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PREFACE

Macro-Economics is the study of the behavior of the economy as a whole. It examines the forces that effect many firms, consumers, and workers at the same time. Macro-Economics deals with many challenges and to meet those challenges certain policies are to be made. Governments use budgets to plan and control their fiscal affairs.

The Budget is an important policy document through which the government establishes its economic and social priorities and sets the direction of the economy. It reflects the fundamental values underlying the government's economic policies and objectives.

This report is assigned to me by Mr. Mohammad Ali Wallana, the course instructor of Macro-Economics. This report is beneficial in the sense that it will help in understanding the fiscal problems of our country and will help us in finding the ways to dissolve those problems.

I have put my best efforts to make this report. In this report I have discussed the economic conditions for the fiscal year 2003-04, the targets, the achievements. The Challenges that Fedral Budget 2004-05 will have to meet, its major features have been discussed briefly. I have also included the comparaisn between previous and current fiscal year's budget.

I hope that this report will enhance the knowledge of the common reader as well as it will provide benefit to my juniors in understanding the status of Pakistan with respect to its fiscal policies and their performance.

BUDGET

Budget is an annual exercise of revision and redefining of fiscal policies aiming at fixing of revenue targets by the government. Budget is announced before the commencement of next financial year for the information of tax payers.

PURPOSE OF BUDGET

The annual budget reflects income and expenditures related to the operations of the country. As such, it is the financial outline of the Country's planned expenditures for the fiscal year. The ultimate purpose is to manage a balanced budget with expenditures staying within overall budgeted figures.

ROLE OF THE BUDGET

The Budget is an important policy document that sets forth the priorities of the government and the directions that the economy is desired to be taken towards. It has far reaching impact on all sectors of the economy and on all sections of the population. It allocates and reallocates resources from one sector to another and from one set of pockets to another. It determines the efficiency of resource use and has profound distributional impacts.

OBJECTIVES OF BUDGET PREPARATION

During budget preparation, trade-offs and prioritization among programs must be made to ensure that the budget fits government policies and priorities. Next, the most cost-effective variants must be selected. Finally, means of increasing operational efficiency in government must be sought. None of these can be accomplished unless financial constraints are built into the process from the very start. Accordingly, the budget formulation process has four major dimensions:

- ❖ Setting up the fiscal targets and the level of expenditures compatible with these targets. This is the objective of preparing the macro-economic framework.
- ❖ Formulating expenditure policies.
- ❖ Allocating resources in conformity with both policies and fiscal targets. This is the main objective of the core processes of budget preparation.
- ❖ Addressing operational efficiency and performance issues.

THE BUDGET 2004 - 2005

The Budget, 2004–05 was presented in the evening of June 12, 2004 in the National Assembly by Mr. Shoukat Aziz, Minister of Finance.

The major thrust of the budget for 2004-05 would be on the improvement of facilities for:

- ❖ Healthcare
- ❖ Education
- ❖ Technical Education
- ❖ Agriculture
- ❖ Irrigation
- ❖ Hydel Power Generation
- ❖ Agriculture Research
- ❖ Housing and Construction, Etc.

CHALLENGES FOR THE FEDERAL BUDGET 2004-05

The budget for 2004-05 plans to address some very pressing challenges and take measures to overcome them. These include:

- ❖ The need to push the growth rate 8% and above so as to have meaningful reduction in poverty. For this purpose significant increase in investment is required especially in the private sector.
- ❖ The need to improve human development indicators which will fall for substantial increase in social planning.
- ❖ Public sectors enterprises continue to bleed the budget and limit the fiscal space needed for social sector spending. An accelerated privatization of such units coupled with restructuring to reduce their losses is essential to contain this menace.
- ❖ Significant evidence is emerging indicating that the country's growth potential is being seriously undermined by lack of adequate infrastructure of roads, water, power, gas and telecommunications. The need for major increase in development

spending aimed at rehabilitating and expanding the economic and social infrastructure is there for extremely pressing. Lack of desired capacity in the system to fully absorb available investment resources, implementation and governance bottlenecks thus need to be removed with concerted efforts.

