MEDIUM TERM
BUDGET STRATEGY PAPER
2020 - 2023

March, 2020
GOVERNMENT OF PAKISTAN
FINANCE DIVISION

Medium Term

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Government of Pakistan

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FOREWORD

The Budget Strategy Paper (BSP) is a standard policy document of the government to set out the budget strategy, keeping in view the macroeconomic picture of the country. The strategy is approved by the Cabinet and forms basis of the detailed budget preparation exercise that would culminate in presentation and approval of the budget 2020-21 by the National Assembly in June 2020.

Under the visionary and dynamic leadership of the Honourable Prime Minister of Pakistan Mr. Imran Khan, Pakistan has embarked upon a reform agenda initially to stabilise and later to focus on economic growth. The budget over the short and medium-term is being strategized to support the reform direction. Key principles followed are; to increase government revenues, expenditures curtailed, while public debts would be brought down as percentage of gross-domestic-product. The budget strategy also responds to government's priorities including making Pakistan conceptually a welfare-state, creation of jobs, reduction of poverty and helping agriculture, industrial and services sectors of the economy, while also tapping the potential of the private sector in a major way to induce an export led growth.

To implement the strategy, the Ministry of Finance and Revenue will coordinate with various government departments and provide all necessary facilitation services. As per the government's transparency drive, the BSP is being made available to the public for the first time. This is part of reforms in efficient management of public money that are included in Public Finance Management Act, 2019.

In the coming months, the government will seek inputs on its taxation and expenditure policies to align them further with the requirements of equitable and sustainable economic growth. Finance Division welcomes any suggestion, proposal or recommendation in this regard.

I wish the team all the best in fulfilling its task.

(Dr. Abdul Hafeez Shaikh),

Adviser to the Prime Minister on Revenue & Finance

PREFACE

This Budget Strategy Paper is prepared and presented in compliance with the Section 3 of the Public Finance Management Act, 2019. As per the section, the Budget Strategy Paper is to be approved by the Cabinet by middle of March each year. The purpose of the paper is to elaborate the macroeconomic context and present indicative projections over the medium-term. The aim is to present strategic policy priorities of the government.

The Budget Strategy Paper presents medium-term forecasts on a rolling basis. The first year of those forecasts will form the basis of the budget 2020-21, while the other two years are provided for improved predictability of resources.

Under the policy guidance of Dr. Abdul Hafeez Shaikh, Adviser to Prime Minister on Finance and Revenue, the budget strategy has been formulated to reflect upon the intent of responsiveness and transparency of the government for fiscal prudence and responsive budgeting. I would also like to acknowledge the strategic input and apt analysis provided by my team including Special Secretary Finance, Additional Secretaries of Budget, External Finance, Expenditure, the DG Debt and Economic Adviser, Finance Division.

I would like to recognise the quality of analysis and data provided by the Federal Board of Revenue, Planning, Development and Special Initiatives Division and Poverty Alleviation Division. This paper would not be possible without efforts of the officers of Budget Wing, Finance Division and all other Wings who have contributed in the making of this vital Budget Strategy Paper.

I wish the team all the success in the current budget formulation exercise.

(Naveed Kamran Baloch)

Finance Secretary

I. EXECUTIVE SUMMARY

1. **Pakistan's economic conditions are improving.** Due to implementation of timely yet difficult decisions, the period of financial instability caused by imbalanced policies of the past, is now largely over. Budget and current account deficits have significantly declined, foreign reserves have continuously built up, Rupee has stabilised, and country's credit rating profile has improved. As financial stability is generally on course, inflationary pressures are projected to subside. However, the government endeavours to stay on course of stabilisation measures, in addition to implementing policies that are geared towards acceleration of sustainable economic growth and in its wake creating jobs and reducing unemployment. Government of Pakistan is also steadfast with the ongoing IMF Program with positive feedback.

