FEDERAL BUDGET 2006-07

Qazi Mohammad Salman
College of Management Sciences
PAF-Karachi Institute of Economics & Technology
E-mail: qazi@pafkiet.edu.pk

The Federal budget 2006-2007 presented in the National Assembly is totaled at PKR 1315 billion. This is 19.7% higher than the Federal Budget 2005-2006. For FY06, the revised fiscal deficit was PKR 328 billon. This is expected to increase to about PKR 394 billion in FY07. This, it is estimated will approximate 4.5 percent of the GDP. It is assumed that the government will achieve a growth rate target of 7 percent and inflation target of 6.5 percent during FY 2006 – 2007.

The main factor underlying the FY 07 budge deficit will be a 60 percent increase (over budgeted figures of FY06) in the level of development expenditures. A major part of this development expenditure will be spent on arthquake relief and rehabilitation efforts.

There is also expected to be a decline of more than 2 percent in net revenue receipts during FY 2007, which has also contributed to this increased expected deficit. The expected decline in net revenue receipts is mainly due to a decline in non-tax revenue receipts.

According to the SPDC, the budget deficit increases if we follow the IMF methodology. The budget deficit will cross the government's recommended ceiling of 4 percent of GDP. The increase in the budget deficit illustrates that the government is pursuing an expansionary fiscal policy which is at variance with the tight money policy instituted by the State Bank since the second quarter of FY 2006.

The government is facing a dilemma. On the one hand, there is a commitment to increase development expenditures as this is expected to reduce poverty and increase Pakistan's HDI ratings. However, a large increase in PSDP will create fiscal imbalances. According to the SPDC, this dilemma can only be resolved if expenditures are restructured and government revenue is increased significantly. According to the SDDC the FY 2007 budget does not represent a more in this direction.

Overall Picture

Resources have increased in the FY 07 budget by 12.16 percent over FY06 budgeted values but by only 2.23 percent over revised FY06 values. Revenue receipts have shown an increase of 9.56 percent over budgeted figures for FY06 but are expected to decline by 2.33 percent over revised figures. Capital receipts are expected to decline by 67.59 percent over budgeted and 12.59 percent over revised figures for FY06. Financing by provinces for the public sector development program is expected to increase by 108.83 percent over budgeted figures but only 14.70 percent over revised figures for FY06. Provincial cash balance shows an increase of 60.87 percent and 99.15 percent over budgeted and revised figures for FY06. External revenue is up by 12.68 percent over budgeted figures for FY06; however, the rise is expected to be only 2.31 percent over revised figures for FY 2006. Expenditure is expected to increase by 19.69 percent and 6.68 percent over budgeted and revised figures respectively. Current expenditures are expected to decline by 4.25 percent over revised figures for FY06; while, development expenditures is expected to increase. Proceeds from privatization will increase by a massive 275 percent over the budgeted figures for FY06. However, the Privatization receipts quadrupled over anticipated levels during FY 07. They are expected to decline by. So a decline of 16.67 percent against revised figures of FY06. Bank borrowing is expected to increase by 42.90 percent over targeted and 109.59 percent over revised figures for FY06.

Revenues

Tax Revenue is expected to increase by 20.12 percent over FY06 budgeted and 17.49 percent over FY06 revised figures. Of overall revenue, direct taxes are expected to rise by 21.17 percent over budgeted FY06 figures. Non-tax revenue are expected to decline 21.21 percent over revised figures for FY06. The main decline is expected in receipts from civil administration and the Others categories (over 44 percent in comparison to revised figures for FY06). Net revenue receipts are expected to fall by 2.33 percent over revised figures for FY06.
In FY07, CBR tax revenues are projected to increase to Rs. 829 billion from Rs. 704 billion in FY06. This is higher than the expected increase in nominal income during FY07 (about 13.5 percent). But, given the low tax ratio, the tax-to-GDP ratio would only increase by 0.5 percent, which is not satisfactory. According to SPDC, the Tax effort should be intensified. This is particularly important for financing the poverty alleviation programmes. Initiatives like Capital Value Tax on property deals are not likely to increase the overall tax collection performance significantly. Worker Welfare Tax is expected to rise 81.8 percent over FY 06. Foreign Travel Tax is expected to increase by 35.56 percent.

The large fall in the non-tax revenue can be attributed to a decline in the income from property and receipts from civil administration and Other functions. Receipts from Defense are down by almost 80 percent over revised figures for FY06. Profits from government enterprise are also down by 45.23 percent over revised figures for FY06.

The provincial share in sales tax is to be reduced by 7.7 percent. Additionally one sixth of sales tax shall be distributed amongst the provinces to be given to district governments and cantonment boards.

Expenditures

General Public Service Expenditures is expected to fall by 10.53 percent over the revised figures for FY06. The biggest increase is in housing and amenities that have increased by 16.72 percent over revised FY06 figures. The biggest decline is in education. This is expected to fall by 88.74 percent over revised FY06 figures. Overall expenditures are expected to decrease by 4.25 percent over revised FY06 figures. It is inevitable that the current expenditure will exceed the projections, as has been the case for many years.

The composition of development expenditures is as follows: 62.1 percent of all development expenditures will be on infrastructural development. This is especially important, as the earthquake of October 8th 2005 has virtually destroyed the infrastructure in many northern areas of the country and in Azad Kashmir. For this purpose, 11.5 percent of the development expenditure budget has been allocated for earthquake related development. Of this 62.1 percent, the lion's share will be spent on WAPDA and Pakistan Atomic Energy Commission. 27.4 percent of the development budget will be spent on social development with special emphasis on higher education.

Special relief and subsidies will be provided for power, fuel, food, fertilizer, bait-ul-mal and pay/pension relief. A total of Rs. 109,000 million have been allocated for this purpose.