
BUDGET STRATEGY PAPER 2021-2024



**Finance Department
Government of Khyber Pakhtunkhwa**

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Table of Contents

1. PREFACE.....	3
2. GLOBAL AND NATIONAL ECONOMIC CONTEXT	3
3. CHALLENGES AND REFORM.....	5
4. BUDGET 2020-21 PERFORMANCE	8
5. KEY PRINCIPLES & MEDIUM-TERM BUDGET STRATEGY 2021-24.....	11
6. MEDIUM TERM FISCAL FORECAST.....	17
7. APPENDICES.....	22

LIST OF TABLES

TABLE 1: PAKISTAN MAJOR ECONOMIC INDICATORS	4
TABLE 2: MEDIUM-TERM MACROECONOMIC FRAMEWORK – KEY INDICATORS.....	17
TABLE 3: FBR REVISED AND PROJECTED TAX COLLECTIONS	18
TABLE 4: FEDERAL GOVERNMENT MEDIUM-TERM FISCAL FRAMEWORK	18
TABLE 5: MEDIUM TERM FISCAL FORECASTS 2021-22 – TOTAL RECEIPTS	19
TABLE 6: MEDIUM TERM FISCAL FORECASTS 2021-22 – TOTAL EXPENDITURE	20
TABLE 7: REVENUE FORECAST UNDER DIFFERENT SCENARIOS.....	20
TABLE 8: FISCAL SPACE AVAILABLE FOR DEVELOPMENT UNDER DIFFERENT SCENARIOS.....	20
TABLE 9: TREND IN HUMAN DEVELOPMENT INDEX.....	22
TABLE 10: STATUS OF HUMAN DEVELOPMENT 2018-19	22
TABLE 11: DEVELOPMENT OUTLOOK / INDICATORS	23

List of Graphs

FIGURE 1: GROWTH IN OUTPUT (%).....	3
FIGURE 2: MAJOR ECONOMIC CHALLENGES	4
FIGURE 3: PROVINCIAL BUDGETS FY2020-21	6
FIGURE 4: SBP ACCOUNT OPENING BALANCES	7
FIGURE 5: PROVINCIAL OSR – BUDGETED VS PROJECTED ACTUAL	8
FIGURE 6: RECEIPTS – BUDGETED VS ACTUAL PROJECTED 2020-21	8
FIGURE 7: CURRENT EXPENDITURE: SETTLED & NMAS	9
FIGURE 8: DEVELOPMENT EXPENDITURE: SETTLED & NMAS 2020-21	10



FIGURE 9: SUMMARY- YEAR END FISCAL POSITION 2020-21 10

FIGURE 10: KEY PRINCIPLES FOR REVENUE GENERATION..... 12

FIGURE 11: PROVINCIAL ADP ALLOCATIONS 14

FIGURE 12: IMPACT OF DOMESTIC FINANCING..... 24

List of Boxes

BOX 1: KEY FEATURES OF BUDGET 2021-22 11

BOX 2: KEY PRINCIPLES FOR REVENUE/FISCAL SPACE 12

BOX 3: KEY PRINCIPLES FOR CURRENT EXPENDITURE 13

BOX 4: IMPLICATIONS FOR CURRENT EXPENDITURE 13

BOX 5: KEY PRINCIPLES OF DEVELOPMENT EXPENDITURE 14

BOX 6: KEY PRINCIPLES FOR REFORMS..... 15

BOX 7: PRINCIPLES FOR FINANCING STRATEGY 16

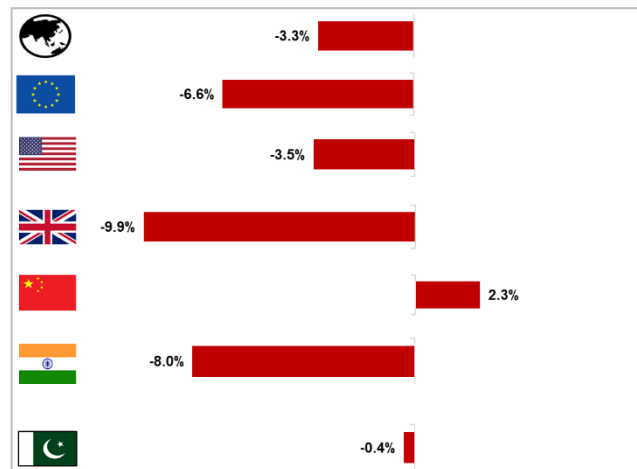
1. Preface

Government Budget Strategy Paper (BSP) is a statement of Government's policy goals and strategic priorities for the upcoming budget in relation to the fiscal outlook. The BSP is a useful tool for prioritising spending plans based on policy priorities. It also assists the legislature to gauge the performance of the Government as well as to suggest improvements in the financial management. The Government started the budget preparation cycle for FY2021-22 with the formulation of BSP-I in December 2020 which set out the indicative budget ceilings and communicated to the administrative departments. The fiscal projections are based on the socioeconomic outlook of the province, revenue forecasts of the federal government, provincial revenue expectations and expenditure priorities, financing options and debt scenario, investment performance and fund management. The BSP-II has been developed in May 2021 and Cabinet approved the same on 15th June, 2021.

2. Global and National Economic Context

The projected global economic recovery in 2021 is preceded by an unprecedented collapse last year that had severely impacted economies across the world. The 2020 was an unusual year as COVID-19 caused national and global output to shrink. Had it been not supported by the appropriate policy actions, IMF estimates shown that the contraction in 2020 could have been a lot worse. The world economy contracted by -3.3% in 2020 with divergent impact at individual national economic levels. Output losses have been particularly large for countries that rely on tourism and commodity exports and for those with limited space for policy respond¹. As Figure 1 shows, all EU, UK and USA show negative growth in 2020 while in case of China, its economic growth slowed down to 2.3%. In South Asia, Indian economy contracted massively by -8% in 2020 while Pakistan GDP was negatively impact up to -0.4% in wake of COVID induced economic contraction. The Government in Pakistan also came up with timely policy response in the form of economic and fiscal stimulus to provided support to shrinking aggregate output and demand. The strength of the recovery is projected to vary across countries, including Pakistan, and is subject to access to

Figure 1: Growth in Output (%)



¹ WEO April 2021, IMF



vaccine and effective policy support, economic and structural features and exposure to cross-country spill overs².

With the emergence of COVID-19, Pakistan's economic challenges were further aggravated and thus further worsened the cash flows implications for the provinces. At national level, the problem of twin deficits, fiscal challenges at the face of SOE losses, current account deficit caused by trade related outflows and rising inflation left little manoeuvring fiscal space for the provinces.

