



A Guide to Understanding the Budget in Pakistan

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Preface

In modern governance, the budget of the state is one of the most important policy documents. Tabled every year in the parliament, it is here that ideas are translated into implementable policies prioritized by the allocations of funds. In Pakistan, the government and the parliament eagerly anticipate the moment in the month of June when the state budget is tabled in Parliament. As has been pointed out by so many before me, the time allocated to Pakistan's parliament and provincial assemblies to review the budget is abysmally short. Therefore, the ability of members of parliament or the public, to adequately analyze and comprehend the implications of proposed allocations is also compromised.

Greater understanding of the budget document itself and how to effectively approach budget analysis in one or more sectors is a critical skill for a successful legislator. Moreover, Pakistan continues to undertake critical budget reforms each year. Thus, the budget process is dynamic and worthy of periodic review and scrutiny.

The intention of this small volume is to provide a guideline not only to the budget documentation that is submitted to the parliament and provincial assemblies, but also to review the budget cycle. The volume therefore serves as a reminder to the Honorable Members that the budget is an on-going process and does not end once the budget has been passed in the National Assembly or the respective provincial assembly. To the contrary, the passage of the budget by the legislature signals the beginning of the next budget cycle. The ongoing process of legislative oversight over government expenditures, demands the attentions and the energies of the elected representatives year-round.

It is important to mention that this publication is one of many contributions of those economists and public sector finance analysts in Pakistan who strive each year to serve Members of Parliament with increasingly more reliable and informative analysis. In 2006, the USAID Pakistan Legislative Strengthening Project issued a similar volume (with less provincial relevance). We acknowledge that effort of Dr. Mohammed Ishfaq and Dr. Ahmed Nawaz Hakro which gave our team a solid base from which to build this enhanced and updated volume.

We trust that this booklet will be useful to the Honorable Members of the National Assembly, Senate and Provincial Assemblies in Pakistan as well as to legislative staff, journalists, analysts and civil society activists. We welcome your feedback which will be considered for future editions. Please send your comments to research@pips.org.pk or to Interim PIPS, Parliament Lodges, Islamabad.

Eleanor Valentine
USAID PLSP Project Director
June 2007

Abbreviations

Key Abbreviations commonly used in relation to budget are given below:

ABS	Annual Budget Statement
ADP	Annual Development Plan
AG	Accountant General
AGPR	Accountant General Pakistan Revenues
APCC	Annual Plan Coordination Committee
BEs	Budget Estimates
CBR	Central Board of Revenue
CoA	Chart of Accounts
DDO	Drawing and Disbursing Officer
GDP	Gross Domestic Product
GoP	Government of Pakistan
MoF	Ministry of Finance
MTBF	Medium Term Budgetary Framework
MTDF	Medium Term Development Framework
NIS	New Items Statement
PAC	Public Accounts Committee
PC	Planning Commission
PC-1	Planning Commission Pro-forma
P&D	Planning & Development Department
PRSP	Poverty Reduction Strategy Paper
PSDP	Public Sector Development Program
REs	Revised Estimates
SNE	Schedule of New Expenditure

1. Key Concepts and Terminology

This Section covers key concepts and terminologies as generally used in relation to the budgetary processes in Pakistan.

Description of Key Concepts and Terminologies

Stated below are some of the key budget related concepts and terminologies that are more frequently used in relation to government budgeting:

Accountants General

The officers responsible for government's overall accounting operations and performing pre-audit of financial transactions within their jurisdiction. Accountant General's office is established in each province and the federal government. Accountant General at federal government level is called Accountant General of Pakistan Revenue (AGPR). (See also 'Auditor General of Pakistan')

Actual Expenditure

Amount expended by a spending department/spending unit out of the funds allocated against a particular account head is called 'Actual Expenditure'.

Appropriation Accounts

Appropriation Accounts refer to a comparative statement of actual expenditure against respective budget allocations separately for each grant. These Accounts are published annually by Auditor General's office (through the provincial Accountants General/AGPR) and are prepared according to *Function* and *Object* classification.

Annual Development Plan

This document is issued by Planning Commission and includes yearly targets as given in Medium Term Development Framework (MTDF) 2005-10. The key sectors covered include Growth, Saving and Investment; Balance of Payments; Fiscal and Monetary Development; Poverty Reduction and Human Development. (See also 'Medium Term Development Framework')

Annual Development Program (ADP) Statement

This refers to a statement of on going development schemes and those proposed to be launched by a provincial government in a fiscal year. The ADP is similar to the Public Sector Development program (PSDP) at the Federal level. (See also 'Public Sector Development Program')

Appropriation

Appropriation refers to an allocation of funds to a spending department. It is an Act of the Parliament that enables the department to spend money for specific purposes.

“ A Budget is a government's annual financial plan describing the proposed expenditures and the means of financing them. ”

Auditor-General

Auditor-General is responsible for keeping the accounts of the Federation and of each Province in specific forms and according to principles and methods as prescribed by the Auditor-General. Auditor-General's office performs functions in collaboration with Accountants General /Accountant General of Pakistan Revenue (AGPR) offices. (See also 'Accountants General')

Budget

A Budget is a government's annual financial plan describing the proposed expenditures and the means of financing them.

Budget Call Circular

This represents an official notice issued by Ministry of Finance (or Finance Department in case of a Province) to line ministries/departments inviting them to prepare and submit budget estimates for the following fiscal year. This also includes budget forms, instructions and guidelines for preparing budget estimates and calendar of activities leading to final presentation of budget in the Parliament. (For graphic details see flow diagram in Annexure).

Budget Estimates (BEs)

Budget Estimates are demands prepared for the next fiscal year submitted to the Parliament for approval. (See also 'Actual Expenditure'; 'Revised Estimates'; 'Expenditures')

Budget Resolution

This refers to the annual framework within which the Parliament makes its decisions about spending and taxes. This framework includes targets for total spending, total revenues and the deficit as well as allocations, within the spending target, for discretionary and mandatory spending.

Budget Review and Approving Forum

This represents various bodies/authorities empowered to make economic and other budget related decisions within their jurisdiction. Key budget review and approving bodies include the following:

Inter-Ministerial Priorities Committee

A budget review and approving forum that usually consists of officials from Planning Commission, Finance Division, Line Ministries and Economic Affairs Division.

APCC

Annual Plan Coordination Committee. Another high-level budget review authority with representation from Planning Commission, Ministry of Finance,

“ Direct tax is a tax imposed directly on the income or capital of a person or organization, rather than as part of the price of goods or services.”

Line Ministries and Economic Affairs Division.

NEC

National Economic Council. It is a high-level economic decision-making body at the federal level and is chaired by the Prime Minister.

Capital Receipts

Capital Receipts in the context of government budget refer to receipts obtained from sources of finance other than Revenue. Examples include loans, advances, grants, etc. (*See also 'Revenue Receipts'*)

Capital Expenditure

This refers to expenditure met from capital receipt. For example, research and development activity met from loan obtained from domestic sources. This can be both Development and Non-Development (or Current) Expenditure. (*See also 'Revenue Expenditure'*)

Cash & Work plan

A system of budget control whereby funds are released to spending units on the basis of activities planned to be carried out in a fiscal year. Currently, this system is applicable to Federal Development Projects only.

Charged Expenditure

This refers to certain expenditures met from the consolidated fund, which, under the Constitution, must be discussed, but are not submitted to the vote of the National or Provincial Assemblies. (*See also 'Voted Expenditure'*)

Chart of accounts

A scheme of systematically recording, aggregating, consolidating summarizing and reporting government financial transactions. Chart of Accounts (CoA) prescribes various codes for Function, Object, Entity, Fund, Project, etc. All budget books (including Annual Budget Statements) use codes prescribed under the CoA. (*See also 'Object'; 'Function'*)

Consolidated Fund

Consolidated Fund is the operating account of the Government and is comprised of various financial resources, the balance of which is available for appropriation against the general operations of the Government. There are separate Consolidated Funds for Federal and each of the Provincial Governments, i.e.:
Federal Consolidated Fund

Sum of internal and external resources of the federal government.

“ GDP is the standard measurement of the size of the economy. It represents the total value of goods and services produced during a fiscal year.. ”

Provincial Consolidated Fund

Sum of internal and external resources of the provincial government.

Demand Number

This is a unique number assigned to each demand under a specific ministry/department. (in case of provinces).

Development Project

A development project is an activity undertaken to acquire, build or improve physical assets or develop human resources and is provided within the development expenditure grant. A development project usually has a finite life and a specific source of funding. At the provincial level, it is normally referred to as "Development Scheme". (See also 'Non-Development Expenditure')

Direct Tax

A tax imposed directly on the income or capital of a person or organization, rather than as part of the price of goods or services. Tax on an individual's income, referred to as Income Tax, is an example of a Direct Tax.

Drawing & Disbursing Officer (DDO) Code

It is a six digit unique code allotted to each spending department and is published in Budget Books along with names of spending departments/projects.

Expenditure

This includes current and development expenditure on Revenue Account and current and development expenditure on Capital Account. The term 'Expenditure' as used in Annual Budget Statement and related documents usually covers *Budget Estimates, Revised Estimates and Actual Expenditure*.

Fiscal Year

Refers to the accounting period of the government. It begins July 1st and ends on June 30th. For example Fiscal year 2007 ends June 30th 2007.

Function Code

Function Code is one of the Chart of Accounts' five components used to identify 'the purpose' for which a budget allocation is utilized. Some of the common "functions" (and their relevant codes) are: Health (07), Education Affairs and Services (09), Economic Affairs (04), etc. (See also 'Chart of Accounts')

Grant

This refers to funding approved for a ministry or department against their Demands through the Schedule of Authorized Expenditure.

Gross Domestic Product (GDP)

GDP is the standard measurement of the size of the economy. It represents the total value of goods and services produced during a fiscal year, including those of the private sector and the government.

Medium Term Budgetary Framework (MTBF)

A multi-year budgetary framework aimed at providing ministries/departments the space and flexibility they need to formulate, plan and implement policies that focus on public service delivery or 'output'. MTBF reforms were pilot implemented in 2004 and are being rolled out to other ministries at the federal level. Some provincial governments have also initiated such reforms and some selected provincial Departments have developed MTBF budget statements. Unlike an annual budget, the MTBF is a multi-year approach to budgeting which links the spending plans of the government to its policy objectives.

