

Research Report No.87

July 2013

**An Ambitious Budget
2013-14**



SOCIAL POLICY AND DEVELOPMENT CENTRE

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FOREWORD

The Social Policy and Development Centre (SPDC) is pleased to present its research report on the state of the economy in the light of the Pakistan Economic Survey 2012-13, and the federal and provincial budgets for fiscal year 2013-14.

These budgets come at a time of growing economic difficulties. Although there are high expectations of relief for the people from the newly elected government, policy makers face numerous challenges and difficult choices in the area of fiscal policy.

The SPDC team, led by Dr. Hafiz A. Pasha, has attempted to undertake an in-depth and objective analysis of the macroeconomic and fiscal situation and policies. It highlights the issues related to economic growth, fiscal challenges and development priorities of the government. We hope that this report will not only be of some assistance to the government but will also help stimulate debate on key public policy issues of today.

Prof. Dr. Khalida Ghaus
Managing Director

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ACRONYMS

ADPs	Annual Development Programmes
AJK	Azad Jammu and Kashmir
AOP	Association of Persons
BOP	Balance of Payments
CCI	Council of Common Interests
CSF	Coalition Support Fund
EFF	Extended Fund Facility
EOBI	Employees Old Age Benefits Institution
ERRA	Earthquake Reconstruction and Rehabilitation Authority
FBR	Federal Board of Revenue
FLL-II	Federal Legislative List-II
GB	Gilgit Baltistan
GDP	Gross Domestic Product
GoS	Government of Sindh
GotP	The Government of the Punjab
GST	General Sales Tax
HEC	Higher Education Commission
IMF	International Monetary Fund
ITO	Income Tax Officer
MW	Mega Watt
NFC	National Finance Commission
NHA	National Highways Authority
NTDC	National Transmission and Dispatch Company
PAEC	Pakistan Atomic Energy Commission
PBS	Pakistan Bureau of Statistics
PEPCO	Pakistan Electric Power Company
PIT	Personal Income Tax
PML(N)	Pakistan Muslim League (Nawaz)
POL	Petroleum, Oils and Lubricants
PPP	Pakistan People's Party
PRA	Punjab Revenue Authority
PSDP	Public Sector Development Programme
PTA	Pakistan Telecommunication Authority
PTI	Pakistan Tehreek-e-Insaf
SBP	State Bank of Pakistan
SDMIS	Sindh Development Maintenance of Infra-Structure
SNA	System of National Accounts
SRO	Statutory Regulatory Order
UN	United Nation
WAPDA	Water and Power Development Authority

The latest Pakistan Economic Survey of 2012-13 contains estimates of the National Accounts of Pakistan following a rebasing exercise, involving a change in the base year from 1999-2000 to 2005-06. These estimates have exploded some myths about the economy, which had emerged from the rebasing exercise conducted earlier, when the base year was changed from 1980-81 to 1999-2000.

The objective of this paper is to identify some of the popularly held perceptions about the economy and demonstrate on the basis of the new estimates that these are, in fact, wrong. We start by first indicating the methodology used in the rebasing exercise.

METHODOLOGY FOR REBASING

The new National Accounts of Pakistan, with 2005-06 as the base year, follows more closely the System of National Accounts (SNA) developed by the United Nations (UN) in 2008. A number of censuses, surveys and studies have been carried out to generate an up-to-date database in sectors like manufacturing, wholesale and retail trade, construction, housing, community and personal services, agriculture, transport and communications, finance, etc.

A transition has been made from the **factor cost** to the **basic price** approach. Improvements in methodology are as follows:

- (i) replacing single deflation by double deflation, e.g., deflating outputs and inputs separately;
- (ii) compensation of employees of government enhanced by salaries in kind;
- (iii) subsidies enhanced for public corporations with persistent losses; and
- (iv) some services treated as non-market production.

Output, factor income or expenditure approach has been used to derive the value added depending on the sector.

We now proceed to examine the validity of some perceptions on the basis of the new data on the economy.

MYTH 1: THE SIZE OF PAKISTAN'S ECONOMY IS LARGER THAN REPORTED EARLIER

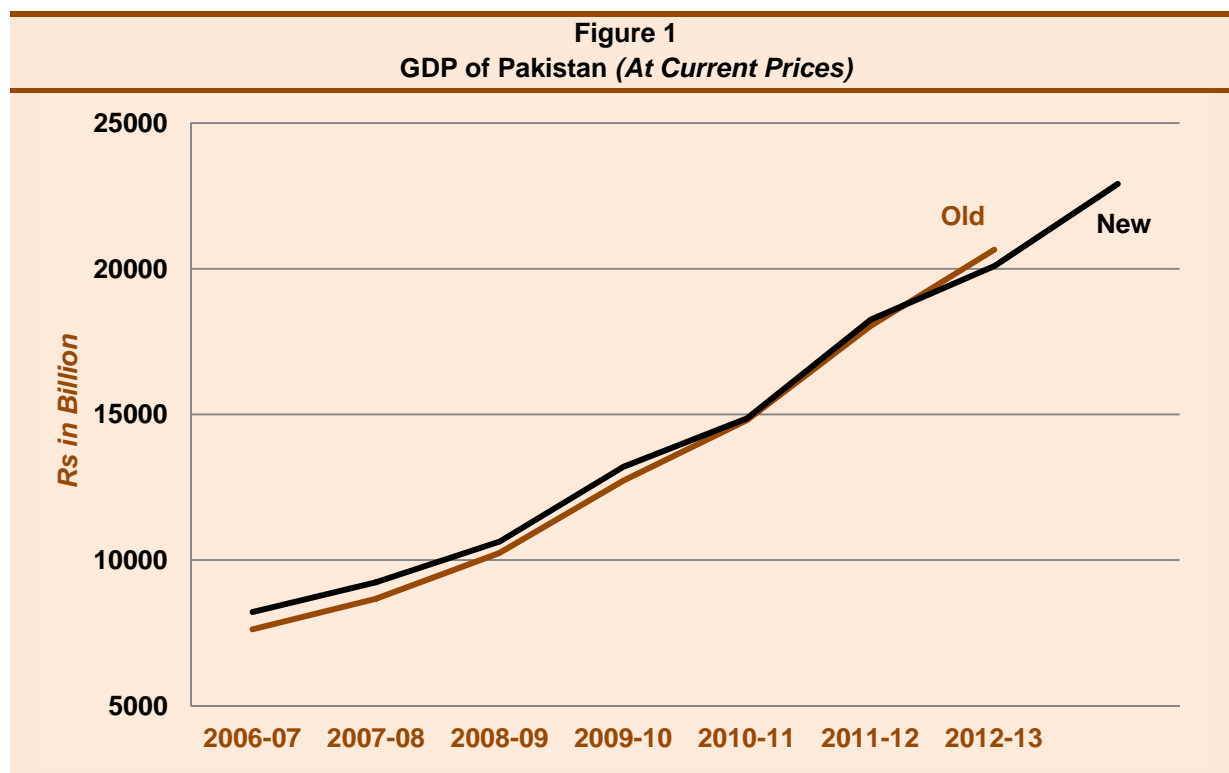
The last rebasing exercise of the economy from 1980-81 to 1999-2000 by the Pakistan Bureau of Statistics (PBS) had led to a large increase in the size of the GDP by almost 19 percent. This was the consequence of changes in methodology and inclusion of new economic activities. The result was a corresponding increase in the per capita income and a transition of Pakistan from a low-income to a middle-income country.

Since data is available now at current prices with the base years of 1999-2000 and 2005-06 respectively of the GDP from 2005-06 to 2011-12, a comparison is made in Table 1.

The results are significant and reveal that from 2005-06 to 2009-10 the new estimates of GDP are higher. However, the difference narrows from 8 percent in 2005-06 to less than 1 percent in 2009-10.

Thereafter, contrary to expectations, the new GDP is actually smaller than the old estimates by 3 percent in 2011-12. It appears, therefore, that the view that the size of the economy is larger currently is not borne by the rebasing exercise of national accounts.

	Current Prices (Rs in Billion)		Difference (%)
	Old	New	
2005-06	7623.2	8216.2	7.78
2006-07	8673.0	9239.8	6.53
2007-08	10242.8	10637.7	3.84
2008-09	12723.9	13199.7	3.73
2009-10	14803.7	14866.9	0.42
2010-11	18032.9	18248.9	1.12
2011-12	20653.4	20090.8	-2.72
2012-13	-	22909.1	



MYTH 2: THE INFORMAL SECTOR IS SUBSTANTIALLY LARGER THAN REPORTED

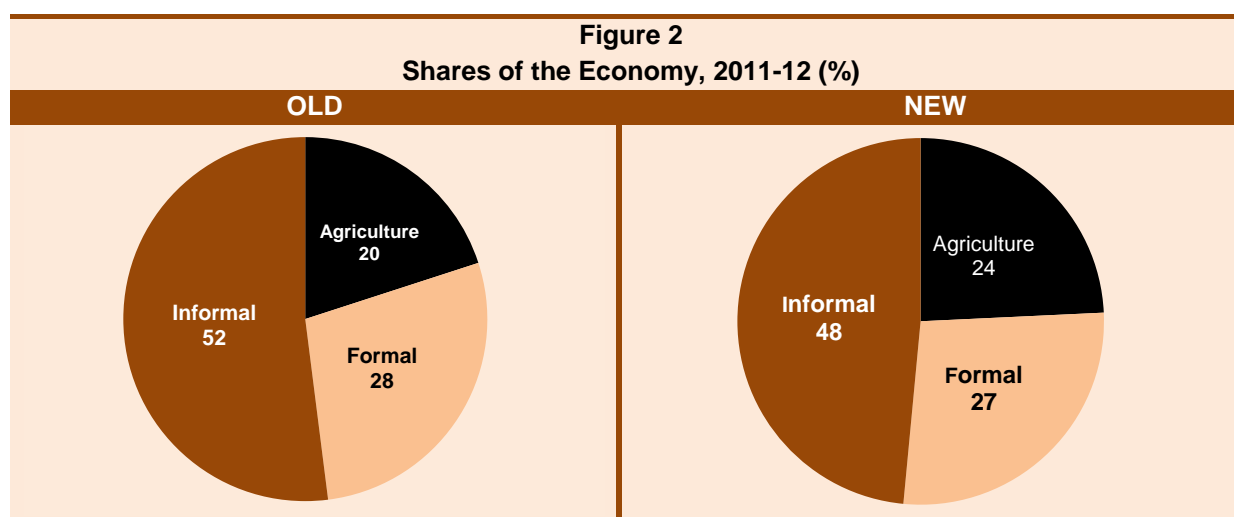
A number of authors including Kemal (2012)¹, Sherani (2013)² and Masood (2008)³ have argued that the informal economy is substantially larger than the estimates of the PBS and that this part of the economy is more buoyant and has provided a cushion against poverty.

But the rebasing exercise of the PBS belies this claim. The latest combined estimates of the size of sectors like construction, small-scale manufacturing, wholesale and retail trade, transport, and community and personal services, which are mostly characterised by informal activities is given in Table 2.

	Old	Share (%)	New	Share (%)	% Difference
Agricultural	3899.3	20.06	4740.4	24.42	21.57
Non-Agricultural	15537.5	79.94	14666.5	75.58	-5.61
Formal	5449.9	28.04	5261.5	27.11	-3.46
Informal*	10087.6	51.90	9405.0	48.47	-6.76
GDP	19436.8	100.00	19406.9	100.00	-0.16

*Small-scale manufacturing, slaughtering, construction, transport & communication, wholesale and retail trade and social and community services

The surprise is that in the new estimates the informal economy turns out Rs683 billion or 7 percent smaller in 2011-12 than the old estimate. This tends to imply that the role played by this part of the economy may not be as vital and large as suggested by the above-mentioned authors.



MYTH 3: THE ECONOMY IS MORE INDUSTRIAL THAN AGRICULTURAL

Earlier estimates of the sectoral shares in the economy are presented in Table 3, according to which the share of industry in the GDP was 26 percent while that of agriculture was 20 percent in 2011-12. As such the conclusion was justified that the economy had reached a stage of development whereby it was more industrial than agricultural.

This conclusion emerges as wrong in the latest GDP estimates for 2011-12. The share of industry is estimated now as 22 percent, compared to that the previous GDP estimates of the PBS had prematurely indicated a transition by the economy to a higher stage of development.

Sectors which have experienced a significant reduction in the new estimates within industry are large-scale manufacturing, small-scale manufacturing and slaughtering. These are smaller by 11 percent, 63 percent and 54 percent respectively. This appears to be largely the consequence of the double deflation method adopted. It is indeed a great surprise to know that the value added small-scale manufacturing is only about one-tenth the size of the large-scale component of the sector. Earlier estimates indicated that it was one-fourth the size.

Table 3
Structure of The Economy by Sector
(At current prices)
2011-12

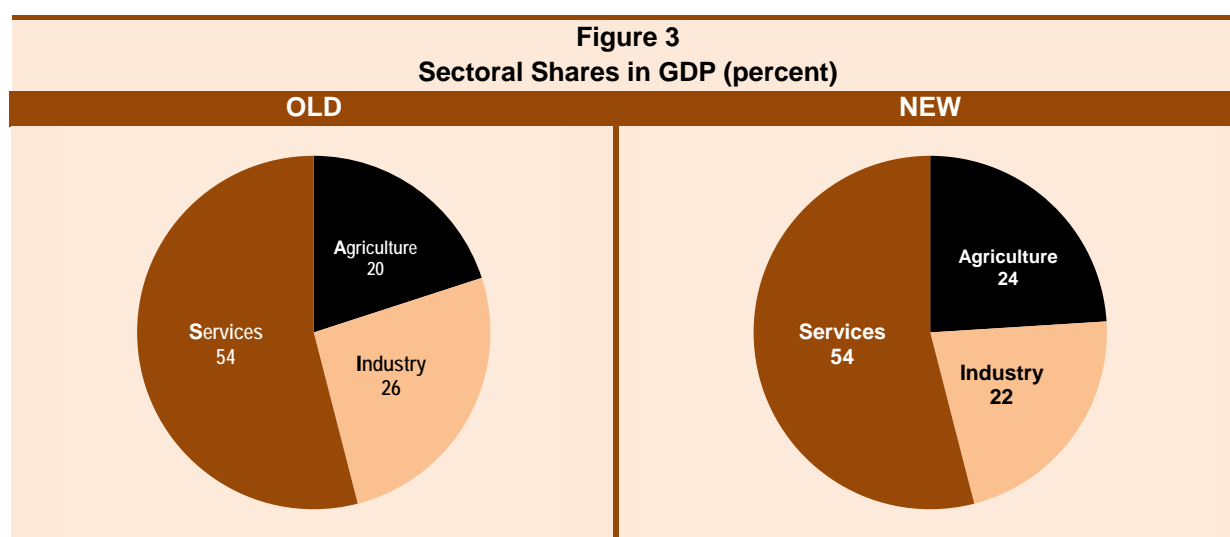
(Rs in Billion)

	Old	New	Difference	Old share (%)	New share (%)
Agriculture	3899.3	4740.4	841.0	20.06	24.42
Major Crops	1191.7	1231.3	39.6	6.13	6.34
Minor Crops	382.2	722.5*	340.3	1.97	3.72
Livestock	2204.3	2610.5	406.2	11.34	13.45
Fishing	62.5	62.9	0.4	0.32	0.32
Forestry	58.7	113.1	54.4	0.30	0.58
Industry	4965.7	4272.4	-693.3	25.54	22.01
Mining and Quarrying	446.5	638.2	191.7	2.30	3.29
Manufacturing	3694.5	2803.9	-890.6	19.01	14.45
Large scale	2661.9	2356.3	-305.6	13.70	12.14
Small scale	653.3	242.1	-411.2	3.36	1.25
Slaughtering	379.3	205.5	-173.8	1.95	1.06
Construction	410.9	378.5	-32.4	2.11	1.95
Electricity and Gas	413.9	451.8	37.9	2.13	2.33
Services	10571.8	10393.0	-178.8	54.39	53.55
Transport, Storage and Communication	2476.8	1964.4	-512.4	12.74	10.12
Wholesale and Retail Trade	3574.1	4004.6	430.5	18.39	20.63
Finance and Insurance	807.8	569.4	-238.4	4.16	2.93
Ownership of Dwellings	459.8	984.3	524.5	2.37	5.07
Public Admin and Defence	1119.3	1244.7	125.4	5.76	6.41
Social and Community Services	2133.9	1625.6	-508.3	10.98	8.38
GDP(fc)	19436.8	19406.9	-29.9	100.00	100.0

* Includes cotton ginning.