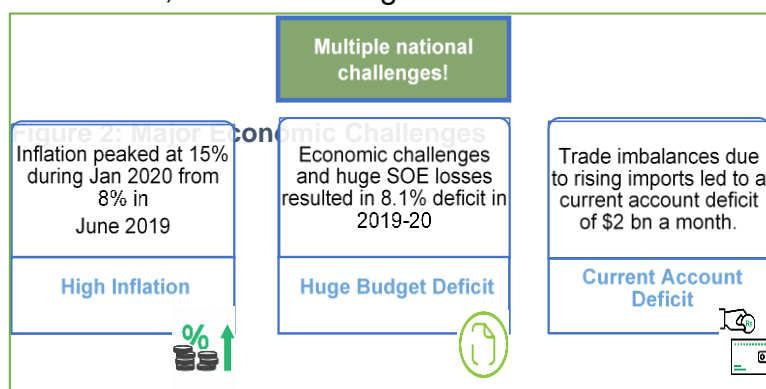
Table 1: Pakistan Major Economic Indicators

Major Economic Indicators	2017-18	2018-19	2019-20
GDP Growth (%) ¹	5.5	1.9	- 0.4
Current Account Surplus/Deficit (\$bn) ²	-19.9	-13.7	- 3.0
Fiscal Surplus/Deficit (% of GDP) ³	- 6.6	- 8.9	- 8.1
State-Owned Enterprises Profits/Losses (Rs. bn) ⁴	- 286.0	- 143.0	N.A.
SBP Policy Rate (%) ⁵	5.75	7.50	13.25
Inflation (%) ⁶	4.1	5.1	10.6

Sources:

1. World Economic Outlook Database, International Monetary Fund
- 2,3. State Bank of Pakistan
4. State Owned Entities (SOEs) Annual Report 2019; Implementation & Economic Reforms Unit, Ministry of Finance March 2021
5. State Bank of Pakistan Policy Rate as of July of each year.
6. Change in Consumer Price Index; Pakistan Bureau of Statistics April 2021

The real output growth in Pakistan nosedived to -0.4% in 2019-20 from 5.5% in 2017-18 with budget deficit reaching to over 8% of GDP at the face of billions of State-Owned Enterprises (SOEs) related losses (see Table.1). The SOEs were bleeding losses around Rs. 200 billion a year despite having been profitable overall until 2014-15. The power distribution companies in particular caused massive losses to the exchequer which resulted in a rising circular debt. Moreover, the double digit inflation as measured by Consumer Price Index (CPI) promoted the central bank to raise its policy rate from 5.75% in 2017-18 to 13.25% in 2019-20. The unfavourable trade balances in 2017-18 led to current account deficits which was growing at \$2 billion per month as exports stagnated (see Figure.2). The pressure on



² WEO January update and April 2021



external accounts led to depletion in foreign currency reserves to the level of \$11.8 billion in 2018 from \$24 billion in October 2016. The pressure on the Balance of Payments (BOP) led to heavy depreciation in the US\$/PKR parity as the Government remained under stress to let the national currency to devalue and at the same time raise its dependence on foreign funds through borrowing to build up foreign exchange reserves. The average exchange rate depreciated by 16.3% in FY2017-18 reaching to Rs.122 a US\$ by end-June 2018, as the foreign exchange reserves fell 23.5% to \$16.4 billion by end-June 2018 from \$21.4 billion a year ago. The external account continued posing economic challenges in FY2018-19 which caused further depletion in foreign exchange reserves to the tune of 11.6% to \$14.5 billion by end-June 2019, pushing the national currency to devalue further by whopping 34.5% and reaching Rs.164 a US dollar by end-June 2019.

3. Challenges and Reform

The new Government in Khyber Pakhtunkhwa had to work in this challenging situation, with further local economic and fiscal challenges. The size of the provincial government has been expanding since the passage of 18th Constitutional Amendment impacting the government wage and pension bills. Total 276,988 new sanctioned posts have been created since 2011 with total number of sanctioned posts reaching the level of 622,141 in 2021. This in turn translated into four times growth in the wage bill of the provincial government in the last 10 years which currently stood at Rs.273.4 billion (was Rs.71 billion in 2010-11). This is further aggravated by the 23% average annual growth rate in pension bill which currently stood at Rs.86 billion in 2020-21 as against Rs.11 billion in 2020-11. Moreover, the rising throw-forward in the development portfolio was at 6.5 years in FY2018-19. With the emergency of COVID-19, about 8% of population was economically impacted as around 2.8 million workers, particularly daily wagers, lost their livelihood due to pandemic induced slowing down in aggregate output and demand.

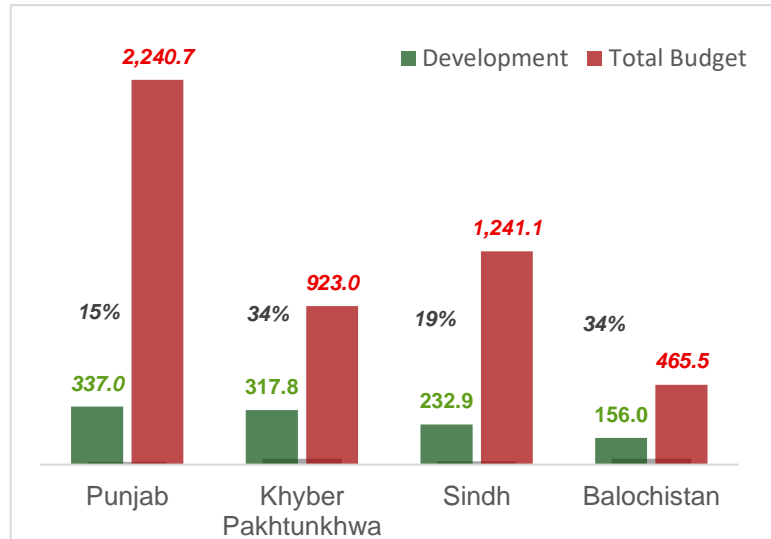
Furthermore, along with stagnated federal transfers, anaemic revenue performance, net hydel profit arrears and required additional resource allocation for erstwhile FATA created local fiscal challenges for the new Government in Khyber Pakhtunkhwa. The province has been receiving 10% - 15% less than budgeted transfers from the Federal Government with accumulated Net Hydel Profit (NHP) arrears of up to Rs.65.3 billion in 2018-19. This fiscal situation has been further tightened with low level of provincial own-sourced revenue during the last couple of years. The incremental change in the OSR remained low for the last few years which resulted in total OSR of Rs.32.5 billion in 2018-19 from the previous level of Rs.29.1 billion in 2016-17. In addition to these, the provincial government has also been facing tremendous challenges to mobilise required pledged funds to finance the Tribal Decade Strategy for development in erstwhile FATA.



Notwithstanding the challenging economic and fiscal environment inherited and at the given circumstances, the provincial government’s dynamic, reform oriented financial management has produced outstanding result. Since FY2018-19, the province’s own-

sourced revenue (OSR) increased by 68.3% to Rs.53 billion in FY2020-21, operation budget enhanced by 33.3% with record increase in allocation for Medical Teaching Institutions Hospitals (from Rs.22.5 billion in 2018-19 to Rs.30 billion in 2020-21) and doubling the actual current and development budgets in erstwhile FATA by massively increasing it by 108% during the last three fiscal years. Similarly, the provincial government has increased size of the development budget by 36.8% during the last three fiscal years,

Figure 3: Provincial Budgets FY2020-21 (Rs. in billion)



from Rs.76 billion to Rs.104 billion. In FY2020-21, the Government of Khyber Pakhtunkhwa allocated 34.4% of total budget outlays for development spending as compared with 15% in case of Punjab, 18.8% in Sindh and 33.5% in case of Balochistan (see Figure.3). in the form of improved own-sourced revenue, increasing development budget, doubling spending in erstwhile FATA and enhancement in operational budget. For FY2021-22, continuing with the outstanding performance under economic and fiscal pressures, the provincial government is aiming to increase OSR by 41.5% to reach Rs.75 billion and to increase the size of development budget by 42.8% to the level of Rs.148.5 billion.