Medium Term Development Framework (MTDF)

The Medium Term Development Framework (MTDF) 2005-10 provides medium term strategies for the key sectors of the economy. This document is prepared by Planning Commission under the direction of National Economic Council. It also serves as a programme and policy document for the period covered in the framework. It is implemented through Annual Development Plan, which provides the flexibility for adjustments to targets/strategies given in the MTDF. (See also 'Annual Development Plan')

Mid-Year Budget Review

A review of budget allocations and actual expenditure during a fiscal year. For development projects, budget review is carried out on a quarterly basis with a detailed review in the middle of the year and usually involves both financial performance and physical progress of the projects/schemes.

New Item Statement (NIS)/ Budget Order

NIS refers to a pro-forma used by federal government departments for preparation of Development budget estimates. It is also used for preparation of non-development estimates of temporary nature, while BO is used for preparation of non-development (or current) budget estimates of permanent nature.

Non-Development Expenditure

Expenditure relating to the on-going/operational costs of the government. Examples include Pay and Allowances of employees, operating expenditure, repair & maintenance, etc. Non-Development Expenditure is also referred to as *Current Expenditure*. (See also 'Development Project')

“ *Economic Survey of Pakistan containing overall economic performance and vital statistics of the key sectors of the economy. This is published every year and is usually issued before the announcement of federal budget.* ”

<i>Object Code</i>	One of the Chart of Accounts' five components used to identify 'economic classification' of a budget allocation. Examples include Pay & Allowances (Code A01), Repairs & Maintenance (Code A13), Operating Expenses (A03). (See also 'Chart of Accounts')
<i>PC-1</i>	A pro-forma prescribed by Planning Commission for creation of development projects. Prior to initiating any project, a PC-1 document is prepared.
<i>Economic Survey of Pakistan</i>	A publication containing overall economic performance and vital statistics of the key sectors of the economy. This is published every year and is usually issued before the announcement of federal budget.
<i>Planning Commission</i>	National authority responsible for economic planning and monitoring of development activity in Pakistan.
<i>Planning & Development (P&D) Department</i>	A body entrusted with the tasks of economic planning and monitoring of development activity at provincial level. These functions are normally performed in association with the Provincial Finance Department.
<i>Poverty Reduction Strategy Paper (PRSP)</i>	The document that provides focused strategy for poverty reduction based on four pillars, i.e. accelerated and broad-based economic growth while maintaining macroeconomic stability; improving governance and consolidating devolution; investing in human capital; and targeted programs with emphasis on social inclusion.
<i>PSDP</i>	Public Sector Development Program. The federal and provincial governments' combined expenditure relating to development projects/schemes. The PSDP document includes project wise allocations for federal projects separately for each Ministry/Division for a particular fiscal year. This is similar to the Annual Development Program (ADP) in the provinces. (See also 'Annual Development Program')
<i>Public Account</i>	Public Account consists of those specific-purpose moneys for which Federal and Provincial Governments have a statutory or other obligation to account for,

but which are not available for appropriation against the general operations of the Governments. For example, inflows into and disbursements from savings schemes launched by the government from time to time.

Public Accounts Committee

A body constituted from the members of the National Assembly or provincial assembly which is responsible for examining and reporting as detailed in the consolidated financial statements prepared by the Auditor General of Pakistan.

Re-appropriation

Transfer of allocated amount from one unit of appropriation to another such unit is called 'Re-appropriation'. This is done to utilize 'saving' of budget allocation in a unit/head of appropriation. For example, if it is anticipated that budget allocation for Utilities could not be fully utilized during the fiscal year, the spending department can request for transfer of un-utilized amount to another account head, e.g. repairs & maintenance. Certain restrictions apply on Re-appropriations.

Revenue Expenditure

Expenditure met from revenue receipts. This can be both Development and Non-Development (or Current) Expenditure. (See also 'Capital Expenditure')

Revenue Receipts

These represent receipts which are collected during the normal operations of the government and make up the largest proportion of government's total receipts in a fiscal year. For example, income tax, sales tax, capital value tax, etc. collected by or on behalf of Central Board of Revenue are part of Revenue Receipts. (See also 'Capital Receipts')

Revised Estimates (REs)

Budget Estimates adjusted for any Supplementary grant, Surrenders or Re-appropriations are called Revised Estimates. (See also 'Actual Expenditure'; 'Budget Estimates'; 'Expenditure')

Savings and Surrenders

Amount un-utilized out of budget allocation is called 'Saving'. Relinquishment of allocated funds by a spending department is called 'Surrender'. This generally happens when the allocated funds are not likely to be spent by that spending department in a fiscal year.

Schedule of New Expenditure (SNE)

A pro-forma used by provincial government departments for preparation of budget estimates.

Supplementary Budget

Additional funds under a particular object not provided in the original budget. Supplementary budget is prepared and approved during the year of execution, by the National Assembly.

Voted Expenditure

This refers to that portion of expenditure on which the Assembly votes. Under the requirements of the Constitution, expenditure in the Annual Budget Statement (ABS) is separately shown for "charged expenditures" and "voted expenditures". (See also '*Charged Expenditure*')

2. Budget Cycle

In this Section, overview of government budgetary cycle is given. The key stages involved are similar in respect of both Federal and Provincial budgets.

Budget Basics

A Budget is the government's financial plan describing the proposed expenditures and the means of financing them. Annual Budget Statement is the intended financial plan for a single fiscal year. It also serves as a policy document. An excess of government's proposed expenditures over its estimated revenues is called a '*budget deficit*', whereas an excess of revenues over the expenditure is generally termed '*budget surplus*'. Budget deficit is financed through borrowings, both domestic and foreign, and a surplus is normally utilized to reduce such borrowings.

In Pakistan, the budget is presented usually in the first week of June every year by the federal government in the National Assembly and is followed by each of the provincial governments in their respective Provincial Assemblies.

Overview of Budget Cycle

The government's budget cycle usually consists of six stages broadly categorized as follows:

1. Setting of budget policy and priorities

The first stage of budget cycle usually covers setting of budget priorities, policies and initiatives by the National/Provincial Cabinet. These are then formulated by ministries and departments via the Ministry of Finance/Finance Department.

2. Budget Preparation

This stage includes the preparation and submission of budget estimates of expenditure and receipts by spending departments and subsequent review and consolidation of estimates by the Ministry of Finance/Finance Department.

3. Authorization

This stage involves submission of the Annual Budget Statement before the National/Provincial Assembly. This consists of two stages: approval by the National/Provincial Assembly after it is debated/discussed in the Assemblies, and authentication by the Prime Minister/Chief Minister. The approved budget is referred to as the '*Schedule of Authorized Expenditure*' (SAE), which is then submitted to the President/Governor for assent.

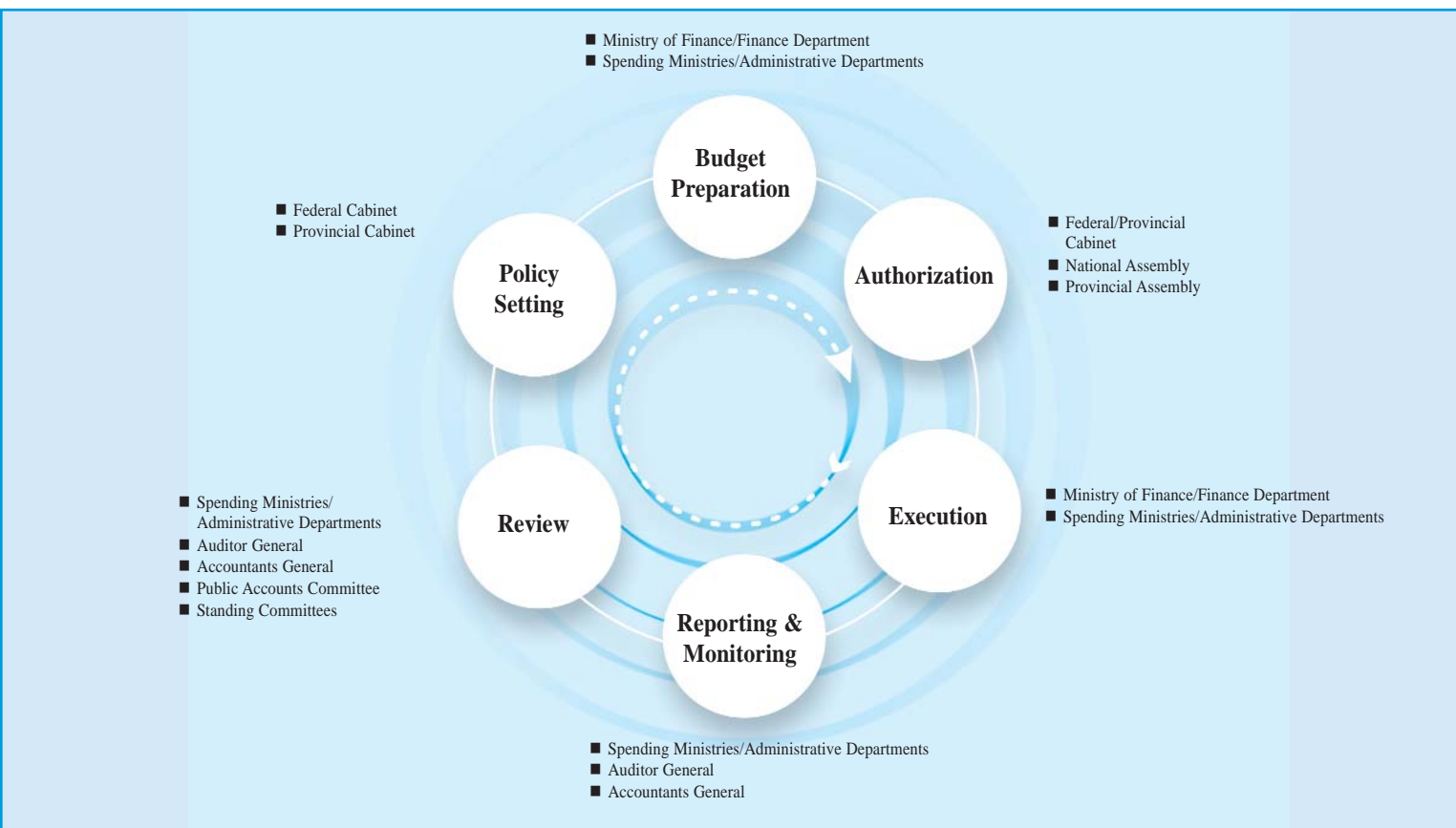


Figure 1: Overview of Budgetary Cycle

4. Execution

This stage refers to the communication of the budgets to the spending ministries, administrative departments and respective Accountant General office/Accountant General of Pakistan Revenue by Ministry of Finance/Finance Department. Budget execution supports the spending departments to carry out their planned activities and incur expenditure within the authorized limits.

