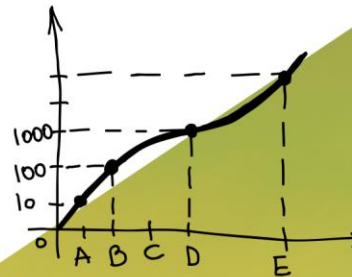


Fixing Pakistan's Budget

Dr Usman W. Chohan
Advisor to President



Working Paper



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Abstract

The question of fiscal sustainability has long haunted the Federal Budget of Pakistan. As deficits have widened over consecutive years, reform efforts have been piecemeal and trivial at best, and counterproductive at worst. What Pakistan's budgetary architecture requires, however, is a systematic overhaul. By contrast, the public debate on budgets in Pakistan often hinges on narrow line items and specifically politicised issues, leaving the larger problems untouched. To centre the analysis of Pakistan's budget around larger structural areas of reform, the aim of this Working Paper is to disaggregate Pakistan's Federal Budget (2024-25) and provide concrete recommendations across key areas of concern: federal-provincial fiscal federalism, domestic bank borrowing tendencies, public sector spending (Public Sector Development Programme), grants & subsidies, and transfers. The findings of the paper are that deep reforms are required, in the proper context, and that public discourse must recentre around those major areas of budget reform.

Keywords: Pakistan, Budget, Expenditure, Tax, Revenue, Fiscal, Economics.

Introduction

The question of fiscal sustainability has long haunted the Federal Budget of Pakistan,¹ and having kicked the proverbial can down the road for so long, the fiscal architecture itself now appears in jeopardy.² Even as deficits have widened over consecutive years, reform efforts have been piecemeal and trivial at best, and in fact are often counterproductive. What Pakistan's budgetary architecture requires, however, is a systematic overhaul.³ A budget should embody a philosophy about the economy,⁴ and Pakistan's budget should embody the principles laid out in its constitution,⁵ which would resonate with the goal of creating public value for the people.⁶ Part of public value creation involves widespread awareness and open debate on important subjects in society,⁷ which is why it is heartening to see that Pakistani media and public take great interest in the budget.

However, even as the need for reforms has gained greater political acceptance and heightened public attention, much of the discourse on budget reform in Pakistan involves misdirection. The debate misses the forest for the trees. Fixations in debates involve 'trillions of rupees' here, 'billions of rupees' there, without the proper context for what any of it even means. Issues such as pensions, defence spending, IMF loans,

¹ Usman W. Chohan, "Fiscal Sustainability: A Historical Analysis of Pakistan's Debt Conundrum," (paper, Centre for Aerospace & Security Studies, Islamabad, 2019a).

² Arsalan Matloob, "An Analysis of Fiscal Sustainability in Pakistan," *Pakistan Journal of Economic Studies (PJES)* 6, no. 1 (2023): 89-110.

³ Nadeem ul Haque and Saddam Hussain, "Construction without Real Estate Development," *The Pakistan Development Review* 62, no. 1 (2023): 1-14; Nadeem ul Haque and Ahmed Waqar Qasim, *Immediate Reform Agenda: IMF & Beyond*, report (Islamabad: Pakistan Institute of Development Economics, 2024a), <https://pide.org.pk/research/immediate-reform-agenda-imf-beyond/>; PIDE-PRIME, *Tax Reforms Commission: Revenue with Growth*, report (Islamabad: Pakistan Institute of Development Economics, 2024b), <https://pide.org.pk/research/pide-prime-tax-reforms-commission-revenue-with-growth/>.

⁴ Usman W. Chohan, "Charters of Budget Honesty," in *Global Encyclopedia of Public Administration, Public Policy, and Governance*, ed. Ali Farazmand (New York, NY: Springer, 2017a), 2112-17; Usman W. Chohan, "Budget Reform and Political Reform," in *Global Encyclopedia of Public Administration, Public Policy, and Governance*, ed. Ali Farazmand (New York, NY: Springer, 2017b).

⁵ Muhammad Abdul Mateen Khan, Sawaira Rashid, and Muhammad Ikram, "Issues in Fiscal Governance: A Case of Pakistan," *Journal of Development and Social Sciences* 4, no. 3 (2023): 229-238.

⁶ Usman W. Chohan, *Public Value Theory and Budgeting: International Perspectives* (New York, NY: Routledge, 2019b).

