

Medium Term Budgetary Statement 2020-21 to 2022-23

Government is laying before the National Assembly a Medium Term Budgetary Statement under Section 5 of the Fiscal Responsibility and Debt Limitation Act, 2005. This statement is consistent with the country's overall macroeconomic framework.

2. The year 2019-20 was projected as a year of positive economic growth caused by target driven policies and goals. In the first half of this fiscal year, the government took an austerity driven, revenue generating and fiscal deficit reduction strategy. This projected the growth of GDP at 3.0 percent. During the Mid-Year FY 2019-20, Pakistan's economy moved progressively along the stabilization and adjustment path. A steady policy mix appeared to adequately address the macroeconomic imbalances. Structural adjustment process picked up momentum with the initiation of the IMF's Extended Fund Facility program of US \$ 6 billion.

3. However, the economic canvas changed drastically in the latter four to six months with increasing effects of the Covid-19 outbreak on economy. Post Covid-19, it is expected that the Budget Deficit will increase to around 9 percent of gross-domestic-product. Projection of economic growth reduced from around 3% to -0.38% of GDP, while over-all budget deficit is revised upwards from 7.1% to 9.1% of GDP, FBR revenue loss projected at Rs 900 billion, exports and remittances were adversely affected, and non-tax revenue was decreased. The growth rate for FY 2020 is estimated at -0.38 percent on account of subdued performance in industry and services sector which stood at -2.64 percent and -0.59 percent, whereas agriculture sector performed relatively better and grew by 2.67 over the previous year. The government's focus is now aimed at increasing public health spending and strengthening social safety nets for the vulnerable population.

4. Over the medium-term a number of important policy measures will be taken. These policy measures will broadly include reduction of budget deficit through increase in government revenues, maintaining the policies of; no borrowings from State Bank of Pakistan for budget financing, flexible exchange rate, structural reforms in public entities including where necessary privatisation, reforms in energy sector (electricity and gas), increase in public investments in management of water, implementation of projects under China-Pakistan Economic Corridor, strengthening energy transmission and distribution systems, implementation of national tariff policy, implementation of special economic zones, etc.

5. The budget philosophy and strategy for FY 2020-21 year budget by the government includes striking a balance between corona expenditure and fiscal deficit, keeping primary balance at sustainable level, protection of social spending to support the vulnerable segments of the society, successful continuation of IMF program, keeping development budget at adequate level to inject economic growth and revenue mobilization. Funding for special initiatives led by the Prime Minister like Kamyab Jawan, Sehat Card, Naya Pakistan Housing scheme etc have also been

protected. In wake of Covid-19 and additional measures by the government to improve the economic outlook, no new taxes shall be introduced in 2020-21 budget. FBR collection however, will increase through improvement of tax system, broadening tax base and strengthening of administrative controls. Other measures include withdrawing tax exemptions, rationalizing concessionary regime, simplifying tax rules and ensuring tax compliance.

6. It is imperative that the government adopt a policy for fiscal consolidation for debt reduction over the medium-term. However, social spending shall continue to be focused towards helping the most vulnerable segments of the society. Federal government is accordingly pursuing a multipronged strategy with focus on increasing tax revenues, reducing unnecessary expenditures, spending for the economic growth of the vulnerable sector and increasing the country's foreign exchange earnings.

Key Macroeconomic Indicators - Rolling Targets					
Items	Budget	Revised	Budget	Target for	
	2019-20	2019-20	2020-21	2021-22	2022-23
Real GDP Growth (%)	2.4	-0.4	2.1	4.0	4.5
Inflation (%)	11 - 13	11 - 12	6.5	6.2	6.0
	As % of GDP				
Total Revenue	16.7	14.3	15.9	16.6	17.3
Tax Revenue	14.4	11.0	13.2	13.9	14.5
FBR Tax Revenue	12.6	9.4	10.9	11.8	12.6
Non Tax Revenue	2.3	3.3	2.8	2.8	2.7
Total Expenditure	23.8	23.5	22.9	22.3	22.1
Current	20.2	20.9	20.0	19.4	18.8
Development	3.6	2.6	2.9	2.9	3.3
Fiscal Balance	-7.1	-9.1	-7.0	-5.6	-4.8
Revenue Balance	-3.6	-6.6	-4.1	-2.7	-1.5
Total Public Debt - (Gross)	77.6	86.8	87.0	84.2	80.7
Total Public Debt - (Net)	73.0	82.5	83.1	80.8	77.8
GDP at market prices (Billions)	44,003	41,727	45,567	50,443	55,991