5. Reporting and Monitoring

In this stage, actual expenditure/revenue are recorded and reported by the spending departments to facilitate monitoring of progress against budget allocations throughout the fiscal year. Expenditure is recorded by Accountants General/Accountant General Pakistan Revenue.

6. Periodic Review

This covers periodical review of financial performance and the achievement of policy objectives by spending departments. This also includes audit reviews by Auditor General's office and review by Public Accounts Committee. Standing Committees of the Parliament and provincial assembly are also authorized to review expenditures of the ministries under their jurisdiction.

The above stages are linked together in the following way:
Budget Preparation diagrams are given separately for Federal and Provincial Budget at pages To

3. Budget Publications

This section briefly explains the purpose and key contents of budget publications tabled in the Parliament. In respect of the Provincial Budget, purpose and names of most of the books are similar to those of the Federal Budget.

A. Federal Budget Publications

The following briefly describes the budget documents presented to Parliament.

1. Budget Speech

The Budget Speech is the government's budgetary policy statement for a fiscal year. The finance minister or minister of state on finance reads the budget speech in the parliament. The budget speech is a proposed account of the government's plan for expenditures and projected revenues and debts. The speech covers the measures planned to be taken for raising revenues and financing the proposed expenditure and other fiscal policy measures including key modes of financing to meet any budget deficit. The speech also highlights the prevailing macroeconomic situation including social indicators, budgetary performance, financial discipline and key challenges, which can impact the economy. It also includes major spending and tax proposals for the upcoming fiscal year.

2. The Budget Message

The Budget Message provides an overview of the economy, highlights government's response to the needs of the citizens, the direction or policy statement of the executive branch of legislature and the tentative measures for the economy.

3. Annual Budget Statement

This document is tabled for each fiscal year in the National Assembly of Pakistan, and transmitted to the Senate, to meet the requirements of Article 80(1) of the Constitution of the Islamic Republic of Pakistan. The Annual Budget Statement (ABS) shows separately:

- a) the sums required to meet "charged expenditures" described by the constitution
- b) the sums required to meet other expenditure proposed to be made by the constitution "voted expenditures"

The statement distinguishes expenditure on revenue account from other expenditure both for current and development expenditure.

The Annual Budget Statement includes:

Receipts

This portion of ABS provides balances of all budgetary receipts, e.g. Revenue Receipts, Capital Receipts, External Receipts, Public Account Receipts (net balances). These resources constitute federal gross receipts. Provincial share is

deducted to arrive at net federal receipts available to finance federal expenditures. Additional resources may include privatization proceeds plus credit from the banking sector to finance government expenditures.

Expenditure

Expenditure is broken down into current expenditure and development expenditure and is separately shown for expenditure on Revenue Account and expenditure on Capital Account. Expenditure on Revenue Account signifies that portion of expenditure which is met from resources other than loans and grants, etc., whereas expenditure on Capital Account refers to expenditure which is financed from loans, finances, credits, grants, and other borrowings.

ABS also includes:

- Demand-wise Summary segregated into 'Charged' and other than Charged' expenditure
- Object-wise classification of Budget Estimates (e.g. showing Pay & Allowances, Operating Expenses, etc.)

4. Federal Budget in Brief

The Budget in Brief gives further breakdown of receipts and expenditure as summarized in the ABS. This document also provides commentary on significant account balances and changes from the previous year's budget both for receipt and expenditure heads.

5. Explanatory Memorandum on Federal Receipts

This document provides detail on the amounts and structure of receipts included in the Annual Budget Statement. This includes explanatory notes on significant components of receipts, basis of collection along with significant variations from previous year's budget. Revenue receipt is further broken down as tax and non-tax receipt. The section on capital receipt provides information on public debt and external resources. Similarly, explanatory notes on Public Account balances are also given. A brief overview of self-financing of the public sector development program by the provinces is also included.

This document covers receipts only and does not include any information on expenditure side of the budget. All receipts are identified and coded according to chart of accounts coding system.

6. Estimates of Foreign Assistance

This document expands the summary data concerning external resources as given in the Annual Budget Statement. This primarily is comprised of loans and

credits from friendly countries and international financial institutions and Grant-in-aid and other specific purpose grants. This document also categorizes the foreign aid as project aid, commodity aid, food aid and other aid.

7. Demands for Grants and Appropriations

This publication gives further detail of the expenditure budget as summarized in the ABS. The Demand-wise summary given in the ABS is presented for each ministry separately and is broken down into:

- Functional classification; and
- Object classification

Functional classification for each Demand is meant to signify the 'purpose' for which a budgetary allocation is made, while Object classification presents the same allocation according to 'accounting' or 'economic' heads (e.g. Pay & Allowances, Repairs & Maintenance).

The funds required to meet charged expenditure are shown in 'italics' and identified as appropriations proposed to be made. The funds required to meet other than charged expenditure are shown in distinct codes and identified as grants. This document contains the current expenditures both on revenue and capital account, development expenditure on capital account and appropriations charged upon the federal consolidated fund.

8. Details of Demands for Grants and Appropriations - (Current Expenditure Volume-I & Development Expenditure Volume-II)

This publication is the most detailed document tabled as it provides the lowest level of detail of Demands for Grants and includes budget estimates for spending departments operating under various ministries. It is easily identifiable as it has a distinct 'pink' color (i.e. different from all other budget publications) and is usually referred to also as the 'Pink Book'.

The details of Demands for Grants are provided in two volumes:

- Current Expenditure (Volume I) and
- Development Expenditure (Volume II)

Further, following the pattern of reporting prescribed by the constitution and followed by the Annual Budget Statement, both for current and development expenditure, a clear distinction is made between expenditure on revenue and expenditure on capital account. The estimated expenditures are reported on a gross basis and any offsetting receipts or recoveries are shown in footnotes as a reduction in budget estimates.

“ The function view provides a perspective about the purpose for which budget will be utilized.”

The budget estimates are reported by spending ministries, divisions, departments, etc. and further disaggregated by objects of expenditure like employee-related expenses, operating expenses, transfers, physical assets, etc. The function view provides a perspective about the purpose for which budget will be utilized. Examples of function include General Public Services, Defense Affairs, Public Order and Safety, etc. The detailed information related to Function Classification is reported on all levels, while that relating to Object Classification is reported at each major and minor head levels. Codes are used according to Chart of Accounts coding system.

9. Supplementary Demands for Grants and Appropriations

This publication gives information on a pattern similar to that given in "Demands for Grants and Appropriations." The difference is that "Supplementary Demands for Grants and Appropriations" covers demands for 'additional' budget required to meet 'current' fiscal year's budget requirements whereas "Demands for Grants and Appropriations" summarizes budget estimates for the 'next' fiscal year.

Relationship of Budget Books

The diagram gives a suggested sequence for reading the budget books along with how these books are related to each other:

Name of Budget Book	Deals with	Level of Detail
<div style="text-align: center;">Annual Budget statement</div>	<div style="text-align: center;">Receipts and Expenditure Summaries</div>	<div style="text-align: center;">High Level - Gives numbers only</div>
<div style="text-align: center;">Federal Budget in Brief</div>	<div style="text-align: center;">Receipts and Expenditure</div>	<div style="text-align: center;">High level - with brief explanations/ commentary</div>
<div style="display: flex; justify-content: space-around;"> <div style="text-align: center;">Explanatory Memo on Federal Receipts</div> <div style="text-align: center;">Estimates of Foreign Assistance</div> </div>	<div style="text-align: center;">Receipts only</div>	<div style="text-align: center;">Detailed level - with explanatory notes</div>
<div style="text-align: center;">Demands for Grants & Appropriations</div>	<div style="text-align: center;">Expenditure only</div>	<div style="text-align: center;">Middle level detail - Demand wise summaries (Object & Function)</div>
<div style="text-align: center;">Details of Demands for Grants & Appropriations</div>	<div style="text-align: center;">Expenditure only</div>	<div style="text-align: center;">Most detailed level - Spending unit wise details (Object & Function)</div>

Figure 2: Sequence and Relationship of key Budget Books

B. Provincial Budget Publications

Most of the provincial budget publications are similar to those of the federal budget in nature, purpose and classification of Receipt and Expenditure. A list of such publications is given below:

1. Budget Speech:

This covers essentially the same contents as the budget speech does in relation to federal budget. The Provincial Finance Minister delivers the speech in the Provincial Assembly. The speech highlights economic priorities of the province, resource position, allocations from the federation, tax proposals in respect of provincial taxes, etc.

2. Annual Budget Statement:

The provincial ABS is similar to the Federal ABS as far as the structure and presentation of receipts and expenditure are concerned with comparatively more detailed breakdown of receipt and expenditure components.

3. Estimates of Receipts:

This summarizes receipts from various sources, i.e; transfers from federation, provincial taxes, non-tax receipts, borrowings, public account balances (receipts and disbursements), etc.

4. Estimates of Charged Expenditure and Demands for Grants - (Current):

This publication provides spending department/entity-wise detail of current budget estimates under each grant separately covering all Administrative Departments. The budget estimates are also presented according to 'Object' and 'Function' classification.

