MEDIUM TERM
BUDGET STRATEGY PAPER
2021-22 – 2023-24

April, 2021
GOVERNMENT OF PAKISTAN
FINANCE DIVISION
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FOREWORD

The immediate challenges of economic stabilization and recovery faced by the government on assumption of office in 2018 were successfully overcome under the visionary and dynamic leadership of the Honourable Prime Minister of Pakistan, Imran Khan. A number of far-reaching economic policies and structural reforms were initiated to reverse the negative impact of economic mismanagement by earlier regimes.

Under the Public Finance Management Act, 2019 promulgated by our government, efficient, transparent and accountable financial decision-making has been institutionalized. One of the major initiatives introduced through this Act is the presentation of a Medium Term Budget Strategy Paper for consideration and approval of the Cabinet. The Paper outlines the strategic priorities and objectives of the government in the medium term.

The Medium Term Budget Strategy Paper for FY 2021-22 to FY 2023-24 has been formulated with a focus on sustainable growth, job-creation, protection of vulnerable segments of society, inflation and price control, Prime Minister's special initiatives, and reduction of twin deficits.

The basic strategy to achieve the objectives envisaged in the Paper is two-pronged. On the one hand, it encompasses optimal mobilization of revenue through broadening of tax base and increase in the tax net, removal of exemptions, simplification of procedures, and augmentation of the capacity of revenue administration, especially through IT-enabled services. On the other hand, it is predicated on rationalization of expenditures without compromising the social and development priorities of the government, integrated with better public financial management.

In the coming weeks, the government will seek input from all stakeholders on its taxation and expenditure policies to align them further with the imperatives of equitable, inclusive and sustainable economic growth. I would like to avail this opportunity to commend the team at the Finance Division and the Federal Board of Revenue for the hard work that has been done in the preparation of this Paper.

(Muhammad Hammad Azhar)
Minister for Finance and Revenue
The approval of a Medium Term Budget Strategy paper containing quantified macroeconomic and fiscal projections by the Federal Government is a legal requirement contained under section 3 of the Public Finance Management Act 2019. The Paper is required to lay down the strategic priorities of the government’s revenue and spending policies, and specify indicative spending levels for various Ministries and Divisions of the Federal Government. Further, in order to improve parliamentary oversight, the Minister for Finance and Revenue is required to present and discuss the Budget Strategy Paper with the Standing Committees for Finance and Revenue in the Senate and the National Assembly, after its approval by the Cabinet.

The medium term forecasts contained in the Paper are prepared on a three-year rolling basis. The Budget for FY 2021-22 will form basis of the first year of the medium term, whereas the projections for the remaining two years have been worked out on the basis of improved predictability of resources and expenditure requirements, aligned with the policy objectives and priorities of the government. The Budget Strategy Paper also reflects the strong emphasis of the government for efficiency in fiscal management, responsive budgeting, transparency and accountability.

I would like to acknowledge the commendable work done, in particular by the Additional Secretaries of Budget and Expenditure Wings, the DG Debt, and the Economic Adviser and their teams, in the preparation of this Paper. They have worked untiringly, with great selflessness, commitment and sense of responsibility. In particular, I must record here my deepest appreciation of Mr. Tanvir Butt, Additional Secretary (Budget), who has changed the paradigm of the budget-making exercise in the Finance Division.

I must also appreciate the support and cooperation provided by the Federal Board of Revenue, Planning, Development and Special Initiatives Division, Poverty Alleviation Division and other Ministries and Divisions of the Federal Government in the preparation of this Paper.

Finally, I would like to express my gratitude to Mr. Muhammad Hammad Azhar, Minister for Finance and Revenue, for his insightful guidance in the preparation of this Paper.

(Kamran Ali Afzal)
Finance Secretary
I. EXECUTIVE SUMMARY

1. Pakistan’s economy is currently showing strong signs of revival after being hit very hard by the Covid-19 pandemic. At least three policy measures of the government warrant special mention here in terms of their decisive impact in mitigating the social and economic impact of the pandemic: ‘smart lockdowns’, the Rs. 1.24 trillion stimulus package, and the unprecedented concessions for the construction and SME sectors. In fact, it is because of these measures that Pakistan received international acclaim in managing the pandemic. Nevertheless, the successive waves of the pandemic continue to keep the economy subdued and below its potential level of income and growth.

