Medium-Term
Budget Strategy Paper

FY2023-24 to FY2025-26

9th June, 2023
Government of Pakistan
Finance Division

Foreword

Medium-Term Budget Strategy Paper for FY2023-24 to FY2025-26 lays down the economic priorities and objectives of the Government over medium-term. The document embodies a transition from a period of economic vulnerability to stability and growth. With FY2023-24 as base year, the Government aims to continue with its fiscal consolidation drive and focus public investments towards productive sectors to generate economic activity and create employment opportunities in the country. It is also imperative for the Government to protect the vulnerable segments of the society during these testing times. This paper provides a multi-pronged strategy, both on resource and expenditure side, to overcome prevailing economic woes and move towards a sustainable and inclusive growth trajectory.

I would like to commend the efforts of Dr. Aisha Ghaus Pasha, Minister of State for Finance & Revenue, Mr. Tariq Bajwa, Special Assistant to the Prime Minister on Finance, Mr. Imdad Ullah Bosal, Finance Secretary, and the officers and officials of Finance Division for their hard work in preparation of this document.

Senator Mohammad Ishaq Dar

Minister for Finance and Revenue

Preface

Approval of the Medium-Term Budget Strategy Paper, containing macroeconomic and fiscal projections, by the Federal Government is a legal requirement under Section 3 of the Public Finance Management Act, 2019. This paper presents the priorities of the Government for revenue collection, both tax and non-tax, and the spending policies and indicative spending levels for ministries, divisions and other entities of the Federal Government. Maximizing revenues and ensuring fiscal discipline and consolidation is the bedrock of this document.

The medium-term projections have been prepared on a three-year rolling basis, with FY2023-24 budget as base year. Projections for the outer two years take into account domestic and external factors as well as the medium-term strategic priorities of the Government for achieving macroeconomic stability and sustainable growth. The document also reflects upon the emphasis placed by the Government on improved fiscal management, responsive budgeting, transparency and accountability.

I would like to acknowledge the commendable work of all officers and officials of Finance Division. In particular, I would like to express my appreciation for Mr. Muhammad Tanvir Butt, Additional Finance Secretary (Budget) for leading this effort.

It was, foremost, the support, guidance and insight of Senator Mohammad Ishaq Dar, Minister for Finance & Revenue, Dr. Aisha Ghaus Pasha, Minister of State for Finance & Revenue, and Mr. Tariq Bajwa, Special Assistant to the Prime Minister on Finance which was instrumental in preparation of this document.

Imdad Ullah Bosal

Finance Secretary

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I. Medium-Term Macroeconomic Framework

Despite pressing economic circumstances, the Government is confident and is fully committed towards economic recovery and stability over medium term. Optimal revenue mobilization and fiscal discipline are cornerstones of the Federal Budget for FY2023-24. Addressing the twin deficits through robust and persistent efforts is also a strategic necessity as the country grapples with the economic mismanagement of the recent past.

The aim is to achieve growth in exports specifically targeting agriculture, information technology and industrial sectors. This will improve the economy's competitiveness, enhance ease of doing business, and create job opportunities. Steps are also being taken to strengthen social safety nets and human capital development for sustainable growth. The medium-term growth target is set at 3.5 - 5.5 percent, with price stability along with fiscal and external sector sustainability. The Federal and Provincial Governments continue to collaborate to achieve this goal and take all necessary measures to ensure long-term economic development.

Based on the Government's pro-growth initiatives, the medium-term macroeconomic framework is presented as under:

Table 1: Medium-Term Macroeconomic Framework

	B.E.	R.E.	Projections		
	2022-23		2023-24	2024-25	2025-26
Economic Growth - %	5.0	0.3	3.5	5.0	5.5
Inflation - %	11.5	29.0	21.0	7.5	6.5
Imports - $ bn	66.4	54.5	58.7	67.1	71.9
Exports - $ bn	32.4	28.0	30.0	34.5	37.0
Current A/c Deficit - $ bn	9.0	3.7	6.0	7.9	9.6
GDP - Rs bn	78,197	84,658	105,817	117,664	132,307

- GDP growth was targeted at 5.0 percent for FY2022-23. However, the devastating floods hit the economy hard with damages estimated at PKR 3.2 trillion (US$14.9 billion). The loss to GDP is estimated at PKR 3.3 trillion (US$15.2 billion) and rehabilitation requirements at PKR 3.5 trillion (US$16.3 billion). Economic activity was severely disrupted and livelihoods critically impacted. With international factors also coming into play, the GDP growth for FY2022-23 is projected at 0.3 percent.