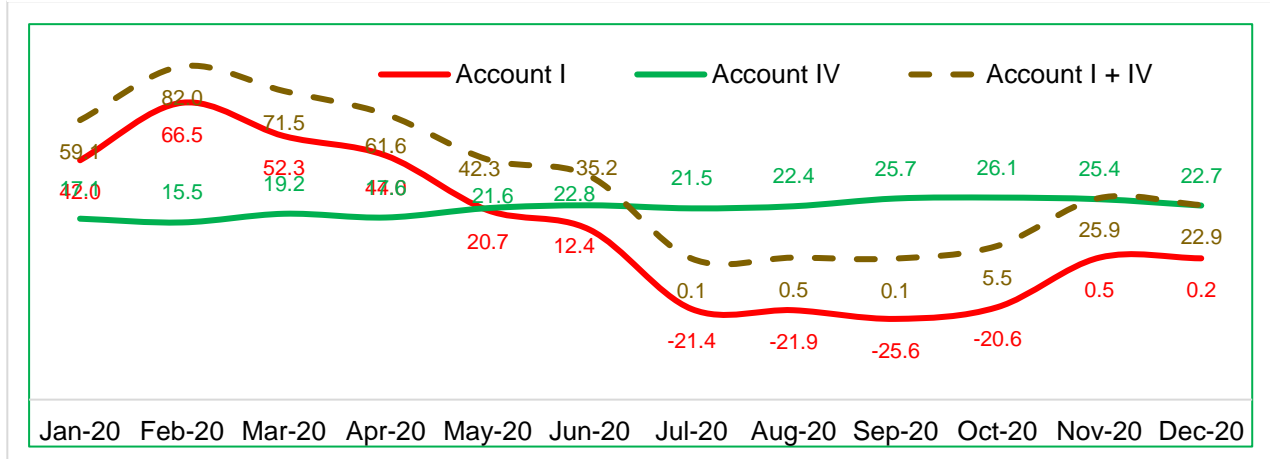
As discussed above, the Government of Khyber Pakhtunkhwa had to face several challenges including stagnant transfers from the Federal Government, anaemic revenues, ballooning wage and pension bills, huge throw forward, accumulated NHP arrears, and additional financial responsibilities with respect to erstwhile FATA post-integration period. The Government has taken a set of measures to mitigate risks emanating from such challenges on ground.

The Government took several reform measures to boost province’s own-sourced revenue. As a result, record breaking growth of over 50% has been achieved in provincial OSR during the first ten months of the current fiscal year. The Government also took measures to streamline NHP payments which resulted in Rs.3 billion transfers since November 2020.



The Government successfully prioritised its development spending during COVID-19 and at the same time set aside greater portion of its budget for development spending. To cope with the pandemic, the Government redirected Rs.33.6 billion to development

Figure 4: SBP Account | Opening Balances (Rs in billion)



releases in June 2020 in spite of negative Account-I balance. The overdraft in Account-I existed until recovery in October 2020, though steps were taken to mitigate risks of economic pain for the province. Similarly, with prudent cash management strategy resulted in overall positive balances through Account-IV (see Figure.4). Similarly, the traditional cash management approach for budget management has been discontinued with and a modern approach based on revenue and cost-based modelling is adopted. This led to the timely release of quarterly funds for the development spending. Along with these, the rationalisation process with respect to one-off development budget has been carried out to reduce throw-forward period from existing 6.5 years to 4 years.

The Government also took appropriate measures for early fund releases for development spending through ensuring and materialising release of 100% quarterly funds on first day of every quarter.

The Government also take measures to emphasise importance of actual based budgeting in the form of preparing actual receipts and expenditure reports for the fiscal years 2018-19 and 2019-20. Moreover, additional fiscal space of Rs.40 billion was created with adoption of smart SNEs approvals and cost-based approach for salary budgeting. Similarly, Rs.13 billion has been saved annually through different institutional measures, including setting up minimum age of retirement to 55 years, to reform pension regime in the province. On the non-salary side, the Government took measures to rationalise and re-appropriate funds towards ‘good’ non-salary spend such as Sehat Card Plus and to improve other public service delivery.

facilitate economic recovery and to promote commercial activities in the province, the Government took several policy and administrative interventions to ensure business friendly environment. At the same time, the Government attempted to explore and at the



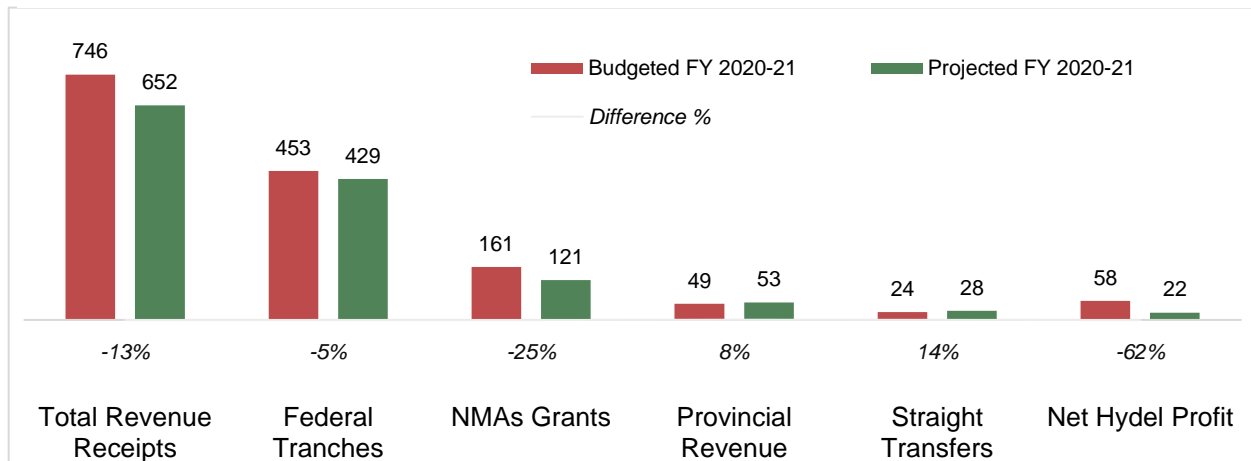
same time facilitate public private partnerships avenues for optimal returns on investment of scarce public funds. Moreover, proactive engagement with international development partners and donors has been pursued for better and wider economic and social sector development and outcomes.

4. Budget 2020-21 Performance

4.1 Budget Receipts

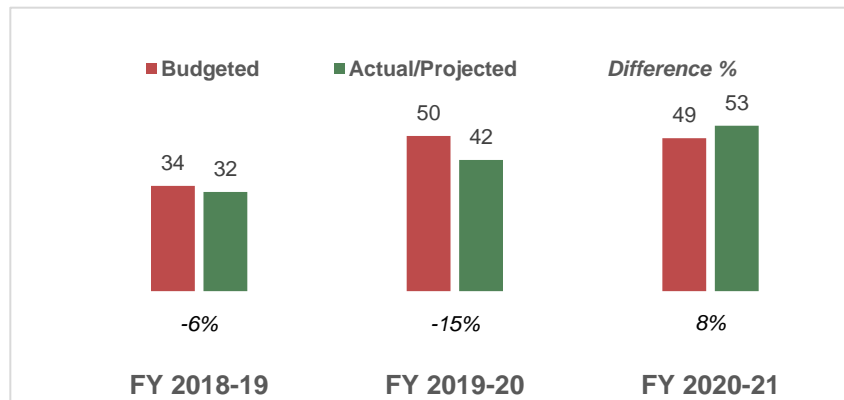
The budget performance to date during 2020-21 shows that projection for total receipts is 13% less than budgeted amount mainly on account of lesser amount received under federal receipts, grants for NMAs and NHP. Around 70% of the difference in projections

Figure 6: Receipts – Budgeted vs Actual Projected 2020-21 (Rs in billion)



is caused by lower Federal Tax Transfers and lag in NHP related payments (see Figure.5). On the other hand, contrary to the 2018-19 and 2019-20, when the OSR fell short the target by -6% and -15%, respectively, the provincial own revenue collection in 2020-21 reached to Rs.53 billion against the budgeted target of Rs.49 with a positive growth of 8% (see Figure.6).