Within agriculture, sectors which appear to be substantially larger by 89 percent and 18 percent respectively are minor crops and livestock. This is the consequence of higher farmgate prices and lower value of inputs. Also, floriculture has been included for the first time in minor crops. Further, cotton ginning has been taken out of large-scale manufacturing and put in agriculture. The justification for this is not entirely clear.

The fact that the agriculture sector is still larger than industrial sector has implications on the underlying growth rate of the economy of Pakistan. The former tends to have a lower trend growth rate than the latter. Therefore, the new estimates indicate that it will be somewhat more difficult for the economy to achieve a high growth rate in coming years.



MYTH 4: THE INVESTMENT RATE HAS PLUMMETED SHARPLY

A frequently quoted statistic is the phenomenal drop in the rate of investment from the peak of 22.5 percent of the GDP in the Musharraf era to only 12.5 percent of the GDP by 2011-12, a large drop of 10 percentage points. The latter is said to be the lowest level in the last few decades.

The new estimates by the PBS of the level of gross domestic capital formation and changes in stock reveal a different picture, as shown in Table 4.

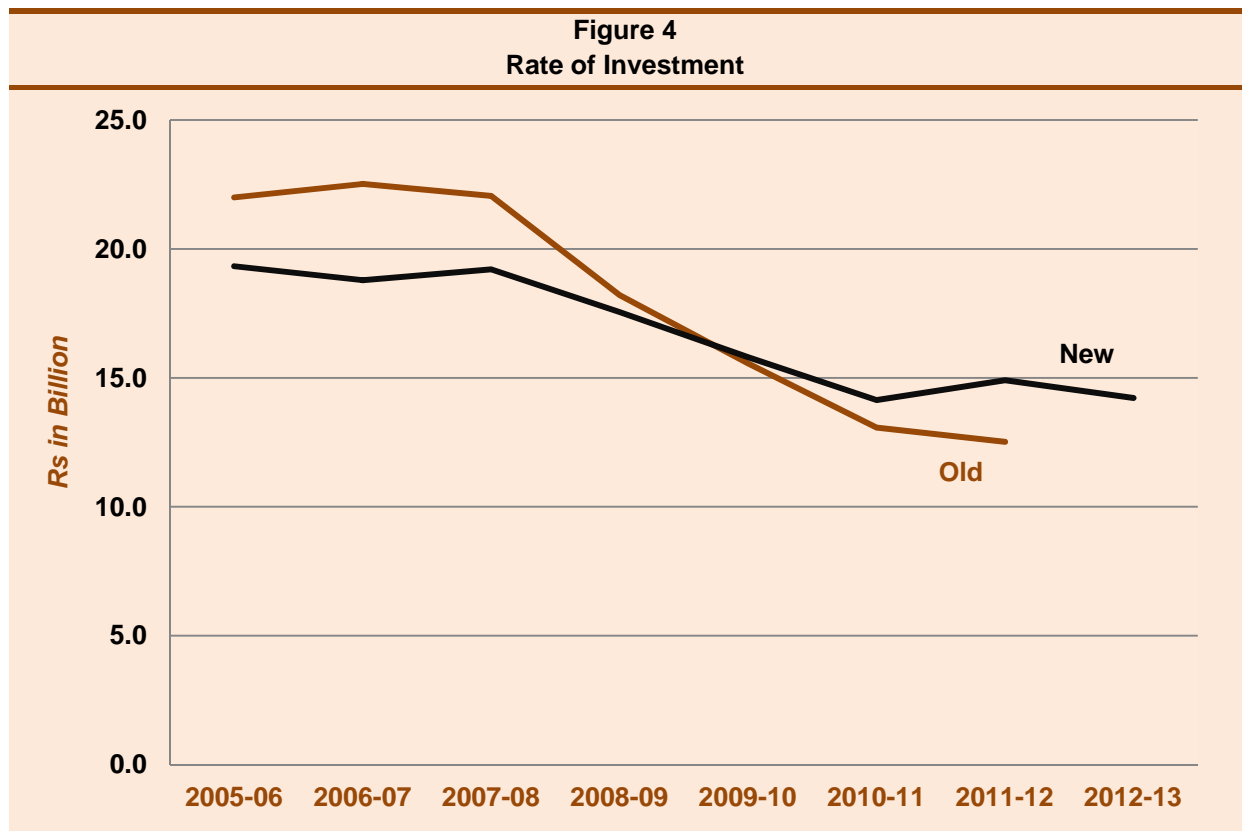
The peak in 2005-06 is smaller at about 19 percent of the GDP, while the fall since then is about 4 percentage points to 2011-12. Investment in 2011-12 is Rs410 billion larger than estimated earlier.

Clearly, the crisis of investment appears to have been exaggerated in retrospect. As such, the scope for revival appears to be greater. The previous government has, perhaps, been unnecessarily criticised too much for the deterioration in the investment climate and the consequential fall in the rate of capital formation in the economy.

Table 4
Rate of Investment
(% of GDP)
(At current prices)

(Rs in Billion)

	Old			New		
	Investment	GDP	I/Y (%)	Investment	GDP	I/Y (%)
2005-06	1687.7	7623.2	22.00	1588.3	8216.2	19.33
2006-07	1953.3	8673.0	22.52	1735.9	9239.8	18.79
2007-08	2258.6	10242.8	22.06	2043.1	10637.8	19.21
2008-09	2317.7	12723.9	18.21	2317.2	13199.7	17.55
2009-10	2303.8	14803.7	15.56	2349.7	14866.9	15.80
2010-11	2357.7	18032.9	13.07	2580.9	18248.9	14.14
2011-12	2586.4	20653.4	12.52	2996.6	20090.8	14.91
2012-13				3258.5	22909.1	14.22



MYTH 5: THE ECONOMY HAS WITNESSED A PRIVATE CONSUMPTION BOOM DURING THE LAST FOUR YEARS

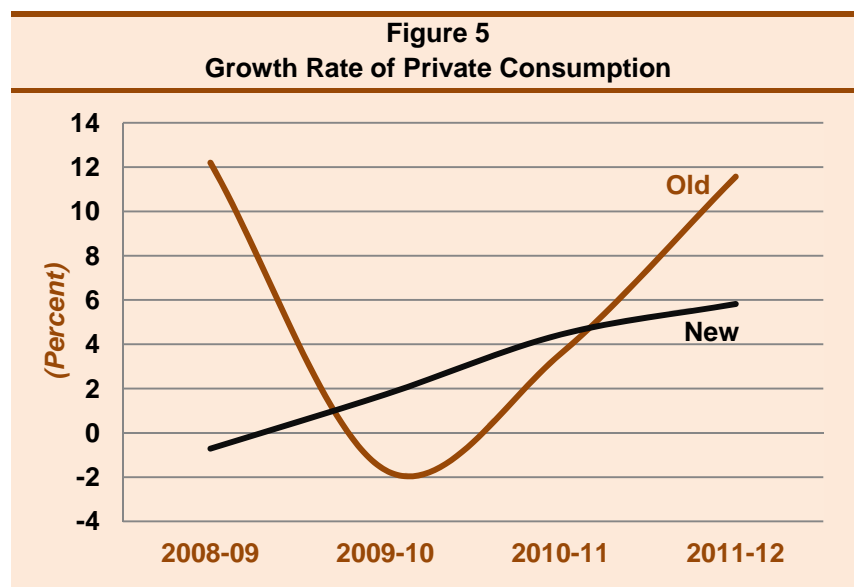
There is a commonly held perception that private consumption has risen rapidly during the tenure of the PPP government. It is argued that rural purchasing power has been greatly enhanced by the big increase in prices of commodities like wheat and cotton. In the urban areas, restaurants, shopping malls, entertainment spots, etc., are visibly crowded due to greater inequality in incomes. Further, it is felt that the rapid growth of home remittances has contributed to the affluence of a significant proportion of households in the country.

The previous estimates of GDP by expenditure confirm this perception, as shown in Table 5. During the period, 2008-09 to 2011-12, the annual growth rate in real terms of private consumption expenditure is estimated at almost 6.5 percent, as compared to a GDP growth rate of 3.5 percent. The former is high by historical standards.

	Old Estimates	New Estimates
2008-09	12.20	-0.71
2009-10	-1.69	1.74
2010-11	3.57	4.44
2011-12	11.57	5.82
Average	6.41	2.82

The rebased estimates present a fundamentally different picture. Private consumption per capita is now estimated to have actually fallen in absolute terms in 2008-09 and 2009-10 with only a modest recovery thereafter. Overall, the average growth rate over the four-year period of private consumption is estimated at less than 3 percent, even below the growth rate of incomes.

The fact that there actually was no consumption boom has important implications. First, at the lower end of the income scale, per capita consumption may have actually fallen, due particularly to the high inflation in food prices. Second, more on the positive side, household savings have probably held up much better than has hitherto been thought to be the case.



MYTH 6: THE TAX-TO-GDP RATIO HAS BEEN DECLINING

A commonly held view is that the tax-to-GDP ratio has been falling due to greater tax evasion and corruption and the granting of more exemptions and concessions in the tax system. This is confirmed by the old estimates of the tax-to-GDP ratio based on the old GDP series of the PBS.

However, the results are different when the ratio is derived on the new GDP estimates. In fact, as shown in Table 6, the tax-to-GDP ratio, which was below 10 percent in 2005-06 has risen somewhat to above 10 percent by 2010-11. The principal reason for this is that the denominator, the GDP, is larger in the earlier years and smaller in the last two years.

	Old Tax-to-GDP Ratio	Tax Revenues	New GDP	New Tax-to-GDP (%)
2005-06	10.54	803.7	8216.2	9.78
2006-07	10.25	889.7	9239.8	9.62
2007-08	10.26	1050.7	10637.8	9.87
2008-09	10.31	1312.2	13199.7	9.94
2009-10	9.88	1499.0	14866.7	10.08
2010-11	9.47	1707.2	18248.9	9.35
2011-12	9.93	2052.9	20090.8	10.21

The fact that the tax-to-GDP ratio has not fallen, according to the new data, is some vindication of the tax policy and administration during the tenure of the previous government. Of course, it would have been better if the tax-to-GDP ratio had shown a bigger increase.

There are bound to be skeptics who will challenge the new figures of the PBS generated from rebasing exercise, especially with regard to the following:

- (i) the apparent smallness of the informal sector and, in particular, small-scale manufacturing;
- (ii) that the economy is more agricultural than industrial;
- (iii) that there has been only a modest decline in the rate of investment; and
- (iv) that there has been no decline in the tax-to-GDP ratio, and so on.

The PBS is well-advised to constitute independent experts to examine the validity and reliability of the new estimates of National Accounts. Also, the PBS owes an apology to the previous government for having exaggerated the extent of deterioration in economic conditions related to the fall in the rate of savings and investment, decline in tax-to-GDP ratio, etc.

ENDNOTES:

1. Kemal, M. Ali and Ahmed Waqar Qasim (2012), "Precise Estimates of Informal Economy", Paper presented at 28th AGM of Pakistan Society of Development Economists, November 13-15, 2012, Islamabad.
2. Sherani, Sakib (2013), "The Informal Economy", daily Dawn, February 22, 2013.
3. Ahmed, Qazi Masood and M. Haider Hussain (2008), "Estimation of the Black Economy of Pakistan through the Monetary Approach: A Case Study of Pakistan." Economic Issues, 13:1

2 THE ANNUAL PLAN

The good news is that the function of planning and development at the federal level has been upgraded to the status of a full-fledged ministry by the PML-N government. For too long, the Planning Commission has languished as a subordinate agency of the Ministry of Finance. The consequence has been far too much emphasis on the short term and the annual budgeting cycle at the expense of a medium- to long-run perspective on development.

The appointment of a competent and seasoned technocrat-politician, Mr. Ahsan Iqbal, also augers well for the future of the Planning Ministry/Commission. He has already announced that a long-term development vision and a five year plan will be prepared to be implemented during the tenure of the present government. However, two things are required. First, the internal capacity of the Planning Commission has to be substantially augmented. The cadre of professional economists and sector specialists has to be built up once again, including the Chief Economist and Members of the Commission. Second, the process of planning must be opened up more to civil society, private sector, academia, etc. The Commission has to become a hub for intellectual activity and play the role of an effective think tank.

Already, the benefits of an empowered Planning Ministry are visible. Although released somewhat belatedly, the Annual Plan for 2013-14 appears to be a more professional and balanced document than was the case in previous years. The earlier Growth Framework of the PPP, despite some good strategic elements, had remained unimplemented and the targets set in the Annual Plans were seldom achieved.

The objective of this article is to analyse the targets in the latest Annual Plan for 2013-14 and to assess their feasibility.

GROWTH

The target for GDP growth in 2013-14 is 4.4 percent, representing some revival from 3.7 percent last year. Sectoral growth targets are 3.7 percent for agriculture, 4.8 percent for industry and 4.5 percent for services.

The crop output targets are ambitious, at 5.2 percent for wheat, 11.9 percent for rice, 4 percent for sugarcane and 7.6 percent for cotton. Given the underlying limitation of water and sharp rise in prices of fertilisers, it is unlikely that all these targets will be achieved.

As opposed to this, the industrial growth target looks conservative. If, in fact, there is a sustained decline in power load-shedding then the process of revival of industrial production may be stronger, with the growth rate approaching 6 percent.

Overall, the GDP growth rate target of 4.4 percent looks attainable, if the availability of electricity and gas improves significantly. If this happens then it will represent the first time after six years that the economy will attain a growth rate above 4 percent.

INVESTMENT

A modest increase is envisaged in the rate of investment from 14.2 percent to 15.1 percent of the GDP. If the national PSDP target of Rs1,115 billion is attained in 2013-14, this alone will represent an increase in the public investment rate by 0.5 percent of the GDP.

Private investment may also respond favourably due to the arrival of a business friendly government, fall in interest rates and greater access to credit, if the fiscal deficit is brought down sharply.

