Introduction

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The federal government has presented the most important economic policy statement on governance, in the form of the federal budget 2011-12. It has stated three basic policy objectives, which it is looking forward to achieving, through the execution of the budget. These objectives are: containing fiscal deficit to 4 percent of the GDP, as agreed with the International Monetary Fund, ensuring reasonable growth and stabilization at the same time and, supporting devolution without a financial hemorrhage, due to lack of capacity at the provincial level (seventeen federal functions have been transferred to the provinces at a time when they have little capacity to carry them out).

This is exactly what the government had committed to the international donor community at the Pakistan Development Forum in mid-2010, in Islamabad. In the post-flood paradigm the government modeled the reform process on three pillars: 1) reducing fiscal imbalance through budgetary measures, 2) managing a balanced and a sustained growth by the inclusion of the social sector and, 3) managing the post-flood reconstruction through the Annual Development Programme that was meant to assist the poor and ‘new poor’ (flood-affected), with the help of the provincial governments. Seven months down the road, the government has failed on all three fronts. Fiscal deficit is above 6 percent of the GDP and growth has been gone down to 2.4 percent of the GDP. High cotton prices have resulted in better than expected export performance ($2.5 billion export revenue is expected in the year 2010-11). The current account surplus is already dwindling. With the Libyan crisis looming, international oil prices are likely to remain spiked up over the next two quarters of the financial year. In December 2010, it was clear that it would not be possible for the federal government to meet revenue targets missing them by well above 90 billion rupees. SDPI, in its December issue of the Sustainable Policy Economic Bulletin, had predicted exactly this. Now, at the end of the fiscal year after another downward adjustment in the federal revenue collection target, the forecast has been proved correct. The government has failed to meet all three commitments made to the international donor community, which were declared by the International Monetary Fund, as a prerequisite for the continuation of financing support under the Standby agreement, which has now reached its end.

The Budget at a Glance

The budget 2011-12 has the following main features:

- The total outlay of budget 2011-12 is Rs 2,767 billion, which is 14.2 percent higher than the size of estimated expenditures last year.
- For the expenditure of Rs 2,767 billion this year, Rs 2,403 billion is available as a combination of available resources.
- Net revenue receipts for 2011-12 have been estimated at Rs 1,529 billion, which is an increase of 11 percent over the budget estimate of last year.
- The provincial share in the federal
revenue share has been estimated at Rs 1,203 billion this year, which is 16.4 percent higher than the last year’s estimate.

- The capital receipts for 2011-12 have been estimated at Rs 396 billion, which is an increase of about 11 percent over the last year, which was estimated at Rs 325 billion last year.
- The external receipts this year have been estimated at Rs 414 billion. This shows an increase of 7.1 percent over the last year’s budget estimate.
- The overall current expenditure during the financial year 2011-12 has been estimated at Rs 2,325 billion rupees, which is an increase of 1 percent over the revised estimates of last year.
- The federal development expenditure this year has been estimated Rs 452 billion, which is a jump of 54.4 percent over the revised estimates of the last year.
- The share of current expenditure in total budgetary outlay for 2011-12 is 83.7 percent, down from the last year’s 89.7 percent.
- The expenditure on General Public Services is estimated at Rs 1,660 billion which is 71.1 percent of the current expenditure. This includes debt servicing, transfer payments and superannuation allowance.

- The size of the Public Sector Development Programme (PSDP) for 2011-12 is Rs 730 billion. In addition other development expenditures have been estimated at Rs 97 billion. The PSDP shows an increase of 8 percent, over the revised estimates of 2010-11.
- The provinces have been allocated an amount of Rs 430 billion for the development, which was Rs 373 for the financial year 2010-11.
- For the ongoing reconstruction and rehabilitation work for the victims of the 2005 earthquake; Rs 10 billion have been allocated in the PSDP.
- This year, the government has estimated Rs 303.51 billion rupees of bank borrowing for bridging the budgeted gap between expenditures and income. It was Rs 452.22 billion last year.
- The federal government has estimated tax revenue through the Federal Bureau of Revenue (FBR) at Rs 1,952.3 billion.

Macro Economic Framework Targets for 2011-12

- GDP growth estimate 4.2 percent, up from 2.4 percent last year.
- Fiscal deficit 4 percent of the GDP, down from 5.1 percent last year (final figure is expected to be above 6 percent after reconciling the with the final bank borrowing and revenue collection figure).
- Inflation target has been fixed at 12 percent, above the last year.

Fiscal and Monetary Policy Responses to Address Macroeconomic Imbalances—An Evaluation

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In the preceding section, an analysis of the economic situation reveals that the country has never experienced such a grave economic and financial situation. Fiscal and monetary policies which are the main instrument to gear the economy to specified growth targets and direction including macroeconomic stability are claimed to have been framed by budgetary authorities for the next financial year with a priority on ‘Job and Growth’. To achieve the desired objectives, the budget further claims to lean heavily on controlling the fiscal deficit; increasing the growth rate and substantially increasing revenue collection through making the tax-base larger.

It is important to keep in view that the budgetary policies and programmes have been formulated in the backdrop of, inter alia, an extremely adverse fiscal deficit on account of a number of reasons and mounting pressure of loans by the government from the central bank and commercial banks in addition to foreign loans from IMF and othersources. An Economic Analyst has said, “the hard part will be the delivery on what has been announced” therefore the economic and financial state and the possibilities of achieving budgetary targets’ provisions will be announced by the Finance Minister.

Fiscal Policy Responses

The Background

To meet the expenditure of total outlay of the budget of 2010-11 (Rs 2764 billion), the estimated (BE) total resources of Rs 2256 million including net revenues of Rs 1377 billion and overall expenditure of Rs 2784 billion for the financial year had to be revised to Rs 2107 million (-6.1%), (1238 billion (-2.84%) and Rs 2803 billion (0.68%) respectively but in the case of development expenditure it was revised to make
it lower by 35.48 percent. On account of a gap between the revenue collection targets set for the financial year 2010-11 and the actual realisation along with a heavy amount of the non-development expenditure and a voluminous addition in the amount of subsidies from the estimated amount of Rs 126.68 billion (1.5% of GDP) to a revised estimate of Rs 395.801 billion (3.95% of GDP), the fiscal deficit is again seen widening much higher than the original (4.0 percent of GDP) and revised target of 5.3 percent.

