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# **BUDGET STRATEGY PAPER-I 2022-2025**

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**Finance Department  
Government of Khyber Pakhtunkhwa**

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## 1. Preface

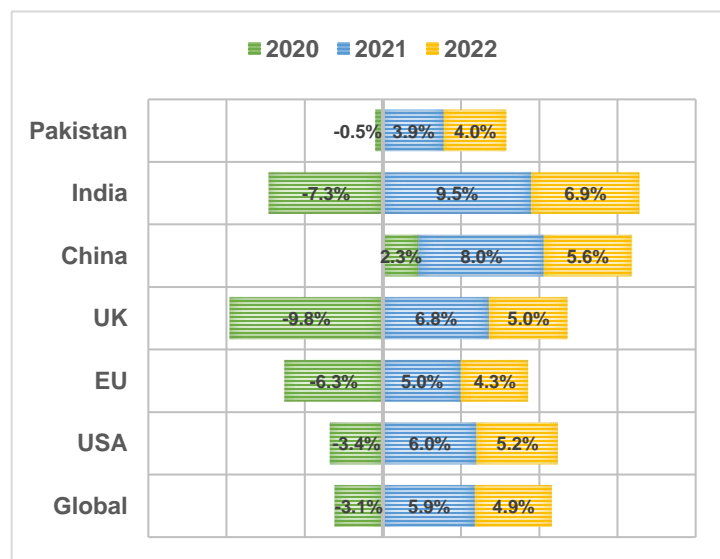
The Budget Strategy Paper (BSP) reflects government policy goals and development priorities for the upcoming government annual budget in relation to overall fiscal outlook. The government budget cycle starts with the formulation of Budget Strategy Paper-I (BSP-I) in December each year. The BSP-I set out the indicative budget ceilings drawn down in the light of Medium-Term Fiscal Framework (MTFF) based fiscal projections. The fiscal projections consider the macro-economic and the provincial economic and current year's fiscal outlook along with projections about federal receipts, provincial revenue and expenditure and financing or investment requirements.

## 2. Global and National Economic Context

The 2020 was an unusual year as everyone was affected by COVID-19 everywhere. Supply and demand shocks to economies resulted in contraction of global economy by 3.1%. The post pandemic global economic recovery continues but the pace has been stifled by variants of COVID-19. Health risks still abounds and breaks in global supply chains resulted in longer than expected supply disruptions thus affecting full recovery. Global unemployment rate is projected at 5.7% for 2022. Risk of uptick in global inflation is on rise due to increase in international freight charges and global commodity prices. Divergence in economic prospects across nations is still a major concern too. The common factor behind multi challenges facing by world economies is the grip of pandemic across the globe and therefore the policy priority is to boost vaccination drive by all and make measures to prevent more virulent virus mutations<sup>1</sup>.

The projected global economic recovery for 2022 is slightly on the lower side as compared with last year's growth of 5.9%. The post pandemic economic recovery has been seen across advanced, emerging and developing economies (see Figure. 1), however, in case of China and India, growth in their economies is projected to decelerate in 2022 as compared with last year's growth. In case of Pakistan, economic

Figure 1: Percent Growth in Output



<sup>1</sup> WEO October 2021, IMF



growth remained in the positive range as against negative growth of 0.5% in 2020 and is expected to grow in 2022 by 4%, slightly up over last year's growth of 3.9% in 2021<sup>2</sup>.

At national level, last year's economic woes were aggravated by unprecedented pervasive pandemic. During the current year, economic resilience and recovery is underway, however, challenges emanating from twin deficits and high inflationary pressures due to heating up of economy are posing risks to recovery. The government has been taking appropriate policy measures to ease off external stress and contain inflationary pressure in the economy. Recently IMF has acknowledged the government's efforts to effectively minimise COVID induced human and macroeconomic repercussions thus leading to economic recovery.

**Table 1: Pakistan Major Economic Indicators**

Major Economic Indicators	2018-19	2019-20	2020-21	2021-22
GDP Growth (%) <sup>1</sup>	2.1	- 0.5	3.9	4.0
Current Account Balance (\$bn) <sup>2</sup>	-13.4	- 4.4	-1.9	- 5.1
Current Account Balance (% of GDP)	- 4.8	- 1.7	- 0.6	- 4.7
Fiscal Surplus/Deficit (% of GDP) <sup>3</sup>	- 8.9	- 8.1	-7.1	-0.8
SBP Policy Rate (%) <sup>4</sup>	12.2	7.0	7.0	8.75
Inflation (%) <sup>5</sup>	8.0	8.6	9.7	11.5

Sources:

1. WEO 2021 IMF, Economic Survey 2020-21
2. State Bank of Pakistan, CAB 2021-22 is for the period of July-October 2021
3. Fiscal Operation MoF, data for 2021-22 pertains to July-September 2021 period.
4. State Bank of Pakistan, Policy Rate as of May 2019; as of June 2020; as of July 2021; and as of 19<sup>th</sup> November 2021.
5. Change in Consumer Price Index end June; Pakistan Bureau of Statistics, CPI 2021-22 as of November 2021.