2. **Global economy is at a risk of slow-down due to outbreak of covid-19 virus and trade tensions that will impact Pakistan.** It is projected by global financial institutions that spreading of covid-19 virus will have a negative impact on trade and emerging markets. As of middle of March 2020, these projections are impacting majorly global stock exchanges and oil prices. If the trend in reduced oil prices and supply disruptions continue, Pakistan's import bill will reduce. Reduced global growth on the other hand can negatively impact Pakistan and hence cautious fiscal and monetary policies need to be pursued, keeping both the short term and medium term perspective in view.

3. **Government will maintain a tight fiscal policy over the medium-term.** For the current fiscal year, it is expected that budget deficit to the percentage of GDP will decline. Going forward, the government will aim to sustain this reduction in addition to off-setting budget liabilities and managing stock of guarantees. By year 2020-23, the government shall aim to achieve budget deficit of around 3% of GDP, reduce its off-budget liabilities, and maintain stock of guarantees at the minimum level. Efforts of both federal and provincial governments will be required to achieve these targets.

4. **Expenditures projected over the medium-term align with policy priorities of the government.** The priorities include welfare of the people, provision

of basic community services, ensuring food and water security, promotion of agriculture, industry and services to accelerate growth and increase exports, implementing China-Pakistan Economic Corridor, and fulfilling strategic requirements. Provinces will be encouraged to invest in human capital development with a view to improve quality of life for the common man. Government is committed to fulfil all the financial requirements relating to National Security, in view of the geo-political situation. There is also need to formulate policies related to security, water, energy, climate, and food.

5. **Inflationary pressures are expected to decline.** As budget deficit is projected to decline, it is expected that inflationary pressures will also decline. To protect the vulnerable groups from food price increase, immediate measures have been taken, both in term of increasing subsidy and ensuring supply lines. However, going forward, government will maintain a policy to oversee supply and demand of essential food commodities and provide subsidy in case of any shortage or unfavourable price hike, through support of existing mechanism like Utility Sores, Sasta Bazaars and price control mechanism.

6. **Medium-term economic policies shall focus on growth, reduced inflation, and building up of foreign reserves.** By June 2023, economic growth of over 5 percent, inflation in the range of 5 – 7 percent, and reserves to cover 5 months of import cover shall be targeted. These will be achieved through combination of economic growth strategy measures, fiscal, monetary and exchange rate policies. In addition, structural policies to improve government efficiency, revitalisation of public enterprises and energy sector reform focusing on circular debt reduction and balancing finances between Federal and Provincial Governments shall be undertaken. With these policies in place, public debt is expected to reduce to around 77 percent of gross-domestic-product as compared to 84.8 percent achieved by June 2019.

II. MEDIUM-TERM MACROECONOMIC FRAMEWORK

1. CURRENT ECONOMIC SITUATION

7. **From verge of default to improved economic stability, considerable progress has been achieved over the past months.** Increased economic activity is noted in key sectors of the economy, inflationary pressures while increased have started to subside in February 2020, with budget and current account deficits having declined. Early indications of meeting economic growth suggest that there is a return of business confidence. As a result, stock market has shown improved performance over the past months, while more companies are being incorporated.

8. **Over the past 18 months, a number of important policy measures have been taken to stabilise the economy.** These include ownership and adopting a six billion US$ IMF program; shift to flexible market oriented exchange rate, increase in government revenues and reduction of budget deficit, market oriented increased foreign inflows, policy of zero borrowing from SBP for budget financing, marked improvement in investments in government treasury bills, reduction of flow of circular debt, correction of energy prices, and facilitating the export and industrial sector through low cost energy.

9. **Inflationary pressures have reduced in February 2020** Due to stabilisation policies and short-term supply disruptions, core and food inflation increased. Average inflation (consumer-price-index) increased from 6 percent to 11.7 percent in Jul-Feb period. Inflationary pressures reduced in February as compared to January and government's timely actions will ensure that inflation is reduced even further in coming months. Government would continue to closely monitor fluctuations in the international prices of the commodities including oil & gas and would reasonably transfer the resultant benefits to the masses.

