

A SNAPSHOT OF PAKISTAN BUDGET FOR FISCAL YEAR 2024-25

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(Views expressed in the brief are those of the author, and do not represent those of ISSI)



On June 28, 2024, the National Assembly of Pakistan officially approved the fiscal year (FY) 2024-25 federal budget. Finance Minister Muhammad Aurangzeb introduced amendments to the Finance Bill 2024. Initially presented by the finance minister on June 12, 2024, the budget contains a comprehensive plan focusing on economic stabilization and growth. The budget came into effect on July 1, 2024, after getting assent from President Asif Ali Zardari.¹

The budget, amounting to Rs 18 trillion, has been crafted with consideration of the current economic challenges both domestically and internationally. It aims to satisfy the International Monetary Fund (IMF) conditions and balance Pakistan's growing fiscal deficit through increased taxation, as the country negotiates a larger, long-term program with the IMF worth USD 6-8 billion to secure macroeconomic stability.²

¹ Ariba Shahid, "Pakistan's tax-heavy budget likely to land IMF bailout, but stoke tensions," Reuters, June 14, 2024, <https://www.reuters.com/markets/asia/pakistans-tax-heavy-budget-likely-land-imf-bailout-stoke-tensions-2024-06-14/>

² "Pakistan Federal Budget 2024-25 all set to be unveiled today," Pakistan Observer, June 12, 2024, <https://pakobserver.net/pakistan-federal-budget-2024-25-all-set-to-be-unveiled-today/>

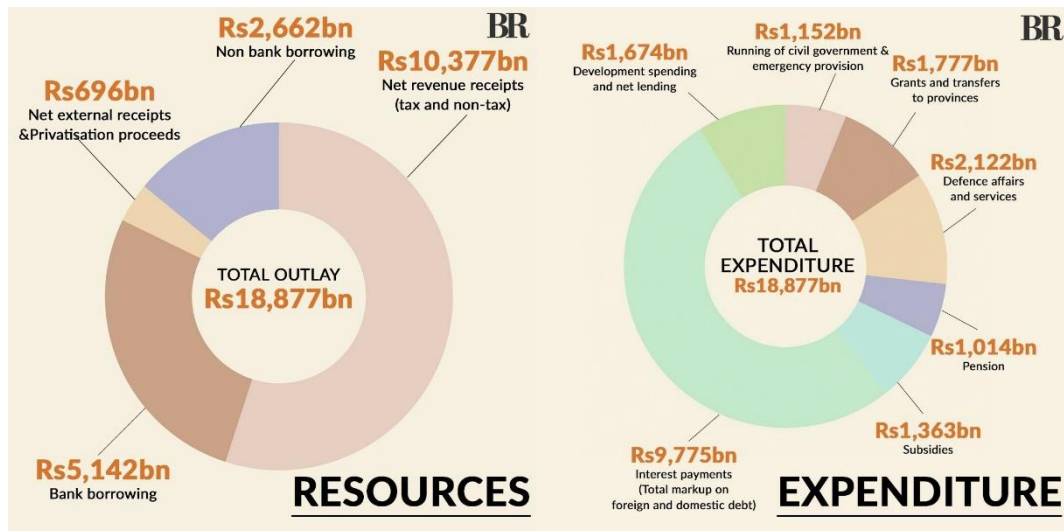


Figure: Showing Resources and Expenditure of the budget taken from Business Recorder³

Key Highlights of the Budget⁴

The following are the major highlights of the budget:

- The economic growth target for the FY 2024-25 is set at 3.6%, with inflation projected at 12%.
- The total budget outlay for FY 25 is Rs 18.9 trillion, including gross revenue receipts (tax and non-tax), non-bank borrowing, bank borrowing, net external receipts, and privatization proceeds.

The major revenue and expenditure sources as highlighted in the budget includes:

Revenues

- Federal Bureau of Revenue (FBR) taxes are projected to be Rs 12.97 trillion, approximately 40% higher than the previous fiscal year, with non-tax revenue expected to be Rs 4.8 trillion. Meanwhile, the Finance Bill 2024 introduces a new Late Filers category in the income tax law.
- The increase in the tax target consists of a 48% rise in direct taxes and a 35% increase in indirect taxes compared to the revised estimates of the current year.