⁷ Usman W. Chohan, "The Roles of Independent Legislative Fiscal Institutions: A Multidisciplinary Analysis," (Doctoral diss., University of New South Wales, Sydney, 2018).

taxing retailers, taxing the salaried class, sinking foreign reserves - are all small parts of a larger, complex whole.

To centre the analysis of Pakistan's budget around larger structural areas of reform, the aim of this *Working Paper* is to disaggregate Pakistan's Federal Budget (2024-25) and provide concrete recommendations across key areas of concern. The paper seeks to posit what *really* matters in looking at Pakistan's budget, so as to *really* solve what needs to be done. What emerges from the analysis is that:

- 🔔 It is *not necessary* for society to do severe belt tightening.
- 🔔 Pakistan is *not* short on money.
- 🔔 The budget can *absolutely* be fixed.
- 🔔 The budget can even be *fixed in a relatively short time frame*, so long as bold decisions are taken.

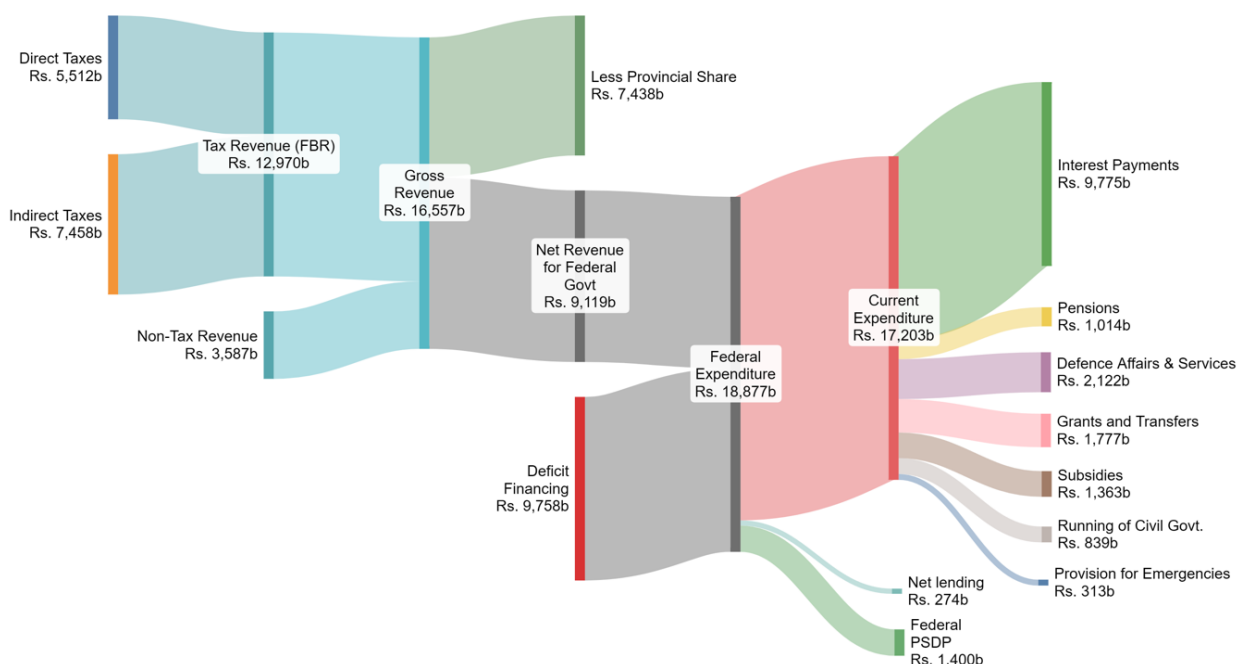
To illustrate the issue, the paper draws upon a Sankey Diagram (Figure 1) with revenues and expenditures of the Federal Government for the current fiscal year, while key areas of interest are labelled with letters sequentially.⁸ It incorporates updated figures from the Medium-Term Budget Strategy Paper (MTBSP).⁹ The analysis provides a sense of how different the rhetoric of budget reform is from actual reforms being undertaken,¹⁰ and that Pakistan must actually tackle the areas recommended in this paper.

⁸ It is worth pointing out that the specific figures of the 2024-25 are easily substitutable with any other budget passed over the past 30 years, because the structure of the Federal Budget has been very much the same over this period. In other words, taking any budget paper over the past three decades would easily suffice for the purposes of this analysis and for deriving the same conclusions about the fundamentals of the budgetary architecture.

