IBA Institute of Business Administration Karachi

*Leadership and Ideas for Tomorrow*

# Policy Response During Challenging Times

## Insights From The Federal Budget 2020-21 and the Way Forward

**S Akbar Zaidi | Asma Hyder | Qazi Masood | Wali Ullah**
**Muhammad Sabir | Adnan Haider | Aadil Nakhoda | Asif Iqbal**

# POLICY RESPONSE DURING CHALLENGING TIMES:

## *Insights from the Federal Budget 2020-21 and the Way Forward*

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# Foreword

Pakistan's Fiscal Year 2019-20 ending on 30 June 2020, has been the worst in seventy years in terms of economic performance. Early estimates suggest that the GDP growth rate for the year was minus 0.4 percent. The coronavirus or COVID-19 pandemic, which started in February 2020, as in almost every single country, has had a highly significant impact on Pakistan's economy. While this is certainly true, one must also recognize the fact that Pakistan's economy had not been doing particularly well since 2018. After a twelve-year high of a 5.8 percent GDP growth rate in the Fiscal Year 2017-18, the GDP fell to 1.9 percent in FY19. The downward trend in the economy, which started in July 2018, has only been much exacerbated after March 2020.

Despite the trends before COVID-19, the last quarter of FY20 has, and will further, dominate whatever happens in the current Fiscal Year, FY21. The Federal Budget announced and approved in June was expected to set the tone for an economy that was devastated by the pandemic. All evidence has suggested that with the closure of Pakistan's – and the global – economy, Pakistan's manufacturing sector and retail and wholesale trade along with transport, were all hit very hard. Moreover, unrelated to COVID-19 was the fear that Pakistan's agricultural output would be hit hard by a locust attack. With all sectors of the economy suffering and vulnerable, the impact on employment and poverty has been estimated to be considerable. Moreover, given the lockdown in the country for many weeks since March 2020, the informal workers, the self-employed, and the vulnerable have been most exposed to the pandemic. And these factors do not even take cognizance of the health consequences of the pandemic, which have exposed the severe vulnerabilities in a poorly maintained, in an egalitarian, system.

Given this background, it was hoped that the Budget for FY 21 would be innovative and daring, and that attempts would be made to provide extensive relief and support to the swathes of the vulnerable population. Apart from providing such support, in terms of responding to this crisis, it was also hoped that like many other countries, Pakistan too would take bold measures with strong expansionary fiscal and monetary policies to take the country out of its current economic predicament. Being strait-jacketed in a dire IMF program with its conditionalities – albeit, some loosened for the moment – has not helped either.

As the chapters in IBA's **Policy Response During Challenging Times: *Insights From The Budget 2020-21 and the Way Forward***, reveal, our expectations have been highly disappointing and unfortunately, all evidence at this stage suggests, that Pakistan's economy in the current fiscal year will continue to be in the trough it currently lies in. If the pandemic ends or is contained as is expected, the GDP will certainly rise from the low minus 0.5 percent to an anticipated 1.8 percent, but we do not expect either employment to rise appreciably or poverty rates to fall markedly. Moreover, the Budget for FY21 could have been a great opportunity to rethink policy and address structural issues. Crises allow a rare opportunity to make drastic changes. This great opportunity has been lost, and deep changes in the social and economic structure, far beyond cosmetic tinkering should have been undertaken. Sadly, we have not moved ahead and are still stuck deep in the trough we have put ourselves into.

The analyses presented in this report cover various aspects of Pakistan's macroeconomic policy. Chapter 1 provides an overview of the Federal Budget 2020-21. The issues discussed include resource mobilization strategy and its implications of COVID-19 on revenues, public expenditure priorities and relief measures, causes of high fiscal deficit in FY 20, the scope of fiscal stabilization during FY 21, and implications of the budget on intergovernmental fiscal transfers. The future landscape of the economy is presented in Chapter 2, which provides econometric projections of key macroeconomic indicators such

as GDP, private investment, consumption expenditures, exports, imports, and price level. The performance of the export sector is analyzed in Chapter 3, which focuses on the prospects of regaining the trade competitiveness in the post-COVID-19 scenario. The issues related to poverty and pro-poor budgeting are dealt with in the last chapter, which provides estimates of the incidence of poverty and projections for the next year due to the pandemic shock. It also examines the efficiency of *Ehsas* program and adequacy of the recent relief measures in response to the pandemic. It is hoped that all the stakeholders including policymakers, parliamentarians, academicians, development practitioners, researchers, civil society activists, and the business community will benefit from the in-depth analyses presented in this report.

S Akbar Zaidi
Executive Director
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# List of Abbreviations

| | |
|---|---|
| BISP | Benazir Income Support Program |
| CPEC | China Pakistan Economic Corridor |
| EFF | Extended Fund Facility |
| EU | European Union |
| FATA | Federally Administered Areas |
| FBR | Federal Bureau of Revenue |
| FY | Fiscal Year |
| GDP | Gross Domestic Product |
| GoP | Government of Pakistan |
| HIES | Household Income and Expenditure Survey |
| IBA | Institute of Business Administration |
| IMF | International Monetary Fund |
| KPK | Khyber Pakhtunkhwa |
| MNC | Multinational Companies |
| NADRA | National Database and Registration Authority |
| NDMA | National Disaster Management Authority |
| NFC | National Finance Commission |
| NSER | National Socio-Economic Registry |
| OLS | Ordinary Least Squares |
| OPM | Oxford Policy Management |
| PEPCO | Pakistan Electric Power Company |
| PKR | Pakistani Rupee |
| PPAF | Pakistan Poverty Alleviation Fund |
| PSDP | Public Sector Development Program |
| RCA | Revealed Comparative Advantage |
| SBP | State Bank of Pakistan's |
| TDAP | Trade Development Authority of Pakistan |
| UK | United Kingdom |
| USA | United States of America |
| USD | US Dollars |
| UV | Unit Values |
| WAPDA | Water & Power Development Authority |

# Chapter 1

# ANALYSIS OF THE BUDGET FY21

## Introduction

The federal budget 2020-21 was presented in the backdrop of a complex macroeconomic situation as the country has been riddled with high and unsustainable fiscal deficit along with negative GDP growth and burgeoning inflation. Further, the COVID-19 pandemic severely affected the fiscal outcomes. It has caused a decline in the tax base due to lockdown and affected investment by creating future uncertainties. Simultaneously, it has created a demand for an expenditure stimulus to protect daily wagers vulnerable segments of society, those who have been affected the most by the pandemic.

Before the budget, the federal government announced a fiscal stimulus namely "*Ehsass*" program to provide much-needed relief to the vulnerable population. It also announced a package for the construction sector to boost both formal and informal employment and reduced petroleum product prices. Simultaneously, the government asked the International Monetary Fund (IMF) for an emergency balance of payment support and requested debt relief on foreign loans to international donors. Most of these programs were implemented before the announcement of the budget but will continue to have profound implications on the fiscal health during FY20. As per the government's claim, the Budget 2020-21 is a tax-free budget, which contains grants, subsidies, and other relief measures.

In this backdrop, this section provides an overview of the budget by digging deeper into the resource mobilization strategy and implications of COVID-19 on revenues. It also analyses the public expenditure priorities of the government before and after the COVID-19. The analysis contains the magnitude of resources spent on relief measures including *Ehsass* program, grants, and subsidies. It also highlights the causes of high fiscal deficit in 2019-20 (FY20) and the scope of fiscal stabilization during FY21 and provides an overview of the financing of fiscal deficits and its potential implications on the economy. Finally, it reviews the implication of the federal budget on intergovernmental fiscal transfers.

## Resource Mobilization Performance during the Challenging Times

Table 1.1 shows a comparison of the target and actual collection of gross revenue receipts and its components from FY15 to FY20. During, this period the federal government was never able to achieve the targets set for the gross revenue receipts. The gap between target and the actual collection was the widest in FY19 and slightly narrowed during the COVID-19-year i.e. FY20. ***The State Bank of Pakistan's (SBP) profit played an instrumental role in bridging the gap during FY20. In 2018-19, the SBP profit was the lowest and less than 5 percent of the target while in FY20 it is estimated to be almost double the target***. Apart from the SBP profit, the estimated collection for petroleum development levy and other non-tax revenues is likely to cross the target in FY20 – mainly due to lower petroleum prices in the international market and growth in miscellaneous receipts.

Federal Board of Revenue (FBR) collects around three-fourth of gross revenue receipts through direct and indirect taxes. As per the theory of taxation, direct taxes have a progressive tax structure and serve as an automatic stabilizer since revenues grow higher than the growth in tax base during high growth periods and decline sharply during low growth periods. Due to negative growth in real GDP, it was expected that during FY20, the revenues from direct taxes will decline sharper than indirect taxes. ***However, the FBR estimates show that revenues from indirect taxes declined more than the direct taxes – the estimated ratio of target vs actual is 78 percent and 65.8 percent for direct and indirect taxes, respectively. This implies that***

***direct taxes in Pakistan are not truly "direct" in nature and contain features of indirect taxes in the form of withholding and advance taxes.*** Thus, they fail to perform an automatic stabilizer to moderate the economy in both high and low growth periods. In contrast, indirect taxes are largely linked to imports. Therefore, the collection of both import duties and sales tax is badly affected during the pandemic year due to low imports.

**Table 1.1: Comparison of target and actual federal receipts (PKR in Billions)**

| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20* |
|---|---|---|---|---|---|---|
| **Gross Revenue Receipts (I + II)** | | | | | | |
| Target | 3,946 | 4,313 | 4,916 | 5,310 | 5,661 | 6,717 |
| Actual | 3,664 | 4,081 | 4,556 | 4,698 | 4,435 | 5,505 |
| **Actual as % of Target** | **92.9** | **94.6** | **92.7** | **88.5** | **78.3** | **82.0** |
| **I. Tax Revenues (A+B+C+D)** | | | | | | |
| Target | 3,129 | 3,418 | 3,956 | 4,331 | 4,889 | 5,822 |
| Actual | 2,814 | 3,378 | 3,654 | 4,067 | 4,071 | 4,209 |
| **Actual as % of Target** | **89.9** | **98.8** | **92.4** | **93.9** | **83.3** | **72.3** |
| **A. FBR Direct Taxes** | | | | | | |
| Target | 1,180 | 1,348 | 1,558 | 1,595 | 1,735 | 2,082 |
| Actual | 1,034 | 1,218 | 1,344 | 1,537 | 1,446 | 1,623 |
| **Actual as % of Target** | **87.6** | **90.3** | **86.3** | **96.3** | **83.3** | **78.0** |
| **B. FBR Indirect Taxes (i+ii+iii)** | | | | | | |
| Target | 1,630 | 1,756 | 2,063 | 2,418 | 2,700 | 3,473 |
| Actual | 1,556 | 1,895 | 2,024 | 2,307 | 2,383 | 2,285 |
| **Actual as % of Target** | **95.5** | **107.9** | **98.1** | **95.4** | **88.3** | **65.8** |
| Import Duties (i) | | | | | | |
| Target | 281 | 299 | 413 | 581 | 735 | 1,001 |
| Actual | 306 | 405 | 497 | 608 | 686 | 546 |
| **Actual as % of Target** | **109.0** | **135.3** | **120.3** | **104.6** | **93.3** | **54.6** |
| Federal Excise (ii) | | | | | | |
| Target | 178 | 206 | 213 | 232 | 265 | 365 |
| Actual | 162 | 188 | 198 | 214 | 238 | 312 |
| **Actual as % of Target** | **91.2** | **91.1** | **92.9** | **92.2** | **89.9** | **85.5** |
| Sales Tax (iii) | | | | | | |
| Target | 1,171 | 1,250 | 1,437 | 1,605 | 1,700 | 2,108 |
| Actual | 1,088 | 1,302 | 1,329 | 1,485 | 1,459 | 1,427 |
| **Actual as % of Target** | **92.9** | **104.2** | **92.5** | **92.5** | **85.8** | **67.7** |
| **C. Petroleum Development Levy** | | | | | | |
| Target | 123 | 135 | 150 | 160 | 300 | 216 |
| Actual | 131 | 149 | 167 | 179 | 206 | 260 |
| **Actual as % of Target** | **106.8** | **110.6** | **111.1** | **111.8** | **68.8** | **120.4** |
| **D. Other Taxes** | | | | | | |
| Target | 196 | 180 | 185 | 158 | 154 | 51 |
| Actual | 92 | 116 | 120 | 45 | 36 | 41 |
| **Actual as % of Target** | **47.0** | **64.5** | **64.7** | **28.4** | **23.3** | **79.1** |
| **II. Non-Tax Revenues (a+b)** | | | | | | |
| Target | 816 | 895 | 960 | 980 | 772 | 895 |
| Actual | 851 | 703 | 902 | 630 | 364 | 1,296 |
| **Actual as % of Target** | **104.2** | **78.6** | **94.0** | **64.3** | **47.2** | **144.9** |
| **a. SBP Profits** | | | | | | |
| Target | 270 | 280 | 280 | 260 | 280 | 406 |
| Actual | 399 | 228 | 228 | 233 | 13 | 785 |
| **Actual as % of Target** | **147.8** | **81.4** | **81.4** | **89.7** | **4.5** | **193.3** |
| **b. Other Non-Tax Revenues** | | | | | | |
| Target | 546 | 615 | 680 | 720 | 492 | 488 |
| Actual | 452 | 475 | 674 | 397 | 351 | 511 |
| **Actual as % of Target** | **82.7** | **77.3** | **99.2** | **55.2** | **71.4** | **104.6** |

* Revised Estimates for 2019-20 instead of actuals

Source: Targets from Federal Budget in Brief various Issues, Actual Taxes from FBR Yearbook 2018-19, Actual Other Taxes and Non-Taxes from Fiscal Accounts.

Note: Federal Budget in Brief 2010-21 and other documents were accessed from http://finance.gov.pk/ on June 12, 2020.

## FBR Performance in Relation to Tax Base

Table 1.2 shows the overall and specific tax-to-GDP ratios of federal taxes collected by the FBR, which constitute over 90 percent of the tax revenues in the country. The table reveals the lack of elasticity in FBR taxes, particularly during FY19 and FY20. On average, the tax-to-GDP ratios of income tax and sales tax have been hovering around 4 percent. ***The tax-to-GDP ratio of income tax reached its peak at 4.4 percent in FY18and declined to 3.8 percent in 2018-19. During the pandemic year, it is likely to stabilize or slightly improve. In contrast, the sales tax collection reached its peak in 2015-16 and gradually declined to 3.4 percent in FY20. The overall tax-to-GDP ratio peaked in FY18 (11 percent) and declined to 9.4 percent in FY20.*** Hence, there is a need to understand the underlying causes of these declines. The rest of the analysis looks into these changes by decomposing the tax-to-GDP ratio into its two key components: tax-to-base and base-to GDP ratios.

**Table 1.2: FBR Tax-to-GDP Ratio (%)**

| Year | Income Tax | Excise Duties | Customs Duties | Sales Tax | Total Indirect Taxes | Total Taxes |
|---|---|---|---|---|---|---|
| 2014-15 | 3.7 | 0.6 | 1.1 | 4.0 | 5.7 | 9.3 |
| 2015-16 | 4.1 | 0.6 | 1.4 | 4.5 | 6.5 | 10.6 |
| 2016-17 | 4.1 | 0.6 | 1.6 | 4.2 | 6.3 | 10.5 |
| 2017-18 | 4.4 | 0.6 | 1.8 | 4.3 | 6.7 | 11.0 |
| 2018-19 | 3.8 | 0.6 | 1.8 | 3.8 | 6.3 | 10.0 |
| 2019-20 RE | 3.9 | 0.7 | 1.3 | 3.4 | 5.5 | 9.4 |

RE = Revised Estimates for 2019-20

Source: FBR Yearbook 2018-19 & Pakistan Economic Survey 2019-20 & Federal Budget in Brief 2020-21

### Income Tax

Using non-agricultural GDP as the tax base, we have decomposed the changes in the tax-to-GDP ratio of income tax into its components, as shown in Table 1.3. It is important to note that overall, the rate effect dominates over base effect. For instance, during 2015-16, while the tax base of income tax relatively declined in comparison to overall GDP, the positive rate effect increased causing the overall income tax-to-GDP ratio to increase to 0.43. A similar pattern can be seen in 2014-15, FY18 and FY20. In contrast, in FY19 while the base effect was positive, it was the rate effect that caused a sharp decline in income tax-to-GDP ratio. During FY20 the tax base of income tax reduced by 0.9 percentage points in relation to overall GDP. However, income tax to GDP ratio marginally increased by 0.12 percentage points of GDP due to positive rate effects. Therefore, the rate effect dominates over the negative base effect, which has finally resulted in an overall increase in tax-to-GPD ratio.

What explains the increase/decrease in the rate effect of income tax? The rate effects have two components: the movement of statutory rates and tax collection efficiency. In 2018-19, the federal government had reduced the statutory rates that drastically affected the income tax to GDP ratio. For instance, in 2018-19, income tax exemption was enhanced from an annual income of PKR 0.4 million to PKR 1.2 million; the maximum income tax rate was decreased from 30 percent to 15 percent and the corporate tax rate was decreased by one percentage point. Whereas, in FY20, income tax rates for both salaried and non-salaried were revised upward which include the downward revision in exemption limit.

**Table 1.3: Decomposing Base and Rate Effects of Taxes (%)**

| Years | Rate Effect | Base Effect | Change in Tax-to- GDP Ratio |
|---|---|---|---|
| **Income Tax** | | | |
| 2014-15 | 0.29 | -0.02 | 0.27 |
| 2015-16 | 0.44 | -0.01 | 0.43 |
| 2016-17 | 0.05 | 0.00 | 0.05 |
| 2017-18 | 0.25 | -0.02 | 0.23 |
| 2018-19 | -0.71 | 0.09 | -0.62 |
| 2019-20 RE | 0.21 | -0.09 | 0.12 |
| **Sales Tax** | | | |
| 2014-15 | 0.27 | -0.26 | 0.01 |
| 2015-16 | 0.68 | -0.16 | 0.52 |
| 2016-17 | -0.48 | 0.16 | -0.32 |
| 2017-18 | 0.07 | 0.06 | 0.13 |
| 2018-19 | -0.52 | 0.07 | -0.45 |
| 2019-20 RE | -0.14 | -0.28 | -0.42 |
| **Customs Duty** | | | |
| 2014-15 | 0.14 | 0.01 | 0.15 |
| 2015-16 | 0.20 | 0.08 | 0.28 |
| 2016-17 | 0.08 | 0.09 | 0.16 |
| 2017-18 | 0.01 | 0.19 | 0.20 |
| 2018-19 | 0.05 | 0.00 | 0.05 |
| 2019-20 RE | -0.38 | -0.12 | -0.50 |
| **Excise Duty** | | | |
| 2014-15 | 0.03 | 0.01 | 0.04 |
| 2015-16 | 0.06 | -0.01 | 0.06 |
| 2016-17 | -0.01 | -0.02 | -0.03 |
| 2017-18 | 0.03 | -0.03 | 0.00 |
| 2018-19 | -0.01 | 0.02 | 0.01 |
| 2019-20 RE | 0.17 | -0.05 | 0.12 |

RE = Revised Estimates for 2019-20

Source: FBR Yearbook 2018-19 & Pakistan Economic Survey 2019-20 & Federal Budget in Brief 2020-21

## Sales Tax

Sales tax is levied at two stages in Pakistan – import and domestic production. During the 90s, it acquired the characteristics of a value-added tax. Therefore, the tax base for the tax is the value of dutiable imports plus revenue from import duty plus value-added in large-scale manufacturing. In recent years, there has been a major broad basing of the sales tax, which has substituted for customs duty, excise duty, and the petroleum development surcharge. The size of the tax base has, therefore, been accordingly extended.

Table 1.3 shows fluctuations in the tax-to-GDP ratio of sales tax. The trend in base effect indicates sizeable movements from 2014-15 to 2016-17. These variations are mainly caused by volatility in international prices of petroleum products and the value of imports. During these years the rate effect also indicates sizeable movements and dominated over base effect. ***In FY20 both base and rate effects are negative. The significant negative base effect of 0.28 percentage points is largely explained by the decline in imports and large-scale***

***manufacturing. The negative rate effect indicates a relatively low level of tax efficiency during the last quarter largely due to the COVID-19 lockdown.***

### Customs Duty

The tax base for customs duty is the value of dutiable imports, which is the total value of imports minus the value of exempt items like food, petroleum products, and pharmaceuticals. Table 1.3 also highlights that since 2014-15 both the base and rate effects are positive and marginally contributed to the increase of tax-to-GDP till 2018-19. However, in FY20 both rate and base effects are negative and resulted in a combined impact of 0.5 percentage point decline in tax-to-GDP ratio. It is important to note that the tax base of custom duty declined by 0.12 percentage points. In contrast, rate effects caused a decline of 0.38 percentage points, more than three times the base-effect. This large rate-effect could possibly be a result of a decline in the import of high-duty luxury items and revision in statutory rates.

### Excise Duty

The tax base of excise duty consists primarily of value-added in large-scale manufacturing. Major revenue contributors include petroleum products, cigarettes, sugar, cement, etc. The tax base for excise duties is not very large and is fairly stable. In FY20, the base-effect is negative but has a small magnitude while rate-effects are positive. ***The negative base-effect is an outcome of negative growth in large-scale manufacturing. The positive rate-effect indicates an increase in the effective rate of excise duty due to an increase in the statutory rate of excise duty on cigarettes and others.***

### The COVID-19 Implications

To estimate the impact of COVID-19 on the FBR tax collection, we tried two approaches (Table 1.4). In the first case, we assumed that the FBR tax-to-GDP ratio would be the same as in 2018-19. In other words, there is zero base and rate effect. The estimates show an estimated impact of PKR 384 billion in FBR tax revenues. However, it also points-out an over-estimation of PKR100 billion in revised estimates. It seems that FBR estimates of both income tax and excise duty are overly reported by at least PKR 50 billion each. These heads are excluded from COVID-19 impact estimation.