2. The international outlook for the pandemic was for a turnaround by the middle of this year due to the start of administration of the Covid vaccine. However, the third wave and a new variant of the virus have raised significant concerns about economic prospects. The World Bank has downgraded its short and medium-term outlook for the World Economy, projecting worldwide GDP to grow by 4%, which is 0.2 percentage points less than in its June 2020 forecasts. The International Monetary Fund (IMF) is also of the view that the global economic outlook is still highly uncertain due to the intensification of the pandemic and divergence between rich and poor countries.

3. Inflation the world over remains volatile mainly due to supply-side disruptions and the impact of international commodity prices. In order to ameliorate the effect of international inflationary pressures, the government has maintained a policy of closely monitoring the supply and demand of essential food commodities as well as providing essential commodities at affordable prices through the support of existing mechanism like Utility Stores, Sasta Bazaars and subsidies on essential food items. It is expected that YoY inflation will be eased out in the coming months.

4. Fiscal indicators will continue to improve in the medium term, with optimal revenue mobilization and efficient management of resources. On the fiscal side, better management during LFY 2019-20, despite adverse impact of the
pandemic on revenues and expenditures, has been further consolidated during the current financial year. During the first nine months (three quarters) of FY 2020-21, overall fiscal deficit remained on the lower side vis-a-vis the corresponding period of LFY 2019-20 (pre-Covid). During the same period, the primary balance has improved equal to 0.5% of the GDP, which shows more efficient fiscal management. This has been possible with better revenue collection by the FBR, prudent control of expenditures and efficient use of resources by the Federal Ministries and other organizations. The same momentum is likely to continue in the remaining period of FY 2020-21.

5. In the medium term (FY 2021-22 to FY 2023-24), the focus of fiscal policy will be on: sustainable, inclusive and equitable growth; job creation (1.2 - 1.9 million in medium terms); protection of vulnerable segments of the population; inflation control, and higher development spending. The envisaged economic growth will be driven by a sustained increase in the aggregate supply backed by a strong forex reserves position.

6. In view of the higher public sector expenditure needs, in particular, development spending, challenging revenue projections have been worked out in the medium term. At the same time, minimal increase in non-development spending is envisaged along with prudent fiscal management in line with the Public Finance Management Act, 2019. The medium term fiscal framework envisages gradual reduction of overall fiscal deficit from -7.4% of the GDP during FY 2020-21 to -4.4% in FY 2023-24. This reduction will correspondingly bring down the debt-to-GDP ratio and ensure sustainability of debt.
II. MEDIUM-TERM MACROECONOMIC FRAMEWORK

CURRENT ECONOMIC SITUATION

7. Economic recovery during the current financial year. The results of the government’s efforts have paid off in terms of improved external and fiscal accounts, stability in the foreign exchange market, and growing investor’s confidence. Overall, the economy is witnessing a turnaround since the start of the FY 2020-21 as a result of timely and much-needed policy actions taken by the government. The current account deficit (CAD), which narrowed by 77.9% in FY 2019-20, remained surplus during July-Feb FY 2020-21. Remittances maintained last year’s pace and posted a growth of 24% during July-Feb FY 2020-21. Similarly, FBR tax collection grew by 12% to reach Rs 3.4 trillion in the first three quarters of the current financial year. LSM has surpassed its pre-Covid level of production in Jan FY 2020-21, exhibiting 9.1% growth on a YoY basis (-5.7% in Jan FY 2019-20) while on a MoM basis it increased by 5.4% in Jan FY 2020-21 (13.5% in Dec FY 2020-21). Overall, during July-Jan FY 2020-21, LSM grew by 7.9% (-3.2% last year).

8. Inflationary pressures have reduced in March 2021. CPI inflation is recorded at 9.1% in March 2021 as against 10.2% in the same month last year. During Jul-Mar FY 2020-21, CPI inflation reached 8.3% (11.5% last year). This reflects that the government has made all out efforts to bring down inflation by ensuring smooth supply of commodities, checking profiteering and hoarding and vigilant monitoring of prices both at Federal and Provincial levels.

