

# **Main Contours of Federal Budget 2011-2012**

*A Brief for Parliamentarians*

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## PREFACE

The national budget, representing the government's fiscal, financial and economic objectives, serves as the most important policy document of a country. Through the appropriation of the budget, the Parliament empowers the executive to raise the revenues and other funds required to finance the delivery of public services. Parliamentary control and scrutiny of the budget, therefore, is one of Parliament's most important powers. Parliament is the appropriate place to ensure that the budget best matches the nation's needs with available resources. Such an exercise demands detailed engagement of the Parliament and Parliamentary Standing Committees, the real engines behind Parliamentary work and efficiency, with the budget for its analysis and scrutiny.

Federal Budget 2011-2012 was presented to the Parliament on June 3, 2011. This paper, prepared especially for the benefit of the Parliamentarians looks at main contours of the Budget 2011-2012 and will serve as a backgrounder to PILDAT Briefing for Parliamentarians on *How to effectively participate in Parliamentary Budget Debate?* scheduled at the start of the budget debate so as to equip MPs to make an effective and useful contribution while reviewing the budget before its passage.

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## Main Contours of Federal Budget 2011-2012

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#### Budget Presentation

Budget 2011-2012 was presented in the Cabinet and Parliament on Friday, June 3, 2011 by the Federal Government. The presentation of the budget is as per Article 80 of the Constitution, which states:

*The Federal Government shall, in respect of every financial year, cause to be laid before the National Assembly a statement of the estimated receipt and expenditure of the Federal Government for that year, in this Part, referred to as the Annual Budget Statement.*

As per the Constitution two 'Bills' are presented in the National Assembly at the time of presentation of the budget:

1. The Money Bill, and
2. The Finance Bill

Article 73 of the Constitution presents the requirements and processes of both the Bills. Article 73 states:

*..., a Money Bill shall originate in the National Assembly: Provided that simultaneously when a Money Bill, including the Finance Bill containing the Annual Budget Statement, is presented in the National Assembly, a copy thereof shall be transmitted to the Senate which may, within seven days, make recommendations thereon to the National Assembly. The National Assembly shall consider the recommendations of the Senate and after the Bill has been passed by the Assembly with or without incorporating the recommendations of the Senate, it shall be presented to the President for assent.*

In upcoming days, the budget will be debated in the Parliament and subsequently through the process of voting, will be approved and/or disapproved. There will be general debate on the budget in which Parliamentarians can participate. On finalization of general debate on the budget, the Finance Minister will wind up the budget debate by presenting answers to the questions raised in the general debate. Parliamentarians who intend to alter the budget will be given a chance to present cut-motions (cut-motions are written recommendations on the budget). Finally, through the process of voting on expenditure demands (other than charged demands that are Constitutionally provided) the budget will be passed. Subsequently, the Prime Minister

will authenticate the Schedule of Authorised Expenditure as per Article 83 of the constitution, which states:

*The Prime Minister shall authenticate by his signature a schedule*

- a) *the grants made or deemed to have been made by the National Assembly under Article 82, and*
  - b) *the several sums required to meet the expenditure charged upon the Federal Consolidated Fund but not exceeding, in the case of any sum, the sum shown in the statement previously laid before the National Assembly.*
- (2) *The schedule so authenticated shall be laid before the National Assembly, but shall not be open to discussion or vote thereon.*
- (3) *Subject to the Constitution, no expenditure from the Federal Consolidated Fund shall be deemed to be duly authorised unless it is specified in the schedule so authenticated and such schedule is laid before the National Assembly as required by clause (2).*

#### Powers of the Executive in Budget Execution in Pakistan

As per Article 84 of the Constitution, post-budget approval, the executive has powers to spend beyond the originally approved budget. Article 84, states:

*... the Federal Government shall have power to authorize expenditure from the Federal Consolidated Fund, whether the expenditure is charged by the Constitution upon that Fund or not, and shall cause to be laid before the National Assembly Supplementary Budget Statement or, as the case may be, an Excess Budget Statement, setting out the amount of that expenditure, and the provisions of Articles 80 to 83 shall apply to those statements as they apply to the Annual Budget Statement.*

There are perhaps no more than 2-3 countries in the world including Pakistan where there is no ex-ante (before the expenditure) approval of the Parliament of supplementary budget. Article 84 of the constitution therefore, needs a review.