10. **The monetary policy is continuing to balance the desire for economic stability leading to growth and control of inflation.** State Bank of Pakistan increased the policy rate from 8.50 percent in October, 2018 to 13.25 percent in July, 2019 and has maintained the same policy rate to the publicity of the paper. Going forward the State Bank is trying to manage two fundamental risks of

balance of payments i.e. stable foreign reserves position, and inflation decrease. The policy rate is projected to ease off keeping in view the declining inflationary pressures in medium term. The Rupee is currently trading at Rs.155 to a dollar as compared to Rs.160 as on end June, 2019, minor variation notwithstanding.

11. **Current account deficit and trade deficit has reduced while reserves have improved, and Rupee is stable.** Current account deficit has declined by over 70 percent in the first seven months as compared to the same period last year. Foreign reserves stand at around $19 billion by early March 2020 and Rupee is trading at around Rs 155. During Jul-Feb period, exports have increased by around 4 %, while imports have reduced by 14 % and trade deficit has declined by 27 %. During Jul-Feb foreign investment has increased from $535 million to $3.4 billion.

12. **Budget deficit has reduced in the eight months.** Budget deficit in the first eight months has amounted 3.8 % of gross-domestic-product as compared to 4.6 % achieved in the same period last year. This was despite an increase in federal development expenditure. Tax revenue collected by Federal Board of Revenue has increased by over 18 percent in Jul-Feb period. In the past eight months, non-tax revenues have been almost doubled.

2. MEDIUM-TERM MACROECONOMIC PROJECTIONS

13. **Over the medium-term the government plans to adopt various important policy measures.** These policy measures will broadly include reduction of budget deficit through increase in government revenues, maintaining the policies of zero borrowing from State Bank of Pakistan for budget financing, a flexible exchange rate, structural reforms in public entities including where necessary privatisation, reforms in energy sector (electricity and gas), increase in public investments in management of water, implementation of projects under China-Pakistan Economic Corridor, strengthening energy transmission and distribution systems, implementation of national tariff policy, implementation of special economic zones (SEZs), etc. Based on these reforms, the medium-term macroeconomic framework is presented in the following table:

Table 1: Medium-Term Macroeconomic Framework

	Actual	Projections			
	2018-19	2019-20	2020-21	2021-22	2022-23
Economic Growth - %	3.3	2.6	3.0	4.5	5.1
Inflation - %	7.3	11.7	8.4	6.3	5.3
Budget deficit - % GDP	-8.9	-7.1	-5.8	-4.3	-3.0
Public debt - % GDP	84.8	83.0	81.0	79.0	77.0
Current account deficit - $ billion	13.4	5.1	4.6	4.0	4.1
Reserves – in months of imports	1.5	2.5	3.3	4.3	4.8

14. **Economy is projected to achieve a sustainable growth trajectory in medium term.** Government is taking various policy courses to target the supply side of economy. Despite the economic challenges, government has embarked on a journey towards inclusive growth. The safety net program has been broad bored and a new diversified social sector program "Ehsaas" will cater to providing targeted cash, skill and resource transfers to the vulnerable population to strengthen the roots of society. Economy is moving progressively along the adjustment path and stabilization process. The government is focused on bringing improvement in real sector through growth in agriculture, industrial and services sectors.

15. **A new development growth strategy is currently being formulated by the Planning Commission.** The aim of the strategy is to target higher equitable and sustainable economic growth, poverty reduction and job creation. This strategy will pave the way towards achievement of SDGs and other government socio economic development targets.

16. **Public Debt is estimated to remain sustainable over the medium term.** The public debt profile is projected to improve considerably and proportion of debt held by State Bank of Pakistan is projected to decline. Furthermore the debt raised through long term instruments is projected to improve. Consequently interest expense as % of GDP is projected to decline over the medium term while debt to GDP ratio will be reduced progressively with a strategic outlook.