**Table 1.4: Impact of COVID-19 on FBR Tax Collection (PKR in Billions)**

| Heads | 2019-20 | | Estimated Corona Impact |
|---|---|---|---|
| | Revised | Estimates | |
| **Estimates Based on Tax-to-GDP ratio** | | | |
| Income Tax | 1,618 | 1,567 | |
| Excise Duties | 312 | 262 | |
| Customs Duties | 546 | 753 | 207 |
| Sales Tax | 1,427 | 1,603 | 176 |
| **Total** | **3,903** | **4,185** | **384** |
| **GDP** | **41,727** | **41,727** | |
| **Tax-to-GDP ratio** | **9.4%** | **10.0%** | |
| **Estimates Based on 9-month Performance** | | | |
| Direct Taxes | 1,623 | 1,661 | 38 |
| Customs Duties | 546 | 641 | 95 |
| Sales Tax | 1,427 | 1,736 | 309 |
| Excise Duties | 312 | 280 | |
| **Total** | **3,908** | **4,318** | **442** |

In the other case, we used FBR's 9 months and full-year estimates for the previous year. Based on the assumption that FBR will at least be able to repeat a similar performance, we estimated the tax revenues for 2019-20. ***Our estimates show an impact of PKR 442 billion of COVID-19 on FBR revenues. Interestingly, as per this approach. FBR overly estimated revenues from excise duty, which is excluded from COVID-19 impact estimation. Thus, the***

***estimated loss due to COVID-19 is less than half as compared to the loss of PKR 900 billion that was mentioned in the Budget Speech 2020-21.*** Given the total shortfall of PKR 1,600 billion in total tax revenue in FY20, our estimates suggest that the shortfall would have been around PKR 1,200 even in the absence of COVID-19. This raises serious concerns about the practice of setting ambitious revenue targets and the efficiency of tax collection agencies.

## Resource Mobilization Strategy for FY21

In Budget 2020-21, the government proposed to significantly raise FBR revenues from PKR 3,908 billion to PKR 4,963 billion, implying an increase of about 27 percent. As compared to this, the average growth in FBR revenues during the last five years was less than 10 percent, particularly it was -0.4 percent and 2.1 percent during FY19 and FY20, respectively. Clearly, the government intends to make a big effort at additional resource mobilization in FY21 (Table 1.5).

**Table 1.5: FBR Tax Revenue Projection for FY21 (PKR in Billions)**

| | 2019-20 RE | 2020-21 BE | Growth Rate | Remarks |
|---|---|---|---|---|
| Direct Taxes | 1,623 | 2,043 | 25.9% | Very Difficult |
| Customs | 546 | 640 | 17.2%; | Difficult |
| Sales Tax | 1,427 | 1,919 | 34.5% | Unlikely |
| Federal Excise | 312 | 361 | 15.7% | Achievable |
| **FBR Total** | **3,908** | **4,963** | **27.0%** | **Very Difficult** |
| **% of GDP** | **9.4** | **10.9** | | **Very Difficult** |

The growth of 26 percent in the direct taxes is an ambitious target and may not materialize given that both the national economy and the global economy have still not recovered from negative implications of pandemic and the income tax rates have not increased in the budget. ***Similarly, more than 34 percent growth in sales tax is also ambitious, particularly if both petroleum product prices and the value of dutiable import remain stable during FY21.*** As compared to this, targeted revenue increase from customs and excise duties appears relatively achievable. Given that the two major taxes (income tax and sales tax) constitute 80 percent of the tax revenue and the projected revenues from both taxes are unlikely to be materialized, overall revenue targets are not expected to be achieved. This would have implications for maintaining the budgeted level of fiscal deficit.

## NFC Transfers to Provinces

The National Finance Commission (NFC) Award includes three resources to be transferred to provinces: divisible pool transfers, straight transfers, and grants and subventions. The divisible pool transfers are the financial lifeline of the provinces. They contain 57.5 percent of five major FBR taxes namely taxes on income, capital value tax, sales tax excluding sales tax on services, customs duties, federal excise excluding excise duty on natural gas after deduction of one-percent collection charges. Straight transfers include royalties on crude oil and natural gas, gas development surcharge, and excise duty on natural gas. As per the constitution, these are provincial taxes and the federal government collected them and transfer to provinces after deduction of collection charges.

This sub-section based on the analysis of divisible pool transfers. As noted above during FY19 and FY20, FBR has a lackluster performance in tax collection. In 2018-19, as per the FBR

yearbook 2018-19, FBR actual tax collection in nominal absolute amount declined by 0.4 percent. It was assumed that a similar shortfall would be passed on to the provinces. However, the second bi-annual monitoring and implementation of the NFC award report (published by the NFC secretariat) indicates a growth.

To probe the cause of deviation we compared the data on FBR tax collection reported in both documents (Table 1.6). It was found that The NFC secretariat under-reported PKR 108 billion in FY18and over reported PKR 196 billion in 2018-19. The resulted growth in FBR collection as per FBR is negative 0.4 percent and 7.7 percent as per the NFC secretariat. The growth in five divisible pool taxes is ever higher (8.2 percent) reported in the bi-annual report. Interestingly data on releases available on the NFC secretariat website is consistent with the bi-annual report.

**Table 1.6: Inconsistent FBR Tax collection (PKR in Billions)**

| | 2017-18 Actual | 2018-19 Actual | Growth Rate |
|---|---|---|---|
| **FBR Tax Collection** | | | |
| As per FBR Yearbook | 3,844 | 3,828 | -0.4% |
| As per NFC Secretariat | 3,735 | 4,025 | 7.7% |
| **Difference** | **108** | **-196** | |

Source: FBR Yearbook 2018-19 & The Second Bi-Annual Monitoring and Implementation of NFC Award Report (2018 & 2019)

**Table 1.7: Divisible Pool Transfers to Provinces (PKR in Billions)**

| | 2017-18 Actual | 2018-19 Actual | 2019-20 Budget | 2019-20 Revised | 2020-21 Budget |
|---|---|---|---|---|---|
| Punjab | 1,072 | 1,161 | 1,604 | 1,127 | 1,432 |
| Sindh | 509 | 551 | 761 | 535 | 680 |
| Khyber Pakhtunkhwa | 339 | 367 | 508 | 357 | 453 |
| Balochistan | 203 | 224 | 282 | 282 | 252 |
| **Total** | **2,123** | **2,303** | **3,154** | **2,301** | **2,817** |
| **Estimated Tax Refund Recovery** | | | | | **50** |
| **Net Total Transfers** | | | | | **2,767** |
| | | ***Growth Rate*** | | | |
| Punjab | | 8.2% | 38.2% | -29.7% | 27.1% |
| Sindh | | 8.2% | 38.2% | -29.7% | 27.1% |
| Khyber Pakhtunkhwa | | 8.2% | 38.2% | -29.7% | 27.1% |
| Balochistan | | 10.6% | 25.7% | 0.0% | -10.7% |
| **Total** | | **8.5%** | **37.0%** | **-27.1%** | **22.4%** |

Source: The Second Bi-Annual Monitoring and Implementation of NFC Award Report (2018 & 2019) & NFC Releases (2017-18 & 2018-19), Explanatory Memorandum on Federal Receipts 2020-21

Table 1.7 presents the province-wise magnitude of divisible pool transfers. It shows an 8.2 percent growth in divisible pool transfers to three provinces in 2018-19. The only exception is Balochistan that shows a growth of 10.6 percent in the same year. The higher growth in Balochistan's transfers is an outcome of a clause of the 7$^{th}$ NFC award that ensures any shortfall in FBR collection compared to budget estimate will not affect the transfers to Balochistan. In FY20, three provinces will likely experience a shortfall of almost 30 percent compared to budget

estimates for the same years. In absolute terms, the provinces (except Balochistan) experienced a shortfall of PKR 853 billion. This type of massive reduction in transfers creates uncertainties in the fiscal management of the provinces. Even the absolute transfer amount in FY20 is expected to be PKR 59 billion less than the actual nominal transfers in 2018-19. Given that the inflation rate is over 9 percent, the real transfers in FY20 would be PKR 227 billion less than the actual transfer in 2018-19. In addition, the federal government in its fiscal stimulus package announced a tax refund of PKR 100 billion. The Explanatory Memorandum on Federal Receipts shows an adjustment of PKR 50 billion in budget estimates to adjust the provincial share in the budget estimates of FY21. In other words, these three provinces will face a further PKR 50 billion cut. Once again, Balochistan is an exception as its share is based on the budget estimates and not linked to actual collection.

The budget estimates for FY21 shows a 27 percent growth, which is unlikely to be achieved and will negatively affect the financial health of the provinces. Interestingly, since the implementation of the 7th NFC award, FY21 will be the first year in which transfers to Balochistan will be almost 11 percent less than FY20.

## Expenditure Priorities and Relief Measures

COVID-19 is likely to affect public expenditure in a mixed way. On one hand, it will cause an increase in public spending due to the relief measures including the *Ehsass* program. On the other hand, a reduction in the interest rate on domestic debt, any possible relief in debt servicing is likely to cause a decline in public spending. This section analyses the expenditure patterns in three ways: a) comparing trends in budget estimates and actuals of key expenditures heads; b) analyzing current expenditure priorities in FY20 and FY21 reflected through the budget and revised estimates; and c) providing estimates of key expenditure magnitude of COVID-19 related spending.

### Puzzling Expenditure Pattern in FY20

Based on the federal government's fiscal stimulus that includes various relief measures including *Ehsass* program, it was expected that the revised estimates of federal government spending will surpass budget estimates in FY20. However, the public spending figures presented in the federal budget shows the revised estimates to be slightly less than budget estimates. To understand this unusual performance, we compared the budget estimates and actual spending for the last five years before FY20.

Table 1.8 shows the comparative trend in selected heads of federal government expenditures. In most of the years, actual current expenditures exceeded the budget estimates; the Public Sector Development Program (PSDP) was always slashed, and other development expenditures and net lending were always less than the budget estimates. In some cases, the expenditures drastically deviated from the budget estimates. For instance, in 2018-19, current expenditure overrun by almost 21 percent, PSDP, and other development expenditures including net lending slashed by almost 30 percent and 13 percent, respectively. Despite, these adjustments total federal expenditure crossed budget estimates by more than 12 percent. ***In FY20, PSDP and other development expenditures including net lending as compared to budget estimates were slashed by less than 20 percent and 5 percent, respectively.*** However, despite a hefty fiscal stimulus, the current expenditures just slightly crossed the budget estimate by only 1 percent.

This is puzzling as to how the federal government managed such a hefty fiscal stimulus without any significant increase in current expenditures.

**Table 1.8: Comparison of Budgeted and Actual Federal Expenditures (PKR in Billions)**

| | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20* |
|---|---|---|---|---|---|---|
| **Total Federal Expenditure (A + B + C)** | | | | | | |
| Budget Estimates | 4,270 | 4,405 | 4,839 | 5,040 | 5,848 | 8,132 |
| Actual | 4,047 | 4,256 | 4,906 | 5,154 | 6,573 | 8,076 |
| Actual as % of Budgeted | **94.8** | **96.6** | **101.4** | **102.3** | **112.4** | **99.3** |
| **A. Current Expenditures (i + ii + iii + iv + v + vi + vii)** | | | | | | |
| Budget Estimates | 3,463 | 3,482 | 3,844 | 3,764 | 4,780 | 7,288 |
| Actual | 3,356 | 3,514 | 4,039 | 4,265 | 5,778 | 7,376 |
| Actual as % of Budgeted | **96.9** | **100.9** | **105.1** | **113.3** | **120.9** | **101.2** |
| **i. Mark-up Payments** | | | | | | |
| Budget Estimates | 1,325 | 1,280 | 1,360 | 1,363 | 1,620 | 2,891 |
| Actual | 1,304 | 1,263 | 1,348 | 1,500 | 2,091 | 2,709 |
| Actual as % of Budgeted | **98.4** | **98.7** | **99.1** | **110.0** | **129.1** | **93.7** |
| **ii. Repayments of Foreign Debt** | | | | | | |
| Budget Estimates | 333 | 316 | 444 | 287 | 602 | 1,095 |
| Actual | 285 | 335 | 544 | 450 | 974 | 1,245 |
| Actual as % of Budgeted | **85.6** | **106.0** | **122.6** | **157.1** | **161.9** | **113.7** |
| **iii. Defence** | | | | | | |
| Budget Estimates | 700 | 781 | 860 | 920 | 1,100 | 1,153 |
| Actual | 698 | 758 | 888 | 1,030 | 1,147 | 1,227 |
| Actual as % of Budgeted | **99.7** | **97.0** | **103.2** | **112.0** | **104.2** | **106.5** |
| **iv. Subsidies** | | | | | | |
| Budget Estimates | 203 | 138 | 141 | 139 | 175 | 272 |
| Actual | 242 | 207 | 154 | 114 | 195 | 350 |
| Actual as % of Budgeted | **118.9** | **150.5** | **109.3** | **82.2** | **111.8** | **128.7** |
| **v. Pension** | | | | | | |
| Budget Estimates | 215 | 231 | 245 | 248 | 342 | 421 |
| Actual | 185 | 223 | 304 | 334 | 393 | 463 |
| Actual as % of Budgeted | **86.1** | **96.3** | **124.0** | **134.5** | **114.9** | **110.1** |
| **vi. Grants and Transfers** | | | | | | |
| Budget Estimates | 371 | 410 | 442 | 430 | 478 | 835 |
| Actual | 321 | 396 | 374 | 408 | 470 | 1,177 |
| Actual as % of Budgeted | **86.5** | **96.6** | **84.7** | **94.9** | **98.3** | **140.9** |
| **vii. Other Current Expenditures** | | | | | | |
| Budget Estimates | 316 | 326 | 353 | 377 | 463 | 621 |
| Actual | 642 | 728 | 800 | 836 | 978 | 203 |
| Actual as % of Budgeted | **203.4** | **223.0** | **226.9** | **221.9** | **211.0** | **32.8** |
| **B. Public Sector Development Program (PSDP)** | | | | | | |
| Budget Estimates | 525 | 700 | 800 | 1,001 | 800 | 701 |
| Actual | 502 | 602 | 733 | 661 | 562 | 564 |
| Actual as % of Budgeted | **95.7** | **86.0** | **91.7** | **66.0** | **70.2** | **80.5** |
| **C. Other Development Expenditure and Net Lending** | | | | | | |
| Budget Estimates | 281 | 223 | 195 | 275 | 268 | 142 |
| Actual | 189 | 141 | 134 | 229 | 234 | 136 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Actual as % of Budgeted | **67.2** | **63.1** | **68.9** | **83.3** | **87.3** | **95.6** |

*Revised Estimates for 2019-20 instead of actuals

Source: Budget and Revised Estimates from Federal Budget in Brief various Issues, Actual from Pakistan Economic Survey 2019-20 & Fiscal Accounts (Various Years), Ministry of Finance, GoP

To understand this phenomenon, we analyzed the revised and budget estimates of seven heads of current expenditure in FY20 and compared it with the past five years. The comparison shows that in contrast to FY18 and FY19 mark-up payments in FY20 are six percent less than the budgeted amount. This is understandable as the interest rate declined substantially during the second half of FY20. ***The repayment of foreign debt crossed the budget estimates by almost 14 percent. This is also plausible given the depreciation of Pak rupee. Defense spending and pension of both civil and military deviate by 6 percent and 10 percent, respectively, which are in-line with historical trends.*** Grants and transfers, and subsidies overrun by almost 41 percent and 29 percent; these deviations indicate a likely impact of the COVID-19 stimulus package and are analyzed in the following subsections.

The puzzling number emerges in the residual category of other current expenditures, which is calculated by excluding six heads of current expenditures (mentioned above) from the total current expenditure. For FY20, other current expenditures turned out to be only 33 percent of the budget estimates. The number is inconsistent with the past trend as well, which shows hefty overruns. Given that other current expenditures contain education, health, public order, and safety affairs and other heads of civil government this number appears to be a serious underestimation.

## Current Expenditure Outlook

The Federal Budget documents show several anomalies and inconsistencies. Two versions of the document entitled Budget in Brief 2020-21 have been uploaded on the website of the Finance Division (http://finance.gov.pk). The version that was uploaded initially on June 12, 2020, contained information on budget and revised estimates for FY20 and budget estimate for FY21. However, in the current version that was uploaded later on, information on revised estimates of FY20 has been removed (except for an initial summary table). Thus, the analysis of the budgetary performance of the fiscal year FY20 has been made a daunting task. Inconsistencies are also evident among the different documents. For instance, Budget in Brief 2020-21 reports the budget estimates of repayment of foreign loans to be PKR 1,229 billion. On the other hand, Annual Budget Statement 2020-21 reports zero amount in the same category. Also, the foreign loan repayments have been shifted from the revenue account to the capital account. We have attempted to reconcile the given information to the possible extent.

Table 1.9 presents the corrected and consistent heads of current expenditures for both FY20 and FY21. As usual, the bulk of current expenditure is placed under general public service that constitutes three-fourths of total current expenditures followed by defense affairs (more than 16 percent). These two heads account for more than 90 percent of the current expenditures. General public service shows a growth of 2.3 percent in FY21 compared to revised estimates of FY20 despite a 40 percent decline in subsidies; major, increase in this category is projected in domestic debt servicing. Despite the much emphasis claimed for protecting the vulnerable population, aggregate expenditures on housing, health, and social protection have increased by

only 12.5 percent. Ironically, budget estimates for social protection show a decline of 5.8 percent in FY21 compared to revised estimates of FY20.

**Table 1.9: Analysis of Growth in Current Expenditures (PKR in Billions)**

| | 2019-20 | | | 2020-21 | |
|---|---|---|---|---|---|
| | Budget | Revised | Growth | Budget | Growth |
| **General Public Service** | **5,607.0** | **5,538.1** | ***-1.2%*** | **5,667.5** | ***2.3%*** |
| • *Pensions* | *421.0* | *463.4* | *10.1%* | *480.0* | *3.6%* |
| • *Servicing of Foreign Debt* | *359.8* | *335.4* | *-6.8%* | *315.1* | *-6.0%* |
| • *Foreign Loans Repayment* | *1,095.3* | *1,245.3* | *13.7%* | *1,228.9* | *-1.3%* |
| • *Servicing of Domestic Debt* | *2,531.7* | *2,374.0* | *-6.2%* | *2,631.0* | *10.8%* |
| • *Subsidies* | *271.5* | *349.5* | *28.7%* | *209.0* | *-40.2%* |
| • *Others including Transfers and Grants* | *927.8* | *770.5* | *-17.0%* | *803.5* | *4.3%* |
| **Defence Affairs and Services** | **1,152.5** | **1,227.4** | ***6.5%*** | **1,289.1** | ***5.0%*** |
| **Public Order and Safety Affairs** | **152.9** | **153.3** | ***0.2%*** | **169.9** | ***10.9%*** |
| **Economic Affairs of which:** | **84.2** | **106.4** | ***26.4%*** | **71.8** | ***-32.6%*** |
| • General Economic, Commercial & Labour Affairs | 32.6 | 53.3 | *63.6%* | 14.1 | *-73.5%* |
| • *Others* | 51.6 | 53.1 | *3.0%* | 57.6 | *8.5%* |
| **Environment Protection** | **0.5** | **0.5** | ***0.0%*** | **0.4** | ***-8.3%*** |
| **Housing and Community Amenities** | **2.3** | **2.5** | ***11.0%*** | **35.7** | ***1302.0%*** |
| • Housing Development | 0.0 | 0.3 | | 31.0 | *12202%* |
| • Community Development | 2.3 | 2.3 | *0.0%* | 4.7 | *104.2%* |
| **Health Affairs & Services of which:** | **11.1** | **12.0** | ***8.7%*** | **25.5** | ***112.0%*** |
| • Hospital Services | 8.7 | 9.8 | *12.2%* | 22.8 | *133.3%* |
| • *Others* | 2.4 | 2.3 | *-4.0%* | 2.7 | *20.3%* |
| **Recreation, Culture and Religion** | **9.8** | **9.3** | ***-5.5%*** | **9.8** | ***5.6%*** |
| **Education Affairs and Services** | **77.3** | **81.3** | ***5.2%*** | **83.4** | ***2.6%*** |
| **Social Protection** | **190.6** | **245.0** | ***28.6%*** | **230.9** | ***-5.8%*** |
| **TOTAL CURRENT EXPENDITURE** | **7,288.2** | **7,375.8** | ***1.2%*** | **7,584.0** | **2.8%** |

Source: Federal Budget in Brief 2020-21

## COVID-19 Impact on Subsidies

Table 1.10 shows the magnitude of subsidies for both FY20 and FY21. Apart from regular subsidies, some new heads of subsidies related to the COVID-19 response are apparent. For instance, the federal government provided PKR 10 billion to WAPDA for deferment of bills of electricity. Similarly, utility store corporation received PKR 40 billion subsidies under two heads: sale of essentials and corona stimulus. ***However, it is not clear why the government gave un-budgeted petroleum subsidies at a time when international prices of petroleum products declined substantially and the federal government was also charging higher amounts on***

***petroleum levy. Fertilizer plant subsidy is also an un-budgeted subsidy and it is not clear whether it is linked to COVID-19.*** The subsidies to utility store corporation and WAPDA for bill deferment are reverted in FY21. Moreover, subsidies on tariff differentials to WAPDA/PEPCO and Karachi Electric have reduced by 32 percent and 57 percent, respectively.

