



Islamabad
Policy Institute
Supporting Dialogue for Peace & Development

POST-BUDGET ANALYSIS

FY20: The known unknown

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The main highlights of the FY20 budget are as follows:

- The **exorbitant tax target** is the main theme of the FY20 Budget. Documents reveal that Sales Tax, Income Tax and Customs Duties are expected to contribute approximately 44%, 30% and 19% respectively to the additional revenue of Rs1,405bn (34% increment over FY19).
- **Primary deficit** is another hot topic ahead of the budget. IMF seems to be fully cognizant of the gravity of our debt obligations: almost half of the FY20 budgeted current expenditure will have to be spent on interest payments on debt (which are 45% higher than in FY19).
- In the same context, if we keep aside interest payments, we are left with two choices to manage public finances: increasing revenues or cutting expenditures. **It seems that the expenditure side has seen no material control**. For instance, there has been a 74% increase in **grants**, which will set the government back Rs353bn. The **PSDP** target has been set at 701bn (with claims of an additional ~Rs224bn to be raised through “*innovative financing*”) against Rs500bn in FY19. While the **Defence** budget has seen no increments, it is already at historic highs. It is also worth mentioning that while **civil expenditures** have been cut through salaries, it begs one to wonder the overall impact of a few salary cuts.

Consolidated Fiscal Projections					
(%)				Forecast	
	FY19 B	FY19 R	FY20 B	FY21	FY22
Real GDP Growth	6.2	3.3	2.4	3.0	4.5
Inflation	6.0	7.2	11-13	8.3	6.0
as % of GDP					
Total Revenue	16.3	14.5	16.7	18.3	19.2
Tax Revenue	13.9	12.6	14.4	16.0	17.0
FBR Tax Revenue	11.6	10.8	12.6	14.2	15.1
Non Tax Revenue	2.4	1.9	2.3	2.3	2.2
Total Expenditure	21.2	21.7	23.8	23.4	22.8
Current	16.5	18.3	20.2	19.7	19.0
Development	4.7	3.4	3.6	3.7	3.8
Fiscal Balance	-4.9	-7.2	-7.1	-5.1	-3.6
Total Public Debt (Net)	63.3	72.0	73.0	71.3	67.3
GDP at market prices (Rs bn)	38,388	38,559	44,003	49,568	55,380

Source: Ministry of Finance (MoF)

- With respect to **privatization**, Mr. Hammad Azhar categorically stated in his speech that US\$2bn would be raised from the sale of two LNG plants while over US\$1bn would be raised through an international joint venture in Pakistan Steel Mill and renewal of telecom licences.
- As far as **financing the fiscal deficit** goes, privatisation proceeds of Rs150bn (~US\$1bn) would be used. Moreover, external financing will outweigh domestic sources in terms of financing the fiscal deficit, as per budget documents. Within domestic borrowings, there will be more reliance on non-banking sources and the recent uptick in NSS flows is a reflection of the same.
- Additional Customs Duties have been increased on non-essential items, which is a welcoming step. Nevertheless, we wish there were more concrete steps to **curtail imports**. Otherwise cutting the Current Account Deficit by half would be a daunting task.
- Two frightful (but honest) revelations in the budget have been the **2.4% GDP growth target** and the **double digit inflation target (11-13%)**. Given that we have a history of missing both, the government could face serious political repercussions.
- In terms of information, **equity markets** have crossed yet another milestone. However, the implications of the budget are yet to unfold. The above two projections are alone enough to paint a picture of the times to come.

Fiscal Summary			
(Rs bn)	FY19 B	FY19 R	FY20 B
Tax Revenue	4,889	4,394	5,822
Non Tax Revenue	772	638	894
Gross Revenue Receipts	5,661	5,032	6,717
Provincial Share	2,590	2,463	3,255
Net Revenue Receipts	3,070	2,569	3,462
Current Expenditure	4,179	4,661	6,193
PSDP –Federal	800	500	701
Other Dev. Expenditure	180	163	86
Federal Deficit	(2,176)	(2,822)	(3,574)
Provincial Surplus	286	59	423
Consolidated Deficit	(1,890)	(2,763)	(3,151)

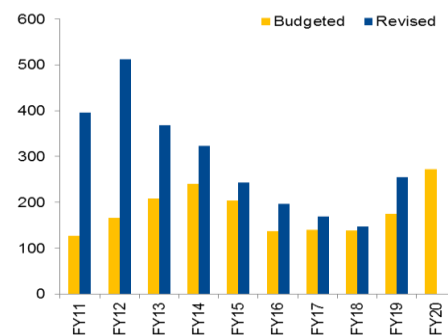
- Prime Minister Imran Khan addressed the nation late into the night where he delivered his signature speech with some additions, the most noteworthy being setting up a **high powered commission** to enquire the enormous debt accumulated in the past decade.
- In our view, the best of the budget was seen in the **Real Estate sector**. In an unprecedented move worthy of applause, the sector has undergone a paradigm shift. Revision of the official valuations, extension of the holding period for applicability of the Capital Gains Tax and, most importantly, requirement that transactions over Rs5mn be carried out through banking channels are all steps that could go a long way. Nevertheless, we hope and pray that the government does not backtrack on these measures.
- **Consolidated Fiscal Analysis**