- ❖ Law and order are clearly interrelated challenges. A lot has been done to tackle these issues and more needs to be done.
- ❖ Since reforms lie at the core of the country's economic turn around this process has to continue for a long time.
- ❖ So far the focus reforms were to achieve macro-economic stability. Now there is need to adopt more radical approach to make a quantum leap into high growth trajectory. The incremental approach has to make room for this transition.
- ❖ For this purpose the process of reforms will have to be accelerated and advanced to the level of second generation. The second generation reforms will focus on building the institutional and governance capacity and improving the competitive environment to the country. Civil services, police, judiciary and devolution will be the key areas of governance that would need reforms.
- ❖ In the face of emerging wto challenges the country's exports should be able to compete with global competitors.
- ❖ Thus the focus will be on reducing the cost of doing business in Pakistan, especially in such areas as government regulations, tax distortions, efficiency of public utilities and removal of infrastructure bottlenecks.

SALIENT FEATURES OF BUDGET 2004 - 2005

The budget 2004-2005 has the following salient features:

- ❖ The total outlay of budget 2004-2005 is Rs 902770 million. This size is 12.1% higher than the size of budget estimates 2003-2004.
- ❖ The resource availability during 2004-2005 has been estimated at Rs 842620 million against Rs 767298 million in the budget estimates of 2003-2004.
- ❖ Net revenue receipts for 2004-2005 have been estimated at Rs 557165 million indicating an increase of 8.5% over the budget estimates of 2003-2004.

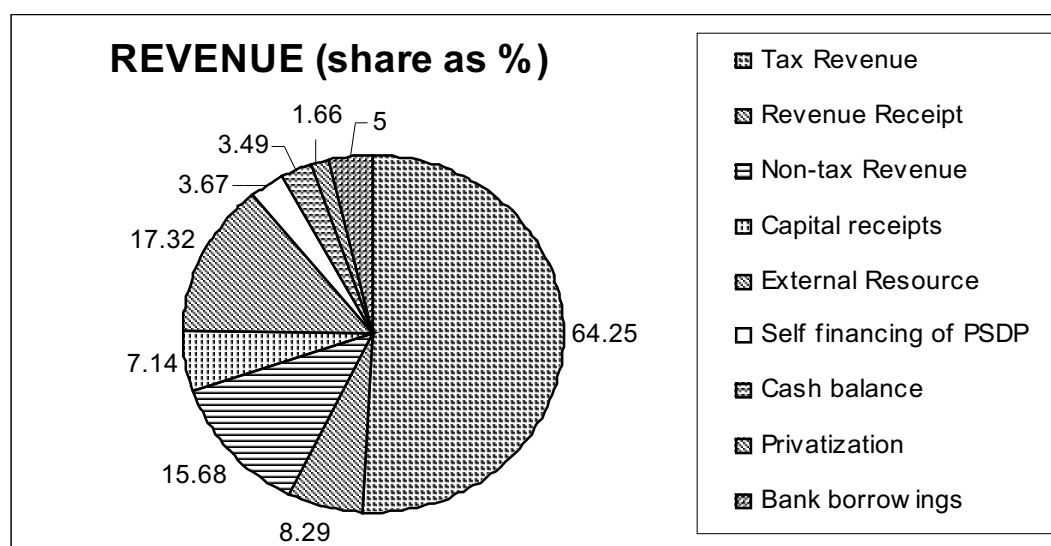
- ❖ The capital receipts (net) for 2004-2005 have been estimated at Rs 64439 million against the budget estimates of Rs 36677 million in 2003 -2004.
- ❖ The external receipts in 2004-2005 are estimated at Rs 156355 million. This shows an increase of 8.0% over the revised estimates for 2003-2004.
- ❖ The overall expenditure during 2004-2005 has been estimated at Rs 902770 million of which the current expenditure is Rs 700770 million and development expenditure Rs 202000 million. Current expenditure shows a decline of Rs 13249 million from revised estimates of 2003-2004. Development expenditure will increase by 31% in 2004-2005 over the revised estimates of 2003-2004.
- ❖ The share of current expenditure in total budgetary outlay for 2004-2005 is 77.62% as compared to 82.22% in revised estimates for 2003-2004.
- ❖ The expenditure on General Public Services(inclusive of debt servicing, transfer payments and superannuation allowance) is estimated at Rs 423836 million which is 60.5% of the current expenditure.
- ❖ The provincial share in federal receipts is estimated at Rs 239157 million during 2004-2005 which is 13.12% higher than the revised estimates for 2003-2004.
- ❖ The size of Public Sector Development Programme for 2004-2005 is Rs 202000 million. This shows an increase of 26.25% over the budget estimates for 2003-2004 and 31% over the revised estimates 2003-2004.

