



Federal Budget 2024-25: Fiscal Strategies and Challenges

Policy Context

The Federal Budget for the fiscal year 2024-25 has been presented against the backdrop of a moderately improving macroeconomic environment compared to the previous fiscal year, alongside significant fiscal challenges. According to the Pakistan Economic Survey, real GDP growth for 2023-24 is estimated at 2.38%, primarily driven by a robust agricultural sector growing at 6.25%. However, growth in the industrial and services sectors remains modest, both recording increases of just 1.21%. Positive signs of economic stabilization include a decline in inflation rates in April and May 2024 and a recent 150 basis point reduction in the State Bank of Pakistan's (SBP) policy rate, now at 20.5%. Additionally, per capita income has risen from USD 1,551 to USD 1,680.

Despite these encouraging indicators, key concerns persist. The overall investment-to-GDP ratio, already low by global standards, has further declined from 14.1% to 13.1%, with private investment falling from 9.5% of GDP to 8.7%. Large-scale manufacturing has also failed to show significant growth, likely due to SBP's demand management policies, which maintain high-interest rates. Furthermore, significant government borrowing from private banks to finance the deficit is crowding out private investment.

The macroeconomic environment heavily influences the Budget 2024-25, which is crucial for shaping economic conditions, promoting growth and stabilization, addressing societal needs, ensuring fiscal sustainability, and redistributing resources. This analysis delves into the fiscal outlook, examining the government's capacity to navigate these challenges and steer the economy towards a path of sustainable growth and development.

Fiscal Outlook

The FY25 budget presents a complex fiscal landscape reflected from the statistics in Table 1. It presents the key budgetary figures, including FBR tax revenues, non-tax revenues, and gross and net revenue receipts of the federal government. It shows that the government has

set an ambitious revenue target of PKR 12.97 trillion for FY25, a 40% increase over the revised estimates for FY24, which poses a significant challenge. The FBR's strategy relies heavily on a substantial increase in direct taxes, aiming to boost collections from PKR 3.7 trillion to PKR 5.5 trillion, a 48% rise. Indirect taxes are also projected to grow, driven largely by an increase in sales tax from

PKR 3.6 trillion to PKR 4.9 trillion, a 35% rise. The Finance Bill reveals a strategy focused on tax rate enhancements, including higher tax rates for both salaried and non-salaried taxpayers. Non-salaried individuals face tax rates ranging from 15% to 45%, with an unchanged exemption limit of PKR 0.6 million, while salaried taxpayers see rates from 5% to 35%.

For FY25, the federal government is also targeting a significant 64% growth in non-tax revenues, primarily driven by expected profits from the State Bank of Pakistan (SBP), projected to reach PKR 2.5 trillion. The Petroleum Development Levy (PDL) is another major contributor, with a target of PKR 1.3 trillion. While these sources may help achieve the revenue target, they are likely to have inflationary implications.

On the expenditure side, the budget outlines mark-up payments, other current expenditures, the Public Sector Development Programme (PSDP), and net lending. Comparing current expenditure allocations for FY25 with the revised estimates for FY24 shows a concerning outlook, with total current expenditures projected to reach PKR 17.2 trillion, a 21% increase from the previous year. This rise significantly outpaces the 12% inflation target, indicating a substantial real-term increase.



Muhammad Sabir
Principal Economist
Social Policy and
Development Centre (SPDC)

Table 1: Computation of Overall Budget Deficit, Rs. Billion

	2023 -24			2024 -25	
	Budget	Revised	Growth	Budget	Growth
Revenue Receipts					
A GROSS REVENUE RECEIPTS (i+ii)	12,378	12,200	-1.4%	17,815	46.0%
i FBR Taxes	9,415	9,252	-1.7%	12,970	40.2%
ii Non	2,963	2,948	-0.5%	4,845	64.4%
B Transfer to Provinces	5,399	5,426	0.5%	7,438	37.1%
I Net Revenue Receipts (A -B)	6,979	6,773	-2.9%	10,377	53.2%
Federal Expenditure					
Mark-up Payments	7,303	8,251	13.0%	9,775	18.5%
Other Current Expenditures	6,042	5,981	-1.0%	7,428	24.2%
PSDP	950	659	-30.6%	1,400	112.4%
Net Lending	191	269	41.2%	274	1.8%
II Federal Expenditure & Net Lending	14,485	15,160	4.7%	18,877	24.5%
Federal Budget Surplus (+)/Deficit (-) (I-II)	-7,506	-8,387	11.7%	-8,500	1.3%
Federal Primary Surplus (+)/Deficit (-)	-203	-136	-33.3%	1,275	
As % of GDP					
Federal Budget Deficit	-7.1%	-7.9%		-6.8%	