It rose to 2.9 percent of GDP during the first half of the current financial year surpassing the half yearly target. It is expected that the budget deficit may rise to the revised target by the close of the FY 2010-11. The payment of a huge amount of inter-corporate debt in the energy sector (around 180 billion) and a sizeable amount to the public sector enterprises including some remaining amount of subsidy to electricity consumers are yet to be paid by the government. The Finance Minister expressed his apprehension in the month of January that it may go up even to the extent of 8 percent of GDP if some structural reforms including RGST are not made. However, according to our conservative estimate, it may end up around 5.8 percent of GDP by the close of the current FY if the financial obligations of the government are not carried out to work out a lower rate of incidence.

Proposed Fiscal and Monetary Policy Reforms

Total Budget Outlay and Fiscal Targets

The federal budget provides for a total outlay of Rs 2.767 trillion which is higher by 12.3% percent than the current year's outlay. To achieve this target, the net federal revenues are projected at Rs 1520 billion which are 22.78% higher as compared to the revised estimated receipts of Rs 1258 billion (BE-Rs 1377 billion) in the current financial year. In order to meet the specified target, a number of fiscal and other measures have been announced.

Income and Withholding Taxes Reforms

The government has taken on board the fact that the tax-GDP ratio in Pakistan's case is the lowest among all the developing countries, and the economy cannot overcome the economic challenges being faced by the country unless there are conscious efforts to widen the tax base for substantially improving its financial resources.

The announcement by the Federal Minister in his budget speech that the government has narrowed in on 2.3 million persons for inclusion in the tax net and out of these 700,000 has been identified to make them pay taxes is encouraging. It will not only generate substantially the revenue but will also meet the principles of equity and justice which is highly needed by the country. However, it is to be seen that to what extent the government may succeed in achieving its proposed measure.

Amid this note of optimism that an additional 2.3 million people will be brought into the tax net, there is a significant reason for disappointment too that the government dropped the recommendation of its Revenue Advisory Council to impose a minimum asset tax (MAT) to bring the rich into the tax net which could have revolutionised our tax structure for the benefit of
the economy and the people. It is obvious from this that the rich and powerful are untouchable and virtually rule the country and influence economic and political decisions of the country.

To promote investment and to encourage the money base for private credit, the incentive programme of concession of a tax credit equal to 100% to the investors with 100% equity financing and investment in BMR may have a favourable impact on investment and employment generation. The proposed provisions of increasing the limit for adjustment of minimum tax on turnover from 3 years to 5 years and tax credit limit for investment in shares through IPOs and involuntary pension funds from 5% to 15% are quite innovative proposals by the economic managers. However, the achievement as a result of these incentives will depend on the success of the government in facilitating the investors and providing a system free of corruption.

Similarly, withholding tax on profit on debt originating from investment in government securities deductible @10% with no tax return requirement and on profit of such investment made by non-residents with similar provisions have been proposed to be considered as final tax. Although, it may be at the expense of some decrease in the revenue receipts under its head, this provision may ease the job of the tax returnee besides encouraging investments in government securities.

The economic managers on the plea of harmonizing the existing tax credits available to individuals for promoting investment have proposed to fix @15% of the taxable income on the maximum cumulative limit of investments amounting to Rs. 500,000 in shares and for premium paid to insurance companies. Limiting the amount of investment indicates the rational that only the small investors may be able to benefit to the maximum extent. However, the government will need to watch that those in power may not influence it to raise the limit otherwise it will be counter productive. Moreover, the proposal of raising the tax credit from 5% to 15% to the companies in the year of their enlistment will also be conducive for investment, growth and employment.

The government has proposed to increase the slab of income liable for income tax from Rs 300,000 to Rs 350,000 to provide relief to persons who belong to the category of low income earnings. It was most warranted since inflation has badly eroded the purchasing power of the people. This may have been fairer, had the slab been raised at the same proportion to which inflation of food items has increased.

Among administrative measures required to streamline our tax regime, stringent penalizing measures are needed against those evading taxes including those who are submitting false returns to hide their real income and also those who are found involved in other forms of tax scandals. However, success in bringing tax evaders and checking other malpractices as specified requires a strong commitment by the Government and honest tax collecting machinery of the government.

Proposed Amendments in Sales Tax and Federal Excise Regimes

To meet the governments will that it plans to provide relief to the common man, one of the policy measures announced in this direction for the forthcoming budget is the provision of the reduction in the GST rate from 17% to 16%. However, instantly a provision of increasing withholding tax on all commercial imports from 2% to 3% is likely to neutralise, to an extent, the gain to be received from the reduction in the GST rate in terms of a decrease in the prices of commodities and services. However, it is likely to benefit the consumer, though marginally, since there may be some favourable impact, as a whole, on the prices of the commodities as these are likely to decrease to some extent, if the government remains successful in controlling prices.

There are proposals to reduce the overall coverage of federal excise duty for that purpose; all special excise duties have been proposed to be abolished and 15 items out of the list of 46 of the federal excise list have been proposed to be removed from the purview of excise duties. Abolition of the special excise duty is a good omen which will leave a favourable impact on the
prices of those commodities so far being taxed. However, the inclusion of some items out of 15 proposed to be brought under the net of CST, such as surgical tapes, computer software, fertilizer, pesticides and ready mix concrete blocks may add to revenue generation but its impact on the overall economy will be counter productive. The cost-benefit of this proposal should be thoroughly examined before the proposal is materialized.

The proposal to phase out excise duty on cement in three years will be a positive step to uplift the cement industry which, as a whole, is doing poorly at the moment besides it will promote the construction industry which has been badly affected due to a heavy increase in the cost of construction.

The innovative initiative of contemplating various incentive schemes to the tax payers with a view to mobilize them for fully complying the tax obligations is a very significant move by the government. It is hoped that among these incentives, there may also be a consideration of award/ honour and grant of special social status without favour by a panel comprising retired judges and distinguished persons from the civil society to those who establish their credibility especially in tax discipline.

Custom Budgetary Measures
The policy decision announced by the Finance Minister that the regulatory duties on 392 items out of a total of 397 including inter alia, edible items have been proposed to be abolished and this will leave a favourable impact, though, at the cost of revenue receipts. Moreover, the proposal of excluding items such as luxury vehicles, arms and ammunition, sanitary wares, tiles and cigarettes seems to be in the right direction since it is based on the principle of fairness.

The proposal of reducing custom duty on 22 essential raw materials substantially being used by the pharmaceutical industry to produce its products such as anti-biotic, anti-allergic, anti-diabetic and TB medicines to 5% only reflects soundness in approach. It may lower the prices of pharmaceutical items prepared by these raw materials besides providing some support to the local pharmaceutical industry. Other concessionary incentives in custom duties as proposed in the budget for the local industry such as CNG compressor manufacturing, concession in machinery and equipment to incentivize oil exploration companies and glass industry will prove to be beneficial for revitalizing the local industry.