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#### Main Contours of Budget 2011-2012

The Budget 2011-12, as stated above, was presented in the Parliament on June 3, 2011. The Finance Minister in his speech provided the main contours of the budget. In his speech, the Finance Minister also spoke about the key economic policies of the Government and how they affect lives of people in the country. The Finance Minister also spoke about the reforms process through which the Government intends to manage the economy. The Budget 2011-2012 has been prepared as per medium-term fiscal framework of the Government. The medium-term fiscal framework is a requirement of the *Fiscal Responsibility and Debt Limitations Act of 2005* (FRDLA).

The medium-term fiscal framework has been presented in the Parliament as part of a book called *Medium-Term Budgetary Statement 2011-2014* in accordance with the FRDLA. The statement presented the overall revenue, expenditure and deficit targets for the three-years as given in Table 1.

**Table 1: Medium-Term Budgetary Statement 2011-2014 (percentage of GDP)**

Medium-Term Budgetary Statement	Provisional	Budget	Target for	
	Estimates 2010-11	Estimates 2011-12	2012-13	2013-14
Real GDP Growth (%)	2.4	4.2	4.5	4.7
Inflation (%)	15.5	12.0	9.5	8.0
(As percentage of GDP)				
Revenue	13.0	13.6	13.4	13.2
Expenditure	18.7	17.7	16.9	16.2
Deficit	-5.7	-4.0	-3.5	-2.9
Total Public Debt	57.2	53.2	48.6	45.8
GDP (mp) Rs. Billions	18,063	21,041	24,200	27,464

Source: Medium-Term Budgetary Statement, budget 2011-12, Ministry of Finance website.

As per the medium term budgetary statement, the Government will borrow as much as 4 per cent in 2011-2012 to finance its budget deficit (difference between revenue and expenditure). The public debt of the Government will be brought down from 57 per cent to 46 per cent over the next three years. The medium term budgetary statement is presented in percentage of the GDP. When converted in numbers, the key numbers are given in Table 2 (figures have been rounded).

**Table 2: Medium-Term Budgetary Statement 2011-2014 (in numbers)**

(Rupees in Billions)	Original	Provisional	Budget	% Change Original Vs. Provisional	% Change Budget Vs. Provisional
	Budget 2010-11	Estimates 2010-11	Estimates 2011-12		
Revenue	2,575	2,350	2,870	-9.6%	18.1%
Expenditure	3,260	3,380	3,720	3.6%	9.1%
Deficit	-685	-1,030	-850	33.5%	-21.2%
Total Public Debt	9,868	10,330	11,200	4.5%	7.8%

Source: Budget in Brief 2011-12, Ministry of Finance, website

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Table 3: Details of Borrowing

Source of Financing	Rs. In Billions
Grants	127
Net Foreign Loans	8
Domestic Loans	716

Source: Budget in Brief 2011-12, Ministry of Finance, website

The information in table 1 and 2 pertains to the country as a whole (i.e., Federal Government and Provincial Governments). For the Federal Government, the budget deficit is Rs. 975 (Rs. 850 plus Rs. 125 surplus expected from provinces Source: Budget in Brief 2011-12, Ministry of Finance, website).

In order to finance its budget deficit for the 2011-2012, the Government will borrow from the domestic and external sources. The borrowing details are given in Table 3. For the Federal Government, the details presented in the budget in brief are given in Table 4.

Table 4: Budget at a Glance

			Rs. In Billion	
RECEIPTS			EXPENDITURE	
(a)	Tax Revenue*	2,074	A. CURRENT	2,315
(b)	Non-Tax Revenue	658	Interest Payment	791
	- Gross Revenue Receipts	2,732	Pension	96
	- Less Provincial Share	1,203	Repayment of Foreign Loans	243
I.	Net Revenue Receipts (a-b)	1,529	Defence Affairs & Services	495
II.	Net Capital Receipts	396	Grants and Transfers	295
III.	External Receipts	414	Subsidies	166
IV.	Estimated Provincial Surplus	125	Running of Civil Government	203
V.	Bank Borrowing	304	Provision for Pay & Pension	25
			B. DEVELOPMENT	452
			PSDP	355
			- Federal Government	300
			Development Loans & Grants to Provinces	55
			Other Development Expenditure	97
	<b>TOTAL RESOURCES (I to V)</b>	<b>2,767</b>	<b>TOTAL EXPENDITURE (A+B)</b>	<b>2,767</b>
*Out of which FBR collection has been estimated at Rs.1,952 billion.				