17. **Energy reforms are proposed to improve energy efficiency.** Ministry of Energy is working to introduce energy reforms both in the power and oil & gas sectors. The improved energy policy and investments in generation,

transmission and distribution system will result in a more viable energy mix and availability of affordable electricity to the masses. Construction of two important projects namely, Diamer Bhasha and Dasu (with combined electricity generation capability of around 9,000 MW) are planned to continue. Financing of these two projects is being arranged through the federal PSDP.

18. **Stability in foreign reserves is an important economic policy priority of the government.** For this reason, economic policy will remain focused towards reduction of current account deficit, increase in foreign inflows (including multi-lateral grants and loans), and increase in foreign direct investment. The exports are projected to increase by 30 percent in medium term whereas import growth will be restricted to 6 percent in medium term to encourage the import substitution and diversified.

19. **Over the medium-term government's policies will be focused on expanding domestic commerce in agriculture, industry and services sectors.** An ambitious 'National Agriculture Emergency Program' has been launched with the coordination of all provinces aimed at boosting crops yields, fisheries and livestock as well as water conservation and to introduce cost efficient technologies to ensure smooth supply and availability in food supply chain. In addition, the government will continue to ensure low prices of fertilizers, provision of favourable conditions for agriculture credit, support price mechanism that balances food security, better prices for farmers, and minimum impact on government finances.

20. **For industrial sector,** export package (containing duty drawback on local taxes) and provision of energy (electricity and gas) at subsidised rates, and establishment of Special Economic Zones are designed to enhance industrial output. Naya Pakistan Housing and revitalisation of construction sectors will also form the key policy priorities. In the services sector, a system of taxation has been agreed with traders which are simplistic and equitable. Promotion of SME sector in Pakistan is a key priority of the present government. Efforts shall be made during the upcoming years to provide incentives for the SMEs all over the country in a framework of robust policy environment.

III. MEDIUM-TERM FISCAL FRAMEWORK

1. Fiscal Policy

21. **Fiscal policy will remain an important instrument to improve economic growth, reduce poverty and invest in human development.** Federal and provincial governments are focusing on improving governance and management in their respective functional domains. Federal Government will continue to focus on defence and territorial security, energy and water & food security, foreign policy, macroeconomic management, and other functions that are part of the Federal legislative list.

22. **Government borrowing operations has remained a challenging task.** Government has been focusing on raising funds through long term government securities. The Debt Management Office, Finance Division has been formulating policies to reduce the borrowing cost of the federal government, enabling the government to borrow in long tenors at lower rates during medium term, while also encouraging a long term dispensation on debt.

23. **Fundamental macroeconomic strategy will include reduction of fiscal deficit.** By June 2023, the government intends to reduce budget deficit from around 7 percent of GDP (expected to be achieved in 2019-20) to around 3 percent of GDP. Fundamental adjustment will be made by policy and administration reforms in taxation system. Pertinently, the government intends to remove tax exemptions, preferential treatments and concessions that are likely to result in added tax collection of around 2 percent of GDP. On the expenditure side, non-development expenses will be kept at the level of existing expenditure in real terms. Austerity measures are likely to continue; structural changes will be made to improve efficiency in public expenditure and focus on outputs will be enhanced. The projected medium term fiscal framework would be as under:

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

	Actual	Projections			
	2018-19	2019-20	2020-21	2021-22	2022-23
Gross Federal Revenue Receipts	**4,436**	**6,401**	**7,798**	**9,068**	**10,354**
Transfer to Provinces	2,398	2836	3626	4248	4864
Net Federal Revenue Receipts	**2,038**	**3,565**	**4,173**	**4,821**	**5,490**
Total Expenditure	**5,673**	**6,801**	**7,600**	**8,036**	**8,470**
Federal Deficit	**-3,635**	**-3,236**	**-3,427**	**-3,222**	**-3,009**
As % of GDP	-9.4	-7.3	-6.9	-5.8	-4.9
Provincial Surplus	190	90	531	876	1,190
As % of GDP	0.5	0.2	1.1	1.6	1.9
Overall Fiscal Deficit	**-3,445**	**-3,146**	**-2,896**	**-2,346**	**-1,819**
As % of GDP	-8.9	-7.1	-5.8	-4.3	-3.0
Primary Balance	**-1,354**	**-346**	**339**	**884**	**1,466**
As % of GDP	-3.5	-0.8	0.7	1.6	2.4
Memo: GDP at mp	38,559	44,265	49,533	55,131	61,140