9. Current account remained surplus thus improving reserves and making Rupee stable. The current account posted a surplus of $ 0.9 billion (0.5% of GDP) for Jul-Feb FY 2020-21. As per Pakistan Bureau of Statistics (PBS), exports during Jul-Mar FY 2020-21 increased by 7.1% to $ 18.7 billion ($ 17.4 billion last year). It is also mentionable that in March 2021, exports of goods posted a growth of 30.4% over the same period last year. The total imports in Jul-Mar FY2020-21 increased to $ 39.5 billion ($ 34.8 billion last year), thus growing by 13.6%.
10. **According to the available details till February 2021, the textile sector exports increased by 6.7% over the last year.** Value-added exports increased by 11.4%. The decrease in quantities of value-added exports was compensated by a higher unit price. On import side, the petroleum group imports decreased by 21.7% while import of petroleum crude decreased by 24.3% in value and increased by 13.8% in quantity. Import of petroleum products increased by 27.7% (quantity) and decreased by 20.7% (value). The food group import jumped by 50.3% during Jul-Feb FY2020-21 and reached $5.3 billion ($3.6 billion last year). The government allowed the import of wheat and sugar to bridge the local shortages. Import of almost all essential food products like spices, palm oil, tea, milk etc. witnessed growth during the period under review.

11. **Pakistan’s total liquid foreign exchange reserves increased to $23.2 billion as of 8th April 2021.** The breakup of reserves accumulation shows that the State Bank of Pakistan’s reserves stood at $16.1 billion ($10.6 billion last year) and commercial banks’ reserves stood at $7.1 billion ($6.3 billion last year).

**MEDIUM-TERM MACROECONOMIC PROJECTIONS**

12. **Over the medium-term the government will focus on various policy measures to achieve sustainable inclusive growth.** These policy measures include broadening of the tax base, expanding the tax net, rationalization and more precise targeting of subsidies, reduction of budget deficit, continuation of flexible, market determined exchange rate, structural reforms in public sector enterprises, reforms in energy sector, strengthening energy transmission and distribution systems, implementation of national tariff policy, increase in public investments in management of water, implementation of projects under CPEC, setting up of special economic zones and special technology zones, implementation of the national agriculture emergency program and expanding the construction package, especially for low-cost housing.
13. Based on these deep-impact reforms, the medium-term macroeconomic framework is presented as under:

**Table 1: Medium-Term Macroeconomic Framework**

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Growth - %</td>
<td>-0.4</td>
<td>2.1</td>
<td>2.9</td>
<td>4.2</td>
<td>4.6</td>
</tr>
<tr>
<td>Inflation - %</td>
<td>10.7</td>
<td>6.5</td>
<td>8.7</td>
<td>8.0</td>
<td>6.8</td>
</tr>
<tr>
<td>Budget deficit - % GDP</td>
<td>-8.1</td>
<td>-7.0</td>
<td>-7.4</td>
<td>-6.0</td>
<td>-5.2</td>
</tr>
<tr>
<td>Public debt - % GDP</td>
<td>87.2</td>
<td>87.0</td>
<td>86.0</td>
<td>84.3</td>
<td>81.8</td>
</tr>
<tr>
<td>Exports - $bn</td>
<td>22.5</td>
<td>22.8</td>
<td>23.9</td>
<td>25.7</td>
<td>27.7</td>
</tr>
<tr>
<td>Imports - $bn</td>
<td>42.4</td>
<td>42.5</td>
<td>47.1</td>
<td>51.4</td>
<td>55.0</td>
</tr>
<tr>
<td>Current account deficit - $ billion</td>
<td>-2.9</td>
<td>-6.7</td>
<td>-1.5</td>
<td>-4.7</td>
<td>-5.5</td>
</tr>
<tr>
<td>Reserves - in months of imports</td>
<td>2.7</td>
<td>2.8</td>
<td>3.0</td>
<td>3.2</td>
<td>3.2</td>
</tr>
<tr>
<td>GDP - mp (Rs. bn)</td>
<td>41,727</td>
<td>45,567</td>
<td>46,675</td>
<td>52,462</td>
<td>58,810</td>
</tr>
</tbody>
</table>

14. **Economy is projected to recover from the pandemic to sustainable and inclusive growth in the medium-term.** The government continued to adhere to its institutional reform agenda in key areas, despite the challenges created by the pandemic. These reforms include reforming the corporate tax structure, improving the management of state owned enterprises, and improving cost recovery and regulation in the power sector. Besides implementing the immediate measures to mitigate the severe impact of Covid-19 on the economy, the government is also focusing on improving the real sector growth through inclusive growth in agriculture, industrial and services sectors. The government’s current economic strategy is a strong catalyst for resilient, sustainable, and inclusive growth.

