



# Federal Budget 2022-23: Now and Future

Pakistan's Economy is at a crossroad; economic growth historically has been on a stop-go pattern where a higher growth lead to increase in current account hemorrhage and more recently the global economic uncertainty led inflation is also reining in on our growth targets. However, without a higher growth rate jobs for the 800 million workers and additional jobs for those entering the job market due to demographic transition may remain a dream only. Our youth is the highest in terms of population proportion and it can turn into a crisis instead of a dividend if

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our economy doesn't grow for creating jobs. On the other hand, strangely "to go or not to go to the IMF" continues to dominate the economic debate in Pakistan. Our country had been going to IMF because of our Balance of Payment crises, which has always been deepening and it needed financial as well as credibility support from IMF engagement. Since 8-Dec-1958, Pakistan had 23 lending arrangements with IMF in which only 8 had a full amount drawn (68% average utilization). Last one is Extend Fund Facility (EFF) started in 2019 with a commitment of 4.3 Billion SDRs (\$ equivalent 5.8 Billion). For engagement between years 1984-2022 (38 years) only 13 years are when no disbursement from IMF was made. So IMF has always been there in almost all the budgets in the last four decades. Further this is the last year of this elected parliament hence the pressure to deliver for next election cycle is also mounting.

Budget making for Pakistan is always a challenge; as the budget should not be a mere statement of receipt and

expenditure for the coming year. It has to set a clear direction for the economy with the goal of macro stability along with fiscal sustainability in the coming year (in the Medium Term Budgetary framework context for the next three years). With the challenging global and domestic economic environment, the government should target a balanced and equitable growth with a focus is on building long-term fiscal sustainability. Below we have tried to evaluate the budgetary framework and expectations from it in the above context.

In the first question we explore; **Has budget making changed over the years?** The answer to this question lies in evaluating the budgetary process and practices, which have been adopted in the past and still are the same despite

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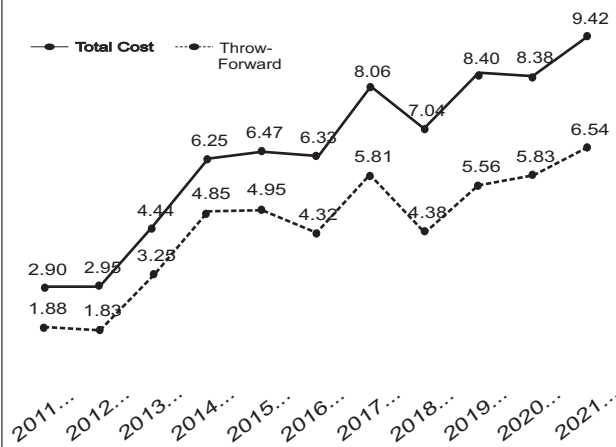
enacting of a comprehensive Public Financial Management system under the PFM ACT-2019. Besides the new law there are about 15<sup>1</sup> statutory guidelines for public financial management in the federal government.



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<sup>1</sup> Constitution of Pakistan 1973, Federal Financial Procedures, Public Finance Management Act- 2019, Fiscal Responsibility and Debt Limitation Act, (FRDLA) 2005, NFC orders; President's Orders No. 5 dated May 2010 and No. 6 dated July 2015, Public Debt Act 1944, General Financial Rules (GFR), Federal Treasury Rules, The Rules of Business, 1973, Rules of Procedure and Conduct of Business in the National Assembly, 2007, Rules of Procedure and Conduct of Business in the Senate 2012, Public Accounts Committee, System of Financial Control and Budgeting 2006, Roles and Responsibilities for Budgeting, State Bank of Pakistan and its Agents etc

Total Cost, Throw Forward, Revised Allocation (in Trillions)



These layers of rules and procedures does not let the system to move on a performance based budgeting for unleashing the potential. There are operational problems on ground which severely compromises the budget making capacity and outcomes of these complex exercises. We see it in many instances; for example, the problem of throw forward is so severe that even if no project is initiated for the next 11 years and PSDP is funded by the average value (600 Billion Rs). Similarly in other fiscal policy areas such as pensions we have a looming crises which can erode the confidence in Public Financial Systems for the country. So to conclude for the first question response we consider that there is no improvement in the budget making process over time hence the overall budget exercise need a serious consideration for improving the practices and outcomes.