- The pass-through of global energy prices has had a dampening effect on economic activity in the country. Similarly, the loss of purchasing power due to inflationary pressures has restrained domestic demand. Assuming sustained policy reforms implementation, growth is expected to gradually return to its medium-term potential of 5.0 percent by FY2024-25 and 5.5 percent by FY2025-26. This will translate into economic activity and creation of employment opportunities.

- The global supply chain disruptions due to the Ukraine war have had adverse impact on the cost of living. Pakistan being a net importer of energy and food items has been a victim of external price shocks. The cost of imports has increased, and inflation remained in double-digits during FY2022-23. Floods caused widespread damage to major and minor crops, disrupting domestic food supply. This amplified the price hike.

- In FY2023-24, the crop outlook is expected to improve owing to special focus of the Government on agriculture sector through measures such as the Kissan Package. Inflation is expected to normalize over medium-term due to improvements in agriculture sector productivity and favorable global commodity prices. Furthermore, effective implementation of policies geared towards sustainable economic growth will address inflationary pressures.

II. Medium-Term Fiscal Framework

A primary objective of the Medium-Term Fiscal Framework is to facilitate policy formulation based on reliable projections of revenues and expenditures. It reflects upon various sources of revenue and heads of expenditure considering historical trends as well as emerging challenges. It also indicates specific requirements of the Government and its strategic priorities in the medium-term, with fiscal balance and primary balance of the Federal and general Government. To project overall fiscal balance, the estimated levels of provincial surpluses are also taken into account. Furthermore, gross federal revenue is expected to be around 11.5% of GDP in FY2023-24 and is likely to improve over medium-term.

The Government endeavours to enhance revenues and rationalize expenditures to manage fiscal deficits. Non-essential spending has been curtailed with introduction of austerity measures, untargeted subsidies are being reviewed, and losses of public sector enterprises are being addressed through improved governance. Substantial allocations are being ensured towards pro-poor initiatives for protecting the vulnerable segments of the society.

The reform agenda under the Public Finance Management Act, 2019 will continue for improving governance and accountability in public expenditure. All entities of the Federal Government are geared towards performance-based budgeting, and the scope of Treasury Single Account (TSA) is being enhanced for effective accounting of public money. Budget execution is being monitored regularly to address any deviations. Focus on cash forecasting and management will facilitate optimal utilization of available resources.

It is also important to revisit the basis for expenditure sharing with all Provincial Governments, specifically for social sector expenditures involving health, education and pro-poor spending.

Table 2: Medium-Term Fiscal Framework (Rs bn)

	B.E.	R.E.*	Projections		
	2022-23		2023-24	2024-25	2025-26
FBR Revenue	7,470	7,200	9,200	10,869	12,621
Non-Tax Revenue	1,935	1,618	2,963	3,358	3,771
Gross Federal Revenue	9,405	8,818	12,163	14,227	16,392
Transfer to Provinces	4,373	4,129	5,276	6,491	7,350
Net Federal Revenue	5,032	4,689	6,887	7,736	9,042
Total Federal Expenditure	9,579	11,090	14,460	14,430	13,780
Federal Deficit	(4,547)	(6,401)	(7,573)	(6,694)	(4,738)
as % of GDP	-5.8%	-7.6%	-7.2%	-5.7%	-3.6%
Primary Balance (Federal)	(597)	(889)	(270)	(278)	(142)
as % of GDP	-0.8%	-1.1%	-0.3%	-0.2%	-0.1%
Provincial Surplus	750	459	650	671	690

Overall Fiscal Deficit	(3,797)	(5,942)	(6,923)	(6,023)	(4,048)
as % of GDP	-4.9%	-7.0%	-6.54%	-5.1%	-3.1%
Overall Primary Balance	153	(430)	380	393	548
as % of GDP	0.2%	-0.5%	0.4%	0.3%	0.4%
GDP	78,197	84,658	105,817	117,664	132,307

**Revised Estimates for FY2022-23 are as of 31st May, 2023*

III. Priorities of the Government for Revenue Mobilization

The Federal Government has two main sources of revenue collection, that are (i) FBR taxes, and (ii) Non-tax revenue.