Source: Budget in Brief 2011-12, Ministry of Finance, website

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Table 4 shows that the Net Revenue Receipts of the Federal Government are proposed at Rs. 1,529 billion. Out of this Interest Payment of Rs. 791 billion, Defence Rs. 495 billion, Pensions Rs. 96 billion and around 125 billion of pay & allowances of civil government (50% of running of civil government plus Rs. 25 billion provision) occupies 98.5% of the budget. While the interest is obligatory Constitutional payment, defence, pensions and pay & allowances of civil government are normally considered mandatory. There is therefore, *very little room for the Federal Government to invest in public service delivery, capital investments and provide for subsidies, grants and social security programmes*. Thus the Federal Government borrows to finance these services.

### Impact of the 18th Amendment on the Federal Budget 2011-2012

The 18th Amendment to the Constitution omitted the concurrent list. Based on this omission about 17 ministries were identified that will be devolved to the provinces by June 30, 2011. As of today, a total of 10 Federal Ministries have been devolved. Remaining 7 Ministries are to be devolved by June 30, 2011. The 10 Federal Ministries that have been devolved to the provinces no longer find a room in the Federal Budget. However, their remaining functions and employees have been allocated to the existing Ministries. Key changes are noted below:

1. A new division has been created by the name of Capital Administration and Development Division (CADD) to which all the remaining federal functions have been transferred. For example, the federal educational institutes are now part of the CADD.
2. The health vertical programmes (the national health programmes are called vertical programmes that provide services in provinces and districts, e.g. Immunization programme), as per the decision of the Council of Common Interests will be part of the Federal Budget. Hence the budget for vertical programmes has been shown in Planning and Development Division.
3. The People Works Programme has been transferred to the Cabinet Secretariat.
4. A provision has been created in the Federal Budget for the remaining 7 Ministries that will be devolved to the provinces. Budget for these 7 Ministries has not been provided separately.

### Ministry-wise Budget Allocations

Ministry wise allocations for the budget 2011-2012 as compared to the original budget 2010-2011 are as given in Table 5.

**Table 5: Ministry-wise Budget Allocations**

All Figures in Thousands

Ministry	Executive Authority	Budget 2010-11	Budget 2011-12	% Change
Cabinet Seretariat	Cabinet Division	9,879,315	45,191,571	357%
	Prime Minister's Secretariat	484,831	546,579	13%
	Prime Minister's Inspection Commission	34,688	49,925	44%
	National Accountability Bureau	700,000	629,974	-10%
	Pakistan Atomic Energy Commission	19,151,902	26,206,773	37%
	President's Secretariat	427,254	482,636	13%
	Board of Investment	176,310	156,574	-11%
	Earthquake Reconstruction and Rehabilitation Authority	10,000,000	10,000,000	0%
	Benazir Income Support Programme	50,000,000	50,000,000	0%
	Pakistan Nuclear Regulatory Authority Establishment Division	452,460	575,455	27%
	Establishment Division	2,334,864	3,647,116	56%
	Capital Administration and Development Division		4,447,954	

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Table 5: Ministry-wise Budget Allocations (continued...)

Ministry	Executive Authority	Budget 2010-11	Budget 2011-12	% Change
Commerce	Commerce Division	5,393,164	5,287,767	-2%
Communication	Communication Division	5,374,599	5,730,732	7%
Defence	Defence Division	452,288,090	505,699,263	12%
Defence Production	Defence Production Division	1,760,645	1,986,146	13%
Economic Affairs and Statistics	Economic Affairs Division	323,160,390	428,768,312	33%
	Statistics Division	931,349	1,286,594	38%
Finance, Revenue and Planning and Development	Finance Division	5,479,931,877	7,646,960,662	40%
	Controller General of Accounts	2,165,893	2,837,997	31%
	Office of the Auditor General of Pakistan	1,832,418	2,303,890	26%
	Higher Education Commission	38,982,000	40,887,321	5%
	Revenue Division	12,442,079	14,105,221	13%
	Planning and Development Division	9,931,890	32,728,439	230%
Foreign Affairs	Foreign Affairs Division	11,527,067	12,383,558	7%
Housing and Works	Housing and Works Division	6,245,195	4,450,438	-29%
Human Rights	Human Rights Division	101,087	110,793	10%
Industries and Production	Industries and Production Division	3,787,349	2,778,439	-27%
Information and Broadcasting	Information and Broadcasting Division	3,547,964	4,251,780	20%
Information Technology	Information Technology and Telecommunications Division	3,097,889	3,332,139	8%
Inter Provincial Coordination	Inter Provincial Coordination Division	25,836	335,825	1200%
Interior	Interior Division	50,005,532	55,697,058	11%
Kashmir Affairs and Gilgit Baltistan	Kashmir Affairs and Gilgit Baltistan Division	25,215,134	33,475,251	33%
Law and Justice and Parliamentary Affairs	Law, Justice and Parliamentary Affairs Division	2,755,632	3,184,055	16%
	Supreme Court of Pakistan	823,400	986,557	20%
	Election Commission of Pakistan	1,253,958	1,389,753	11%
	Islamabad High Court	116,110	212,195	83%
	Federal Shariat Court	143,872	268,634	87%
Narcotics Control	Narcotics Control Division	1,573,339	1,736,314	10%
National Assembly and the Senate	National Assembly	1,593,856	1,803,092	13%
	Senate	907,610	1,041,101	15%
Overseas Pakistanis	Overseas Pakistanis Division	472,433	491,074	4%
Petroleum and Natural Resources	Petroleum and Natural Resources Division	1,145,320	703,172	-39%
Ports and Shipping	Ports and Shipping Division	928,705	1,238,862	33%
Postal Services	Postal Services Division	8,785,884	10,987,351	25%
Privatisation	Privatisation Division	72,725	74,743	3%
Railways	Railways Division	63,636,159	60,000,000	-6%
Religious Affairs	Religious Affairs Division	400,490	457,878	14%
	Council of Islamic Ideology	56,462	71,066	26%