2. Tax & Non-Tax Policy

24. **Tax policy to be pursued will be pro-growth, progressive and non-discretionary.** Broader contours of tax policy are provided in Box 1 below. Overall, ratio of tax to gross-domestic product will be increased from 12.8 percent (expected this year) to 16.2 percent by 2023.

Box 1: Broader Contours of Tax Policy (Federal Board of Revenue)

The government will increase the share of direct taxes in revenues by enforcing Real-Income based Income Tax, to be achieved by broadening of tax base. Documentation of the economy to increase taxation in wholesale and retail, real estate and speculation businesses is also a priority. Amnesty schemes will no longer be offered, and exemptions will be curtailed. Income tax slabs will be rationalised, and thresholds will be lowered to broaden tax base. Gradual phasing out of Final Tax Regime will help in taxing real income. Through amendments in tax law, simplification of laws and regulations, and improvement in tax administration, a legal basis will be provided to risk-based audit system.

Taxpayer facilitation measures include awareness campaign and taxpayer education facilitation. Investments in IT based customer relationship management system, support lines, emails and website will be strengthened. Measures will also be taken to encourage voluntary compliance through facilitation measures and increasing certainty of detection and enforcement of law. Proper targeted awareness campaign through official media houses, using commercial media means will be carried out.

FBR is effectively using Information Technology support for efficient detection, monitoring and facilitation of the tax regime. Data on foreign bank accounts of Pakistani citizens is being received and analysed to detect tax evasion. IT based databank regarding foreign bank accounts will be established. Tracking and tracing system for collection of Federal excises duty on cigarettes has commenced with the issuance of licenses. Electronic monitoring of production and sales of various sectors will also commence in due course of time.

Installation of point-of-sale (PoS) integration on all Tier-I retailers has been enforced since 15 December 2019. The online integration of the prescribed registered persons with PoS will be enforced through effective monitoring. FBR is developing IT strategy for this. The recently launched app "Tax *Asaan*" will be improved and more features will be introduced to make it user friendly.

Introduction of Corporate Income Tax (CIT) reform will result in fewer exemptions and crediting schemes. The practice of issuing new preferential tax treatments or exemptions will be discontinued so that tax exemptions as a tool for philanthropy and social, investment and export promotion are discouraged. Exemptions will be phased out except basic food and nutrition items and provisions of health sector.

Harmonization between Federal and Provincial taxation regimes is to be achieved by removing duplication of taxation and introducing uniform laws and procedures. The Constitution assigns income taxes (except for agriculture income), the General Sales Tax on goods, customs duties, federal excises, and the

Capital Gains Tax to the federal level to be collected by the Federal Board of Revenue. While, GST on services, tax on professions, Agricultural Income Tax, Motor Vehicle Tax, Urban Immovable Property Tax, and other taxes related to real estate (e.g. stamp duty, Capital Value Tax) are assigned to the provinces. This arrangement fragments Pakistan into five tax jurisdictions in the services sector, with consequences such as double taxation, cascading effects of taxes and high compliance burden. Work on a unified tax portal with standardised forms that will enable taxpayers to file and pay federal and provincial taxes with less cost and compliance time will be completed.

In 2020-21, FBR will be working on removal of structural anomalies in the taxation regime such as anomalies from SROs (Statutory Regulatory Orders) / aligning certain SROs with the main statute and Rules, Simplified tax returns and forms.