5. Estimates of Charged Expenditure and Demands for Grants - (Development):

As in the federal budget for ministries, estimates for development schemes in the provinces are presented for each provincial department separately and are classified according to 'Object' and 'Function' classification.

6. Provincial Annual Development Program (ADP) Statement:

Similar to the Public Sector Development Progress book (PSDP) at the federal level, the ADP is published by the provincial Planning & Development Department and provides detailed information on development schemes (both on-going and new) launched in the province under each administrative department separately. Key information provided, includes name of schemes, total

cost, proposed allocation, future throw forward, etc.

7. White Paper:

This is produced by some provinces (e.g. Punjab & NWFP) and gives an overview of the fiscal operations and the development programme of the provinces and briefly covers performance of major sectors and future outlook, etc.

8. Supplementary Budget Statement:

This is similar to the Federal Government's Supplementary Demands for Grants and Appropriations and includes additional budget demands over and above the current year's budget estimates approved in the last fiscal year.

9. Relationship of Provincial Budget Books

4. Components of Budgetary Receipts and Expenditure

This Section explains components of Receipts and Expenditure budgeted in the Annual Budget Statement (ABS). Most of the Provincial Receipts and Expenditure components are the same as used in the Federal ABS. Other provincial- specific components are explained later in this Section.

A. Federal Budget

The components of the Federal Budget are discussed separately for Receipts and Expenditure.

1. Components of Federal Receipts

A brief description of the Receipt component is given below:

a. Federal Consolidated Fund

Federal Consolidated Fund is the total resources of the government consisting of Internal and External Receipts. Internal Receipts include revenue and capital receipts, generated from internal resources and cover:

- Tax revenue collected by Central Board of Revenue (CBR)
- Tax revenue other than CBR collections
- Non-tax revenue
- Capital receipts

External receipts are loans grants, and project aid, etc. from external sources.

i. Tax Revenue Collected by CBR

Direct Taxes

Direct taxes are levied on income and wealth of individuals and organizations. These include taxes on income, wealth, capital value tax, foreign travel tax, Workers Welfare Tax and contributions under Companies Profit (Workers' Participation) Act, 1968.

Indirect Taxes

These represent taxes on transactions and commodities and include customs duties, federal excise, sales tax, petroleum development levy, surcharge on natural gas and airport tax and are briefly explained below:

Customs Duties

Goods imported into Pakistan are liable to customs duties at the tariff rates specified in First Schedule in the Customs Act 1969. Every year, the government determines the expected level of receipts from this source and accordingly revises tax rates on all/certain goods imported into the country.

Sales Tax

Sales tax is a tax on consumption levied on manufacturers, importers,

“ All industrial concerns having more than ten workers are required to be registered with the social security departments and must pay 5% of their profits ”

wholesalers, distributors, dealers, retailers with an annual turnover of more than Rs. 5 million as well as on some specified services.

Federal Excise

The federal excise duty is leviable on such excisable goods produced or manufactured in Pakistan or imported into Pakistan as are specified in the First Schedule in the Central Excise Act 1944. Collection of federal excise duty has remained a major source of federal tax receipts. However, this source of receipt is being gradually phased out and largely replaced with sales tax. The coverage of federal excise duty has therefore been limited to nine items¹ and one service.

The Central Board of Revenue administers the major part of tax revenue. The Petroleum Development Levy and Surcharge on Natural Gas are collected by Ministry of Petroleum & Natural Resources. The contributions under Companies Profit (Workers' Participation) Act, 1968 are administered by the Ministry of Labor & Manpower. Similarly, the foreign travel and airport taxes are collected by the Civil Aviation Authority.

ii. Tax Revenue Other Than CBR Collections

Contributions under Companies-Profits (Workers Participation) Act, 1968.

All industrial units having more than ten workers are required to be registered with the social security departments and must pay 5% of their profits towards workers (profit) participation. The balance of this fund, after disbursement to workers, is deposited in the government account to become part of the Workers Welfare Fund as per provision of the Workers Welfare Fund Ordinance 1971.

Foreign Travel Tax

Foreign travel tax is being levied since 1987 on all tickets, including those purchased abroad, for foreign air travel originating from or with a destinations to Pakistan. The present rate of this tax is Rs.1500-per ticket. Infants, diplomats and supernumerary crew are exempted.

¹ Beverage, cement, cigarettes & tobacco, natural gas, paints and varnishes, perfumery and cosmetics, petroleum gases, petroleum products, soap & detergent, insurance, imported goods.

“ The surcharge on natural gas is transferred to the provinces according to the production of gas in a province.”

Petroleum Development Levy

A development surcharge on petroleum products was levied under the Petroleum Products (Development Surcharge) Ordinance, 1961 and the rules framed hereunder. With the deregulation of prices of petroleum products, the mechanism of development surcharge was done away with in 2001. Instead, a fixed petroleum levy has been imposed through Finance Ordinance, 2001 at per liter price of various products notified by the government from time to time.

Surcharge on Natural Gas

The development surcharge on natural gas is levied under the Natural Gas Development Surcharge Ordinance, 1967. In pursuance of this Ordinance, the federal government has to fix the sale price for the consumers and prescribe a price for the gas companies. The difference between the two prices is the margin available to the government as development surcharge. The prescribed prices of the gas companies undergo changes from time to time to cover the well-head cost and the cost of transmission and distribution of gas. The surcharge on natural gas is transferred to the provinces according to the production of gas in a province.

Airport Tax

Airport tax is being levied since October, 1996. Its rates differ depending upon the nature (domestic or foreign) and class of travel. Infants, diplomats and supernumerary crew are exempt.

iii. Non -Tax Revenue

Non-tax revenue of the federal government is administered by various ministries/divisions.

Income from Property and Enterprise

Income from property and enterprise consists of profits, interest receipts dividends from government investment, like profits from Pakistan Post Office and profits from Pakistan Telecommunication Authority (PTA). Significant account balance under this category relates to interest on loans granted by the federal government to provincial governments, local bodies, financial institutions, non-financial institutions, commercial departments and government servants.

Receipts from Civil Administration and other Functions

These receipts are realized from a number of sources covering various organs of the state, for example, economic regulation, civil defense, courts, jails, com-

munication and works, forest institutions, immigration, fisheries, agriculture, printing, education, irrigation, etc.

Miscellaneous Receipts

These include receipts on account of economic services and other receipts, e.g. agricultural receipts, receipts from explosives department, receipts from cabinet division, receipts from lighthouses and lightships etc.

iv. Capital Receipts

These consist of proceeds from borrowing, money received in repayment of loans, recoveries of advances/investments, proceeds of saving schemes and net receipts from transactions under deposits and reserves heads. The net capital receipts so realized by the federal government generally constitute the availability of resources for the financing of Public Sector Development Program (PSDP).

Capital Receipts include both Internal Receipts and External Receipts. ***Internal Receipts*** include Recovery of Investment against state enterprises; Recoveries of Loans and Advances from provinces; Domestic Debt Receipts against Government Domestic Bonds; and Floating Debt receipts against Prize Bonds, Treasury Bills, etc.

External Receipts mainly include project aid, loans, and credits from bilateral and multilateral donors, friendly countries and specialized international agencies; Receipts from Sovereign/Euro / Sukuk Bonds, grant assistance under Food Aid Convention, World Food Program (WFP), and the other specific country programs.

b. Public Account

The balances under Public Account are both receipts and disbursements. Receipts represent inflows into various savings schemes launched by the government and deposits and reserves accounts maintained on behalf of the government. Similarly disbursements signify outflows from such schemes, deposits and reserve accounts. Net balances are included in Receipts portion of the budget.

“Under the Presidential Order of January 1st 2006, the percentage share of the provinces from a list of federal taxes² has been fixed at 41.5%.”

c. Privatization Proceeds

Privatization Commission Ordinance, 2000 provides that the net privatization proceeds received through sale of enterprises owned by the federal government shall be transferred to the federal government. The above mentioned ordinance further provides that the privatization proceeds transferred to federal government shall be utilized by the federal government as follows: a) ten percent shall be used for poverty alleviation programs and remaining ninety percent for retirement of the federal government debt.

d. Provincial Share in Revenue Receipts

Under the Presidential Order of January 1 2006, the percentage share of the provinces from a list of federal taxes² has been fixed at 41.5% for fiscal year 2006-07 with 1%-1.25% increase per year with maximum of 46.25% in year 2010-11 and onwards. The remainder will represent federal share of the receipts.

Under National Finance Commission (NFC) Award, 1996, effective July 1st 1997, the net proceeds of the divisible taxes are arrived at by deducting 5% collection charges by the federal government. In the case of Income tax, another 1% is also deducted being the amount collected from federal emoluments. The federal share in the net proceeds of divisible pool taxes was fixed at 62.5% while the balance 37% represents the share of the provinces as per decision under distribution of revenues and grants-in-aid order, 1997 (P.O.I of 1997).

This item is deducted from Gross Federal Receipts in the ABS and appears as a Federal Transfer in Provincial Budget Receipts.

² Taxes on income, wealth tax, capital value tax, taxes on sales and purchase, export duties on cotton, custom duties, federal excise duties excluding excise duty on gas charged at well-head; and any other tax they may be levied by the federal government.

B. Components of Federal Expenditure

As discussed earlier, expenditure is classified into Current (non-development) and Development Expenditure.

Current Expenditure:

This consists of current expenditure on Revenue Account and Current Expenditure on Capital Account; thus both expenditure equal to **total current expenditure**.

A brief breakdown of the Current Expenditure components is given below:

a. Current expenditure on Revenue Account

General Public Services

This includes budget estimates for executive & legislative organs of the government, financial & fiscal affairs, external affairs, debt servicing; foreign debt, loan payment, domestic debt, pensions etc

Defense Affairs and Services

Consists of budget estimates in respect of Military defense and defense administration.

Public Order and Safety Affairs

This covers expenditure for law courts, police, fire protection, prison administration and operation, administration of public order etc.

Economic Affairs

It includes allocations for general economic, commercial and labor affairs, agriculture, food, irrigation, forestry and fishing, fuel and energy, mining and manufacturing, construction and transport, communication and other industries, etc.