**Table 1.10: Unpacking COVID-19 Impacts on Subsidies (PKR in Billions)**

| | 2019-20 | | | 2020-21 | |
|---|---|---|---|---|---|
| | Budget | Revised | Growth | Budget | Growth |
| **Subsidy to WAPDA/PEPCO:** | **191.0** | **201.0** | ***5.2%*** | **124.0** | **-38.3%** |
| *Inter-Disco Tariff Differential* | *162.0* | *162.0* | *0.0%* | *110.0* | *-32.1%* |
| *Tariff Differential for Agriculture Tube wells in Balochistan* | *8.0* | *8.0* | *0.0%* | *3.0* | *-62.5%* |
| *To pick up WAPDA/PEPCO receivables from merged districts of KPK* | *18.0* | *18.0* | *0.0%* | *10.0* | *-44.4%* |
| *Subsidy to WAPDA on account of Tariff Differential for AJ&K* | *3.0* | *3.0* | *0.0%* | *1.0* | *-66.7%* |
| *Bill Deferment (Corona)* | *0.0* | *10.0* | | *0.0* | *-100.0%* |
| **Subsidy to KESC:** | **59.5** | **59.5** | ***0.0%*** | **25.5** | **-57.1%** |
| **Petroleum Subsidy** (PSO & APL & Other) | **0** | **23.0** | | **0.0** | ***-100.0%*** |
| **Subsidy to USC:** | **5.5** | **43.5** | ***690.9%*** | **3.0** | **-93.1%** |
| *Ramzan Package* | *2.5* | *2.5* | *0.0%* | *3.0* | *20.0%* |
| *Sale of Sugar* | *3.0* | *1.0* | *-66.7%* | *0.0* | *-100.0%* |
| *Subsidy on Sale of Essentials* | *0.0* | *30.0* | | *0.0* | *-100.0%* |
| *Corona Stimulus* | *0.0* | *10.0* | | *0.0* | *-100.0%* |
| **Subsidy to PASSCO** | **15.5** | **15.5** | ***0.0%*** | **7.0** | **-54.8%** |
| **Subsidy to Others:** | **0.0** | **7.0** | | **49.5** | **607.1%** |
| *Wheat Subsidy to Gilgit Baltistan (PF Wing)* | *0.0* | *0.0* | | *6.0* | |
| *Metro Bus Subsidy* | *0.0* | *0.0* | | *2.0* | |
| *Fertilizer Plant Subsidy (Engro, Fatima)* | *0.0* | *7.0* | | *6.0* | *-14.3%* |
| *Subsidy to Naya Pakistan Housing Authority* | *0.0* | *0.0* | | *30.0* | |
| *Other (Lump)* | *0.0* | *0.0* | | *5.5* | |
| **TOTAL SUBSIDIES:** | **271.5** | **349.5** | ***28.7%*** | **209.0** | **-40.2%** |

Source: Federal Budget in Brief 2020-21

**Table 1.11: Unpacking COVID-19 Impacts on Grants and Transfers (PKR in Billions)**

| | 2019-20 | | | 2020-21 | |
|---|---|---|---|---|---|
| | Budget | Revised | Growth | Budget | Growth |
| **Grants to Provinces** | **96.5** | **92.5** | ***-4.1%*** | **85.0** | **-8.1%** |
| **Grants to Others** | **739.0** | **1,084.8** | ***46.8%*** | **819.6** | **-24.4%** |
| Contingent Liabilities | 308.0 | 302.0 | -1.9% | 323.0 | 7.0% |
| Miscellaneous Grants (SPD & NECOP) | 84.0 | 89.0 | 6.0% | 93.0 | 4.5% |
| Pakistan Railways to meet their losses | 39.0 | 42.0 | 7.7% | 40.0 | -4.8% |
| Lump Provision for Relief etc. | 3.0 | 9.0 | 200.0% | 3.0 | -66.7% |
| PPAF | 2.2 | 7.2 | 234.9% | 2.0 | -72.2% |
| DLTL | 0.0 | 30.0 | | 10.0 | -66.7% |
| BISP | 180.0 | 234.2 | 30.1% | 200.0 | -14.6% |
| NDMA | 0.0 | 28.0 | | 5.0 | -82.1% |
| Medical Equipment | 0.0 | 5.0 | | 5.0 | 0.0% |
| Tax Refund | 0.0 | 100.0 | | 0.0 | -100.0% |
| Daily Wagers Relief | 0.0 | 75.0 | | 0.0 | -100.0% |
| Relief to SME & Agriculture (Locust) | 0.0 | 40.0 | | 10.0 | -75.0% |
| Grants to AJK Government | 54.9 | 54.9 | 0.0% | 54.9 | 0.0% |

| | | | | | |
|---|---|---|---|---|---|
| Grant-in-Aid to Gilgit Baltistan | 33.0 | 31.0 | -6.1% | 32.0 | 3.2% |
| Reimbursement of TT Charges on Home Remittances | 15.0 | 22.0 | 46.7% | 22.5 | 2.2% |
| Others | 20.0 | 15.5 | -22.2% | 19.3 | 24.1% |
| **TOTAL GRANTS (I + II):** | **835.5** | **1,177.3** | **40.9%** | **904.6** | **-23.2%** |

Source: Federal Budget in Brief 2020-21

## COVID-19 Impact on Grants and Transfers

Table 1.11 shows heads of grants and transfers for FY20 and FY21. It shows some new categories under revised estimates of FY20, which were not present in budget estimates. These categories are part of the fiscal stimulus package and contain outlays for NDMA, medical equipment for COVID-19 related treatment, daily wagers relief, relief to SME & agriculture (locust), and tax refund. It also shows an increase in the Pakistan Poverty Alleviation Fund (PPAF) and Benazir Income Support Program (BISP) outlays compared to budget estimates of FY20. However, the budget estimates show that most of these relief packages will not be available in FY21. Overall, the total amount of grants is budgeted to be reduced from PKR 1,177 in FY20 to PKR 905 in FY21.

## COVID-19 Impact on Federal Current Expenditures

Based on the above analysis an attempt is made to quantify COVID-19 related stimulus package. As per the Budget Speech 2020-21, the total amount of the relief package was PKR 1,200 billion. We have made an attempt to identify the COVID-related expenditures in the current budget documents. Table 1.12 shows the various heads of stimulus packages. ***The net increase (budget estimates subtracted from revised estimates) in BISP and PPAF while the total amount reported under revised estimates is taken for the rest of the heads. The result shows that additional spending due to COVID-19 pandemic was of PKR 403 billion in FY20.*** However, the budgeted amount in the same headings has been reduced to only PKR 109 billion in FY21, which reflects that the government has not taken into account the worsening situation of COVID-19 after June 2020.

**Table 1.12: Impact of COVID-19 on Federal Expenditure (PKR in Billions)**

| | 2019-20 RE | 2020-21 BE |
|---|---|---|
| WAPDA - Bill Deferment (Corona) | 10.0 | 0 |
| USC - Subsidy on Sale of Essentials | 30.0 | 0 |
| USC - Corona Stimulus | 10.0 | 0 |
| Fertilizer Plant Subsidy (Engro, Fatima) | 7.0 | 6 |
| Lump Provision for Relief etc. | 9.0 | 3 |
| PPAF (Net) | 5.1 | 0 |
| Drawback of Local Taxes and Levy | 30.0 | 10 |
| BISP (Net) | 54.2 | 0 |
| NDMA | 28.0 | 5 |
| Medical Equipment | 5.0 | 5 |
| Tax Refund | 100.0 | 0 |
| Daily Wagers Relief | 75.0 | 0 |
| Relief to SME & Agriculture (Locust) | 40.0 | 10 |
| **Total Current Expenditure** | **403.3** | **39.0** |
| **PSDP** | **0.0** | **70.0** |
| **Total Expenditure** | **403.0** | **109.0** |

RE = Revised Estimates | BE = Budget Estimates

## Computation of Overall Budget Deficit

Table 1.13 presents the computation of the overall budget deficit. The revised estimates of gross revenues receipts show a decline of 18 percent compared to budget estimates for 2019-10. However, compared to the actual of 2018-19, it shows a growth of 24 percent. Despite this

growth, transfers to the provinces are almost the same as in FY19 and FY20 (revised estimates are PKR 4 billion more than the actual). In contrast, net revenue receipts of the federal government show a hefty growth of more than 52 percent.

On the expenditure side, the absolute increase in current expenditure is more than the increase in net revenue receipts. This implies an increase in revenue deficit in FY20 compared to 2018-19. The federal government slashed the Public Sector Development Program (PSDP) and curtailed other development expenditures to reduce the federal budget deficit. Despite these cuts, the federal fiscal deficit reached 8.9 percent of the GDP. It is the first time the federal government reported a negative provincial budget deficit of PKR 81 billion to compute the overall budget deficit. As a result, the estimated budget deficit reached 9.1 percent of the GDP. This is a consecutive second year when the overall budget deficit is 9.1 percent of the GDP.

**Table 1.13: Computation of Overall Budget Deficit (PKR in Billions)**

| | Heads | 2018-19 Actual | 2019-20 Budgeted | 2019-20 Revised | 2020-21 Budgeted | Growth Rate RE20 - Actual | Growth Rate RE20-BE20 | Growth Rate BE21-RE20 |
|---|---|---|---|---|---|---|---|---|
| **REVENUE RECEIPTS** | | | | | | | | |
| | **Gross Revenue Receipts** | **4,436** | **6,717** | **5,504** | **6,573** | **24.1%** | **-18.0%** | **19.4%** |
| Minus | **Transfer to Provinces** | 2,398 | 3,255 | 2,402 | 2,874 | 0.2% | -26.2% | 19.6% |
| **A** | **Net Revenue Receipts** | **2,038** | **3,462** | **3,102** | **3,700** | **52.2%** | **-10.4%** | **19.2%** |
| **FEDERAL EXPENDITURE** | | | | | | | | |
| | **Current Expenditures** | **5,778** | **7,288** | **7,376** | **7,574** | **27.7%** | **1.2%** | **2.7%** |
| Minus | Repayment of Foreign Loans | 974 | 1,095 | 1,245 | 1,229 | 27.9% | 13.7% | -1.3% |
| **B** | **Net Current Expenditure** | **4,804** | **6,193** | **6,130** | **6,345** | **27.6%** | **-1.0%** | **3.5%** |
| | **Public Sector Development Program** | **502** | **701** | **564** | **650** | **12.4%** | **-19.5%** | **15.2%** |
| Plus | Other Development Expenditures | 170 | 86 | 66 | 70 | -61.3% | -23.3% | 6.4% |
| Plus | Net Lending to Provinces and others | 123 | 57 | 70 | 98 | -42.8% | 24.3% | 38.8% |
| **C** | **Development Expenditure & Net Lending** | **795** | **843** | **701** | **818** | **-11.9%** | **-16.9%** | **16.7%** |
| **FEDERAL BUDGET DEFICIT (A-B-C)** | | **-3,561** | **-3,574** | **-3,729** | **-3,463** | **4.7%** | **4.3%** | **-7.1%** |
| Plus | **Provincial Budget Surplus/Deficit** | **139** | **423** | **-81** | **243** | **-158.1%** | **-119.1%** | **-400.6%** |
| Minus | **Statistical Discrepancy** | **22** | | | | | | |
| **OVERALL BUDGET DEFICIT (computed)** | | **-3,445** | **-3,151** | **-3,809** | **-3,221** | **10.6%** | **20.9%** | **-15.4%** |
| **OVERALL BUDGET DEFICIT (Reported)** | | **-3,445** | **-3,151** | **-3,809** | **-3,195** | | | |
| **DIFFERENCE** | | **0** | **0** | **0** | **-26** | | | |
| **GDP (MP)** | | **37,972** | **44,003** | **41,727** | **45,567** | **9.9%** | **-5.2%** | **9.2%** |
| **FEDERAL BUDGET DEFICIT (as %age of GDP)** | | **-9.4** | **-8.1** | **-8.9** | **-7.6** | | | |
| **OVERALL BUDGET DEFICIT (as %age of GDP)** | | **-9.1** | **-7.2** | **-9.1** | **-7.1** | | | |

Source: Federal Budget in Brief 2020-21 & Fiscal Accounts 2018-19

The budget estimates for FY21 show the familiar picture indicating more than 19 percent growth in transfers to provinces, gross and net federal revenue receipts, nominal growth of 3.5 percent in current expenditure, and more than 15 percent growth in PSDP. The budget document has reported a federal budget deficit of PKR 3,437 billion, which is PKR 26 billion less than our estimates. A comparison of various heads of budget deficit indicates a variation of PKR 26

billion in net lending to provinces and others. The resulted budget deficit is 7.1 percent of the GDP as per our estimates. Given the ambitious revenue targets and inadequacy of budgeted expenditure related to COVID-19, the fiscal deficit is unlikely to be maintained at the budgeted level.

## Financing of Fiscal Deficit

The modes of financing of the fiscal deficit are shown in Table 1.14. The revised figures indicate that net external resources ended up financing a smaller share of the deficit in FY20 than what was originally anticipated at the time of the budget. Their respective shares in the total financing declined from 58 percent as per budget estimates of FY20 to 23.4 percent as per revised estimates. The budget estimates for FY21 indicates a 9 percent decline in net external resources. ***A comparison of actual FY19 and revised estimates of FY20 shows that non-bank borrowing increased sustainably, it is bank borrowing that finances more than 45 percent of the budget deficit.*** It is not clear how much of this is financed by SBP. For FY21, the non-bank borrowing shows a growth of 25 percent. The 89 percent growth in domestic public debt is alarming. Given that the interest rate has declined, this might have less severe implications for debt servicing. However, with negative average real interest and low growth in GDP, it is difficult to mop-up this amount.

**Table 1.14: Financing of Fiscal Deficit (PKR in Billions)**

| Heads | 2018-19 Actual | 2019-20 | | 2020-21 Budgeted | Growth Rate | | |
|---|---|---|---|---|---|---|---|
| | | Budgeted | Revised | | RE20–Actual | RE20-BE20 | BE21-RE20 |
| **EXTERNAL RESOURCES (Gross)** | **1,391** | **3,032** | **2,273** | **2,223** | **63.4%** | **-25.0%** | **-2.2%** |
| Foreign Loans and Repayment | 974 | 1,095 | 1,245 | 1,229 | 27.9% | 13.7% | -1.3% |
| Repayment of Short-Term Credits | | 108 | 137 | 184 | | 26.7% | 33.9% |
| **Net External Resources** | **417** | **1,829** | **890** | **810** | **113.7%** | **-51.3%** | **-9.0%** |
| ***Share in Financing (%)*** | ***12.1*** | ***58.0*** | ***23.4*** | ***25.2*** | | | |
| **Non-Bank Borrowings** | | | | | | | |
| Public debt | 514 | 583 | 624 | 1,179 | 21.4% | 7.1% | 89.0% |
| Public Account | 249 | 251 | 421 | 216 | 69.5% | 68.0% | -48.8% |
| Privatization Proceeds* | 2 | 150 | 150 | 100 | | 0.0% | -33.3% |
| **Total Non-Bank Borrowings** | **765** | **983** | **1,195** | **1,495** | **56.2%** | **21.5%** | **25.0%** |
| ***Share in Financing (%)*** | ***22.2*** | ***31.2*** | ***31.4*** | ***46.4*** | | | |
| **Bank Borrowings** | **2,263** | **339** | **1,724** | **917** | **-23.8%** | **408.5%** | **-46.8%** |
| ***Share in Financing (%)*** | ***65.7*** | ***10.8*** | ***45.3*** | ***28.5*** | | | |
| **TOTAL DEFICIT FINANCING** | **3,445** | **3,151** | **3,809** | **3,221** | **10.6%** | **20.9%** | **-15.4%** |
| **OVERALL BUDGET DEFICIT** | **-3,445** | **-3,151** | **-3,809** | **-3,221** | - | - | - |

* Provincial non-bank borrowings for 2018-19.

Source: Federal Budget in Brief 2020-21 & Fiscal Accounts 2018-19

# Chapter 2

## FUTURE LANDSCAPE OF THE ECONOMY

## Introduction

During 2019-20, almost all financial indicators displayed a downward trend. The growth rate fell from 3.3% to -0.38%. This was mainly due to measures taken by authorities to counter macroeconomic imbalances and to control the spread of the coronavirus outbreak. The federal government is targeting growth rate to rise to 2.1% in FY21. The Pakistani rupee lost value significantly against the dollar since the beginning of the current fiscal year.

Furthermore, according to the Pakistan Economic Survey 2020-21, Pakistan's foreign exchange reserves were seen falling below USD 7 billion. Since July 2019, Pakistan has entered into a 39-month Extended Fund Facility (EFF) arrangement with the International Monetary Fund (IMF). Stabilization measures under the EFF were expected to moderate aggregate demand pressures in the economy. ***Leading economic indicators showed a slowdown in growth in FY20. Similarly, the output of the manufacturing sector contracted by -5.56. However, the agriculture sector registered a growth of 2.67%.***

Since February 2020, fear of the rapid spread of COVID-19 brought economic activity to a near-halt. The country has been placed under a partial lockdown. ***The closure of non-essential businesses and domestic supply chain disruptions has significantly affected the wholesale and retail trade and transport, storage and communication, the largest sub-sectors of the services sector. The drop in domestic and global demand has also compounded the strains on the industrial sector, which is hit by both supply and demand shocks.*** In addition, the country's main industrial sector – textiles and apparel – was highly exposed to COVID-19 related disruptions due to its labor-intensity.

In response to the COVID-19 crisis, the federal government and other official institutions took some bold steps to enhance the economic activity and reduce the impact of COVID-19 crisis.[1]

Despite this historic fiscal stimulus package and monetary easing, the economic situation in Pakistan today is indeed worrying. The projected financial and economic indicators point towards a dismal picture of the domestic economy. The Pakistan Economic Survey 2019-20 presents a tale of missed targets for all macroeconomic indicators except the current account deficit. ***The missed targets include economic growth, inflation, revenue collection, budget deficit, investments, and exports.***

[1] Major economic and financial steps taken by the federal government in response to COVID-19 outbreak were:

- In March 2020 Government of Pakistan (GoP) approved the fiscal stimulus package of PKR 1.2 trillion and Supplementary Grant of PKR 100 billion for the "Residual/Emergency Relief Fund" in relation to provision of funds for mitigating the effect of COVID-19 for the impacted population.
- In March 2020, the central bank reduced the policy rate by 150 bps points to 11%. The rate was further reduced to 9% in mid-April and to 8% in May 2020.
- In March 2020 the banks and DFIs allowed to defer the payment of principal on loans and advances for one year.
- In March 2020 the regulatory limit on extension of credit to SMEs has been permanently increased from PKR 125 million to PKR 180 million
- In April 2020 the federal government has announced a special incentive package for construction industry. The government has approved the establishment of construction industry development board for development of construction industry and complete amnesty has been proposed (no questions will be asked about the source of investment made till 30 June 2022).

In the federal budget for FY21, with no new taxes, the federal government expects a 17% increase in revenues in FY21 while the total revenue collection target is PKR 6.57 trillion. The non-tax revenue target is set at PKR 1.61 trillion.

On the expenditure side, the federal government had cut expenditures to PKR 7.14 trillion. The federal government has enhanced poverty alleviation and social safety net expenditures to PKR 208 billion. The total development expenditure for FY21 has amounted to PKR 886.34 billion, a surge of 17% compared to last year's budget. Of this amount, PKR 650 billion was allocated to the federal Public Sector Development Program (PSDP), whereas, PKR 166.34 billion has been allocated to the development loans and grants for provinces. While for non-PSDP development expenditures which include expenditure heads such as the Benazir Income Support Program and *Kamyab Jawan* Program, the federal government has allocated PKR 70 billion for FY21. Due to the inability to introduce fiscal expansionary policies, the economic growth is expected to remain low at only 2.1% in FY21, while inflation will ease to 6.5%.

## Macroeconomic Projections

Given the current economic situation and sudden rise in COVID-19 infection cases during June 2020 in the country, the future trajectory of macroeconomic indicators depends on how the pandemic and the lockdown will evolve in Pakistan; and how the country could get affected by the global situation, which seems very uncertain.

### Domestic and International Lockdown

In Pakistan, the lockdown was relaxed in the second week of May 2020 and since then more relaxations have been granted. However, the infection cases and death cases have increased significantly and it seems it will severely affect the future economic growth rate and recovery process.

The international trade figures (Federal Bureau of Statistics, 2020) show that international lockdown has adversely affected the exports of Pakistan during the last five months. The major trade partners which include USA, China, UK, and Germany are among the worst affected countries by the virus and we may face a major drop in the exports. USA and China are Pakistan's major import partners and it relies heavily on them for import of capital and intermediate goods. These goods are then utilized in the production of final goods for exports and domestic consumption. Similarly, being our major export partners, any economic downturn in these economies would directly affect our exports and therefore our GDP.

### Assumptions and Baseline Projections Scenarios

In this section, we make projections of the major macroeconomic indicators under four different scenarios for the upcoming three years, i.e. FY21, FY22, and FY23. These include the overall economy (real GDP growth), the prices, and the external sector. The common assumptions across all four scenarios are:

1. *US-GDP growth rate forecasts for 2020-2023 are taken as reported by IMF*
2. *Oil prices forecasts are from Environmental International Agency*
3. *Data for all domestic variables in 2020 is taken as reported in the Pakistan Economic Survey 2019-20 and website of the State Bank of Pakistan (SBP).*

The projections are given for four different scenarios, which are discussed below.

***Baseline Scenario- The Optimistic Scenario***

Under this scenario, we assume that

- The country will not go into a stricter lockdown again. The public transport will remain functional as usual. The lockdown will completely be over by end of June 2020, which means that the economic disruptions experienced during the last five months will be concentrated mainly in FY20.
- The domestic, as well as global economies, are assumed to be on the path of a gradual recovery during the first quarter of FY21 and the COVID-19 pandemic will completely disappear until the end of 2021.
- The US economy will grow at the rate projected by the IMF. The international oil prices will grow at the rate given by the Economics Intelligent Unit.
- For FY20, the data from Economic Survey 2019-20 has been used to project the future path of macroeconomic indicators in FY21, FY22, and FY23.

***Scenario 1- The Pessimistic Scenario***

Because of the relaxation in lockdown and over-crowding in the markets in May 2020, it is expected that there will be a surge in infection cases in June and July, which will halt the recovery. For this scenario, we assume that

- The federal government will impose a stricter lockdown during early FY21 which will last for about three months.
- There will be no second wave of COVID-19 in the world economies and global economies will follow the path of gradual recovery.
- The US economy will grow at the rate projected by the IMF.
- For FY20, the data from Pakistan Economic Survey 2019-20 has been used to project the future path of macroeconomic indicators in FY21, FY22 and FY23.