25. **Policy and implementation enforcement will be strengthened for revenues other than FBR tax.** The Federal revenue other than FBR tax collection constitutes around one fourth of total Gross Revenue Receipts of the Federal Government. Major Revenue spinners are petroleum levy, receipts from public entities, receipts from oil & gas sector and profits from State Bank of Pakistan. Receipts from oil & gas sectors are transferred to the provinces as straight transfers.

26. **Federal Government will continue policy of imposition of levy, cess and surcharges over the medium-term.** A comprehensive revision of existing legal frameworks is required in consultation with concerned Ministries / Divisions. Necessary amendments in the relevant enabling laws, rules, regulations etc. will be introduced to bring improvements in assessment, collection and recovery of revenues. In addition, new avenues of non-tax measures will be explored after detailed research and studies.

3. Transfer to Provinces

27. **The 7th NFC Award of 2009 changed vertical and horizontal allocation of revenues.** The provincial share in the net divisible pool was increased from around 46 percent to 57.5 percent. The Federal Government also provides

funds to provincial universities, vertical health programmes and certain provincial development schemes. As a result, collectively around 68 percent of net divisible pool goes to provinces. Therefore, emphasis on the human development factor pre-dominantly rests with provincial governments. Matters including balancing fiscal modalities are expected to be discussed in the upcoming Award.

4. Expenditure Policy Priorities

28. **Over the medium-term Federal government intends to rationalise public expenditure by around 1.5 percent of GDP while allocation for public sector development expenditure will be increased by June 2023.** Key expenditure policies include:

a. **Defence and public security** will remain high priority and government will continue to allocate funds to meet the requirements of relevant Ministries/Divisions, keeping in view expenditure pattern and past budget allocation.

b. **For social safety net including poverty alleviation** the government will support its investments in *Ehsaas* Programme, which has several components ranging from stipends for poverty reduction, education stipends for deserving students of poor families, homes for the elderly, shelter homes (*panahgah*) for destitute persons and *Sehat Sahulat* health insurance scheme for the poor. The program also focuses on other vulnerable population like labour, disable children and gender.

c. **Disparities in the Federal Government Employees pay and allowances** will be removed. Reforms will also be undertaken with a view to reduce long-term pension's liability and transparent disbursement mechanism.

d. **Subsidies** for Pro-poors / less privileged segments of the society will be continued to minimise inflationary pressures.

e. **Mark-up on loans** being statutory obligation will be provided as per the requirements. The government will explore avenues through which interest liability can be reduced over the medium-term.

f. **Medium Term Austerity Drive** will continue to be implemented in the public sector entities.

g. **Special Areas are high priority of the Federal Government**. Fund allocations include current, development expenditure and 10-year development package for erstwhile Federally Administered Tribal Areas (FATA) and Karachi development package. Furthermore allocations will be protected for the governments of Azad Jammu and Kashmir (AJK) and Gilgit Baltistan (GB).

h. **Development Funds would be allocated by Ministry of Planning, Development and Special Initiatives** to priority sectors including Infrastructure, Social, Science & IT and Production. Infrastructure allocation takes precedence with allocation especially in transportation and construction including Railways, National Highways and Ports.

i. **For the water sector, investments in two large dams** – Diamer Bhasha and Dasu will be undertaken to increase water availability. Also focus would be on better electricity transmission and control on theft and line losses.

j. **In line with the Sustainable Development Goals (SDGs)-** Tourism development, higher education, health, low-cost housing and environmental protection shall remain the priority areas during the medium term development programme.

5. Prime Minister's Special Initiatives

29. **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, Naya Pakistan Housing scheme. All new initiatives in line with the Prime Minister's vision will be implemented in letter and spirit.

6. Privatisation

30. **To foster competition in various sectors of the economy, the government will pursue a well thought out privatisation plan.** Privatisation/divestment of 18 public entities from energy, banking, insurance and other sectors have been identified on which implementation is currently underway. Furthermore, there are 28 additional entities that will be pursued in phase-II of privatisation programme over the medium-term.