a) FBR Revenue

The Government is committed to take all necessary steps towards optimal collection of FBR revenue. Projections of FBR collection for FY2023-24 to FY2025-26 is tabulated below followed by major initiatives:

Table 3: FBR Collection (Rs bn)			
	Projections		
	FY2023-24	FY2024-25	FY2025-26
Direct Taxes	3,759	4,470	5,260
Customs Duty	1,178	1,367	1,509
Sales Tax	3,538	4,230	4,970
Federal Excise Duty	725	802	882
Total	9,200	10,869	12,621

Source: FBR

i. Ease of Doing Business
The Government is committed to bring about improvement in trading across borders by simplifying and automating processes and procedures of cross border trade.

ii. Digitization and Use of Technology
Several initiatives are underway to promote use of technology and digitization of systems to reduce time and cost of doing business. These include Automated Duty Drawback Payment System to facilitate exporters, Pakistan Single Window to digitize and facilitate cross border trade, WEBOC to automate customs clearance system at all seaports, dry-ports and land border stations, automation of audit monitoring system/Audit Dashboard which is a software solution to provide documentation and assistance to auditors, and automated issuance of refunds to facilitate taxpayers. These initiatives aim at using technology to facilitate taxpayers, simplify procedures, promote systemic cross border trade and enhance efficiency in the taxation processes.

iii. Enhance Regional Connectivity
Agreements are being signed and operationalized at with several countries, most recently with Uzbekistan, China, Russia and Tajikistan. Objective is to enhance cross border trade, simplify transit procedures and automate clearances.

iv. Track and Trace System
Track and Trace system has been implemented in sugar, fertilizer and tobacco sectors, while implementation in cement sector is planned to be initiated in FY2023-24. Furthermore, the Inland Revenue Enforcement Network (IREN) has been established

to curb illicit tobacco and sugar movement across the country.

v. Risk-based Audit
This initiative aims to adopt a scientific approach through Risk Based Audit Management System (RAMS) in order to identify and select non-compliant taxpayers and improve compliance behavior. Selection of a scientific matrix through allocation and distribution of weightage to different parameters in the Risk Grid will segregate the potential and high-risk cases for audit through parametric computer balloting. This will enable FBR to not only focus on non-compliant taxpayers but also ensure that the audit process is effective, fair and conducted with integrity, thus building the confidence of compliant taxpayers in the audit system.

vi. Enhance Inter-provincial Coordination and Data Sharing
The aim is to work in coordination with all Provincial Governments to standardize and harmonize tax management. For the purpose, MoUs on data sharing and immovable property valuation tables have been signed.

vii. Broadening the Tax Base (BTB)
Key priority of the Government is to broaden and deepen the tax base. Devoted BTB units have been established at Regional Tax Offices of FBR for registration of new taxpayers. FBR has registered 912,392 new taxpayers during the current year as of 31st March, 2023 against the initial target of 700,000. The aim is to expand the tax base from existing 1.2 million filers to 3.5 million by FY2023-24. It will be ensured that there is a consistent broadening of tax base to enhance revenue collection.

b) Non-Tax Revenue

Non-Tax Revenue (NTR) of the Federal Government includes taxes other than FBR (PDL, GIDC, ICT and others) and receipts including surplus profits of regulatory bodies, dividends, mark-ups and others. Government has enacted special provisions in the Public Finance Management Act, 2019 for collection of this revenue. The Government aims to increase NTR through efficient recovery and rationalizing rates where possible.

Table 4: NTR Collection (Rs bn)

	Projections		
	FY2023-24	FY2024-25	FY2025-26
PDL	869	977	1,047
Natural Gas Development Surcharge	40	46	55
GIDC	40	49	59
Petroleum Levy on LPG	12	16	20
Receipts from Civil Administration & other functions/ICT Administration	29	59	72
SBP Profit	1,113	1,169	1,204
PTA	74	103	175
Royalties on Oil/Gas/Windfall Levy against Crude Oil	160	170	190
Markup (Provinces, PSEs, and others)	195	411	481
Other NTR	431	358	468
Total	2,963	3,358	3,771

IV. Indicative Budgetary Spending Levels

Medium-term indicative budgetary spending levels are based on the priorities of the Government for developmental and essential non-developmental expenditures. However, focus remains on fiscal discipline by linking public expenditures to performance for efficient utilization of public funds. The indicative budgetary spending levels are provided in the table below:

Table 5: Indicative Budgetary Spending Levels (Rs bn)			
	Projections		
	FY2023-24	FY2024-25	FY2025-26
Interest Payment	7,303	6,416	4,596
Defense Services	1,804	1,926	2,090
Grants	1,464	1,697	2,105
Subsidies	1,074	998	738
Pension	761	879	977
Running of Civil Government	714	802	1,046
PSDP	950	1,200	1,475
Emergency and others	200	402	578

The Federal Government is following the Medium-Term Budgetary Framework for performance-based budgeting to ensure that service delivery outcomes and spending levels are finalized as per targets outlined in ‘Green Book’. A year-end performance report is also formulated to keep track of performance against set targets and goals.

It is noteworthy that substantial allocations have been kept in FY2023-24 budget for pro-poor initiatives, and BISP allocation has been increased to Rs. 450 billion (increase of 27.8 percent over FY2022-23). The intent is to provide targeted subsidies for the deserving and vulnerable segments of the society. Subsidies, especially for power and petroleum sectors, are being rationalized, and all entities are being pursued to move towards financial self-sufficiency.

Despite fiscal constraints, the Government aims to invest in social development and productive sectors to generate economic activity and create employment opportunities. Focus is primarily on completion of prioritized ongoing projects particularly of infrastructure, social sector development, and regional connectivity. Private sector will also be taken on board to invest in viable projects.

Under policy directions of the Prime Minister, the FY2023-24 PSDP has several unique initiatives covering areas and sectors such as solarization of tubewells, youth employment through provision of soft loans, endowment fund for education, support to IT sector especially startups and venture capital, women empowerment, agriculture and green revolution, and skills development for youth. Over the coming years, these initiatives will be key to sustainable and inclusive growth. PSDP spending projections for FY2023-24 and succeeding two years are as follows:

Table 6: Indicative PSDP Spending Levels (Rs bn)			
	Projections		
	FY2023-24	FY2024-25	FY2025-26
PSDP, *of which*	950	1,200	1,475

Infrastructure	491	620	763
Social	241	304	374
Science & IT	34	43	53
Regional Development	118	149	183
Others	66	84	102

V. Fiscal Risk Statement FY2023-24

Prepared in compliance to Section 4 of the Public Finance Management Act, 2019 the Fiscal Risk Statement for FY2023-24 quantifies potential risks that may lead to deviations from the projected fiscal numbers. Published separately, the Statement applies the principle of 'reasonableness', which is that only those fiscal risks which have a reasonable chance of materializing over medium-term are included. The possible sources of fiscal risks are as follows:

i. Macroeconomic risks: fiscal position vulnerability to key macroeconomic variables, including GDP growth, interest rates, inflation and exchange rate
ii. Environmental risks: vulnerability in terms of natural disasters especially floods, drought and earthquakes
iii. State Owned Enterprises (SOEs): Federal Government's exposure to SOEs, in the form of outstanding stock of loans and guarantees
iv. Debt: public and publicly guaranteed debt stock, external debt entailing currency risk, and refinancing risks
v. Guarantees: stock (guarantees issued against commodity operations are not part of the guarantee stock since they are self-liquidating
vi. Public Private Partnerships: guarantees issued for PPP projects are recorded as part of guarantee stock
vii. Provincial Governments: short term risks arising from provincial surplus targets and long term risks arising from PPP capital stock and spending pressures
viii. Policy implementation and Governance: delays in implementing structural measure to reduce debt and to reform the power sector, governance and capacity shortfalls in oversighting SOEs and PPPs

VI. New Initiatives

i. Climate and Green Budgeting

Pakistan is one of the most vulnerable countries in the world to climate change risks. The Government is initiating effective measures for climate change mitigation and adaption. One such initiative is Climate and Green Budgeting which will use budgetary tool to help achieve environmental and climate goals. Incorporating green budgeting in the public finance management cycle will be an important step to track and monitor climate related expenditures.

ii. Gender-Responsive Budgeting

The Government has undertaken a significant initiative for gender-responsive budgeting, in line with the Constitution which enshrines provision of equal rights and equal treatment to all citizens without any gender discrimination. This initiative will support incorporating gender-related objectives into fiscal policies and administration.