SAVINGS

Savings are projected to increase from 13.3 percent to 14 percent of the GDP. This is one of the soft spots in the Annual Plan. Home remittances have shown little or no growth during the last few months and the increase anticipated of 7 percent is unlikely. Also, household savings may be adversely affected if the rate of inflation starts rising once again.

INFLATION

From 7.5 percent the inflation rate is projected to rise somewhat to 8 percent. Already, in the immediate aftermath of the Budget the year-to-year increase in the Consumer Price Index has gone up by 0.8 percent, especially due to the rise in the rate of GST. A number of factors during the year could lead to an upsurge in inflation to a double digit rate in 2013-14. These include the large monetary overhang, the likely escalation in power and gas tariffs, big jump of 14 percent announced earlier in the procurement price of wheat and higher imported inflation due to faster depreciation of the rupee.

BALANCE OF PAYMENTS

This is, perhaps, the only area where the Annual Plan may have been overly optimistic. As highlighted earlier, a 7 percent increase in home remittances may not materialise due to significant return migration of workers. The import growth rate of 7 percent may be exceeded if larger furnace oil imports take place for higher electricity generation. In addition, it is assumed that all uncertain flows will actually arrive, including \$1,120

million from the Coalition Support Fund, \$790 million as privatisation proceeds, \$1,200 million from auction of 3-G licences by PTA, \$49 million from flotation of European Bonds, resumption of large-scale programme loans by multilaterals of \$1,100 million and \$990 million as a safe deposit from China.

On top of all this, the Annual Plan assumes that a new IMF programme will be in place, with releases of \$1.8 billion, reducing thereby the net repayment to the Fund to \$1.3 billion in 2013-14. On the 4th of July agreement with the IMF, a three-year Extended Fund Facility (EFF) has been announced. On average this will mean an inflow of \$1,767 million annually unless releases are front loaded. Despite all these flows, the Annual Plan concludes that Pakistan will still experience a depletion of foreign exchange reserves of \$1.3 billion in 2013-14, such that the country will be left with reserves of about \$4.7 billion, barely enough to cover a month's imports.

Basically, the Planning Commission is conveying the message that even if there is IMF support and all anticipated inflows materialise, the balance of payments position of the country remains fragile and potentially unsustainable. Perhaps, the Annual Plan is implicitly signalling that even in the presence of a new Fund Programme there is need in addition for a Plan B incorporating possibly same draconian adjustments in the latter part of 2013-14.

Overall, the Annual Plan projects that there will be a revival of savings, investment and growth in 2013-14. But it does not fully recognise the risks of an upsurge in the rate of inflation and the likelihood of some further depletion of foreign exchange reserves which could lead to a disruption in the process of investment and growth in the economy and create economic instability.

3 AN AMBITIOUS BUDGET

Budget 2013-14 has been announced on time by the PML-N government – only five days after the swearing-in of the cabinet. This clearly shows a great sense of urgency. The finance minister must be congratulated for articulating well the development vision and priorities of the new government. The budget speech was also clear and transparent in highlighting expenditure allocations and taxation proposals.

The finance minister indicated the key elements of the vision of the government as hope and optimism; self-reliance; the private sector as the engine of growth; a market economy with regulation; reduced role of the government; protection of the poor and human resource development.

This article briefly reviews the state of the economy, assesses the macroeconomic projections and analyses Budget 2013-14, especially from the viewpoint of the adjustment path chosen, expenditure priorities, strategy for resource mobilisation and financing of the fiscal deficit.

The economy of Pakistan continues to be in a low-growth trap. It has decelerated in fiscal year 2012-13 by posting a real GDP growth of 3.6 percent as compared to 4.4 percent in the previous fiscal year 2011-12. Most of the macroeconomic indicators also depict the same worsening trend. Fiscal deficit as percent of GDP is estimated to reach 8.8 percent, against the target of 5.2 percent, posing serious questions on the budgetary performance of the previous government.

Public debt has reached Rs14.5 trillion, which is equivalent to 63.5 percent of GDP. There has been a large depletion of foreign exchange reserves by \$4.6 billion during the year, which have gone down from \$10.8 billion to \$6.2 billion. On a positive note, the rate of inflation maintained a downward trend during the first ten months (July-April) of fiscal year 2012-13. It averaged at 7.8 percent during 2012-13 against 10.8 percent in 2011-12. Similarly, some improvement is observed in the trade and current account deficits.

Macroeconomic targets set by the government for the next fiscal year (2013-14) suggest some revival of the economy. The growth rate of GDP is expected to rise to 4.4 percent, especially if power load-shedding is reduced. The rate of inflation is projected at 8 percent, indicating a slight rise from 2012-13. On the revenue side, the tax-to-GDP ratio is set to increase from 9.9 percent to 10.6 percent, while FBR taxes

would increase from 8.8 percent to 9.5 percent of the GDP. Current expenditure as a proportion of GDP is budgeted to decline from 16.5 percent to 15.2 percent, which is a welcome move. Development expenditure will increase from 4.2 percent to 5.1 percent of the GDP. Overall, the fiscal deficit is to be brought down from 8.8 percent to 6.3 percent of the GDP.

The government has also announced targets for some key macroeconomic indicators under its Medium Term Macroeconomic Framework. According to this framework, GDP growth will gradually rise to 7 percent by the end of fiscal year 2015-16; inflation will remain at 8 percent; while investment-to-GDP ratio will increase to 20 percent. On the fiscal side, the tax-to-GDP ratio will reach 12 percent. As percent of GDP, current expenditure will be brought down to 12.9 percent; development expenditure will increase to 5.1 percent; and fiscal deficit will fall to 4 percent. In particular, foreign exchange reserves will hopefully rise to \$20 billion. It may be argued that all this is the height of optimism.

Given the current macroeconomic scenario, these targets seem to be rather optimistic and essentially ignore the difficulties the economy is facing. Even the finance minister acknowledged in his speech that the targets are ambitious. In the present context of trends in the domestic economy with high load-shedding, terrorism, breakdown of law and order, low investment and savings rates, high debt burden, depleting foreign exchange reserves, etc., it is difficult to visualise a quick recovery in economic growth within a period of three years to 7 percent per annum.

The budgetary outcome in 2012-13 shows many negative developments. First, revised estimates of net revenue receipts for 2012-13 are substantially lower than the budget estimate showing worsening of resource availability to the federal government. This being election year, the revised estimates of current expenditure are much higher than the budget estimates for 2012-13. Also, provincial governments are now in a deficit instead of a surplus, due to the big shortfall in transfers.

The revised budget deficit of Rs2,024 billion for 2012-13 is almost Rs922 billion (or 83.6 percent) higher than the budgeted figure of Rs1,102 billion. As a percentage of GDP, the revised deficit stands at 8.8 percent, which is much higher than the originally projected 5.2 percent for 2012-13. Lower revenues have contributed 18 percent, and 34 percent is due to higher expenditures, 33 percent due possibly to retirement of circular debt and 15 percent arising from worsening of provincial cash balances.

An analysis of revenues indicates that the absolute shortfall in FBR revenues will reach 374 billion, equivalent to 16 percent. This is unprecedented and the highest in the

recent history of the FBR. It can be attributed to large concessions in the last PPP-led government's budget before the elections, limited growth in imports – especially in POL products – and disruptions in the FBR due to frequent changes in leadership.

Analyses of sources of financing also show negative developments in the financing of the massive deficit of more than Rs2 trillion. Domestic borrowing has been used to virtually finance the entire fiscal deficit. This indicates that external sources have completely dried up, especially of a concessional nature. An alarming feature in financing of fiscal deficit is the huge reliance on bank borrowing, which reached Rs1,575 billion or 78 percent of the total deficit. This has not only contributed to 'crowding out' the private sector but will also add to inflationary pressures.

The 2013-14 budget is predicated on a decline in the deficit of Rs373 billion, from Rs2,024 billion to Rs1,651 billion. As a percentage of GDP, fiscal deficit is expected to fall from 8.8 percent to 6.3 percent, a decline of 2.5 percent of the GDP. The finance minister has indicated that this is likely to be the biggest ever adjustment. But this is factually incorrect. In its first budget of 2008-09, the PPP government was able to reduce the fiscal deficit by 2.7 percent of the GDP, from 7.7 percent to 5 percent.

FBR revenues are projected to grow from Rs2,007 billion to Rs2,475 billion in 2013-14, indicating a growth of 23.3 percent. This implies that additional revenues of Rs230 billion will have to be generated from tax proposals and better administration. It is anticipated that direct taxes will grow faster than indirect taxes, resulting in an increase in their share.

Turning to current expenditure, debt servicing is expected to increase by Rs125 billion, defence by Rs57 billion, grants by Rs3 billion and civil administration by Rs23 billion. On the other hand, it is anticipated that subsidies will be reduced by Rs127 billion. Despite no increase announced in salaries, expenditure on civil administration is projected to grow by 9 percent. Therefore, the 30 percent cut in non-salary expenditure directed by the prime minister does not appear to have been implemented.

Another major development is a large increase of Rs110 billion anticipated in non-tax revenues. These revenues include Rs112 billion from the Coalition Support Fund (CSF) and Rs120 billion from the 3-G licences by the PTA. Both are subject to a degree of uncertainty.

The required financing of Rs1,651 billion is based 90 percent on domestic sources. Sources of external financing include Eurobonds of Rs49 billion and Rs99 billion from a 'China Safe Deposit'. It is surprising to find that, despite lots of speculation, no support

from Saudi Arabia is reflected in the budget documents. Proceeds from privatisation are projected to fetch Rs79 billion.

Development programme: The budget for 2013-14 has an ambitious target for the size of the federal PSDP, with an increase of 50 percent – to Rs540 billion. The corresponding figure for the four provinces combined is Rs615 billion, implying an increase of 20 percent. The focus in development appears to be shifting back to the federal level.

The expectation was that with a throw-forward (remaining cost of ongoing projects) of Rs472 billion of the portfolio of projects in the power sector that it would receive the major share of allocations from the PSDP. Instead, it has been given only about 19 percent directly.

The National Highway Authority, a key agency for Prime Minister Nawaz Sharif – with his proclivity for motorways – gets a share of 12 percent. It is significant that the PML-N government is also focusing now on the rehabilitation of the railways, which was somewhat ignored in its previous tenures.

An unusual practice that has been adopted, perhaps for the first time, is the inclusion of a large bloc allocation of Rs115 billion, or 21 percent, for so-called ‘New Development Initiatives’. This clearly increases the discretionary powers of the government. The National Assembly needs to be informed of the specific initiatives proposed. Also, at this time of scarcity of resources, new projects ought to have been deferred, with the exception of key projects in the water and power sectors.

Taxation proposals: There is a multitude of taxation proposals in the budget and virtually all sectors have been tapped. The FBR revenue target is Rs2,475 billion, with a growth rate of over 23 percent in 2013-14, compared with a low growth rate of less than 7 percent in 2012-13. It can only be achieved with taxation proposals yielding as much as Rs230 billion.

There are some serious concerns about the impact of some of the proposals on the lower income sections of the population. The increase in the sales tax rate from 16 percent to 17 percent is one such example. Other proposals of a potentially regressive nature are the further 2 percent tax on sales to non-registered persons; additional 5 percent on top of the standard 16 percent on non-registered commercial and industrial consumers of electricity and gas; increase in federal excise duty on beverages and cigarettes; expansion in items which are chargeable to sales tax on retail price, etc.

In the area of direct taxes, the PML-N government has reverted back to the successful tax reforms it had implemented in its first tenure. This involved the extension of the withholding/presumptive tax regime to a large number of transactions. The result was a large increase in the direct tax-to-GDP ratio in the early 1990s.

In the latest budget, withholding taxes have been introduced for hotels, clubs, marriage halls, restaurants, cable operators, margin and trade financing, motor vehicles (in lump sum), foreign-produced films and TV serials. In other cases, presumptive taxes have been converted into adjustable withholding taxes.

There are also some innovations. The introduction of an earmarked income support levy on moveable assets is a progressive measure. But earmarking of taxes has been a failed experiment in Pakistan, starting with the Iqra Surcharge in the 1980s and the export development surcharge/cess more recently.

Clearly, one of the most important targets for 2013-14 will be FBR revenues. It is important that the morale of the FBR is raised after the chaos in recent months and a proper, more secure, leadership put in place. Also, the time has come to implement major improvements for the modernisation of the tax administration as highlighted by the finance minister.

A major omission in the budget is measures to limit the trade deficit so as to reduce the pressure on the already low foreign exchange reserves. The PML-N manifesto includes the introduction of regulatory duties on non-essential imports. This measure should have been implemented at this time.

Finally, the budget proposes a big reduction in subsidies – by Rs127 billion or 35 percent, especially to the power distribution companies. Part of this may have to be achieved through an enhancement in power tariffs, possibly by 25-30 percent.

Therefore, a major concern for the coming year is that inflation may be back once again to a double-digit rate due to the large monetary overhang, increases in indirect taxes and the anticipated hike in power tariffs.

All in all, the 2013-14 budget is an ambitious first attempt by the PML-N government to restore the fiscal balance, while reviving the economy and protecting the poor through the enhancement of the minimum pension and the monthly subventions under the Income Support Programme.

But it is a fragile and risky budget with financing based on rapid growth of tax revenues, inflow of proceeds from privatisation, access to the international capital market, funding from friendly countries, reimbursement from the coalition support fund, etc. If one or more of these projections do not materialise then history could repeat itself with big slippages of the type we have seen in the last few years.

4 WHY HAS TAX-TO-GDP RATIO FALLEN IN 2012-13?

The budgetary outcome in 2012-13 shows many negative fiscal developments. The most crucial one is the sharp decline of 0.7 percentage points in the tax-to-GDP ratio, from 9.4 percent in 2011-12 to 8.7 percent in 2012-13.

Table 7 gives the overall and individual tax-to-GDP ratios of federal taxes collected by the Federal Board of Revenue (FBR), which constitute over 90 percent of the tax revenues in the country. The table clearly reveals the lack of elasticity in FBR taxes during 2005-06 to 2012-13. The tax-to-GDP ratio of income tax and sales tax has been hovering around 3.5 percent that of customs duty has remained constant while that of excise duty has fallen. Moreover, there is a sharp decline of 0.7 percentage points in the tax-to-GDP ratio in 2012-13. Clearly, there is a need to understand these changes, which we attempt in the next section by decomposing the tax-to-GDP ratio into its two key components – tax-to-base and base-to GDP ratios.

Year	Direct Taxes	Excise Duties	Customs Duties	Sales Tax	Total Indirect Taxes	Total Taxes
2005-06	2.7	0.7	1.7	3.6	5.9	8.7
2006-07	3.6	0.8	1.4	3.3	5.6	9.2
2007-08	3.6	0.9	1.4	3.5	5.8	9.5
2008-09	3.3	0.9	1.1	3.4	5.4	8.8
2009-10	3.6	0.8	1.1	3.5	5.4	8.9
2010-11	3.3	0.8	1.0	3.5	5.2	8.5
2011-12	3.7	0.6	1.1	4.0	5.7	9.4
2012-13 E	3.4	0.5	1.1	3.7	5.3	8.7

Source: Estimates Based on Taxes Data from SBP website and GDP data from Economic Survey 2012-13.
E = Estimates based on 9 month provisional actual collection

DIRECT TAXES

Using non-agricultural GDP as the tax base, we have decomposed the buoyancy of direct taxes into its components, as shown in Table 8. The initial rise in the tax-to-GDP ratio is a combined consequence of both a rise in tax-to-tax base and base-to GDP ratios. The former is also referred to as the effective tax rate. Similarly, the decline in tax-to-GDP ratio in 2012-13 is also a combined consequence of both a decline in tax-to-tax base and base-to GDP ratios. The tax base effect appears to be large, as indicated by the 2.5 percentage point decline in the tax base-to-GDP ratio that can be attributed to low growth momentum in 2012-13. However, in relative terms, the decline in the effective tax is sharper than the decline in the tax base. The former showed a decline of 4.3 percent while the latter declined by 3.6 percent in 2012-13.