Monetary and Credit Policies Response
Keeping in view a high rate of inflation in the country, the IMF in consultation with the government had envisaged in its Stand-by Arrangement, the tightening of the monetary policy. In general, the monetary policy is claimed to have adopted an approach that adjusts the discount rate from, time to time, ranging from 12.5 percent to 14.5 percent and at present the maximum rate for the current quarter. The monetary policy for the forthcoming budget will be a continuation of the same.
It may, however, be observed that its objectives to improve liquidity management and controlling inflationary pressure in the country have failed. The liquidity position of the central and also to some extent of the commercial banks had been terribly low for the private sector on account of heavy borrowing by the government. Contrary to the belief in the economic principle that a high discount rate will check inflation, its incidence was found low during the period when the State Bank recently adjusted the discount rate to the lower side. It needs to be examined whether the economic principle of dear monetary policy may stand valid to control inflation in our present context while many macro economic variables are not in a normal state. In our view, a cheap monetary policy with credit policy will be helpful, to an extent, in reviving the economy especially in terms of increase in production and employments as it may encourage investment because of lowering the cost of doing business.

Government borrowing from the central bank and schedule banks for budgetary support was very heavy as it stood at Rs 275.9 billion during July-April, 2011 (besides non-bank and external financing) compared to only Rs 156.7 billion credited to the private sector. The amount of borrowing by the government is likely to increase in the remaining two months of the financial year. The promise by the government for the next budgetary period that there will be no borrowing from the central bank meaning that there will be no printing of money is encouraging. The deficit financing is, in fact, one of the most important factors which cause inflation.

With a total outlay of Rs 2.767 trillion estimated for the next budget as against an estimated limited amount of Rs 1529 billion as net federal revenues and promises of donors along with a heavy amount of debt servicing amounting to Rs 1.034 trillion, yet an allocation of Rs 166 billion as subsidies and expected federal fiscal deficit of Rs 97.5 billion, there does not seem to be any reasonable fiscal space in sight. The test of the proposed fiscal policy will lie in its effective implementation.

Debt Control
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Debt Control
Public debt in Pakistan always remained on the high side and exceeded 90% of its GDP and over 60% of its revenues with debt servicing accounting for half of its revenues (ADB 2007). An effort has been made by the economic managers to draw down and limit debt through the Fiscal Responsibility and Limitation Act, 2005. Actual achievements exceeded the prescribed limits in the act (IMF 2006). Growing terrorism and war on terror increased defense expenditures, and impacted the national economy negatively. According to the recent economic survey 2010-11, Pakistan's economy recorded a total loss of some $80 Billion due to Pakistan's role as a frontline partner in the War on Terror.

After assuming the presidency of Pakistan, Mr. Asif Ali Zardari formulated a forum called Friends of Pakistan. The main purpose behind the formation of the forum was to tackle the country's financial problems through external financial assistance. The 2008-09 budget was formulated in line with promises pledged through the Friends of Pakistan forum, which did not materialize. As a result, Pakistan had to approach the IMF for a bailout package. Similarly, last year's budget also included receipts of PKR 1.90 Billion under the approved Kerry-Lugar Bill. However, both Tokyo pledges and Kerry Lugar Bill accounted for PKR 21 Billion as against the estimated pledges of PKR 107.20 Billion.

Debt Facts
- The volume of public debt was PKR 2700 Billion at June 30th, 1998. Over the next 10 years to June 2008, it has risen to 6,400 billion rupees with a record of Rs 3700 Billion (Rs 370 Billion per year). From July 2008 to December 2010, the debt crossed PKR 10,000 Billion.
- The debt-to-GDP ratio crossed the threshold level breaching the prescribed limit under the Fiscal Responsibility Act 2005.
- A sharp increase in internal debt due to heavy borrowing from banking sources and external debt increased due to the adoption of a bailout package from IMF.
The future is insecure as economic activity is not being generated in line with the required capacity to repay. This leaves no option except to expand borrowing in order to meet debt servicing requirements, leading the country into a debt trap.

The weak performance of the economy due to multiple problems led to a paltry growth rate at the end of the last fiscal year. Amidst such a situation, it becomes imperative for the current government to tackle growing debt issues judiciously in order to save the economic system from the brink of the debt crisis. The current budget does not envisage an exit strategy from the mounting domestic and foreign debt. In the end, it will lead to a debate where the government will have to approach IFIs for servicing the existing pile of public debts. The budget’s target to reduce public debt-to-GDP ratio to 51.5% during FY2010-11 could not materialize, instead the war on terror and growing terrorists’ attacks on civilian and armed forces. Defence expenditures increased to PKR 444.64 Billion from PKR 295.595 Billion growing more than 50 percent in the last four years (2005-09). The country suffered an $80 Billion loss due to the war on terror and growing terrorists’ attacks in the country. This year the federal budget has allocated a total amount of PKR 495.215 for defence showing an increase of 11 percent over the last year revised estimates all added up, including pensions and allocations to Ministry Interior it reaches $10 Billion.

Defense and Security Spending

The line item for Defense Affairs & Services is Rs. 495 billion. This line item is generally referred to as the “defense budget”. The sum, however, is misleading and needs to be read as Defense and Security Budget. The security expenses which comes to another Rs. 274 billion are masked in various line items and are more than half of the basic line item. In total it is about 10 billion dollar (almost 850 Billion) that would be spent on defense and security expenditures.

Aggregate Estimate of Defense and Security Spending

Ministry of Defense

Defense Affairs & Services Armed Forces Development Program 150.00 billion
Military Pensions (paid by civilian govt.) 73.22 Defense Division 96
Airports Security Force 2.52 Defense Production Division 53
Atomic Energy 4.43 Ministry of Interior Civil Armed Forces 24.08
Frontier Constabulary 5.63 Pakistan Coast Guard 1.07
Pakistan Rangers 11.45

Figure: Public debt as percentage of GDP

Source: Various Economic Surveys
Development Budget
Atomic Energy Commission 02
Defense Division 01
Defense Production Division 01
Pakistan Nuclear Regulatory Authority 01
Out of defence allocations, PKR 493.745 has been estimated for the defence services while
the remaining PKR1.470 Billion has been allocated for administrative expenses. The employees' salaries use up 42 percent of the total defence expenditures as against last year which was PKR 176.245 Billion. The operating expense has shown an unprecedented increase to PKR128.283 Billion as against PKR111.327 Billion for the last outgoing year. Civil works also show an increase of 10 percent indicating greater construction work due to the heightened security situation in the country.