***Scenario 2- The Budget FY21 Proposed Spending and Current Policy Rate Based Scenario***

On June 12, 2020, the Government of Pakistan (GoP) released its annual budget for FY21. The federal government has set GDP growth target of 2.1% along with revenue and its current and developmental expenditures. The fiscal stimulus package of *Ehsas* program also been allocated PKR 208 billion for FY21. Using budget 2020-21 and the facts and figures presented in the Pakistan Economic Survey 2019-20 for the projection of the future path of macroeconomic indicators, in this scenario we assume that

- The Baseline Optimistic Scenario prevails during FY21
- The exogenous variables (policy variables, for instance, government expenditure, credit to private sector and State bank policy rate, etc.) in the model are assumed to be same as released in the budget 2020-21 and Pakistan Economic Survey 2019-20

***Scenario 3- The Optimal Spending and Current Policy rate based Scenario***

In this scenario, we consider the optimal strategy in terms of fiscal policy and monetary policy measures to achieve the targeted growth rate during FY21. Given the ongoing pandemic, in the

baseline scenario, it seems impossible to achieve the proposed growth and revenue targets (as proposed by the Government of Pakistan in Pakistan Economic Survey and budget for FY21) with the allocated resources in the federal budget 2020-21. Therefore, in this scenario, we propose the optimal fiscal and monetary policy mix measures to achieve the targets set for FY21 and onward. In this scenario, we assume that

- the Baseline Optimistic Scenario prevails during FY21
- the federal government investment expenditures with no new taxes, credit to the private sector, and policy rate during the upcoming three years to be as follows (Table 2.1).

**Note:** the projections for FY21 by the Baseline (optimistic) Scenario seems consistent and close to that of the GoP and other international institutions. Therefore, we have considered the optimistic scenario is considered in Scenario 2 and 3, to evaluate and compute the projection for FY21, FY22 and FY23 with government proposed and optimal policy interventions to achieve the targeted growth rate in FY21.

## Macroeconomic Growth Projections

Using the scenarios defined above, the GDP, private investment, consumption expenditures, exports, imports, and price levels are projected for the upcoming three fiscal years. Using the macro-econometric model, we have estimated the model using the data from 1973 to 2020 and have projected the following forecasts for the upcoming 3 fiscal years.

### GDP and its Components Growth Projections

The economy contracted by 0.38% in FY20 against the expected growth of 3%, although the pace of contraction was far lower than 1.5% predicted by the IMF and 2.6% by the World Bank.

***In all the scenarios, the GDP growth rate is positive for FY21 and in the range of 0.89% – 2.15%.*** It seems that the growth target for FY21 cannot be achieved with the allocated resources as shown in Figure 2.1 for Scenario 2. The proposed growth path can be accomplished if the federal government enhances its developmental expenditures and credit to the private sector along with the policy rate given in Table 2.1. In the worst scenario (Scenario 2) the GDP is projected to grow at a very low pace of about 0.89%. However, the economy will grow at a higher rate in the subsequent two years***. To achieve a positive growth rate in FY 21 the economy requires a huge fiscal stimulus and aggressive intervention through government investment and providing credit to the private sector by lowering the lending rate further.***

Table 2.1: Scenario-3 Optimal Policy Interventions

| FY | Government Investment | Credit to Private Sector | Policy Rate |
|---|---|---|---|
| 2020-21 | 29.25% | 32.50% | 7.00% |
| 2021-22 | 27.25% | 28.25% | 7.00% |
| 2022-23 | 24.25% | 25.50% | 8.00% |

***To achieve the targeted growth of 2.1% in FY21, the federal government should increase public investment about 29% to 32% along with easing the provision of credit to the private sector by about 32 to 35%. However, the private credit channel may not work in this pandemic situation as the private investors are hesitant to invest in this uncertain and vulnerable situation.***

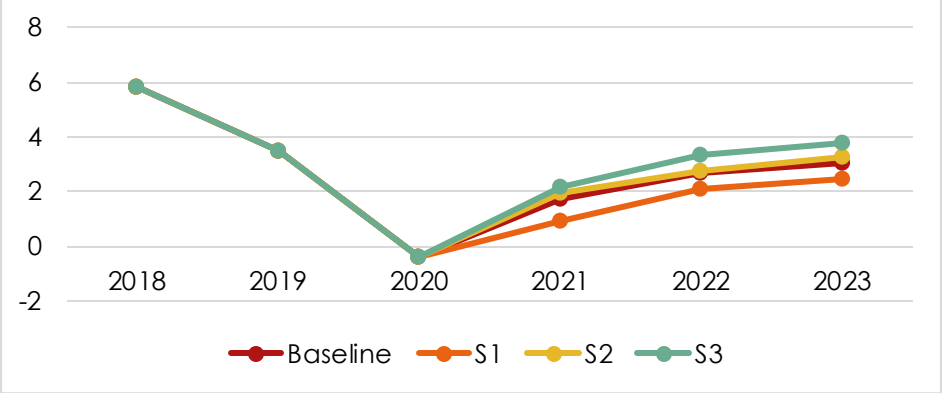


**Figure 2.1: Projected GDP Growth Rate**

The key, for now, is to decrease risk and increase incentives to spend. As long as firms are worried that the economy will remain weak for the next six months or a year from now, they will postpone investment, thereby delaying recovery. Only the state can break this vicious circle. Governments must take it upon themselves to invest by offering compensation for firms if the economy does not recover by a certain point in time.

The private investment shows a negative growth rate during the current FY20 and positive growth rate of about 2.1% in FY21 in the optimistic scenario, however only 1.46% in Scenario 1 when the COVID-19 pandemic prolongs for the next half year. The private investment growth in the upcoming years seems to be very low because of the uncertainty prevailing regarding the spread of coronavirus and recovery path of the economy even if the private credit channel is used aggressively. However, the private investment could be enhanced to achieve the targeted growth rate through easing the private credit channel and further lowering the policy. The private investment plays a significant role in the development process and enhancing the growth rate. ***But in this pandemic and uncertain situation, the private investment cannot be enhanced through the usual policy tools such as easing private credit channel and lowering the policy rate, nevertheless, the government investment and spending fill this gap and provide incentives to the private investment.*** The government should play a role as they did during the great depression of 1929.

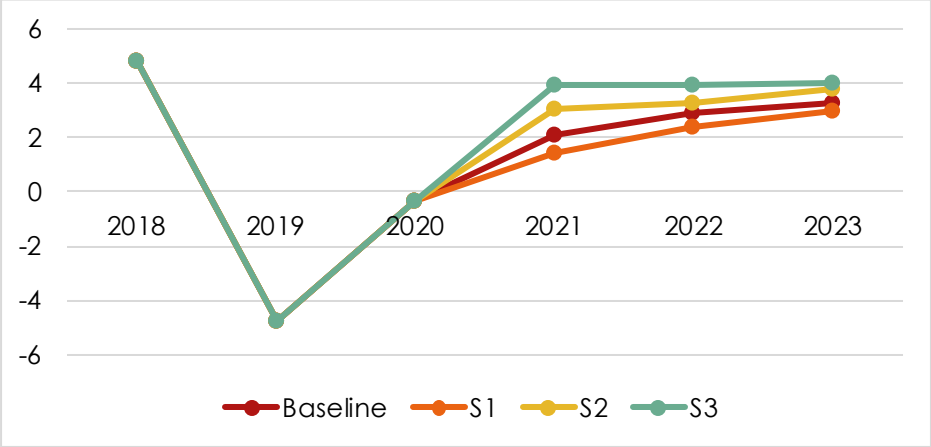


**Figure 2.2: Projected Growth Rate of Private Investment**

The private consumption spending has fallen in FY20 due to the fall in income, however, it will fall further in FY21 if the COVID-19 crisis prolongs and we have another round of lockdown in the first half of FY21. The consumption will grow at a higher rate in FY22 and FY23. To come out of the crisis-like situation and enhance the growth rate the federal government should encourage private consumption through lower the interest rate as shown in Scenario 3 (optimal strategy).

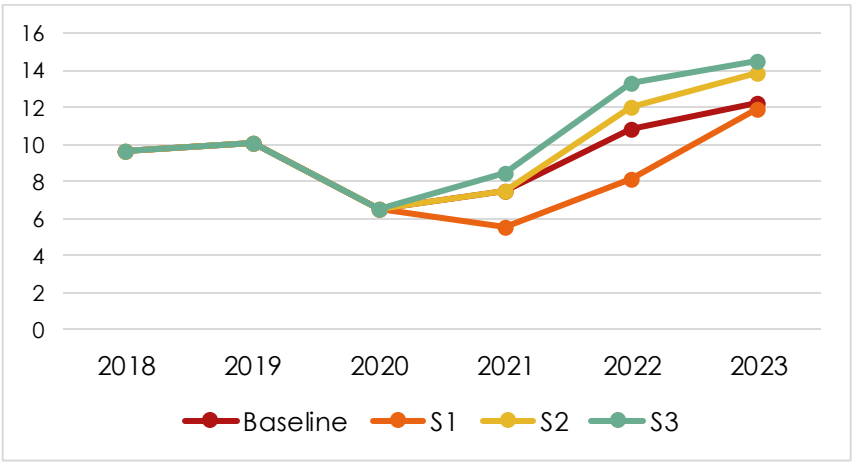


**Figure 2.3: Projected Growth Rate of Consumption**

Our Baseline Optimistic Scenario is consistent with that of the GoP and IMF for FY21, which also assumes that the pandemic and lockdowns would pass their peaks in the second quarter (April – June) of 2020, and the pandemic will then recede in the next two quarters. Using this assumption, our Baseline Scenario projects the GDP growth for the next fiscal year to be 1.71%. With the extension in the lockdown in an alternate scenario, we can see a gradual decline in the growth rates.

### Prices Growth Projections

During FY20, the economy witnessed a very high inflation rate of 9.80% but it is expected to fall and remain in the range of 5.96%-6.7% in FY21, however, it may approach 7.73% if the crisis prolongs into FY21. The price trend depends upon different scenarios but would be predominately downwards. The inflation rate may stabilize around 6% during FY22 and FY23. ***We can observe a bit higher inflation rate if the SBP continues the easy monetary policy***

***to achieve the targeted growth rate and fast recovery during FY21 and subsequent years as shown for Scenario 3***. These numbers, however, may be revised if there are any revisions in the energy prices.

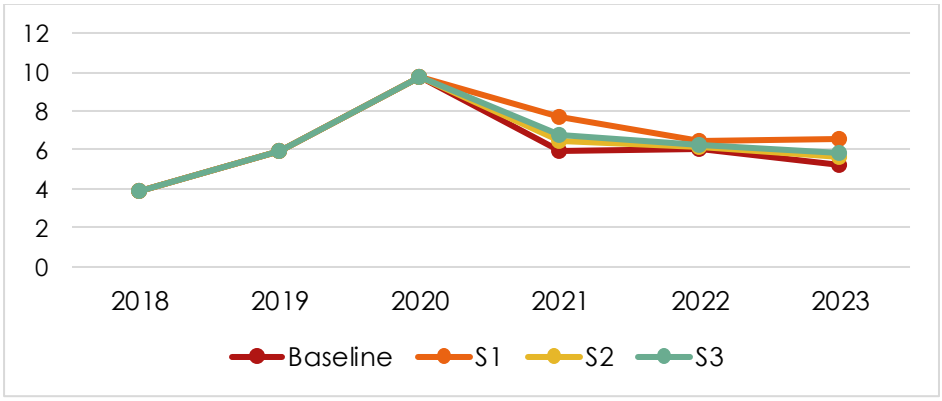


**Figure 2.4: Projected Inflation Rate**

## External Sector Growth Projections

The only positive indicator in FY20 has been the current account deficit which improved. Exports are projected to increase by about 4.0% and imports have declined by 10.05%. Consequently, the trade deficit has declined. It's ideal to reduce the current account deficit by increasing exports. That has the best impact on the economy. The federal government, however, did it without a significant increase in exports despite the massive devaluation of the Pakistani Rupee but due to a significant reduction in imports. It is said that the policy to impact exports has considerably slowed down the economy. ***The reduction in imports is due to the massive depreciation of the Pakistani Rupee against US Dollar and other factors like the slowdown in investment in the China Pakistan Economic Corridor (CPEC) project, restrictions on imports such as in the automobile sector, etc. However, the export sector was unable to reap the benefits of this depreciation. This suggests that the country should diversify its exports in terms of commodities as well as destinations.***

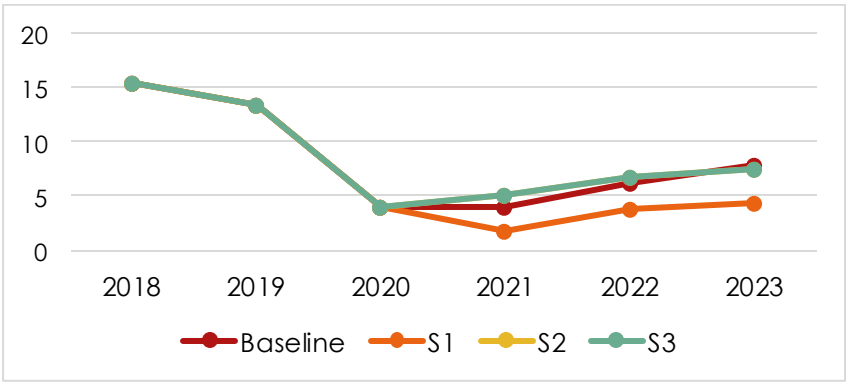


**Figure 2.5: Projected Growth Rate of Exports**

For FY21 the exports may increase by about 5% in Scenario 2 and 3 but may grow at about 1.78% if Scenario 2 occurs. The performance of the export sector seems discouraging in all scenarios during upcoming fiscal years and particularly for Scenario 2. ***The performance of the export sector is highly dependent on the situation and recovery path in USA and European***

***countries, particularly UK and Germany. If there is no second wave of COVID-19 in fall 2020, then these figures may be revised. It seems that the global downturn would cause a decline in Pakistan's major export, especially for textiles, and lead to more limited trade flows.***

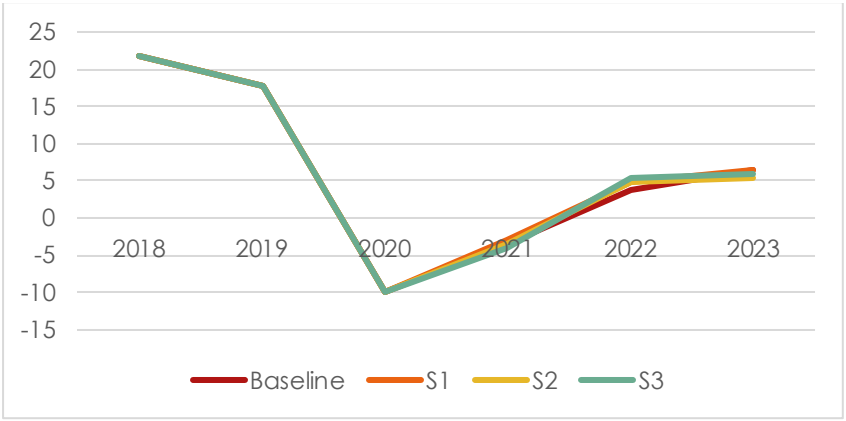


**Figure 2.6: Projected Growth Rate of Imports**

Similarly, the imports projections show that imports will fall further in FY21 and will rise in subsequent years. The lockdown has severely disrupted production activities and restricted mobility and consequently affected the demand and supply of goods and services. This has resulted in a fall in exports and imports from major partner countries due to trade restrictions, postponement and cancellation of export and import orders, limited air cargo, and border controls.

## Conclusion

Keeping in view the outbreak of COVID-19 around the world and the integration of Pakistan's economy with the world economy, Pakistan's economy seems in trouble during FY20 and FY21. The Pakistan Economic Survey 2019-20 shows a depressing picture of the economy. The COVID-19 curve in Pakistan is steepening with every passing day even under the partial lockdown. Businesses are operating at less than half their normal capacities. Therefore, it seems that the country will observe another year a tale of missed economic targets.

Using the macro-econometric model along with some informed assumptions, we have arrived at the projections presented in this chapter. As more information becomes available, these projections can be refined and updated. Overall, the projections for the Optimistic Baseline Scenario are consistent and aligned with the GoP and other international institutions' forecasts for FY21. ***Using the realized growth rates of FY20 and projected growth rates for the next three fiscal years, we can see a kinked V-shaped recovery pathway if the economy does not go into another lockdown and a U-shaped recovery pathway for the two scenarios, respectively.*** This baseline recovery path is in line with the growth trajectory of the IMF for Pakistan. In the prolonged second wave, the economy will be stagnant with a very low positive growth for FY21. ***Overall the analysis suggests that success comes at a price. Mitigating the impact of this COVID-19 shock requires providing massive fiscal stimulus along with easing monetary policy. Policymakers should target the most vulnerable households and look for new ways to reach smaller firms—for example, by waiving utility bills, and tax reliefs and channeling credit.***

;

# Chapter 3

# REGAINING TRADE COMPETITIVENESS IN POST COVID-19 ERA

## Introduction

The export sector of Pakistan has been severely affected due to the coronavirus outbreak since March 2020. Our exports have fallen by more than USD 2 billion. The fall in export orders coupled with a negative growth of GDP during these challenging times is likely to adversely impact manufacturing activities in Pakistan. Although the impact of COVID-19 emerged only in the last three months of the FY20, it is feared that the impact may adversely influence exports well into FY21, particularly if appropriate measures to restore the capabilities of the exporters are not taken with utmost urgency. ***It is important to study the trend in exports of our major commodities and highlight the products in which Pakistan has some advantage in terms of its share in global exports and the unit values of its exports relative to large regional counterparts, China and India. This requires the best incentives to those exporters that are likely to report favorable characteristics such as a) higher amount of Revealed Comparative Advantage (RCA) and b) lower Unit Values (UV) for exporting compare to our regional competitors China and India.*** The exporters indicating such characteristics are more likely to recapture the lost share.

The purpose of this chapter is to analyze the RCAs of products that report significant values from Pakistan, more than USD 100 million to either (1) the European Union (EU) and the United States (USA) or to (2) the rest of the world. The RCAs of products exported from Pakistan are compared to the RCAs reported by China and India. Further, as unit values are likely to indicate the costs incurred by the exporters, the unit values of products exported by Pakistan are also compared to that of China and India. The products are reported in Tables 1-4 of Appendix – Chapter 3. This analysis will assist the policymakers to concentrate on the commodities where Pakistani exporters have a better comparative advantage and/or lower unit cost and can provide the required incentives to these exporters. These products are split into four categories based on the revealed comparative advantage and the unit values of products exported from Pakistan relative to that of products exported from China and India.

- Category 1: Highest Revealed Comparative Advantage and Lowest Unit Value.
- Category 2: Pakistan and China or India Reporting RCA of More than one and Pakistan reporting the lowest unit value across the three countries.
- Category 3: Unit Value of Exports from Pakistan between that of China and India.
- Category 4: Highest Unit Value for Exports

We further analyze the products based on their RCA in Tables representing the products falling in Category 3 and 4. The products in Category 1 and Category 2 are likely to be the most competitive based on their unit values. Products in Category 1 have a clear-cut. Products in Category 2 are highly competitive in terms of their unit values. However, either Chinese or Indian exporters may also report an RCA of more than one. All products listed in tables report exports of more than USD 100 million to the specified destination.

The data for the analysis on RCAs is extracted from UN COMTRADE and the data to analyze the unit value of exports is extracted from BACI dataset made available by *CEPII*[2]. With the help

[2] UN COMTRADE: https://comtrade.un.org/ ; BACI dataset: http://cepii.fr/CEPII/en/bdd_modele/presentation.asp?id=37

of mirroring data, BACI dataset provides accounts for the missing values of quantity traded otherwise reported in the UN COMTRADE database. This is a popular dataset to analyze international trade prices. The pattern on unit values reported in this study is as expected; hence suggesting that BACI dataset is a good alternative. We have conducted the analysis for 2018. The European Union and the United States are referenced as EUN & USA in this study. All other countries are clustered in as the 'Rest of the World' category.

## Methodology

This section gives initial results of coronavirus impact on Pakistan trade. Our analysis is based on RCAs and unit cost analysis.

1. This analysis covers major trading partners of Pakistan i.e. USA, and the European Union where approximately 50 percent of Pakistan's export is destined. The other areas of the world are labelled as 'rest of the world'.

2. The RCA Index is a measure of the advantage relative to all exporters in the world of a specific product or service. It is used in international trade for estimating the relative advantage or disadvantage of a country in a certain class of products or services based on trade flows.

3. The computation of this index requires designation of the following variables:

| | | |
|---|---|---|
| $E_{ij}$ | = | **Level of exports (in USD ) of good *j* by country *i*** |
| $E_i$ | = | **Total global exports by country *i*** |
| $E_j$ | = | **Total world trade in good *j*** |
| **E** | = | **Total world trade** |

The Revealed Comparative Advantage (RCA) is then derived as follows:

4. RCA is the ratio of the country's exports of the commodity under consideration to the global exports of that class of products. A comparative advantage is "revealed" if RCA>1, and if the RCA is less than unity, the country is said to have a comparative disadvantage in the commodity or industry.

5. The unit value for exports is calculated as trade value divided by quantity in tons exported. The data on trade to calculate unit value is borrowed from CEPII's BACI dataset, which is adjusted for missing values reported in UN COMTRADE dataset. As Pakistan typically exports low-valued goods using labor-intensive methods of production, the unit values of

exports are likely to be an important factor in determining the competitiveness of a product exported from Pakistan.

## Descriptive Analysis:

Textile products, as reported in Figure 3.1, dominate the exports from Pakistan to the EU & USA. There is greater diversity in exports to the rest of the world across HS (Harmonized System) sections. It is also important to mention that overall exports were almost equally distributed between the EU & USA (29 countries (EU-28 plus USA) in 2018) and to the rest of the world. Therefore, with the EU and the US bracing for a significant impact from the Coronavirus pandemic in terms of their import demand, the recovery in exports is likely to be unpredictable. There is a stark difference in the export patterns reported by China and India in Figure A3.1. Both countries are not only less dependent on the three HS Sections but are also less dependent on the EU and the US as their major export destination markets.