³ "Key highlights of Budget 2024-25," Business Recorder, June 15, 2024, <https://www.brecorder.com/news/40308143>

⁴ Ibid

- Non-tax revenue, which includes petroleum levies, is expected to rise by 64%.
- Taxes on textile, leather products, and mobile phones will increase to 18%, along with an increase in capital gains tax on real estate.

Expenditures

- The total budget expenditure includes interest payments (foreign and domestic debt) of Rs 9.775 billion, pensions, defence affairs and services, grants and transfers to provinces, subsidies, civil government operations, emergency provisions, and development and net lending.
- The total fiscal deficit stands at Rs 7.283 trillion, representing 5.9% of GDP, down from the revised 7.4% in FY 2023-24.
- The Federal Public Sector Development Programme (PSDP) is budgeted at Rs 1.4 trillion, with an increase in the Benazir Income Support Programme (BISP) allocation from Rs 466 billion to Rs 592 billion, Rs 65 billion allocated for utility stores corporation subsidies, and Rs 10 billion set aside for the Ramzan package.
- The current budget allocates Rs 2.122 billion to defence expenditures, marking a 17% increase from the previous fiscal year. This spending accounts for 1.71% of the total GDP.
- The total expenditure on education for FY 25, amounts to Rs 103.781 billion. Higher education will receive Rs 79 billion, marking a decrease of Rs 2 billion. Additionally, it will receive Rs 66 billion as part of the PSDP.
- In the new budget, healthcare, which is now a devolved subject to the provinces, has been allocated Rs 27 billion.
- The federal government has allocated a budget of Rs 6.25 billion to the Climate Change Division for FY 25. This comprises 7.7% of the Running of Civil Government funds and 15.3% of the PSDP funds dedicated to climate-sensitive areas to address climate change.

Ambitious yet Insufficient Budget?

While the budget sets ambitious targets and includes necessary reforms, it reveals significant challenges and missed opportunities. The budget's commendable focus on social welfare and sectoral reforms is evident, the levels of defence spending and debt servicing costs present

considerable challenges. Despite a challenging tax revenue target of Rs 13 trillion, criticism from government allies and opposition focuses on demands for relief for salaried workers and the poor. The revenue target, nearly 40% higher than last year, has also drawn concern from the business community. Although the budget proposes limited measures to stimulate growth in sectors like agriculture, significant incentives for expanding local manufacturing for import substitution and export growth are notably absent. The heavy debt burden limits government investment in long-term growth initiatives.⁵

Pakistan's finance ministry views the 2024-25 budget as a step towards sustainable and inclusive growth. Negotiations with the IMF, aiming for USD 6-8 billion, focuses on reducing the fiscal deficit to 5.9% of the GDP, as part of the measures to achieve economic stability. However, high debt servicing costs amounting to half of the total government expenditures, restrict funds for PSDP and essential services, posing risks to sustainable economic management.⁶

Pakistan's severe macroeconomic imbalances, such as significant fiscal and current account deficits, declining foreign exchange reserves, and increasing public debt, have pushed it repeatedly to the IMF over the past many decades. The economy has not taken off despite a series of measures prescribed by the IMF. This calls for addressing more structural issues that could resolve the long-term problems of the economy. Addressing the debt burden and ensuring equitable resource allocation are critical for long-term financial stability and growth. Achieving sustainable economic growth will require a balanced approach, increased investment in healthcare, environmental initiatives, and comprehensive tax reforms.⁷

5 Ariba Shahid, "Pakistan's tax-heavy budget likely to land IMF bailout, but stoke tensions," Reuters, June 14, 2024, <https://www.reuters.com/markets/asia/pakistans-tax-heavy-budget-likely-land-imf-bailout-stoke-tensions-2024-06-14/>

6 Hassan Ali Khan, "Pakistan's tax-heavy budget goes into effect today ahead of IMF loan talks," Arab News, July 1, 2024, <https://www.arabnews.pk/node/2541126/pakistan>

7 Abdullah Khalid and Dr Maaz Maqsood Hashmi, "Budget 2024-25: balancing growth and stability," The News, June 24, 2024, <https://www.thenews.com.pk/magazine/money-matters/1202793-budget-2024-25-balancing-growth-and-stability>