15. **Balance between supporting the economy, fiscal sustainability, and protection of social spending.** To overcome the unprecedented challenges emerging in the wake of the Covid pandemic, the government had to strike a difficult and delicate balance between management of the nation’s health and supporting the economy, while at the same time ensuring fiscal sustainability, protection of social spending to support the vulnerable segments of the society, continuation of the IMF program, keeping development budget at an optimal level and maintaining the momentum in revenue mobilization. Some significant initiatives which facilitated the successful attainment of this balance include the Kamyab Jawan Program, the Sehat Card, the Naya Pakistan Housing scheme and enhanced social protection through Ehsaas.
16. **Investment to GDP ratio is expected to improve significantly in the medium term.** Correcting the fundamentals of the economy through effective policymaking and targeted reforms aim at achieving a sustainable and inclusive growth trajectory. These measures have established and strengthened the economy, which is not only becoming self-reliant but is also capable of competing globally. Business confidence is improving. Further, the current efforts to enhance the ease of doing business will help in significantly improving investment to GDP ratio over the medium term.

**III. MEDIUM-TERM FISCAL FRAMEWORK**

17. Amongst the primary objectives of the Medium Term Fiscal Framework is to facilitate medium term policy-formulation based on reliable projections of revenues and expenditures. It reflects various sources of revenues and heads of expenditures, in view of the historical trends as well as new measures, specific needs, and the government’s strategic priorities in the medium term. The framework also highlights the fiscal balance and primary balance of the federal and overall government. In order to project overall fiscal balance, estimated levels of provincial surpluses have been worked out.

18. **Focus on sustainable growth, protection of vulnerable segments, inflation, development spending, job creation etc.** As already noted, the fiscal framework will focus on ensuring sustainable, inclusive and equitable growth, increasing social safety spending, controlling inflation, enhancing development spending with a view to increasing employment opportunities.

19. **Optimal mobilization of revenue, broadening of tax base, reduction in exemptions, efficiency in revenue administration.** In the fiscal framework, the strategic priorities of the government include optimal revenue mobilization, broadening of tax base and increase of tax net, reduction in tax expenditure, efficiency in revenue administration, increase in ratio of direct taxes and simplification of procedures for facilitation of taxpayers. In view thereof, challenging revenue projections have been worked out for the medium term.

20. **Gradual reduction of overall fiscal deficit.** The fiscal framework envisages gradual reduction of overall fiscal deficit from -7.4% of the GDP during FY 2020-21 to -4.4% in FY 2023-24. However, this reduction will require revenue mobilization with a higher growth trajectory, rationalization of current
expenditures and better financial management as per the Public Finance Management Act, 2019. The projected medium term fiscal framework would be as under:

**Table 2: Medium-Term Fiscal Framework (Rs billion)**

<table>
<thead>
<tr>
<th></th>
<th>Actual 2019-20</th>
<th>B.E 2020-21</th>
<th>R.E 2021-22</th>
<th>Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Federal Revenue</td>
<td>5,782</td>
<td>6,574</td>
<td>6,381</td>
<td>7,989</td>
</tr>
<tr>
<td>Transfer to Provinces</td>
<td>2,504</td>
<td>2,874</td>
<td>2,721</td>
<td>3,527</td>
</tr>
<tr>
<td>Net Federal Revenue</td>
<td>3,278</td>
<td>3,700</td>
<td>3,660</td>
<td>4,462</td>
</tr>
<tr>
<td>Total Federal Expenditure</td>
<td>6,878</td>
<td>7,137</td>
<td>7,334</td>
<td>8,056</td>
</tr>
<tr>
<td>Federal Deficit</td>
<td>(3,600)</td>
<td>(3,437)</td>
<td>(3,674)</td>
<td>(3,594)</td>
</tr>
<tr>
<td>As % of GDP</td>
<td>-8.6</td>
<td>-7.5</td>
<td>-7.9</td>
<td>-6.9</td>
</tr>
<tr>
<td>Provincial Surplus</td>
<td>225</td>
<td>242</td>
<td>210</td>
<td>440</td>
</tr>
<tr>
<td>Overall Fiscal Deficit</td>
<td>(3,375)</td>
<td>(3,195)</td>
<td>(3,464)</td>
<td>(3,154)</td>
</tr>
<tr>
<td>As % of GDP</td>
<td>-8.1</td>
<td>-7.0</td>
<td>-7.4</td>
<td>-6.0</td>
</tr>
<tr>
<td>Overall Primary Balance</td>
<td>(755)</td>
<td>(249)</td>
<td>(544)</td>
<td>(49)</td>
</tr>
<tr>
<td>As % of GDP</td>
<td>-1.8</td>
<td>-0.5</td>
<td>-1.2</td>
<td>-0.1</td>
</tr>
<tr>
<td>GDP (Nominal)</td>
<td>41,727</td>
<td>45,567</td>
<td>46,675</td>
<td>52,462</td>
</tr>
</tbody>
</table>