Defence allocations have always remained covert over the years in the country's history; however, the last few years have witnessed more transparency in the defence budget. Now, the defence budget presents the disaggregated allocations under different heads. However, the allocated and propagated figure of PKR 493.745 does not include educational expenses on cadet colleges, defence universities, military pensions and expenses on Frontier Core, Frontier Constabulary and Rangers. The aggregated amount of the defence budget exceeds PKR700 Billion. The defence budget also does not include expected spending on the North Waziristan operation likely to be started soon as indicated by national and international analysts. Amidst the frontier crisis, there is the possibility of increasing it during any stage of the current fiscal year.

Savings and Investments
During the first seven years of this decade, the country experienced high GDP growth rates, which were mainly driven by investments in the stock market, real estate and consumable items. Policies were not focused on enhancing the productive capacity of the economy, but rather focused on consumer led growth. The growth momentum dipped during the last three years and averaged only 2.6 percent as against 5.3 percent in the preceding eight years. The investment-to-GDP ratio remained high during the early years of the decade, but it experienced a sharp decline in the last three years. The investment climate was also gloomy and investment declined to 13.4 percent of GDP from 22.5 percent of GDP over the last five years. Direct investment also declined over the last year and private sector investment also contracted by six percent per year.

Investment realities
- The global financial crisis, war on terror, heightened internal security, and weak macroeconomic policies led to a decline in investment
- Weak implementation of Public Sector Development Programme (PSDP) could not stimulate private investments
- Public spending efficiency must be enhanced to gain maximum benefits from the large spending package announced in this budget
- This year's budget does not depart from the investment policy patterns of recent years. Amidst the ongoing crisis, there is an urgent need to announce a comprehensive plan for domestic and foreign investors to regain confidence.

Last year, public investments had been revised in the wake of flash floods and tight conditionalities imposed by the IMF. The national government has to adjust spending on public investments
downwards in order to remain within the limits of fiscal discipline imposed by the IMF. In the absence of substantial private investment, public investment always stimulates private investment. The government could not deliver the proposed public investment package which was narrowed down to PKR 462 Billion from PKR 663 Billion, out of which PKR 266 Billion was spent by the provincial governments. The failure of implementation of public investment funding, reflected in last year’s revised estimates, presents a complex and long-standing hurdle to real public investment outcomes. Quoting the Punjab example, the provincial government announced PKR 183 Billion under the public investment programme, but could only spend PKR 110 Billion during the outgoing fiscal year. Furthermore, a diversion of resources away from productive public investment to contain the fiscal deficit within any discipline may lead to hindering the expected outcome of public investments. The government is committed to spending PKR 730 Billion, out of which PKR 430 Billion are transferred to the provinces under the provincial PSDP. This rise in outlay may lead to the stimulation of private investments, if implementation is carried out properly.

Things become worse for private investors as the country adopts contractionary monetary policies, which leads to high interest rates. Huge public borrowing from the banking sector has also created liquidity problems for the banking system. However, the national government can escape these negative consequences linked to the expansion of public investment by acquiring funds by widening the tax base and the US Kerry-Lugar Bill as well as from friends of Pakistan, which will restrict the diversion of funds to public investment from deficit financing. Another way to fill the investment vacuum is to enhance domestic and foreign savings. National savings at 13.8 percent of GDP during FY 2010-11 is one of the lowest among peer economies. Domestic savings dipped to 9.5 percent of GDP in FY 2010-11 from 18.1 percent of GDP in FY 2000-01 which is the lowest ever in the last two decades. Government and private sectors are the major contributors towards low savings in the country.

It is likely that amidst the ongoing crisis in the country with a gloomy investment climate and lowest savings cannot translate into the projected growth rate. The current budget also does not provide any incentives except the five year tax holiday for those investors who will run industries with their own sources. The government tries to spare money for government borrowing from commercial banks due to SBP borrowing limits imposed on government and secondly, it tries to offset the crowding out effects of public borrowings.

Inflation realities
- Soaring petroleum prices on the international market
- Phasing out of subsidies as a conditionality of the IMF stabilization programme
- High interest rates scaled up the cost of production
- High fiscal deficit, high interest rates and a high volume of bank borrowing
- Government has to maintain smooth flow of supply of food staple to ensure availability with affordability through price checks.

Inflation
Soaring food and oil prices led to a 30 year high level of inflation in the country which is the highest ever. Before the PPP government came into office, the price of petrol was Rs: 35.23, which increased to Rs: 68.69, constituting a price hike of 95%. Oil prices thus touched the same levels as experienced during the 1970s. The adoption of tight monetary policies for the last three years along with a more liberalized regime for the import of food staples helped to check inflation. There were imports of wheat, sugar, pulses and many more food goods to ensure the

![Figure: Consumer Price Index & Food Inflation](image)

Source: Various economic surveys
smooth supply of products. Efforts were also supplemented by increasing the outreach of Utility Store Corporations.

Inflation has reached double digits due to contributions from the supply side as well as demand pull factors. The current government's policies led to a devastating situation for the poor and low income classes. Petroleum, wheat and electricity prices rose sharply during the last two fiscal years. On the other hand, high fiscal deficits through bank borrowing, high interest rates and high interest payments added to the existing inflation hike. Despite tight monetary policy, core inflation has not been curtailed. Monetary measures may not be the solution, rather the continuous supply of essential items and better logistics may relieve consumers in the short run.

The proposed budget contains a number of policy outcomes that suggest further inflationary pressure on the economy. On the one hand, the budget proposes further cuts to electricity and agricultural subsidies and an increase in government salaries by 15%. On the other hand, a decline has been proposed to cut down the electricity subsidy from PKR343.144 Billion in FY2010-11 to PKR177.8 Billion in FY2011-12. Similarly, the subsidy to Trading Corporation of Pakistan (TCP) has also been proposed to cut down to PKR6.2 Billion in FY2010-11 from PKR17.130 Billion in FY2011-12. The phasing out of subsidies will raise the cost of electricity and TCP products which will then feed into the mainstream inflationary pressures on the population at large. The current budget proposes to decrease GST by 1% which will also provide relief. Additionally, the budget also proposes an increase in the Ramzan Package from last year from PKR700 Million to PKR2.0 Billion in this year. These measures along with the lack of action taken in arresting cartelized profiteering, which saw a serious sugar crisis last year, further adds inflationary pressure on the economy. The dream of containing inflation at the level proposed in the budget will not materialize as cautioned by many economists and analysts.