iii. Treasury Single Account

Treasury Single Account (TSA) is a unified structure of Government bank accounts for consolidation and optimal utilization of cash resources of the Government. TSA separates transaction level control from overall cash management, providing visibility of cash position at the end of each day. Effective TSA calls for an interface between the treasury and the banking network and requires the Government to comprehensively map out accounts. Currently, the TSA-II framework implementation is underway, and Finance Division has mapped accounts of public entities (ministries/divisions) and autonomous organizations. This will support the Federal Government in improving its budgetary controls and monitoring.

iv. Human Resource Module
Finance Division has taken the initiative to reflect human resource data in the Budget Call Circular in terms of filled, vacant and redundant posts to achieve allocative efficiency in terms of employees-related expenses. Moreover, implementation of the Organizational Management (OM) module is also being ensured for reconciliation of payroll with sanctioned posts for automation of data on SAP system.

VII. Public Debt

Debt to GDP ratio will increase to around 73.7 percent at the end of FY2022-23 primarily due to higher federal fiscal deficit and depreciation of Pak rupee against USD. However, debt-to-GDP ratio is expected to reduce to 66.5 percent at the end of FY2023-24 on back of fiscal consolidation efforts of the Government. 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.

Government also aims to reduce its 'Gross Financing Needs (GFN)' through various measures, including (i) better cash flow management through Treasury Single Account (ii) lengthening of maturities in the domestic market keeping in view cost and risks trade-off (iii) developing regular Islamic based lending program, and (iv) avail maximum concessional external financing from bilateral and multilateral development partners.

Table 7: Public Debt (Rs tr)

	FY22	FY23 (P)	FY24 (P)
Stock of Public Debt			
Public Debt	49	63	71
External	18	25	27
Domestic	31	38	44
As percentage of GDP			
Public Debt	73%	74%	67%

VII. Conclusion

Medium-Term Budget Strategy Paper for FY2023-24 to FY2025-26. presented under Section 3 of the Public Finance Management Act, 2019 reaffirms the commitment of the Government to uphold and implement the principles of transparency, responsiveness, inclusiveness and improved financial management over the medium-term. The Government is committed to ensure fiscal consolidation through revenue mobilization and expenditure rationalization. The aim is to stabilize the economy and move towards sustainable and inclusive growth in the medium-term. The Government is committed to achieve the targets and objectives presented in this document.

Medium-Term Fiscal Framework
FY2023-24 to FY2025-26

Rs bn

	FY2022-23		FY2023-24	FY2024-25	FY2025-26
	B.E.	R.E.*	B.E.	Projections	
Gross Revenue	9,405	8,818	12,163	14,227	16,392
FBR Revenue	7,470	7,200	9,200	10,869	12,621
Non-Tax Revenue	1,935	1,618	2,963	3,358	3,771
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Net Revenue Receipts	5,032	4,689	6,887	7,736	9,042
Total Expenditure	9,579	11,090	14,460	14,430	13,780
Current Expenditure	8,708	10,412	13,320	13,120	12,130
Markup Payments	3,950	5,512	7,303	6,416	4,596
Domestic Loans	3,439	4,795	6,430	5,608	3,872
Foreign Loans	511	717	873	808	724
Defence	1,563	1,510	1,804	1,926	2,090
Emergency and others	195	-	200	402	578
Grants	1,174	1,090	1,464	1,697	2,105
Subsidies	664	1,093	1,074	998	738
Pension	609	654	761	879	977
Running of Civil Govt	553	553	714	802	1,046
PSDP	727	567	950	1,200	1,475
Net Lending	144	111	190	110	175
Federal Deficit	(4,547)	(6,401)	(7,573)	(6,694)	(4,738)
as % of GDP	*-5.8%*	*-7.6%*	*-7.2%*	*-5.7%*	*-3.6%*
Primary Balance (Federal)	(597)	(889)	(270)	(278)	(142)
as % of GDP	*-0.8%*	*-1.1%*	*-0.3%*	*-0.2%*	*-0.1%*
Provincial Surplus	750	459	650	671	690
Overall Fiscal Deficit	(3,797)	(5,942)	(6,923)	(6,023)	(4,048)
as % of GDP	*-4.9%*	*-7.0%*	*-6.54%*	*-5.1%*	*-3.1%*
Overall Primary Balance	153	(430)	380	393	548
as % of GDP	*0.2%*	*-0.5%*	*0.4%*	*0.3%*	*0.4%*
GDP	78,197	84,658	105,817	117,664	132,307

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