**IV. STRATEGIC PRIORITIES OF GOVERNMENT FOR REVENUE MOBILIZATION**

**FBR Revenue**

21. **Optimal mobilization of revenue.** Presently, Pakistan's tax system is plagued with the twin issues of a narrow tax base and huge tax gap in various sectors. A two-pronged approach to address these issues, enhanced enforcement and appropriate policy intervention will be pursued.

22. **Expeditious disposal of refund claims.** FBR has already achieved expeditious disposal of refund claims through the “FASTER” system, which has been acclaimed by all stakeholders. Automation and expeditious disposal of refunds is being actively pursued. The initiative will be fully operational in the medium term.
23. **Increase in the ratio of direct taxes.** All out efforts are being made to increase the share of direct taxes in revenues. Documentation of economy to increase the taxation in services, real estate and wholesale and retail is top priority.

24. **Using technology for revenue mobilization.** Use of information technology is the corner stone of FBR’s strategy for mobilization of revenues. It aims at automation of all business processes starting from registration to assessment and issuance of refunds. Installation of the ‘Track and Trace’ system, point of sale integration of retailers with FBR’s computerized system, e-audit and e-appeals are at various stages of implementation and would be fully operational in the medium term.

25. **Efficient management of tax litigation.** Large sums of potential revenue are held up in litigation before appellate forums from Commissioners (Appeals) to Supreme Court of Pakistan. In order to reduce litigation, FBR is encouraging alternate dispute resolution mechanisms, agreed assessment in appropriate cases, and out of turn hearing by appellate forums in cases involving large amount of revenues.

26. **Tax policy measures.** FBR aims at re-designing the tax system on ideal principles of taxation, which, *inter alia*, includes moving towards taxation of net profits under income tax and subjecting all taxable supplies to a standard sales tax regime. The initiative involves removal of tax distortions, unnecessary exemptions, tax reductions, zero rating etc. Major guiding principles of tax policy include:

   a. Corporate income tax reforms-removal of undesirable tax credits, accelerated depreciation, exemptions, reduced rates, exemption from specific provisions etc. This aspect has already been completed by promulgation of Tax Laws (Second Amendment) Ordinance, 2021.


   c. Reducing dependence on withholding taxes-FBR is contemplating reduction in number of withholding tax lines without compromising the
documentation purposes of these taxes. Nine withholding taxes have already been abolished and further reduction is under consideration.

d. Rationalization of minimum taxes - The ideal principles of taxation envisage simple, low rate and broad based taxation structure. In order to achieve this goal, FBR is rationalizing presumptive and minimum tax regimes.

e. Removal of anomalies in taxation—The present taxation structure is complicated and presents anomalous situation for various tax payers, which are required to be removed.

f. General Sales Tax on goods-This involves removal of unnecessary exemptions, reduced rates, zero rating and special tax regimes. The broad guideline is that exemptions and concessions available to all goods except essential food items, health and education related goods are to be reviewed.

g. Sales tax harmonization - FBR is pursuing sales tax harmonization with the provincial revenue authorities, which includes common definition of goods and services, common minimum threshold, harmonized tax rates, single portal and single sales tax return. The initiative is expected to complete in the medium term.

h. Promotion of ease of doing business - FBR is aiming at reducing difficulties of taxpayers. CNIC is being made as unique identifier for all taxes administered by FBR. Further, valuation table for immovable properties are being harmonized with provinces.

**NON TAX REVENUE**

27. The Federal Government will continue the existing policy of imposition of levy, cess, surcharges etc. over the medium-term. However, in order to introduce new streams of non-tax revenue, a comprehensive revision of existing legal frameworks will be undertaken in consultation with Ministries / Divisions concerned and necessary amendments in the relevant enabling laws, rules, regulations etc. will be introduced. The newly introduced provisions contained in the Public Finance Management Act, 2019 will also be enforced to ensure
optimal collection of non-tax revenue and to improve its reporting and reconciliation.