Unemployment
The finance minister envisaged growth with jobs in the country in the coming years. However, it is interesting to highlight that no clear cut policy was announced for the creation of jobs for youth. Under the Musharraf regime, unemployment was curtailed to 5.60%, which was followed by an unprecedented increase in unemployment rate under the PPP government, touching 14.0 Percent in last year. The PPP led government claims that it is checking unemployment through employment generation programmes for the unemployed youth. The government claimed to generate more than 27,000 young graduates had been facilitated for one year for off-the-job training for enhancing their employability in different government departments. During the current year, Rs: 2.6 Billion has been allocated for internship programmes. Apart from these allocations, a specific focus has been placed on vocational training programmes to tackle unemployment. However, the PPP failed to fulfill its promise as per the manifesto to secure employment to one working member of the poorest 25% of rural families.

It is important to analyze unemployment from different lenses in a crisis hit country. An unreliable provision of electricity to the industrial sector puts greater pressure on business managers to cut short their labour, resulting in unemployment. Small and medium enterprises (SMEs) undertook massive closures in Pakistan due to the energy crisis. Stringent monetary policy measures impede the way of new investment and the expansion of business services due to high cost lending and low liquidity. The fiscal policy also did not address unemployment through large infrastructure projects providing jobs. Slow investments in the private and public sectors will lead to weak employment generation.

### Budgetary Allocation for Education:

<table>
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<tr>
<th>Budgetary Allocation</th>
<th>Current Expenditure</th>
<th>Dev. Expenditure</th>
<th>Total</th>
<th>Budget Outlay</th>
<th>% of Budget</th>
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<td>2008-09</td>
<td>2,4622</td>
<td>6270</td>
<td>30892</td>
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<td>39571</td>
<td>2764000</td>
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<td></td>
<td></td>
<td></td>
<td>2767000</td>
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</tbody>
</table>
Social Sector Investment

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The social sector has not been a priority area for the Government particularly the health and education sectors. Since 2008-2011, under the democratic government, the outlay for these two sectors is meager 1-2%. It is commonly believed that in the overall budgetary allocation, non development expenditures are higher than development expenditures. The same holds true for the allocated budget for education as expenditures on regular heads like salaries are higher in comparison to development expenditures.

With the adoption of the 8th constitutional amendment, education is now the fundamental right of every child which means the provision of free and compulsory education to all children from the age of 5 to 16 is the responsibility of the government. On the contrary, the MDGs target “to achieve the literacy rate of 88% by 2015”, literacy rate of 57.5 for 10 years and above, have been achieved so far, according to the economic survey of Pakistan 2010-11.

Despite a low number of development projects in 2010-11 i.e. 86, in comparison with 101 projects in 2009-10, the allocated funds were not even utilized in the fiscal year 2010-11. Several reasons have been listed for this while most of them are linked with cuts in PSDP due to floods, unanticipated subsidies provided for electricity and sprawling costs utilized on the war on terror. All these three rationales for flood rehabilitation, unprecedented subsidies and the war on terror ultimately impinged on sanctioning and utilization of the allocated funds for education projects.

The amount allocated for PSDP can be seen below:

<table>
<thead>
<tr>
<th>Years</th>
<th>Announced PSDP</th>
<th>Revised PSDP</th>
<th>Un-utilized PSDP</th>
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<tr>
<td>2008-09</td>
<td>567719.0</td>
<td>415719.0</td>
<td>26.77%</td>
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<td>2009-10</td>
<td>646000.0</td>
<td>604000.0</td>
<td>6.50%</td>
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<td>663000.0</td>
<td>462000.0</td>
<td>30.31%</td>
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<td>2011-12</td>
<td>730000.0</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

The figure below is a graphical depiction of the statistics given in the table above.

The figure below is a graphical depiction of the statistics given in the table above.

<table>
<thead>
<tr>
<th>Years</th>
<th>Total outlay of PSDP</th>
<th>Allocation for Infrastructure</th>
<th>Allocation for social sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>567719.0</td>
<td>141689.8</td>
<td>197505.9</td>
</tr>
<tr>
<td>2009-10</td>
<td>646000.0</td>
<td>26700.0</td>
<td>205925.2</td>
</tr>
<tr>
<td>2010-11</td>
<td>663000.0</td>
<td>221799.37</td>
<td>126314.6</td>
</tr>
<tr>
<td>2011-12</td>
<td>730000.0</td>
<td>229700.936</td>
<td>116305.2</td>
</tr>
</tbody>
</table>

Notes data of 2011-12 is excluded.

PSDP outlay is Rs. 730 billion, of which Rs. 430 million will come from the provinces and Rs. 300 billion is from the federal government.

The figure on the next page is a graphical depiction of the statistics given in the table above.
The health sector, another very important pillar of the social sector, has also been neglected during the disbursement of budgetary funds in the 2011-12 budget.

In the current budget, there was hardly any discussion on finances for health as this is now a provincial subject. The health sector will now be managed by the provinces as per the 18th amendment. In the 7th NFC, indicators for population, poverty, revenue collection/generation and inverse population diversity, have been selected for the distribution of the provincial share in a separable pool.

However as health was a residual subject, before the 18th amendment, certain health programs will still be run by the federal government. In the 2011-12 budget only 15 billion rupees have been allocated to the health ministry to manage vertical programs. Vertical health programs include Expanded Program for Immunization, Lady Health Workers, Primary Health Care and National Maternal Neonatal and Child Health program.

It can be seen from the graph that in 2010-11 a massive lack of utilization of resources is reported i.e. by 40.24% for the reasons discussed under the education sector. The cuts in the social sectors in PSDP negatively affects social sector development and particularly the education and health sector, which are already deprived sectors in Pakistan. Access to fundamental health facilities is a basic human need but health conditions in Pakistan are poor in comparison with other developing countries. The population growth rate of Pakistan is the highest in the region while life expectancy of 67.2 is not compatible with it due to low and poor health facilities.

Public spending on health and education in Pakistan are lowest in the region except that of public spending on the education sector by
Development Expenditure on Health in the Budget:

<table>
<thead>
<tr>
<th>Years</th>
<th>Budget estimate</th>
<th>Revised Estimate</th>
<th>Un-utilized amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>19010</td>
<td>13990</td>
<td>14.63%</td>
</tr>
<tr>
<td>2009-10</td>
<td>23,156</td>
<td>18,500</td>
<td>20.10%</td>
</tr>
<tr>
<td>2010-11</td>
<td>16,915</td>
<td>10,125.3</td>
<td>40.24%</td>
</tr>
<tr>
<td>2011-12</td>
<td>0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Bangladesh. In the wake of such inefficient budgetary allocation, Pakistan ranked 141 in the Human Development Index out of 182 countries (Human Development Report 2009).