What explains the decline in the effective rate of direct taxes in 2012-13? The answer can be found in the movement of statutory rates. While, in 2012-13, income tax was not changed, the exemption limit was raised to Rs400,000 which had a negative impact on statutory rate. However, this decline alone does not explain the sharp decline in the effective tax rate and may be attributed to the decline in the efficiency of tax collection.

Years	Tax-to- GDP Ratio	Tax Base-to- GDP Ratio	Tax-to-Tax Base Ratio
2005-06	2.7	72.3	3.8
2006-07	3.6	72.7	5.0
2007-08	3.6	74.8	4.9
2008-09	3.3	72.3	4.6
2009-10	3.6	72.6	4.9
2010-11	3.3	71.4	4.6
2011-12	3.7	73.0	5.0
2012-13 E	3.4	70.5	4.8

Source: Estimates Based on Taxes Data from SBP website and GDP data from Economic Survey 2012-13.
E = Estimated.

EXCISE DUTY

The tax base of excise duty consists primarily of value added in large-scale manufacturing. Major revenue contributors include petroleum products, cigarettes, sugar, cement, etc. During the early 1990s, the tax net of excise duty was extended to cover services like banking, telephones, electricity and professional services. As such, the tax base for excise duty has been extended to include value added in finance and insurance, and transport and communications.

The tax base for excise duties is not large and declining as indicated by the more than 4.3 percentage points decline in the tax base-to-GDP ratio since 2008-09 as shown in Table 9. However, the slow growth in revenues, particularly in 2012-13, is largely explained by the declining effective tax rate. This is essentially a reflection of, first, incomplete adjustment of the tax rates to inflation, as the duty continues to be levied at specific rates on certain items and, second, the gradual replacement of excise duties by sales tax and transfer to sales tax on services to provinces after the 7th NFC Award.

Years	Tax-to-GDP Ratio	Tax Base-to- GDP Ratio	Effective Tax Rate
2005-06	0.7	26.1	2.6
2006-07	0.8	26.7	2.9
2007-08	0.9	26.6	3.3
2008-09	0.9	27.3	3.2
2009-10	0.8	26.6	3.1
2010-11	0.8	25.2	3.0
2011-12	0.6	24.3	2.5
2012-13 E	0.5	23.0	2.2

Source: Estimates Based on Taxes Data from SBP website and GDP data from Economic Survey 2012-13.
E = Estimated.

CUSTOMS DUTY

The tax base for customs duty is the value of dutiable imports, that is, the total value of imports minus the value of exempt items like food, fertiliser and pharmaceuticals. Table 10 shows that the tax base-to-GDP ratio declined by 0.6 percentage points during 2005-06 to 2008-09. However, since 2008-09, it is almost constant at 1.1 percent of the GDP. The relatively higher tax to GDP ratio till 2008-09 is a reflection of the increase in POL prices and more importantly a higher demand for imports of consumer durables like automobiles and capital goods. This was due to the prevailing boom in the economy and greater buoyancy in the manufacturing sector.

Years	Tax-to-GDP Ratio	Tax Base-to-GDP Ratio	Effective Tax Rate (%)
2005-06	1.7	14.0	12.1
2006-07	1.4	13.7	10.5
2007-08	1.4	14.3	9.9
2008-09	1.1	12.7	8.9
2009-10	1.1	11.8	9.2
2010-11	1.0	10.8	9.3
2011-12	1.1	11.0	9.8
2012-13 E	1.1	13.1	8.3

Source: Estimates Based on Taxes Data from SBP website and GDP data from Economic Survey 2012-13.
E = Estimated.

Despite, the 16 percent increase in the tax-base-to-GDP ratio in 2012-13, there is no increase in the tax-to GDP ratio in customs duty. It is due to the more than 18 percent decline in the effective tax rate of customs duty, which declined from 9.8 percent in 2011-12 to 8.3 percent in 2012-13. This is primarily a consequence of the cascading down of import tariffs in an effort to liberalise trade in the country. Maximum tariff rates have been brought down from 35 percent to the current level of 30 per cent in 2012-13. Compared internationally, these tariffs are on the lower side. The question that arises is whether Pakistan 'did too much, too quickly' in the context of tariff reduction?

SALES TAX

Sales tax is levied at two stages in Pakistan – import and domestic production. During the nineties, it acquired the characteristics of a value added tax. Therefore, the tax base for the tax is the value of dutiable imports plus revenue from import duty plus value added in large-scale manufacturing. In recent years, there has been a major broad basing of the tax, which has increasingly been

Years	Tax-to-GDP Ratio	Tax Base-to-GDP Ratio	Effective Tax Rate (%)
2005-06	3.6	32.9	10.9
2006-07	3.3	32.3	10.4
2007-08	3.5	36.7	9.7
2008-09	3.4	31.3	10.9
2009-10	3.5	31.0	11.2
2010-11	3.5	33.1	10.4
2011-12	4.0	32.8	12.2
2012-13 E	3.7	31.3	11.8

Source: Estimates Based on Taxes Data from SBP website and GDP data from Economic Survey 2012-13.
E = Estimated.

substituted for customs duty, excise duty and the petroleum development surcharge. The size of the tax base has, therefore, been accordingly extended.

Table 11 shows that the tax base-to-GDP ratio varies year to year. Similar to customs duty, these fluctuations largely depend on fluctuations in international prices. Since 2009-10, tax-base-to GDP ratio has been consistently declining and reached 31 percent in 2012-13. Consequently, the 0.3 percentage point decline in the tax-to-GDP ratio is largely explained by the almost 5 percent decline in the tax base. Moreover, the effective tax rate also declined by 3.7 percent.

Table 12 presents the result of decomposition for three periods: (1) 2005-06 to 2011-12, (2) 2012-13 and (3) 2005-06 to 2012-13. It indicates that during 2005-06 to 2011-12, there was an increase in the tax-to-GDP ratio of 0.7 percentage points. While, there is a negative base effect of 0.3 percentage points, the rate effect shows an improvement of 1 percentage point in the tax-to GDP ratio. However, in 2012-13 both base effect and rate effect showed a decline of more than 0.1 percentage points and 0.5 percentage points resulted in a decline of 0.7 percentage points in tax-to-GDP ratio. This analysis has clear implications for the resource mobilisation strategy. Essentially, the losses in effective tax rates have to be regained through more effective exploitation of the tax bases.

Table 12			
Decomposition of the Changes in Tax-to-GDP Ratio			
	<i>(% of GDP)</i>		
Tax	Tax-to-GDP Ratio	Base Effect	Rate Effect
2005-06 to 2011-12			
Direct Taxes	0.9	0.0	0.9
Excise Duty	-0.1	-0.1	0.0
Customs Duty	-0.6	-0.3	-0.3
Sales Tax	0.4	0.0	0.4
Total Taxes	0.7	-0.3	1.0
2012-13			
Direct Taxes	-0.3	-0.1	-0.1
Excise Duty	-0.1	0.0	-0.1
Customs Duty	0.0	0.2	-0.2
Sales Tax	-0.3	-0.2	-0.1
Total Taxes	-0.7	-0.1	-0.5
2005-06 to 2012-13			
Direct Taxes	0.7	-0.1	0.8
Excise Duty	-0.2	-0.1	-0.1
Customs Duty	-0.6	-0.1	-0.5
Sales Tax	0.1	-0.1	0.2
Total Taxes	0.0	-0.4	0.4
Source: Estimates Based on Taxes Data from SBP website and GDP data from Economic Survey 2012-13.			
Note: See Annexure-I for methodology of decomposition.			

5 FEASIBILITY OF REVENUE TARGETS FOR 2013-14

Against the backdrop of a low tax-to-GDP ratio and failure in resource mobilisation by the FBR, the newly elected government announced a tax target of roughly Rs2.5 trillion. Despite various additional tax measures including tax amnesty for regularisation of non-duty paid vehicles and enhancement of sales tax on tea from 5 percent to the standard rate of 16 percent, the FBR missed its last year's tax target by roughly Rs375 billion to Rs400 billion. For 2013-14, the FBR has a relatively bigger target, which is Rs475 billion to Rs500 billion higher compared to 2012-13. This article aims to analyse the feasibility of tax targets.

REVENUE TARGETS FOR 2013-14

Table 13 presents tax-wise collection and targets for 2013-14 of FBR taxes and their corresponding growth rates. It indicates that there is double digit growth in direct taxes since 2006-07, the only exception is 2012-13 where direct taxes grew only by 5.5 percent. It seems that the target, with more than more than 25 percent growth in direct taxes, aims to recover momentum in resource mobilisation through direct taxes.

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13 E	2013-14 T
Direct Taxes	333.7	387.5	440.3	528.6	602.5	738.8	779.6	975.7
Growth Rate		16.1%	13.6%	20.1%	14.0%	22.6%	5.5%	25.2%
Indirect Taxes	513.5	619.7	716.7	800.0	955.6	1,144.2	1,209.4	1,499.3
Growth Rate		20.7%	15.7%	11.6%	19.4%	19.7%	5.7%	24.0%
Excise Duty	71.8	92.2	116.1	121.2	137.4	122.5	116.6	166.8
Growth Rate		28.4%	25.9%	4.4%	13.3%	-10.8%	-4.8%	43.0%
Customs	132.3	150.6	148.4	161.5	184.9	216.9	248.8	279.0
Growth Rate		13.8%	-1.5%	8.8%	14.5%	17.3%	14.7%	12.1%
Sales Tax	309.4	376.9	452.3	517.3	633.4	804.8	843.9	1,053.5
Growth Rate		21.8%	20.0%	14.4%	22.4%	27.1%	4.9%	24.8%
Total FBR Taxes	847.2	1,007.2	1,157.0	1,328.6	1,558.0	1,883.0	1,989.0	2,475.0
Growth Rate		18.9%	14.9%	14.8%	17.3%	20.9%	5.6%	24.4%

Source: SBP website(<http://www.sbp.org.pk/ecodata/tax.pdf>) as on July 06, 2013
 E = Estimates based on 9 month provisional actual collection,
 T= Targets for 2013-14 taken from Federal Budget in Brief 2013-14

Among the indirect taxes major source of revenues is sales tax, which also showed double digit growth during 2006-07 to 2011-12. However, this double growth collapsed to almost 5 percent in 2012-13. Similar to direct taxes, almost 25 percent projected increase in sales tax target for 2013-14 aims to attain high growth in this buoyant source

of revenue. Other indirect taxes, customs and federal excise duties have large fluctuations in year-to-year growth in tax revenues which vary from negative 11 percent to more than 28 percent in case of excise duty and negative 1.5 percent to more than 17 percent in case of customs. For 2013-14, targets set for customs and excise duties are 12 percent and 43 percent higher compared to 2012-13. In the subsequent section, we analyse whether these growth rates are feasible to achieve or not.

PROJECTION OF TREND REVENUES

The projections of tax revenues are based mainly on two factors: (1) change in tax base and (2) changes in tax rate. In the former case, tax revenues are projected by excluding the impact of discretionary changes (changes in tax rate, tax base, regulations, or administration). Consequently, it is termed as trend projections. In the latter case, the impact of discretionary changes is projected. By adding both the trend projections and impact of discretionary changes, total tax revenues are projected.

In order to analyse, the feasibility of tax revenue targets, first we computed the tax-wise buoyancy ratios. These ratios tell us the growth in taxes in relation to growth in tax base. Table 14 presents the growth rate in tax rate, tax base and buoyancy ratios of FBR taxes. It shows that both sales tax on imports and domestic goods have higher growth compared to growth in their tax bases, and consequently have the highest buoyancy ratios of more than one during 2006-07 to 2012-13. Among other

	Growth Rate (%)		Buoyancy Ratio
	Tax Base	Tax Revenues	
Income Tax	15.8	15.0	0.949
Sales Tax on Imports	15.0	15.8	1.053
Domestic Sales Tax	15.6	15.9	1.019
Customs	15.7	10.9	0.694
Excise Duty	15.7	8.2	0.522

taxes, income tax has the highest buoyancy ratio of 0.949 followed by customs and federal excise duties that have buoyancy ratios of 0.694 and 0.522 during the same period. It can be inferred that growth in income tax and sales tax is relatively high in relation to their tax bases during this period. In contrast, revenues from excise duty and customs grew less compared to their tax bases. For instance, in the case of customs, a buoyancy ratio of 0.7 indicates that a 10 percent growth in the tax base of customs leads to an automatic growth of 7 percent in revenues from customs.

TREND PROJECTIONS OF FBR TAX REVENUES

For trend projections, we used average tax-wise buoyancy ratios and sector-wise growth rate of nominal GDP and imports. The estimates of tax base are based on the growth rate of real GDP and inflation taken from the Annual Plan 2013-14. In addition, for various heads of imports we assumed a growth of 17.7 percent.

Table 15 gives the estimated tax revenue collection in 2012-13, projected trend revenues, adjusted trend revenues, targeted revenues and expected shortfall in revenues termed as GAP. Based on buoyancy ratios presented in Table 14 and projected growth in tax base, trend projection indicates a likely collection of Rs888 billion, Rs982 billion, Rs276 billion and Rs123 billion from income tax, sales tax, customs and excise duty respectively in 2013-14. Since, these trend projections are based on buoyancy instead of elasticity of taxes, they also contain the impact of discretionary changes made during 2006-07 to 2012-13. In order to isolate the impact of discretionary changes, we analysed the taxation proposals during this period. Our analysis shows that heavy changes made in indirect taxes generated an additional revenue of Rs29 billion from income tax for 2013-14. Similarly, the impact of changes made in sales tax have revenue implications of Rs13 billion. In contrast, changes made in customs and excise duty have negative revenues implication of Rs5billion of Rs5 billion and Rs1 billion. Therefore, an adjustment is made in these trend projections by isolating the revenue implications of these changes. As per adjusted projections, likely tax-wise revenues from FBR taxes without discretionary changes would be Rs859 billion, Rs969 billion, Rs281 billion and Rs124 billion from income tax, sales tax, customs and excise duty respectively in 2013-14. Compared to tax target of almost Rs2.5 trillion, these adjusted trend projections indicate a shortfall of Rs242 billion, which is 10 percent of the targeted amount.

Table 15					
Trend Projections of FBR Taxes for 2013-14					
	Revenue 2012-13	Projected Revenues	Adjusted Revenues*	Targeted Revenues	GAP
	(I)	(II)	(III)	(IV)	(IV) - (III)
Income Tax	772	888	859	976	117
Sales Tax	836	982	969	1054	85
Sales Tax on Imports	424	507			
Domestic Sales Tax	412	475			
Customs	246	276	281	279	-2
Excise Duty	115	123	124	167	43
Total FBR Taxes	1,969	2,269	2,233	2,475	242
Growth Rate (%)		15.2	13.4	25.7	

*See Annexure-II.