For FY2021-22, the national economy is on to track to reach the target real economic growth. The economic activity in manufacturing sector as measured by LSM index for July-September 2021-22 has increased by 5.15% YoY basis<sup>3</sup>. However, there are risks to economic growth trajectory posed by increase in domestic inflation triggered by rising international commodity prices, widening of current account balance and pressure on exchange rate parity<sup>4</sup>. The current account posted a deficit of US\$ 5.1 billion (-4.7% GDP) during July-October 2021-22 as compared with surplus of US\$ 1.3 billion (1.4% of GDP) last year. The rising global commodities prices along with uptick in volume of energy and non-energy commodities imports resulted an increase of 66% in total imports while exports grew just by 32.2% during July-October 2021-22. The adverse performance of trade balance has been somehow offset by commendable increase in remittances. During July-October 2021-22, workers' remittances reached \$ 10.6 billion (\$ 9.4 billion last year),

<sup>2</sup> ibid

<sup>3</sup> QIM July – September 2021-22, PBS

<sup>4</sup> Economic Outlook November 2021, Ministry of Finance (MoF)



increased by 11.9 percent. Workers' remittances continued their unprecedented streak of above US\$ 2.0 billion for the 17<sup>th</sup> consecutive month till October 2021<sup>5</sup>. Pakistan's total liquid foreign exchange reserves stood at US\$ 22.8 billion with the SBP's reserves recorded at US\$16.2 billion, while commercial banks' reserves remained at US\$ 6.5 billion<sup>6</sup>.

Moreover, inflation as measured by Consumer Price Index (CPI) stood at 11.5% on YoY basis in November 2021 against 8.3% in November 2020. Pakistan, as net importer of food items, has also been affected by high global food prices caused by supply disruptions, The government has already announced PKR 120 billion package, jointly funded by the Federal and Provincial governments which will provide a 30% discount on ghee, flour and pulses to 130 million deserving people<sup>7</sup>. Similarly, acknowledging the importance of containing the pressures exerted on economic growth from external accounts and inflation, SBP also increased its Policy Rate by 150 basis points to 8.75% in November 2021<sup>8</sup>.

On the fiscal side, the federal government's fiscal deficit has been on the lower side during the first quarter of 2021-22 and stood at 0.8% of GDP as compared with 1.1% of GDP same period last year. The primary balance (revenue – expenditure excluding interest payments) is also in surplus, though in term of GDP it's on the lower side (0.3% of GDP) against last year level (0.6% of GDP). During the first quarter FY2021-22, the growth in revenue outpaced the rise in expenditure. Total consolidated revenue increased by 22.3% primarily driven by 36.6% increase in consolidated tax collections. On the other hand, total expenditure increased by 14.5%, mainly on the back of 23% rise in development expenditure and net lending. Similarly, the cumulative surplus of all provinces (PKR 277 billion) remained on the higher side as compared with last year's level (PKR 44.4 billion) during same period.

During July-October 2021-22, FBR tax collection surpassed its target for the period by 14.7%. The provisional net collection grew by 36.8% to reach PKR 1,842.9 billion during July-October 2021-22 against PKR 1,347.5 billion in the same period of last year<sup>9</sup>.

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<sup>5</sup> <https://www.sbp.org.pk/ecodata/Homeremit.pdf>; Economic Outlook November 2021, MoF

<sup>6</sup> [www.sbp.org.pk/ecodata/forex.pdf](http://www.sbp.org.pk/ecodata/forex.pdf). Forex reserves as on November 25, 2021

<sup>7</sup> Economic Outlook November 2021, MoF

<sup>8</sup> [https://www.sbp.org.pk/m\\_policy/2021/MPS-Nov-2021-Eng.pdf](https://www.sbp.org.pk/m_policy/2021/MPS-Nov-2021-Eng.pdf)