Environmental Protection

It covers budget estimates for waste water management, pollution abatement, R&D on environment, administration of environment protection, etc.

Housing and Community Amenities

It includes allocations for the housing department, community development and water supply.

Health

This includes allocations for medical products, appliances, and equipment, hospital services, public health services, research and development in health and health administration.

Recreation, Culture and Religion

This includes budget estimates in respect of recreational and sporting services, cultural services, broadcasting and publishing, religious affairs and administration of information, recreation, and culture.

Education Affairs and Services

This covers for pre-primary/primary education affair and services, secondary education affairs and services, education sector reforms, tertiary education affairs and services, education services, subsidiary services to education, administration, education affairs and services not classified elsewhere.

Social Protection

Includes allocations for administration and others.

b. Current expenditure on Capital Account

Current expenditure on Capital Account consists of repayment of short term foreign credits (transfers-investments, loans and advances) and other expenditure on general economic, commercial and labor affairs, agriculture, food, irrigation, forestry and fishing etc.

Development Expenditure:

This consists of development expenditure on Revenue Account and development expenditure on Capital Account; thus both expenditures equal to **total development expenditure**.

Total expenditure equals total current expenditure and total development expenditure.

c. Development Expenditure on Revenue Account and Capital Account

Development Expenditure on Revenue Account refers to expenditure on proposed and ongoing development projects/schemes which is being financed from receipts from normal government operations. Similarly, development expenditure on capital account consists of expenditure on development projects, the funding for which is financed from loans, grants and other financing sources.

TABLE 1: FEDERAL BUDGET - SUMMARY OF RECEIPTS & EXPENDITURE

RECEIPTS	EXPENDITURE
Federal Consolidated Fund (5+6) 1. Tax Revenue Receipts Direct Taxes Indirect Taxes 2. Non-Tax Receipts Income from Property Receipt from Civil Administration Miscellaneous Receipts 3. Total Revenue Receipts (1+2) 4. Capital Receipts Recovery of Investment Recovery of Loans and Advances Domestic Debt Receipts (net) 5. Total Internal Receipts (3+4) 6. External Receipts Loans Grants 7. Public Account Receipts (net) Deferred Liabilities (net) Deposits and Reserves (net) 8. Gross Federal Resources (5+6+7) 9. Less Provincial Share in Federal Taxes 10. Net Federal Resources (8-9) 11. Cash Balances built up by the Provinces 12. Privatization Proceeds 13. Credit from Banking Sector Total Resources (10+11+12+13)	Current Expenditure on Revenue Account 1. General public service 2. Defense Affairs and Services 3. Public Order Safety Affairs 4. Economic Affairs 5. Environment Protection 6. Housing and Community 7. Health Affairs and Services 8. Recreational, Culture Service 9. Education Affairs Services 10. Social Protection a. Current Expenditure on Revenue Account b. Current Expenditure on Capital Account c. Development Expenditure on Revenue Account d. Development Expenditure on Capital Account Total Expenditure (a+b+c+d) Breakup of Expenditure ■ Revenue Account ■ Capital
TOTAL RESOURCES	TOTAL EXPENDITURE

Description of Provincial Receipts & Expenditure

Many of the Provincial Budget components are similar to those of the Federal Budget. Some receipt heads are specific to provincial budgeting, examples include; Property Tax, Interest on Loans to District Governments/Tehsil Municipal Administrations (TMAs), etc. Similarly, almost all expenditure heads are similar to those of the Federal Budget with the exception of only a few, e.g. Defense related expenditure which is not accounted for in the federal budget etc.

Some of the receipt components specific to the provinces are mentioned below:

■ Federal Transfers

Federal Transfers refer to transfer of share out of divisible resources under the National Finance Award. (See more details in Section 4 of this Guide).

■ Property Tax

Property tax is collected by Provincial Governments on commercial, residential and other properties and constitute important source of taxes which are collected by the respective provincial governments.

■ Interest on Loans to district governments/TMAs

These represent interest on loans and advances to respective district governments of the provinces.

TABLE 2: PROVINCIAL BUDGET - SUMMARY OF RECEIPT & EXPENDITURE

RECEIPTS	EXPENDITURE
<p>1. General/Current Revenue Receipts</p> <ul style="list-style-type: none"> ■ Federal Tax Assignment / Federal Transfers ■ Provincial Tax Revenue ■ Provincial Non-Tax Revenue ■ Grants <p>2. Total General Revenue Receipts</p> <p>3. Total Development Revenue Receipts</p> <p>4. Total General Capital Receipts</p> <p>5. Total Development Receipts</p> <p>6. Public Account Receipts (Net)</p> <p>TOTAL RESOURCES (1+2+3+4+5+6)</p>	<p>A. Current Revenue Expenditure <i>Current Expenditure on Revenue Account - Charged & Voted (separately)</i></p> <ol style="list-style-type: none"> 1. General public service 2. Public Order Safety Affairs 3. Economic Affairs 4. Environment Protection 5. Housing and Community 6. Health Affairs and Services 7. Recreational, Culture Service 8. EDUCATION AFFAIRS SERVICES 9. Social Protection <p>B. Current Capital Expenditure</p> <p>C. Development Revenue Expenditure</p> <p>D. Development Capital Expenditure</p> <p>TOTAL EXPENDITURE (A+B+C+D)</p>
TOTAL PROVINCIAL RESOURCES	TOTAL EXPENDITURE

5. Basis of Resource Transfer to Provinces

This Section gives an overview of the basis for resource transfer between Federation and Provinces. .

National Finance Commission (NFC) Award

The most important component of provincial budgetary receipts is transfers from the Federal Government every year. These represent the share of the provinces in direct and indirect taxes and duties levied and collected by the Federal Government. Taxes and duties which are subject to distribution between the Federal Government and the Provinces include:

1. Taxes on Income
2. Wealth Tax
3. Capital Value Tax
4. Tax on Sales and Purchase of Goods
5. Export Duty on Cotton
6. Customs Duty
7. Federal Excise Duty (excluding the Excise Duty on Gas charged at well-head)
8. Any other tax which may be levied by the Federal Government

TABLE 3

Financial Year	Percentage share
2006-07	41.50%
2007-08	42.50%
2008-09	43.75%
2009-10	45%
2010-11 onwards	46.25%

The revenue distribution between the Federation and Provinces is made under the National Finance Commission Awards. The basis of distribution currently in force is governed by "Distribution of Revenue and Grant-in-Aid Amendment Order 2006" which has amended the NFC Award 1997. Under this Order, the year-wise share of provinces is shown in Table 3:

TABLE 4

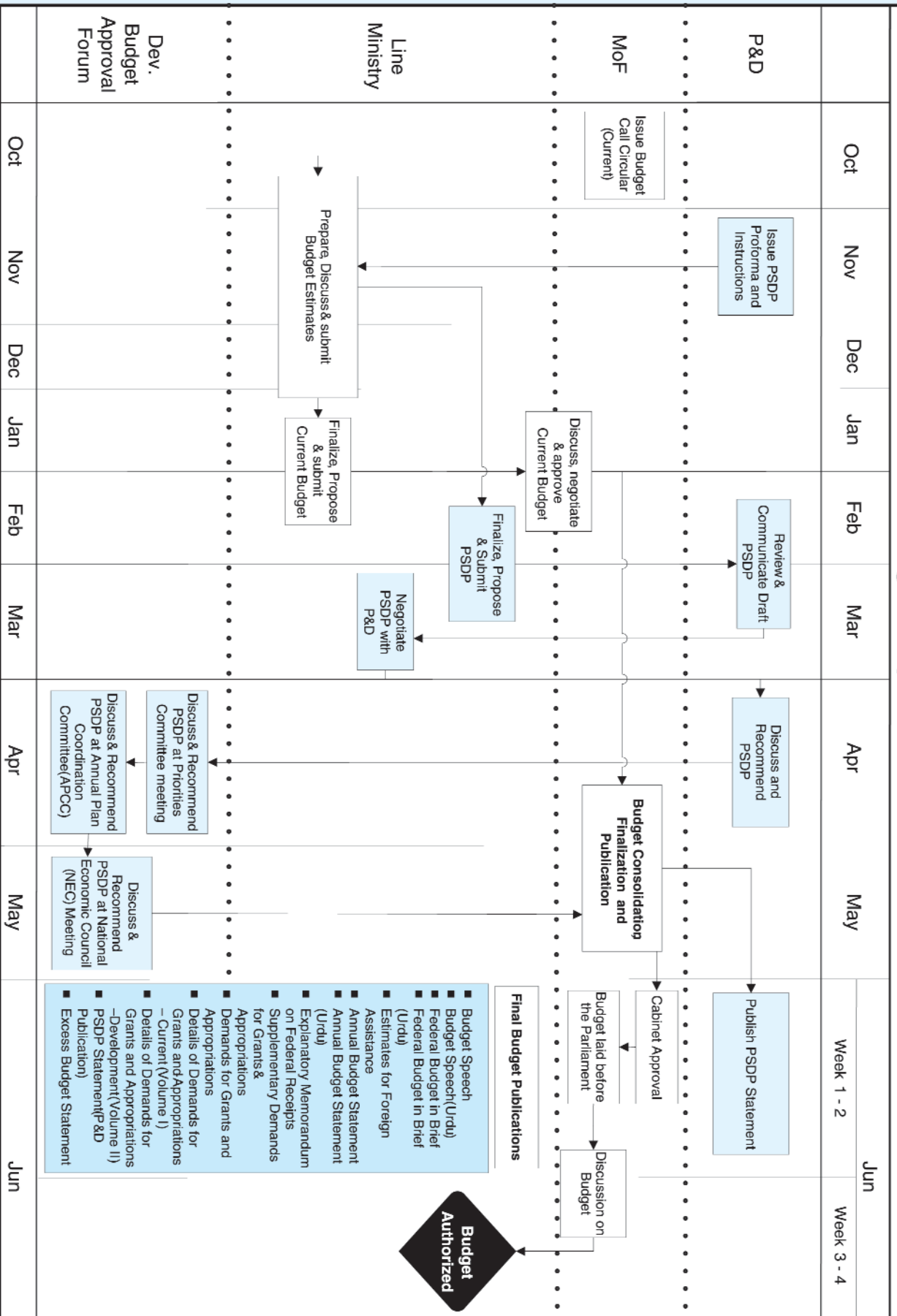
Province	Percentage share
The Punjab	57.36%
Sindh	23.71%
NWFP	13.82%
Balochistan	5.11%

