Budget:

budget deficit = Less collection and more expenditure

Introduction:

Major issues of economy:

1. Balance of payment crises
2. Budget deficit

Pakistan also faces same issues. These both are known as twin economic problems.

The topic under discussion is budget deficit. As Pakistan collection is less and expenditure is more. Example In FY 2021-22, the total amount left with the center is **4.1 trillion PKr** while total expenditure was 8.4 trillion Pkr. Shortfall 4.3 trillion. Issue is same in every fiscal year.

Multiple reason and massive negative implementation while major steps should have to be taken to convert the budget deficit to budget surplus.

In FY 2023-24, the budget deficit is 4.5 trillion PKr

The total collection in this FY excluding the provincial share is nearly 4.6 tillion Pkr while the expenditure was nearly 9.1 trillion Pkr.

In FY 2021-22, the budget deficit is 4.3 trillion Pkr

In 2020-21, it was 4.1 trillion pkr

In 2019-20, it was 4 trillion pkr

In the last 10 FY, the average deficit was, 3.5 trillion pkr

In the last 20 FY, the average deficit was well above ~2.5 trillion pkr each year.

***Source: economic survey of Pakistan***

***Source: Finance division of Pakistan***

***Source: IMF***

Reasons for budget deficit:

1. Flawed taxation system results into lesser collection:

In FY 2022-23, 6.7 trillion pkr was collected. Expenditure was 9.1 trillion pkr

Afer Allying NFC (National finance commission) the center was left over around 3 trillion Pkr. 57.5% given to provinces while 42.5% left with the center. Tax on HC is only given by the center so the amount left with the center was almost 4.6 trillion Pkr. The total expenditure wa 9.1 trillion PKr. The deficit was 4.5 trillion pkr.

In FY 2021-22, 6.1 trillion pkr was collected. Expenditure was 8.4 trillion pkr

In FY 2020-21, 4.7 trillion pkr was collected. Expenditure was 7.7 trillion pkr

In FY 2019-20, 4.1 trillion pkr was collected. Expenditure was 7.2 trillion pkr

Tax collection is less than expenditure. The economy of country is not properly documented. The minimum 35% of economy is not documented. (ref: IMF)

It stated that the business units are partially documented or not documented at all.

when business unit is too big to hide, it is documented but partially documented. They are doing **tax evasion.**

One of the major tax evaders is real state business. Majority of societies deal in files.

The total land with society is usually less, while the files being issued or sold are always more. The society would not show all the files to FBR. Minimum time to develop society is 15 years and the society evade almost 15 years.

The second tax evader is builders and property dealers. The number of building houses or buildings are more and they showed less.

Industries are also considering as major tax evader, as the country does not have straight number of products being produced. Might be production is 100,000 and shown almost 70,000 to FBR. They only mention GST on the products. They are evading in the sales tax. With that it also evades income tax. As they show 70k production instead of 100k.

Retailers are among the major tax evaders. The product sold are always more than shown to FBR. Gold smith, sold 100,000 gram and showed 80k gram. In textile, the major brands, Sana Safina sold items are 100k and showed 80k.

They all stole GST, and would pay less income tax.

Same apply on hotels, private hospitals, elite educational institutions, they all are tax evasions.

**Tax Avoidance:**

Majority of small businesses are not registered. Wood industry is most common in all. Private clinics, laboratories, radiology, Local shopkeepers are tax avoiders.

Administration problem with the taxation system of Pakistan

1. Problem of documentation:

The business units are not properly documented or not documented at all.

1. The business is not automated:

Many of businesses are not computerized or automated. Major businesses are human dependent. Inspection is done by inspector through paper documented data.

The state has not properly invested in the capacity building of FBR.

In 1999, FBR collected almost 300 billion Pkr.

In 2023, FBR collected 6.7 trillion Pkr

International standards set by IMF, world bank, ECB, ADB etc.