<sup>9</sup> Economic Outlook, November 2021, MOF



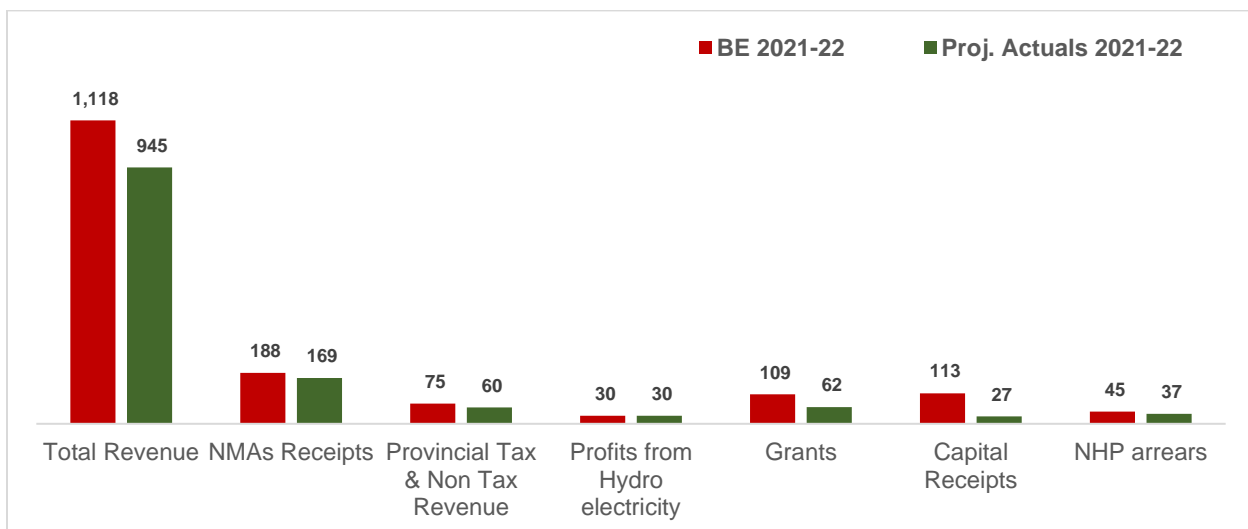
### 3. Provincial Budget (2021-22) Performance

#### Budget Receipts

The projections for total receipts during FY 2021-22 based on actual receipts so far shows materialization of less than budgeted level of PKR 1,118 billion by 15%. Transfer from the Federal Divisible Pool is expected to be 6% less than the budgeted amount of PKR 559 billion. The provincial own receipts and receipts for merged areas would also missing the desired budgeted levels by 20% and 10% respectively.

Based on the available actual data for FY 2021-22, receipts under federal tax assignment for the year is expected to end up at PKR 444 billion which is 7% less than the budgeted amount for the whole current financial year. Similarly, straight transfers and receipts under 1% war on terror heads are also expected to be less than the budgeted targets by 2% and 7% respectively.

**Figure 2: Budgeted vs Actual FY 2021-22 (PKR in billion)**



With respect to merged areas' developmental and non-developmental receipts, the existing data shows an expected shortfall of 11% and 9% respectively and would result in cumulative shortfall of PKR 18.2 billion against the budget amount of PKR 188 billion for current financial year.

The provincial own source revenues are expected to be lower than the budgeted target (PKR 75 billion) by PKR 15 billion during the current financial year. Provincial tax revenues are projected to be short of the budgeted target (PKR 43.2 billion) by 17% mainly due to less than budgeted receipts under excise duties and motor vehicle tax. Similarly, provincial non-tax revenues are also expecting to miss the budgeted target of PKR 31.8 billion by 25% (shortfall of PKR 8 billion).

Receipts under profits from hydel electricity is going to meet the budgeted level of PKR 29.7 billion. On the other hand, based on decline in actual receipts under federal PSDP