⁹ Ministry of Finance, "Medium Term Budget Strategy Paper (MTBSP)", Finance Division, Government of Pakistan, https://www.finance.gov.pk/budget/MTBSP_2024_25_2026_27.pdf&ved=2ahUKEwjBiYb4qL-HAxU2KxAIHQ80CS4QFnoECCEQAQ&usq=AOvVaw3KI55RWXPMZ8H_GgPpYwxi.

¹⁰ Usman W. Chohan and Kerry Jacobs, "Public Value as Rhetoric: A Budgeting Approach," *The Pakistan Development Review* 59, no. 1 (2020): 139-142.

Figure 1: Pakistan Federal Budget (FY 2024-25)



Source: Sankey Diagram courtesy Moiz Rafay (CASS researcher) created on SankeyMATIC using Ministry of Finance Budget Data.

Budget Analysis

Taxation (A)

Figure 1 from the top-left shows inflows in the form of direct taxes and indirect taxes (Area A). The Federal Government is the primary revenue-raising source (instead of the provinces), and it collects a larger portion in indirect taxes than in direct ones. Indirect taxes are regressive, in that they extract a larger proportion of the income of the poor than the rich.¹¹ Yet they are easier to collect, in the form of GST/VAT on consumption. Thus, in the absence of political will, the Federal Government has relied on indirect taxes to raise revenues. Even within the direct tax category, the focus has been on depth rather than breadth, i.e. not broadening the tax net but rather squeezing those already in it.¹² The International Monetary Fund (IMF) has insisted that Pakistan focus more on direct taxation, and the Federal Board of Revenue (FBR)

¹¹ A.B. Atkinson and N.H. Stern, "On the Switch from Direct to Indirect Taxation," *Journal of Public Economics* 14, no. 2 (1980): 195-224.

¹² Usman W. Chohan and Hassan Mujtaba, *Pakistan's Taxation Conundrum* (Issue Paper, Islamabad: Centre for Aerospace & Security Studies, 2021), <https://casstt.com/pakistans-taxation-conundrum/>; Arsalan Matloob, "An Analysis of Fiscal Sustainability in Pakistan," *Pakistan Journal of Economic Studies (PJES)* 6, no. 1 (2023): 89-110; PIDE-PRIME, *Tax Reforms Commission: Revenue with Growth*.

is pushing to do this quickly. But the primary target of tax expansion is on existing contributors such as the salaried class, which is already squeezed heavily because of high inflation and a cost-of-living crisis.¹³

By contrast, many taxable areas demonstrate low tax effort - retail, agriculture, and real estate.¹⁴ There is dispute as to how much tax could actually be generated in a cost-effective manner from these sectors, particularly from the moribund real estate sector and from the dispersed small-landholdings of agriculture.¹⁵ Retailers, however, are certainly a case for consideration. Yet in the most recent budget, these sectors have not seen their dues rise, because of political interests and favourable links with power brokers. However, it needs to be pointed out that taxation itself cannot drive economic growth, and the IMF is mistaken to insist on taxation in a country that needs economic growth.

Recommendations:

- 💧 Follow best practices for an ideal tax system: fair, neutral, efficient, effective, and simple.
- 💧 Reduce reliance on indirect taxation because of its regressivity.
- 💧 Expand the tax base through politically-protected economic sectors (especially retail).
- 💧 Give the salaried class breathing room by reducing their tax rates.
- 💧 Simplify the tax process for households and businesses.
- 💧 Look at expenditure more than revenue as the solution.

Provinces (B)

Pakistan's fiscal federation exhibits a fundamental distortion, wherein the Centre is the revenue raising unit, while the provinces are the spending units.¹⁶ This manna and

¹³ Usman W. Chohan, "Save the Salaried Class," *Centre for Aerospace & Security Studies*, July 12, 2023, <https://casstt.com/save-the-salaried-class/>.

¹⁴ Shahzad Paracha, "IMF Recommends Additional Tax on Retail, Real Estate, and Agricultural Sectors," *Profit*, November 9, 2023, <https://profit.pakistantoday.com.pk/2023/11/09/imf-recommends-additional-tax-on-retail-real-estate-and-agricultural-sectors/>.