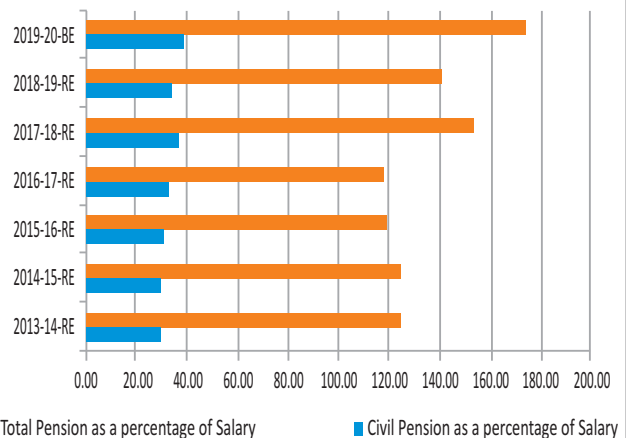


Second important question is **what is our Tax policy?** Our Tax policy is full of complexity, too much focused on documentation for no purpose and misses the fundamental requirement of growth. It can be seen in wordcloud developed from Finance Bills for the Years 1990-

2022 focus has been on creating fiscal space by all means.

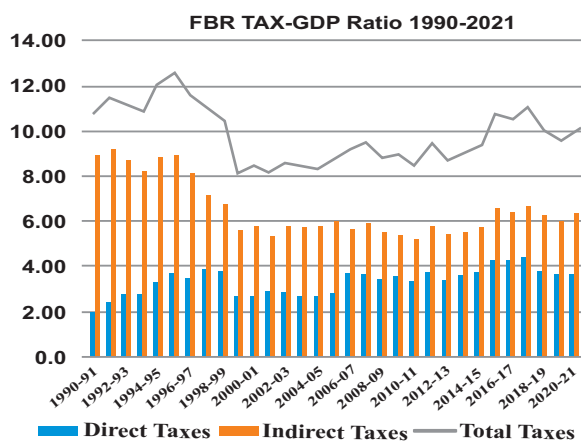
This policy is sub-optimal rather killing economic transactions. We need a tax system which has attributes such as simplification as well as predictability. The tax administration reform should include getting good human capital in FBR with appropriate technology. There had been projects such as PRAL-FBR started many years back and still exist with not much change in how tax policies are made. There is a need for an independent service well versed in technology and modern auditing techniques to run the places like FBR and Provincial revenue authorities. So that a

Pensions as a Percentage of Salary Expenditures



responsible and accountable tech savvy group emerge to collect revenue (for details and other related work PIDE website can be explored at [www.pide.org.pk](http://www.pide.org.pk)).

Now coming to the performance benchmarking of FBR, as a revenue collection performance Tax/GDP ratio is considered. Which is not that low as compared to countries of the region. However, this is without establishing a basis for a comparison and does not taking into account the leakages and political economy of tax collection by provinces puts too much of a pressure on FBR. Which results in Adhoc policies and further squeezing the already taxed classes.



Next question in the context of budget making is that **how many expenditure entities are involved in demanding for grants for expenditures and against what criteria the funding is made?**

For the FY 2022-23 there are 82 federal spending entities who have sought budget against their spending needs. Out of which 10 are charged (not discussed in parliament/voted) and 4 new entities are added this year (estimated from the Federal Demand Review Committee notification D.O.No.F.2 (2)/Budget-II /2022-n/ 60, dated April 11, 2022).

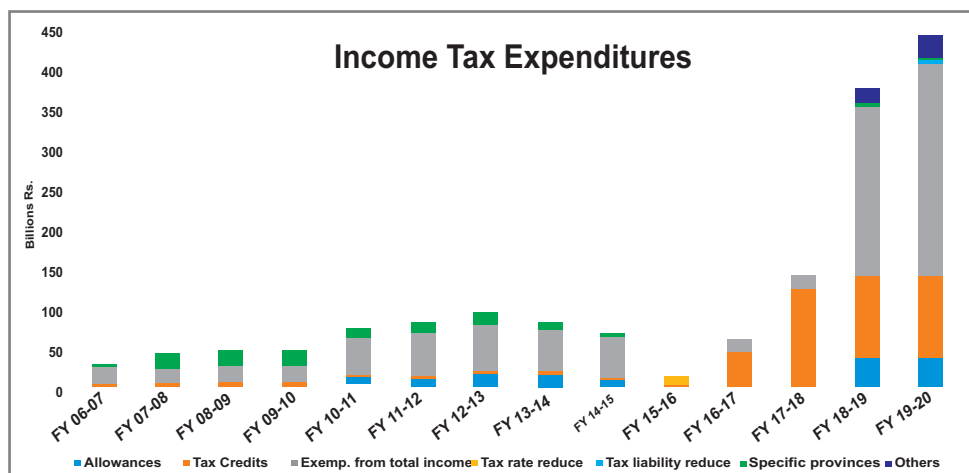
However, this does not include the list of attached departments and autonomous bodies which are also supplied with public money through these spending entities.