Apart from health and education, the government of Pakistan has initiated many social protection/pro-poor programs, like Benazir Income Support Program (BISP), the Punjab Food Support Scheme, Pakistan Baitul Maal, People’s Rozgar Program and the People’s Works Program. In 2009-10, Rs 70 billion, Rs21.6 billion, Rs32.50 billion and Rs26 billion were allocated to the BISP, the Punjab Food Support Scheme, Pakistan Baitul Maal, People’s Rozgar Program and the People’s Works Program respectively (http://jang.com.pk/thenews/jan2010-weekly/bugrev-25-01-2010/p9.htm)

The BISP has been financed under the head of “Other than PSDP”, this comes under development programs but its finances are not allocated under PSDP.

Being the largest social safety net, the Benazir Income Support Program, covered 15% of the entire population in 2009-10. All provinces including FATA are covered under this program while a payment of Rs.1000 is being given to the registered families.

Under this program, various projects have been initiated like “parliamentarian”, “bomb blast victim”, “IDPs Swat, Malakand”, “IDPs Bajaur”, “earth quake victim” and “waseela-e-haq”. An amount of Rs. 50,000 million has been allocated in the current budget for this program. The same amount was allocated for the program in the previous year’s budget but only Rs 35,000 million was utilized. Apart from not utilizing the whole allocated amount in the budget 2010-11, flaws have also been identified in the identification of beneficiaries and the embezzlement of money. All this leads to low access of marginal groups, though last year the allocated amount was not fully utilized, in the current budget, an ambitious targets has been set; in his speech the Federal Minister said “next year we will take this amount to at least Rs.50 billion and if additional resources are available this amount may be increased to Rs.65 billion”.

It is noteworthy that apart from massive direct and indirect pro poor programs, the poverty rate in Pakistan is rising. The Government is not initiating...
policies to combat acute poverty. It is unable to provide jobs as a permanent solution to poverty. In addition, a persistent rise in inflation rates is one of the major reasons that resulted in an increase in poverty, despite adopting many measures by the government of Pakistan to reduce or at least control poverty.

Certain reasons have been identified as responsible for inflationary pressures in the current year. There has been an increase in domestic prices of dairy products and vegetables due to loss in floods, an amplifier in the administrative prices of key fuel commodities and an increase in commodity prices at the international level.

The poor population of Pakistan is suffering more due to high inflation rates in comparison with those who are more affluent. For example, in April 2011, those below the poverty line i.e. those who are earning up to Rs. 3,000, faced an overall inflation rate of 14.5% which comprises food inflation of 16.8% and non-food inflation of 11.6%. While in comparison, people who are earning Rs. 12,000 or above, faced an inflation rate of 12.6%; food and non-food inflation comprised of 18% and 9.3% respectively.

<table>
<thead>
<tr>
<th>BISP allocation: Rs. Billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>2008-09</td>
</tr>
<tr>
<td>2009-10</td>
</tr>
<tr>
<td>2010-11</td>
</tr>
<tr>
<td>2011-12</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Inflation rates in Pakistan;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>2008</td>
</tr>
<tr>
<td>2009</td>
</tr>
<tr>
<td>2010</td>
</tr>
<tr>
<td>201</td>
</tr>
</tbody>
</table>

Health 2011-12 Budget

Arif Naveed
arif@sdpi.org

To make sense of the 2011-12 budget, it is important to keep in mind the three essential factors that surround resource allocations to health in Pakistan. These factors are: a) the decentralization of service delivery to provinces under the 18th amendment; b) health status on basic health indicators; and c) last year's budget on health. It would be imperative to briefly talk about these contexts before moving on to allocations made for the year 2011-12.

a) Decentralization of service delivery from federal to provincial governments: Health care in Pakistan has primarily been a provincial matter even before the 18th amendment. However, it has been made an exclusively provincial subject under the 18th amendment with the abolition of Ministry of Health. Nonetheless, several vertical programmes such as Expanded Programme on Immunization (EPI), Lady Health Workers, Primary Health Care, and National Maternal, Neonatal and Child Health programs are still retained at the federal level and are run by the Planning and Development Division.

b) Health status on basic health indicators: Pakistan is among the worst performing countries on health indicators. It records the highest levels of child mortality, maternal mortality, and malnutrition of women. A forthcoming study by SDPI researchers reports as many as 36 percent of the households in Punjab and Khyber Pakhtunkhwa provinces report at least one incidence of under-five child mortality. In fact, child mortality has appeared to be the largest driver of multidimensional poverty in Pakistan. The same study also finds that 21 percent of the households have at least one malnourished woman in the age bracket 15-60. Similarly, life expectancy at birth in Pakistan is also not impressive. It is worth mentioning here that the incidence of morbidity is much higher among the poor.
disenfranchised, and those living in far flung rural areas. Consequences of ill-health are multi-faceted and it gives rise to the cycle of deprivation and poverty.

c) Trends in resource allocation: With the least focus on human development, Pakistan is one of the countries that spends the lowest on health. Last year's floods proved to be disastrous for the health sector. In 2010-11, Pakistan spent as low as 0.23 percent of its GDP on health. This drastic cut on allocations to health care provision resulted in a reduction of 47 percent from the previous year's allocations as the resources available for health fell from Rs. 79 Billion to Rs. 42 Billion. A further unpacking of this budget is in order. If we focus on current expenditure only, the government of Pakistan (combined federal and provincial governments) spent Rs. 127 on the health of each citizen for the whole year. Even this amount is exaggerated since the public provision of health care is largely concentrated on the urban centres and tertiary care facilities whereas the basic health units and rural health centres receive only a marginal share. Had we access to disaggregated data, the allocation to basic health facilities in far flung rural areas could be shown as low as Rs. 30 per person per year worth three packet of rehydration salt for a person for all kinds of illnesses for the whole year. This estimate is still exaggerated as the salaries of the entire health staff, the cost of equipments and administration and all other running expenditures need to be appropriated from this average per-capita amount.

Allocations for the Year 2011-12

In this context, we analyse the 2011-12 health budget. Given the allocations in the federal and two provincial budgets presented so far, it is likely that collective spending on health would fall further from the current low level of 0.23 percent of GDP. The Government would have, not only reversed last year's 50 percent reduction of the health budget, but also it would make new allocations given the worst health status of Pakistanis. The reality is however different from this and there is instead a further cut on health expenditures for the year 2011-12.