Revenues			
(Rs bn)	FY19 B	FY19 R	FY20 B
FBR Taxes	4,435	4,150	5,555
Direct Taxes	1,735	1,659	2,082
Income Taxes	1,710	1,652	2,073
Others	25	7	9
Indirect Taxes	2,700	2,491	3,473
Custom Duties	735	735	1,001
Sales Tax	1,700	1,490	2,108
Federal Excise Duty	265	266	365
Other Taxes	454	244	267
GIDC	100	25	30
GDS	16	8	10
Petroleum Levy	300	203	216
Others	38	8	11
Total Tax Revenue	4,889	4,394	5,822

Expenses			
(Rs bn)	FY19 B	FY19 R	FY20 B
Markup Payment	1,620	1,987	2,891
Domestic Debt	1,391	1,682	2,532
Foreign Debt	229	306	360
Pension	342	342	421
Defense	1,100	1,138	1,153
Grants / Transfers	478	478	831
Subsidies	175	255	272
Civil Government	463	460	431
Total Current Expenditure	4,179	4,661	6,193

Subsidies (Rs bn)	Revised										Budgeted
	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	
WAPDA / PEPCO	295.8	419.0	265.0	245.1	185.0	117.8	102.6	81.5	189.9		191.0
KEL	47.3	45.2	84.3	64.3	36.0	53.4	15.4	33.5	40.5		59.5
USC	4.2	2.0	6.0	6.0	10.3	5.0	7.0	4.0	6.0		5.5
PASSCO	2.9	18.7	6.2	6.5	10.9	10.0	18.6	17.5	18.3		15.5
Food & Research	-	-	-	-	-	10.0	25.1	10.8	-		-
Others	45.6	27.3	6.0	1.1	1.1	0.3	0.3	0.3	0.3		-
Total Subsidies	395.8	512.3	367.5	323.0	243.2	196.5	169.0	147.6	255.0		271.5

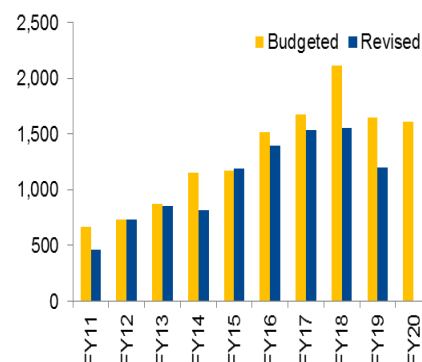
Subsidies: Budgeted vs Revised (Rs bn)



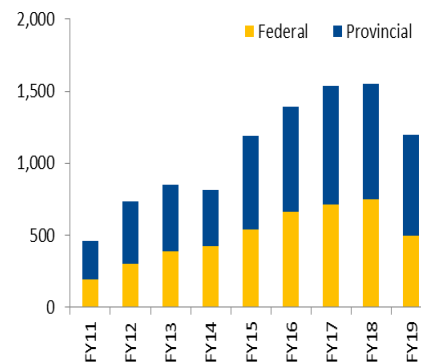
Public Sector Development Programme (PSDP)

PSDP (Rs bn)	Budget	Revised	Budget
	FY19	FY19	FY20
Federal Ministries	420	243	348
Corporations	246	211	198
Pak SDGs & Community Development Programme	5	24	24
Special Federal Development Programme			
Energy for All			
Clean Green Pakistan Movement / Tourism	-	-	2
ERRA	9	7	5
Special Provision for CPEC Projects	5	-	-
FATA 10 Year Plan	10	10	48
Relief and Rehabilitation of IDPs	45	5	17
Security Enhancement	45	-	53
Prime Minister's Initiative	10	-	5
GIDC	5	0	1
Federal PSDP	800	500	701
Provincial PSDP	850	700	912
Total PSDP	1,650	1,200	1,613

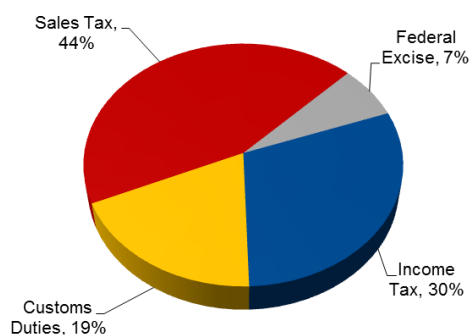
PSDP: Budgeted vs Revised (Rs bn)



