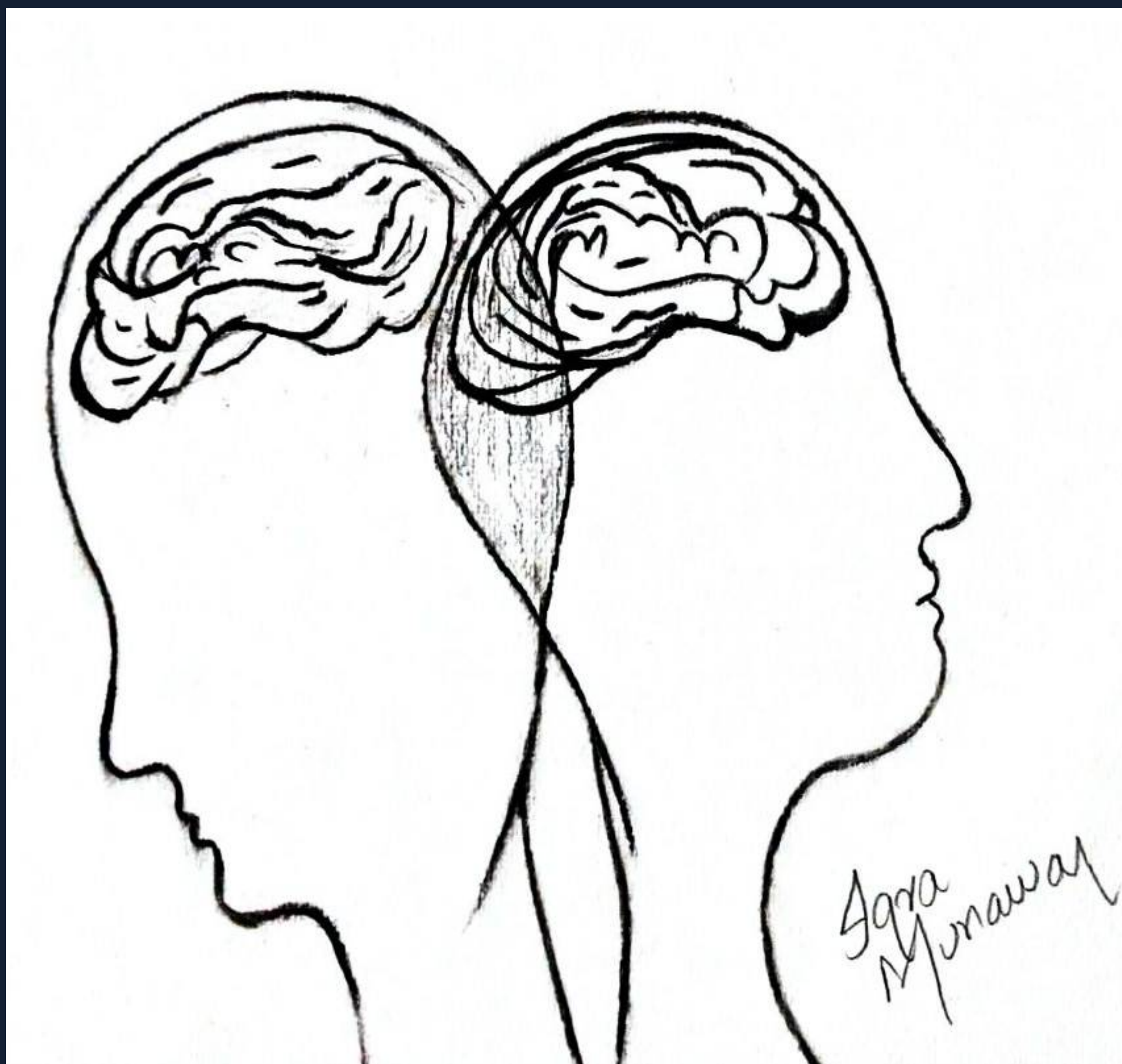
Keeping in view, the importance of the budget process, it is proposed that as a first step, the duration of the parliamentary budget process in Pakistan should be extended to a minimum of 60 days starting from May 01 and concluding on June 30. The budget should be presented on the first working day of May each year.

At present, the rules of procedures in the National Assembly do not halt committees from holding pre-budget hearings linking to their Ministries/ Divisions, but a more pro-active role by the committees and a backing infrastructure would be required. In order, to link the break between people and the parliament, each standing committee should hold 03 to 05 days of public hearings on ideas, views, and proposals about the next budget from the stakeholders relating to the area of concern/expertise of each committee. Each hearing should be well-documented. These hearings should be publicized in the media and media should also be allowed to cover the hearings. This act alone will be the single most rewarding activity for the parliament and parliamentarians.

In contrast, some developing countries have established an independent agency of the Parliamentary Budget Office - a sovereign office that looks at the budget and national economy from a perspective which is dissimilar from that of the executives and provides this information to the parliamentarians. A number of parliaments across the globe have their autonomous budget offices; the Philippines established its Congressional Budget Office in 1990, Mexico in 1998, Uganda in 2001, Canada in 2006, and lately Afghanistan in 2007. Such an office provides an independent non-partisans inquiry of the budget to the parliamentarians who can greatly help them in reviewing the budget and developing an opinion on it. In keeping with the increasing trend in the world, the Pakistani parliament may also initiate the establishment of an Independent Budget Unit within the Parliament comprising experts who can provide impartial analysis, relating to the budget for the advantage of the parliamentarians. A feasibility study is commissioned and a comparison of various Independent Parliamentary Budget Units existing in the world may also be considered.

Reform of the budget process must also create space to involve civil society stakeholders. As entities organized around shared interests, purposes, and values, they can be an important countervailing power to the state. Think tanks, policy institutions, NGOs, professional associations, communities, activists, support groups, volunteers, social enterprises, trade unions, cooperatives, and academia can help set intra-sectorial and inter-sectoral priorities and strengthen the analytical ability and thus setting the appropriation of budget on the right track. Efficient and effective allocation of resources is the key to sustainable development, otherwise, there will be a stagnant growth or economic dips.

PERSPECTIVES



Projections to Silver Lining: Economy on Recovery Alley

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Assistant Professor, PIDE

Amena Urooj
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Apart from economic theory and channels, we attempt to provide a simple visualization to facilitate debate on revival of Pakistan Economy. Amid government's narrative against corruption, the market based exchange rate and autonomy of central bank are evidence of free economy to some extent. It is believed that in the absence of excessive government interventions economy adjusts itself accordingly to recovery alley. It is revealed in our analysis that Economy is on recovery path; well, every cloud has silver lining.

Escaping theoretical channels give us liberty to utilize atheoretical econometric techniques to estimate projections; however this effort provides food for thought for theorist to think in this direction and fine-tune their understanding with empirical evidence. Data based pragmatic findings do not ascertain causal relation, however it provides evidence of association that might be a result of some confounded causal channel. These confounding factors move economy in one direction or other apart from theoretically known economic channels.

We investigate selected important indicators to Pakistan Economy through visualization and predictions; we find persistent historic patterns & interesting future projections. The most concerned and discussed budget related macro variables such as GDP, Inflation, Remittances and Exports are considered. These variables have direct or indirect associations and transmission mechanism with other economic indicators and ultimately have significant impact on overall economy.