In line with devolution of service delivery under the 18th amendment, allocation to health at the federal level is reduced by 65 percent of the last year's cut of Rs. 4.609 Million. Apparently the Ministry of Health is abolished; however, as said earlier, many of its previous functions, such as several vertical health programmes are still retained at the federal level. One may expect that resources saved by reducing federal health budget might have been passed on to provinces since the 18th amendment has added to their responsibilities in certain ways. However, a closer look at the provincial budgets (of Punjab and Sindh presented so far) provides a contrary view. The Punjab government has allocated 48.80 Billions on health vis-a-vis 42.90 Billion last year. This records a 13.75 percent increase over the last year and it is a reversal of last year's drastic cut or compensation of this year's reduced allocation at the federal level. One may also expect this would result in establishing new healthcare facilities and improvement of existing facilities. Unfortunately, this is not the case as the budget speech says, there is not going to be any increase in health facilities. The budget speech clearly states that the increased allocation would primarily go into the salaries of health professionals due to recent hefty increases in doctors' salaries.

Likewise, Sindh's budget presents almost 10 percent increase from last year's allocations (which was Rs. 6.3 Billion however actual spending was only Rs. 4 Billion as the remaining amount was diverted to flood relief). As the budget speech suggests, much of these increased resources are allocated to tertiary care facilities in Karachi, the up-gradation of Liaquat General Hospital and Civil Hospital, and the Liaquat University Hospital in Hyderabad and People's Medical College Hospital Nawabshah. Surely, these "increased" health resources in urban centres are worth nothing given the huge needs of the people. One must not forget that the rural poor in Muzzafargarh or Rajanpur in Punjab and in Thatta and Khairpur in Sindh have to cure all their illnesses with an entitlement of Rs. 30 per person for the entire year.
Environment and Climate Change: A Pressing Issue
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Due to research done on the subject the linkages between environmental management and poverty are well recognized. The poor are vulnerable in many respects and in order to ensure that their needs are met the following are necessary measures that need to be taken: sound and equitable management of natural resources and ecosystem, availability of proper health services and access to clean water and sanitation. Currently they are exposed to poor sanitation conditions, air pollution, toxic chemicals, as well as resource-based conflicts, natural disasters, and vulnerability due to climate change.

Environmental degradation in Pakistan is on the rise. The environment comprises of natural resources, for example, forests, water, wetlands, land, air, etc. According to international standards, the current state of environmental resources is unsatisfactory in several ways: the land is plagued with issues like soil erosion, degradation of organic matter, water logging, salinity and loss of cover of natural vegetation. Forest resources are being used for private incentives, and unfortunately in this regard there is a lack of awareness and ownership among the masses. Owing to this deforestation and soil degradation, Pakistan is losing agricultural productivity, biodiversity, and livelihood opportunities for the masses. Moreover, the wetlands, too, are facing serious threats. Water basins are depleting and water pollution is on a steady increase. No mechanisms exist to control the pollution caused by industries, solid waste and household waste. Even the quality of air is deteriorating, due to the presence of unwanted chemical residuals and noise. In addition weak institutional arrangements by the government to curb these issues are further aggravating the situation.

The government is not addressing the issue of climate change adequately, both in terms of institutions and financial allocation. The latter has been a concern since the inception of the country, as the environment has been a neglected sector. Currently, Pakistan is paying a huge price for this neglect. According to a World Bank report, environmental degradation in Pakistan is costing 1 billion PKR daily.

This report, published in 2006, did not include losses and threats caused by climate change. It is clear that, after the floods of 2010, there is a requirement to make new estimates and reassess the current situation.

The current budget is not different from previous budgets in neglecting the environment.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Issue</th>
<th>Estimated Cost (Rs billion)</th>
<th>Range of Estimates (Rs billion)</th>
<th>Estimated Cost ($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Water, sanitation, and hygiene</td>
<td>112.0</td>
<td>43.0 to 95.0</td>
<td>1,807</td>
</tr>
<tr>
<td>2</td>
<td>Agriculture (soil erosion and salinization)</td>
<td>70.0</td>
<td>60.0 to 74.0</td>
<td>1,167</td>
</tr>
<tr>
<td>3</td>
<td>Indoor air pollution</td>
<td>67.0</td>
<td>62.0 to 65.0</td>
<td>1,117</td>
</tr>
<tr>
<td>4</td>
<td>Urban air pollution</td>
<td>65.0</td>
<td>38.0 to 52.0</td>
<td>1,083</td>
</tr>
<tr>
<td>5</td>
<td>Lead exposure</td>
<td>45.0</td>
<td>3.6 to 5.4</td>
<td>750</td>
</tr>
<tr>
<td>6</td>
<td>Rangeland degradation</td>
<td>4.2</td>
<td>2.1 to 3.3</td>
<td>70</td>
</tr>
<tr>
<td>7</td>
<td>Deforestation</td>
<td>2.7</td>
<td></td>
<td>45</td>
</tr>
</tbody>
</table>

Source: Pakistan Strategic Country Environmental Assessment, August 21, 2006 South Asia Environment and Social Development Unit South Asia Region. Report No. 36946-PK, Washington DC
sector. Due to the 18th Amendment, the federal budget has given the least priority to the environment and there is only 557 million PKR allocated for environment protection. Moreover there are no details available on how to spend the allocated amount.

Climate change is posing a serious threat to the environment globally and its impact on Pakistan is severe. Climate change impacts natural resources, including agriculture, forestry, rain patterns and glaciers etc. Pakistan is an agricultural country and its economy is heavily dependent on agriculture therefore climate change will weaken the economy and millions of people's livelihoods will be at stake. In order to tackle this problem an enormous increase in budgetary allocation to this sector is needed.

With the onset of the 18th Amendment environmental issues will be dealt with by the provinces, both in policy making and implementation. Provincial governments will be the main stakeholders and decision makers. Budget allocation will also be responsibility of the provinces. However, unfortunately the provincial governments do not have the capacity or the capability to handle environmental issues. In addition to this the federal government did not allocate any financial resources for the environment division in PSDP due to the devolution of the Ministry of Environment.

The actual situation is entirely different from what the government committed at Rio in 1992. At Rio the government committed that Pakistan would take all steps to improve the health of the environment without compromising economic development. However, the government could not fulfill its commitments due to negligence in developing relevant departments and institutes and financial allocations for the environment.