Allocation of Share to the Provincial Governments

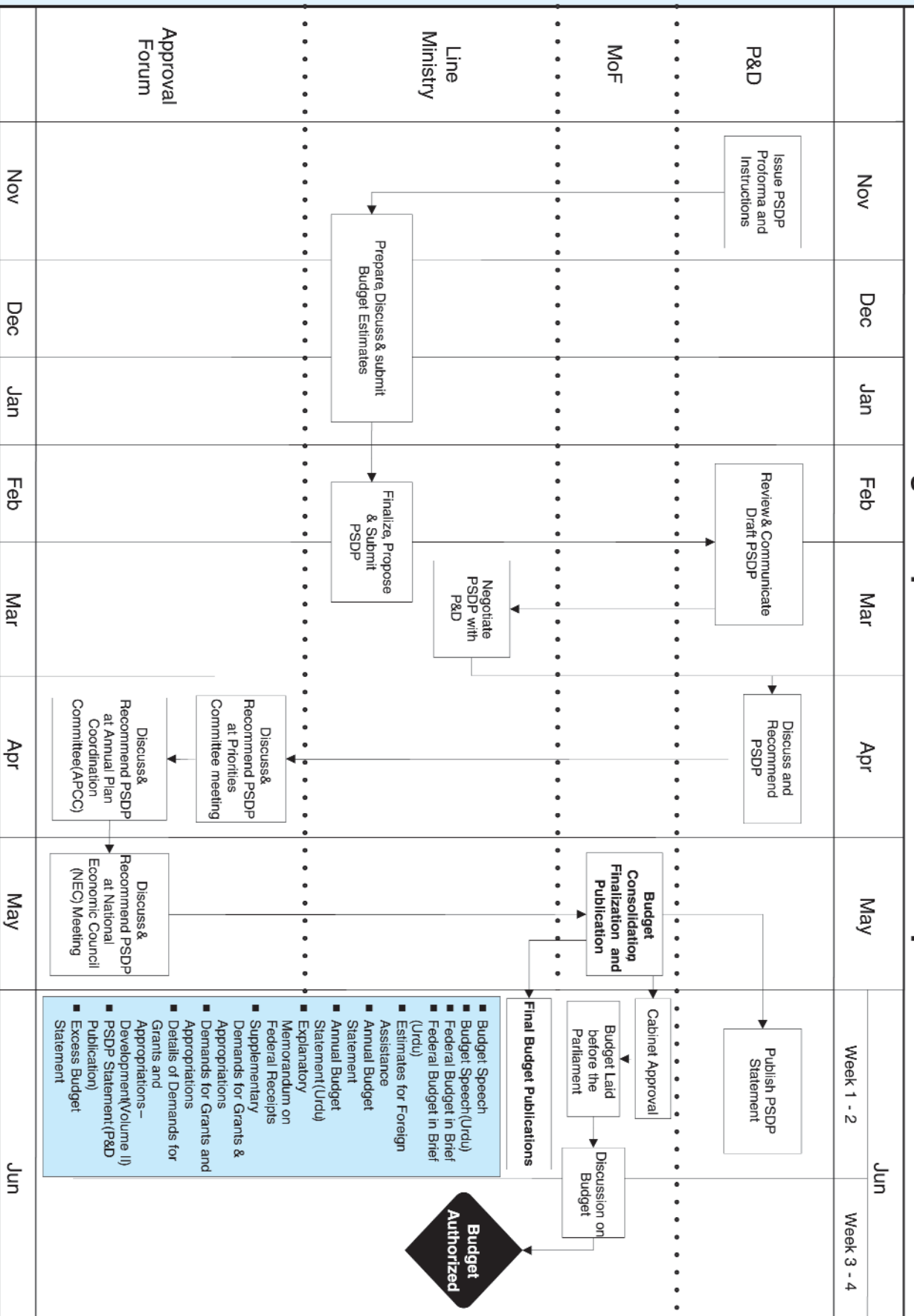
Out of the sum assigned to the Provincial Governments, an amount equal to the net proceeds of 1/6th of Sales Tax will be distributed amongst the provinces at the following ratio and the provincial governments are required to further transfer the whole of such amount to the District governments and cantonment boards and the balance will be distributed as noted in Table 4:

The amended 6th NFC award will remain in force for five years, or until the provinces come up with a consensus to formulate the 7th award.