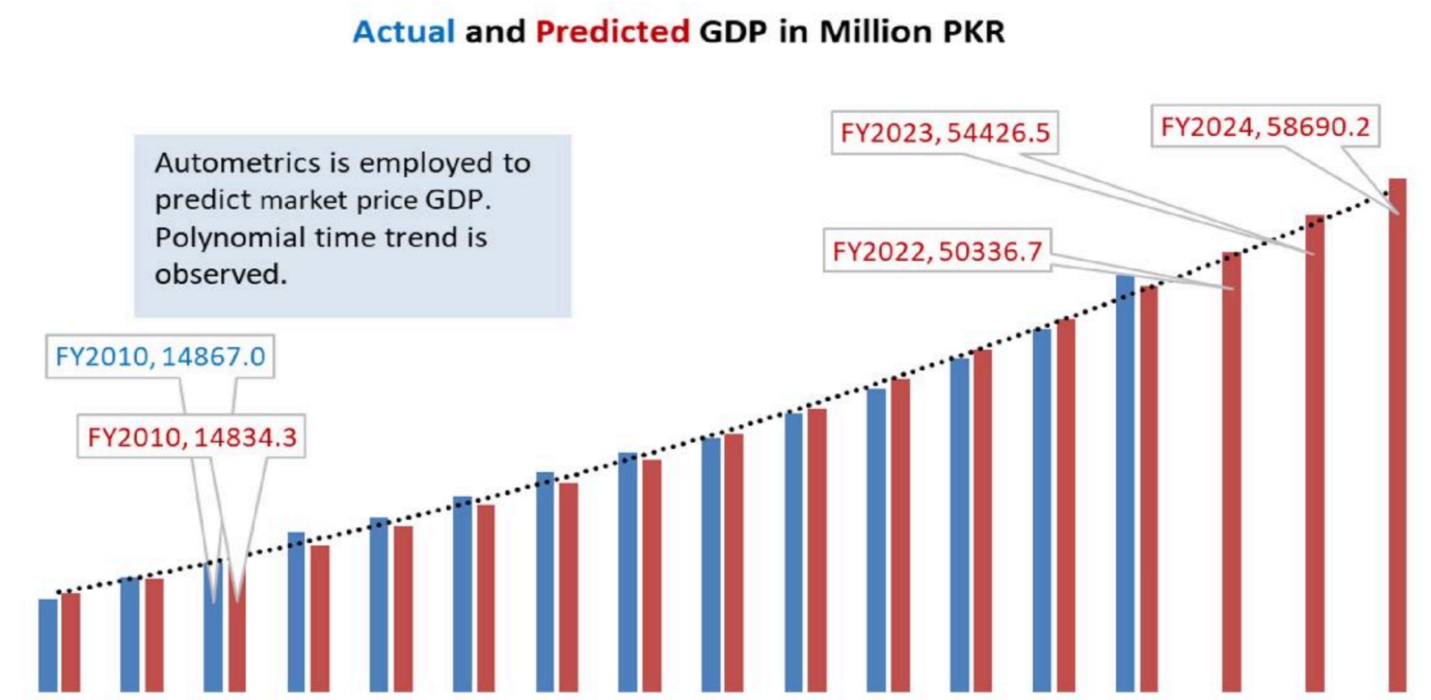
The visualizations of macro-economic variables depict historical pattern and predicts the future course. We utilize up to date and reliable data sources for interesting analysis, that result in astonishing facts about revival of economy. Our projections indicate better economic conditions in near future. Keeping in view all data related constraints including data availability, restricted estimation tools and convergence problem; we employ contemporaneous econometric techniques to estimate projections for various economic variables. None of the models and none of the tools is ultimate, they work well subject to underlined assumptions. The choice of technique and data span is ever remained debatable; however we believe that WEAK convergence is better than NO convergence.

Though budget figures seems mere numbers but they manifest government's intentions and reveals impact of government interventions. GDP growth rate is one of the most criticized and debated numbers before every budget; we do not indulge in "guessing the growth rate" contest and focus on projections of GDP. Beside real and nominal descriptions of GDP, GDP at current basic price and GDP at market price are reported by distinct data sources, though quantitatively distinct but all these GDP numbers show same qualitative properties including trends and future course; we assume that GDP at market price is a better choice amongst others as it is adjusted for taxes and subsidies.

We explore historic trend of market price GDP and found increasing pattern over FY2008 (2007-08) to FY2021 (2020-21). During this period no exponential but a second order polynomial trend is detected, we exploit this information to estimate future projections. The projected series follow steady increasing trend which is no doubt an indication to better economy in near future.

Figure.1 provides time trend and projections of market price GDP for next three years FY2022, FY2023 and FY2024 (Charemza and Deadman 1997).

Figure.1. Actual and Projected GDP in Million Rupees.



After GDP growth rate the other debatable question is that which macro variable contributes to GDP to track its current trend and growth? Proposed by theory there are many potential factors including Consumption. Over the years Final Consumption Expenditure is increasing with an average rate of about 4%; during FY 2016 and FY2017 its rate of increase was more than 7% and this is the same period in recent past when GDP growth rate was exemplary high, see figure.2.

It is also observed that area under study consumption remained more than 90% of the GDP (see figure.3) and in last few years consumption contribution has stable increasing time trend. We cautiously conclude that consumption is the factor that expected to contribute significantly in GDP growth in near future; it points out towards consumption led growth economy. This finding advocates against austerity policy of the sitting government.

Figure.2. Final Consumption Expenditure in Billion Rupees.