¹⁵ Haque and Qasim, *Immediate Reform Agenda: IMF & Beyond*.

¹⁶ Nadeem ul Haque and Saddam Hussain, "PIDE's Charter of Economy," *The Pakistan Development Review* 61, no. 3 (2022): 527-537; Khan, Rashid, and Ikram, "Issues in Fiscal Governance: A Case of Pakistan"; Muhammad Shahid, Khalil Ahmad, Muhammad Mudassar Naushahi, and Muhammad Amir Inayat, "Tax Decentralization and Economic Growth of Pakistan: The Role of Political Institutions," *Bulletin of Business and Economics (BBE)* 13, no. 1 (2024): 78-88.

quail received by the provinces has scant accountability and represents an enormous unidirectional transfer without any sense of proportion or public value. Before anything is done by the Centre itself, more than half of its revenue goes into provincial coffers (Area B). This is where the primary sin of the budget structure lies. Provinces have *not* demonstrated the capacity, competence, or willingness to spend the full sum of money they receive from the federation,¹⁷ and this is why Pakistan has ghost schools, ghost hospitals, and other dismal results.¹⁸ It is not a problem of not having enough money, it is that the provinces cannot *spend* this money in a meaningful way that creates public value.¹⁹ This is also why provinces are often left with surplus funds at the end of the fiscal year.

Part of the reason is that provincial bureaucracies are complacent and unaccountable, but structurally, Pakistani's provinces are also too big.²⁰ Pakistan's largest province is larger than all of Mexico (which has 22 provinces). Given that Pakistan's population has grown too large in just two generations (an *8x increase*), the federating units should be smaller, more responsive, people-centric entities. This is what the Republic of India, which began with the same legal and governmental traditions, has effectively done, by bifurcating its states for administrative efficiency.²¹ The problem will only grow with time, and as was seen in the most recent General Elections, each political party took its own province (fiefdom), with no-one leaning in to take the Centre, knowing that it has been made hollow by the provinces.

Instead, provinces should now be revenue-raising units in their own right, particularly through property taxes.²² Once they are mobilised to do their own work, the federation will be disburdened, and actual government public value will be realised at the provincial level. By way of example, the cities of Madras and Pune (India) each raise

¹⁷ Kashif Zaheer, Naveed Yousaf Sandhu, and Rashid Aftab, "Understanding the Implications of Taxation Policy in Pakistan: A Case of Failed Multi-Stakeholder Initiatives," *Pakistan Journal of International Affairs* 6, no. 2 (2023): 361-372.

¹⁸ Inam ur Rehman, Naila Siddiqua, Ishtiaq Ahmed Kolachi, and M. Akram Mankash, "Exploring the Challenges in Provision of Quality Education: A Case of Public Schools in Sui, Baluchistan," *Academy of Education and Social Sciences Review* 3, no. 3 (2023): 330-339.

¹⁹ Mahmood Khalid and Muhammad Nasir, "Tax Structure in Pakistan," *The Pakistan Development Review* 59, no. 3 (2020): 461-468.

²⁰ Zaheer, Sandhu, and Aftab, "Understanding the Implications of Taxation Policy in Pakistan"; Shahid, Ahmad, Naushahi, and Inayat, "Tax Decentralization and Economic Growth of Pakistan."

²¹ Shibani Mishra, Alok Kumar Mishra, and Prerna Panda, "What Ails Property Tax in India? Issues and Directions for Reforms," *Pakistan Journal of Public Affairs* 22, no. 1 (2022): e2299.

²² Khalid and Nasir, "Tax Structure in Pakistan."; Khan, Rashid, and Ikram, "Issues in Fiscal Governance: A Case of Pakistan."

more property tax revenue than *all of Pakistan*, and they do not have 250 million residents to do so.²³ Yet the last serious city-wide survey of properties in Lahore (as an example), was done in the mid-1970s. How different is the Lahore of 50 years ago from the Lahore of today? This is the sort of serious work that provinces must do. Today, Pakistan is caught in a limbo that is the unfinished business of the 18th Constitutional Amendment, hastily passed and poorly devolved.²⁴ Neither does the Centre hold fiscally steady, nor does local government work. Instead, bloated provincial capitals absorb the lion's share of provincial interest, while the vast terrains beyond their capitals lie ignored.