REVENUES FROM DISCRETIONARY CHANGES

In the next step, we estimated the impact of discretionary changes made in the Finance Act 2013 on revenues. These projections of expected revenues from discretionary changes are deal tax to tax bases and presented separately in the following sub-sections.

Income Tax

Table 16 presents the summary of discretionary changes made in income tax through the Finance Act 2013. It shows, higher withholding tax rates on sale of goods, imports, services and contacts have a high positive impact, while the rest of the proposals have medium positive or negative impacts. The net revenue implications of changes made in income tax is around Rs85 billion.

Table 16	
Revenue Implications of Major Taxation Proposals in Income Tax for 2013-14	
Major Taxation Proposals	EXPECTED REVENUE LOSS/GAIN
Higher Withholding tax rates on sale of Goods, Imports, Services, Contacts	Large Gain
Minimum Tax on turnover raised from 0.5% - 1%	Medium Gain
Rise on withholding tax on cash withdrawals	Medium Gain
Withholding tax at 0.5% by distributors, manufacturers and importers from retailers	Medium Gain
Withholding tax on financing	Medium Gain
Enhancement of Tax rates on Association Of Persons (AOPs)	Medium Gain
Enhancement of tax rates on self-employment	Medium Gain
Reduction in corporate tax rate from 35% - 34%	Medium Gain
Reduction in initial Depreciation allowance from 50% - 25%	Medium Gain
Income supply Levy	Medium Gain
Exemption Limit on withholding Tax on NSC withdrawn	Medium Gain
Net Impact on Income Tax Revenues	85 Billion

Sales Tax

Table 17 shows the summary of major discretionary changes made in sales tax through the Finance Act 2013. In contrast to income tax, the changes made in sales tax have positive revenue implications. The enhancement in sales tax rate, taxation of local sales of export sectors, and withdrawal of regional SROs have positive and large revenue gains while others have medium revenue gains. The net revenue implications of discretionary changes made in sales tax is around Rs80 billion.

Table 17	
Revenue Implications of Major Taxation Proposals in Sales Tax for 2013-14	
Major Taxation Proposals	EXPECTED REVENUE LOSS/GAIN
Definition of Provincial Sales Tax	Medium Gain
Enhancement in sales tax rate	Large Gain
Further sales tax on unregistered person	Medium Gain
Taxation of local sales of export sectors	Large Gain
Levy of 5% extra on electricity and gas bills of unregistered persons	Medium Gain
Taxation of manufacturers at retail price of number of consumer goods	Medium Gain
Withdrawal of Regional SROs	Large Gain
TOTAL	80 Billion

Federal Excise Duty

In contrast to income and sales taxes, not many changes have been made in excise duty through the Finance Act 2013. The only noticeable change made in excise duty, which has revenue implications of medium nature is excise duty on cigarettes. Our estimates show that it will add another Rs10 billion in tax revenues from excise duty.

Customs Duty

There is no major discretionary change in customs through the Finance Act 2013, which has revenue implications of high or medium nature either positive or negative. The reduction in the rate of custom duties of hybrid cars and others has small-scale negative revenue implications, which may have minor implications.

Summary

Despite very high growth in tax targets, our projections show that the FBR is less likely to miss the tax targets with huge margins. After adding both the trend projections and impact of discretionary changes, the FBR is likely to collect total taxes of Rs2.4 trillion. Sales tax, with a revenue projection of Rs1,049 billion (44 percent of FBR taxes), and income tax, with a revenue projection of Rs944 billion (39 percent of the FBR taxes), will be the likely major contributors to tax revenues. In comparison to the tax revenue target for 2013-14, a shortfall of Rs68 billion is expected, which is 2.5 percent of the FBR revenues for 2013-14 (see Table 18).

	Budget Estimates without Discretionary Changes	Expected Revenues from Discretionary Changes	Budget Estimates Including Revenues from Discretionary Changes	Revenue Targets	GAP	GAP as % of the Budget Estimates
	(I)	(II)	(III) = (I) + (II)	(IV)	(III) -(IV)	
Direct Taxes	859	85	944	976	32	3.3
Indirect Taxes	1374	90	1464	1500	36	2.4
Sales Taxes	969	80	1049	1054	5	0.5
Customs Duty	281	0	281	279	-2	-0.7
Excise Duty	124	10	134	167	33	19.8
Total FBR Taxes	2,233	175	2,408	2,476	68	2.75

These projections are not looked at in isolation. There are possibilities of both upside and downside factors, which may affect positively or negatively the revenue collection in 2013-14. On the upside, if inflation remains significantly higher than the projected inflation of 8 percent due to recent growth in money supply or increase in sales tax then it is likely that revenue from indirect taxes will increase.

Similarly, if growth in the large-scale manufacturing sector remains higher than the projected 4 percent due to a reduction in load-shedding, it will also positively affect the tax revenues.

Moreover, if spending on the PSDP will be as large as projected than the big increase in the PSDP of 28 percent may yield more revenue from the personal income tax (PIT) on contractors.

Finally, If the electricity supply increases significantly and tariffs are raised sharply then the growth in tax revenues from this sector could increase rapidly.

Similarly, there are several downside factors that may affect tax revenue projections negatively. First of all, the revenue projections are based on FBR's revenue collection of Rs1,970 billion in 2012-13, if this is further downward revised then the target for 2013-14 becomes even more difficult to achieve.

Moreover, at present the FBR has a narrow base of indirect taxes, where almost 30 percent of indirect tax revenues are collected from POL products. If oil prices decline 3 to 4 percent in 2013-14, as per projections by oil experts, then this will lead to a decline in revenues while affecting BOP positively. A one percent lower oil price implies a decline in revenue of Rs4.5 billion. Similarly, a 3 to 4 percent decline in revenues would cause a decline of revenues from Rs13 billion to Rs18 billion from indirect taxes.

The second major item in indirect taxes is automobiles, which has been subject to higher levies in the budget. A 5 percent fall in imports/production could lead to a revenue loss of Rs9 billion.

The changes made in the tax structure for cigarettes have implications on retail price of cigarettes as stated in Table 19. There is a danger that the informal sector of cigarette manufacturers in Mardan may cut into the market with low priced cigarettes and affect revenues negatively.

	<i>(Rupees)</i>		
Retail price (Pack of ten)	Excise Duty old	Excise Duty new	% change
10	5	9	85
20	13	9	-31
30	19	23	21
40	26	23	-9

Finally, there is also a danger of a negative impact on growth of bank deposits because of income support levy, higher tax rate on cash withdrawals, access of the FBR to bank accounts. This will affect overall revenues from the sector.

6 DEVELOPMENT PRIORITIES OF THE GOVERNMENT

The Public Sector Development Programme (PSDP) manifests the development priorities of the government and is considered the main instrument for making development interventions and channelising budgetary resources for development projects and programmes. In this section, we analyse the Federal PSDP and provincial Annual Development Programmes (ADPs).

FEDERAL PSDP

Starting with the utilisation of budgetary allocations for the previous fiscal year (2012-13), it appears that revised estimates for 2012-13 are 8 percent higher than the budgeted amount (Rs388 billion as compared to Rs360 billion). However, utilisation rates among various ministries/ divisions are not symmetrical. Major overspending has been observed in 'Special Programmes' where Rs46.4 billion was spent against the budget amount of Rs27 billion. Some other sectors with major overspending include power and highways. On the other hand, there has been underspending in several divisions including defence, interior and water.

The total size of the federal PSDP for fiscal year 2013-14 is Rs540 billion, which includes foreign aid of Rs109 billion. There is a sizeable increase of 39 percent (Rs152 billion) in the current year's PSDP as compared to revised estimates for 2012-13 (Table 20).

	Rs in Billion		Percentages		
	2012-13 Revised	2013-14 Budget	Change 2013-14 /2012-13	Sectoral Shares 2012-13	Sectoral Shares 2013-14
Infrastructure Development	222.6	257.4	16	57	48
<i>Water</i>	45.3	57.8	28	12	11
<i>Power (WAPDA and PAEC)</i>	78.8	103.7	32	20	19
<i>NHA</i>	71.2	63.0	-11	18	12
<i>Others (include railways)</i>	27.4	32.8	20	7	6
Education & Training; HEC	18.5	23.7	28	5	4
Health – Vertical Programmes	18.2	22.8	25	5	4
Productive Activities	5.5	11.0	100	1	2
Special Areas and Special Programmes	81.1	53.1	-35	21	10
New Development Initiative	-	115.0	-	0	21
Others	32.4	47.0	-	8	9
ERRA	10.0	10.0	-	3	2
Total Federal PSDP	388.4	540.0	39	100	100

Sources: Public Sector Development Programme 2013-14, Government of Pakistan
Budget in Brief 2013-14, Government of Pakistan
Note: See endnote for classification details of major sectors used in the table.

However, it is interesting to note that this massive increase of Rs152 billion is mainly due to the allocation of Rs115 billion to the 'New Development Initiative'. It is a block allocation and no details of development schemes under this category are provided in the PSDP document. It implies that at least 21 percent of the federal PSDP remains unexplained. It does not include block allocations of Rs19 billion in Azad Jammu and Kashmir (AJK) and Gilgit Baltistan (GB) Division and of Rs18.5 billion in States & Frontier Division. Similarly, special programmes have a block allocation of Rs5 billion.

As far as the development priorities of the federal government are concerned, almost one half of the PSDP (48 percent) is devoted to infrastructure development, where the development budget has increased by 16 percent. Within infrastructure development, allocations to water and power sector increased by 28 and 32 percent respectively while those of NHA declined by 11 percent. There has also been a significant increase in allocations to education and health. Moreover, the budget for 'productive activities' has been doubled from Rs5.5 billion to Rs11 billion. However, the increase in this category is mainly due to defence and defence production. Out of the total increase of Rs5.5 billion, Rs4.3 billion is observed in defence and defence production.

Coming back to infrastructure, it is important to note that in spite of increased allocations, the share of infrastructure development in the total PSDP has actually declined from 57 percent in 2012-13 to 48 percent in 2013-14.

Given the current situation of the energy crisis and its implications for economic development, the importance of the power sector cannot be overemphasised. Development allocations to the power sector have increased from Rs78 billion to Rs104 billion. This includes Rs51.4 billion for the Water and Power Development Authority (WAPDA) and Rs52.3 billion for the Pakistan Atomic Energy Commission (PAEC). In addition to PSDP funds, self-financing schemes of WAPDA, the National Transmission & Despatch Company (NTDC) and Pakistan Electric Power Company (PEPCO) amount to Rs118 billion. In this way, altogether planned investment in the power sector would be Rs221 billion. Within the PSDP budget of WAPDA, about 63 percent is allocated to hydel projects while 37 percent to projects related to transmission and distribution.

The power sector has also attracted a large chunk of the foreign aid. Out of Rs109 billion of foreign aid in the PSDP 2013-14, more than half (Rs60 billion) is planned to be invested in the power sector. The average share of foreign aid in power sector schemes/projects is 58 percent of the total allocations as compared to an average of only 16 percent in other sectors.

However, despite heavy investment, no major hydel power project is going to be completed in the next couple of years or so, which implies that increased allocations are less likely to make a significant contribution in tackling the existing energy crisis, at least in the short run. A positive aspect of the current PSDP is that effort has been made to make more allocations to ongoing schemes, rather than initiating new schemes. But an analysis of allocations in 2013-14 against the throw-forward in power sector projects/schemes reveals that the current pace of completion of power-related projects is not encouraging.

As shown in Table 21, the overall level of budgeted allocation as a percentage of throw-forward is only 17 percent, which implies that, at the current pace of allocations, completion of projects will take five to six years, on average. Moreover, the ratio of current allocations to throw-forward is low in WAPDA (mostly hydel projects) as compared to that of NTDC and PEPCO which are mainly projects related to transmission and distribution.

PSDP schemes/projects	
WAPDA	0.16
NTDC- PEPCO	0.29
Self-financing schemes/projects	
WAPDA	0.04
NTDC, PEPCO	0.20
Overall	0.17
* As on July 1, 2013	
Note: While computing the allocations as percent of throw-forward, the schemes where through-forward was greater than total cost or allocations were greater than throw-forward have been excluded. Project of Diamer Bhasha Dam is also excluded.	

The expected addition to hydel power generation in the next year (through completion of ongoing projects) is about 400MW only. Moreover, there do not appear to be any signs of a focus on alternative energy sources such as solar or wind power.

Keeping aside public investment for a moment, the level of private sector investment in the power sector is quite depressing. Pakistan Economic Survey 2012-13 shows that private investment in electricity generation distribution (combined with gas distribution) has almost collapsed. The level of gross fixed capital formation in the sector remained at Rs5.3 billion as compared to Rs60 billion in 2011-12 and Rs50 billion in 2010-10 (at current market prices). It is, therefore, imperative for the government to focus on developing an integrated energy policy to break the chain of living from one crisis to another.

PROVICAL ADPs

Total annual development programmes of all the provinces combined amount to Rs667 billion in 2013-14. All the provincial governments have made substantial increases in the size of their ADPs as compared to the previous year – altogether there has been an increase of 53 percent. A massive increase is observed in ADPs of Punjab and Sindh,

74 percent and 50 percent, respectively (Table 22). However, revised estimates of 2012-13 show that the level of underutilisation of ADP allocations in both the provinces has been fairly large where they have been able to utilise only 66-67 percent of the allocated resources.

	Rs in Billion			Percentages	
	Budget 2012-13	Revised 2012-13	Budget 2013-14	Utilisation 2012-13	Increase 2013-14
Punjab	250.0	166.9	290.0	67	74
Sindh	216.7	143.3	214.6	66	50
Khyber Pakhtunkhwa	97.5	88.1	118.0	90	34
Balochistan	36.1	36.1	43.9	100	22
All Provinces Combined	600.2	434.3	666.5	72	53

Sources: Annual Development Programmes of provincial governments, 2013-14.

Table 23 presents the level and share of development expenditures in various sectors by provincial governments. The share of expenditures on major social services (education, health, and water supply and sanitation) ranges between 10-20 percent of the total ADP in all provinces, with the exception of Khyber Pakhtunkhwa where this share is about 37 percent. The government of Khyber Pakhtunkhwa has given much importance to education by allocating Rs30 billion, which is over 25 percent of total development expenditure of the province. This allocation is even highest in nominal terms among all the provinces.

Infrastructure development seems to be the main priority of most provincial governments with heavy investments in roads and irrigation. The share of expenditures on roads is 25 percent in Balochistan while it ranges from 10-13 percent in other provinces.

All the provinces have also made allocations in the energy sector. Planned expenditure in this sector is highest in Punjab (Rs20 billion) followed by Sindh (Rs12 billion) while other provinces have also allocated a significant proportion of their development outlays.