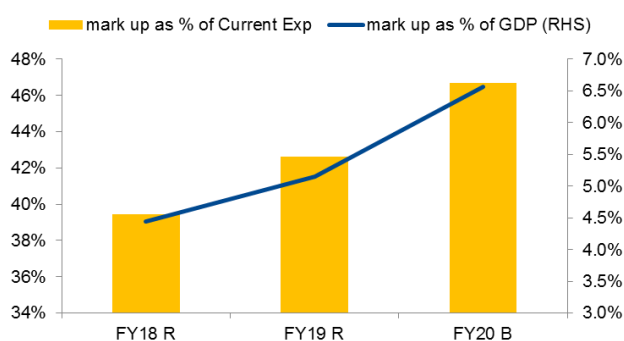
PSDP: Historical Allocation (Rs bn)



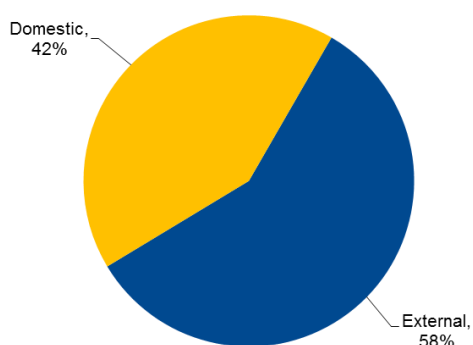
Rs1,405bn breakdown



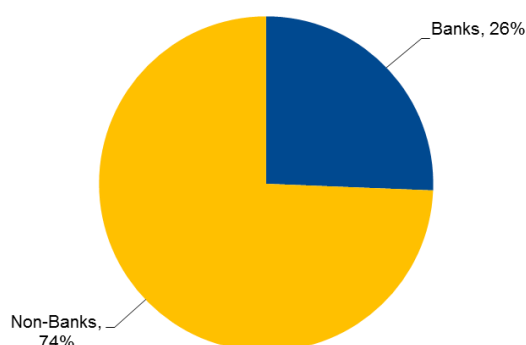
Interest payments



Fiscal deficit financing mix



Domestic funding sources



Real Estate

- Immovable property of value of more than Rs5mn would be required to use banking instruments for the purpose of payments. Any non-compliance of the said would result in penalty of 5% on FBR value of the asset.
- FBR rates of immovable properties to be taken up to 85% of actual market value.
- WHT on purchase of immovable properties would be reduced from 2% to 1%.
- For holding period between 1 to 10 years, capital gains tax on immovable properties would be charged at 75% of the income and on normal income if sold within a year.
- For open plots, capital gains tax will be charged on 100% income for holding period of up to 10 years.

Tax rate of 3% on differential amount between DC rate and FBR rate of immovable properties to opt out of explaining source of investment is being withdrawn.

Tax on Salaries

Previous slabs (Rs.)			
400,001	800,000	1,000	
800,001	1,200,000	2,000	
1,200,001	2,400,000	0	plus 5% of the amount exceeding Rs1.2mn
2,400,001	3,000,000	60,000	plus 15% of the amount exceeding Rs2.4mn
3,000,001	4,000,000	150,000	plus 20% of the amount exceeding Rs3mn
4,000,001	5,000,000	350,000	plus 25% of the amount exceeding Rs4mn
5,000,001		600,000	plus 29% of the amount exceeding Rs5mn
Revised slabs (Rs.)			
600,000	1,200,000		5% of the amount exceeding Rs. 600,000
1,200,000	1,800,000	30,000	plus 10% of the amount exceeding Rs. 1,200,000
1,800,000	2,500,000	90,000	plus 15% of the amount exceeding Rs. 1,800,000
2,500,000	3,500,000	195,000	plus 17.5% of the amount exceeding Rs. 2,500,000
3,500,000	5,000,000	370,000	plus 20% of the amount exceeding Rs. 3,500,000
5,000,000	8,000,000	670,000	plus 22.5% of the amount exceeding Rs. 5,000,000
8,000,000	12,000,000	1,345,000	plus 25% of the amount exceeding Rs. 8,000,000
12,000,000	30,000,000	2,345,000	plus 27.5% of the amount exceeding Rs. 12,000,000
30,000,000	50,000,000	7,295,000	plus 30% of the amount exceeding Rs. 30,000,000
50,000,000	75,000,000	13,295,000	plus 32.5% of the amount exceeding Rs. 50,000,000
More than 75,000,000		21,450,000	plus 35% of the amount exceeding Rs. 75,000,000

Changes in tax on Profit on Debt		
	Revised	Previous
Where profit on debt does not exceed Rs.5,000,000	15%	10%
Where profit on debt exceeds Rs.5,000,000 but does not exceed Rs.25,000,000	17.5%	12.5%
Where profit on debt exceeds Rs.25,000,000 but does not exceed Rs.36,000,000	20%	15%