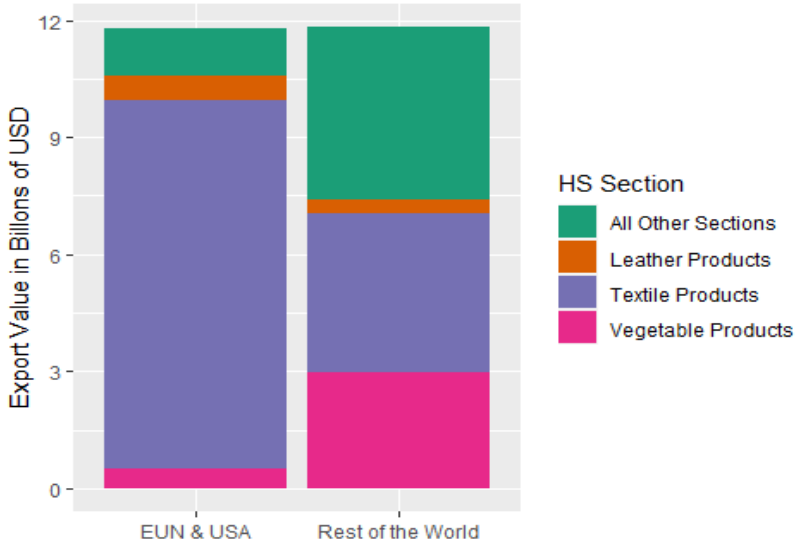


**Figure 3.1: Exports from Pakistan Distributed by HS Sections**

The number of products at HS four digit-level based on their relative RCAs against China and India are reported in Figure 3.2. By far the majority of the products exported from Pakistan have RCAs of less than one. These products have a low share in exports relative to their share observed in global trade. However, the share of the products in which Pakistan reports RCAs of greater than one is higher in the three HS sections than it is in all other sections. This is as expected as the exports of Pakistan are concentrated in the three aforementioned HS sections (textile, leather, and vegetable products). Interestingly, there is a larger proportion of products classified as leather and vegetable products in which Pakistan has an RCA of more than one but neither China nor India reports a higher RCA than one. The total export value of products based on the distribution of RCAs relative to China and India are reported in Figure 3.3. The exports from Pakistan are concentrated in products in which all three countries report an RCA of more than one. This suggests that not only is the demand likely to be higher in products in which China and India report a larger share than the share in the global demand as well but policy

interventions by Chinese and Indian governments to prevent a fall in their own exports may increase the pressure on Pakistani exporters.

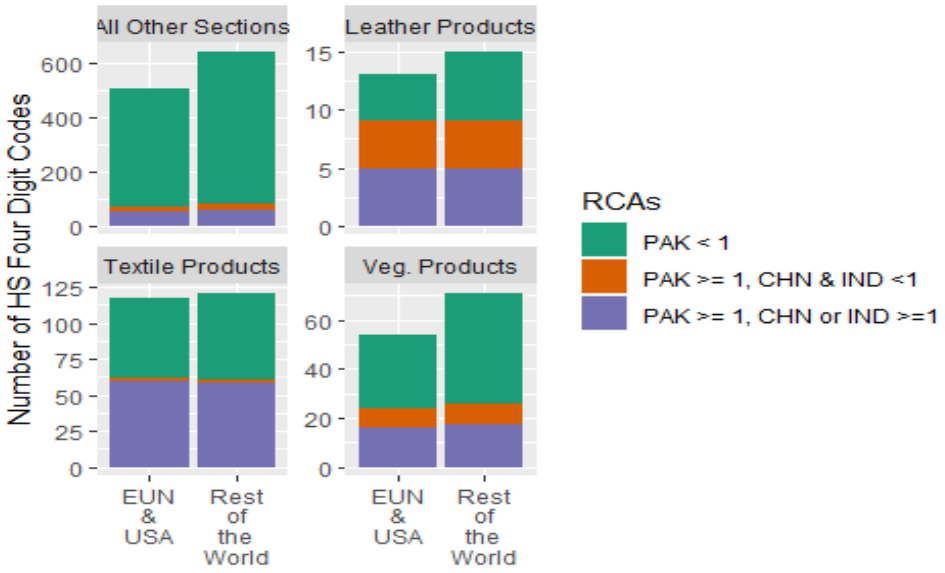


**Figure 3.2: Number of Products Exported from Pakistan to Specified Destinations at HS Four Digit Level Distributed by RCA and HS Sections**

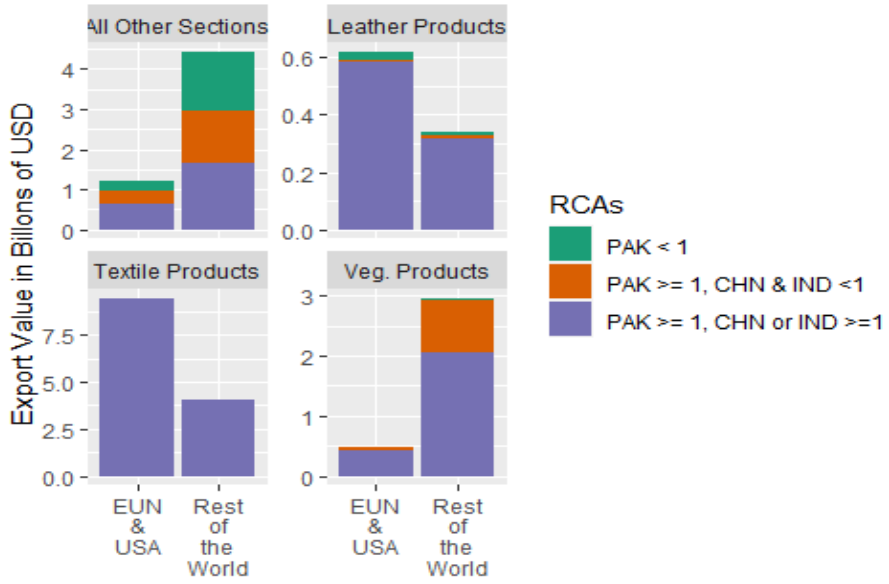


**Figure 3.3: Export Value Products from Pakistan to Specified Destinations at HS Four Digit Level Distributed by RCA and HS Sections**

The number of products and the export value distributed according to the relative unit values are reported in Figures 3.4 and 3.5. The majority of the exports from Pakistan are products in which exporters report lower unit values than both China and India or report unit values lower than either one of the two. ***In essence, Pakistani exporters face challenges in terms of the unit value of their exported products. Pakistani exporters must receive government***

***facilitation in terms of lowering their costs of doing business to ensure that they remain competitive.*** The following analysis identifies the products at the HS four-digit level in which Pakistan reports higher levels of export sales given their respective RCAs and unit values.

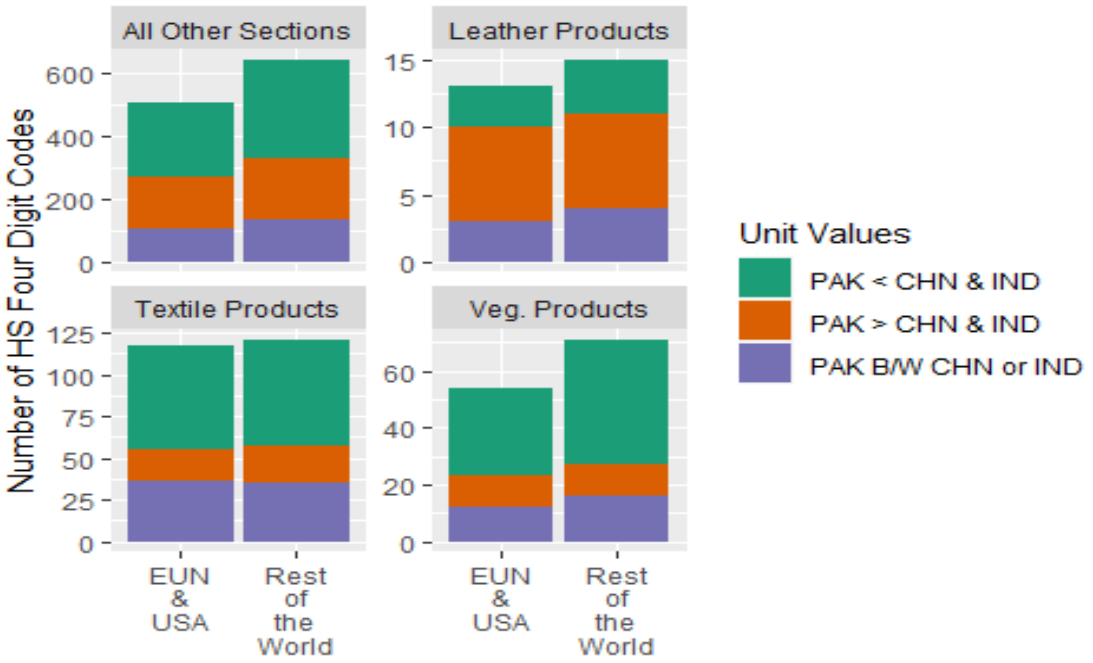


**Figure 3.4: Number of Products Exported from Pakistan to Specified Destinations at HS Four Digit Level Distributed by Unit Values of Exports and HS Sections**

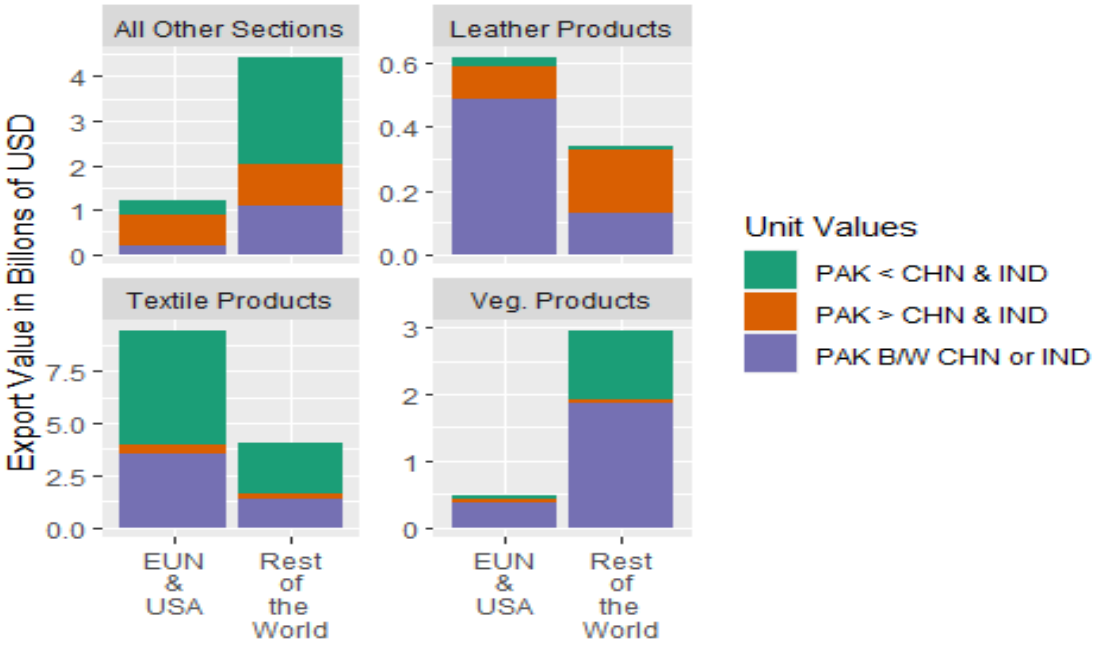


**Figure 3.5: Export Value of Products from Pakistan to Specified Destinations at HS Four Digit Level Distributed by Unit Values of Exports and HS Sections**

## Results

Table 3.1 includes products that report the highest RCA for Pakistan relative to China and India while reporting the lowest unit values. These products are agriculture-based. ***These agriculture-based products not only report the highest share in the export bundle in Pakistan than they do globally but Pakistan produces and exports them at a relatively lower cost than China and India. Given that locust swarms have infested agricultural lands in Pakistan, the agricultural-based exports itself will likely be a challenge. Measures must be taken to terminate the swarms of locusts invading the agricultural heartland of Pakistan***.

***There are significant opportunities for exports of meat of bovine animals in the form of Halal meat products. Pakistan has successfully cultivated several varieties of dates, guavas, and mangoes. HS 2207 is an important ingredient in the production of disinfectants. This product is exported typically exported to non-Western markets and reports lower competitive pressure from the Chinese and Indian markets.*** Total exports of products in Table 1 equal USD 1.1 billion.

Pakistan reports the lowest unit value in comparison to China and India for the products listed in Table 3.2. However, the revealed comparative advantage for Pakistan and for either China or India is greater than one. This suggests that Pakistan and either of the two countries are likely to have a greater share of the product in their own export bundle than the share reported for the product in global trade. However, Pakistan dominates in terms of export competitiveness. Chinese or Indian policymakers may also provide their exporters with incentives that lower their export costs as they account for their trade potential. This will likely lead to greater competition from the larger counterparts in the dominant regional countries. The top three products listed in Table 2 are agriculture-based. The exports of wheat and sugar have faced controversy due to the role of export subsidies provided by the government. Pakistan has a sizeable advantage in the production of Portland cement. Pakistan is also exporting certain types of plastic raw materials to the Western markets. The other products belong to the textile industry. They include cotton yarn, both having a high content of as well as those mixed with man-made fiber. ***Pakistan does report competitive advantage in the exports of woven fabrics of synthetic staple fibers, mixed with cotton. Further, there is a competitive advantage against large regional players in the exports of hosiery, bed linen, and dress pattern.*** It is recommended that Pakistan should further enhance the exports of the listed items in Tables 1 and 2 as it not only has a cost advantage against the regional giants, China and India but also has a higher comparative advantage. These two characteristics make Pakistan highly competitive in the listed products. It is likely to better price its products than competitors in China and India given the export characteristics determined by the two indicators.

The products in Table 3.3 have been split based on the relative RCAs with China and India. The products reported in Tables 3.3 and 3.4 are likely to face competitive pressures in terms of export unit values. *Citrus fruit and copper* report the highest value in terms of the RCA for products in which competitive pressure from either China or India is expected. Products commonly exported by Pakistan such as rice, leather, and textile products are listed among those in which Pakistan reports an RCA greater than 1. Either of the two, China or India, also report RCA of greater than 1. On the other hand, Pakistan reports RCA of less than one for the exports of petroleum products and *medicaments*. Although, Pakistani exports are relatively competitive with

at least one of the two regional giants, the share in its exports of medicaments and petroleum products relative to its share in global exports is low***. However, given that the spread of COVID-19 and its repercussions on the trade of medical products may provide an opportunity for pharmaceutical companies to invest in exports. There is likely to be potential in the exports of medicaments which may impact the RCA of such products in its favor.***

In essence, Pakistan is likely to face significant competition from Chinese and Indian firms exporting to the EU and USA as can be seen by the relative RCAs reported for the products in Table 3.3. There is no product exported to the EU and US where Pakistani exporters can claim a clear-cut advantage in terms of favorable RCAs and unit values. Even though, Pakistan reports lower unit values in Table 3.2, Chinese and Indian exporters report RCAs of more than one. Further, several products appear in Table 3.3 as well. Therefore, as trade recovers from the collapse, there will be a significant challenge for Pakistan exporters to the EU and US markets to regain their market share.

The products listed in Table 3.4 are those in which Pakistan has the least competitiveness in terms of its unit value. Medical and surgical instruments appear in the list of products. The fact that they have the highest RCA than their counterparts in the larger regional trading partners suggests that the exporters have performed well even under adverse conditions and poor business conditions. Again, petroleum products exported from Pakistan are not only the least competitive but also report low levels of RCA relative to the counterparts in China and India.

***There is a significant share in terms of RCAs in the exports of citrus fruit and copper as well as medical and surgical instruments even though the unit value of exports are not entirely favorable***. **Further, exports** of textiles, leather, and vegetable products listed in Table 3.3 reporting RCAs of more than one earn more than USD 6.7 billion worth in export revenue. This is more than one-quarter of all exports originating from Pakistan.

Figures 3.6 and 3.7 clearly show that the largest value of exports is focused on products reporting RCA of more than one across the three countries. ***The government must ensure better facilitation of exporters both in terms of costs and in terms of ease of doing business to improve the export competitiveness of the firms. This becomes increasingly important as the economy recovers from the Coronavirus pandemic.***

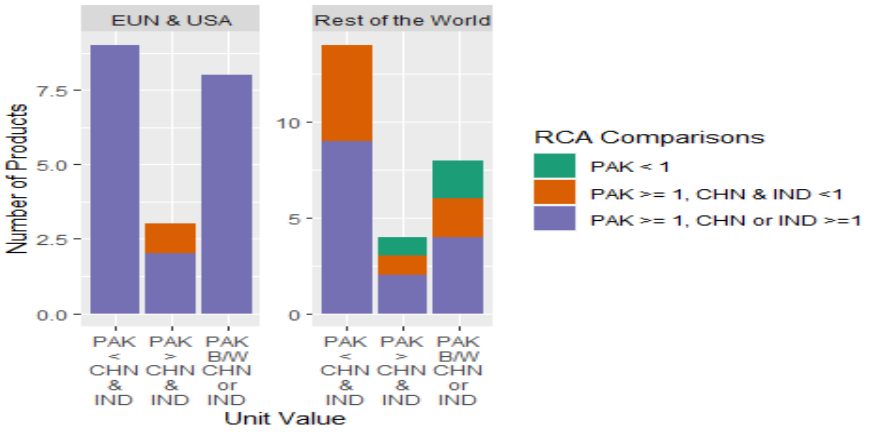


**Figure 3.6: Number of Products Exported That Report More than USD 100 million in Exports to Specified Destinations Distributed by Relative RCAs and Unit Value of Exports**

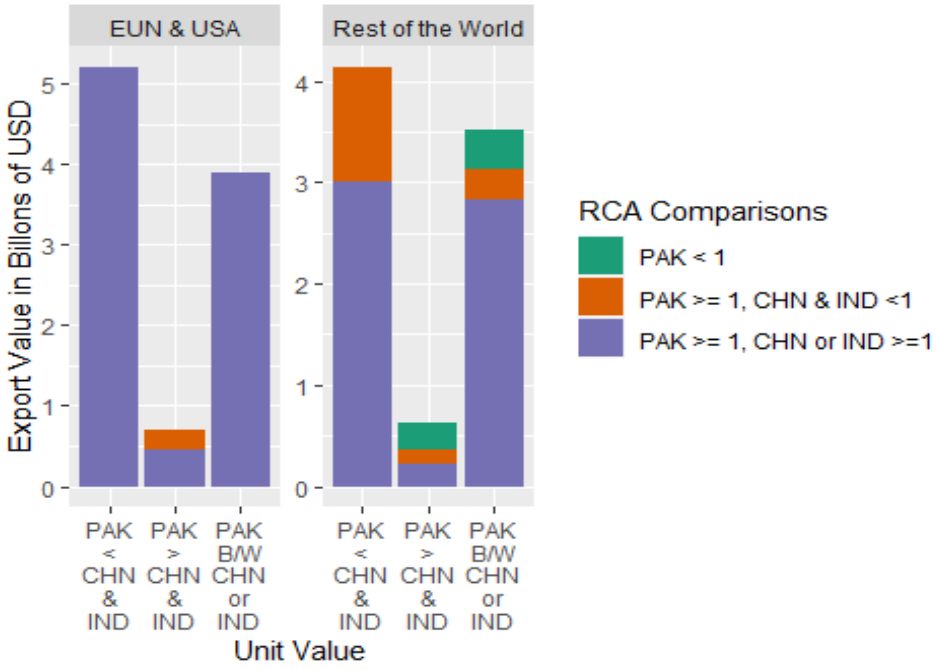


**Figure 3.7: Export Value of Products That Report More than USD 100 Million in Exports to Specified Destinations Distributed by Relative RCAs and Unit Value of Exports**

## Some Recommendations

We deliberated at length the issues and results of the study with experts, investors, producers, various business associations, chambers, and other stakeholders through a series of interviews and focus group discussions. We summarize the main findings of this exercise:

a. With exports concentrated in products sensitive to their export unit vales relative to China and India, the improvement in productivity of exportable goods is crucial for Pakistan. The fact that China and India report high levels of revealed comparative advantage (RCA) on several products exported from Pakistan may increase their susceptibility to foreign competition. There is a strong need to increase the support of the government in facilitating exporters so that they can lower their costs associated with international trade. ***The role of Trade Development Authority of Pakistan (TDAP) is presently largely confined to arranging expos and participation in international exhibitions. It needs to improve its assistance to small businesses in matters of certification, standardization, and cost of doing business issues.*** This entails ensuring that the products produced in Pakistan pass conformity assessments as required by the importers.

b. COVID-19 has resulted in severe challenges to the exports from Pakistan, reducing the recent gains that it experienced after many years. Again, our tables provide information on products where immediate relief is possible. ***Pakistan has significant RCA in surgical instruments produced in Sialkot but struggles in terms of unit value. It is highly recommended that trade costs are lowered across the board such that the smaller exporters dominating non-traditional sectors obtain better opportunities***

***to export to other markets.*** For instance, the medical and surgical instruments report favorable RCA but unfavorable unit values for their exports. Government facilitation in lowering the costs of trade will certainly boost their export sales.

c. Another product that has significant potential is ethyl alcohol (2207) exported from Pakistan, which can be a useful ingredient to produce disinfectants. Presently, the major destinations are China and the Republic of Korea. There are several large companies (some MNCs) producing this product. They can establish networks to create more exports.

d. TDAP and the respective Chambers of Commerce need to work on restructuring their marketing, packaging, pricing, and specialization strategies to increase efficiency and hence overall exports.

# Chapter 4

# POVERTY ANALYSES AND PRO-POOR BUDGETING

## Introduction

Reduced growth rate, limited tax capacity, and the emergence of COVID-19 has raised many questions for policy experts and diverted their attention towards poor and vulnerable groups. The hard choice between a lockdown and economic survival is severely hitting the poor and vulnerable groups as well as the middle-income group. For the last couple of decades, overall declining poverty is appreciated by social scientists with a cautionary remark on disproportionate poverty incidence between and within provinces. However, the recent pandemic has driven many households toward economic decline. The estimated timeline of how long COVID-19 will last is not clear, which makes the projections complex and prone to change.

Unfortunately, a fragile commitment to poverty reduction is historically evident in national policies. ***Cash transfer and focus on social safety nets provide temporary relief to selected households in the lowest income group but policymakers have failed to design an inclusive social protection system to plug in each vulnerable segment of society into the mainframe of the economic system.***

This chapter presents estimates of recent poverty incidence, projections for next year due to pandemic shock, commentary on the efficiency of the *Ehsass* program, and sufficiency of recent relief funds for the lower social classes due to the present shock.