This point cannot be emphasised enough: so long as the provinces extract so large a share from the federal revenue, without raising revenue themselves, and then they fail to spend their shares effectively on public value creation, the entire budget structure is hopelessly flawed. This point, therefore, of provincial reform, needs to be a primary area of budgetary interest.

Recommendations

- 🕯 Pakistan should have 10-12 provinces, demarcated along existing district boundaries, with no province's population exceeding 2 crore (20 million). Islamabad and Karachi should both be federal territories for fiscal stability.
- 🕯 All provinces (including new ones) must have smaller bureaucracies, with much less taken from the federation, and the proportions must be determined based on a formula combining development levels with population size. Provincial development levels must be measured, and the Centre must assess allocations based on public value creation.
- 🕯 Provincial revenue generation should be the primary source of provincial budgets. Property taxes and other tools must be key elements in this budget reform, and the preparatory work (surveys, analyses, privatisation etc.) must be done forthwith so that a data-driven budgetary approach is taken.

²³ Mishra, Mishra, and Panda, "What Ails Property Tax in India?"

²⁴ Syed Akhtar Ali Shah, Haider Shah, and Syed Saad Ali Shah, "The Eighteenth Amendment and its Impact on Functionability of Provinces," *FJWU Journal of Social Sciences* 15, no. 1 (2024): 67-80.

Borrowing and Liabilities (C+D)

There is much rhetoric about the IMF's conditionalities and the rollover of foreign debt from friendly countries.²⁵ While this fosters harsher rhetoric and creates negative perceptions, it is important to realise that a significant chunk of federal borrowing is done through the *domestic* banking system.²⁶ Before the State Bank Amendment Act (SBAA), it was the central bank that assumed the inflationary liability-based money creation process.²⁷ Now, it is in the hands of the private banking system, which leads to a crowding out of private lending and investment,²⁸ where the domestic banking system is now mostly disinterested in consumers and businesses, because it is lending at a risk-free rate to the government at a harrowing 20% interest benchmark. This is why, even in the worst of economic conditions, one hears every bank announcing 'record quarterly profit,' quarter after quarter.²⁹ How do these banks do so well in an economy that is doing so poorly?

These are Pakistani banks, working in Pakistan's jurisdiction, lending at a rate the government sets. There are no barriers to serious banking reforms, so the state's liabilities towards the private banking system, including interest and principal payable, can be addressed.³⁰ Potential measures could include one-time levies on after-tax profits, mergers, transfers of liabilities, or even nationalisation of portions of the banking sector.³¹ It is commonly decried that 'most of the budget goes to interest payments' but much of that is not going to the IMF or to a friendly country. Pakistan

²⁵ Chohan, "Fiscal Sustainability: A Historical Analysis of Pakistan's Debt Conundrum."

²⁶ Junaid Kamal and Sayed Irshad Hussain, "Exploring the Determinants of Private Sector Credit in Pakistan: A Sectoral Analysis," *Forum Scientiae Oeconomia* 11, no. 2 (2023): 147-159.

²⁷ Centre for Aerospace & Security Studies, *Central Bank Independence: Reformation or Deformation?* report (Islamabad: Centre for Aerospace & Security Studies, 2022), <https://casstt.com/central-bank-independence-reformation-or-deformation-2/>; Zahra Niazi, "State Bank Independence and Pakistan's Economic Security," (paper, Centre for Aerospace & Security Studies, Islamabad, 2023), <https://casstt.com/state-bank-independence-and-pakistans-economic-security/>.

²⁸ Kamal and Hussain, "Exploring the Determinants of Private Sector Credit in Pakistan: A Sectoral Analysis."

²⁹ Shahid Iqbal, "Bank Profits Surge 83pc in 2023," *Dawn*, February 28, 2024, <https://www.dawn.com/news/1817684/bank-profits-surge-83pc-in-2023>; Salman Siddiqui, "Banks Achieve 86% Growth in Profits," *Express Tribune*, March 13, 2024, <https://tribune.com.pk/story/2459182/banks-achieve-86-growth-in-profits>.

³⁰ Usman W. Chohan, "The Banker's Economy," Centre for Aerospace & Security Studies, July 8, 2024, <https://casstt.com/the-bankers-economy/>.