**TRANSFERS TO PROVINCES**

28. The major fiscal challenge being faced by the Federal Government since introduction of the 18th constitutional amendment and 7th NFC Award is transfer of 57.5% of divisible pool taxes and the straight transfers to the provinces, constituting almost 59.7% of the gross federal revenues, which leaves very limited fiscal space for current and development spending.

29. In order to attain the projected overall fiscal balance, the provinces will be required to have the desired levels of provincial surpluses by increasing their own revenues and rationalizing the expenditures.

**V. SPENDING POLICIES AND INDICATIVE LEVELS OF SPENDING**

30. Development funds will be allocated by Ministry of Planning, Development and Special Initiatives to priority sectors including infrastructure, social, science, information technology and production. Infrastructure allocation takes precedence with allocation especially in transportation and communications, including railways, national highways and ports.

31. As per commitment in National Water Policy 2018 at least 10% of the size of PSDP will be allocated to water sector projects mainly for augmentation and preservation of water resources during next financial year. Amongst others, preference will be given to construction of large dams like Diamer Bhasha, Mohmand and Naigaj dams. Similarly, along with construction of hydropower projects, investment will also be made for evacuation of power by upgrading transmission lines.

32. Special areas are high priority of the Federal Government. In order to develop special areas and to bring them at par with other areas of the country, substantial investment will be made in new projects and required funds will be made available to complete ongoing projects. Allocations include a 10-year development package for erstwhile Federally Administered Tribal Areas (FATA)
and Karachi transformation plan. Furthermore, enhanced allocations will be made for Azad Jammu and Kashmir and Gilgit-Baltistan. GB Development Plan for 5 years with average per annum funding of Rs. 55 billion will also be initiated. Development packages for new projects in Balochistan and rural Sindh will also be included in next year’s PSDP. Like special areas, the government’s focus would be to invest in the underdeveloped regions of provinces for equity and parity.

33. **In line with Sustainable Development goals**, higher education, health and environmental protection shall remain priority areas in the medium-term. Completion of ongoing projects will be a priority. Principal Accounting Officers have been authorized to re-appropriate funds from one budgeted project to another. Allocation to important sectors to create infrastructure would continue to be the government’s focus.

34. **Special initiatives led by the Prime Minister are being implemented.** Key initiatives include Ehsaas, Kamyab Jawan, Sehat Card, Loans for Small and Medium enterprises, merit scholarships for deserving students, tourism promotion, Billion Tree Tsunami and Naya Pakistan Housing scheme. All new initiatives in line with the Prime Minister’s vision will be implemented in letter and spirit.

35. Non-development spending of the Federal Government has increased substantially over the last decade. Therefore, minimal increase in non-development spending will be made in next year’s budget as well as in the medium-term. However, in order to gradually remove the discrepancy in the salary structures, harmonization will be undertaken over the medium-term. On the other hand, development spending will be increased by 15 to 20% on year-on-year basis for augmenting economic growth.

36. **Pursuant to Principles of Policy to meet constitutional obligations as set forth under Article 38 of the Constitution of Pakistan “Promotion of social and economic well-being of the people”**, Finance Division, besides providing food related subsidies also provides subsidy each year on electricity bills for power consumers who consume upto 300 units as well as on agricultural tube wells.
37. The major expenditure priorities of the Federal Government for the medium-term will be as under:
   a) Sustainable growth
   b) Protection of vulnerable segments – Ehsaas
   c) Inflation and price control
   d) Enhancing development spending – job creation (PSDP)
   e) Minimal increase in current spending – Non-ERE frozen
   f) PM’s Initiatives – Housing & Kamyab Jawan
   g) Impact mitigation of Covid-19
   h) Circular debt financing and power subsidies
   i) Harmonization of pay and allowances
   j) Reduction of twin deficits
   k) Building forex reserves

**Budgetary Spending Levels**

38. Medium-Term Indicative Budgetary Spending Levels are based on policy priorities of the government. During the upcoming years, government budgeting, particularly spending shall be performance-based. Indicative spending levels are provided in the table given below.