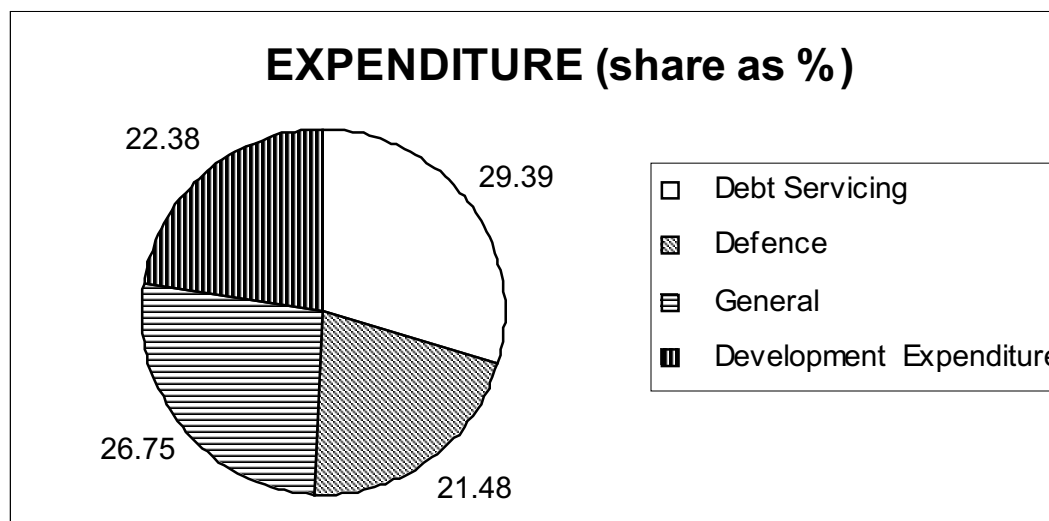
COMPARATIVE BUDGETARY POSITION 2003-2004 AND 2004-2005

The comparative position of 2003-2004 (budget & revised) and 2004-2005 (budget) is given in Table below:

(Rs. in Million)

Classification	2003-2004		2004-2005
	Budget	Revised	Budget
❖ RESOURCES (a + b)	767298	783356	842620
• Internal Resources	608169	638536	686265
Revenue Receipts(Net)	513536	549572	557165
Capital Receipts(Net)	36677	39789	64439
Financing by Provinces for PSDP	29990	34845	33110
Change in Provincial Cash Balance	27967	14331	31551
• External Resources	159129	144820	156355
❖ EXPENDITURE	805234	868392	902770
Current Expenditure	645234	714019	700770
Dev. Expenditure(PSDP)	160000	154373	202000
Privatization proceeds	10000	11000	15000
Bank borrowing	27936	74036	45150





RESOURCE POSITION

2004 - 2005

Resources are generated both internally and externally. The internal resources comprise of revenue receipts, capital receipts, financing of PSDP by the provinces and change in the Provincial Cash Balance, while the external resources come from loans and grants.

The overall comparative resource position for the year 2003-2004(budget and revised) and 2004-05(budget) is given in Table below:

(Rs.in Million)

Classification	2003-2004		2004-2005
	Budget	Revised	Budget
❖ INTERNAL (I+II+III)	608169	638536	686265
• Revenue Receipts (Net)	513536	549572	557165
• Capital Receipts (Net)	36677	39789	64439
Total (a + b)	550212	589361	621604
Self-financing of PSDP by Provinces	29990	34845	33110
Change in Provincial Cash Balance	27967	14331	31551
❖ EXTERNAL	159129	144820	156355
TOTAL RESOURCES (A + B)	767298	783356	842620

INTERNAL RESOURCES

REVENUE RECEIPTS

- ❖ The revenue receipts in budget 2004-2005, on gross basis, are estimated at Rs 796323 million showing an increase of 4.64% over the revised estimates 2003-2004. The provincial share in taxes for 2004-2005 has been estimated at Rs 239157 million which is 13.1% higher than the revised estimates of 2003-2004.
- ❖ Tax revenue (CBR) is projected at Rs 580000 million in the budget estimates 2004-2005 against Rs 510000 million in the revised estimates 2003-2004. Tax revenue, other than CBR is budgeted at Rs 74806 million which shows an increase of 6.7%. Non-tax revenue have been projected at Rs 141517 million in 2004-05 as compared with Rs 180875 million in revised estimates 2003-2004.
- ❖ Detailed information on various components of tax revenue and non-tax revenue is given in following Tables.

