Budget Analyses

Financial Year2021-22, 2022-2023 & 2023-24 as a background

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Budget for the fiscal year 2024-25

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1. Budget at Glance

At Glance
Federal Budget 2024-25

(Rs. in Billion)

RESOURCES		EXPENDITURE	
Revenue Receipts		Revenue Expenditure	
Tax Revenue (FBR) - Federal	12,970		
I Direct Tax: Income	5,512		
: Income tax	5,470	Defense Services	2,122
: Workers' Fund & Participation profit	26	Mark-Up	9,775
: CVT	16	: Foreign Debts	1,038
ii Indirect Tax: Custom duties	7,458	: Domestic Debts	8,737
: Custom duties	1,591	Grants	1,777
: Sales Tax	4,919	: Provincial	1,777
: FED	948	: Others	-
		Emergency & Other reserves	313
Non-Tax Revenue	4,845	Subsidies	1,363
: Levies & Fee-Cell Phone & ITC Adn)	25	Govt. Running Expenses	839
: Mark-up(Provinces, PSEs&Others)	477	Pension	1,014
: ES+FG+NG+Royalty+levey+other	1,788		
: SBP, Defense, Law & order & S.Ser	2,555		
	25,253		
a) Gross Revenue Receipts	17,815		
b) Less Provincial Share	(7,438)		
I. Net Revenue Receipts (a-b)	10,377	Total Revenue Expenditure	17,203
Capital Receipts		Capital Expenditure	
II. Non Bank Borrowing (NSSs & Others) -	2,662	Development (PSDP 950 b)	1674
III. Net External Receipts - Fed. Consolidated Fund	666	Infrastructure(Energy, transport & com, water)	738
IV. Estimated Provincial Surplus	0	Social Sector	280
V.Bank Borrowing (T-Bills, PIBs, Sukuk)	5,142	IT Sector	79
VI. Privatization Proceeds	30	Higher Education & Good governance	164
		AJK Special Area & merged districts	139
		Net Lending	274
Net Capital Receipts	8,500	Total Capital Expenditure	1674
TOTAL RESOURCES	18,877	TOTAL EXPENDITURE	18,877
Mazhar Mahmood F-937		Mazhar Mahmood & Co - Rawalpindi	

Management of Fiscal Deficit

Rs."000,000,000"

Management of Fiscal Deficit		Financing	
A) Federal Revenue (Net)	10,377	A) Net External Financing(I +ii)	666
i) Current Expenditure (Budget)	(17,203)	Multilateral & Bilateral	(10)
ii) Development and Net (1140)	(1,674)	Sources	
B) Total Expenditure	(18,877)	Commercial Sources / Euro Bond	676
		B) Total internal Resources	7,833
		i) Total Internal Bowring	7,803
		Non Bank Barrowings (National Saving Schemes and Others)	120
-		ii) Bank Barrowing (T-bill's, PIBs, Sukuk)	7,683
		iii) Privatization Proceeds	30
C) Federal Deficit (A+B)	(8,500)	Total Financing (A+B)	8,500

Performance in FY 2021-22 & 2023-24 as a back ground for FY 2024-25

2. Preamble

Pakistan's deteriorated economy entered into 5th year which was causative of sixteen months horrible political environment, brazen interference of establishment & judiciary during the PTI government and devastated flood of 2022 in Sindh and Balochistan provinces. All major macroeconomic indicators including GDP growth rate, size of GDP, inflation, unemployment, trade deficit, facial deficit, forex, foreign debts, domestic debts and rupee depreciation have downward falling trajectory since 2018. It is very pertinent to have a look over to vernalbe global economic condition due to unsystematic disruption Covid-19 pandemic and Russia-Ukraine war. Former disrupted the international supply chain and latter pushed the world toward energy crises and shaken the stability of food security. Pakistan' weaker economy conceded greater negative impacts, mainly in term of inflation, than other stable countries.

Global economic growth has slowed down from 3.5 percent in 2022 to 3.2 percent in 2023 and is projected to continue at the same pace in 2024 and 2025, below the historical (2000–19) annual average of 3.8 percent. Global inflation is expected to fall from 6.8 percent in 2023 to 5.9 percent in 2024 and 4.5 percent in 2025. In response to inflationary pressures, major central banks have implemented restrictive policy measures by raising interest rates. Pakistan also follow the same policy of restricting the policy rate (Interest rate) at 22% to curb the inflation from 39% to 11.8%.

The basic theme of this budget is the macroeconomic stability which is dwindling since 2018 with major indicators of double-digit inflation, drop-in GDP growth rate, delay in opting for EEF from IMF and mismanagement on another economic front. The macroeconomic stability is sought through containing the Trade Deficit (CAD), reduction in Fiscal defect and demand for borrowing through primary budget surplus (Collecting revenue more than expenses). There is also little bit focus on growth to increase DGP from 2.4% to 3.6%. Government is very consciously increase the growth organically to avoid the inflation which is directly proportional to growth rate because both growth and inflation go side by side. For former objective, Government will collect more revenue (Tax & non tax revenue) to exceed expenses while for later objective, the amount reserved for PSDP had been increased from Rs. 950 billion to Rs. 1,400 billion to achieve the economic growth as fixed at 3.6% in this fiscal year. Expenses has already been trimmed from 13.3 trillion rupees for last year to rupees to 11.3 trillion in this year.

Tough the government dragged out Pakistan from default position by implementing non-popular policies, such policies disgusted by the general public, but economic stability is still seriously demanded. How Pakistan was pushed at the verge of default and who is responsible is a million rupee question. Let us analyses the data for last three preceding years, 2021-22, 2022-23 & 2023-24.