Source: Federal Budget in Brief 2024-25

The FY25 budget allocates PKR 1,500 billion to the PSDP, with an additional PKR 100 billion for Viability Gap Funding in PPP projects. Notably, the budget significantly increases funding for water resources development, from PKR 100 billion to nearly PKR 260 billion. The Cabinet Division's development budget also sees substantial growth, rising from PKR 10.9 billion (FY24 revised estimates) to PKR 75.8 billion in FY25, suggesting an expanded role in shaping development priorities.

The outlook for FY25 projects a 53% increase in net revenue receipts due to significant taxation measures. However, this additional revenue is expected to be nearly entirely consumed by mark-up payments, necessitating further borrowing to cover all other expenditures. On a positive note, these measures are anticipated to generate a primary surplus (fiscal deficit excluding interest payments) for the first time in recent history, indicating some progress toward controlling debt, though significant challenges remain.

Figure 1 illustrates how the federal government plans to finance its budget shortfalls (fiscal deficits). Initially, the government aimed to cover the FY24 deficit with 25% from non-bank sources, 38% from bank loans, and 36%

from external borrowing. However, revisions show a shift, with 28% from non-bank sources, 41% from banks, and 31% from external sources. This increased reliance on bank borrowing has macroeconomic consequences, such as crowding out private sector investments, as banks prefer lending to the government over businesses, contributing to the modest 1.2% growth in the industrial sector in FY24.

The outlook for FY25 is concerning, with over 60% of the fiscal deficit planned to be financed through bank borrowing, 31% from non-bank sources, and only 8% from external sources, indicating a significant decrease in foreign funding.

This heavy reliance on bank borrowings creates a double-edged sword. While securing necessary funding, it can crowd out private businesses seeking credit, potentially hindering investment—a concern given the low investment-to-GDP ratio. Additionally, borrowing from the SBP can significantly impact monetary policy, potentially leading to excessive money printing and fueling inflation.

The substantial growth in SBP profits under non-tax revenues suggests the government may intend to borrow heavily from the SBP, effectively monetizing the deficit. This strategy carries significant risks, potentially exacerbating inflationary pressures and undermining recent efforts to achieve price stabilization.

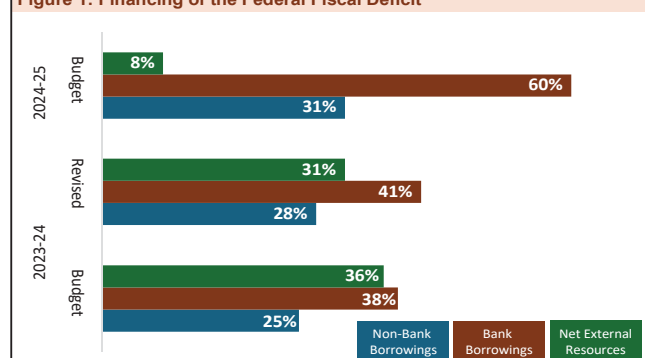
Conclusion

The federal budget for FY25 prioritizes fiscal sustainability within a relatively stable domestic environment but faces challenges from a less supportive external environment, including reduced foreign resources. The emphasis on achieving fiscal sustainability through ambitious tax targets and the lack of austerity measures in budgetary allocations raises two key concerns.

The persistent high federal fiscal deficit and escalating domestic bank borrowing amid a challenging external environment raise significant concerns about the potential crowding out of private investment and fueling inflationary expectations. Urgent measures are required to mitigate these risks and secure a sustainable fiscal outlook for FY25.

About the Author: The writer is a distinguished professional holding the position of Principal Economist at the Social Policy and Development Centre (SPDC). With a vast experience spanning over twenty-eight years, he has made significant contributions in the areas of research, teaching, and policy development, particularly in the domains of public finance, macroeconomics, labor, and gender.

Figure 1: Financing of the Federal Fiscal Deficit



Source: Estimates based on Federal Budget in Brief 2024-25