(Rs.in Million)

Classification	2003-2004		2004-2005
	Budget	Revised	Budget
❖ Tax Revenue(CBR)	510000	510000	580000
Direct Taxes	161100	161500	181900
Indirect Taxes	348900	348500	398100
Tax Revenues(Other than CBR)	67560	70108	74806
❖ Non-Tax Revenue	150811	180875	141517
Property & Enterprise	92432	101361	95326
Receipts from Civil & Others Function	33145	45312	15332
Miscellaneous	25234	34202	30859
Revenue Receipts - Gross	728371	760983	796323
Less: Provincial Share	214835	211412	239157
Revenue Receipts(Net)	513536	549572	557165

TAX REVENUE

(Rs.in Million)

Classification	2003-2004		2004-2005
	Budget	Revised	Budget
❖ TAX REVENUE - CBR (I + II)	510000	510000	580000
• Direct Taxes	161100	161500	181900
Income Tax	154200	154638	174362
Other Taxes	6900	6862	7538
• Indirect Taxes on Commodities and Transactions	348900	348500	398100
Customs	78100	86600	103200
Sales Tax	223100	218400	249200
Federal Excise	47700	43500	45700
❖ TAX REVENUE (Other than CBR)	67560	70108	74806
Workers Profit Participation Tax	3000	3000	4000
Foreign Travel Tax	2500	2088	4216
Petroleum Development Levy	46135	46400	47506
Gas Development Surcharge	15000	14226	15023
Arrears (Surcharges)	0	3774	2777
Airport Tax	925	620	1284
TOTAL	577560	580108	65480

NON TAX REVENUES

(Rs.in Million)

Classification	2003-2004		2004-2005
	Budget	Revised	Budget
NON-TAX REVENUES	150811	180875	141517
Income From Property and Enterprise	92432	101361	95326
Profit - Pakistan Post Office	282	282	260
Profit- Pak Tele. Authority	353	411	6218
Interest (Provinces)	26916	26362	25952
Interest (PSEs & Others)	41059	40921	28095
Dividends	23822	33386	34801
Receipts from Civil & Other Function	33145	45312	15332
General Administration	1608	1651	1952

SBP Profits	0	0	1000
Defense	30662	42936	11616
Law and Order	112	92	101
Community Services	513	361	371
Social Services	250	272	293
Miscellaneous Receipts	25234	34202	30859
Economic Services	1842	1695	2089
Royalty on Oil	4505	3962	3963
Royalty on Gas	12644	10740	12669
Passport and Copyright fee	3600	4000	4200
Others	2643	13805	7938

CAPITAL RECEIPTS

Capital receipts on net basis in the budget 2004 -2005 have been estimated at Rs 64439 million against Rs 39789 million in the revised estimates of 2003-2004. The details of capital receipts and disbursements is reflected in the Table.

Classification	(Rs.in Million)		
	2003-2004 Budget	2003-2004 Revised	2004-2005 Budget
❖ RECEIPTS(A+B)	89163	104753	103158
• Federal Consolidated Fund(1+2+3)	35512	116127	102700
○ Recovery of Loans	29381	31724	28486
Provinces	11811	17307	13238
Others	17570	14417	15248
○ Permanent Debt	-9469	56803	44114
Government Bonds (SLIC)	-4096	-4096	-2796
Government Bonds	0	-18	0
Federal Investment Bonds	-6810	-6810	-7008
Pakistan Investment Bonds	15000	75000	60000
FEBCs	-1000	-1142	-1000
FCBCs	-58	-105	-57
U.S. Dollar Bearer Certificates	-5	-25	-25
Special US Dollar Bonds	-12500	-6000	-5000
○ Floating Debt	15600	27600	30100
Treasury Bills	0	2000	2600
Prize Bonds	15600	25600	27500
• Public Account	53651	-11374	457
Saving Schemes	44620	-18745	-5610