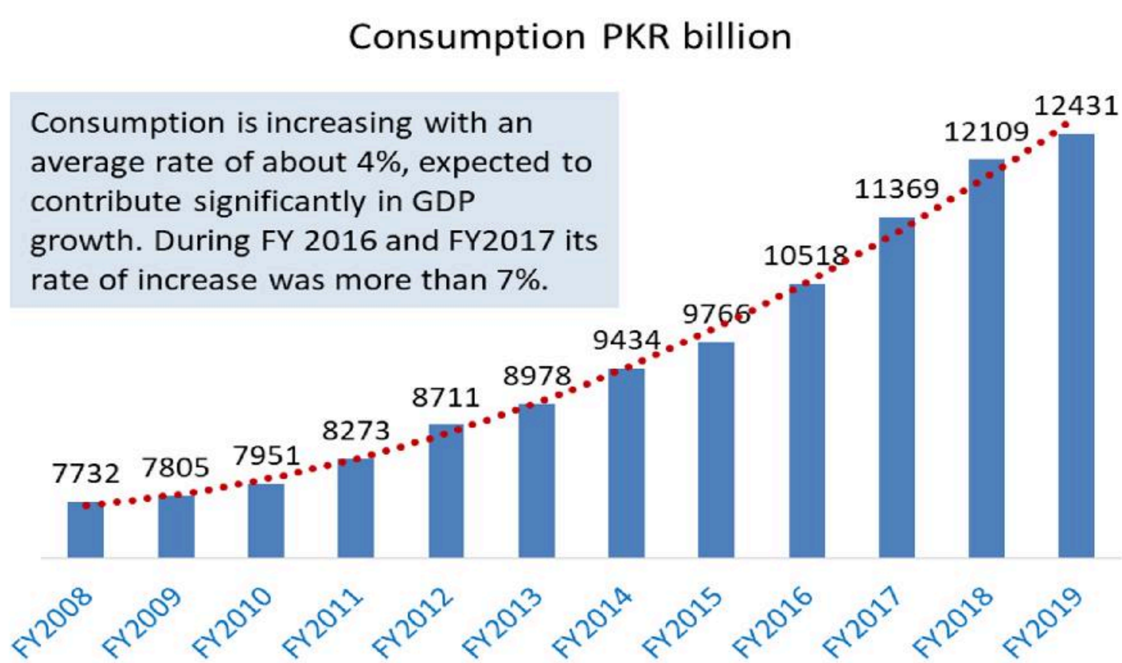
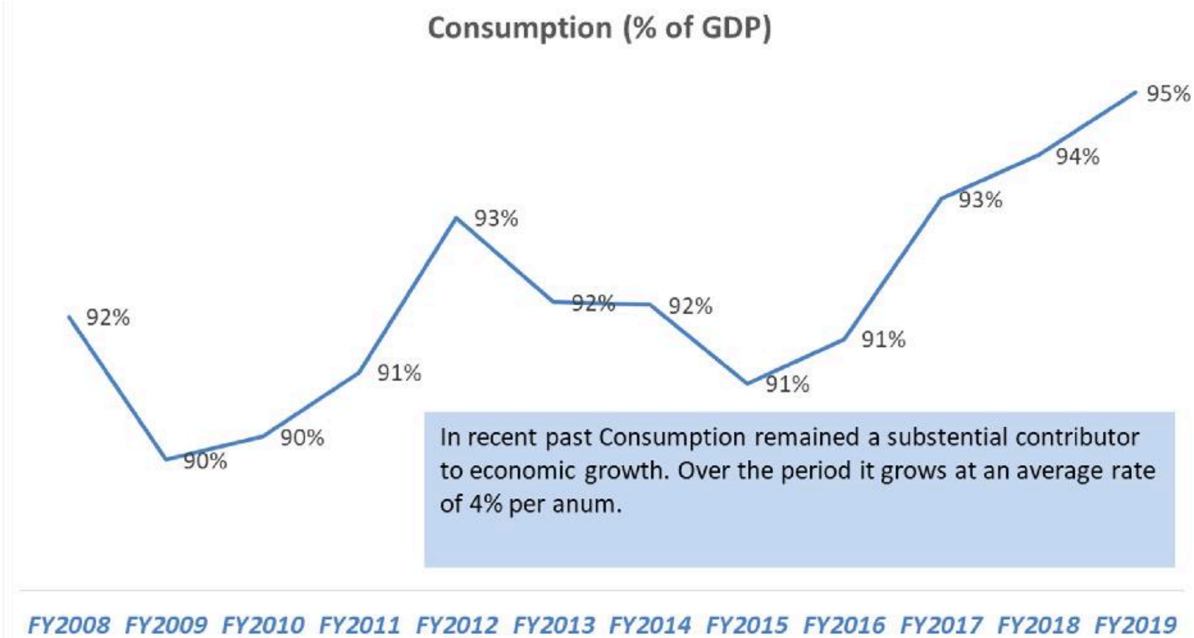


Figure.3. Consumption as percentage of GDP



Recently an increasing tendency of exports is also considered to be an aid to GDP growth. Though Pakistan is a small open economy surrounded by comparative Exporting Giants, China, India and a growing competitor Bangladesh but Pakistani Exports show average increasing trend during last five decades. Exports contribute sizeable share to GDP in Pakistan economy; since 2017 export's percentage share to GDP shows steady increasing trend see figure.4. The trade openness policy also worked well over the recent past and since 2015 the trade openness index follow upward trend, see figure.5.

Boost in Exports; a possible reason might be persistent lockdown in India amid severe spread of COVID-19 pandemic. The lockdown slowed down the Indian Economy including exports; Pakistani exporters successfully exploit this situation and benefited from this spillover effect. Another possible reason to increasing patterns of Exports might be exporters' response to an anticipated stimulus by the government.

This motivates us to estimate projections of Exports to validate above discussion. Considering the autoregressive and moving averages structure of exports, we employ ARFIMA (Granger and Joyeux 1980) modeling technique to estimate projections. A stable increasing projections are anticipated which is expected to contribute to GDP, this aids the economy on recovery path see figure.6.

Figur.4. Exports historic share to GDP

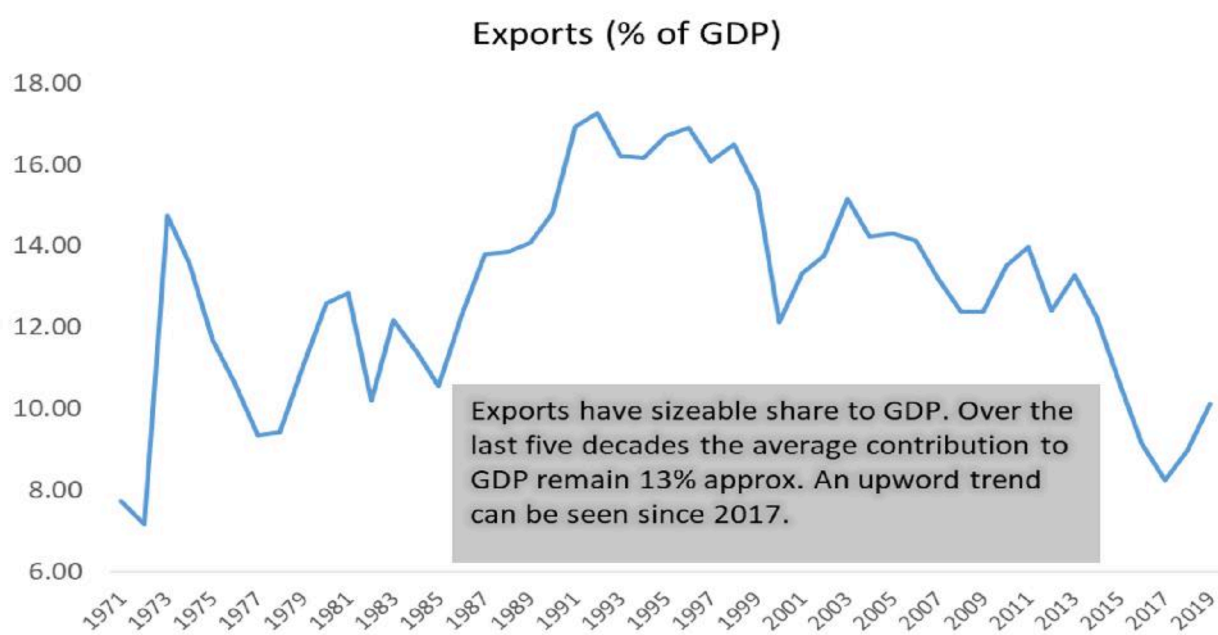


Figure. 5. Trade Openness Index [(Exports + Imports) / GDP x 100]