³¹ Yiannis Kitromilides, "The Banking Crisis, Nationalization of Banking and the Mixed Economy," in *Macroeconomics, Finance and Money: Essays in Honour of Philip Arestis*, ed. Giuseppe Fontana, John McCombie and Malcolm Sawyer (London: Palgrave Macmillan, 2010); Vivek Kumar Tiwari and S.D.Sharma, "A Study on Bank Nationalization Era," *International Journal of Economic Perspectives* 16, no. 5 (2022): 108-117.

has borrowed from friendly countries at rates of 1-5%, but the country has borrowed from domestic banks at >20%. Area C in Figure 1 is, therefore, a second area that needs immediate interest in budget reform. Under no circumstances should private banks be making 'record profits' in these economic conditions.

Recommendations

- 💧 Realign reform attention towards domestic banks rather foreign borrowing.
- 💧 Restructure the government's liabilities to the banking system: there are a host of measures possible from the comparatively benign to the somewhat severe. These include one-time levies on after-tax profits, mergers, transfers of liabilities, and nationalisation.
- 💧 Reduce interest rates to more reasonable levels.

Public Sector Development Programme (E)

The Public Sector Development Programme (PSDP) is a portion of the expenditures that is ostensibly dedicated to development, but there are three very serious issues that in fact warrant the termination of PSDP. First, the PSDP is now by-and-large an instrument of political patronage. Second, much of it goes not to human development but to infrastructure (more than 80%), and to filling government divisions and ministries' wishes rather than needs. Third, and consequently, the PSDP has had virtually negligible contribution to welfare, economic growth, or development.³² It is not that the PSDP is a large chunk of expenditure (Area E), but rather that it has a poor track record as a policy tool and is not a useful instrument for economic improvement.

Recommendations

- 💧 Restructure the PSDP to ensure that it is an investment vehicle rather than a political patronage vehicle and reduce the infrastructure element while giving weight to the human development element.
- 💧 Centre the PSDP around a coherent central-planning vision (an independent, well-functioning Planning Commission), rather than devolving it to countless ministerial preferences.

³² Muhammad Shaaf Najeed, "PSDP: A Political Phenomenon," *PIDE Policy & Research* 2, no. 6 (2021): 36-37, <https://pide.org.pk/research/psdp-a-political-phenomenon/>.

Defence Affairs & Services (F)

The political acrimony in the country means that the defence portion of expenditures receives undue politicisation, when in fact the current portion of defence affairs expenditures is a small figure (Area F). The military has operational requirements, modernisation needs, and stands as the vanguard of the nation against both internal and external threats.³³ If anything, the defence affairs portion should increase, to ensure that the military remains at the cutting edge, particularly given the acute nature of regional threats.³⁴ However, the Federal Budget is not the right document to understand the military's role in economic life.³⁵ That is a balance-sheet question, and would not be found on any federal budgetary tabulation. The balance-sheet question involves an entire parallel economy of entities, assets, terrains, and agents involved in countless economic sectors that receive constant preferential treatment, and which create an enormous distortion in the economy as a whole.³⁶ That chimera is not a direct federal budget question and so, even as it must be fixed, it has to be studied elsewhere.

Recommendations

- 💧 Increase the defence portion of the budget to improve operational readiness of the military.
- 💧 Examine the balance sheet question of military presence in economic life, which is not a direct federal budgetary question per se but has a tremendous distortionary effect on the economy as a whole.

³³ Shaza Arif, "Guardians of the Horizon: PAF's Enduring Legacy of Skyward Excellence," *Centre for Aerospace & Security Studies*, September 4, 2023, <https://casstt.com/guardians-of-the-horizon-pafs-enduring-legacy-of-skyward-excellence/>.

³⁴ Zia ul Haque Shamsi, "Impermanence of Deterrence Regime: A Cause of Tactical Instability in South Asia," *Journal of Aerospace & Security Studies* 1 (2022): 85-100, <https://www.jassjournal.casstt.com/wp-content/uploads/2022/09/5-Zia-Shamsi-JASS-Vol1-ED-SSA-Shz-EiC-APP-Shz-ED.pdf>; Khansa Qureshi, "The Significance of Air Force's Supremacy," *Centre for Aerospace & Security Studies*, September 7, 2022, <https://casstt.com/the-significance-of-air-forces-supremacy/>.

³⁵ Mazhar Aziz, *Military Control in Pakistan: The Parallel State* (New York, NY: Routledge, 2007); Ateeb Ahmed, "The Rise of Military Capital in Pakistan: Military Neoliberalism, Authoritarianism and Urbanization," *Geoforum* 146, (2023): 103846.