G.P. Fund	1000	3000	4000
Deposits(Net)	8031	4371	2067
❖ DISBURSEMENT	52486	64964	38719
Government Investments, Loans & Advances and Others	28699	47205	11627
Short Term Credits	23787	17759	27091
NET CAPITAL RECEIPTS (I - II)	36677	39789	64439

SELF-FINANCING OF PSDP BY PROVINCES

The provinces are able to finance their PSDP as well as improve their cash balance because of federal transfers on account of divisible pool & straight transfers, grants and external assistance. Self-financing of PSDP by provinces during 2004-2005 has been estimated at Rs 33110 million.

TRANSFERS TO PROVINCES (NET)

(Rs.in Million)

Classification	2003-2004		2004-2005
	Budget	Revised	Budget
Divisible Pool	176372	176486	200880
Straight Transfer	38464	34925	38277
Special Grants/Subventions	32839	32423	35864
Project Aid	16920	12579	20800
Japanese Grant	91	90	90
Total	264686	256504	295911
Less payments to Federal Govt.	38727	43669	39190
Interest Payments	26916	26362	25952
Loan Repayments	11811	17307	13238
Net Transfers to Provinces	225959	212835	256721

CHANGE IN PROVINCIAL CASH BALANCE

The provincial cash balance is estimated at Rs 31551 million in the budget 2004-2005 showing an improvement of Rs 3584 million over budget estimates of 2003-2004.

EXTERNAL RESOURCES

The budget estimates 2004-2005 have been projected at Rs 156355 million which is 8% higher than the revised estimates of Rs 144820 million for 2003-2004. Details of receipts from external resources are given in Table below.

(Rs.in Million)

Classification	2003-2004		2004-2005
	Budget	Revised	Budget
❖ EXTERNAL LOANS(A to D)	116246	110337	133105
• PROJECT LOANS (1+2)	41236	38119	52346
○ Federal Government	25513	28751	33113
Ministries/Divisions	11833	18801	17123
Corporations/Autonomous Bodies	13680	9950	15990
○ Provinces	15724	9368	19233
• PROGRAMME LOANS	51930	31366	54614
• EURO BONDS	0	28850	0
• OTHER AID	23080	12002	26145
Islamic Development Bank	17310	6232	20335
Short Term Credit	5770	5770	5810
❖ EXTERNAL GRANTS	42883	34483	23250
Saudi Oil Grants	31042	17425	0
Project Grants	2709	4814	4077
Federal	1513	1603	2510
Provinces	1196	3211	1567
Budget Support Grants	9132	11667	19173
Food Aid	0	577	0
TOTAL	159129	144820	156355

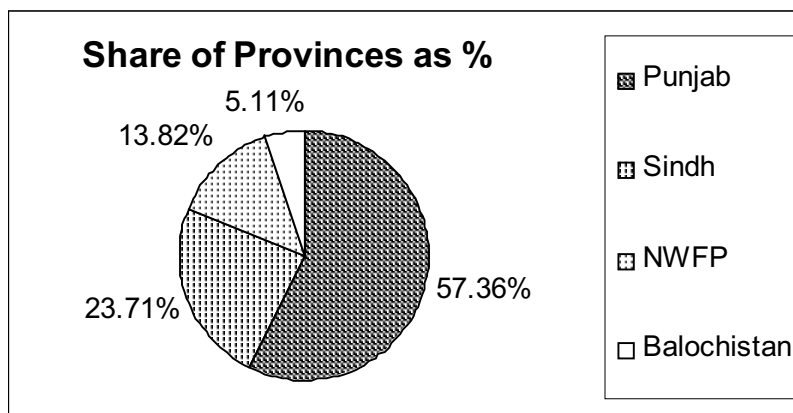
PROVINCIAL SHARE IN FEDERAL RECEIPTS

In pursuance of the NFC Award, 1996 effective from 1st July, 1997, the divisible pool consists of the following:

- ❖ Taxes on Income
- ❖ Wealth Tax
- ❖ Capital Value Tax
- ❖ Taxes on Sales & Purchase of goods
- ❖ Export Duty on Cotton
- ❖ Custom Duty
- ❖ Federal Excise Duty excluding the Excise Duty on Gas charged at well head; and
- ❖ Any other tax which may be levied by the federal government.

