

By Zafar Bhutta

Govt slashes subsidy budget by 23% for FY21

ISLAMABAD: The government has slashed the subsidy budget by 23% for next fiscal year 2020-21, beginning July, of which the major reduction will be borne by the power sector.

According to the budget book unveiled by the government on Friday, the subsidy release had been estimated at Rs271.5 billion for current fiscal year 2019-20, which was 55.4% and 6.5% higher than the budgeted figure and revised estimate for 2018-19.

However, the government has allocated Rs209 billion in subsidy for the next financial year, down 23.02% and 40% than the budget and revised estimates for 2019-20.

In FY20, the government initially expected disbursement of Rs271.5 billion in subsidy, but later the projection was revised upward to Rs349.5 billion because of grant of subsidy to power distribution companies (DISCOs), subsidy on sales of essential goods, corona-related stimulus and subsidy for Engro Fertilisers and Fatima Fertiliser.

In the federal budget for FY21, the subsidy for the Water and Power Development Authority (Wapda) and Pakistan Electric Power Company (Pepco) accounts for 59.33% of the total allocation.

It is followed by subsidy for the Naya Pakistan Housing Authority, consisting of 14.36% of the total, K-Electric with 12.2% of the total subsidy and Pakistan Agriculture Storage and Services Corporation (Passco) having 3.35% share in the allocation.

With the fresh allocation, the government expects to provide some cushion for consumers of electricity, sugar, wheat, fighting coronavirus and for Ramazan package.

However, it remains unclear whether the state will be able to keep itself within the ceiling or overshoot the target, as has happened in the outgoing year.

According to budget documents, Rs124 billion has been set aside for providing subsidy for power companies, excluding K-Electric. In comparison, Rs191 billion had been allocated in the outgoing fiscal year but it was revised upward to Rs201 billion as electricity bill payments decreased due to the impact of coronavirus.

The impact of deferring electricity bill payments due to Covid-19 was estimated at Rs10 billion. Of the subsidy allocation for FY21, Rs110 billion will cover tariff differential claims of power distribution companies compared to Rs162 billion in the outgoing year.

Separately, the subsidy on agricultural tube wells in Balochistan has been reduced to Rs3 billion for the next fiscal year compared to Rs8 billion for the current year.

Wapda will receive a subsidy of Rs10 billion next year to pick up receivables from the merged districts of Khyber-Pakhtunkhwa compared to Rs18 billion in the ongoing financial year. It will receive Rs1 billion on account of tariff differential for Azad Jammu and Kashmir (AJK) compared to Rs3 billion in the current year.

For the Karachi power utility, the government has made a major reduction in subsidy allocation. The allocation has been reduced to Rs25.5 billion against Rs59.5 billion for the ongoing financial year.

Essential goods

The government has slashed the subsidy on sales of commodities for the next fiscal year as the Utility Stores Corporation will receive Rs3 billion compared to the budget allocation of Rs5.5 billion for the outgoing year. However, the subsidy for USC went up to Rs43.5 billion in FY20 according to the revised estimate due to coronavirus.

The subsidy cushion for Passco has been slashed to Rs7 billion from Rs15.5 billion this year. Of the Rs7 billion, the government has allocated Rs2 billion for wheat operation and Rs5 billion for keeping wheat stocks.

It has also earmarked Rs49.5 billion in subsidy on account of sales of wheat in tribal areas, fertiliser import, fertiliser plant subsidy and Naya Pakistan Housing Authority.

Of this, Rs30 billion has been set aside for the Naya Pakistan Housing Authority, which is engaged in building housing units for the low-income group. Apart from that, Rs2 billion has been earmarked for Metro bus subsidy.