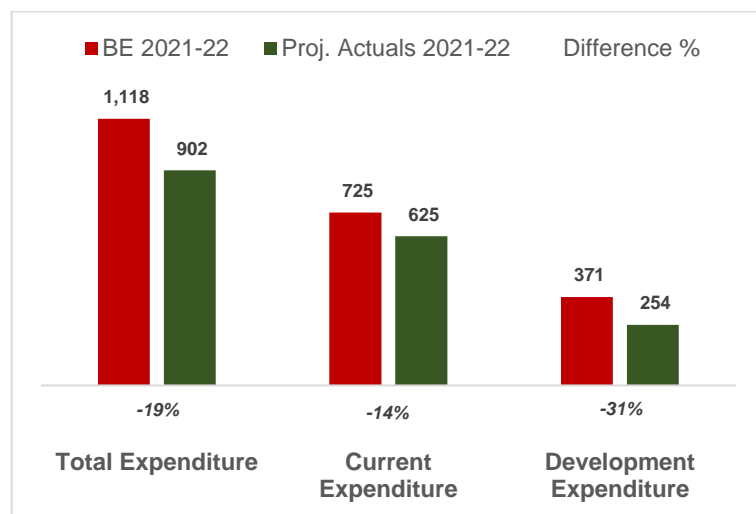


and foreign grants, the budgeted amount of PKR 109 billion under the total grant head is anticipated to miss the target massively by 43% by end of June 2022. Receipts under NHP arrears is expected to be at PKR 37.1 billion against the budgeted level of PKR 45 billion, thus missing the desired target by 18%. Moreover, due to non-materialization of receivables under dormant accounts (PKR 4.6 billion) and domestic debt (PKR 44 billion), the capital receipts during FY 2021-22 are expected to miss the budgeted target (PKR 112.8 billion) by 76%.

### Total Budget Expenditure

The projected decline in the total expenditure during FY2021-22 stood at 19% and would be on the higher side when compared to projected decline in total receipts. Based on the available budget data, both current and development expenditure are going to end up below the budgeted level thus would culminate in budget surplus of PKR 43.5 billion by end of June 2022.

**Figure 3: Budgeted vs Proj. Actual Expenditure FY2021-22 (PKR in billion)**



### Current Expenditure

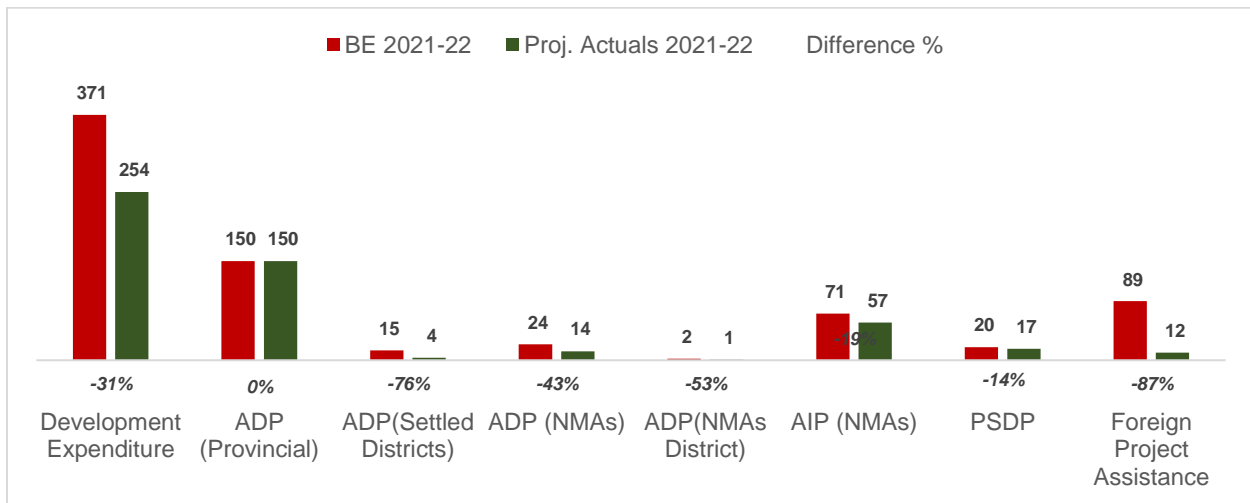
The projected difference between budgeted and projected actual in current expenditure is 14% (PKR 100 billion), contributed by decline in current expenditure of settled areas as well as that of merged areas. The projected actual current expenditure in FY2021-22 for settled areas would be 11% less than the budgeted level of PKR 430.1 billion while in case of merged areas, the negative gap between budgeted and actual current expenditure would be 32%. The negative gap between budgeted and actual total current expenditure has contributed in lower than budgeted growth on non-salary accounts in both settled and merged areas. Moreover, transfer to local government is also expected to fell short of budget level (PKR 196 billion) by PKR 20 billion during FY2021-22. Also, capital expenditure is expected to remain in the budgeted target of PKR 22.3 billion.



## Development Expenditure

During the current financial year, available fiscal is going to be below the budgeted estimate of PKR 371 billion by 20%. Therefore, the development expenditure is going to remain below the budgeted level by 31%. With no projected change in the provincial ADP, the decline in the development expenditure would mainly be contributed by below budgeted level development expenditure in case of settled district ADP (76%), ADP for merged areas (43%) and NMAs district ADP (53%). Public investment under AIP for merged areas is projected to be on the lower side of budgeted level (PKR 70.6 billion) by 19%. Shortfall in PSDP and FPA is also projected to the tune of 14% and 87% respectively.