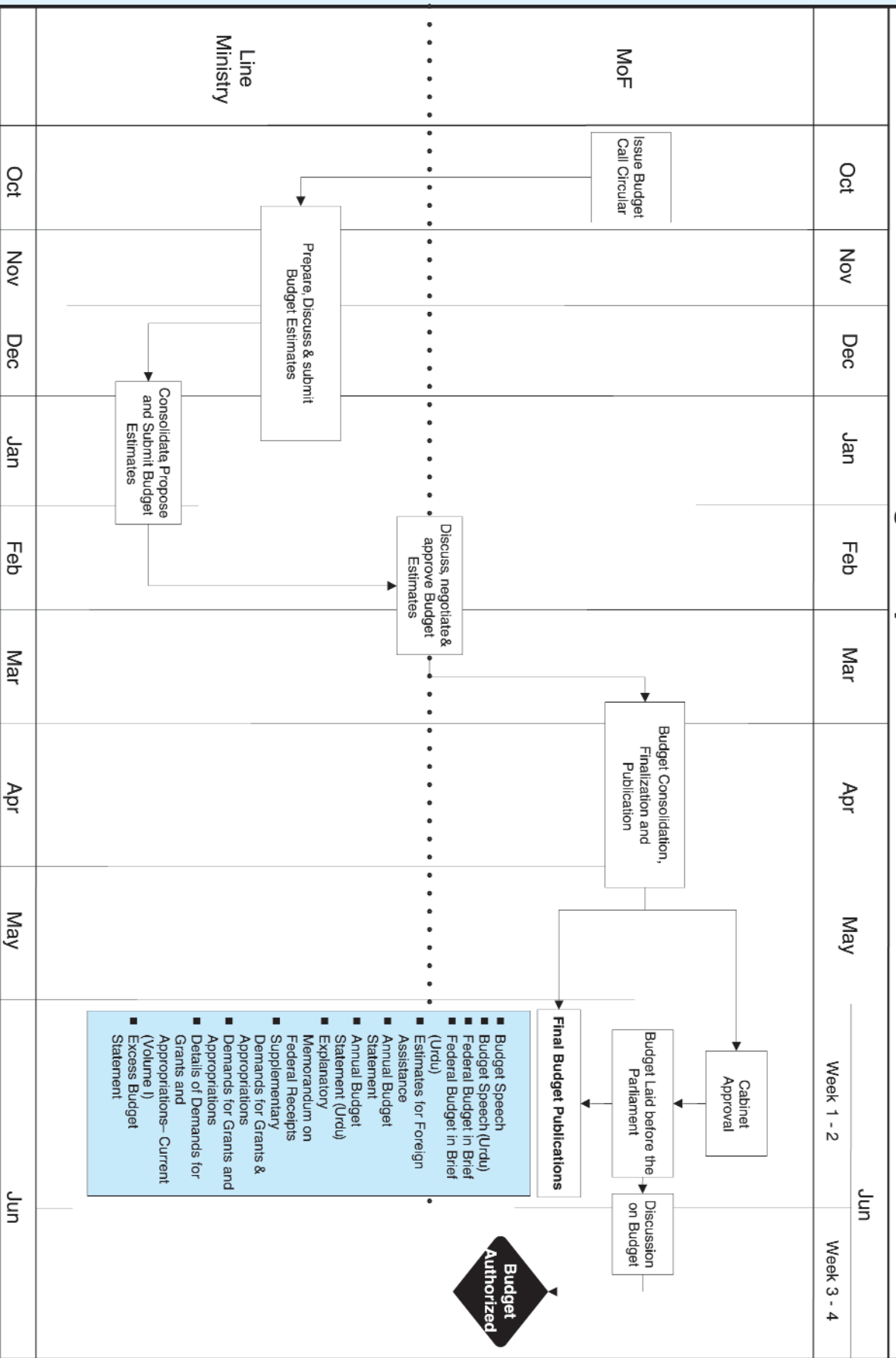
Federal Budget Preparation Process



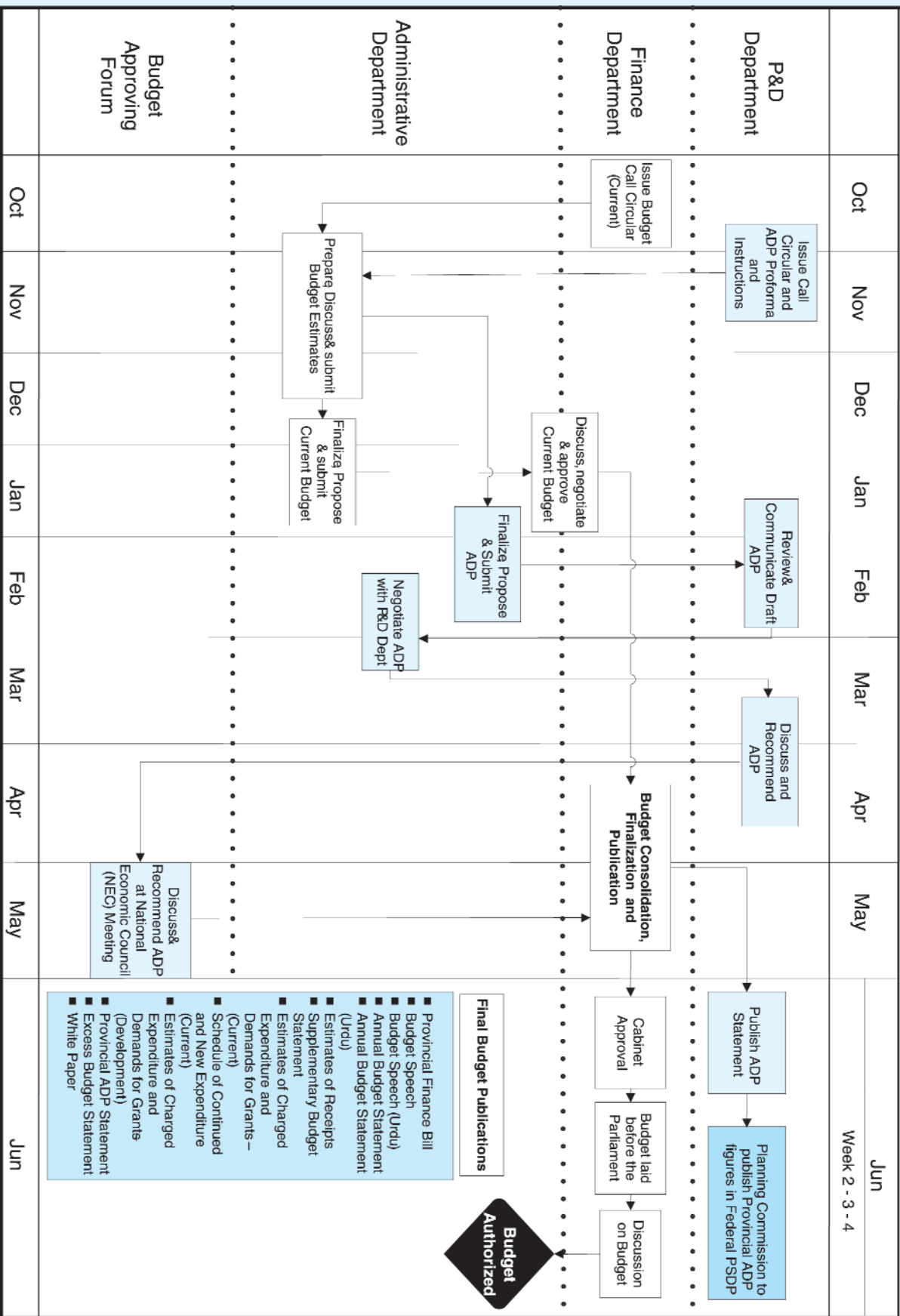
Federal Budget Preparation Process - Development



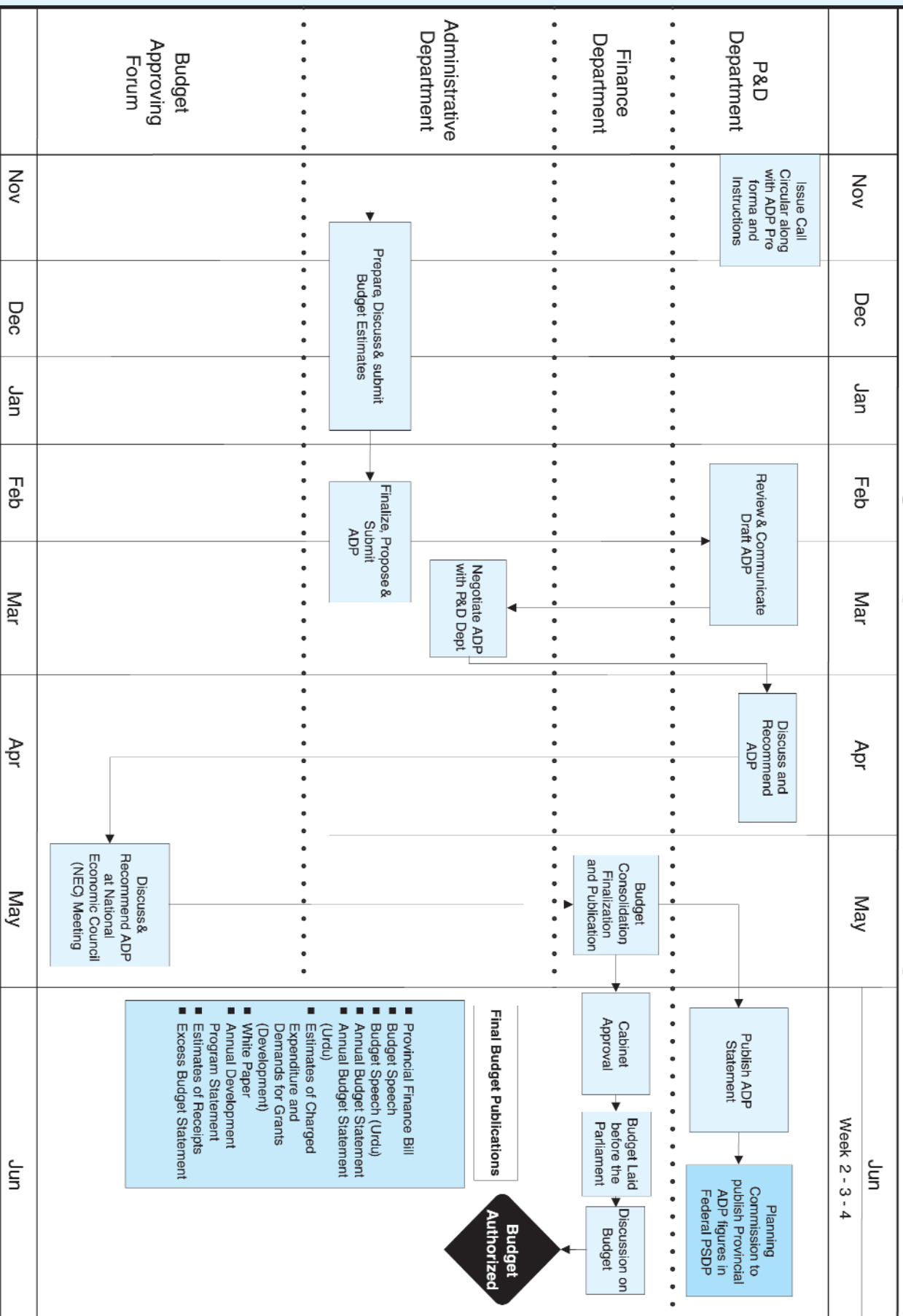
Federal Budget Preparation Process – Current



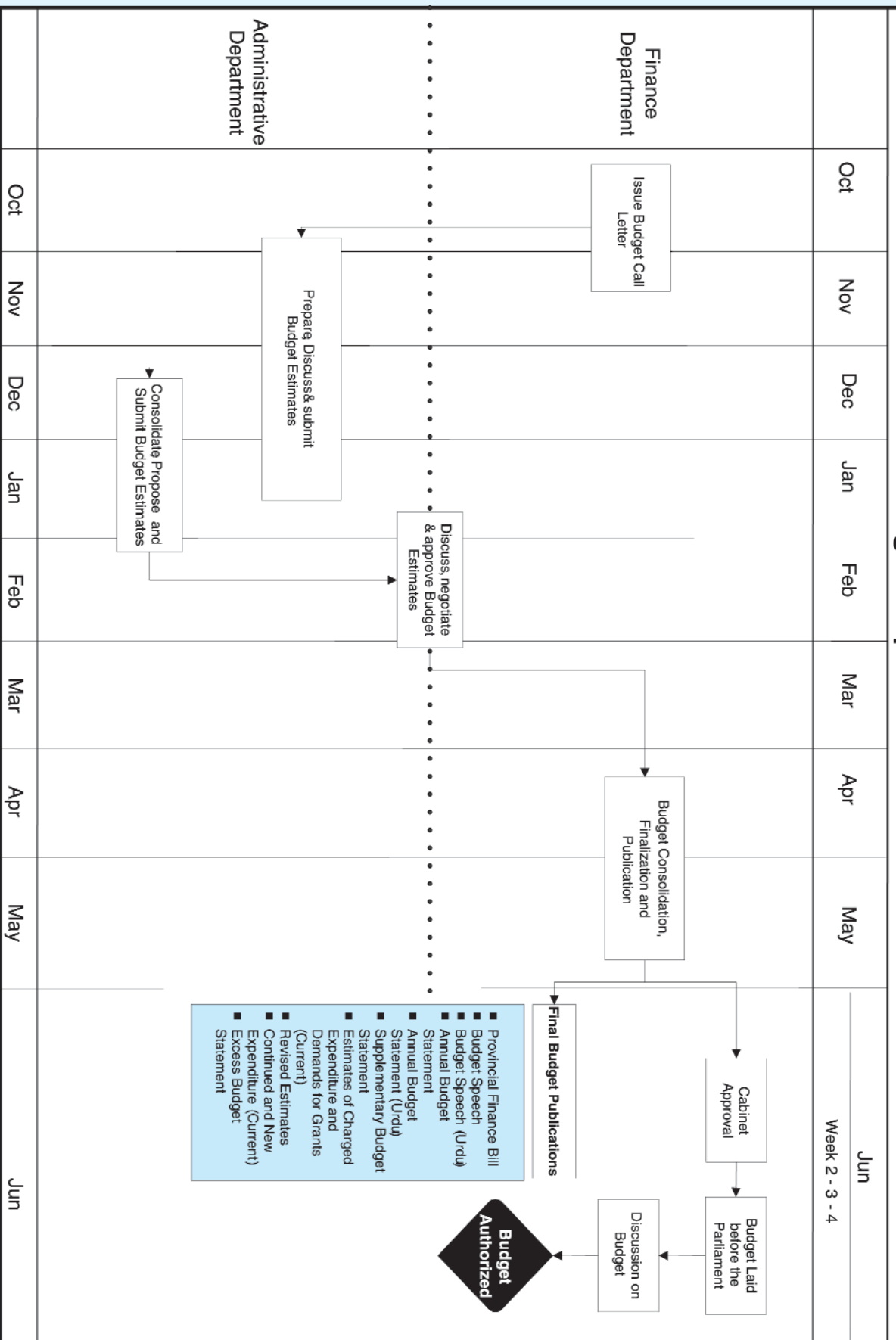
Provincial Budget Preparation Process - Overall