Figure 5: Provincial OSR – Budgeted vs Projected Actual (Rs in billion)

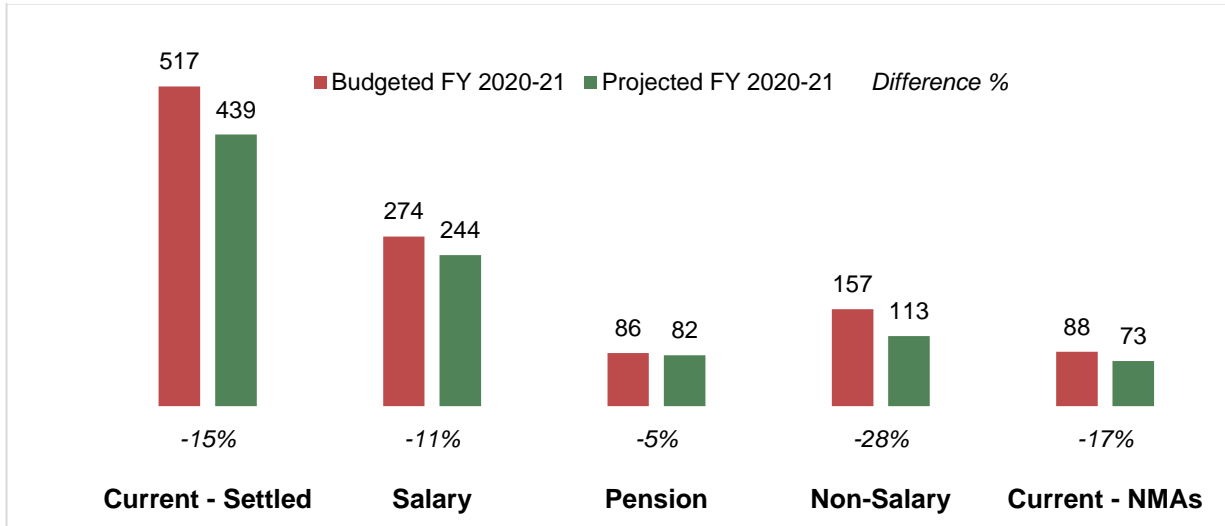




4.2 Current Expenditure

With respect to expenditure, based on 10-month available data, both current and development projected expenditure remained short of the budgeted levels during the current fiscal year by 15% and 26% respectively. On the current side, the projected actual

Figure 7: Current Expenditure: Budgeted vs Actual Projected (Settled & NMAs) – Rs in billion



expenditure stood at Rs.512 billion against budget level of Rs.605 billion in 2020-21. There has been -15% difference on account of current expenditure for settled districts while for that of NMAs, the same ratio stood at -17%. The projected actual wage (Rs.244 billion) bill is short of 11% against the budgeted level (Rs.274 billion). Similarly, the non-salary current expenditure also short of budgeted amount by -28%. On the other hand, the provincial pension bill is expected to be slightly short of the budgeted amount by Rs.4 billion during the current fiscal year (see Figure.7).

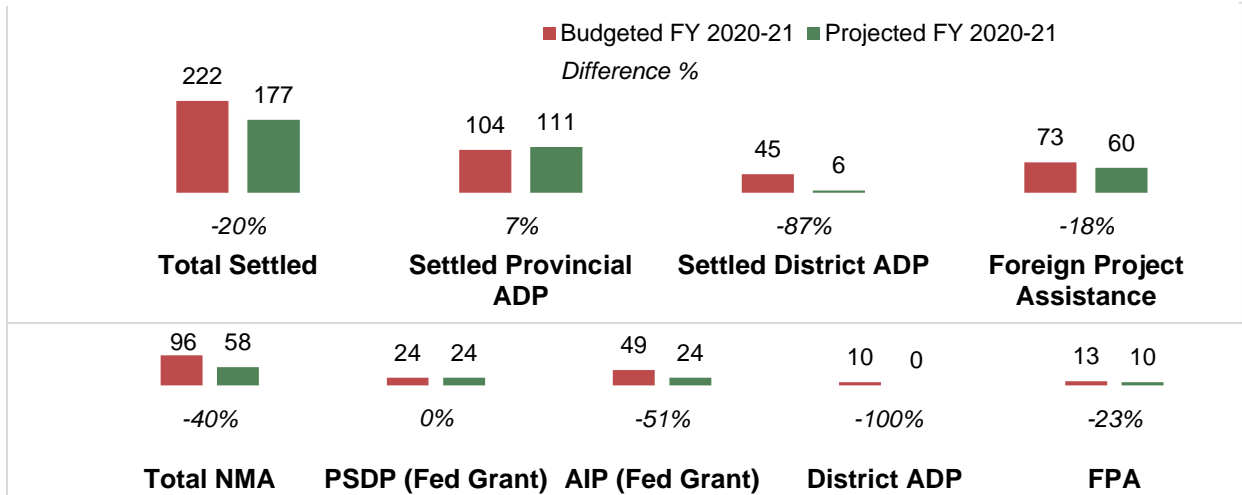
4.3 Development Expenditure

In case of settled districts, the negative gap between budgeted and projected actual development expenditure in 2020-21 has been contributed by all major heads except settled provincial ADP which surpassed the budgeted level by 7%. The total development expenditure for settled districts fell short of budgeted level by 20%. The actual projected expenditure under foreign project assistance also fell short of budgeted level by -18% in case of settled district development expenditure (see Figure.8). In case of NMAs, total projected development expenditure is less than the budgeted level by -40%. The federal grant for NMAa has been fully utilised while federal grant for NMAs Accelerated Implementation Plans (AIP) remained fell short by massive -51%. FPA in case of NMAs also remained below the budgeted level by 23% (see Figure.8). In case of both settled



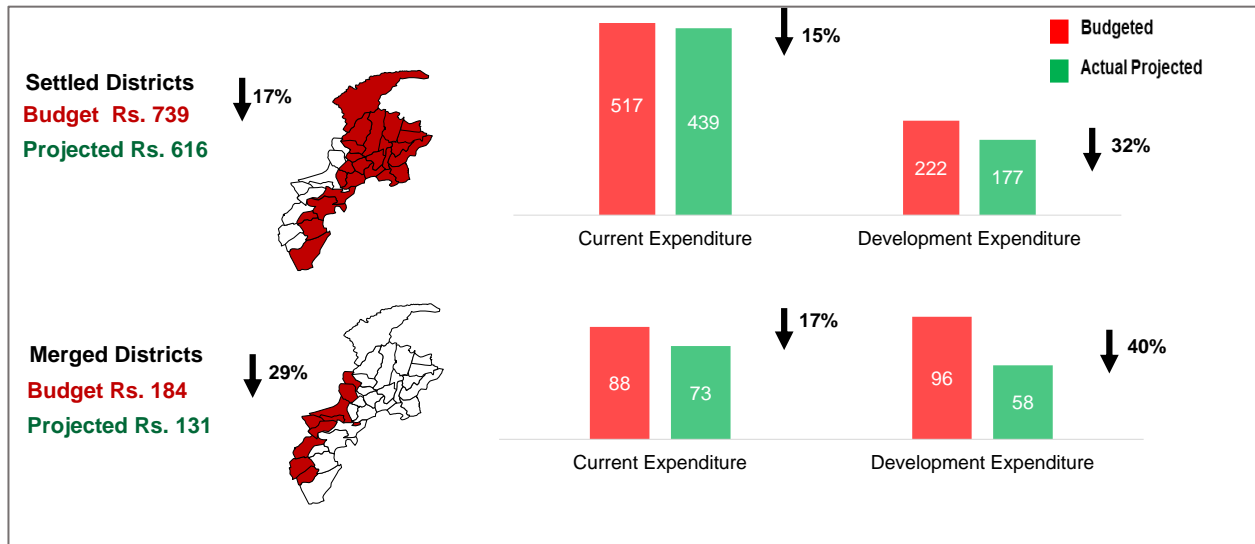
districts and NMAs, the actual district ADP remained short of the budgeted level due to non-existence of the local governments.

Figure 8: Development Expenditure: Budgeted vs Actual Projected (Settled & NMAs) | 2020-21 (Rs in billion)



In nutshell, in FY2020-21, the projected actual budget in case of settled district is fell short of the budgeted level by -17%, while in case of NMAs, the difference between the projected actual budget and budget estimates is -29%. Current expenditure, in both settled districts and NMAs, fell short of the budgeted level by -15% and -17%, respectively (see Figure 9).

Figure 9: Summary- year end fiscal position 2020-21 (Rs in billion)





5. Key Principles & Medium-term Budget Strategy 2021-24

Following are the ten key features of the budget 2021-22:

Box 1: Key Features of Budget 2021-22

- 1 **Increase in wages** with all employees below Grade 19 seeing an increase of 25% or more in their gross salaries
- 2 **A transformative focus on service delivery** by enhancing investment in productive staff and increasing budgets for operational expenditure
- 3 **Most ambitious development agenda in the history of province** with record allocation to ADP and total development budget
- 4 **Resolve to prioritize social sector investments** with largest ever budgets for Education and Health Sector
- 5 **A focus on the poor** with increase in minimum wage to Rs. 21,000; a record allocation to ensure provision of subsidized atta and Sehat Card Plus
- 6 **Unwavering pursuit towards increasing Own Source Revenue Generation** by setting a revenue target of Rs. 75 Billion that is 50% more than last year
- 7 **Unleashing the potential of private sector** by encouraging PPP, offering incentives for investments, improving infrastructure, providing utilities and reducing red-tape
- 8 **Leveraging Pakhtunkhwa's comparative advantage** through flagship investments in energy, tourism and IT sector
- 9 **Investing in the entire province** covering every division and district; women, minorities and senior citizens
- 10 **Commitment to reform, innovation and improved governance** through implementing long overdue reforms on pensions, performance of public servants, etc.


The Government has also adopted the certain key principles for the government medium term budget 2021-24 in the key areas of revenue/fiscal space, current expenditure, development expenditure, reforms and financing strategy which can be summarised as below:

5.1 Revenue/Fiscal Space

The Government has registered record breaking growth of 51.4% in the provincial own-sourced revenue generation within first 10 months of FY2020-21. During July-April 2020-21, the provincial OSR reached the level of Rs.43.9 billion as against Rs.29 billion during the same period last year. The Government is expected to reach the record level of over

Rs.50 billion OSR by end of June 2020-21. Besides this, the receipts are projected to close at Rs.504 billion against the budgeted amount of Rs.584 billion for settled districts, reflecting a shortfall of Rs.80 billion mainly due to receiving less than budgeted numbers for federal transfers and NHP arrears.

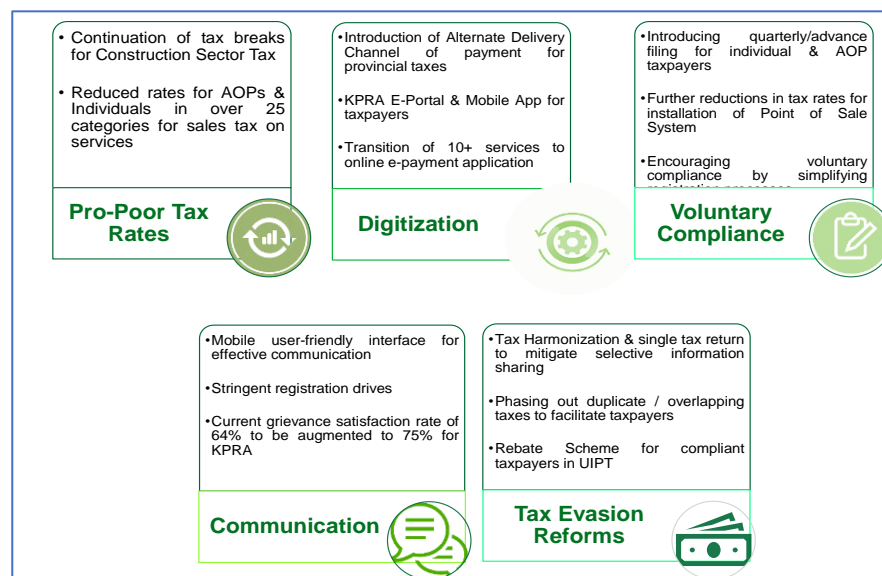
Box 2: Key Principles for Revenue/Fiscal Space

Revenue / Fiscal Space 
<ul style="list-style-type: none"> ⇒ Unwavering pursuit towards improving Pakhtunkhwa’s own source revenue generation ⇒ Unleashing the potential of the private sector ⇒ Broadening the tax base and continuing to reduce taxes and fees wherever possible ⇒ Reducing Tax evasion by bringing in technology ⇒ Engaging and solving key issues with the federal government ⇒ Elimination of redundant and duplicate taxes

The Government has cognizance of existing gaps which may hinder to reach the desired target of Rs.75 billion OSR in the next budget year. To this end, the key principles for enhancing revenue receipts and fiscal space for the next year is to focus on and continue with the pursuit of improving the province OSR generation and to unleash the potential of the private sector for taxation. Tax rationalisation and use of innovative technologies will be pivoted to broaden the tax base and reducing the tax evasion (see Box.2).

Government has to pursue certain key principle for revenue generation to stimulate and support economic growth in the province through pro-poor tax rating, digitization, promoting voluntarily compliance, improving communication and reforms for eliminating tax evasions (see Figure.10)

Figure 10: Key Principles for Revenue Generation



5.2 Current Expenditure

In addition to this, on the current expenditure side, the Government wage bill is budgeted to increase by Rs.40 billion in FY2021-22 due to adhoc relief and allowances. This in turn



shall increase the budget amount for salary by 14% in FY2021-22 over the current year level of Rs.274.3 billion, thus would result in squeezing space for the development spending.

Box 3: Key Principles for Current Expenditure

Current Expenditure	
<ul style="list-style-type: none"> ⇒ A transformative focus on service delivery ⇒ Efficient allocation based on actual spending and translating citizen's voice into budget ⇒ A long overdue increase in wages, through a fairer, more modern wage structure ⇒ Prioritize social sector investments with a focus on the poor ⇒ Continue the journey to a more sustainable pension strategy ⇒ Making operational expenditure count by making the right investments 	

The Government has also taken major measures for the current pension bill to be sustainable through raising minimum age for early retirement, revising the pension rules and transition towards contributory pension system. The minimum age for early retirement has been increased to 25 years of qualifying service or 55 years of age, whichever is later. This has an impact of Rs.12 billion per annum. Eliminating double pensioners and limiting the beneficiaries to the pensioner's widow or widower, dependent children and parents through necessary changes in pension rules brought monetary impact of Rs.727 million per annum. The Government also formed Cabinet Committee in March 2021 to come up with proposals for setting up contributory pension system in the province. The Committee has proposed appropriate amendments in relevant legal framework requiring new civil servants to be part of contributory pension system.

Box 4: Implications for Current Expenditure

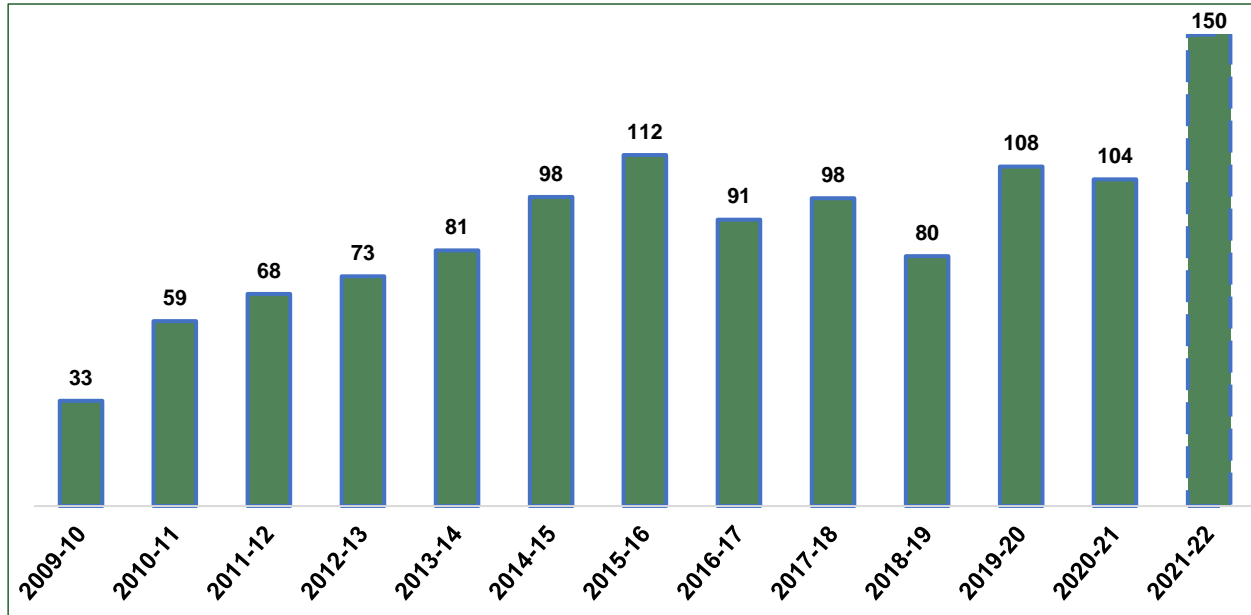
Raising Minimum Age for Early Retirement	<ul style="list-style-type: none"> • The minimum age for early retirement has been increased to 25 years of qualifying service or 55 years of age, whichever is later 	Impact! Rs. 12 Billion annually
Revision of Pension Rules	<ul style="list-style-type: none"> • Limiting beneficiaries to the pensioner's widow or widower, dependent children, and parents • Eliminating double pensioners 	Impact! Rs. 800 Million annually
Transition towards Contributory Pension	<ul style="list-style-type: none"> • Cabinet Committee formed in March 2021 • The committee has proposed amendments requiring new civil servants to join a future contributory pension system 	

For the upcoming budget, the government strategy will be to focus on service delivery with maximum attention to efficiency in allocation and actual spending in light of citizen voices translated into the budget. Social sector spending will be prioritised with attention to needs of the people under the poverty line. Appropriate upward adjustment in wage bill be granted and suitable measures will be undertaken for sustainable pension regime in the province (see Box. 3 & 4).

5.3 Development Expenditure


On the development side, the Government is going to prioritise development funding in the budget 2021-22. The Provincial ADP in 2021-22 is going to see record increase of 44.2% over the last year budget of Rs.104 billion (see Figure 11).

Figure 11: Provincial ADP Allocations (Rs in billion)



The Government is planning to pursue an ambitious development agenda for the next year budget which would eventually result in a historical maximised development expenditure in the province. Consistent efforts will be made leverage the province’s comparative advantage for more inclusive economic development with larger focus on equity and fairness across the region and districts with particular attention to women, youth, minorities and senior citizens wellbeing. The priority will be gone to near-completion development projects and essential services schemes. Overall, attention will

Box 5: Key Principles of Development Expenditure

Development Expenditure	
⇒ The most ambitious development agenda in the history of the province	
⇒ Maximising true development expenditure	
⇒ Leveraging Pakhtunkhwa’s comparative advantage	
⇒ Ensuring more consistent development spend across the year and Investing in every region & district; women, minorities, senior citizens and marginalised group of society.	
⇒ Essential services schemes and projects near completion to be given priority	
⇒ Increase development spending for accelerated economic recovery	
⇒ Measuring development plus expenditure, and service delivery expenditure	




be paid to ensure accelerated economic recovery in the post-pandemic period (see Box.5).

5.4 Reforms

The Government has committed to continue with reforms innovations and implementation with an aim at better service delivery through improved governance and transparency. The Government is also committed to launch the Public Finance Management Strategy for the period 2021-2026 to continue with the implementations of newly conceived and other long desired public finance reforms in the province. To improve institutional performance, the Finance Department reorganisation will be taken care of along with setting up Strategic Procurement Unit for improved efficiency, transparency and accountability (see Box.6).

Box 6: Key Principles for reforms

Reforms 
<ul style="list-style-type: none">⇒ A commitment to reform, innovation and improved governance through implementing long overdue reforms⇒ Continuing the push to transparency⇒ Finance Department Reorganisation⇒ Public Financial Management Reform Strategy 2021-26⇒ Establishment and Operationalisation of Strategic Procurement Unit⇒ Strengthening legal framework through legislation on Public Financial Management Law, Public Financial Management Rules for Local Government, Sales Tax on Services Law, Khyber Pakhtunkhwa Revenue Authority Law, Fiscal Responsibility and Debt Management Law and Review of Excise & Taxation legislation

In addition, another key strategy is to ensure legislation on much awaited substantive and primary legislation in the form of Public Financial Management Act for Khyber Pakhtunkhwa. The new legal framework will provide an overarching mechanisms in the areas of fiscal policy and transparency, controls of public finance, performance orientation in the budget, management of public entities, planning and development and other related miscellaneous areas. In addition to this, to further improve institutional performance of the KPRA and revenue collection under OSR, the Government is committed to legislate on KPRA Act and Sales Tax on Services Act to enable KPRA to lead on services tax policy and collection across the province. Similarly, to enhance revenue generation through excise and taxation, the Government is planning to conduct a thorough review of relevant laws and regulation. Besides these, the legislation on the provincial Fiscal Responsibility and Debt Management Law is also in the pipeline to ensure debt issuance and management on sustainable footings at the provincial level.



5.6 Financing Strategy

The Government is strategizing to set up an appropriate technical and management framework for borrowing under deficit financing and to invest funds in case of budget surplus. This strategy will help the provincial Government to manage the public resources according to the needs and requirement of province for socio-economic and development outcomes. A mechanism shall be developed for raising funds through domestic borrowing and for provision of guarantees against borrowing by other public entities. The existing framework of public fund management will also be taken care of for strengthening and reforms (see Box.7).

Box 7: Principles for Financing Strategy

Financing Strategy

- ⇒ Financing the gaps by domestic borrowing under provincial / federal guarantee
- ⇒ Appropriate technical and management framework for domestic borrowing and investment of surplus
- ⇒ Utilize provincial funds (HDF, pension fund, GPI fund)



6. Medium Term Fiscal Forecast

6.1 Projected National Macroeconomic and Fiscal Outlook

The projected national macroeconomic outlook for FY2021-22 and outer years has been given in Table.2:

Table 2: Medium-term macroeconomic framework – key indicators

	Actual	BE	RE	Projections		
	2019-20	2020-21		2021-22	2022-23	2023-24
Economic Growth (%)	-0.4	2.1	2.9	4.2	4.6	5.1
Inflation (%)	10.7	6.5	8.7	8.0	6.8	6.5
Budget Deficit -% GDP	-8.1	-7.0	-7.4	-6.0	-5.2	-4.4
Public Debt -% GDP	87.2	87.0	86.0	84.3	81.8	79.6
Exports -\$bn	22.5	22.8	23.9	25.7	27.7	30.6
Imports -\$bn	42.2	42.5	47.1	51.4	55.0	59.5
Current Account Deficit -\$bn	-2.9	-6.7	-1.5	-4.7	-5.5	-6.1
Reserves – in months of imports	2.7	2.8	3.0	3.2	3.2	3.4
GDP- mp (Rs.bn)	41,727	45,567	46,675	52,462	58.810	65,765

Source: Medium-term Budget Strategy Paper 2021-22 to 2023-24, Finance Division Government of Pakistan

Based on the positive economic recovery during the later parts of the current financial year, real national output is projected to grow by 4.2% in FY2021-22 against the revised level of 2.9% in FY2020-21. More recently, the Federal Government has come up with revised real economic growth target of 4.8% for FY2021-22³. The nominal GDP is expected to increase to Rs. 52.5 trillion in FY2021-22 as against Rs.46.7 trillion in the preceding year. The economic growth for the outer years of 2022-23 and 2023-24 are projected to grow further by 4.6% and 5.1%, respectively. The pressure on the general prices is expected to be subdued in 2021-22 and is thus targeted at 8% on YoY basis as against 8.7% in 2021-22. The general prices is projected to remain subdued in during the outer years. The revised national level budget deficit is expected to end up at a higher level of -7.4% of GDP as against budgeted target of -7% of GDP during 2020-21. With fiscal consolidation reforms, the national budget deficit is expected to be contained at a level of -6% of GDP in FY2021-22. With continued fiscal consolidation, the budget deficit is projected to be a level of less than 5% of GDP in FY2023-24. On the external side, the current account deficit is expected to end up with a lower level of deficit due to improved worker remittances. However, in the post COVID economic recovery period, the higher trade imbalances and other financial outflows would result in current account deficit of -

³ IMF forecast is 1.5%, Pakistan Bureau of Statistics



4.7% of GDP in FY2021-22. The current account gap is projected to widen further to the level of -5.5% and -6.1% of GDP in outer years.

On the fiscal side, the revised FBR revenue has been set at Rs.4.7 trillion for FY2020-21. For the next financial year, the Federal Government has targeted around 23.6% growth in FBR revenue in YoY basis. For the outer years, the FBR revenue is projected to growth with an average annual growth rate of 14.2% (see Table.3).

Table 3: FBR Revised and Projected Tax Collections (Rs in billion)

	RE	Projections		
	2020-21	2021-22	2022-23	2023-24
FBR Taxes	4,717	5,829	6,600	7,600
GDP- mp (Rs.bn)	46,675	52,462	58,810	65,765
FBR taxes as % GDP	10.1%	11.1%	11.2%	11.6%

Source: Budget in Brief 2021-22, MTBSP 2021-22 to 2023-24

The projections of other key indicators under Federal Government medium-term fiscal framework are given in Table.4 below:

Table 4: Federal Government Medium-term Fiscal Framework (Rs in billion)

	Actual	BE	RE	Projections		
	2019-20	2020-21		2021-22	2022-23	2023-24
Gross Federal Revenue	5,782	6,574	6,381	7,989	8,775	9,829
Transfers to Provinces	2,504	2,874	2,721	3,527	3,796	4,344
Net Federal Revenue	3,278	3,700	3,660	4,462	4,979	5,485
Total Federal Expenditure	6,878	7,137	7,334	8,056	8,570	9,010
Federal Deficit	(3,600)	(3,473)	(3,674)	(3,594)	(3,591)	(3,525)
As % of GDP	-8.6	-7.5	-7.9	-6.9	-6.1	-5.4
Provincial Surplus	225	242	210	440	540	640
Overall Fiscal Deficit	(3,375)	(3,195)	(3,464)	(3,154)	(3,051)	(2,885)
As % of GDP	-8.1	-7.0	-7.4	-6.0	-5.2	-4.4
Overall Primary Balance	(755)	(249)	(544)	(49)	279	700
As % of GDP	-1.8	-0.5	-1.2	-0.1	0.5	1.1

Source: Medium-term Budget Strategy Paper 2021-22 to 2023-24, Finance Division Government of Pakistan

6.2 Medium-term Fiscal Framework 2021-22 – 2023-24 – Khyber Pakhtunkhwa

The summary of medium-term fiscal forecasts for the total receipts is as given in Table 5 shows that the total receipts are expected to grow by 16% over budget estimates of the preceding fiscal year. The transfers from the Federal Government (excluding NMAs) are expected to increase by 17% for the FY2021-22. The Government of Khyber Pakhtunkhwa is committed to enhance provincial OSR and developed an ambitious medium term revenue mobilisation plan. The provincial OSR are projected to increase by whopping 53% in 2021-22 as against the preceding year's budget estimates. The receipts



under NHP currently valued at Rs.22 billion under projected revised estimates for 2020-21, for 2021-22, the same is expected to contribute Rs.78 billion as against budget estimates of Rs.58 billion in 2020-21. Moreover, in case of NMAs, for the current fiscal year, the Government is anticipating receiving 25% less than what was originally pledged under the 2020-21 budget. For 2021-22, annual growth for NMAs receipts is fixed at 38%. The total receipts (settled and NMAs) are projected to increase with an annual average growth rate of 6%.

Table 5: Medium term fiscal forecasts 2021-22 – Total Receipts (Rs in billion)

Head	Budget 2020-21	Projected 2020-21	Budget 2021-22	Forecast 2022-23	Forecast 2023-24
Total Receipts	923	713	1,072	1,102	1,213
Settled	762	592	850	862	973
Federal Transfers	478	457	559	602	688
Provincial Own Source Receipts	49	53	75	85	100
Foreign Project Assistance	86	60	84	90	100
NHP (Profit + Arrears)	58	22	78	75	75
Domestic Borrowing	44	0	44	0	0
Other Receipts	47	0	10	10	10
NMAs	161	121	222	240	240

The growth in provincial OSR has been driven by all six tax collecting departments despite reduction in tax rates to stimulate the economy in post-COVID period. The medium term revenue forecast is based on actual growth recorded during the first ten months of current fiscal year, i.e. 23% in KPRA, 41% in Board of Revenue, 47% in E&T, 43% in mines & minerals, 51% in energy & power etc.

Moreover, the summary of medium-term fiscal forecasts for the total expenditure is as given in Table 6. The current and development expenditure for settled districts during the current fiscal year is anticipated to be lower than the budgeted level by -15% and -20% respectively, due to constraints on receipts side. Similarly, total expenses in case of NMAs is projected to fall below the budgeted level by 29% in 2020-21. For FY2021-22, the total expenditure for both settled and NMAs are projected to increase by 14% and 10% respectively, over the preceding year's budgeted estimates. The medium term projections for the outer years in total expenditure (settled and NMAs) is estimated to grow with an average annual growth rate of 7%. The total expenditure for settled districts is projected to grow in outer years with an average annual growth rate of 7% while for NMAs the same is fixed at 10%.