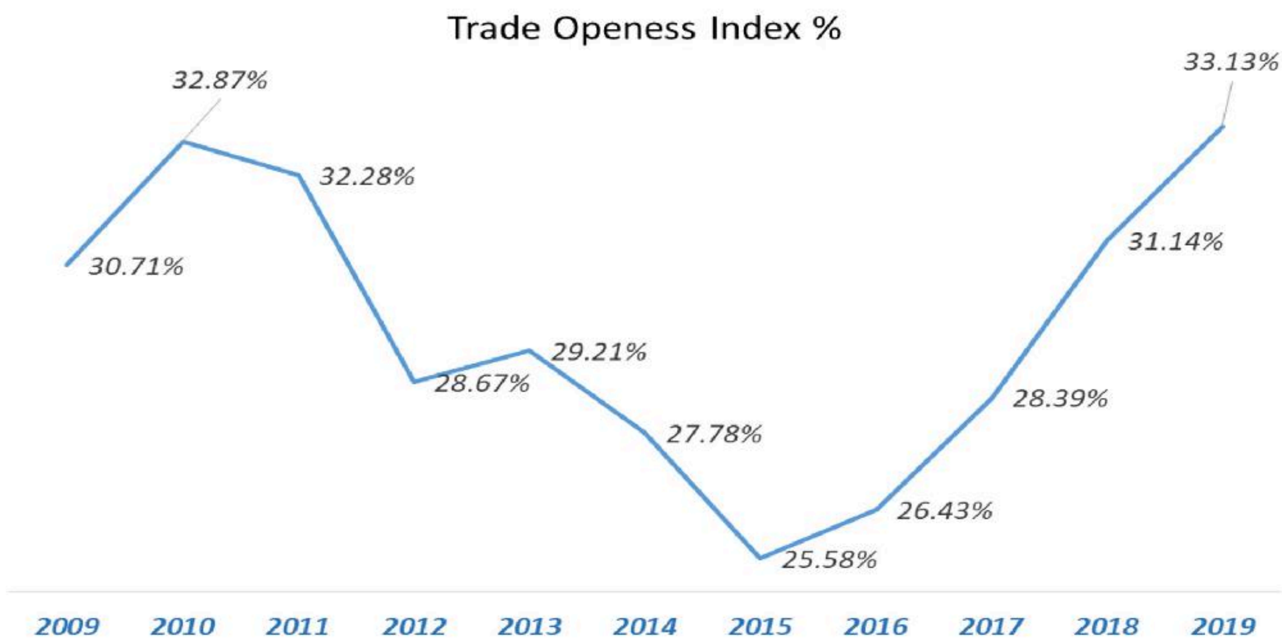
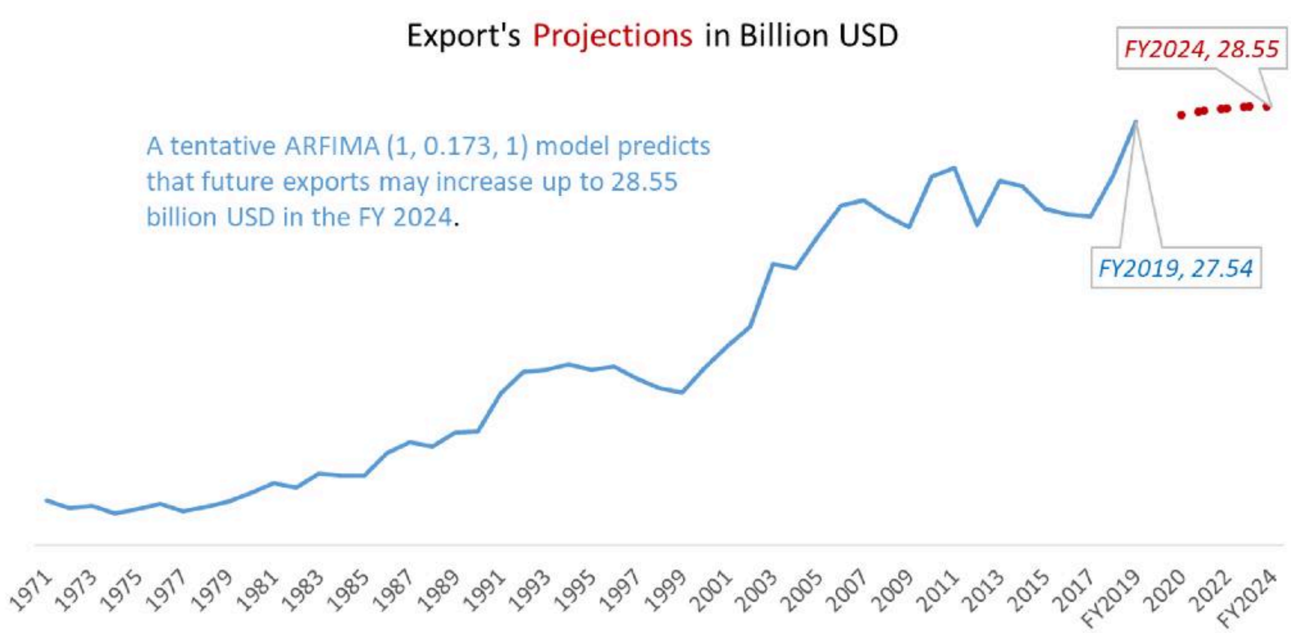


Figure .6. Export's Projections



Remittances are the most deliberated variable because of its significant contribution to foreign reserves and importance for preservation of trade balance. Government quarters widely propagate and over exaggerate the expected increase in home remittances and relate this increas to their policies for expatriates.

Avoiding any theoretical channel we observe remittances series and found that since July 2018 an average increasing trend is observed in monthly home remittances see figure.7; Kingdom of Saudi Arabia and UAE are the major contributors followed by USA and UK. Recently lifting ban on visa, by Kuwait government, is expected to further increase home remittances in near future; that aid to recovering economy in years to come.

The best part ; we make data speak and explore the historic pattern of annual remittances time series and tentatively identify data generating process of the remittances over time and utilize this information to estimate projections. A steady increasing projections depict future course, according to our estimates by the year 2025 remittances may grow more than 25 billion USD. We can hope for recovering economy in near future with added remittances and its impact on other economic indicators.