Provincial Budget Preparation Process- Development



Provincial Budget Preparation Process – Current



Appendix

Walking Through the Budget Books

(Budget Estimates and Page Numbers of the Budget Books in the following Example are those of Federal Budget Books for 2006-07)

Example: A Parliamentarian is looking for Health Allocations (Current Expenditure) for 2006-07 and has the following questions in mind:

1. Which Budget Book will give overall Summary for Health allocations in respect of Current Revenue Expenditure?
 2. What is % change from last year's allocation and which other Book can provide further break up?
 3. Is there any further breakup available? And what is ministry wise split of this Allocation?
 4. Which Book can provide institution-wise detail of budget? E.g. how can Current Budget in respect of "Poly Clinic Hospital" be traced?
-

Solution The Steps given below are suggested to be followed for answers of the above questions:

Step : 1

Locate Health Allocations (Current) in Annual Budget Statement (ABS). Go to page 8 for summary. Health Allocation appears on this page against Function Code "07".
Total Allocation: 4,728 (Rs. In Million)

Step : 2

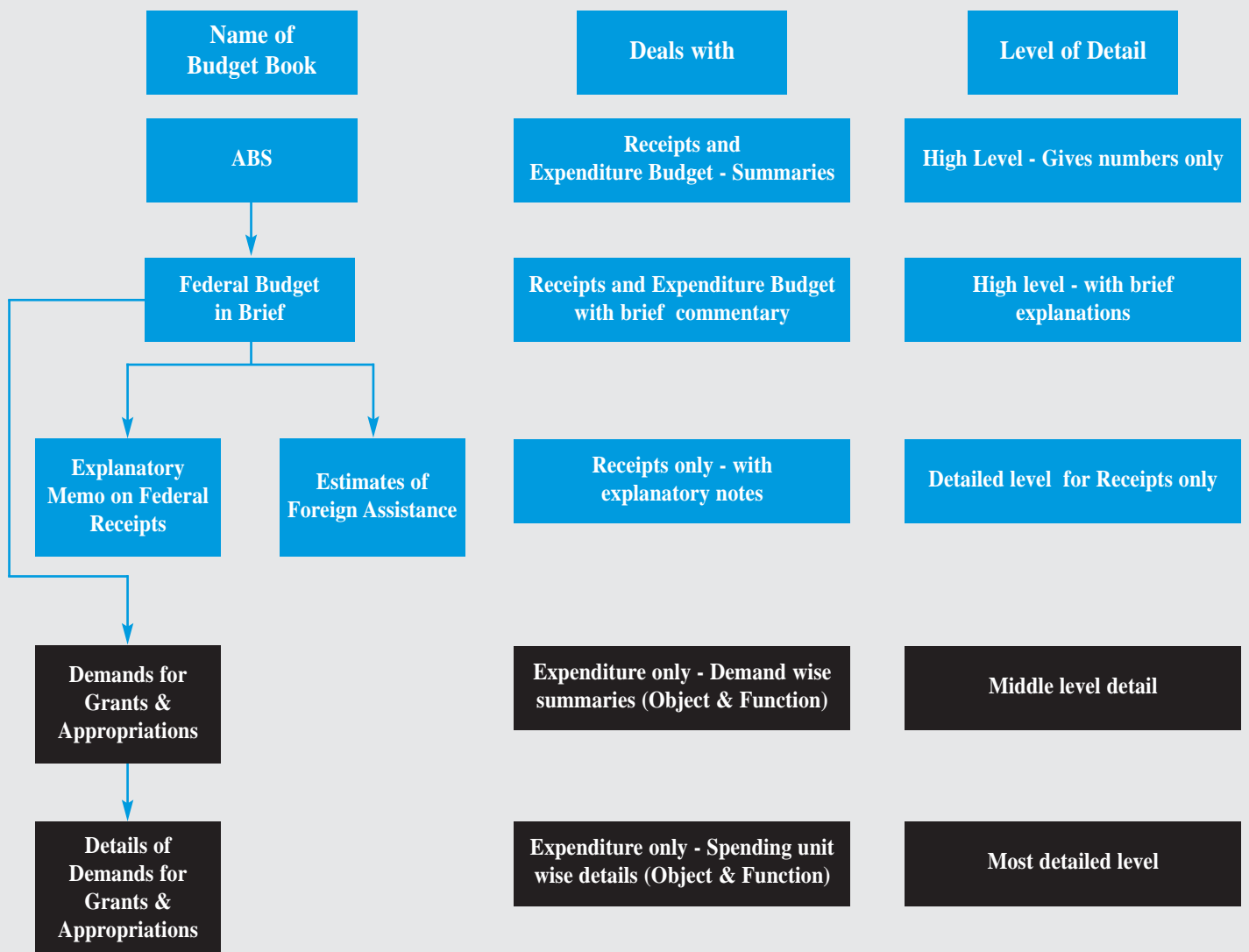
Now to look for further break up with % change from last year, get another book called "Federal Budget in Brief" and go to page 26. **This gives brief commentary of Health Allocation Change from last year and further breakup of Allocation.**

Step : 3

Now to find out how this allocation is split between various ministries, get "Demands for Grants and Appropriations" Book. Allocations between different ministries can be identified by Health Function code/description, as given below: (Note) Health Function code is "07" {page 333 and 334 of "Demands for Grants and Appropriations" give Demand-cum-Function-wise detail of required information} Illustration in Table 5

Demand Type / Ministry	Demand No.	Table 5: Function wise Budget Allocation (Rs. In Million)					Budget Allocation (Rs. In Million)	Page Ref. (ABS)	Page Ref. Demand No. (Pink Book)
		071	073	074	075	076			
		Medical Products, Appliances & Equipment	Hospital Services	Public Health Services	Research & Development - Health	Health Administration			
Cabinet Sectt. (Cabinet Division)	4		2 49				249	7	
Cabinet - Total							249		
Heath	55	68	3	9		118	198	74	
Heath	56		3,014		2	12	3,028	75	
Heath	57	26		202			228	76	
Health - Total							3,453		
Interior	72					26	26	97	
Interior	74			11			11	99	
Interior - Total							37		
KANA	80		1			8	9	107	
KANA	81					353	353	108	
KANA - Total							362		
Religious Affairs, Zakat & Ushr	104		11	36			47	148	
Religious Affairs - Total							47		
SAFRON	111		606	15		3	624	160	
SAFRON - Total							624		
Gross Total		94	3,884	272	2	520	4,772		
Recoveries		(44)	-	-	-	-	(44)	74	959
Net Total		50	3,884	272	2	520	4,728		
Setp 4:									
Get "Details of Demands for Grants and Appropriations" - Current Expenditure (Volume 1). This will give spending unit wise BudgetAllocations for each Deman deparately. Budget for "Poly Clinic" is covered under Demand No. 56. Go to page 961 for Demand Description and then go to page 962 for Poly Clinic Hospital Budget (Current Budget).									

Sequence and Relationship of Federal Budget Books



Purpose & Relationship of Provincial Budget Books

Name of Budget Book	Deals with	Level of Detail
Annual Budget Statement (ABS)	Receipts and Expenditure – Summaries	High Level – Gives numbers only
Budget Memorandum	Receipts and Expenditure – Summaries	High Level – with brief explanation
Estimates of Receipts	Receipts only	Detailed level – with explanatory notes
Annual Development Program / Public Sector Development Program	Expenditure – Development only	Department-wise & Project-wise Summaries
Estimates of Charged Expenditure and Details of Demands for Grants (Current & Development separately)	Expenditure only	Most detailed level – Spending unit wise details (Object & Function)
(of Previous Year): Supplementary Expenditure Revised Estimates		
White Paper	Receipts and Expenditure Position, Past performance & Future Outlook, Economic / Departmental Reviews	Explanatory : Gives numbers and commentaries / rationale / explanations

Budget Analyzer

The purpose of this Budget is to assist Parliamentarians to performing high level budget analysis and to contribute towards their knowledge and preparations for raising focused questions during budget session.

I Resource Availability

Total Budget Outlay (A)

Less:

Debt Servicing

Defence spending

Net Available for general administration, development activities, etc. (B)

(B) as % of (A) above

See if (B) above is higher or lower than last year's Net Available?

Rs. (Billion)	Example
	1200
	450
	350
	400
	33%

Related questions:

- Whether lower (B) has caused any decline in allocations for other general administration & development activities?
- Whether higher allocations have been made for interest / loan repayments?
- Whether higher allocations have been made for defence related spending?
- Whether any rescheduling of foreign / domestic debt has been carried out during the year / earlier years? If yes, to what extent?
- Are the revenue collection targets appear to be achievable?

II Supplementary Demands for Grants

On-going year's original budget estimates

Add: Supplementary Budget Estimates as tabled

Total (Original + Supplementary)

% of Supplementary Budget Estimates to Original Budget Estimates

Related questions:

- What are significant items in Supplementary Budget Schedules?

1. _____
2. _____
3. _____

Rs. (Billion)	Example
	1000
	300
	1300
%	30%

III Other Key Considerations:

- What is budget deficit / surplus estimated to be?
- B56 What is *current year's* budget deficit likely to be?
- Is it a growth-led budget?
- Consider government's ability to collect proposed taxes, manage budget deficit, honor debt repayments, maintain exchange rate and control interest rates in the wake of likely higher trade deficit.
- What happened to Privatization Proceeds collected during the year? Where were they utilized?

- Are there significant 'Lump Provisions' / un-explained expenditure in the Budget Books?
- Is the debt-servicing or debt-repayment position improving or deteriorating?
- Are investment and growth rates rising or falling?
- What measures have been taken to reduce poverty and increase employment?
- Are poverty and unemployment rates rising or falling?
- Are socio-economic indicators improving or deteriorating?
- What is the impact of tax proposals likely to be?
- What is current year's budget performance vis-à-vis the next year's budget proposals?
- See if SBP's treasury / market operations have helped maintaining a stable interest rate in the country?
- Are government's savings schemes providing adequate return to pensioners / account holders?
- Has government borrowed from banking sector in excess of its targets?
- What has the performance of Relief Funds been? Where has the money been spent?
- Consider actual spending versus budget allocations for key sectors.
- Other:

