Budget:
budget deficit= Less collection and more expenditure

Introduction:
The economy of Pakistan has two major problems.

1. Balance of payment crises or dollar shortage
2. Persistent Budget deficit

Budget crises have always been a problem for Pakistan but has severe years to a dangerous level. In the FY 2024-25 the total collection target is 13 trillion PKR while the total expenditure is 18.9 trillion PKR, the deficit would be around 6 Trillion Pkr.
In FY 2023-24, the shortage was 4.7 trillion,
In FY 2022-23 4.5 trillion,
In FY 2021-22 4.1 Trillion PKr
In last 5 Fiscal years, the average deficit is 4.5 Trillion Pkr
In last 10 Fiscal years, the average deficit is more than 4 trillion PKr
In last 20 Fiscal years, the average deficit is more than 3.2 trillion PKr

The collection is always less, and the expenditure is always more.

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
   After Applying 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 Hydrocarbons is only given by the center so the amount left with the center was almost 4.6 trillion Pkr. The total expenditure was 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.

<u>Tax Avoidance:</u>
Majority of small businesses are not registered. Wood industry is most common in all. Private clinics, laboratories, radiology, Local shopkeepers are tax avoiders.

<u>Administration problem with the taxation system of Pakistan</u>

1. Problem of documentation:
   The business units are not properly documented or not documented at all.
2. 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.
All those economies where tax to GDP ratio is above 13% that economy performs comparatively well. Out of every 100 Rs, 13 are being given to tax department. In France Tax to GDP ratio is 30%,

In India it is above 13%, In Bangladesh it is above 13% but in Pakistan it is dangerously low which is less than 9%. Pakistan needs to increase it at least 13% plus.

In every country there are two ways to increase tax collection. First increase the number of tax payers, which means broaden the tax base that could be done by registering more and more businesses with FBR and other tax bodies of Pakistan. Second way is to increase the tax rate on the existing tax payers. This is not a healthy pattern of tax reforms as it increased the burden of already overburden taxed class. Salaried class, Servicing sectors and telecom are the major hits of such initiative. In Pakistan the second pattern is mostly followed which is not healthy. It is advisable to opt for the first option.

Implications:

1. The major impact of poor tax system is the lesser collection of capital by the government. The state cannot meet its expenditures therefore; it has to acquire more loan that has resulted in debt crises.
2. The state does not have enough money for developmental projects like dams, Canals, roads, industries etc
3. The state have enough money for Human development index (HDI) , like spending on education , health, R&D

Recommendations/ Measures

Work on structural reform in the tax system. More the system from documentation to automation system. 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 system (POS) introduced in retailers and other big businesses.

Resultantly, sizeable increase in tax collection.

Increase in the spending on FBR: Atleast 2% of collection should be spent on Tax collecting body (FBR). Pakistan Spent only 0.6% of the total collection on FBR. If proper or enough amount is spent on FBR will increase in the salaries of employees that would result in reduction in corruption. Secondly, FBR capacity would increase to document and automate the economy of the country more and more.

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. Out 100 pkr ,40 Pkr are allocated by the government for the return of loan along with interest

FY 2024-25 total loan to be returned by the federal govt of pak is approximately
9 trillion PKR

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, and more than 200 billion pkr on Ehsas and Benazir Income Support programs. This expenditure was necessary in order to support the lower and lower middle class.

But the real problem is state own enterprises called SOEs. There are more than more than 100 state own enterprises. More than 600 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. In 2023-24, more than 60 billion pay to PIA. In the last two decades the government has paid more than 1000 billion to PIA and its affiliate departments. PIA has been going in loss and the government has to bail it out every year.

Pakistan Railway is other SOEs facing huge losses. The real source of earning for railway is not passenger but Cargo. Unfortunately, the track for the Cargo and passenger train from Karachi to Lahore and Peshawar is same. Passenger train runs fast while cargo train travels slowly therefore government allowed the passenger train more than the Cargo. Resultantly, railway cannot generate enough funds above that system is over employed. The same is true about National Highway Authority (NHA)

After transport, the Power sector is facing huge losses. Electricity distribution companies, called DISCOs are one of the major burdens over the budget of Pakistan. The average loss in the DISCOs is 16%. The largest loss is in Peshawar electric supply corporation. Quetta electric supply coorp. is on second number. There is not a single DISCO or distribution company which is not going in loss. Resultantly, the government has repeatedly bail out the DISCOs and WAPDA. With the exception of K-Electric majority of the DISCO are state owned, and every year the state has to bail them out.

PSO is another department that is facing severe shortage of funds. It is faced with the remaining amount of the IPPs, importers etc. The same is true about Sui Southern Gas, and Sui Northern Gas Departments. Their earning is less and are faced huge losses resultantly the government has to bail them out.

National steel mill Karachi is persistence a burden over the budgetary economy of Pakistan. It was supposed to be privatized in 2007 but Supreme Court intervened in the privatization process and stopped the government to privatize it. This steel mill is practically closed in 2016, yet the government has to pay the salaries to its employs. Since 2007 till date, this enterprise has cost the federal budget more than 100 Billion Pkr.

National highway authority faces one of the highest loss among the state enterprises. The same has been with the case with Pakistan railway. The same problem is with PSO, Sui southern, sui northern, Pakistan Post, and the list is quite long.

Privatization is the major solution. It is not the job of the government to run businesses rather it is the job of individuals to run businesses. The state must play the role of regulator in order to control the abnormal increase in the prices.

In India the electricity is provided by private sector. The state regulates the prices of electricity. Pakistan should have to do the same. K- Electric has reduced its losses from 33% to 16% as it is not only DISCO but also a transmitter. If Pakistan privatizes the rest of DISCOs, they would only try to increase their income and reduce losses for which they improve their transmission line, control electricity theft and take other measures.

All the enterprises, which were privatize by the state in the 90s or after 2000 are performing well and earning profit. MCB has increased its profit more than 500 percent; the same has been the case of every bank. PTCL has become a major profit giving enterprise. All those industries which are privatized in 90s are in better condition and earning profits. Therefore industries, transport based enterprises and other enterprises much b privatize at priority.

Education and other sector like health based enterprises must not be privatized rather work on the improvement of such enterprises and should be made profitable.

Judiciary must not intervene in privatization as it has done in past. It is purely job of executives. But executives must have to take parliament in confidence. It would only do when all the political parties are on same page and sign the Charter of privatization.

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. FY 2024-25, the total defense spending is 2.1 trillion pkr. War on terror spending is other than it. Retired military spending is not including in it. Actual defense spending is more than 3 trillion pkr.

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 2020-21, it was 38 trillion pkr
In FY 2023-24, it was 62 trillion pkr
One of the major reasons of loan increase is budget deficit.

2. **Lesser allocation for developmental projects.**

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

3. **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.
2. **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.
3. Industrial Reforms:
4. Agricultural reforms
5. IT reforms
6. Promote Tourism