

# Webinar: Federal Budget 2021-2022



Budget for the **fiscal year 2021-22** is around the corner. The new Finance Minister is expected to bring about new changes and make new announcement. He wants to negotiate on the Fund Program and also wants to encourage the new enterprises. In order to get expert opinion on the new developments in the coming budget, PIDE in collaboration with IPRI held a pre-budget webinar inviting four eminent economists to shed light on where we are and we are heading towards.

Dr. Mahmood Khalid set the stage by sharing the key budgetary proposals in the *Medium Term Budget Strategy (2021-24)*.

- All the burden of austerity has been put on the revenue side, especially FBR in the coming budget. The revenue target is expected to increased by 27% for FY 2021-22 over the last year revised target.
- From the expenditure side again federal government is to cut its current expenditures, mainly on domestic interest payment side.
- The expenditure on the federal and provincial PSDP is expected to be almost the same as in the previous years. There are new projects as well as throw forwards in the PSDP leading to cost and time over run of projects.
- Apart from this, certain fiscal benchmarks from the IMF have to be met as well specifically the reallocation of electricity subsidy burden towards the consumer.

## Dr. Hafiz Pasha Recommendations

Dr. Pasha mentioned the nine month fiscal operation position of the country (July-March FY 2021):

- The budget deficit has decreased to 3.6 % of the GDP as compared to 3.8% in the last year.
- There is a big decline in the development budget, that is, 29% in the last nine months.
- The development spending reported is 277 billion rupees whereas the releases are 494 billion rupees. Provinces have a surplus of 400 billion rupees (0.8% of the GDP) which means the reduced budget is not spent where it should be spent. This means the system does not have the capacity to spend.
- The approval of the Medium Term Budget Strategy Paper by the Cabinet and the National Assembly on the basis of which IMF has given us a quarterly payment of 500 billion dollar. If the targets in the MTBSP are not met, the Fund can suspend its program.
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- Target for a 1% decrease in the budget deficit. Target for a growth rate of 18-20 % in FBR revenues.
- Increase the capacity for the development budget which happens to be a new constraint.
- Raise development spending by 20%. Impose a moratorium on new projects.
- The tax proposal in the MTBSP and in the staff report of the IMF for withdrawing most of the exemptions in the sales tax. According to him, they are reasonable exemptions (related to food, medicine, etc). Focus should be more on the progressive taxation in terms of direct taxes.

### **Dr. Pervaiz Tahir Recommendations**

Dr. Tahir responded to the questions posed by Dr. Haq of where the problem lies and why our fiscal machinery is broken down. He said when one doesn't think about one's problem, one keeps on having the problem.

- The Finance Minister has to do something on the expenditure side. Money should not only be released rather it should be spent somewhere, which requires capacity building.
- The focus of spending should be on the projects which are of some return, just not on useless things.
- The Federal Government should not spend in those areas which belong to the provinces after the 18 th amendment. For example: the funding of the universities should be a provincial subject.
- He proposes a pension fund for pensions specifically the military pensions as the total liabilities of the pension is over 1050 billion rupees.
- Debt to the private sector should be increased.

### **Dr. Vaqar Ahmad Recommendations**

- According to Dr. Ahmad, the Budget Strategy Paper should be revised if the four key goals (growth, job creation, social protection, and controlling inflation) by PM in the Economic Advisory Council have to be met.
- The focus on private investment in the Budget Strategy Paper is missing without which the high targets of job creation cannot be realized.
- The efficiency of our social protection programs seems sub optimal. In order to mobilize all the social protection initiatives taken, the nation wide data bases including NADRA have to be integrated.
- Insulate the tax administration from the political influence, for that the demand of the tax body for the autonomy should be considered.
- Given the lack of capacity of the government sector, the project appraisal function should be outsourced to some independent third party.

### **Dr. Aqdas Afzal Recommendations**

According to Dr. Afzal the lack of jobs is not only an economic problem but it is more of a social problem. In order to cope with the problem of growth, jobs and poverty, he suggested the following.

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- In the short run, budget for Ehsaas/BISP has to be enhanced; to double at least.
- In the medium term, the Govt. should look forward to the privatization agenda for those State owned enterprises, not well managed by the government.
- In the long term, invest in the human capital in terms of health and education.