“at least 2% of the collected amount must be spent on tax collecting bodies”.

 While Pakistan spends 0.6% on FBR. This is because documentation and automation of businesses could not be done by FBR. Furthermore, salaries are less of IRS and Custom officers, resultant they might involve in corrupt practices.

One major problem with the budget of Pakistan id less collection, because of flawed tax collection. Until unless proper documentation, automation and proper spending on FBR, sizeable increase in collection would remain in an elusive dream. In Pakistan indirect taxes are more than direct taxes. The burden of taxes is totally on consumer not on producer. In Pakistan more than 75% of the car owners are not tax payers.

**Recommendations/ Measures**

In the recent past, two major steps taken towards documentation and automation.

1. Track and trace system introduce in the industries.
2. Point of sale introduced in retailers and other big businesses.

Resultantly, sizeable increase in tax collection.

From 2000-2008, increase 300 billion to 1.4 trillion pkr.

From 2008-2013, reached to 2.4 trillion pkr.

From 2013-2018, reached to 3.8 trillion pkr.

In FY 2020-21, reached to 4.7 trillion pkr

Real change occurs in 2021-22, reached to 6.1 trillion pkr.

Pakistan in last 25 years, crossed the target given by IMF - 300 billion Pkr.

**Debt servicing:** another issue with budget of Pakistan

The minimum 35-40 % of the expenditure portion of the budget is allocated to debt servicing.

In the year 2021-22, the total expenditure was 8.4 trillion Pkr, while 3.4 trillion was allocate for debt servicing. In FY 2020-21, the total expenditure is 7.7 while 3 trillion was allocated for debt servicing.

In FY 2019-20, total expenditure 7.2 trillion and allocation of debt servicing is 2.9 trillion.

**Subsidies:**

In 2021-22 budget, there are around 1.6 trillion pkr subsidies. There are more than 200 billion pkr on electricity, more than 200 billion on gas, petrol and diesel, more than 200 billion pkr on Ehsas program. There are more than 32 state own enterprises. 400 billion pkr

Plus bailed out packages given to enterprises like PIA, Pak Railway, Pakistan post, national steel mills Karachi etc.

On PIA the loan is about 400 billion pkr while in 2021-22 subsidies were provided almost 58 billion pkr.

As for the industries, electricity, gas and for social welfare program. Subsidies are required. The state own enterprises are burden on the budget of Pakistan.

**Pensions:** in the federal budget 2022-23, pensions were nearly **761 billion pkr.** Retired defense pension is 550 billion pkr.

**Defense spending:** Pakistan being faced with multiple security threats, both internal and external. Internal like TTP, BLA. External threats like India, security situation of Afghanistan and the maritime security threats in the Arabian sea.

Spending on defense is inevitable. Unfortunately, the economy of Pakistan is weak, it cannot afford huge spending which is around above 1.7 trillion pkr in 2022-23. War on terror spending is other than it. Retired military spending is not including in it.

Implications:

1. **Increase in the public debt.**

In FY 2008-09, the total volume of loan in Pakistan was 6 trillion pkr

In FY 2012-13, it reaches to 12 trillion pkr

In FY 2017-18, it reaches to 29 trillion pkr

In FY 2021-22, it was 38 trillion pkr

In FY 2022-23, it was ~54 trillion pkr

One of the major reasons of loan increase is budget deficit.

1. **Lesser allocation for developmental projects.**

Industries, dams, canals, roads, and other infrastructure development less budget is allocated.

1. **Lesser allocation for social welfare activities**

Health, education, police, etc

Solutions:

1. Increase in collection:

By proper documentations and automation of economy. Increase Investment to GDP ratio. In India investment to GDP ratio 23 %, Bangladesh it is 28%, in Pakistan it is below 14%. Improve Investment to GDP ratio for generation of businesses which provide more opportunity for tax collection.