Fiscal Year 2021-22.

There were few of major mistakes that dragged the already deteriorating economy at the brink of default;

I. Current Account Deficit (CAD):

Imports for the financial year 2021-22	= $ 80 b (Rounded)
Export for the financial year 2021-22	= <u>$ 30 b</u>
Trade deficit	= $ (50) b
Add: Foreign Remittances (leaving minor accounts)	= <u>$ 31 b</u>
Current Account Deficit (CAD)	= $ (19) b

II. **Forex (Foreign Reserves)**

Only $ 2 b available against the payment of $19 b deficit.

Period	2018		Apr-22		Apr-23	
Total Reserve		19		17		10
Private Banks		(7)		(6)		(5)
Net		12		11		5
Less:						
China's restricted contribution (not to use)	-		(3)			
UAE's restricted contribution (not to use)	-		(3)			
Saudi Arabia's restricted contribution (not to us	-	-	(3)	(9)		
Net Government / SBP's reserves		12		2		5

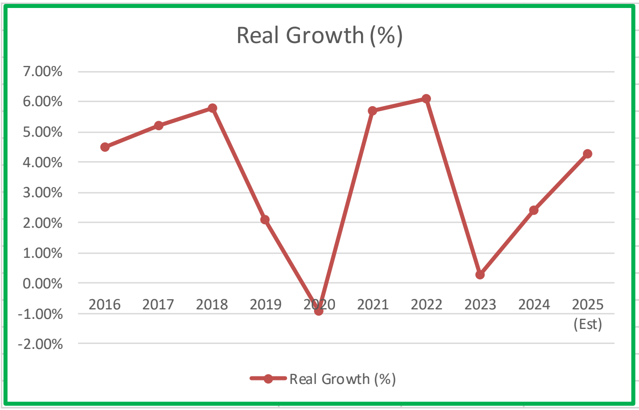
Shortage Dollars, available $ 2 b against payment of $ 19 b, put pressure on Pak Rupee maintained continuity of depreciation till Rs. 300 against $1 that started from Rs. 189(the lowest from 2018 to 2022). Mistake of such heavy imports taken our national economy near to default and still getting the aftershocks. Pakistan had not way out to accept the hard dictation of IMF to save the country from default in first phase, to make it stable in second phase and put on the track of growth in third and final stage. Import led growth policy of government proved to be totally failed.

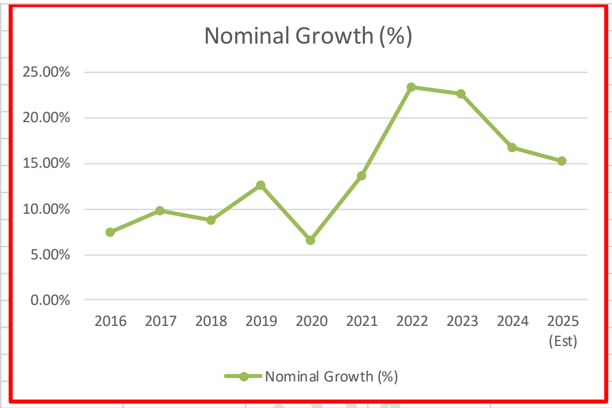
III. V-curve GDP growth of 5.8 % of 2021-22 (Khan's regime).

Covid-19 started in China from Wuhan City in 2019 and started spreading other countries and continents. Global economy, air traffic and international supply chain suspended. Economy was put on hold from March 2020 to June 2021 in Pakistan due to devastated pandemic. PTI government took over charge in August 2018 and government performance, before coved-19, remained pathetic. GDP growth was dropped from 6.1% to 1.7%, GDP size declined from $315 to $ 280, inflation inclined from single to dabble digit and currency depreciated from Rs. 104 to above Rs. 150 during his first year of performance. Growth rate further decreased to -0.94% due to Covid -19. Production was at lowest while demand for most of the products remained same. Consequently, the stocks depleted from the market. Though economy recovered from the pandemic (a -0.94 percent drop in FY2020) and maintained V-Shaped recovery by posting GDP growth of 5.9 percent in the fiscal year 2022. This high growth, however, is unsustainable and has resulted in financial and macroeconomic imbalances. Especially the inflation and trade deficit are the two fetal products of this imbalance growth. V-shaped curve took more than a financial year to reach its peak and, definitely, Growth Rate should be less in next year to balance the macroeconomic indicators. In FY2022, Pakistan's economy witnessed a high growth rate of 6.1 percent, however, it was unsustainable as it was largely driven by domestic demand, which was stimulated by expansionary fiscal policy and ended up with a high fiscal and current account deficit. Subsequently, the economy signaled excessive demand and overheating.

Such growth is not a real growth but called nominal growth based on cost rather than quantity of production or quantum Index of large scale manufacturing (QIM).For example;

Enonomic Indicator	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025 (Est)
GDP (Nominal) $(b)	271.1	304.6	337	324	262.6	347.9	383.5	376.3	402.8	417.3
Real Growth (%)	4.50%	5.20%	5.80%	2.10%	-0.90%	5.70%	6.10%	0.30%	2.40%	4.30%
Nominal Growth (%)	7.50%	9.80%	8.80%	12.60%	6.60%	13.60%	23.40%	22.60%	16.70%	15.20%


Real Growth (%)
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
-1.00%
-2.00%
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025 (Est)
Real Growth (%)


Nominal Growth (%)
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
2016
2017
2018
2019
2020
2021
2022
2023
2024
2025 (Est)
Nominal Growth (%)