**Figure 4: Budgeted vs Projected Development Expenditure FY 2021-22 (PKR in billion)**



## 4. Medium Term Fiscal Forecast

Based on the projected federal tax collection of 6,500 billion for FY 2022-23, the federal transfers are projected with 11.1% growth for FY2022-23 at PKR 621 billion. The Khyber Pakhtunkhwa's own source revenue is projected to increase by 12% to PKR 84 billion in FY2022-23 against PKR 75 billion during the current financial year. Similarly, provincial own tax and non-tax revenues are projected to increase by 15.4% and 7.5% respectively in FY 2022-23 from the current year's level. The projected increase in the provincial tax revenue is going to be broad based and contributed by all main tax heads with growth rates in the range of 17% to 36%.

With an aim to balancing the budget, current expenditure is projected to increase by 9.7% while development expenditure is projected on the lower side (reduction of 9.3%) for FY2022-23 against the current year budget estimates of PKR 371 billion. The downward adjustment is projected mainly on account of provincial ADP for FY2022-23 to the tune of PKR 50 billion against the current level of PKR 150 billion.

The projected MTF for FY2022-23 and outer years has been given in Table.2





**Table 2: Medium Term Fiscal Framework FY 2022-25, Khyber Pakhtunkhwa**

Major Heads	BE 2021-22	Proj. Actuals 2021-22	Forecast 2022-23	Forecast 2023-24	Forecast 2024-25
<b>Total Revenue</b>	<b>1,118,309</b>	<b>945,187</b>	<b>1,154,000</b>	<b>1,257,228</b>	<b>1,357,959</b>
Federal Transfers	559,257	522,933	621,182	690,689	738,625
NMAs Receipts	187,588	169,407	200,250	214,145	229,406
Provincial Tax & Non Tax Revenue	75,000	60,000	84,000	105,789	134,239
<i>Provincial Tax Receipts</i>	43,189	36,000	49,819	59,844	71,934
<i>Provincial Non-Tax Receipts</i>	31,811	24,000	34,181	45,945	62,304
<i>Profits from Hydro electricity</i>	29,674	29,674	28,208	29,618	31,099
Grants	108,993	61,715	115,633	122,736	130,340
Capital Receipts	112,770	27,302	96,778	94,250	94,250
NHP arrears	45,027	37,078	7,949	-	-
<b>Total Expenditure</b>	<b>1,118,309</b>	<b>901,664</b>	<b>1,154,000</b>	<b>1,257,228</b>	<b>1,357,959</b>
Current Expenditure	725,000	624,922	795,266	825,192	885,386
<i>Settled</i>	430,078	381,437	478,045	484,313	517,406
<i>NMAs</i>	99,000	67,764	109,957	121,814	135,815
Transfer to Local Government	195,922	175,721	207,264	219,065	232,165
Capital Expenditure	22,300	22,300	22,300	22,300	22,300
<b>Fiscal Space</b>	<b>371,009</b>	<b>297,965</b>	<b>336,434</b>	<b>409,736</b>	<b>450,272</b>
Development Expenditure	371,009	254,442	336,433	409,736	450,272
<i>ADP (Provincial)</i>	150,000	150,000	100,000	150,000	170,000
<i>ADP(Settled Districts)</i>	15,000	3,639	20,000	30,000	34,000
<i>ADP (NMAs)</i>	24,000	13,685	24,000	26,666	29,167
<i>ADP(NMAs District)</i>	2,400	1,132	4,800	5,333	5,833
<i>AIP (NMAs)</i>	70,616	57,105	72,000	75,000	80,932
<i>PSDP</i>	19,841	17,139	22,023	24,446	27,135
<i>Foreign Project Assistance</i>	89,152	11,742	93,610	98,290	103,205
<b>Total Revenue</b>	<b>1,118,309</b>	<b>945,187</b>	<b>1,154,000</b>	<b>1,257,228</b>	<b>1,357,959</b>
<b>Total Expenditure</b>	<b>1,118,309</b>	<b>901,664</b>	<b>1,154,000</b>	<b>1,257,228</b>	<b>1,357,959</b>
<b>Surplus /Deficit</b>	<b>-</b>	<b>43,523</b>	<b>0</b>	<b>0</b>	<b>0</b>



## **5. Indicative Budget Ceilings**