Figure. 7. Monthly Home Remittances in Million USD

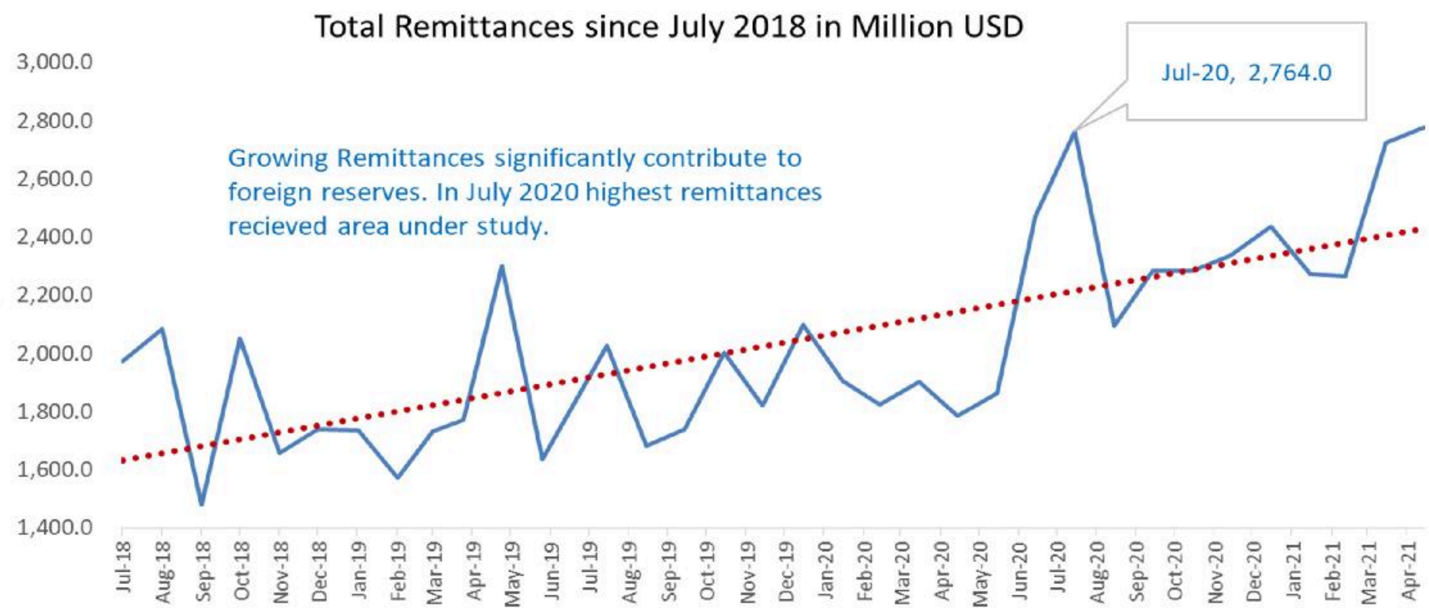
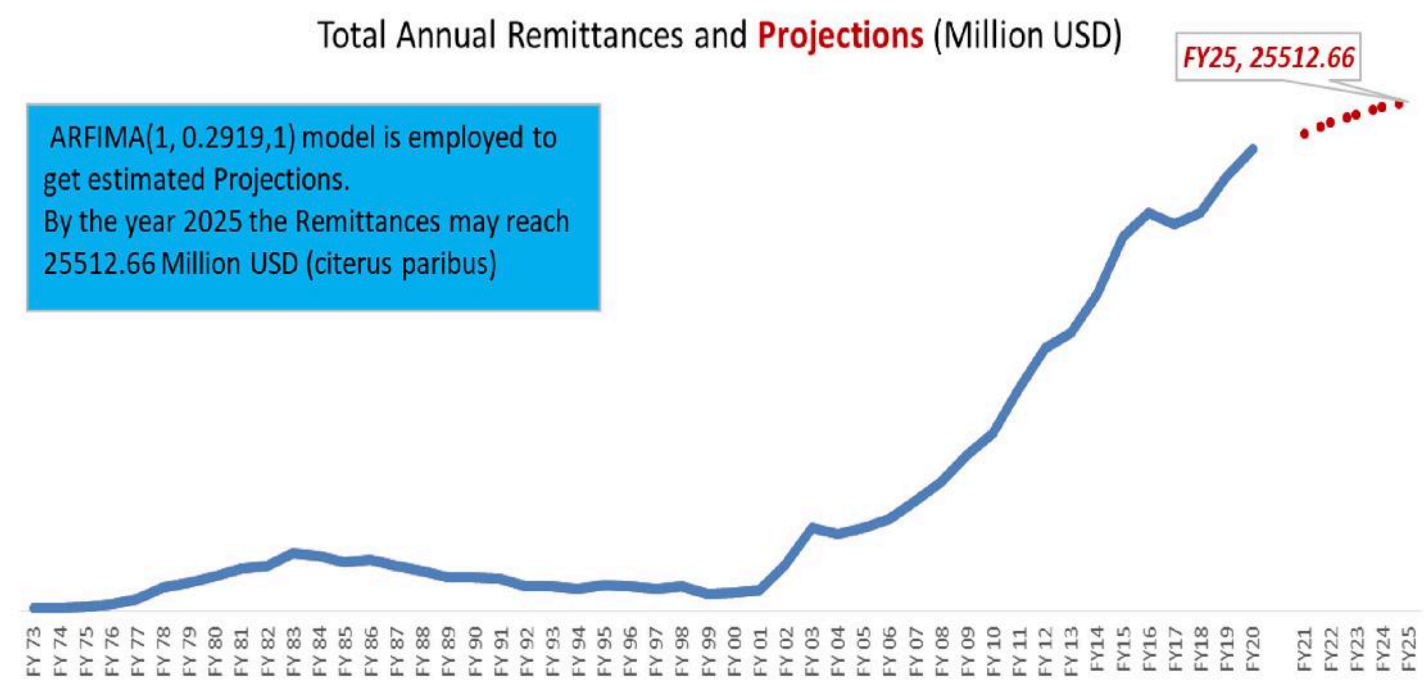


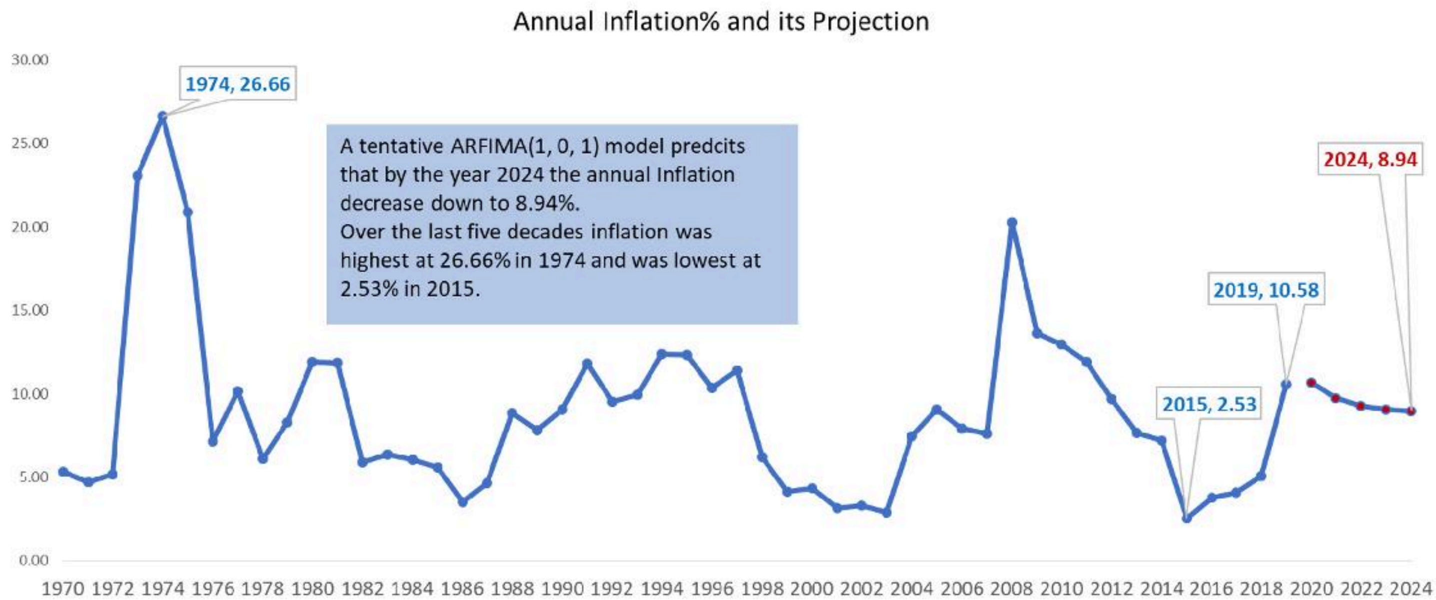
Figure. 8. Historic Pattern of Annual Remittances and Projections



Inflation is the most concerned phenomenon for general public and consequently for governments; stabilizing prices is the most important fragment of any government manifesto. Higher inflation rate overshadows the nominal income, create panic in general public, increases government expenditures and outshines savings etc. Through several intersections the impact of high Inflation transmit to other economy building variables and slows down economic activities; until economy starts course correction. At critical point individuals temporarily change consumption pattern in response to inflated prices; also government intervenes to stabilize prices through mix of monetary and fiscal channels.