## Incidence of Poverty

In the last two decades, poverty has continued to decline despite a fluctuating growth rate and negative economic shocks, however, there have been high regional disparities (See Annexure - Chapter 4: Table 1). Recent estimates from Household Income and Expenditure Survey (HIES) 2018-19 highlights:

- Continuous reduction of poverty with high regional inequalities
- Significant poverty reduction in rural Punjab and rural Sindh
- Incidence of poverty increased in Khyber Pakhtunkhwa (KPK)

In contrast to declining trends in poverty, consumption inequality measured by the Gini coefficient, increased only marginally, from 27.5 in 2001 to 30.3 in 2015 (Redaelli 2019). This trend also reflects that national policies failed to reduce inequalities and shared prosperity in the past and remains a challenge for the present government. Few factors plausibly explain the s;ignificant poverty reduction in rural Punjab and Sindh. These factors include but are not limited to expansion in social safety net programs, increase in labor migration, rapid urbanization, and growth of the services sector particularly in rural areas. In the case of BISP the amount of released funds was PKR 15.32 billion in 2008-09, which increased to PKR 91.52 billion in 2018-19. Similarly, according to an Evaluation Report (2020) the impact of being a BISP beneficiary on women's political participation and their capacity to save is highest in Sindh and Punjab[3]; with the impact on former is low and zero on latter in case of Khyber Pakhtunkhwa. Better agriculture growth and growth of the service sector in rural areas in these years has contributed significantly to rural poverty reduction in Punjab and Sindh[4]. Poverty in Khyber Pakhtunkhwa increased during recent years mainly because of the merger of Federally Administered Areas (FATA), high and increasing rate of unemployment[5] , and uninterrupted expenditure on the war on terror.

[3] These indicators also depict the increase in wellbeing of households.
[4] Pakistan Economic Survey 2018-19
[5] The highest unemployment rate in 2014-15 was in Khyber-Pakhtunkhwa, which continues to be case in 2017-18 (Pasha 2018).

Developing societies are exposed to many short-term and local shocks due to lack of preparedness in the form of insurance, limited information, and buffer mechanisms; and also due to weak financial systems. Alongside households and individuals below the poverty line, vulnerable groups are equally important to be considered for providing social protection. The vulnerable group includes ***individuals employed in the informal sector, with elementary skill level and work on piece rate, contractual employment, daily wages, etc.*** The present COVID-19 shock brought serious implications for this group. The number of people falling in the vulnerable group slightly increased in most regions (See Annexure Chapter 4: Table 2). ***In the presence of COVID-19 shock, they are already severely harmed; and their economic and social revival will be very challenging, rather would need strong government support.***

In the context of increased poverty in the manufacturing sector (Annexure Chapter 4: Table 3), it is important to highlight a few facts. The performance of the agriculture sector during 2018-19 remained low. Crop production experienced negative growth on the back of a decline in the growth of important crops by (-6.5%) percent. A decrease in the production of cotton crops led to a -12.74 percent decline in cotton ginning. There has been a consistent decline (approximately 10 percentage points from 1999-2000 to 2017-18) in employment share in agriculture, which became more pronounced during the years of the present discussion. However, employment in manufacturing is increasing. The share of employment in the industry has increased from 17.33% in 1999-2000 to 23.89% in 2017-18.[6] ***The recent depression in the agriculture sector forced many workers to shift to the manufacturing sector. Workers laid off from the agriculture sector have very low skill levels and thus low productivity. Once these workers switched to the manufacturing sector, the incidence of poverty increased in the manufacturing sector. Thus, strong policy implications are likely to be suggested to invest in skills required in the manufacturing and services sector to enhance productivity and thus better returns.***

## Poverty Projections With COVID-19 Shock

COVID-19 has brought us into a world of uncertainty. Econometric projections are now relying on a larger set of assumptions and situations. To minimize the risk of high variations in projections, we have considered three possible scenarios. Considering those scenarios, we project for all poverty bands. We consider the following scenarios[7] with their respective strength to impact economy due to COVID-19shock:

i. High impact [-0.5 to 1.5 % GDP growth –massive economic recession][8]
ii. Medium impact [from 1.5 to 2.5 % GDP growth – almost half of the projected GDP growth]
iii. Low impact [from 2.5 % to 3.5 GDP growth –mild recession in the economy]

[6] Pakistan Economic Survey 2018-19

[7] A Think Tank formed by Prime Minter of Pakistan to analyze and advise on economic issues due to COVID-19 shock. The think tank has devised an "Impact and Urgency Response Matric" with multiple actionable themes with low, medium and high economic impact. We have also followed the same approach to define policy in accordance with adverse effects of pandemic shock on economy.

[8] The ranges of GDP growth rates in each scenario are arbitrarily defined and subjective in nature.

**Table 4.1: Projections of Poverty Headcounts (FY21)**

| | Categories | National (Headcount) | Punjab | Sindh | KPK | Balochistan |
|---|---|---|---|---|---|---|
| Aggregate | Baseline | 21.5 | 16.3 | 24.6 | 27.0 | 40.7 |
| | Low-Impact | 30.1 | 23.7 | 32.8 | 37.8 | 55.1 |
| | Mid-Impact | 41.4 | 34.5 | 44.4 | 49.8 | 68.9 |
| | High-Impact | 57.8 | 50.9 | 60.8 | 66.7 | 82.3 |
| Disaggregated (Band wise) | **Baseline** | | | | | |
| | Ultra-Poor | 5.5 | 3.5 | 7.3 | 7.1 | 11.9 |
| | Poor | 16.0 | 12.8 | 17.3 | 19.9 | 28.8 |
| | Vulnerable | 19.9 | 18.2 | 19.7 | 22.8 | 28.2 |
| | Quasi Non-Poor | 37.2 | 39.5 | 36.3 | 35.5 | 23.9 |
| | Non-Poor | 21.4 | 26.0 | 19.3 | 14.7 | 7.2 |
| | **Low-Impact** | | | | | |
| | Ultra-Poor | 9.5 | 6.7 | 11.7 | 11.2 | 21.3 |
| | Poor | 20.6 | 17.0 | 21.1 | 26.6 | 33.9 |
| | Vulnerable | 21.4 | 20.7 | 21.9 | 22.8 | 22.9 |
| | Quasi Non-Poor | 32.2 | 35.5 | 31.1 | 28.5 | 17.3 |
| | Non-Poor | 16.3 | 20.1 | 14.3 | 10.9 | 4.7 |
| | **Mid-Impact** | | | | | |
| | Ultra-Poor | 16.5 | 12.2 | 19.5 | 20.3 | 33.1 |
| | Poor | 24.9 | 22.3 | 24.9 | 29.5 | 35.8 |
| | Vulnerable | 20.3 | 20.7 | 20.4 | 20.6 | 15.7 |
| | Quasi Non-Poor | 26.5 | 30.0 | 24.9 | 22.5 | 12.9 |
| | Non-Poor | 11.7 | 14.8 | 10.4 | 7.2 | 2.5 |
| | **High-Impact** | | | | | |
| | Ultra-Poor | 30.7 | 24.2 | 33.4 | 38.5 | 55.9 |
| | Poor | 27.1 | 26.7 | 27.4 | 28.2 | 26.4 |
| | Vulnerable | 16.8 | 18.4 | 16.4 | 15.2 | 8.7 |
| | Quasi Non-Poor | 18.1 | 21.3 | 16.4 | 14.0 | 7.7 |
| | Non-Poor | 7.3 | 9.3 | 6.4 | 4.0 | 1.3 |

Source: Authors' estimations based on HIES, 2018-19

**Note:** The poverty bands are defined using per capita household income as defined by Planning. For each scenario, we have estimated poverty rate with the following five criteria's: Ultra-poor (<75% of Poverty Line) Poor (> 75% and < 100% of Poverty Line); Vulnerable (> 100% and < 125% of Poverty Line); Quasi Non-Poor (> 125% and < 200% of Poverty Line) and Non-Poor (> 200% of Poverty Line).

In the forthcoming year, if the economy is able to overcome the COVID-19 shock and both supply & demand stabilize, we may expect the low impact scenario to prevail. Nevertheless, this seems over-ambitious. Due to the present state of the economy and future projections by different think tanks and independent researchers, it is recommended that we should be prepared for a severe recession, probably one of the worst in history of Pakistan (World Bank 2020, Statement of Chief Economist Planning Commission, Pakistan). Thus, the probability of high and medium impact scenarios seems closer to reality.

It is estimated that the high impact scenario of ***COVID-19 shock will push almost 35% additional households below the poverty line***, which would account for 132.1 million individuals (See Table 4.1 & 4.2). At the provincial level the ***worst situation is projected to occur in Balochistan (82.3%), followed by KP (66.7%), Sindh (60.8%), and Punjab (50.9%)***.

**Table 4.2: Projections of Poverty in Millions of Population (FY21)**

| Categories | National | Punjab | Sindh | KP | Balochistan |
|---|---|---|---|---|---|
| Baseline Poor | **49.1** | 19.9 | 13.0 | 10.7 | 5.7 |
| **Low-Impact** | | | | | |
| Impact increment | 19.7 | 9.0 | 4.3 | 4.3 | 2.0 |
| Total Poor | **68.8** | 28.9 | 17.3 | 15.0 | 7.7 |
| **Mid-Impact** | | | | | |
| Impact increment | 45.5 | 22.2 | 10.4 | 9.1 | 4.0 |
| Total Poor | **94.6** | 42.1 | 23.4 | 19.8 | 9.7 |
| **High-Impact** | | | | | |
| Impact increment | 83.0 | 42.3 | 19.1 | 15.8 | 5.9 |
| Total Poor | **132.1** | 62.2 | 32.1 | 26.5 | 11.6 |

Source: Author's projections based on HIES 2018-19 Survey dataset. Estimates are normalized with Population Census 2017 based estimates for FY2020-21.

The expected outcomes present a worsening picture for the vulnerable groups. An obvious conclusion in the tables above is further deterioration in the state of non-poor, quasi-poor, and vulnerable groups; a significant proportion of these groups is expected to fall into their respective lower social group. The allocation of financial resources requires careful consideration. ***Different policy stances with special mix should be opted to support the households during this difficult time. For instance, for the ultra-poor, the government should continue with unconditional cash transfers, for the poor category, employment generation through an expansion of the private sector would be essential. Similarly, commercials banks will have to play their role through innovative financial products to support the vulnerable and quasi-poor groups.*** Government/ non-government organizations can also help the households in vulnerable and poor groups to get benefits from different announced packages i.e., tax relaxation, package in the construction sector, etc. The government is already trying to implement a few of these measures; the following sections provide the evaluation and effectiveness of those measures.

## Social Safety Net: BISP/*Ehsass* (An Outlook)

Over 12 years, BISP has emerged as a strong mechanism to provide support to the poorest of the poor. In the post-COVID-19 scenario, BISP has become even more imperative for the hard-hit segment of society. The lockdown has proved crippling for them especially. The last Oxford Policy Management (OPM) impact evaluation report in 2019, showed that 65% of the BISP recipients are still under the poverty line. The findings also showed that 20% of the beneficiaries are vulnerable. This means that any shock, such as COVID-19, could shove them back below the poverty line, as it has done now. However, the government has taken quick actions to mitigate the shock and through the *Ehsass* program has taken some measures which are

discussed below. *Ehsass* program has increased its targeted beneficiaries and included people such as daily wage earners.

There are 12 poverty predictors and these have been compared over the years in Table A4.7 (see, Annexure –Chapter 3) below. The first indicator shows that there is a decrease in the number of dependents in a household. This indicates a decrease in the level of fertility. The current level of fertility is 3.55 which is a decrease from 4.71 in 2005-06. In 2005-06 the households with 7 or more dependents were 10.6 % while this figure for 2018-19 was 6.8% of households.

The education-related indicators show a positive change. There is an increasing number of households whose heads have attended grade 11 or higher. In 2005-06, there were 11.9 % households while this number has increased over the years to 13.5% of households in 2018-19. Similarly, the percentage of households whose heads have never attended school has decreased over the years from 47.4% in 2005-06 to 41.5 % in 2018-19. In connection with these figures, the next indicator confirms the growing importance of education in households. ***There were 40.5 % of households, in 2018-19, that have all their school-age children attending school. This is an improvement from 2005-06 in which the percentage of households with children aged 5 to 16 years attending school was 33.3%.***

Over the years there has been an upgrade in housing characteristics. There are now 46.7% of households that have a greater than 0.4 ratio of rooms to household members in 2018-19. This is an increase from 2005-06 where there were 40.6 % of such households. Likewise, the number of households having flush toilets has increased and the ones having dry pit latrines have decreased in the same period. There are now fewer households i.e. 11.6% that have no toilets as compared to 29.7% of households in 2005-06. A positive trend is also observed in the ownership of durable items in the four periods under consideration. Also, the indicators show increased mechanization in the household which in turn saves the time of women which can; be used for more productive purposes. Interestingly, the ownership of both livestock and agricultural land has decreased over the years. The percentage of households holding no land has consistently increased over the years, as has the households holding no cows, goat, sheep, buffalo, or bullock. This is in conjugation to the sectoral changes occurring in the economy whereby there is an increase in the services sector and a decrease in the agriculture sector.

We used (Ordinary Least Squares) OLS regression to predict consumption for the four periods and the results are presented in Figure A4.1 (see Annexure- Chapter 4). We regressed the consumption variable on 23 variables. Each graph shows the estimates of the 23 variables. The horizontal line near the redpoint for each variable shows the standard deviation. We find each variable to be statistically significant. These results are consistent with earlier estimates of the World Bank for the first two periods. The predicted value of the consumption is normalized to generate the poverty scores. The predicted value is a proxy for per adult equivalent expenditure by a household.

The targeting performance of a model is the degree to which the selected and intended beneficiaries overlap. This targeting performance depends on two things. Firstly, the extent of exclusion of intended beneficiaries, which is termed as under-coverage. The exclusion error is used to calculate the under-coverage ratio. Secondly, the extent to which non-target groups are included. This is termed as leakage. The leakage ratio is calculated by dividing the inclusion error

with the total number of eligible beneficiaries. This is shown in Table A4.5 (see Annexure – Chapter 4). An optimal targeting mechanism aims to minimize both these errors. However, in practice, there is a tradeoff between the two.

Table A4.10 shows the percentage of coverage by the program along with the budgetary needs and the targeting performance at each cut-off score. The term *family* is defined here as a nuclear family while the household is defined as all people living in one housing structure and share a kitchen. The number of families in a household is ascertained by taking into account the number of ever-married women. The poverty score cut-off currently is 16.7. This is determined using the poverty line and poverty score and is an important policy decision. This is influenced by budget, costs and targeting performance. As discussed above targeting performance tries to strike an appropriate balance between leakage and under-coverage. The above table shows three different options for choosing the percent of poorest target groups so as to optimize targeting performance. These three brackets are taken as 17%, 25%, and 40% of the poorest target group. As can be noticed from the table above, as the cut-off scores are increased, say from 16.7 to 17.5, the under-coverage ratio for all the three brackets fall. But at the same time, the leakage ratio increases for all three brackets. Now if we compare the three brackets, then as the percentage of target group increases, the leakage decreases but under-coverage increases. So, there is a tradeoff between the two. Thus, an important decision is to choose that cut-off score that not only balances under-coverage and leakage figures but also is covered by the budgetary allocations.

The same method is applied to the recent HIES 2018-19 data set and results are shown in Table 4.3. Pre-COVID-19, the transfer had risen to PKR 2000. And the cut-off score was 16.7. ***But in the post-COVID-19 scenario, the extreme poor magnitude has risen considerably. This necessitates the increase of the cut-off score to 19.0. This will increase the number of population covered to 8.4 million individuals. This is 22.9% of the total population and 15.9% of the total families. Since the government has already announced PKR 209 billion in the recent budget for FY 2020-21, it is expected that this amount will address the issues of the ultra-poor category, conditional to the accuracy of targeting.*** The target performance can be ascertained by looking at the tradeoff between leakage and under-coverage.

**Table 4.3: Program coverage, budgetary needs and targeting performance as respect to cut-off scores (Estimates for FY-2008-09 based on HIES 2007-08)**

| | Coverage (%) Family | | | Annual Budget Needs *(PKR in Billions)* PKR 2000/month |
|---|---|---|---|---|
| Cutoff scores | Percent | Million | percent of population | |
| 15.0 | 9.8 | 5.2 | 14.2 | 124.6 |
| 15.8 | 11.0 | 5.8 | 15.8 | 138.7 |
| **16.7** | **12.2** | **6.4** | **17.5** | **154.0** |
| 17.5 | 13.6 | 7.2 | 19.5 | 171.6 |
| 18.3 | 14.9 | 7.9 | 21.4 | 188.5 |
| **19.0** | **15.9** | **8.4** | **22.9** | **201.5** |
| 19.9 | 17.3 | 9.1 | 24.9 | 219.2 |
| 21.0 | 19.3 | 10.2 | 27.8 | 244.6 |
| 24.9 | 27.2 | 14.3 | 39.1 | 343.8 |
| 25.5 | 28.5 | 15.0 | 41.1 | 361.2 |
| 26.5 | 30.8 | 16.2 | 44.3 | 389.9 |

| | | | | |
|---|---|---|---|---|
| 27.5 | 32.9 | 17.4 | 47.4 | 416.7 |
| 28.5 | 35.2 | 18.6 | 50.7 | 446.1 |
| 29.5 | 37.6 | 19.8 | 54.1 | 475.4 |
| 30.0 | 38.6 | 20.4 | 55.6 | 488.9 |

**Table 4.4: Program coverage, budgetary needs and targeting performance as respect to cut-off scores (Estimates for FY21 based on HIES 2018-19)**

| Targeting Performance (%) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Poorest 20% as target group | | Poorest 25% as target group | | Poorest 30% as target group | | Poorest 35% as target group | | Poorest 40% as target group | |
| cutoff scores | under-coverage | leakage | under-coverage | leakage | under-coverage | leakage | under-coverage | leakage | under-coverage | leakage |
| 15.0 | 66.9 | 32.7 | 70.2 | 24.2 | 73.0 | 17.7 | 75.7 | 13.4 | 77.7 | 9.3 |
| 15.8 | 64.0 | 34.2 | 67.5 | 25.8 | 70.4 | 18.9 | 73.3 | 14.5 | 75.4 | 10.1 |
| **16.7** | **60.7** | **35.4** | **64.5** | **27.0** | **67.6** | **20.0** | **70.6** | **15.3** | **72.8** | **10.5** |
| 17.5 | 57.4 | 37.1 | 61.1 | 28.3 | 64.4 | 21.2 | 67.6 | 16.3 | 69.9 | 11.2 |
| 18.3 | 54.2 | 38.5 | 58.0 | 29.5 | 61.6 | 22.6 | 64.8 | 17.3 | 67.2 | 12.0 |
| **19.0** | **52.0** | **39.7** | **55.9** | **30.7** | **59.5** | **23.7** | **62.9** | **18.3** | **65.3** | **12.8** |
| 19.9 | 48.4 | 40.4 | 52.5 | 31.4 | 56.4 | 24.4 | 59.9 | 18.8 | 62.6 | 13.5 |
| 21.0 | 45.0 | 43.1 | 49.0 | 34.0 | 52.8 | 26.7 | 56.2 | 20.7 | 59.0 | 15.1 |
| 24.9 | 31.2 | 49.3 | 35.2 | 40.3 | 38.8 | 32.4 | 42.7 | 26.1 | 45.9 | 20.3 |
| 25.5 | 29.4 | 50.5 | 33.1 | 41.4 | 36.7 | 33.5 | 40.5 | 27.0 | 43.7 | 21.0 |
| 26.5 | 25.9 | 51.9 | 29.9 | 43.1 | 33.4 | 35.1 | 37.0 | 28.3 | 40.1 | 22.1 |
| 27.5 | 23.0 | 53.2 | 27.0 | 44.5 | 30.5 | 36.6 | 34.0 | 29.8 | 36.9 | 23.4 |
| 28.5 | 20.5 | 54.9 | 24.1 | 46.2 | 27.4 | 38.2 | 30.8 | 31.2 | 33.6 | 24.7 |
| 29.5 | 18.2 | 56.4 | 21.7 | 47.8 | 24.7 | 39.8 | 27.8 | 32.7 | 30.7 | 26.1 |
| 30.0 | 17.2 | 57.1 | 20.6 | 48.6 | 23.5 | 40.6 | 26.6 | 33.5 | 29.4 | 26.9 |

**Table 4.5: Yearly BISP Grants and number of Beneficiaries**

| Fiscal Years | Total Yearly Releases (PKR in Billions) | Conditional Cash Transfer (PKR in Billions) | Un-conditional Cash Transfer (PKR in Billions) | Total Funds Transferred to Cash Grants (PKR in Billions) | Releases as % of Federal Revenues | Releases as % of GDP (MP) | Yearly Beneficiaries (Nos. in Millions) | Project Phases** | Cash Amount per month per beneficiary (In Pak Rupees) |
|---|---|---|---|---|---|---|---|---|---|
| 2008-09 | 15.3 | 0.04 | 15.81 | 15.85 | 1.30% | 0.10% | 1.76 | Phase I | 1,000 |
| 2009-10 | 39.9 | 2.89 | 31.94 | 34.83 | 3.00% | 0.19% | 2.58 | Phase I | 1,000 |
| 2010-11 | 34.4 | 5.30 | 29.66 | 34.96 | 2.20% | 0.19% | 3.10 | Phase I | 1,000 |
| 2011-12 | 49.5 | 4.28 | 41.60 | 45.88 | 2.60% | 0.25% | 3.68 | Phase I-II | 1,000 |
| 2012-13 | 50.1 | 3.17 | 43.30 | 46.47 | 2.60% | 0.22% | 3.75 | Phase II | 1,000 |
| 2013-14 | 69.6 | 1.20 | 65.11 | 66.31 | 3.10% | 0.28% | 4.64 | Phase II | 1,200 |
| 2014-15 | 91.8 | 0.45 | 88.59 | 89.04 | 3.50% | 0.33% | 5.05 | Phase II | 1,500 |
| 2015-16 | 102.0 | 1.88 | 96.65 | 98.53 | 3.30% | 0.35% | 5.21 | Phase II | 1,567 |
| 2016-17 | 111.5 | 2.27 | 102.10 | 104.37 | 3.30% | 0.35% | 5.46 | Phase II | 1,611 |
| 2017-18 | 107.0 | 3.20 | 99.00 | 102.20 | 3.00% | 0.35% | 5.63 | Phase II | 1,611 |
| 2018-19* | 119.2 | 3.56 | 110.27 | 113.83 | 3.00% | 0.31% | 5.78 | Phase II | 1,611 |

Source: Pakistan Economic Survey, FY2018-19 (*Note: Provisional Estimates)

**Note: Phase I of the project was targeting of the program through parliamentarians while Phase II of the project was targeting through Poverty Score Card (2007-08)

Table 4.4 shows the complete picture of BISP activities so far. The program started with a total yearly release of PKR 15.3 billion which saw progression over the years. In 2018-19, it reached PKR 119.2 billion. The first three years of BISP activities are classified as Phase I whereby the

targeting was through the parliamentarians. Phase II involved an increase in the cash amount per month per beneficiary. The transfer which started as PKR 1,000 per month has now become PKR 2,000 per month. As can be seen, the unconditional cash transfer has been much greater than conditional cash transfers. The conditional cash transfers which are under the heads of *Waseela-e-Rozgar* and *Waseela-e-Taleem* has a lower magnitude than the unconditional transfers and has had an inconsistent growth in the amount of transfers. On the other hand, unconditional cash transfers have continued to grow steadily. Especially in the current COVID-19 crisis, the unconditional cash transfer was further increased to ease the hardship of the poorer segment of the society. This amount has been increased to PKR 144 billion covering 12 million beneficiaries. The various BISP Impact Evaluation Surveys show that over the years the number of beneficiaries who are below the poverty line has decreased from 88% in 2011 to 72% in 2019.