³⁶ Elisa Ada Giunchi, "The Political and Economic Role of the Pakistani Military," *ISPI Studies*, (2014): 1-10; Ahmed, "The Rise of Military Capital in Pakistan."

Grants & Transfers (G)

The category of grants and transfers has two components: further transfers to the provinces, and a vast swathe of direct transfers to countless causes. On the provincial side, the commentary and analysis is of the same sort as for Area B, because the province-related subsidies fall into the same category of fiscal federalism.³⁷ On the direct transfers, there is in fact too large a list to enumerate (even in summary form), but there is nevertheless a clear case for many of those transfers to be deemed fiscally reckless, politically-driven, and financially unhelpful. An exception to this is targeted income support programme grants that serve the very bottom of society in a substantive, targeted, and positive way.³⁸ However, a study of all the direct transfers would need to be undertaken on a case-by-case basis.

Recommendations

- 💧 Eliminate provincial subsidies altogether.
- 💧 Preserve a select few of the direct transfers (such as income support), but carefully examine all line items in the list and see just how much of it is fiscally sound and conducive to public value creation.

Subsidies (H)

Like the grants and transfers category, the subsidies section consists of a very long list of line items. Some of these are small expenditures, and are important because they help rectify economic disparities, such as subsidies on essentials (energy, food) or subsidies to disenfranchised areas (e.g. wheat subsidy to Gilgit-Baltistan). These should certainly be preserved. The lion's share (almost 90%), however, has to do with the national energy policy and its Pandora's box of problems.³⁹ The power sectors' collective nightmare is manifest in this category, including generation and transmission

³⁷ Shabbir Ahmed and Ambreen Fatima, "Impact of Intergovernmental Fiscal Transfer on Inter-Provincial Fiscal Disparity in Pakistan," *Journal of Applied Economics and Business Studies* 6, no. 1 (2022): 109-126.

³⁸ Unbreen Qayyum and Neelum Nigar, "Analysing the Impact of Idiosyncratic and Covariate Shocks on Households' Food and Non-food Consumption: Empirical Evidence from Benazir Income Support Program," *Environment, Development and Sustainability* (2023): 1-24; Melis Guven, Zaineb Majoka, and Gul Najam Jamy, *The Evolution of Benazir Income Support Programme's Delivery Systems*, report (Washington, D.C.: The World Bank, 2024).

³⁹ Tahir Basharat Cheema, Nadeem ul Haque, and Afia Malik, *Power Sector: An Enigma with No Easy Solution*, report (Islamabad: Pakistan Institute of Development Economics, 2022), <https://pide.org.pk/research/power-sector-an-enigma-with-no-easy-solution/>.

issues, along with tariff differentials and arrears.⁴⁰ The power sector is a monster of the state's own making, and its consequences benefit a select few while hurting the many (read: Independent Power Producers [IPPs]). The current budget gives no indication of dealing with the IPPs or the power sector as a whole in any substantive way, while there are also risks that adverse policy interventions against renewable energy sources may occur.⁴¹ Suffice to say that a comprehensive, long-term, and equitable energy policy is needed, and considerable research exists to guide reform in the sector for lasting benefit,⁴² which would not take long to execute so long as political will exists.

Recommendations

- 🔗 Assess the cost and benefits of tolerating the current power sector quagmire and pursue substantive energy sector reforms that improve the lives of the many instead of the few.
- 🔗 Examine generation and transmission problems and deal with them sequentially in a manner that curbs the circular debt nightmare.
- 🔗 Avoid further worsening power reforms through inane actions about renewable energies.

Running of Civil Government (I)

If one examines the segment on the civil government, one finds that the number in the Federal Budget is actually not so large (Area I). By contrast, many economists, particularly in recent years, have laid a strong emphasis on shrinking government size.⁴³ Certainly, there seems to be a great deal of frivolous expenditure in government, but the size is not as catastrophic as one is led to believe. However, this is where the nuance lies: the cost is not in running the government, but in how the government *gets in the way* of the economy. The best example of this is the

⁴⁰ Usama Qazi and Mirza Jahanzaib, "An Integrated Sectoral Framework for the Development of Sustainable Power Sector in Pakistan," *Energy Reports* 4, (2018): 376-392.