**Table 3: Medium-Term Indicative Budgetary Spending Levels (Rs billion)**

<table>
<thead>
<tr>
<th></th>
<th>Actual</th>
<th>B.E</th>
<th>R.E</th>
<th>Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2019-20</td>
<td>2020-21</td>
<td>2021-22</td>
<td>2022-23</td>
</tr>
<tr>
<td>Interest Payments</td>
<td>2,620</td>
<td>2,946</td>
<td>2,920</td>
<td>3,105</td>
</tr>
<tr>
<td>Defence Services</td>
<td>1,213</td>
<td>1,290</td>
<td>1,295</td>
<td>1,330</td>
</tr>
<tr>
<td>Running of Civil Government</td>
<td>524</td>
<td>477</td>
<td>488</td>
<td>510</td>
</tr>
<tr>
<td>Pension</td>
<td>447</td>
<td>470</td>
<td>470</td>
<td>480</td>
</tr>
<tr>
<td>Subsidies</td>
<td>359</td>
<td>209</td>
<td>459</td>
<td>501</td>
</tr>
<tr>
<td>Grants</td>
<td>928</td>
<td>974</td>
<td>937</td>
<td>994</td>
</tr>
<tr>
<td>PSDP</td>
<td>622</td>
<td>650</td>
<td>660</td>
<td>800</td>
</tr>
<tr>
<td>Provisions</td>
<td>38</td>
<td>50</td>
<td>65</td>
<td>291</td>
</tr>
</tbody>
</table>
39. Ministries/Divisions wise level of current spending would be linked with the achievement of targets and goals set out under the performance agreements between the Prime Minister and Cabinet members. The Federal Government has been following the Medium Term Budgetary Framework for performance based budgeting to assure service delivery outcomes. The medium-term spending levels would be finalized keeping in view the targets achieved as outlined in “Green Book”.

40. Over the years, government spending on running of civil government and pension spending has increased. In order to break this trend, the government is working on reducing non-development expenditures as a proportion of the budget and bringing reforms in the pension payment system to rationalize pension cost.

41. Ministries/Division-wise level of development spending will be finalized by Ministry of Planning, Development and Special Initiatives. Indicative spending level for public sector development programme during the medium-term period would range between Rs. 800-1090 billion. The provisions of PFM Act 2019 would be followed with regard to approval of the Development Projects.

VI. PUBLIC DEBT

42. The level and composition of public debt inherited by the present government was not sustainable. The government’s medium-term debt sustainability strategy includes reduction of fiscal deficit, gradually shifting towards long-term debt maturity profile, zero borrowing from State Bank of Pakistan, accessing concessional external loans and discouraging foreign commercial borrowings. In the medium-term public debt-to-GDP ratio would be gradually reduced.

43. Over the medium-term, the government’s objective is to bring and maintain its Public debt-to-GDP ratio to sustainable levels through a combination of greater revenue mobilization, rationalization of current expenditure and efficient/productive utilization of debt. The government also aims to reduce its “Gross Financing Needs (GFN)” through various measures, mainly including: (i)
better cash flow management through a treasury single account; (ii) lengthening of maturities in the domestic market keeping in view cost and risks trade-off; (iii) developing regular Islamic based borrowing programme; and (iv) availing maximum levels of concessional external financing from bilateral and multilateral development partners to benefit from concessional terms and conditions.

VII. INSTITUTIONAL REFORMS

44. Under the directions of the Cabinet Committee on Institutional Reforms, a number of reforms have been initiated to improve efficiency and transparency of the public sector. These reforms include restructuring of the Federal Government including state owned entities, civil service reforms, pension reforms etc.

45. Moreover, a series of public financial management reforms have been initiated with the promulgation of Public Finance Management Act, 2019 envisaging empowerment of Principal Accounting Officers and delegation of financial powers from the Ministry of Finance to line ministries, improved budget management, efficient cash and treasury management including Treasury Single Account, more efficient development spending, optimal utilization of assets etc. The above reforms will be fully implemented in the medium-term to achieve the desired outcomes.

VIII. CONCLUSION

46. This Medium Term Budget Strategy Paper being presented under the provisions of the Public Finance Management Act 2019 reaffirms the commitment of the Federal Government to implement the principles of transparency, responsiveness, inclusiveness and better financial management during the ensuing three years. The continuity of the fiscal policies, new policy measures and well-planned government expenditures will facilitate achievement of the targets and objectives announced by the government in the annual budget before the Parliament. Furthermore, the execution and monitoring of the performance agreements between the Prime Minister and the Cabinet members will also yield positive results in public service delivery.