Table A4.6 in Annexure – Chapter 4 shows the number of beneficiaries that were targeted. In 2018, there were 5.32 million people that were a part of this program. With a change in the ruling party of the country, some major changes were brought about in the BISP program. The beneficiaries were thoroughly scrutinized using the National Database and Registration Authority (NADRA) dataset, and then 820,165 of them were removed from the list. The removals of these people were decided on several aspects; however, this strategy still needs a wider consensus. After the removal of these beneficiaries, the people were identified through the National Socio-Economic Registry (NSER) and *Ehsass* SMS using the 16.7% cut-off score. This brought down the number of beneficiaries to 4.5 million people.

When COVID-19 started to wreak havoc to the economy, the government decided to take action to mitigate the effects. The government launched an emergency cash transfer in the *Ehsass* program to scaffold the poor segment of the society. The total budget allocated for this was PKR 144 billion (See Table 4.5). This amount was divided into different categories, as mentioned in Table 4.5. Another package was added in the post-COVID-19 era and termed as Round II "*Mazdoor ka Ehsass*". In this, 6.25 million daily wage earners were identified since they were the ones worst affected by the lockdown in the country. They were also given PKR 3,000 per month, making their total budget allocation PKR 75 billion (Table 4.6).

**Table 4.6: Ehsass Grants and Number of Beneficiaries: FY20**

| Fiscal Years | Target Beneficiaries (Nos. in Millions) | Project Phases | Cash Amount per month per beneficiary (In Pak Rupees) | Total Funds Transferred to Cash Grants (PKR in Billions) |
|---|---|---|---|---|
| 2019-20 (Planned) | 4.5 | Phase III | 1,611 | 86 |
| 2019-20 (Revised) | 4.5 | Phase III | 2,000 | 108 |
| 2019-20 (Disbursed till March) | 4.5 | Phase III | 2,000 | 72 |
| ***Ehsass* Emergency Cash Transfer Package (COVID-19 Shock)** | | | | |
| **2019-20 (April - June)** | **12.00** | | **(2000 + 1000) = 3000*** | **144** |
| 2019-20 (April - June) | 4.5 (*Ehsass* Beneficiaries) | Round-I / Category-I | (2000+1000) = 3000 | 54 |
| 2019-20 (April - June) | 4.0 (Additional / Cut-off Score) | Round-I / Category-II | (2000+1000) = 3000 | 48 |
| 2019-20 (April - June) | 3.5 (Additional/ Districts) | Round-I / Category-III | (2000+1000) = 3000 | 42 |

| *Ehsass* Emergency Cash Transfer Package: Mazdoor Ka *Ehsass* (COVID-19 Shock) | | | | |
|---|---|---|---|---|
| **2019-20 (May - June)** | **6.25 (Daily Wagers)** | **Round-II** | **3,000** | **75** |

Source: Budget Documents, FY2019-20 & *Ehsass* Emergency Cash Package, Govt. of Pakistan.
Note: Targeting in Phase-III is based on the National Socioeconomic Registry (NSER, 2018-19).
Note: Round-I is based on *Ehsass Kafalat* program and Round-II will be considering *Mazdoor ka Ehsass* (daily wagers).

The total targeted beneficiaries currently, post-COVID-19, are 12 million. Their provincial distribution is shown in Table A4.7 in Annexure – Chapter 4. Punjab has the highest share of beneficiaries i.e. 45.3% followed by Sindh with 28.5%. Gilgit Baltistan has the lowest share of 0.7%. Accordingly, the total funds transferred as cash grants are highest for Punjab. This has been done on the basis of population. However, the deprivation criteria should also be used here along with the population. Usually, Punjab is able to get larger shares due to its higher population but other parts of Pakistan which are more deprived are unable to benefit fully. ***Balochistan and KPK deprivation figures are more concerning and need to be considered as an important policy point. The provincial shares currently allocated need to be revised and deprivation criteria need to be given weightage to appropriately address the plight of the weaker segment due to the ongoing economic crisis.*** The measures taken by the government to support households and businesses during COVID-19 are summarized in annexures. However, their success will be evaluated at a later stage.

# ANNEXURES

## Annexure Chapter 2

**Table A2.1: GDP Projected Growth Rate (%)**

| | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 |
|---|---|---|---|---|---|---|
| Baseline | 5.830 | 3.509 | -0.380 | 1.711 | 2.664 | 3.053 |
| S1 | 5.830 | 3.509 | -0.380 | 0.889 | 2.054 | 2.424 |
| S2 | 5.830 | 3.509 | -0.380 | 1.961 | 2.726 | 3.253 |
| S3 | 5.830 | 3.509 | -0.380 | 2.146 | 3.365 | 3.780 |

**Table A2.2: Private Investment Projected Growth Rate (%)**

| | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 |
|---|---|---|---|---|---|---|
| Baseline | 4.815 | -4.731 | -0.359 | 2.072 | 2.947 | 3.253 |
| S1 | 4.815 | -4.731 | -0.359 | 1.457 | 2.396 | 3.013 |
| S2 | 4.815 | -4.731 | -0.359 | 3.048 | 3.303 | 3.770 |
| S3 | 4.815 | -4.731 | -0.359 | 3.949 | 3.971 | 4.019 |

**Table A2.3: Consumption Projected Growth Rate (%)**

| | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 |
|---|---|---|---|---|---|---|
| Baseline | 9.645 | 10.121 | 6.470 | 7.511 | 10.873 | 12.239 |
| S1 | 9.645 | 10.121 | 6.470 | 5.552 | 8.121 | 11.932 |
| S2 | 9.645 | 10.121 | 6.470 | 7.511 | 12.058 | 13.903 |
| S3 | 9.645 | 10.121 | 6.470 | 8.473 | 13.315 | 14.472 |

**Table A2.4: Inflation Projected Rate (%)**

| | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 |
|---|---|---|---|---|---|---|
| Baseline | 3.924 | 5.987 | 9.800 | 5.965 | 6.057 | 5.268 |
| S1 | 3.924 | 5.987 | 9.800 | 7.725 | 6.503 | 6.525 |
| S2 | 3.924 | 5.987 | 9.800 | 6.499 | 6.179 | 5.620 |
| S3 | 3.924 | 5.987 | 9.800 | 6.750 | 6.287 | 5.820 |

**Table A2.4: Exports Projected Growth Rate (%)**

| | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 |
|---|---|---|---|---|---|---|
| Baseline | 15.478 | 13.404 | 4.010 | 3.919 | 6.210 | 7.857 |
| S1 | 15.478 | 13.404 | 4.010 | 1.777 | 3.852 | 4.382 |
| S2 | 15.478 | 13.404 | 4.010 | 4.999 | 6.710 | 7.457 |
| S3 | 15.478 | 13.404 | 4.010 | 5.019 | 6.690 | 7.437 |

**Table A2.5: Imports Projected Growth Rate (%)**

| | FY2018 | FY2019 | FY2020 | FY2021 | FY2022 | FY2023 |
|---|---|---|---|---|---|---|
| Baseline | 21.721 | 17.845 | -10.050 | -3.582 | 3.717 | 6.367 |
| S1 | 21.721 | 17.845 | -10.050 | -2.969 | 4.848 | 6.458 |
| S2 | 21.721 | 17.845 | -10.050 | -3.582 | 4.755 | 5.318 |
| S3 | 21.721 | 17.845 | -10.050 | -4.053 | 5.296 | 5.910 |

# Annexure- Chapter 3

**Table A3.1: Category 1: Highest Revealed Comparative Advantage and Lowest Unit Value**

| Commodity Code | Commodity Description | Total Exports of Commodity to Partner Destinations | Partner |
|---|---|---|---|
| 201 | Meat of bovine animals; fresh or chilled | 162,495,378 | Rest of the World |
| 701 | Potatoes; fresh or chilled | 120,880,077 | Rest of the World |
| 804 | Dates, figs, pineapples, avocados, guavas, mangoes and mangosteens; fresh or dried | 151,868,590 | Rest of the World |
| 1001 | Wheat and meslin | 322,416,687 | Rest of the World |
| 2207 | Ethyl alcohol, undenatured; of an alcoholic strength by volume of 80% vol. or higher; ethyl alcohol and other spirits, denatured, of any strength | 375,291,484 | Rest of the World |

**Table A3-2: Category 2: Pakistan and China or India Reporting RCA of More than One and Pakistan reporting the lowest Unit Value Across the Three Countries**

| Commodity Code | Commodity Description | Total Exports of Commodity to Partner Destinations | Partner |
|---|---|---|---|
| 0303 | Fish; frozen, excluding fish fillets and other fish meat of heading 0304 | 277,612,653 | Rest of the World |
| 1101 | Wheat or meslin flour | 119,517,902 | Rest of the World |
| 1701 | Cane or beet sugar and chemically pure sucrose, in solid form | 386,068,087 | Rest of the World |
| 2523 | Portland cement, aluminous cement (ciment fondu), slag cement, supersulphate cement and similar hydraulic cements, whether or not coloured or in the form of clinkers | 262,319,378 | Rest of the World |
| 3907 | Polyacetals, other polyethers and epoxide resins, in primary forms; polycarbonates, alkyd resins, polyallyl esters and other polyesters, in primary forms | 106,732,729 | EUN & USA |
| 5205 | Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale | 122,979,897 | EUN & USA |
| 5205 | Cotton yarn (other than sewing thread), containing 85% or more by weight of cotton, not put up for retail sale | 1,079,229,070 | Rest of the World |
| 5208 | Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing not more than 200 g/m2 | 373,848,360 | EUN & USA |
| 5208 | Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing not more than 200 g/m2 | 251,185,034 | Rest of the World |
| 5210 | Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibres, weighing not more than 200 g/m2 | 172,064,210 | EUN & USA |
| 5210 | Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibres, weighing not more than 200 g/m2 | 135,913,822 | Rest of the World |
| 5513 | Woven fabrics of synthetic staple fibres, containing less than 85% by weight of such fibres, mixed mainly or solely with cotton, of a weight not exceeding 170g/m2 | 127,828,699 | Rest of the World |
| 6105 | Shirts; men's or boys', knitted or crocheted | 468,241,114 | EUN & USA |
| 6110 | Jerseys, pullovers, cardigans, waistcoats and similar articles; knitted or crocheted | 311,007,299 | EUN & USA |
| 6115 | Hosiery; panty hose, tights, stockings, socks and other hosiery, including graduated compression hosiery (for example, stockings for varicose veins) and footwear without applied soles, knitted or crocheted | 307,426,131 | EUN & USA |
| 6302 | Bed linen, table linen, toilet linen and kitchen linen | 2,882,917,209 | EUN & USA |
| 6302 | Bed linen, table linen, toilet linen and kitchen linen | 359,941,639 | Rest of the World |
| 6307 | Textiles; made up articles n.e.c. in chapter 63, including dress patterns | 449,298,704 | EUN & USA |

**TableA3.3: Category 3: Unit Value of Exports from Pakistan between that of China and India**

| Commodity Code | Commodity Description | Total Exports of Commodity to Partner Destinations | Partner |
|---|---|---|---|
| **Pakistan Reporting Highest RCA: Total Exports: USD 313,405,646** | | | |
| 805 | Citrus fruit; fresh or dried | 177,456,239 | Rest of the World |
| 7403 | Copper; refined and copper alloys, unwrought | 135,949,407 | Rest of the World |
| **Pakistan and China or India reporting RCA more than One: USD 6,709,393,992** | | | |
| 1006 | Rice | 365,338,459 | EUN & USA |
| 1006 | Rice | 1,636,473,994 | Rest of the World |
| 4203 | Artides of apparel and dothing accessories, of leather or of composition leather | 127,122,129 | Rest of the World |
| 4203 | Artides of apparel and dothing accessories, of leather or of composition leather | 485,906,454 | EUN & USA |
| 5209 | Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing more than 200g/m2 | 161,573,954 | EUN & USA |
| 5209 | Woven fabrics of cotton, containing 85% or more by weight of cotton, weighing more than 200g/m2 | 803,639,159 | Rest of the World |
| 6103 | Suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches, shorts (not swimwear); men's or boys', knitted or crocheted | 503,694,932 | EUN & USA |
| 6104 | Suits, ensembles, jackets, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (not swimwear), women's or girls', knitted or crocheted | 131,505,864 | EUN & USA |
| 6116 | Gloves, mittens and mitts; knitted or crocheted | 125,108,212 | EUN & USA |
| 6203 | Suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (other than swimwear); men's or boys' (not knitted or crocheted) | 1,911,985,690 | EUN & USA |
| 6203 | Suits, ensembles, jackets, blazers, trousers, bib and brace overalls, breeches and shorts (other than swimwear); men's or boys' (not knitted or crocheted) | 257,273,488 | Rest of the World |
| 6204 | Suits, ensembles, jackets, dresses, skirts, divided skirts, trousers, bib and brace overalls, breeches and shorts (other than swimwear); women's or girls' (not knitted or crocheted) | 199,771,657 | EUN & USA |
| **Pakistan reporting RCA of less than one: Total Exports: USD 389,943,441** | | | |
| 2710 | Petroleum oils and oils from bituminous minerals, not crude; preparations n.e.c, containing by weight 70% or more of petroleum oils or oils from bituminous minerals; these being the basic constituents of the preparations; waste oils | 235,930,189 | Rest of the World |
| 3004 | Medicaments; (not goods of heading no. 3002, 3005 or 3006) consisting of mixed or unmixed products for therapeutic or prophylactic use, put up in measured doses (ind. those in the form of transdermal admin. systems) or packed for retail sale | 154,013,252 | Rest of the World |

**Table A3.4: Category 4: Highest Unit Value for Exports**

| Commodity Code | Commodity Description | Total Exports of Commodity to Partner Destinations | Partner |
|---|---|---|---|
| **Pakistan Reporting Highest RCA: Total Exports: USD 378,412,948** | | | |
| 9018 | Instruments and appliances used in medical, surgical, dental or veterinary sciences, including scintigraphic apparatus, other electro-medical apparatus and sight testing instruments | 237,579,790 | EUN & USA |
| 9018 | Instruments and appliances used in medical, surgical, dental or veterinary sciences, including scintigraphic apparatus, other electro-medical apparatus and sight testing instruments | 140,833,134 | Rest of the World |
| **Pakistan and China or India reporting RCA more than One: Total Exports: USD 684,520,291** | | | |
| 4107 | Leather further prepared after tanning or crusting, including parchment-dressed leather, of bovine (including buffalo) or equine animals, without hair on, whether or not split, other than leather of heading 41.14 | 106,588,735 | Rest of the World |
| 5211 | Woven fabrics of cotton, containing less than 85% by weight of cotton, mixed mainly or solely with man-made fibres, weighing more than 200g/m2 | 114,943,795 | Rest of the World |
| 6109 | T-shirts, singlets and other vests; knitted or crocheted | 325,911,316 | EUN & USA |
| 9506 | Gymnastics, athletics, other sports (including table tennis) or outdoor games equipment, n.e.c. in this chapter, swimming pools and paddling pools | 137,076,445 | EUN & USA |
| **Pakistan reporting RCA of less than one:** | | | |
| 2709 | Petroleum oils and oils obtained from bituminous minerals; crude | 262,066,954 | Rest of the World |

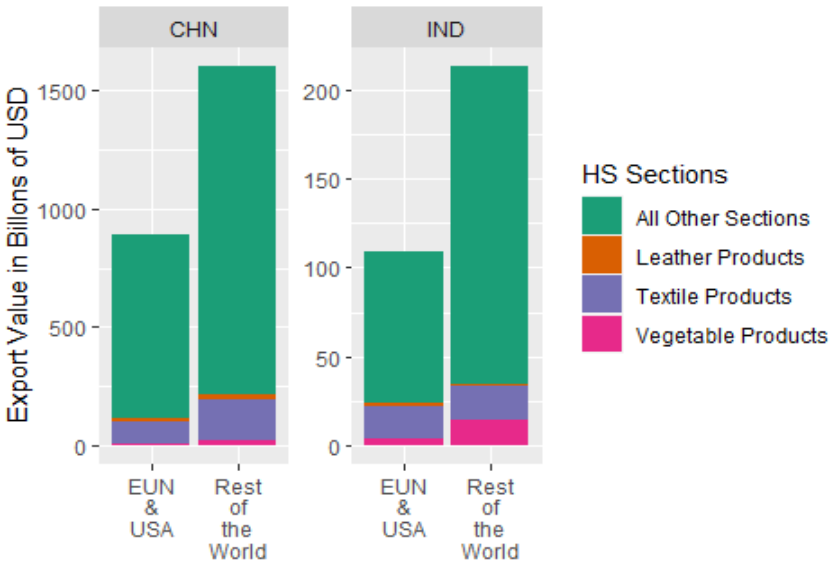


Figure A3.1: Total Exports of China and India to Specified Destinations Distributed by HS Sections

## Annexure – Chapter 4

### Targeting Approach of BISP

Since its inception BISP has tried to improve its targeting so as to have maximum overlap between the intended beneficiaries and the actual recipients. However, lack of complete income data, hinders judgment regarding the level of poverty of a particular household and thus impacts selection of beneficiaries. In order to overcome this, Proxy Means Testing (PMT) is done to use the observable household characteristics to determine the income or the consumption level. The variables selected act as a proxy to the level of income or consumption. The obtained consumption estimates are used to ascertain the household eligibility for provision of social safety net. If their consumption level falls above a pre-determined threshold the support is withdrawn. The Poverty score card methodology used is PMT approach. It is a regression-based methodology. The PMT questionnaire is shorter and quicker to gauge the level of poverty. It uses the consumption variable at the aggregate level and analysis the determinants of consumption. There are 23 variables that have been previously used in literature. In Pakistan the consumption variable is the household expenditure per adult equivalent. Since 2008 to 2018 targeting has been done on this basis. In 2018 the program was improved by applying some specific measures which are discussed below. About 5.2 million people were earlier targeted. In 2018 nearly 8 lac people were dropped while some more people, who were deemed eligible, were added.

### Measures taken by government since January to combat COVID-19 crisis

The following measures have been taken by the

1. SBP reduces policy rate on 15 the May, by a two-month cumulative 525 basis points since 17 March 2020.
2. The policy rate has been cut to 8% now. The continual decrease in policy rate coupled with cheaper loans and other measures, have maintained credit flows. This expansionary policy has helped counter the decreased economic activity due to COVID-19.
3. There is an expected decrease in inflation to 11%.
4. The fuel prices have decreased by 30 and 40% for petrol and diesel respectively .
5. The expansionary fiscal policy includes provision of support packages to the poor, SMEs and construction sector.
6. Refinance scheme to middle and large businesses to support employment and prevent layoff of workers. SBP will finance up to 100% of wages and salaries of businesses with average 3-month wage bill. The limit is up to PKR 500 million.
7. A relief fund was set up by the government for donations for the pandemic.
8. Introduction of relief package. This includes increase of bank's overall pool of loanable funds, increase in regulatory limit on extension of credit to SMEs, increase in borrowing limits for individuals, one-year payment deferred on payment of principal loan obligations and relaxing of regulatory criteria for restructuring of loans, among others.
9. Long term finance facility for purchase of new/existing imported and locally manufactured medical equipment to be used for combating COVID-19. All hospitals and medical centers registered with respective provincial/federal agencies/commissions engaged in controlling and eradication of COVID-19 will be eligible under the facility.
10. Banks/DFIs/MFBs were advised to take precautionary measures such as enhanced usage of cash counting machines, encouraging customers to use Alternate Delivery Channels

(ADCs) etc. to reduce contact with currency notes and other financial instruments. Further, make elaborative arrangements to provide uninterrupted financial services through ADCs (e.g. ATMs, online banking, transactions through call centers etc.)