However, investment in the power sector by provincial governments is in its initial stages. Moreover, priorities of provincial governments also differ in terms of sources of power generation. For example, Punjab has planned for a small hydel power project of 120MW. Most of the resources are devoted to providing a subsidy on solar tube wells and provision of solar panels to poor households. In Sindh, almost all the expenses

related to energy development are for coal-based energy in district Tharparkar. The Government of Khyber Pakhtunkhwa is investing in 8 small hydel power projects with a total capacity of 625MW. Moreover, about 50 percent of the allocation in this sector is devoted to solar and renewable energy. In Balochistan, major investment is being made in home solar systems

Table 23
Analysis of Provincial Annual Development Programmes (ADPs): 2013-14
(Rs in Billion)

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
Major Social Services				
Education	24.9	16.9	29.8	3.5
Health	17.0	20.2	10.1	2.6
Water Supply & Sanitation	10.9	4.2	3.6	2.6
Major Economic Services and Infrastructure				
Roads	29.2	22.3	15.7	11.0
Irrigation	22.4	19.0	3.3	4.4
Power	20.4	11.7	2.2	2.4
Regional/Rural Development	16.1	0.9	17.3	-
Urban Development	13.8	-	5.2	0.4
Agriculture	7.4	10.3	2.7	2.9
Industries	3.2	0.2	4.5	1.1
District ADP	14.0	20.0	1.7	-
Special Packages/Initiatives	24.8	22.8	-	-
Others	85.9	66.8	21.9	13.0
TOTAL	290.0	215.1	118.0	43.9
Percent Share in Total Allocation				
Major Social Services				
Education	8.6	7.9	25.3	8.0
Health	5.9	9.4	8.5	6.0
Water Supply & Sanitation	3.7	1.9	3.0	6.0
Major Economic Services and Infrastructure				
Roads	10.1	10.3	13.3	25.0
Irrigation	7.7	8.8	2.8	10.0
Power	7.0	5.4	1.9	5.5
Regional/Rural Development	5.5	0.4	14.7	-
Urban Development	4.8	-	4.4	1.0
Agriculture	2.5	4.8	2.3	6.5
Industries	1.1	0.1	3.8	2.5
District ADP	4.8	9.3	1.4	-
Special Packages/Initiatives	8.5	10.6	-	-
Others	29.6	31.1	18.6	29.5
TOTAL	100.0	100.0	100.0	100.0

Sources: Annual Development Programmes of provincial governments, 2013-14.

A matter of concern is the sizeable allocation for special programmes by provincial governments. For example, a significant proportion of total development expenditure in Punjab and Sindh is made in the form of special initiatives/packages. It is interesting to note that block allocations in Punjab amount to Rs84 billion, which is about 29 percent of the total ADP of the province. Similarly, block allocations in Sindh are Rs38 billion – 18 percent of the ADP.

As mentioned earlier, provinces have not been able to fully utilise the resources allocated in the previous year's budget. One of the reasons for underutilisation of ADP allocations may be the lack of proper planning of development schemes. For example, in the ADP of Punjab 2013-14, 310 unapproved schemes have been included. Total allocation to these unapproved schemes amounts to Rs119 billion implying that over 40 percent of Punjab's ADP consists of unapproved schemes.

ENDNOTES:

Infrastructure Development: Water, Power, Pakistan Atomic Energy Commission, National Highways Authority, Railways, Communication, Information Technology & Telecom, Pakistan Nuclear Regulatory Authority and Ports & Shipping.

Productive Activities: Defence, Defence Production, Industries, Petroleum & Natural Resources, Production, Science & Technological Research and Textile Industry.

Special Areas and Programmes: Kashmir Affairs & Gilgit Baltistan, States & Frontier Regions and Special Programmes.

7

BUDGETARY POSITION AND PRIORITIES OF PROVINCIAL GOVERNMENTS

The newly elected provincial governments presented their budgets for the fiscal year 2013-14 in June 2013. There are significant differences in the political and economic scenarios of the four provinces. Punjab and Sindh are better off than Khyber Pakhtunkhwa and Balochistan in terms of socio-economic conditions. While the former have a single party government, of PML-N and PPP respectively, the latter have coalition governments. Altogether, these differences lead to several questions about the provincial budgets: will they fulfil all the promises made in election campaigns and manifestoes? Will they address socio-economic challenges adequately? What is the overall budgetary position in each province? What are the provincial resource mobilisation strategies? And what are their expenditure priorities?

BUDGETARY POSITION OF PROVINCIAL GOVERNMENTS

Similar to the federal budget, provincial budgets have two parts: resources and expenditures. There are three types of resources: (1) general revenue receipts, (2) development receipts and (3) net of capital and public accounts. Expenditures, on the other hand, can be classified into two broader categories: (1) current (non-development) expenditures and (2) development expenditures.

Table 24 shows a province-wise summary of both resources and expenditures for 2013-14. As reflected, general revenue receipts are the biggest revenue source that consist of provincial own tax and non-tax revenues, federal transfers constituted through NFC Awards, state transfers and non-development grants. The state of provincial finances has substantially improved after the conclusive 7th NFC Award. For 2012-13, Punjab, Sindh, Khyber Pakhtunkhwa and Balochistan have estimated a resource availability of Rs867.6 billion, Rs569.3 billion, Rs313.9 billion and Rs170.2 billion respectively. Despite, the availability of these resources, expenditures of three out of four provincial governments exceed their resources, resulting in budget deficits. The only exception is the Government of Balochistan with a planned surplus of Rs9 billion. The combined budget deficit of provincial governments exceeds Rs52 billion. This is in contrast to the federal government's expectations, which is assuming that provincial governments generate a surplus of more than Rs23.1 billion.

Table 24
Provincial Government's Overall Budgetary Position

<i>Rs in Billion</i>					
	Budget Estimates 2013-14				
	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
RESOURCES					
General Revenue Receipts	872.0	529.2	298.0	161.4	1,860.5
Development Grants	29.7	44.9	30.7	1.7	107.0
Net Capital and Public Accounts Receipts	-34.1	-4.9	-14.8	7.2	-46.5
Total Resources	867.6	569.3	313.9	170.2	1,921.0
EXPENDITURES					
Current Revenue Expenditures	607.6	356.0	211.0	117.3	1,291.9
Development Expenditure	290.0	229.9	118.0	43.9	681.9
Total Expenditures	897.6	585.9	329.0	161.3	1973.7
Fiscal Balance	-30.0	-16.6	-15.1	9.0	-52.7

The economic classification of expenditures provides a good starting point for comparison. Non-development expenditures are similar to consumption expenditures and refer to the recurring operational costs involved in provision and maintaining a range of government services. Developmental expenditures are similar to investment and represent outlays in new physical and social infrastructure, which are needed from time to time to create new facilities or even new administrative functions. Consequently, if any government is indicating greater priority towards development expenditures, it may aim to generate higher employment opportunities and provide greater scope for economic growth and poverty reduction.

Table 24 indicates that a large chunk of resources was allocated to non-development expenditures. The allocated share of non-development expenditures in total outlays exceeds 67 percent in Punjab, 60 percent in Sindh, 64 percent in Khyber Pakhtunkhwa and 72 percent in Balochistan for 2013-14. Despite greater resource availability, reflected by the budget surplus, the Government of Balochistan allocated the lowest share towards development expenditures, compared to other provinces, while the Government of Sindh allocated the highest. Given the nature and extent of underdevelopment, it appears that Balochistan's development needs are neglected in this budget too.

PROVINCIAL RESOURCE MOBILISATION

Table 25 presents the province-wise summary of own resources. It shows sales tax on services separately because it is a provincial tax, however, collected, nonetheless, by the FBR on behalf of provinces in Khyber Pakhtunkhwa and Balochistan. The Government of the Punjab (GotP) pitched a relatively high tax collection target of more than Rs64 billion for 2013-14, which is 20 percent higher than the revised estimates for 2012-13. In absolute terms, the GotP targeted to fetch around an additional Rs11 billion.

The decomposition of growth in tax revenues indicate that the additional amount largely collected from urban immovable property tax (Rs3 billion), followed by stamp duties (Rs2.2 billion), land revenue (Rs3 billion) and agriculture income tax (Rs1.2 billion). Motor vehicle tax and capital gains on urban immovable property are the other two sources of additional revenues.

	<u>2012-13</u>		<u>2013-14</u>	<u>Growth (%)</u>	
	BE	RE	BE	RE-BE	BE-RE
Provincial Own Revenues: Punjab					
Tax Receipts (excluding GST Services)	54.5	53.5	64.4	-1.9	20.3
GST on Services	40.5	37.0	62.4	-8.6	68.5
Non-Tax Receipts	21.1	28.5	23.6	35.3	-17.3
Total Provincial Own Revenues	116.1	119.0	150.3	2.5	26.3
<i>Share in General Revenue Receipts</i>	14.9%	16.5%	17.2%	11.2	4.3
Provincial Own Revenues: Sindh					
Tax Receipts (excluding GST Services)	41.2	41.3	49.4	0.3	19.6
GST on Services	32.0	32.0	42.0	0.0	31.3
Non-Tax Receipts	23.4	27.4	28.8	16.9	5.1
Total Provincial Own Revenues	96.6	100.7	120.2	4.2	19.3
<i>Share in General Revenue Receipts</i>	20.2%	23.0%	22.7%	13.7	-1.0
Provincial Own Revenues: Khyber Pakhtunkhwa					
Tax Receipts (excluding GST Services)	4.0	3.9	4.3	-2.5	10.6
GST on Services	9.9	4.3	6.0	-56.6	39.9
Non-Tax Receipts	6.2	6.2	6.6	-0.1	6.4
Total Provincial Own Revenues	20.1	14.4	16.9	-28.4	17.5
<i>Share in General Revenue Receipts</i>	7.2%	5.3%	5.2%	-26.1	-1.4
Provincial Own Revenues: Balochistan					
Tax Receipts (excluding GST Services)	1.4	1.2	1.6	-12.1	27.4
GST on Services	4.1	5.5	4.5	34.9	-18.0
Non-Tax Receipts	2.1	1.6	2.1	-24.9	29.8
Total Provincial Own Revenues	7.6	8.3	8.1	9.5	-2.1
<i>Share in General Revenue Receipts</i>	5.1%	5.6%	5.0%	9.6	-9.7

For 2013-14, the GotP set a very high target of more than Rs62 billion for sales tax on services, which is 68 percent higher compared to revised estimates for 2012-13. Last year the GotP developed the Punjab Revenue Authority (PRA) to collect sales tax on services. This high tax target is a real test for the PRA to fully capitalise on the provincial tax base of services.

The Government of Sindh (GoS) also set a high provincial tax target of more than 49 billion for 2013-14, which is 20 percent more than the revised estimates of 2012-13. In absolute terms, the GoS targeted to fetch around an additional Rs8 billion. An analysis of growth in tax revenues revealed that the Sindh Development Maintenance of Infrastructure (SDMIS) and Electricity Cess are likely to be the largest contributors in additional resources. It has planned to get an additional Rs3 billion from SDMIS and

more than Rs2 billion from electricity. Among others additional revenues, urban immovable property tax (Rs0.8 billion), stamp duties and capital value tax on immovable property (Rs0.5 billion each), and motor vehicle tax (Rs1.2 billion) are major sources of revenues.

For 2013-14, sales tax on services shows a growth of almost 20 percent compared to revised estimates of 2012-13. The GoS announced a few measures to tax exempted services like beauty parlours, marriage halls and the like. It seems that the GoS's tax mobilisation strategy heavily focuses on urban areas of the province.

Khyber Pakhtunkhwa and Balochistan have relatively low tax collection. Their tax collection hardly contributed to 5 percent of their total resources. Khyber Pakhtunkhwa set a tax target of more than Rs10 billion based on the assumption that the FBR will collect Rs6 billion through GST services on behalf of the province. Compared to Punjab and Sindh, there is not much dynamism in their own tax revenues. In contrast, the Government of Balochistan showed a growth of more than 27 percent in their tax collection target for 2013-14 compared to 2012-13. However, this growth was eroded by the lower expected collection in sales tax on services. Consequently, Balochistan's own revenues showed a decline of Rs0.2 billion in 2013-14 compared to 2012-13.

PRIORITIES IN CURRENT EXPENDITURES

Table 26 gives the province-wise priorities of provincial governments regarding current expenditures by expressing the absolute amount and shares in revised expenditures for 2012-13 and budgeted expenditures for 2013-14.

The expenditure priorities of the provinces are analysed by comparing the shares of expenditures under each head. The share of education affairs in Punjab is not comparable to the rest of the provinces as primary and secondary education is part of the local government in Punjab, financed through inter-government transfers. Alternatively, in the other three provinces these services are directly delivered by the provincial government. Therefore, rather than comparing education and health separately, the expenditures under education, health and inter-government transfers are clubbed together to be used as a proxy for allocation on social services. This proxy indicates that allocation on social services has the highest share, of 60 percent, in Punjab followed by 53 percent in Sindh, 50 percent in Khyber Pakhtunkhwa and the lowest share of 31 percent in Balochistan.

A shift is seen in Khyber Pakhtunkhwa where expenditures under intergovernmental transfers declined massively in the budgeted figure of 2013-14 compared to the revised figure of 2012-13 where the opposite is seen in expenditures under health and

education affairs. This indicates that the role of local governments is slashed in Khyber Pakhtunkhwa which is against the manifesto of PTI. Moreover, the combined share of social services declined from 56 percent to 50 percent in Khyber Pakhtunkhwa indicating a decline in priorities towards social services. In contrast, the share of General Public Service increased from 18 percent in 2012-13 to 21 percent in 2013-14.

Table 26
Provincial Priorities in Current Expenditures

	<i>(Rs in Billion)</i>							
	<u>Punjab</u>		<u>Sindh</u>		<u>Khyber Pakhtunkhwa</u>		<u>Balochistan</u>	
	2012-13 R	2013-14	2012-13 R	2013-14	2012-13 R	2013-14	2012-13 R	2013-14
General Public Service	41.2	40.6	57.8	63.5	35.0	45.7	24.1	24.2
Inter Government Transfers	222.2	244.3	39.1	39.9	90.8	14.0	0.0	0.0
Public Order and Safety Affairs	91.4	101.1	52.8	54.4	29.9	30.1	15.2	16.2
Economic Affairs	84.2	93.7	43.2	34.4	12.5	17.5	26.1	34.1
Health	58.4	75.7	34.1	36.4	7.6	19.1	9.7	11.2
Education Affairs and Services	37.6	44.6	105.4	120.5	11.2	72.7	23.0	24.8
Others	14.7	7.6	9.6	6.9	8.0	11.9	6.5	6.9
Total	549.8	607.6	342.1	356.0	195.0	211.0	104.8	117.3
Share in Current Expenditures (%)								
General Public Service	7.5	6.7	16.9	17.8	17.9	21.7	23.0	20.6
Inter Government Transfers	40.4	40.2	11.4	11.2	46.6	6.6	0.0	0.0
Public Order and Safety Affairs	16.6	16.6	15.4	15.3	15.3	14.3	14.5	13.8
Economic Affairs	15.3	15.4	12.6	9.7	6.4	8.3	24.9	29.1
Health	10.6	12.5	10.0	10.2	3.9	9.1	9.3	9.5
Education Affairs and Services	6.8	7.3	30.8	33.9	5.8	34.4	22.0	21.1
Others	2.7	1.3	2.8	1.9	4.1	5.6	6.2	5.9
Total	100	100	100	100	100	100	100	100

However, a comparison of the shares under each head among provinces, excluding Punjab, indicates that education is the top priority of the provincial governments except Balochistan whereas, it is the second priority of the government. The share of expenditure on education in Sindh, Khyber Pakhtunkhwa and Balochistan is 33.9 percent, 34.4 percent and 29.1 percent respectively.