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**Table 5: Ministry-wise Budget Allocations (continued...)**

Ministry	Executive Authority	Budget 2010-11	Budget 2011-12	% Change
Science and Technology	Science and Technology Division	4,968,373	4,833,993	-3%
State and Frontier Regions	State and Frontier Regions Division	2,683,635	4,857,259	81%
	Federally Administered Tribal Area	16,834,599	21,618,203	28%
Textile Industry	Textile Industry Division	305,746	274,603	-10%
Wafaqi Mohtasib Secretariat	Wafaqi Mohtasib Secretariat	259,778	273,278	5%
Water and Power	Water and Power Division	27,701,562	34,497,178	25%
Federal Tax Ombudsman Secretariat	Federal Tax Ombudsman Secretariat	94,781	90,103	-5%

Source: Federal Medium-Term Budget Estimates for Services Delivery 2011-14

The information presented in Table 5 includes total budget by Principal Accounting Officers of the Government for each Ministry with combined recurrent and development budgets.

### Most Notable change in Government's Expenditure Policy

The most notable change in Government's expenditure policy relates to subsidies. The Government has proposed in budget 2011-2012 that the subsidies on electricity should be eliminated and the food and fertilizer subsidies should be targeted to the poor and marginalized only. Allocations for the subsidies are given in Table 6.

**Table 6: Allocations for Subsidies**

	Budget 2010-11	Revised 2010-11	Budget 2011-12
Total Subsidies	127 billion	396 billion	166 billion
Includes:			
Electricity related subsidies	87 billion	343 billion	148 billion

### Selected Sectoral Allocations in the Budget 2011-2012

Table 7 presents selected sectoral allocations in the budget 2011-2012.

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**Table 7: Sectoral Allocations in Federal Budget 2011-2012**

Rs. Billions

Sector	Type	Shown in budget of;	Budget 2010-11	Budget 2011-12	% Change
Water & Power	Water	Water and Power Division	28	34	21%
	Power	Finance Division	12	33	175%
	Atomic Energy	Pakistan Atomic Energy Commission, Cabinet Secretariat	15	22	47%
	Electricity Subsidies	Finance Division	87	148	70%
Defence, Public Safety and Law & Order	Defence Services	Ministry of Defence	442	495	12%
	Military Pensions	Ministry of Finance	72	73	1%
	Public Safety	Ministry of Interior	50	56	12%
	Law & Order	Ministry of Law, Parliamentary Affairs and Justice	5	6	20%
Social Protection	Income Support	Benazir Income Support Programme, Cabinet Secretariat	50	50	0%
	Bait al Maal	Cabinet Secretariat	2	2	0%
	Internally Displaced Persons	Cabinet Secretariat	45	5	-89%
Railways	Current & Development	Railways division	63	60	-5%
	Grant	Finance Division	22	25	14%
Communications	Current & Development	Communications Division	5	6	20%
	National Highway Authority	Finance Division	45	40	-11%
Special Areas	FATA	FATA	17	22	29%
	AJK, GB	AJK, GB Division	25	33	32%
	ERRA	Cabinet Secretariat	10	10	0%
Higher Education	Higher Education Commission	Ministry of Finance	39	41	5%
Housing & Works	Housing & Works	Housing & Works Division	6	4	-33%
	People Works Programme	Cabinet Secretariat	30	33	10%



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