1. Privatization

The job of government is not to run businesses but to play the role of regulator. Business is the job of private individuals therefore state own enterprises must privatize to decrease the burden on budget.

# Next Topic: Loan

In the year June 2023, (economic division: 54+ trillion Pkr. loans on Pakistan) Foreign loan is approx. 140 billion dollars.

State bank of Pakistan (SBP) reported; • Total loan in 2021 is 38 trillion Pkr. Foreign loan is around 125 billion dollars

* In 2018, it was approx. 29 trillion Pkr Foreign loan is nearly. 107 billion dollars
* In 2013, loan is around 12 trillion pkr Foreign loan is around 84 billion dollars
* In 2008, loan is around 6 trillion Pkr Foreign loan is around 63 billion dollars

**Reasons of Acquiring loan:**

1. **To meet the budget deficit, government acquire loans**

In the fiscal year 2022-23, the total budget deficit was 4.3 trillion Pkr. The total collection left with the center excluding the provincial share is 4.1 trillion Pkr while the expenditure was 8.4 trillion Pkr.

In the fiscal year 2021-22, the total budget deficit was 4.1 trillion Pkr.

In 2020-21, the total budget deficit was 4 trillion Pkr.

In 2019-20, the total budget deficit was 3.8 trillion Pkr.

In the last 10 fiscal year, the budget deficit remained above 3.5+ trillion Pkr. Means expenditure is more and collec’on is less.

1. **To support/ stabilize dollar reserves**

One of the major reason is support the depleting dollar reserves. Dollar reserves are being kept in the current account or the foreign account.

In the fiscal year 2022-23, current account deficit was more than 18 billion dollars, Trade deficit is about 44 billion dollars, 13 billion dollars pulledout because of repayment of loan. Total outflux was 57 billion dollars. 29 billion arrived as remittances, 4 billion dollar arrived in Roshan Digital Account. The dollar shortage reduced to 24 billion dollars. 6 Billion dollars arrived in other sources like foreign investment, issuance of bonds etc. but the total shortfall remaining was 18 billion dollars. To meet the short fall, loan acquired.

In the fiscal year 2022-23, the shortfall is about 18 billion dollars to meet the short fall, loan acquired.

1. **Loan has been taken to finance developmental products**

Majority of CPEC projects are loan based; road projects, railway projects are all loan based, Dasu Dam and Mumand Dam, dimer basha dam is also loan based projects.

Implication of loan:

1. **Pakistan is stuck in a debt trap:**

State is stuck in the vicious circle of loan, to pay off the loan the government has to acquire more loan. In 2023-24, the government has suppost to pay 18 billion dollars, it doesnot have any other option other than acquire loan. In the last four fiscal year, 36 Billion dollars loan has been paid off. In the upcoming 3 Financial years Pakistan has to pay 74 Billion Dollars. To pay off this loan the governemnt has to acquire more loans. Every government after coming into power either 2008, 2013, 2018 and 2022,and 2024 the first and the foremost step been taken is to acquire loan.

1. **Terms and conditions of loan:** Loan is always accompanied by a long list of conditionalities. Every package of loan given by IMF or ADB or WB or any other lender is accompanied by a long list of conditonalities. The first and major condition is to remove subsidies. In Oct 2022 and March 2023, IMF package accompanied by long terms and conditions including removal of subsidies on petrol, diesel and electricity Resultantly increase in the **price of petrol and diesel as well as electricity**, more than double. Second condition was to make rupee free floating. When the governement make rupee free floating, the rupee devalued from 225 to 265 within 3 days. Government has to take Sovereign decision but failed which increases inflation.

**Solutions:**

1. **Acquire more loans:** not acquiring loan is not the option, government has to acquire loan and it has to acquire more or bigger volume of loan, it should try to get soft loans having easier terms and conditions like lesser intrest and longer maturity time.
2. Tax reforms
3. Industrial reforms
4. Agricultural reforms
5. Increase in tourism
6. Encourage foreign investment