A careful visual analysis of annual inflation (Consumer Price Index %) reveals that prices have no pattern at all, it fluctuates in response to prevailing economic conditions. Over the last five decades nation enjoyed lowest inflation rate of 2.53% in 2015, this is the period when petroleum prices were at lowest worldwide and Pakistan economy was on takeoff position. We utilize fifty years data to identify structure of Inflation series and estimate projections from 2020 to 2024; we find a downward trend that indicates stabilizing prices in next five years. Currently inflation rate is around 11% which is expected to decrease by 8.94% by 2024, see figure.9. Stabilized prices expected to support economy on recovery path.

Figure. 9. Annual Inflation% and its Projection



Avoiding theoretical channels we investigate most criticized and elaborated budget related macro variables such as GDP, Inflation, Remittances and Exports through visualization and future projections. These variables are associated with other economic indicators and ultimately have significant impact on overall economy. We conclude that Pakistan Economy is on recovery path.

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How Much Land Does a Man Need?

By Mahmood Hasan khan

Well, the answer is 6ft x 3ft! That is how Leo Tolstoy's story of Pahom, a landless peasant, ends. Pahom was hungry for land. He said to himself that "if I had plenty of land, I shouldn't fear the Devil." The Devil was listening. He thought all right: "We will have a tussle. I will give you land enough, and by means of that land I will get you into my power." The Devil followed Pahom in his lust for land to the lands of Beshkirs. There Pahom eventually died of exhaustion—his claim to land depended on how much area he could cover on foot in a day—and was buried in a grave measuring 6ft long and 3ft wide.

Land is Nature's bounty to be held in common. Why should it be any body's personal property? A person should have the right to the fruit of his/her labour on land. For millennia, in almost all societies, land was owned and managed by communities. With the passage of time, the claim of absolute ownership passed on to monarchs who assigned the right of usufruct by various modes of tenancies. The private right of property in land is of recent origin and has evolved through wars and conquests. (Private lands have depended for production on serfs, slaves, and family and wage labour.) We are familiar with the arguments against the common property right in land and in favour of the private property right. They were offered in England by William Forster Lloyd in 1832 in the context of the enclosures. In our own time, Garrett Hardin, an ecologist, developed Lloyd's arguments further in his article titled "The Tragedy of the Commons" (Science 162, 1968). But we have evidence that if the land held in common is managed through well-defined and well-enforced rules, it avoids the problem of exclusion and negative externalities. On the other hand, while the private property right in land may induce greater efficiency, it comes at a high social cost.

The issue of land reform in a system of privately-owned land is raised because of the high concentration of landownership and the tenuous rights of tenants: a large proportion of the land area is owned by a small proportion of the households and a large proportion of the population either owns a small proportion of the land or is landless. The lack of access to land through ownership forces the households to one or another form of tenancy or wage labour in or outside agriculture. The consequence for the small landowners and the landless is a constant struggle against poverty; the landless households often suffer the most since they are at the bottom of the totem pole. The political economy of land reform is quite complex and controversial since it involves land redistribution in some form. The conventional land reform programme involves transfer of land from private landowners to the landless and the near-landless tillers of soil. In other words, the government transfers land from one set of individuals to another to reduce land concentration and to alleviate poverty.

But there is an alternative approach to land reform for sustainable development: let the community buy out the privately-owned land. The buyout can be done in two ways. One is modelled on the Land Reform Act of Scotland (2016), in which the government requires that the privately-owned land can be sold to communities only and, for the public good, it can also force a private owner to sell part of his/her land to the community. The community (of tenants or residents) will hold the title to the purchased land. The government of Scotland has established a Land Commission and a Land Fund to purchase the land and to help the owner-community to manage it on a sustainable basis. The government uses taxpayer's money to purchase the land, etc. The community is responsible for managing the use of land based on well-designed plans. In the second approach, communities establish voluntary trusts to purchase the privately-owned land on sale in the market and then manage it. Several such trusts have been functioning in the United Kingdom and the United States for years. (In both approaches, communities can establish their own tenancy arrangements.) The tentative results in Scotland show that the system is reducing the concentration of land and allowing access to increasing number of the landless residents/tenants. In the case of the voluntary trusts, community ownership and management of the land has been beneficent to the environment, protects the resource base and is quite efficient.

I want to focus on Pakistan in this context. Landownership in Pakistan is highly concentrated. Can this assertion be supported by facts (numbers)? There are two problems in this regard. First, the government does not allow access to the data for landownership from the provincial land records. Second, the land records are incomplete or unreliable. Besides, the government's numbers would show us the titles of individual landowners and the area they own. Many of these individuals belong to the same household and some titles are fake. Consequently, the real extent of land concentration is far greater than what the official data would reveal.

Luckily for us, the agriculture census data on landownership are a good proxy for the data from land records. According to the agriculture census of 2010, one per cent of the landowners (with holdings of 20 hectares and more) had almost one-third of the area and over two-thirds of the owners (with holdings of less than 2 hectares) had less than one-fifth of the area. Since we do not have the data from the 2020 agriculture census, we cannot be sure if the concentration of land has changed in the last decade. My guess is that it has not. We also do not know the number of landless rural households, who may be tenants or wage workers, but they must be in millions. We do know that the large landowners have a lot of clout in the rural communities and, through their alliances with the urban elite, they also carry much weight in national affairs. Their role in society serves them well but at a high cost to the landless and the near-landless peasants.

The story of land reform in Pakistan is a sad one. At its inception, the country had a quasi-feudal (jagirdari) agrarian system, in which a tiny fraction of the population owned most of the land and a vast proportion of the tillers were either (landless) sharecropping tenants or owners of tiny and fragmented landholdings. The owners of large landholding dominated the social and economic life in the rural areas and the nation's politics. The tenancy reform acts of the early 1950s did not alter the status quo. The land reform acts of the Ayub and Bhutto regimes, to redistribute land and to improve the rights of tenants, were faulty in their design and poorly implemented. We have good evidence that they made little dent in the concentration of land and in the fragile rights of tenants. In addition, the two governments and their successors have pursued policies on prices, subsidies, and taxation favouring disproportionately the owners of large landholdings. The data on poverty in Pakistan show that three-quarters of the poor live in the rural areas and most of them belong to the landless (tenants and wage workers) or near-landless households. A vast majority of the migrants from villages to towns and cities are also from this class of households.

When there is so much land in the hands of so few and there are so many with no land or little of it, what are the options for land reform in Pakistan? Well, we do not expect any legislation that would set a limit on the amount of land a person can own—pleaders of the Sharia argued successfully before the courts that it was un-Islamic, hence unconstitutional. So, why not adopt a buyout policy to transfer the land from private hands to communities of the landless tenants and others? We can take the Scottish approach, requiring the sale of private land to the community only. Or we can use the voluntary-trust approach to acquire land for communal use. A close study of the two approaches shows that the first one will reduce land concentration and alleviate poverty more quickly and effectively. The government can pass legislation forbidding the sale of private land between individuals and, for the public good, and allowing the government to force a private owner to sell part of the holding to the community. The government's Land Commission in each province should be involved in the transactions and in the management of the communal land. The provincial Land Fund should use taxpayer's money to finance the purchase of land. The holders of the community land should pay the Land Fund a mutually agreed rent at the end of each calendar year or after each crop season.

The good news is that there are Community Organisations (COs) and their clusters, called Local Support Organisations (LSOs), in almost every part of Pakistan. These institutions have been nurtured and supported by a network of rural support programmes in the last 30 years or more. The COs and LSOs should be registered with the provincial Land Commission and act as agents for the purchase and management of land on a community basis. The COs and LSOs should give precedence to the landless tenants and the near-landless owners from among their members to be holders of the community land. These landholders will have the responsibility to make plans and use the land according to those plans. The functionaries of the Land Commission, the Land Fund and the COs and LSOs should provide whatever support or guidance the community needs to utilise the land on a financially and environmentally sustainable basis.

Will it work? Take one step at a time. Try it as an experiment (i.e., pilot project) in a few districts? But do the homework first. Review and study the experience of the required buyouts in Scotland and the experience of buyouts through voluntary trusts in the U.K. and U.S.A.

Pakistan's Dead Capital

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FINANCE Minister Shaukat Tarin recently stated that putting the economy on a higher growth trajectory is the government's top priority, and that plans are afoot to spend a substantial amount of resources on large infrastructure projects to achieve the target. Unfortunately, there is nothing new in this recipe, and as I argued in my last piece (Obsession with infrastructure', April 30) in this paper, it might even end up creating more long-term liabilities.

So are there any alternatives that can help propel the Pakistani economy to higher, sustained growth rates? Yes there are, something that the Pakistan Institute of Development Economics (PIDE) panel and team on growth strategy considered while coming up with ideas/strategies to accelerate the economy's growth. It's not the usual document that is centred upon a few trite ideas, but takes stock of issues ranging from civil service to the judiciary's performance, and how they hamper growth. Amongst these ideas, there is a discussion on the concept of 'dead capital'.

The term is usually attributed to Peruvian economist Hernando de Soto and his famous book The Mystery of Capital. Briefly put, what De Soto and his team found was that lack of formal rights were turning productive assets into 'dead capital' as they could not be traded on formal markets. The blame, De Soto argued, lay not with participants of the informal markets (mostly poor people) but with a plethora of stifling regulations that render productive assets 'dead capital'.
Before De Soto, Adam Smith articulated in his famous Wealth of Nations that the real wealth of a nation is the potential of a particular productive asset to contribute to the economy. But if such assets are confronted by legal and institutional morass, then they will remain unused and underutilised.

Like physical capital, a lot of intellectual capital-related business ventures die because the laws required to facilitate them are absent.

A particularly striking, and evident, example in an over-regulated economy like Pakistan's is the way real estate is regulated. The procedures surrounding the use and transfer of physical property are so complex that it leads to the loss of millions of real estate-related transactions, thus turning opportunities into dead capital.

Land, for example, remains unsold for decades due to friction created by stringent, archaic regulations. Similarly, investment potential worth billions remains unutilised due to illogical restrictions on vertical expansion. In cities like Islamabad and Lahore, valuable land remains underutilised. A crude estimate by PIDE, for example, suggests that changing regulations and allowing for high-rises in just the GOR Lahore (underutilised, prime real estate) area has the potential to generate economic activity worth billions of rupees while generating more than 100,000 jobs. Similarly, extremely valuable land in Islamabad's sectors like G-6 and Aabpara is in the use of government servants. If it is reserved for private, commercial use and vertical expansion is allowed, then there are investment opportunities worth billions to be had.

The public sector alone, in the form of various government departments, holds property worth trillions of rupees all over Pakistan without any use, thus constituting 'dead capital' since they can't be used in the process of wealth creation. Even the ones that are in use mostly constitute a non-productive venture, and occupation of prime land for nothing. However, the way such assets are administered in Pakistan, they do constitute exceptional rent-seeking opportunities, which is the primary reason why there are so many departments dealing exclusively with matters related to real estate.

Capital, though, is not just physical capital; in fact, in today's world, intellectual capital (ideas, innovations, etc) assumes even bigger importance. People often talk about Silicon Valley and its importance to the US economy. The place is all about ideas and innovation, about intellectual capital. To illustrate, the US government earned $30bn in

2020 as 'charges' for the global use of intellectual property originating within its borders. Further, a 2016 report by the US Commerce Department (Intellectual Property and the US Economy) found that IP-intensive industries support 45m jobs, plus contribute $6tr to the US economy.

This intellectual capital would be dead if it were not for facilitating business transactions, primarily through laws (patents, trademarks and copyrights). Like physical capital, a lot of intellectual capital-related business ventures in Pakistan die because the laws required to facilitate them are not present. EMI, a music recording giant, wrapped up its business from Pakistan as losses accumulated due to the absence of IP rights, leading to pirated music.

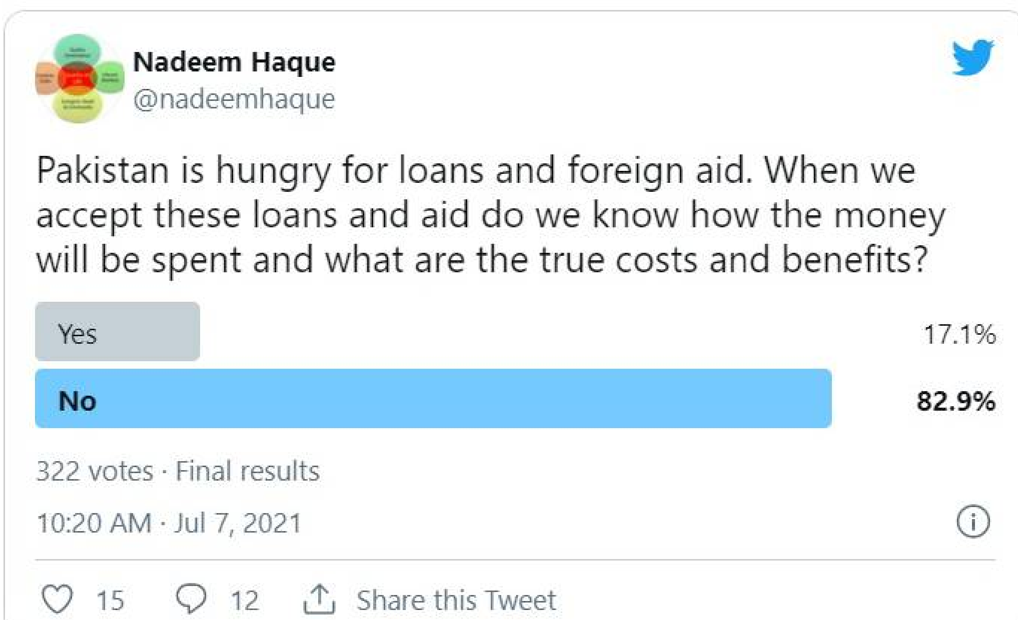
A similar case is that of pharmaceutical products, especially drugs, where patented drugs are easily copied and sold in Pakistani markets, thus limiting the scope of the market for originator brands and proving to be a major detriment to attracting FDI inflows in this important industry.

Perhaps most crucially, we need to be cognisant of the fact that GDP is but a summation of mutually agreed transactions that benefit all the parties involved. A simple rule of thumb for any policymaker, therefore, is that to increase GDP we would need to increase and facilitate transactions. On the flip side, the loss of a probable transaction is a 'dead' opportunity.

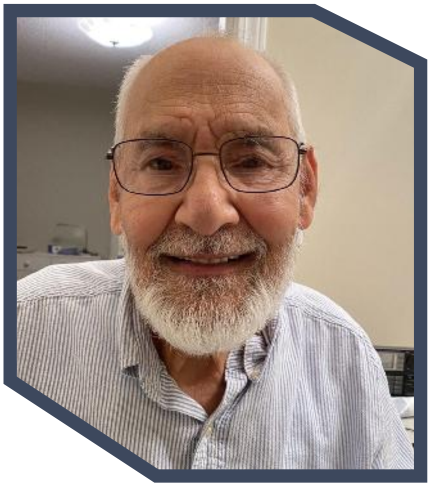
For a country of approximately 220m, there are potentially trillions of mutually beneficial transactions that can considerably change the economic tide. But given the stifling of economic activities through byzantine regulations, beneficial transactions remain subdued, incomplete and at the mercy of inconsistent economic policies. We do not have a monetary count, but it would not be surprising if such a count comes out someday, informing us that our economy's opportunity cost of working under stifling regulations runs into trillions of rupees. In essence, the opportunities that can perpetuate exchanges resulting in trillion-rupee activities are killed, hence turning them into dead capital!

It is time, then, to tackle the issue of dead capital seriously. Any attempt at a higher growth trajectory would remain incomplete without it, especially the role of public sector-led regulations that pervade all aspects of our economic activity.

July 07, 2021



The Untouchables



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No, I am not talking about Dalits or the "outcastes" of the Hindu caste system. (In passing, the first law minister of Pakistan, Jogendranath Mandal, was a dalit. But he had to flee in 1950 and take refuge in India where he died in 1968.) My focus is on the two seemingly weighty untouchables in Pakistan. They enjoy enormously disproportionate power and are major constraints on the efforts to build a socially-just, harmonious and prosperous country. Let me stress that they are not the only constraints, but they are probably the most entrenched and tenacious.

The first powerful constraint is the constitutional framework of the country. In his address to the first Constituent Assembly of Pakistan on 11 August, 1947, the Quaid-i-Azam said: "If you change your past and work together in a spirit that every one of you, no matter what your relations he had with you in the past, no matter what is his colour, caste, or creed, is first, second, and last a citizen of this State with equal rights, privileges, and obligations, there will be no end to the progress you will make…… You are free, you are free to go to your temples, you are free to go to your mosques or to any other place of worship in this State of Pakistan. You may belong to any religion or caste or creed—that has nothing to do with the business of the State." But the Assembly did not embrace the Quaid's vision of a modern republic in framing the first constitution of Pakistan. The mongrel constitution of today is even more distant.

Pakistan is not a republic, but a quasi-theocratic—I should say pseudo-theocratic—state, in which the man-made laws are subservient to some divine laws. A republic is a state of free and sovereign people that guarantees its citizens equal rights and freedoms irrespective of their age, gender, race, colour, ethnicity, religion, language, and class. It helps to resolve conflicting interests and promotes common interests by the force of man-made laws and policies. A theocratic or pseudo-theocratic state, on the other hand, deprives its citizens of their basic rights and liberties with the fetters of the immutable divine laws. Leave the divine laws out of the public sphere and let them be the spiritual and ethical guide for personal life. History tells us that both religion and state are well served when they remain separate. Religious freedom should be respected, nay guaranteed, as are other freedoms. According to the contemporary and historical experience, a theocratic state not only creates divisions (fractions), but it also pursues socially unjust policies. Social justice implies equality of rights and individual freedoms. Pakistan's constitution and laws should be made consistent with its claim to be a republic. (Qualifying a republic with a prefix or an adjective is really its denial.) There is only one kind of republic: "of the people, by the people, for the people." It means that the people are sovereign and free with equal rights. If these conditions are not met, the country will remain in a dystopian state of confusion, strife and disharmony. You can probably make material progress but, morally speaking, at a high cost. The cost includes (a) denial of equal rights to the citizens and (b) perpetual social injustice. Is this cost worth tolerating in a civilized society? I think no reasonable person will respond to it in the affirmative.

The second major constraint is the role of the armed forces in Pakistan. Let me start with a question. Does Pakistan really need a million people in arms to defend its borders? Shouldn't its atomic weapons be enough of a deterrent to the enemy? About one-fifth of the government budget (or four per cent of the GDP) is spent on the armed forces and the army budget is kept away from public scrutiny. Second, since at least 1958, the army has been involved in politics overtly and covertly, making and breaking political parties and their leaders. Political leaders look like the French marionettes. In fact, Pakistan's army has assumed the role of the ideological custodian of national identity and security, literally dictating the country's domestic and foreign policy. Third, the armed forces have developed a big stake in the country's economy by various means, most of them lawful given its political clout. It has a lot of real estate in the form of cantonments inside the cities and outside; rights to urban and rural land for the officer class; low-interest loans to buy or build assets; and subsidised housing, health care, education, and transport. More importantly, the foundations and trusts of the armed forces own and manage factories, enterprises, housing schemes, educational institutions, and hospitals. They get commercial contracts from the government departments to build and manage large-scale infrastructure projects, etc. Then there are the job quotas in the government and quasi-government agencies reserved for the army personnel.

What public good is served by these concessions and favours given to only one group in the society? I am sure one can offer arguments, almost all of them self-serving, in defense of this socially unjust situation. Pakistan's armed forces are an expensive enterprise with their corrosive effects on the society because of their enormous political and economic power. Their direct involvement in ruling the country three times and their long engagement with the so-called Mujahideen—some would call them terrorists plain and simple—have distorted if not derailed the process of political development towards a representative democracy in Pakistan. How long should "the man on horseback"—this is the title of a classic by Samuel E. Finer—be allowed to enjoy the fruits of its power in a poor country? The problem is that, once a group has acquired so much power, it would not be willing, certainly not easily, to part with it. I think Mr. Zulfikar Ali Bhutto had a chance after the dismemberment of Pakistan, but he let it slip in a way that perhaps Machiavelli would have approved.

The resources saved from a gradual retrenchment in the armed forces can be used to build human capital: increased investment in education (primary and secondary in particular), health care (for women and children in particular), and sanitation infrastructure. We know that human capital is the single most important determinant of economic and social progress. Pakistan's backwardness—compare it with Sri Lanka, India and Bangladesh in the neighbourhood—can be attributed largely to its deficiency in human capital. The two untouchables are the major obstacles in the way of building human capital. Both restrict freedoms and one of them consumes a lot of scarce resources.
I suspect that these thoughts are highly contentious, but by no means seditious. Shouldn't we let the public debate them freely?

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