Among other comparable provincial services, allocation for public order and safety affairs has the highest share in Punjab followed by Sindh, Khyber Pakhtunkhwa and Balochistan respectively. In contrast, allocations for economic affairs have the highest share (29.1 percent) in Balochistan followed by Punjab, Sindh and Khyber Pakhtunkhwa respectively for 2013-14

8 POACHING ON THE PROVINCES

The Federal Budget of 2013-14 contains a record number of taxation proposals. In an effort to achieve an ambitious revenue target of Rs2,475 billion, representing an increase of Rs468 billion over the collection in 2012-13, the Federal Board of Revenue (FBR) has spread the tax net wide, without carefully considering the allocation of fiscal powers of the federal and provincial governments after the 18th Amendment.

This has resulted in substantial poaching into the tax bases of the provincial governments. The consequence of double taxation is that it will not only increase costs of compliance of taxpayers but also limit the scope for additional resource mobilisation by provincial governments.

In the realm of direct taxes, the overexuberance of the FBR has led to the imposition of withholding taxes on the turnover of a large number of entities. The overlapping is especially visible in the area of services. The Finance Bill of 2013 has introduced withholding advance taxes on builders, retailers and educational institutions. In addition, the rates of withholding/advance tax have been enhanced in the case of professional services. These activities/sectors are legitimately part of the provincial sales tax of services. The effectively higher combined taxation in some cases increases the likelihood of either a contraction of the tax base or greater evasion. In other cases, it limits the possibility of broadening of the sales tax base by provincial governments to avoid overtaxation. In both cases, there is potentially a loss of revenue to these governments.

On top of this, other provincial taxes will be impacted negatively by federal actions. These include, first, the enhancement of the tax rate on rental income from property which will have adverse implications on the development of the provincial urban immovable property tax. The latter is also based on rental values. Second, the big increase in the advance tax on motor vehicles could negatively impact on the tax base of the motor vehicle tax of provincial governments.

Third, the introduction of an excise duty on non-banking financial institutions like modarabas, musharikas, leasing, foreign exchange dealers and asset management companies is a clear encroachment into the tax base of the provincial sales tax on financial services. Fourth, the imposition of an advance tax on *arthis* could limit the potential for development of the agricultural income tax, especially in the event of backward shifting of the tax to farmers. Fifth, the levy of a fixed presumptive tax on

foreign produced films, TV plays and serials, and cable operators cuts into the entertainment tax of the provincial governments.

It may, of course, be argued that the federal government has the right to tax the income of all the above-mentioned entities. But the issue is the mode of collection. There is no problem if the system is return based with the audit of a proportion of tax payers. But if it is based on withholding/advance taxes on the turnover then it essentially encroaches on the provincial jurisdiction, especially in the realm of the sales tax on services.

The alternative is better coordination between the two levels of government. There could be exchange of information between the two levels of government especially in the domain of services, sale/ownership of motor vehicles, rental income from property, etc. But double taxation of the same taxable person must be avoided. For example, the present system could lead to combined tax rate of as high as 26 percent – 10 percent due to the income withholding tax and 16 percent due to the sales tax on services. Ideally, therefore, federal taxation proposals should be discussed with provincial governments as these also impact on the magnitude of transfers to them.

The other issue is harmonisation of tax rates. Now that the federal government has raised the sales tax rate on goods to 17 percent from 16 percent. Should the provincial governments also follow suit and raise the sales tax rate on services to 17 percent? The answer is that since the sales tax in Pakistan has lost some of the characteristics of an integrated VAT, this need not be the case. Given the criticism of the move generally, the provinces may wish to keep the rate at 16 percent, which is already quite high.

Some proponents of higher federal taxation will no doubt argue that this is the right policy because historically provincial governments have been reluctant to actively engage in resource mobilisation. Also, federal taxes form part of the divisible pool of taxes in the NFC Award and the provinces anyway receive a share of 57.5 percent. This is not a valid statement anymore and at least two provincial governments, Sindh and Punjab, have moved aggressively to develop the sales tax on services, including the establishment of a specialised tax collection agency in each province. Also, given the large shortfall in transfers in 2012-13 and ambitious development plans in 2013-14, provinces are probably inclined to significantly raise their level of fiscal effort.

The solution lies in the setting up of clear rules by the Council of Common Interests (CCI) for exercise of respective fiscal powers by the two governments. The federation has been strengthened by the 18th Amendment and the 7th NFC Award. All efforts must be made to prevent encroachment by the federal government on fiscal powers of the provincial governments if the constitutional provisions are to be honoured.

The other issue relates to the performance of different functions. Following the abolition of the Concurrent List of the Constitution in the 18th Amendment a number of functions have reverted fully to provincial governments. This includes welfare of labour, conditions of labour, provident funds, employer's liability and workmen's compensation, health insurance including invalidity pensions and old-age pensions. This implies that functions of Employees Old Age Benefits Institution (EOBI) need to be devolved. Instead, the federal government continues to retain EOBI under its control.

Further, electricity is in the Federal Legislative List II, including functions which are jointly the responsibility of both levels of government. As such, decisions on issues of financing the power sector, hike in electricity tariffs, etc., should be taken after due deliberations with the provincial governments. Currently, only the Chief Minister of Punjab appears to be on the special Energy Committee constituted by the Prime Minister. This is also the case with railways which is in FLL-II.

With the arrival of the new government, we are beginning to see the first signs of a process of strengthening of the federal government and a retreat from federalism, at a time when the federation is under great stress. This may be unintentional but the CCI has an even more important role now to protect the federation and evolve consensus among the federating units.

9 EDUCATIONAL INSTITUTIONS HIT HARD

The Federal Budget of 2013-14 has found an usual and highly unexpected target sector to bring into the tax net. Educational institutions, both public and private, have been subjected to additional taxation. This has happened at a time when the education sector is languishing under a shortage of resources, slowdown in the increase in enrolments and a general decline in the quality of education, especially at the primary and secondary levels.

Pakistan has one of the lowest net enrolment rates in the region. The primary enrolment rate is 72 percent as compared to 98 percent in India. The same state is observed at higher levels. Only 8 percent of the youth find their way into colleges or universities in Pakistan. This is substantially lower than 18 percent in India, 23 percent in Indonesia and 42 percent in Malaysia.

The finance minister has indicated in his budget speech that his government attaches high priority to human development. This is a vital part of the strategy for raising the rate of economic growth through improvements in productivity. He states that enrolment in higher education will be targeted for a big increase of 14 percent in 2013, from 1.08 million to 1.23 million students. He emphasises that the responsibility for higher education, regulatory responsibilities and international cooperation in the field of education will remain with the federal government.

Why then has the education sector, especially higher education, been subjected to higher taxation in the Budget of 2013-14? It appears that the FBR, in desperate search for new sources of revenues to meet the ambitious target for tax collection, has completely ignored development priorities.

First, under a new section 236I of the ITO and advance tax of 5 percent has been imposed on persons making payment of fees to institutions where the annual fee exceeds Rs200,000 per annum.

Second, under Clause(2) of the Part III of the Second Schedule of the ITO, the exemption of 75 percent of the tax payable by a full-time teacher or researcher, employed in a non-profit education or research institution duly recognised by the Higher Education Commission (HEC), has been partially withdrawn. Teachers and researchers will effectively be hit by a 'double whammy'. Not only will they be affected by the general increase in tax burden on salaried employees but also they will now have to pay the tax,

with only partial exemption of 40 percent. For example, for a young assistant professor currently earning Rs70,000 per month, the income tax liability will go up by 140 percent. These taxation measures are likely to place universities in a difficult financial position, especially if teachers demand higher compensation to keep their after-tax income the same. The impact on parents will be the highest in cases where their child is enrolled in a business, engineering or medical school, which charge relatively high fees.

A case study has been undertaken of the University of Punjab in Lahore of the impact of these tax impositions. This university already faces a cumulative deficit of over Rs1.5 billion. It self-finances its budget of over Rs5.5 billion to the extent of 56 percent and gets a grant of about Rs1.5 billion from the HEC. If the faculty is to be compensated in some way for the big increase in income tax payments, then the additional cost will be another Rs80 million or so. The big question is how will a deficit university find the additional resources? Probably, by a significant increase in fees which will burden poor students and their families.

These taxation measures will deter private investors from moving into the field of education. The fast growing part of the sector, in fact, during the last decade has been private education. This has not only augmented the public education system but also put pressure on quality in some cases and created some competition for enrolments.

Instead of taking these retrograde measures, the government may have provided more incentives for development of the educational system. For example, by setting up a voucher system, meritorious but poor students, should have been given the opportunity to join the college or university of their choice.

Teachers have remained a neglected community in Pakistan and due recognition has not been given to them for their contribution. The special tax treatment given to them few years ago was perhaps the first token of recognition. But if the government wants to target teachers, rather than other privileged sections of society, it ought to do this in a staggered fashion so that hardship is avoided. The message has been clearly conveyed by the new government – it is actually not pro-education.

ANNEXURE – I DECOMPOSITION METHODOLOGY

In order to understand the causes of low tax-to-GDP ratio, it is important to decompose the impact of different factors in “base” and “rate” effect on the changes observed in the tax-to-GDP ratio for individual taxes and for FBR as a whole. The methodology for attributing any change in the tax-to-GDP ratio to the ‘base’ and ‘rate’ effects respectively is described below.

We designate the following:

T	=	actual tax revenue
t	=	effective tax rate
B	=	tax base
Y	=	GDP

That is, $T = tB$

Subscripts 0 and 1 designate the base and terminal years respectively.

The change in the tax-to-GDP ratio is given by

$$\begin{aligned} \frac{T_1}{Y_1} - \frac{T_0}{Y_0} &= \frac{t_1 B_1}{Y_1} - \frac{t_0 B_0}{Y_0} \\ &= \frac{t_1 B_1}{Y_1} - \frac{t_1 B_0}{Y_0} + \frac{t_1 B_0}{Y_0} - \frac{t_0 B_0}{Y_0} \end{aligned}$$

That is,

$$\frac{T_1}{Y_1} - \frac{T_0}{Y_0} = t_1 \left[\frac{B_1}{Y_1} - \frac{B_0}{Y_0} \right] + \frac{B_0}{Y_0} [t_1 - t_0] \quad \dots \dots \dots [1]$$

← base effect → ← rate effect →

Equation (1) gives the expressions for the base and rate effects respectively. The former essentially identifies to what extent the change in tax-to-GDP ratio is due to change in the ratio of the tax base to GDP. That is, if the tax base of a tax is stagnant/buoyant in relation to the GDP then the ‘base’ effect will be negative/positive, implying, other things being equal, a fall/rise in the tax-to-GDP ratio.

The ‘rate’ effect is meant to primarily capture the change in the ‘effective’ tax rate on the tax base. Effective rates can change either if statutory tax rates are altered or if, given unchanged statutory rates, there is a change in the efficiency of tax collection. For example, if statutory rates fall, as happened in the case of import duty during the 90s, then the ‘rate’ effect will be negative.

ANNEXURE – II	
REVENUE IMPLICATIONS OF EARLIER TAXATION PROPOSALS FOR 2013-14	
Taxation Proposals	Net Revenue Impact
Income tax	
Withholding tax on imports raised from 2% to 4%	Large Gain
Levy of Minimum Tax on companies at 1%	Medium Gain
Tax on Capital Gains on Shares	Medium Gain
Withholding tax on imports raised from 4% to 5%	Medium Gain
New withholding tax on Bank transactions	Large Gain
Withholding tax on Air Travel	Medium Gain
Levy of Minimum Tax on companies reduce from 1% to 0.5%	Medium Loss
Reduction in PIT on Importers from 5% to 3%	Medium Loss
Reduction in PIT on exporters from 1% to 0.5%	Medium Loss
Reduction in PIT on Suppliers from 3.5 % to 2.5%	Medium Loss
Net Revenue Implications for 2013-14	Rs29 billion
Excise Duty	
Enhancement of excise Duty on Cigarettes	Large Gain
Increase in FED on Gas	Large Gain
10% Excise duty on air conditioners and deep freezers	Medium Gain
Elimination of excise duty on 15 items	Medium Loss
Phasing out of Duty on cement	Medium Loss
Elimination of excise duty on beverages in two years	Large Loss
Reduction in excise duty on cement	Large Loss
Net Revenue Implications for 2013-14	Rs1 billion
Custom Duty	
Import tariff down from 35% - 30%	-ve Rs5 billion

ANNEXURE – III

TABLE A-1						
ANALYSIS OF FISCAL PERFORMANCE						
<i>Rs in Billion</i>						
	<u>2011-12</u>		<u>2012-13</u>		<u>2013-14</u>	
	Budgeted	Revised	Budgeted	Revised	Budgeted	
	Current Expenditures	2,315	2,632	2,612	2,907	3,196
Minus	Repayment of Foreign Loans	243	137	216	187	367
	Current Expenditures (Excluding Repayments of Foreign Debt)	2,072	2,495	2,396	2,720	2,829
Plus	Development Expenditures	452	478	591	571	789
Minus	Net Revenue Receipts	1,529	1,328	1,779	1,616	1,918
Minus	Recovery of Loans from Provinces	27	36	32	32	35
Minus	Provincial Surplus	125	91	80	-62	23
Minus	Net Lending to others	8	3	5	318	8
	FISCAL DEFICIT	851	1,521	1,102	2,024	1,651
	GDP (MP)	21,173	21,174	21,175	22,909	25,830
	<i>Budget Deficit as %age of GDP</i>	4.0	7.2	5.2	8.8	6.4
<i>Change (%)</i>						
	2011-12 (BE)	2012-13 (BE)	2011-12 (RE)	2012-13 (RE)	2011-12 (RE)	2012-13 (RE)
	vs 2011-12 (RE)	vs 2012-13 (RE)	vs 2012-13 (BE)	vs 2012-13 (BE)	vs 2013-14 (BE)	vs 2013-14 (BE)
	Current Expenditures	13.7	11.3	-0.8		9.9
Minus	Repayment of Foreign Loans	-43.7	-13.3	57.8		95.9
	Current Expenditures (Excluding Repayments of Foreign Debt)	20.4	13.5	-4.0		4.0
Plus	Development Expenditures	5.7	-3.3	23.7		38.2
Minus	Net Revenue Receipts	-13.1	-9.2	33.9		18.7
Minus	Recovery of Loans from Provinces	32.7	1.8	-12.6		8.4
Minus	Provincial Surplus	-27.3	-178.2	-12.3		-137.2
Minus	Net Lending to others	-59.3	6,566.6	48.4		-97.6
	FISCAL DEFICIT	78.8	83.6	-27.6		-18.4
	GDP (MP)	0.0	8.2	0		12.8
	<i>Budget Deficit as %age of GDP</i>	78.8	69.7	-27.6		-27.7