Table 6: Medium term fiscal forecasts 2021-22 – Total Expenditure (Rs in billion)

Head	Budget 2020-21	Projected 2020-21	Budget 2021-22	Forecast 2022-23	Forecast 2023-24
Total Expenditure	923	747	1,054	1,102	1,213
Settled	739	616	852	902	973
Current Expenditure	517	439	603	640	673
Development Expenditure	222	177	249	262	300
NMAs	184	131	202	200	240
Current Expenditure	88	73	100	110	130
Development Expenditure*	96	58	102	90	110

The projections for total receipts for 2021-22 under three different scenarios are as given in Table 7.

Table 7: Revenue forecast under different scenarios (Rs in billion)

Receipts Heads	Scenario-I	Scenario-II	Scenario-III
Federal Tax Collection	5,000	5,500	5,829
Federal Divisible Pool	408	449	476
1% war on terror	49	54	57
Straight Transfers	26	26	26
Profits from Hydro electricity	15	20	30
NHP Arrears	20	30	48
Provincial Receipts	60	65	75
Domestic Borrowing	40	40	44
FPA	84	84	84
Other Receipts	10	10	10
NMAs Grant	222	222	222
Total Receipts- Settled	934	1,000	1,072

Considering everything else unchanged, the estimated impact of the domestic borrowing on total debt servicing is projected to be in the range of Rs.3 billion to Rs.4 billion per year in the next five years (see Figure-12 at Appendices).

The fiscal space available with the Government for development under three different scenarios is as given in Table 8 below:

Table 8: Fiscal space available for development under different scenarios (Rs in billion)

Receipts Heads	Scenario-I	Scenario-II	Scenario-III
Federal Tax Collection	5,000	5,500	5,829

**BUDGET STRATEGY PAPER FY 2021-2024**

Finance Department, Khyber Pakhtunkhwa

Total Receipts (A)	900	1,000	1,072
Current Expenditure – Settled	603	603	603
Salary	314	314	314
Non-Salary	197	197	197
Pension	92	92	92
Current Expenditure – NMAs	100	100	100
Total Current Expenditure (B)	703	703	703
Fiscal Available for Development (A-B)	197	297	369
Provincial ADP	23	113	149
District ADP	2	12	16
FPA	84	84	84
NMAs Development	102	102	102
Total Expenditure	900	1,000	1,054
Surplus/Deficit	0	0	18



7. Appendices

7.1 Social & Human Development Outlook

According to Pakistan National Human Development Report (NHDR) 2020, in recent years, the province of Khyber Pakhtunkhwa has experienced substantial human development. Income inequality has been on decreasing trend in the province since 2006. However, “the richest 20% of people in Khyber Pakhtunkhwa have a GDP per capita that is four times greater, and an HDI value that is 1.4 times greater, than the poorest 20%”⁴. Income inequality in the province has mainly caused by inequalities in education and income. Similarly, Khyber Pakhtunkhwa has the lowest gap between urban and rural HDIs when compared to other provinces⁵. Moreover, on Child Development Index⁶ (CDI), Khyber Pakhtunkhwa has a second high value (0.533) after Punjab (0.655), though CDI for all provinces except Punjab fell below the national level of 0.575. The trend in overall human development indices at national level as well as for provinces is given in Table 7. However, notwithstanding substantial improvement in overall trend of HDI in KP, the overall status of HDI for Khyber Pakhtunkhwa (2018-19) has been measured as ‘low’ (see Table 8).

Table 9: Trend in Human Development Index

	Adult Literacy index			Life Expectancy index			Per Capita Income index		
	2007	2019	%age Change	2007	2019	%age Change	2007	2019	%age Change
Pakistan	0.507	0.574	13%	0.605	0.648	7%	0.539	0.564	5%
Punjab	0.524	0.620	18%	0.576	0.598	4%	0.537	0.563	5%
Sindh	0.538	0.565	5%	0.547	0.66	21%	0.573	0.593	3%
Balochistan	0.350	0.375	7%	0.669	0.631	-6%	0.514	0.518	1%
Khyber Pakhtunkhwa	0.430	0.497	16%	0.626	0.701	12%	0.484	0.529	9%

Table 10: Status of Human Development 2018-19

Description	Human Dev. Index			Human Development Status
	2006-07	2018-19	%age Change	
Pakistan	0.529	0.570	8%	Medium Human Development
Punjab	0.527	0.572	9%	Medium Human Development
Sindh	0.529	0.574	9%	Medium Human Development
Balochistan	0.470	0.473	1%	Low Human Development
Khyber Pakhtunkhwa	0.491	0.546	11%	Low Human Development

⁴ NHDR 2020, UNDP Pakistan, page 9

⁵ ibid

⁶ CDI is recently being developed and made part of NHDR 2020 to measure inequality pattern to children in Pakistan.



As data in Table 9 shows, MMR in Khyber Pakhtunkhwa is the third highest among provinces with ratio of immunized children (12-23 months) merely above level of the province of Balochistan and below from national level. However, infant mortality rate in Khyber Pakhtunkhwa has improved when compared to other provinces. Similarly, the full immunization coverage in Khyber Pakhtunkhwa is though below national level, however the province has shown enhanced its immunization coverage ratio when compared with Sindh and Balochistan provinces.

With respect to education, overall literacy rate in Khyber Pakhtunkhwa for 2018-19 stood at 57% as compared with national level of 60% and in Punjab as 64%. The female literacy stood at 40% as compared with national ratio of 49%. The NER at primary level in Khyber Pakhtunkhwa has reached to the national level of 66% (excluding NMAs). Considering the lower NER in NMDs, the overall NER for Khyber Pakhtunkhwa including NMDs moved down to 64%.

The incidence of poverty in the province, as measured by multidimensional poverty index (2014-15), stood at 49.2% and is more than national level and that of Punjab and Sindh. The incidence of poverty in erstwhile FATA or NMAs was the largest in Pakistan and valued as 73.7%.

Table 11: Development Outlook / Indicators

	Pakistan	Punjab	Sindh	Balochi stan	KP	KP incl. FATA
Area (in sq. km)	796,096	205,345	140,914	347,190	74,521	101,741
Population (2017 census) in million	207.774	110.012	47.886	12.334	30.523	35.524
Health						
Maternal mortality rate per 1000 live births, 2019	186	157	224	298	n. a	165
% age of children ages 12-23 months that have been immunized (2018-19)	76	84	73	42	71	68
Infant mortality rate per 1000 live births, 2018-19	57.2	73	60	66	53	n. a
Under 5 mortality rate per 1000 live births, 2018-19	69.3	85	77	78	64	n. a
Full Immunization Coverage (%), 2018-19	68	81	50	33	62	n. a
Water & Sanitation						
Access to tap water resources 2018-19	18	12	31	28	25	24
Access to sanitation facilities (toilet with Flush) (2018-19)	80	87	70	41	87	83
Education						
Overall Literacy Rate, 10 yrs & above (2018-19)	60	64	57	40	57	55
Female Population Literacy (%) 10 yrs & above (2018-19)	49	57	44	40	40	n. a



Net Enrolment Rate at primary level % (6-10 years) 2018-19	66	73	58	40	66	64
Population aged 10 and above ever attended school (2018-19) (%)	61	67	57	39	59	56
Poverty (incidence %/headcount)						
Multidimensional Poverty Headcount (%)	38.8	31.4	43.1	71.2	49.2*	n.a
Sources: Pakistan maternal mortality survey 2019, Economic Survey 2019-20, PSLM 2018-19, KP Development Statistics 2020, MPI Pakistan; * (FATA 73.7%)						

7.2 Impact of domestic borrowing over debt servicing

On conservative considerations, the estimated impact of the domestic borrowing on total debt servicing would be in the range of Rs.3 billion to Rs.4 billion per year in the next five years

Figure 12: Impact of domestic borrowing over debt servicing in the next five years (Rs in billion)