7. Public Debt

31. **The level & composition of public debt inherited by the present government was not sustainable.** Government 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 loan and discouraging foreign commercial borrowings. In the medium term public debt to gross- domestic-product would be reduced from 85 percent (June-2019) to 77 percent (June-2023).

8. Public Sector Reforms

32. **Under the institutional reform and austerity drive led by Dr Ishrat Husain, Advisor to Prime Minister on Institutional Reforms & Austerity** a number of public sector efficiency improvement programs are being implemented. These reforms include Restructuring of Government, reforms in Public Financial Management, civil service reforms, and efficiency improvement in government expenditure. These reforms would yield effective results during the medium term.

33. **Public Finance Management (PFM) Act, 2019 envisages wide ranging reforms in financial management procedures.** As a result of the PFM Act, the government is implementing Treasury Single Account (TSA) regime to improve its fiscal forecasting and cash management. In addition, reforms envisaged in the PFM Act, 2019 shall be implemented over the medium-term. This is an unprecedented reform that will enable consolidates of public money, its effective utilisation, predictably of budget and availability to the government.

9. Budgetary Spending Levels

34. **Medium-Term Indicative Budgetary Spending Levels are based on policy priorities of the Government.** During the upcoming years the government budgeting particularly spending shall be performance based and well-planned expenditures. Indicative spending levels are provided in below Table. These numbers may vary based on changes in economic circumstances and further interactions with the line Ministries / Divisions / Departments.

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

	Actual	Projections			
	2018-19	2019-20	2020-21	2021-22	2022-23
Interest	2,091	2,800	3,235	3,230	3,295
Defence	1,147	1,250	1,402	1,580	1,752
Pensions	393	435	475	494	525
Running of Civil Government	508	470	495	509	520
Subsidies	206	273	260	260	250
Grants	602	768	820	910	1,009
Provisions for contingencies		70	130	130	155

35. **Ministries/Divisions wise level of re-current spending would be linked with the achievement of targets and goals set out by the government.** Federal government has been following the Medium term budgetary framework for performance based budgeting to assure service delivery outcome. The medium term spending levels would be finalized keeping in view the targets achieved as outlined in “Green Book”.

36. **Over the years, government spending on running of civil government and pension’s liabilities has increased.** The same trend is projected during the medium term. Government has been working on bringing reforms in the pension payment system to rationalize pension cost. Federal government has to reduce non development expenditures in the future, which it is planning for, through reduced spending on areas where more public money is wasted or there is non-transparency.

37. **Ministries/Divisions wise level of development spending will be finalized by Ministry of Planning, Development & Special Initiatives.** Indicative spending level for public sector development programme during the medium term period would range between Rs. 700- 900 billion. The provisions of PFM Act 2019 would be followed with regard to approval of the Development Projects.

IV. CONCLUSION

38. The budget strategy presented in this paper would be implemented by issuance of Indicative Budget Ceilings (IBCs) for Re-current Expenditure to various Ministries / Divisions / Departments by the Finance Division after due consultation with them. While IBCs for the Development Expenditure would be issued after consultation with Ministry of Planning, Development & Special Initiatives. In-line with the approved Budget Strategy Paper, an Annual Budget Statement would be formulated and after soliciting approval of the Federal Government, the same would be presented before the National Assembly in accordance with the provisions of Constitution of Pakistan.

39. Key risks to budget strategy would be lack of adherence to budgetary targets, revenue collection targets and circular debt of energy sector and force majeure such as corona virus or any natural disaster. There are risks that any reduction of global demand will impact Pakistan's gross-domestic-product and eventually tax receipts. In addition, implementing structural reforms in energy sector may take more time than envisaged. In case of any slippages, appropriate policy measures shall be put in place.

40. It is essential that we are in compliance with the Program and implement the recommendations of FATF / APG to achieve the desired socio economic development targets and economic well being of the people of Pakistan.

Pakistan Paindabad!