**TABLE A-2
DEFICIT FINANCING**

	<i>Rs in Billion</i>				
	<u>2011-12</u>		<u>2012-13</u>		<u>2013-14</u>
	Budgeted	Revised	Budgeted	Revised	Budgeted
FINANCING OF THE DEFICIT	850.6	1,521.10	1,102.0	2,023.7	1,650.6
Bank Borrowings	303.5	939.2	480.1	1,575.5	975
Share (%)	35.7	61.7	43.6	77.9	59.1
Non-Bank Borrowings	412.6	492.6	487	430.1	506.8
Share (%)	48.5	32.4	44.2	21.3	30.7
Net External Resources excluding Privatization Proceeds	64.1	89.3	60.5	18.1	89.5
Share (%)	7.5	5.9	5.5	0.9	5.4
Privatization Proceeds	70.4	0	74.4	0	79.2
Share (%)	8.3	0	6.8	0	4.8
					Change (%)
		2011-12 (BE) vs 2011-12 (RE)	2012-13 (BE) vs 2012-13 (RE)	2011-12 (RE) vs 2012-13 (BE)	2012-13 (RE) vs 2013-14 (BE)
FINANCING OF THE DEFICIT		78.8	83.6	-27.6	-18.4
Bank Borrowings		209.4	228.2	-48.9	-38.1
Non-Bank Borrowings		19.4	-11.7	-1.1	17.9
Net External Resources excluding Privatization Proceeds		39.2	-70.1	-32.2	395
Privatization Proceeds		-100	-100	-	-

**TABLE A-3
FEDERAL TAX RECEIPTS**

	<i>Rs in Billion</i>				
	<u>2011-12</u>		<u>2012-13</u>		<u>2013-14</u>
	Budgeted	Revised	Budgeted	Revised	Budgeted
TAX REVENUE	<u>2,074.2</u>	<u>2,024.6</u>	<u>2503.6</u>	<u>2124.6</u>	<u>2,592.1</u>
TAX REVENUE (FBR)	1,952.3	1,952.0	2381.0	2007.0	2,469.0
Direct Taxes	743.6	745.0	932.0	779.1	969.7
Income Tax	718.6	730.0	914.0	761.1	948.7
Other Direct Taxes	25.0	15.0	18.0	18.0	21.0
Income Support Levy					6.0
Indirect Taxes	1,208.7	1,207.0	1449.0	1227.9	1,499.3
Custom Duties	206.4	215.0	247.5	241.2	279.0
Sales Tax	836.7	852.0	1076.5	864.5	1,053.5
Federal Excise	165.6	140.0	125.0	122.2	166.8
TAX REVENUE (Other than FBR)	121.9	72.6	122.6	117.6	123.1
Petroleum Development Levy	120.0	69.0	120.0	115.0	120.0
Other Taxes (ICT)	1.8	3.5	2.5	2.5	3.0
Airport Tax	0.1	0.1	0.1	0.1	0.1
					<i>Change (%)</i>
		2011-12 (BE) vs 2011-12 (RE)	2012-13 (BE) vs 2012-13 (RE)	2011-12 (RE) vs 2012-13 (BE)	2012-13 (RE) vs 2013-14 (BE)
TAX REVENUE		<u>-2.4</u>	<u>-15.1</u>	<u>23.7</u>	<u>22.0</u>
TAX REVENUE (FBR)		0.0	-15.7	22.0	23.0
Direct Taxes		0.2	-16.4	25.1	24.5
Income Tax		1.6	-16.7	25.2	24.6
Other Direct Taxes		-40.0	0.0	20.0	16.7
Income Support Levy					
Indirect Taxes		-0.1	-15.3	20.0	22.1
Custom Duties		4.2	-2.5	15.1	15.7
Sales Tax		1.8	-19.7	26.3	21.9
Federal Excise		-15.5	-2.2	-10.7	36.5
TAX REVENUE (Other than FBR)		-40.5	-4.1	68.9	4.7
Petroleum Development Levy		-42.5	-4.2	73.9	4.3
Other Taxes (ICT)		93.3	0.0	-28.4	20.0
Airport Tax		0.0	0.0	0.0	0.0

**TABLE A-4
GROWTH IN CURRENT EXPENDITURES**

<i>Rs in Billion</i>					
	<u>2011-12</u>		<u>2012-13</u>		<u>2013-14</u>
	Budgeted	Revised	Budgeted	Revised	Budgeted
FEDERAL CURRENT EXPENDITURE	2,314.9	2,631.9	2,611.9	2,907.1	3,196.1
General Public Services	1,660.0	1,898.0	1,876.8	2,143.9	2,357.4
Superannuation Allowance & Pension	96.1	135.4	129.1	167.4	171.3
<i>Pension Military</i>	73.2	106.0	98.2	131.4	132.7
<i>Pension Civil</i>	22.9	29.4	30.8	36.0	38.5
Debt Servicing of which :	1,034.2	980.7	1,141.7	1,216.0	1,520.3
<i>Interest on Foreign Debt</i>	76.3	72.0	80.2	76.6	89.0
<i>Repayment of Foreign Debt</i>	243.2	136.9	216.0	187.3	366.8
<i>Interest on Domestic Debt</i>	714.7	771.9	845.6	952.1	1,064.5
Transfer Payments	295.0	277.7	312.3	334.6	337.2
<i>Grants to Provinces</i>	55.4	53.9	56.7	61.2	51.4
<i>Grants to Others</i>	239.6	223.8	255.6	273.4	285.8
Subsidies	166.4	512.3	208.6	367.5	240.4
Others	68.2	-8.1	85.1	58.3	88.2
Defence Affairs & Services	495.2	510.2	545.4	570.4	627.2
Public Order & Safety Affairs	59.6	61.9	70.2	72.0	78.5
Economic Affairs	50.3	72.2	53.6	49.7	52.3
Health Affairs & Services	2.6	6.7	7.8	7.9	9.9
Education Affairs & Services	39.5	45.2	47.9	52.4	59.3
Other Current Expenditures	7.6	37.7	10.2	10.8	11.6
				Change (%)	
		2011-12 (BE)	2012-13 (BE)	2011-12 (RE)	2012-13 (RE)
		vs	vs	vs	vs
		2011-12 (RE)	2012-13 (RE)	2012-13 (BE)	2013-14 (BE)
FEDERAL CURRENT EXPENDITURE		13.7	11.3	-0.8	9.9
General Public Services		14.3	14.2	-1.1	10.0
Superannuation Allowance & Pension		40.8	29.7	-4.7	2.3
<i>Pension Military</i>		44.8	33.8	-7.3	1.0
<i>Pension Civil</i>		28.3	16.7	4.9	7.0
Debt Servicing of which :		-5.2	6.5	16.4	25.0
<i>Interest on Foreign Debt</i>		-5.7	-4.4	11.4	16.2
<i>Repayment of Foreign Debt</i>		-43.7	-13.3	57.8	95.9
<i>Interest on Domestic Debt</i>		8.0	12.6	9.6	11.8
Transfer Payments		-5.9	7.1	12.5	0.8
<i>Grants to Provinces</i>		-2.7	7.8	5.2	-16.1
<i>Grants to Others</i>		-6.6	7.0	14.2	4.5
Subsidies		207.8	76.2	-59.3	-34.6
Others			-31.5		51.3
Defence Affairs & Services		3.0	4.6	6.9	10.0
Public Order & Safety Affairs		3.8	2.6	13.4	9.0
Economic Affairs		43.6	-7.3	-25.7	5.1
Health Affairs & Services		151.4	0.6	18.0	25.0
Education Affairs & Services		14.4	9.4	5.9	13.2
Other Current Expenditures		397.2	6.1	-73.0	7.2

**TABLE A-5
NET LENDING TO OTHERS**

	<i>Rs in Billion</i>				
	<u>2011-12</u>		<u>2012-13</u>		<u>2013-14</u>
	Budgeted	Revised	Budgeted	Revised	Budgeted
NET LENDING TO OTHERS	19.3	32.9	26.8	-286.0	27.3
Recovery of Loans/Investment	51.6	57.0	54.1	62.5	227.8
Provinces	27.2	36.1	31.5	32.1	34.8
Others	24.4	20.9	22.5	30.4	193.0
DISBURSEMENTS	32.3	24.1	27.3	348.5	200.5
Govt. Investment, Loans etc.	32.3	24.1	27.3	348.5	200.5

**TABLE A-6
FEDERAL NON-TAX RECEIPTS**

	<i>Rs in Billion</i>				
	<u>2011-12</u>		<u>2012-13</u>		<u>2013-14</u>
	Budgeted	Revised	Budgeted	Revised	Budgeted
NON-TAX REVENUE	657.97	512.2	734.05	712.0	821.9
A. INCOME FROM PROPERTY AND ENTERPRISE	197.5	93.7	178.8	108.6	239.9
Profit - Pak Tele Authority (3G License)	75.0	0.0	79.0	0.0	120.0
Dividends and Return	64.4	58.7	64.6	63.7	68.4
Interest (PSEs & Others)	42.5	22.2	19.7	24.8	23.8
Interest (Provinces)	15.6	12.9	15.4	14.8	13.3
Regulatory Authorities + PTA				5.3	14.4
B. RECEIPTS FROM CIVIL ADMINISTRATION					
+ Miscellaneous Receipts	460.4	418.5	555.3	603.4	582.0
SBP Profits	200.0	200.0	200.0	200.0	200.0
Defence	118.7	45.7	150.6	181.1	112.1
Royalty on Gas	32.8	35.2	36.2	41.4	39.7
Gas Infrastructure Dev. Cess		8.0	30.0	35.0	38.0
Gas Development Surcharge	24.9	24.0	30.9	16.2	35.3
Royalty on Oil	15.2	22.8	22.0	27.7	32.5
Foreign Grants			2.9	13.5	30.0
Windfall Levy against Crude Oil		5.2	5.3	24.0	25.0
Discount Retained on Local Crude Price	25.1	22.1	22.5	16.0	18.0
Passport and Citizenship Fees	13.8	11.8	14.8	15.0	16.5
Others	29.9	43.8	40.1	33.4	34.8

**TABLE A-7
EXTERNAL RESOURCES**

	<i>Rs in Billion</i>				
	<u>2011-12</u>		<u>2012-13</u>		<u>2013-14</u>
	Budgeted	Revised	Budgeted	Revised	Budgeted
NET EXTERNAL RESOURCES	134.5	89.3	134.9	18.1	168.7
EXTERNAL RESOURCES	<u>413.9</u>	<u>226.2</u>	<u>386.9</u>	<u>243.5</u>	<u>576.4</u>
External Loans	287.2	180.5	274.9	214.5	467.4
Project Loans	67.5	165.7	140.4	183.1	159.2
Programme Loans	117.8	4.6	41.5	6.6	110.3
EURO Bonds	44.0	0.0	46.5	0.0	49.5
Tokyo Pledges	13.9	4.0	0.0	0.0	0.0
Islamic Development Bank	44.0	6.2	46.5	24.8	49.5
China Safe Deposits					99.0
External Grants	126.7	45.6	112.0	29.0	109.0
Project Grants	9.3	18.7	25.5	21.4	27.7
Budget Support Grants	9.2	5.6	2.9	0.0	0.0
Tokyo Pledges Grants	3.7	1.0	1.0	1.1	1.1
Kerry Lugar	34.2	20.4	8.2	6.6	1.0
Privatization Proceeds	70.4	0.0	74.4	0.0	79.2
EXTERNAL REPAYMENTS	<u>279.4</u>	<u>136.9</u>	<u>252.0</u>	<u>225.4</u>	<u>407.7</u>
Repayment of Foreign Debt	243.2	136.9	216.0	187.3	366.8
Repayment of Short Term Credits	36.2	0.0	36.0	38.1	40.9

**TABLE A-8
PUBLIC SECTOR DEVELOPMENT PROGRAMME**

	<i>Rs. in Billion</i>					
	2011-12 Revised	2012-13 Budgeted	Change (%)	2012-13 Revised	2013-14 Budgeted	Change (%)
Federal Ministries/Divisions	175,085	242,618	38.6	226,119	295,519	30.7
Cabinet	1,757	2,178	24.0	1,919	2,180	13.6
Capital Administration & Development	790	792	0.3	961	1,506	56.7
Climate Change	55	135		1,058	59	-94.4
Commerce	256	654	155.5	495	841	69.9
Communications (other than NHA)	16	142	787.5	142	109	-23.2
Defence Division including SUPARCO	6,378	3,205	-49.7	1,780	4,246	138.5
Defence Production	1,327	2,000	50.7	472	2,300	387.3
Economic Affairs	157	212	35.0	148	105	-29.1
Education & Training	2,947	2,952		2,937	5,237	78.3
Establishment	34	8	-76.5	5	79	1480.0
Federal Tax Ombudsman	0	25		25	31	24.0
Finance	10,021	13,616	35.9	29,004	13,074	-54.9
Foreign Affairs	136	200	47.1	200	255	27.5
Higher Education Commission	9,778	15,800	61.6	15,590	18,490	18.6
Housing & Works	1,916	2,591	35.2	7,950	3,780	-52.5
Human Rights	41	126		126	78	-38.1
Industries	737	775	5.2	720	780	8.3
Information & Broadcasting	333	412	23.7	412	493	19.7
Information Tech. & Telecom	446	787	76.5	774	927	19.8
Inter Provincial Coordination	264	195	-26.1	2,657	438	-83.5
Interior Division	10,449	6,510	-37.7	2,706	6,259	131.3
Kashmir Affairs & Gilgit Baltistan	16,460	20,055	21.8	19,428	29,590	52.3
Law, Justice & Parliamentary Affairs	1,119	1,200	7.2	1,200	2,364	97.0
Narcotics Control	272	311	14.3	286	326	14.0
National Food Security & Research	381	495		342	750	119.3
National Heritage & Integration	0	75		75	12	-84.0
National Health Services, Reg & Coord		-		151	25,739	
Pakistan Atomic Energy Commission	27,758	39,168	41.1	44,074	52,300	18.7
Pakistan Nuclear Regulatory Authority	350	400	14.3	284	316	11.3
Petroleum & Natural Resources	295	268	-9.2	386	50	-87.0
Planning & Development	22,337	37,840	69.4	530	10,659	1911.1
Ports & Shipping	448	325	-27.5	325	500	53.8
Production	334	612		612	1,100	79.7
Railways	9,920	22,877	130.6	25,832	30,965	19.9
Revenue	1,427	807	-43.4	299	533	78.3
Science & Technological Research	918	1,311	42.8	1,274	2,173	70.6
States & Frontier Regions	11,157	16,000	43.4	15,276	18,500	21.1
Statistics	202	140	-30.7	131	220	67.9
Textile Industry	71	227	219.7	227	315	38.8
Water & Power Division (Water Sector)	33,798	47,192	39.6	45,306	57,840	27.7
Corporations	78,539	80,382	2.3	105,905	114,482	8.1
WAPDA (Power)	26,444	29,655	12.1	34,747	51,443	48.1
National Highway Authority (NHA)	52,095	50,727	-2.6	71,158	63,039	-11.4
Special Programs	38,638	27,000	-30.1	46,386	5,000	-89.2
New Development Initiatives	0	0		0	115,000	
Federal Programme (A to D)	292,262	350,000	19.8	378,410	530,001	40.1
ERRA	11,402	10,000	-12.3	10,000	10,000	0.0
Provincial Programme	430,000	513,000	19.3	463,000	615,000	32.8
Total PSDP	733,664	873,000	19.0	851,410	1,155,001	35.7

The Social Policy and Development Centre (SPDC)

Established in 1995, SPDC is a civil society sector research organisation that serves as a focal point for policy-relevant research on social sector development. Using a multidisciplinary approach, SPDC assists both public and private sector institutions including non-governmental organisations (NGOs) to plan, design, finance, execute and manage social sector programmes in a cost-effective manner. The results of its research are made available to policy makers, interested groups and general public to promote informed discussion and action on vital social sector issues.

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