As per the latest report of Ministry of Finance (Finance Division, GOP, 2021) there are 212 SOEs working in various sectors of the economy all across Pakistan. 168 SOEs are categorized as commercial and commercial subsidiaries. Out of which 85 are pure commercial entities. As per the government policy (provided in Federal Budget Books); in case of losses of State Owned Entities (SOEs) the government provides financial support to SOEs in the form of guarantees, grants, loans, equity investments etc. if the situation so warrants. Now as the losses of SOEs continue, provision of financial support by the Government impacts the fiscal operations considerably.

The supplementary question is that what are they trying to achieve? And how the performance measurement is done? In a PIDE webinar “PMs Performance Agreements Initiative<sup>2</sup>” lot of structural weaknesses in the current performance contracting were identified. Starting with the basic question as to who sets these and where are these debated ex-ante.

Besides the spending role of the government, the overall foot print is massive. The regulatory frameworks in Pakistan has increased the footprint of government on the economy considerably. Businesses in Pakistan have to tackle high transaction costs, excessive paperwork, barriers to trade and lengthy delays in getting permits without which business can't be run. The economy's percentile ranking in the Worldwide Governance Indicators' 'Quality of Regulation', which ranks Pakistan in the bottom 30th percentile worldwide, reflects this. It is estimated that there is a 43 percent direct share of the government in the economy and 24 percent as the influence exerted as a cost of compliance with inhibiting regulations. Thus the total footprint of the government on the economy stands at 67 percent<sup>3</sup>.

This brings us to our next question on the Fiscal responsibility laws? Because all over the globe for complex government operations to be prudent and efficient there are Fiscal responsibility laws which are independently and vociferously followed. But such practice does not exist in Pakistan. Fiscal Responsibility and Debt Limitation Act, (FRDLA) 2005; amended in 2016 is the Federal Government promulgated Fiscal Responsibility law to provide for reduction of Federal Fiscal Deficit and ratio of Public Debt to Gross Domestic



Products (GDP) to a prudent level by effective Public Debt Management. However, its effective implementation is yet to be seen. Most of the key policy decisions are floated through SROs, any time during the fiscal year creating an atmosphere of uncertainty and perceptions about rent seeking. A glaring example of the conduct of fiscal policy without any fiscal responsibility is FBR Tax expenditures. From a small value of close to 35 Billion it has swelled in FY 2019-20 closed to 450 Billion rupees. May be the time has come to make debt coordination office housed at M/O finance independent like the State Bank was made under the SBP ACT 2021. Perhaps that can bring some teeth for the law to be effectively implemented.

### Way Forward

In the end what's the Way forward? What are the Opportunity to Excel: Now and The Future? There is no mathematical answer to this complex question however availability of opportunities implies that people have a range of life options, specifically economic, to pick from, and have a realistic chance to adopt what they want to do and succeed in it. For Pakistan, where nearly sixty percent of the population is aged under 30 years, opportunities become even more significant. The fact that we live in a world where technology is changing the way things are done at an unprecedented pace makes it very easy for those not keeping up to be left far behind, without opportunities. Are the budgets in Pakistan offering such opportunities to its people to take up and excel? Is the Financial and Planning Managers of country doing what needs to be done for its population to excel in future?<sup>4</sup>

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<sup>3</sup> What is the Size of the Government Footprint on Pakistan's Economy? PIDE Blog, authored by Nadeem Ul Haque and Raja Rafi Ullah, 2021

<sup>4</sup> Visit PIDE website [www.pide.org.pk](http://www.pide.org.pk) for a whole range of discussion on topics of economic importance and policy reforms.