Economic development was enhanced but at the cost of the environment. It is essential that the government allocate more resources to environment and climate change to ensure that Pakistan's economy and the health of its citizens does not suffer anymore.
The Way Forward

The People of Pakistan have been deeply affected with a wave of terrorism, a sever energy crisis, lack of social sector development, and policy led catastrophes that very often turn natural calamities into human disasters. These problems were very much there when previous budget (2010-11) was presented. However, recently released Economic Survey of Pakistan acknowledges that GoP failed in achieving all macroeconomic targets including the budget deficit, inflation, Tax to GDP ratio, foreign investment etc.

In the budget 2011-12, the policy makers have placed the burden of stabilization and development initiatives on the Federal Board of Revenue. With the size of Pakistan's economy adjusted upward from $175 billion to $210 billion, the tax to GDP ratio has fallen even below nine percent. We feel that achieving Rs 2.1 trillion is not only overambitious but also unrealistic to some extent. Based upon its recent discussion with the GoP, the IMF concluded that the GoP lacks a coherent plan for a durable increase in revenue generation.

Raising the quantum of taxes will take away capital and perhaps a major part of the disposable income of those, who in the wake of the continuous double digit inflation, can still afford to spend on consumption. But, if the FBR fails to collect the budgeted amount, through better administration and broad basing, it will leave little room for any promise made by the finance minister in parliament. Once again the government is bound to repeat last year's performance, unless a major structural adjustment programme is undertaken at a massive scale, which has its social consequences. The best time to undertake this structural adjustment process was in the first year of this government, but it proved difficult for the regime in the face of political instability such as the military campaign in Swat operations against militants and natural disasters.

A sizable development programme has been planned, necessitated in the run-up to the general elections' year in 2013. However, mere allocation would not work. The reduction in PSDP due to lack of materialization of foreign pledges (mainly the Kerry Lugar money in outgoing fiscal year) and huge unspent from the reduced PSDP raises question marks on whether people can really aspect a relief in terms of public sector development program.

The External Sector

Exports last year were expected to touch the $25 billion mark, and the current account is in surplus. But, little attention has been paid to the capital account which is highly vulnerable in the face of the global situation. With a continuous hike in the prices of international crude oil, the import bill is likely to rise. This may be coupled with the otherwise rising import bill. If a large PSDP is successfully executed and an attempt to match last year's export performance is made by the industry, imported raw materials will increase as they are necessary to enhance export performance. In addition debt repayment of the $11.3 billion IMF loan is also going to start this year. This might deplete foreign currency reserves at a speed greater than expected. These structural deficiencies relate to the political dispensation of overall governance, and not directly to the economic policy. However, the spending structure could be made different than last year. Last year towards the end of the financial year, there was no other choice but to curtail development spending which made the economy stagnant and dampened growth, resulting in compounding ongoing stagflation. The only way forward to achieve progression is a reduction in expenditure, especially in the non development sector, which is leading to a financial hemorrhage, through a combination of lack of efficiency and corruption. Once again ‘Demand Management’, is the way forward. Creating dependence on supply for the bailout can be fatal, which might bring the country to a virtual default like situation.

Conclusion

In conclusion it is safe to say that more than a trillion rupees are being lost every year due to corruption. This must stop before any other measure is taken to improve the financial condition of the country. This annual hemorrhage-
mainly occurs as a loss to the 'Public Sector Corporations,' as unrealized tax and loss of efficiency in the implementation of strategies. The government bridges the gap created by these corporations through budgetary means, as subsidies.

In the last financial year, only Rs 84 billion were budgeted as subsidy to WAPDA and PEPCO, but in the end it reached a mammoth Rs 296 billion. This year again, Rs 122.7 billion have been budgeted, given the current oil prices it can easily double, if nothing is done. Obviously, the proposed reforms have strong political connotations. Total subsidies last year were estimated at Rs 126.7 billion. The figures increased to Rs 398.8 billion, which is Rs 272.1 billion of unbudgeted support. That was then recorded as fiscal deficit.

Debt servicing is the largest of all the budget heads, under which the expenditure statement has been given. This year it is estimated at Rs 795 billion, but like last year if bank borrowing exceeds the given ceiling of Rs 304 billion, it will not only increase the fiscal deficit but the current debt servicing liability as well.

Defense Affairs and Services is the next head which consumes a major portion of the tax payers money. Although the line item defense affairs and services only reveal that Rs 495 billion have been budgeted for defense services, yet this figure is misleading. There are also security related expenses and on top of them almost Rs. 274 billion defense related expenditures are masked in various other line items. In total it is about 9-10 billion dollar that would be spent on defense and security expenditures.

The GoP would have to revise its spending priorities. Let us accept the fact that it would not be in a position to reduce its spending either on debt servicing or on defense and security expenditures. However, it can and it must stop incurring losses through public sector corporations, either by handing over management to the private sector or by enabling independent and professional boards. It also needs to adjust energy prices and theft of electricity must stop: line losses are estimated at 30 percent of the total production. Also the Federal Board of Revenue must be enabled to collect tax according to their realistic potential. This means enabling reforms and weeding out corruption. All these reforms are necessarily
political in nature, and have the potential to make the current government unpopular in the race of constituency politics. But, without these reforms Pakistan is bound to default, in the next twelve to eighteen months, which will definitely reflect on the performance of the current regime. At a time, when the euphoria of the next general election will be in full swing.

All this is being carried out in the basic framework of the medium term budgetary framework. In 2008-9, it was the MTBF left by the Shaukat Aziz government. The framework was destroyed as soon as the external sector was de-prioritized and Pakistan was on the longest ever stand-by bailout programme by the International Monetary Fund and, there was a massive devaluation of the Pak rupee which changed everything i.e. earnings, quantum and stock of debt repayment and import bills, especially oil purchased in dollars. The then finance minister, Shaukat Tareen, after a massive devaluation of the Pak rupee announced his 9-point agenda which in fact was the medium term framework.

Now the planning commission has put forward its growth strategy, which is another medium term budgetary framework. No medium term budgetary framework has survived in the last five years for more than a year. This time very little of this growth strategy has been adopted in the budget. Some deliberations on tariff reforms are underway, but a stiff resistance has been put up by the Ministry of Commerce and Industry and Production, where the managers are convinced that lower tariffs down to ten percent will encourage imports, damaging the local industry. The campaign is being openly backed by a section of the industry. This leaves the country without a medium term framework. But, one thing is worth remembering that even the implementation of this Growth strategy largely depends on the success of the current fiscal framework which takes us to square one i.e., GOP would have to raise more revenue and curtail its expenditures.

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