11. Promotion of digital payments by allowing customers to perform online interbank transactions free of cost.
12. Due to the COVID-19 pandemic Pakistan's exporters are facing declining demand in overseas markets and problems in executing existing orders. To support exporters some measure, include: availing cheaper credit under EFS, Extension in time period to meet performance requirements, relaxation in conditions for Long Term Financing Facility and, extension in time period to ship goods.
13. Provision of subsidized credit for new investment to boost employment and growth in the economy.
14. Different Social assistance packages as shown in Table A4.1 below:

**Table A4.1: Types of Social Assistance Programs in response to COVID-19**

| Social assistance program | Action taken /amount disbursed |
|---|---|
| **Cash transfer** | PKR 112.16 billion have been disbursed for categories I-III among more than 9.2 million families countrywide. 6 million people, under category-IV, provided one-time cash assistance of PKR 12,000. Entire funding of category-IV would come from the Prime Minister's Corona Relief Fund but channeled through *Ehsass* Emergency Cash Programme |
| **Protecting Businesses** | Tax breaks, financial support via utilities, fuel and transport subsidies, concessions and tax refunds. A separate package worth PKR 100 billion (USD 600.42 million) just for SMEs, which form close to 90% of all enterprises in Pakistan. |
| **Cash for labourers** | *Ehsass* Labour portal used for disbursement of one-time assistance of PKR 12, 000. Mazdoor-ka-*Ehsass* covered 6.25 million beneficiaries. |
| **In-kind food/ voucher** | 1.A sum of PKR 50 billion has been earmarked for government-run utility stores to ensure constant availability of food and other necessities. PKR280 billion has been allocated to ensure wheat farmers do not face cash flows and to smooth wheat procurement.<br>2. The *Ehsass* Rashan Portal is a donor-beneficiary linking system for rashan distribution. It has been set up to enable the private sector and civil society organizations to reach the most vulnerable deserving beneficiaries and provide them food rashan packs or cash equivalent in the wake of the COVID-19 crisis. Organizations willing to donate PKR 10 million are invited to participate at this stage. |
| **Utility/ financial obligation support** | In April it was announced that small traders will have their electricity bills waived for next 6 months[9]. However, Sindh has rejected this relief of electricity and gas.[10] |
| **Creating livelihoods and jobs** | *Ehsass* Amdan (Income) Programme will target Kafaalat households which are further supported through asset transfers and/or vocational training and provided opportunities to leverage the Interest Free Loan (IFL) scheme in order to graduate out of the government's social protection registry. The total budget of the programme is approximately PKR 15 billion. |
| **Education** | No educational institution shall charge more than 80 per cent of the total monthly fees.[11] Schools to extend deadlines associated with responding to school fees. |

[9] https://tribune.com.pk/story/2208628/1-govt-waive-traders-gas-electricity-bills/

[10] https://www.thenews.com.pk/latest/657322-sindh-withdraws-utility-bills-relief-clause-resend-coronavirus-relief-ordinance-to-governor

[11] https://www.dawn.com/news/1557385

**Table A4.2: Poverty Incidence (Headcount Ratios)**

| | 2013-14 | 2015-16 | 2018-19 |
|---|---|---|---|
| National | 29.5 | 24.3 | 21.5 |
| Urban | 18.7 | 12.5 | 10.7 |
| Rural | 35.9 | 30.8 | 27.7 |
| Punjab | 25.5 | 20.8 | 16.3 |
| Urban | 16.5 | 10.0 | 8.8 |
| Rural | 30.0 | 26.2 | 20.6 |
| Sindh | 35.6 | 32.4 | 24.6 |
| Urban | 19.9 | 15.4 | 10.4 |
| Rural | 29.5 | 49.6 | 40.0 |
| KP | 27.0 | 18.2 | 27.0 |
| Urban | 15.4 | 10.0 | 16.8 |
| Rural | 29.5 | 20.0 | 29.0 |
| Baluchistan | 56.0 | 42.3 | 40.7 |
| Urban | 42.3 | 26.4 | 24.7 |
| Rural | 61.1 | 48.3 | 46.7 |

Note: Authors' own estimations based on National Poverty Line (2013-14, PKR 3030 per month) as defined by Govt of Pakistan, based on Cost of Basic Need (CBN) approach. Benchmark poverty lines for 2015-16 and 2018-19 are calculated by using CPI inflation factors. These are PKR 3250.28 and PKR 3776 per month respectively.

**Table A4.3: Poverty Bands at National, Regional and Provincial Level in Pakistan**

| Year | Categories | National | Urban | Rural | Punjab | Sindh | KP | Baluchistan |
|---|---|---|---|---|---|---|---|---|
| 2013-14 | Ultra Poor | 9.7 | 5.2 | 12.1 | 8.6 | 11.4 | 6.6 | 21.5 |
| | Poor | 20.2 | 13.5 | 23.8 | 16.9 | 24.4 | 20.4 | 34.5 |
| | Vulnerable | 20.4 | 17.5 | 21.9 | 18.9 | 21.3 | 24.6 | 20.7 |
| | Quasi Non-Poor | 33.6 | 37.7 | 31.4 | 35.8 | 30.9 | 35.5 | 18.6 |
| | Non-Poor | 16.1 | 26.1 | 10.8 | 19.8 | 12.1 | 12.9 | 4.7 |
| 2015-16 | Ultra Poor | 6.5 | 2.6 | 8.5 | 4.6 | 10.8 | 3.4 | 14.3 |
| | Poor | 18.0 | 9.9 | 22.3 | 16.2 | 21.6 | 14.8 | 28.0 |
| | Vulnerable | 19.8 | 14.5 | 22.6 | 15.5 | 19.0 | 23.7 | 27.3 |
| | Quasi Non-Poor | 34.8 | 37.6 | 33.2 | 37.0 | 29.2 | 39.6 | 23.6 |
| | Non-Poor | 21.0 | 35.3 | 13.3 | 23.6 | 19.4 | 18.5 | 6.9 |
| 2018-19 | Ultra Poor | 5.5 | 2.0 | 7.5 | 3.5 | 7.3 | 7.1 | 11.9 |
| | Poor | 16.0 | 8.7 | 20.2 | 12.8 | 17.3 | 19.9 | 28.8 |
| | Vulnerable | 19.9 | 14.3 | 23.2 | 18.2 | 19.7 | 22.8 | 28.2 |
| | Quasi Non-Poor | 37.2 | 39.6 | 35.8 | 30.5 | 36.3 | 35.5 | 23.9 |
| | Non-Poor | 21.4 | 35.5 | 13.4 | 26.0 | 19.3 | 14.7 | 7.2 |

Note: Poverty bands are defined using per capita household income as defined by Planning Commission in National Poverty Report 2015-16. The definition of each band is taken as: Ultra-poor(<75% of Poverty Line) Poor (> 75% and < 100% of Poverty Line); Vulnerable (> 100% and < 125% of Poverty Line); Quasi Non-Poor (> 125% and < 200% of Poverty Line) and Non-Poor (> 200% of Poverty Line).

**Table A4.4: Sector wise Shares of Poverty in Pakistan**

| | 2015-16 | | | 2018-19 | | |
|---|---|---|---|---|---|---|
| | Agriculture Sector | Industrial Sector | Services Sector | Agriculture Sector | Industrial Sector | Services Sector |
| National | 54.1 | 22.4 | 23.5 | 44.4 | 29.2 | 26.4 |
| Punjab | 52.0 | 23.2 | 24.8 | 43.4 | 30.4 | 26.2 |
| Sindh | 59.1 | 20.4 | 20.5 | 57.2 | 22.9 | 19.9 |
| KP | 36.7 | 32.5 | 30.9 | 22.9 | 39.2 | 38.0 |
| Baluchistan | 56.0 | 18.8 | 25.2 | 40.2 | 29.0 | 30.8 |

Source: Author's estimates based on HIES Survey datasets.

**Table A4.5: Performance Measure Ratios**

| | Target Group | Non-target group | Total |
|---|---|---|---|
| **Eligible** | Correctly Identified (S1) | Indusion Error (E2) | Total Eligible (N3) |
| **Non-Eligible** | Exdusion Error (E1) | Correctly Identified (S2) | Total Non-Eligible (N4) |
| **Total** | Total Target Group (N1) | Total Non-Target Group (N2) | Total Population (N) |

Note: Coverage ratio = S1/N1; Targeting Ratio=S1/N3; Leakage ratio (Inclusion Error) = E2/N3
Under-coverage Ratio (Exclusion Error) = E1/N1; Total Coverage Ratio = N3/N

**Table A4.6: *Ehsass* Target Beneficiaries: FY2019-20**

| **Target Beneficiaries (Nos. in Millions)** | 5.32 |
|---|---|
| **Beneficiaries Removed from Database** | |
| Govt. Employees | 14,730 |
| Spouses (Govt. Employees) | 127,826 |
| Travelled Abroad | 153,302 |
| Travelled Abroad (Once) | 142,826 |
| Travelled Abroad (More than once) | 10,476 |
| Spouses Travelled Abroad | 195,364 |
| Spouses Travelled Abroad (Once) | 29,045 |
| Spouses Travelled Abroad (More than once) | 166,319 |
| Owned One or More than one Vehide | 692 |
| Spouses had One or More than One Vehide | 43,746 |
| Monthly Telephone Bill >= PKR 1,000 | 24,546 |
| Spouses Paid PKR 1,000 or More Mobile Phone Bill | 155,767 |
| Applying for Passports | 666 |
| Spouses Applying for Passports | 580 |
| Paid Executive Fees for Obtaining Computerized CNICs | 36,970 |
| Removed without any explicit reason | 65,976 |
| **Beneficiaries Removed (Total)** | **820,165** |
| **Revised Target Beneficiaries (Nos. in Millions, Phase-III)** | **4.5** |
| Identified through NSER (Nos. in Millions) | 3.0 |
| Identified through *Ehsass* SMS route (Nos. in Millions) | 1.5 |

Source: BISP Archives; Note: NSER = National Socioeconomic Registry (Database)

## Table A4.7: *Ehsass* Emergency Cash Transfer Package (COVID-19 Shock)

| Province | Target Beneficiaries | Project Phases | Total Funds Transferred to Cash Grants (PKR in Billions) | Province Share |
|---|---|---|---|---|
| Punjab | 5661644 | Round-I | 67.94 | 45.3% |
| Sindh | 3564344 | Round-I | 42.77 | 28.5% |
| KP | 2203930 | Round-I | 26.45 | 17.6% |
| Baluchistan | 684865 | Round-I | 8.22 | 5.5% |
| ICT | 74953 | Round-I | 0.19 | 0.6% |
| AJK | 222379 | Round-I | 2.67 | 1.8% |
| GB | 90095 | Round-I | 0.90 | 0.7% |
| **Total** | **12 Million** | **Round-I** | **144** | **100%** |

Source: *Ehsass* Emergency Cash Package, Govt. of Pakistan. Note: till 23rd of May 9.22 million families already received package amount of 12000 per month each (total amount paid so far, PKR 112.16 billion). Rest of the families will be covered in next coming days. The amount was given to families after biometric verification through 18,065 sale points or retail shops of Habib Bank Limited and Bank Al-Falah across the country.

## Table A4.8: Comparison of Poverty Predictors

| Poverty Predictors | 2005-06 | | 2007-08 | | 2013-14 | | 2018-19 | |
|---|---|---|---|---|---|---|---|---|
| | Mean | SD | Mean | SD | Mean | SD | Mean | SD |
| **1. Number of People in the HHs under the age of 18 or over the age of 65** | | | | | | | | |
| Less than or equal to 2 dependents | 37.8 | 48.5 | 50.9 | 50.0 | 42.8 | 49.5 | 44.6 | 49.7 |
| 3 or 4 Dependents | 31.0 | 46.2 | 30.7 | 46.1 | 32.9 | 47.0 | 32.9 | 47.0 |
| 5 or 6 Dependents | 20.6 | 40.4 | 14.4 | 35.1 | 16.8 | 37.4 | 15.6 | 36.3 |
| 7 or more Dependents | 10.6 | 30.8 | 4.0 | 19.5 | 7.4 | 26.3 | 6.8 | 25.2 |
| **2. Highest Education Level of the HH Head** | | | | | | | | |
| Household Never attended school | 47.4 | 49.9 | 42.0 | 49.4 | 43.6 | 49.6 | 41.5 | 49.3 |
| Household head attended up to class 5 | 16.7 | 37.3 | 16.7 | 37.3 | 15.6 | 36.3 | 16.0 | 36.7 |
| Household head attended class 6 to 10 | 24.0 | 42.7 | 27.9 | 44.9 | 27.4 | 44.6 | 28.9 | 45.3 |
| Household head attended class 11 or more | 11.9 | 32.4 | 13.4 | 34.0 | 13.3 | 34.0 | 13.5 | 34.2 |
| **3. Number of Children in the HH b/w 5 and 16 years old currently attending schools** | | | | | | | | |
| No children b/w 5 and 16 years old in the HH | 24.7 | 43.1 | 25.6 | 43.6 | 28.7 | 45.2 | 29.0 | 45.4 |
| All 5 to 16-year-olds attending school | 33.3 | 47.1 | 37.4 | 48.4 | 37.4 | 48.4 | 40.5 | 49.1 |
| Only Some Children b/w 5 to 16-year-olds attending school | 26.1 | 43.9 | 24.2 | 42.8 | 23.8 | 42.6 | 21.9 | 41.4 |
| None of the children b/w 5 to 16-year-olds attending school | 15.9 | 36.5 | 12.8 | 33.4 | 10.1 | 30.1 | 8.6 | 28.1 |
| **4. Number of Rooms per person in a HH** | | | | | | | | |
| 0 <= (Ratio of rooms to household members) <= 0.2 | 16.0 | 36.6 | 14.1 | 34.8 | 14.5 | 35.2 | 13.5 | 34.1 |
| 0.2 < (Ratio of rooms to household members) <= 0.3 | 27.1 | 44.4 | 24.9 | 43.3 | 25.7 | 43.7 | 23.3 | 42.3 |
| 0.3 < (Ratio of rooms to household members) <= 0.4 | 16.4 | 37.0 | 16.6 | 37.2 | 16.8 | 37.4 | 16.5 | 37.1 |
| (Ratio of rooms to household members)>0.4 | 40.6 | 49.1 | 44.3 | 49.7 | 43.0 | 49.5 | 46.7 | 49.9 |
| **5. Toilet kind used by the HH** | | | | | | | | |
| Flush connected to public sewerage, pit or open drain | 59.5 | 49.1 | 69.3 | 46.1 | 74.5 | 43.6 | 80.5 | 39.6 |
| Dry raised latrine or dry pit latrine | 10.8 | 31.1 | 9.7 | 29.6 | 8.9 | 28.5 | 7.8 | 26.9 |
| There is no toilet in the HH | 29.7 | 45.7 | 21.0 | 40.7 | 16.7 | 37.3 | 11.6 | 32.0 |
| **6. At least one refrigerator, freezer or washing machine** | 44.3 | 49.7 | 52.8 | 49.9 | 55.5 | 49.7 | 66.1 | 47.3 |
| **7. At least one AC, cooler, geyser or heater** | 14.1 | 34.8 | 16.2 | 36.8 | 12.0 | 32.5 | 19.1 | 39.3 |
| **8. At least one cooking stove, range, or microwave oven** | 32.2 | 46.7 | 40.4 | 49.1 | 43.8 | 49.6 | 56.7 | 49.6 |
| **9. Ownership of Engine Driver Vehicles** | | | | | | | | |
| At least one car/tractor AND at least one motorcycle/scooter | 1.1 | 10.5 | 1.5 | 12.0 | 2.1 | 14.2 | 3.8 | 19.1 |
| At least one car/tractor BUT no motorcycle/scooter | 2.5 | 15.5 | 2.5 | 15.5 | 2.4 | 15.3 | 2.4 | 15.4 |
| No car/tractor BUT at least one motorcycle/scooter | 11.5 | 31.9 | 17.6 | 38.1 | 31.5 | 46.5 | 50.0 | 50.0 |
| Neither car/tractor NOR motorcycle/scooter | 84.9 | 35.8 | 78.4 | 41.2 | 64.0 | 48.0 | 43.7 | 49.6 |
| **10. At least one TV** | 48.0 | 50.0 | 57.5 | 49.4 | 56.0 | 49.6 | 61.0 | 48.8 |
| **11. Ownership of livestock** | | | | | | | | |
| At least one Buffalo or Bullock AND at least one Cow or Goat or Sheep | 13.0 | 33.6 | 11.9 | 32.4 | 10.6 | 30.8 | 8.2 | 27.5 |
| At least one Buffalo or Bullock BUT No Cow or Goat or Sheep | 9.2 | 28.8 | 7.4 | 26.2 | 6.7 | 25.0 | 5.0 | 21.8 |
| No Buffalo or Bullock but at least one Cow or Goat or Sheep | 11.0 | 31.3 | 8.8 | 28.3 | 8.5 | 27.9 | 9.8 | 29.7 |
| Neither Buffalo or Bullock NOR Cow or Goat or Sheep | 66.8 | 47.1 | 71.9 | 45.0 | 74.2 | 43.8 | 77.0 | 42.1 |
| **12. Ownership of Agriculture Land** | | | | | | | | |
| Own No Agriculture Land | 70.1 | 45.8 | 79.7 | 40.2 | 81.9 | 38.5 | 92.3 | 26.6 |
| Agricultural land ≤ 12.5 acres | 26.8 | 44.3 | 17.7 | 38.2 | 16.9 | 37.5 | 7.1 | 25.7 |
| Agricultural land >12.5 acres | 3.2 | 17.5 | 2.6 | 15.8 | 1.2 | 10.9 | 0.6 | 7.6 |

Source: Author's own estimations based on HIES Survey Datasets
Note: Means and SDs are weighted by sampling weights

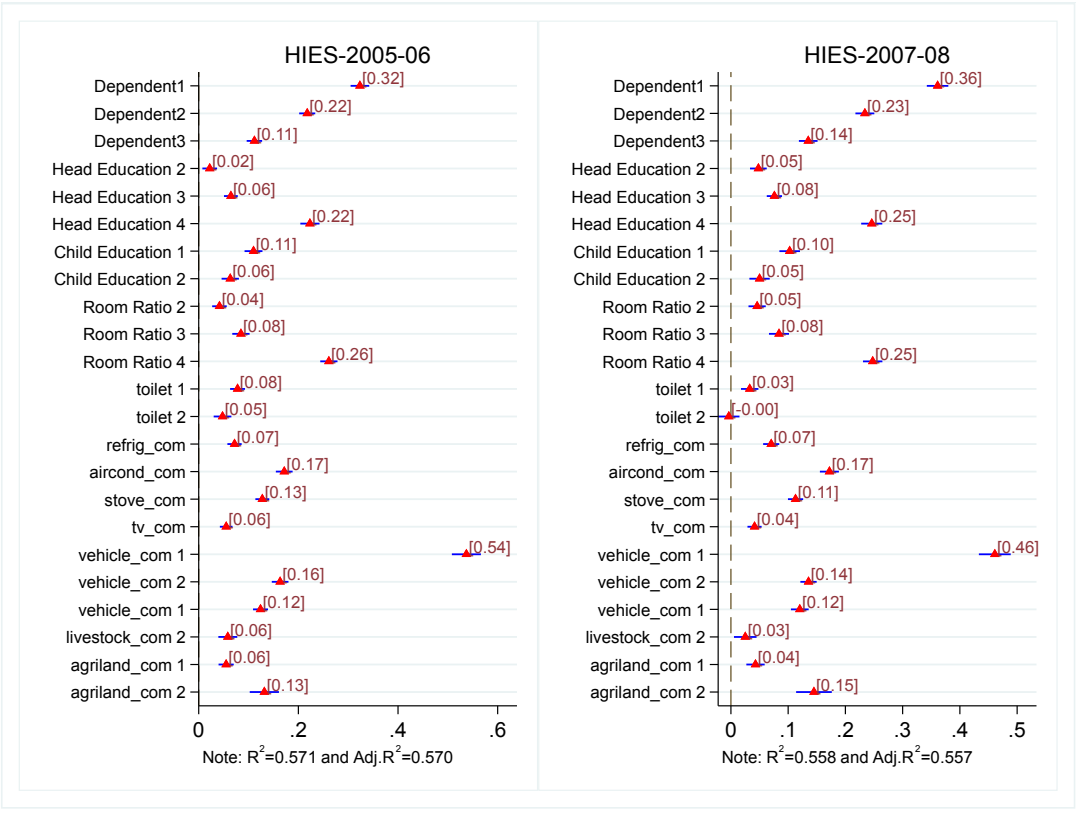


**Figure A4.1: PMT Regression Models Estimates (Poverty Predictors)**

Source: Author's own estimations based on HIES Datasets
Note: Log of consumption per adult equivalence normalized by Paasche Index is taken as dependent variable in all regressions

**Table A4.9: Program coverage, budgetary needs and targeting performance as respect to cut-off scores (Estimates for FY-2008-09 based on HIES 2007-08)**

| cut-off scores | Coverage (%) Family | | | Budget Needs (PKR in Billions) PKR 1000/m | Targeting Performance (%) | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Poorest 17% as target group | | Poorest 25% as target group | | Poorest 40% as target group | |
| | Percent | Million | percent of population | | under-coverage | leakage | under-coverage | leakage | under-coverage | leakage |
| 15.0 | 11.2 | 4.0 | 15.0 | 48.5 | 55.7 | 49.8 | 61.4 | 35.6 | 68.8 | 16.8 |
| 15.8 | 12.9 | 4.7 | 17.0 | 56.0 | 52.4 | 52.4 | 57.8 | 38.1 | 65.4 | 18.6 |
| **16.7** | **14.6** | **5.3** | **19.0** | **63.2** | **48.5** | **54.0** | **54.1** | **39.8** | **61.8** | **19.7** |
| **17.5** | **16.3** | **5.9** | **21.0** | **70.5** | **45.3** | **55.7** | **50.7** | **41.3** | **58.5** | **21.1** |
| 18.3 | 18.0 | 6.5 | 23.0 | 78.2 | 41.6 | 56.8 | 47.2 | 42.7 | 55.1 | 22.0 |
| 19.0 | 19.9 | 7.2 | 25.0 | 86.0 | 37.5 | 57.5 | 43.4 | 43.4 | 51.8 | 22.8 |
| 19.9 | 21.6 | 7.8 | 27.0 | 93.6 | 33.9 | 58.3 | 39.9 | 44.4 | 48.4 | 23.6 |
| 21.0 | 24.2 | 8.8 | 30.0 | 105.0 | 29.6 | 60.1 | 35.6 | 46.3 | 43.6 | 24.8 |
| 24.9 | 33.7 | 12.2 | 40.1 | 146.2 | 17.2 | 64.8 | 21.7 | 51.1 | 29.7 | 29.8 |

Source: World Bank staff estimation based on HIES 2007-2008 (Hou and Yoshida, 2009).

Note: According to WB estimates, there are on average around 1.46 families in a household (HIES 2007-08). With the population estimate of 2008-2009 (164 million, guestimate based on 1998 Census) and the average household size of 6.63 (HIES 2007-08), the total numbers of households and families in 2008-2009 are estimated to be 24.7 million and 36.1 million, respectively.

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