⁴¹ Zahra Niazi, "Distributed Solar Energy Generation in Pakistan: Potential, Barriers, and Policy Recommendations," *Journal of Aerospace & Security Studies* (forthcoming).

⁴² Qazi and Jahanzaib, "An Integrated Sectoral Framework for the Development of Sustainable Power Sector in Pakistan"; Talat Anwar and Khalid Saeed, "Energy Crisis of Pakistan: Analysing Governance Issues," *Contemporary Macroeconomic Issues* 4, no. 2 (2023): 39-51; Cheema, Haque and Malik, *Power Sector: An Enigma with No Easy Solution*.

⁴³ Nadeem ul Haque and Raja Rafi Ullah, "Estimating the Footprint of Government on the Economy," *The Pakistan Development Review* 61, no. 4 (2022): 551-562; Haque and Hussain, "PIDE's Charter of Economy."

exasperating *NOC (No Objection Certificate) Culture*, as it is called,⁴⁴ with red tapism making it nearly impossible for a regular person to start a regular business.⁴⁵ The expense lies not in the operation of the Federal Government itself, but in the efforts required to minimise governmental interference, thereby enabling the rest of society to function economically.⁴⁶ The case is different with the bloated budgets of provincial governments, whose public value creation is highly dubious. At the federal level, this nuance stands true, and so it is not the budgetary allocation per se (at least Federal Government), but rather the elimination of the NOC culture that must happen.

Recommendations

- 💧 Rationalise government size through consolidation and digitalisation.
- 💧 More importantly, eliminate the NOC culture. Simplify the procedural element and take pragmatic steps to improve ease of doing business.
- 💧 Conduct a thorough evaluation of the excessively large provincial governments and implement significant reductions in their size.

Concluding Remarks

In conclusion, this *Working Paper* underscores the urgency for comprehensive fiscal reform within Pakistan's budgetary framework, emphasising the need for a systematic rather than piecemeal approach to restructure the Federal Budget. It is imperative that policymakers move beyond the superficial allure of numerical adjustments and address the structural underpinnings that threaten fiscal sustainability. The analyses provided demystifies the complexities of budget allocation and emphasise that financial stability is achievable with strategic, informed decision-making.

The findings suggest that the budgetary overhaul in Pakistan does not necessarily require stringent austerity measures rather a re-evaluation of priorities and resources allocation. By focusing on core areas such as federal-provincial realignment, provincial

⁴⁴ Zain Kazmi, "Objections to NOC Culture," *Friday Times*, July 23, 2023, <https://thefridaytimes.com/23-Jul-2023/objections-to-noc-culture>.

⁴⁵ Vaqar Ahmed, "Strengthening Institutions and Simplifying Regulations: Key to Unleashing Pakistan's Trade and Industrial Potential," *Discourse Magazine* (2023), <https://pide.org.pk/research/strengthening-institutions-and-simplifying-regulations-key-to-unleashing-pakistans-trade-and-industrial-potential/>.

⁴⁶ Haque and Rafi Ullah, "Estimating the Footprint of Government on the Economy"; Haque and Hussain, "PIDE's Charter of Economy."; Ibid.

demarcation, private sector banking reform, PSDP reform, grants & transfer list re-evaluation, power sector reforms, and elimination of the NOC culture, Pakistan can foster a more equitable and fiscally sustainable economic environment. Such changes are not only feasible but essential for the long-term economic health of the country, contradicting the prevalent notion that significant improvements are beyond reach.

Ultimately, this paper advocates for a bold, informed approach to budget reform, one that aligns with constitutional principles and public value creation. By bridging the gap between academic analysis and practical policymaking and ensuring that fiscal policies reflect the collective aspirations and needs of the populace, Pakistan can pave the way for a more prosperous and stable fiscal future. The recommendations outlined serve as a roadmap for meaningful reforms, urging stakeholders to commit to substantial changes that will benefit the nation as a whole.



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Dr Usman W. Chohan is an international economist and academic who was one of the founding Directors of CASS, now serving as Advisor to President CASS on Economic Affairs & National Development. He is among the Top 100 Authors across all subjects & disciplines (out of 1.2 million authors) on the Social Science Research Network (SSRN). At CASS, he has authored/edited eight books in the past five years, published with Routledge. He has been published in prestigious journals such as *Policy & Society*, *The International Journal of Public Administration*, and *Parliamentary Affairs*.

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