The net proceeds of divisible pool are arrived at by deducting 5% collection charges (6% for income tax) by the federal government. The federal share in the net proceeds of divisible pool is 62.5%, with the remainder 37.5% going to the four provinces, under Distribution of Revenue and Grants-in-Aid Order, 1997.

The provincial-wise share in the divisible pool has been worked out on the basis of their respective population in the percentages fixed in the Distribution of Revenues and Grants-in-Aid (Amendment) Order, 2002 given below:



The royalty on crude oil & development surcharge on natural gas, after deducting 2% collection charges, is transferred to the provinces on the basis of well-head production. The royalty and excise duty on natural gas,

after deducting 2% collection charges, is also transferred to the provinces in accordance with Article 161(1) of the Constitution of the Islamic Republic of Pakistan.

The following table shows the estimated transfers to the provincial governments on account of their share out of Federal receipts for 2003 -2004 (budget & revised) and 2004-2005 (budget).

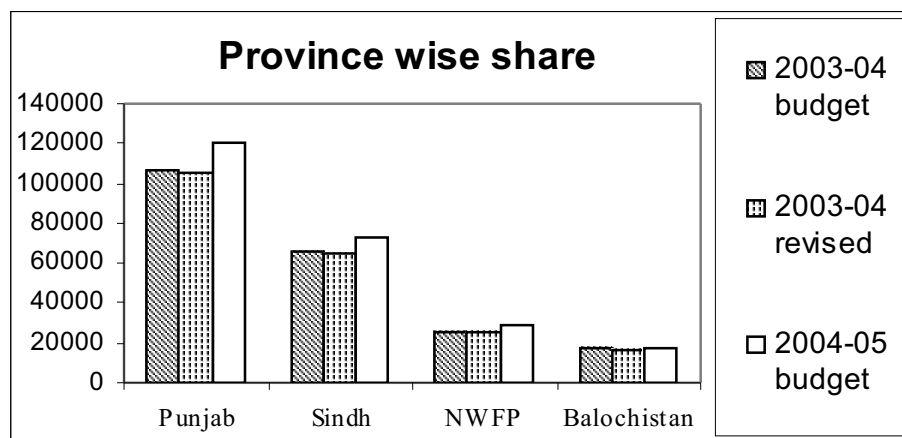
(Rs.in Million)

Classification	2003-2004		2004-2005
	Budget	Revised	Budget
Income Tax	54356	54510	61463
Capital Value Tax	249	214	232
Sales Tax	78411	76914	87709
Federal Excise (Net of Gas)	15533	13997	14712
Customs Duties	27823	30851	36765
Royalty on Crude Oil	4415	3883	3884
Royalty on Natural Gas	12391	10525	12416
Surcharge on Gas	14700	13941	14723
Excise Duty on Natural Gas	4018	4126	4316
GST on Services	2940	2450	2940
Total	214835	211412	239157

PROVINCE-WISE SHARE

(Rs.in Million)

	2003-2004		2004-2005
	Budget	Revised	Budget
Punjab	106735	105751	120334
Sindh	65899	64493	72678
NWFP	25061	24924	28525
Balochistan	17140	16244	17620
Total	214835	211412	239157



CURRENT EXPENDITURE (2004-2005)

The Functional Classification under the New Chart of Accounts(COA) is quite different from the earlier Chart of Classification(COC). An effort has been made to provide explanation.

The revised estimates for 2003-2004 on account of current expenditure have increased to Rs 714019 million from the budget estimates of Rs 645234 million. For 2004-2005, the current expenditure has been estimated at Rs 700770 million, showing a decrease of 2% from revised estimates 2003-2004.

Following table indicates the comparative position of the budget and revised estimates of current expenditure for the year 2003 -2004 and the budget estimates for 2004-2005.

CURRENT EXPENDITURE SUMMARY

Classification	(Rs.in Million)		
	2003-2004		2004-2005
	Budget	Revised	Budget
General Public Service	377926	448430	423836
Defense Affairs & Services	160250	180537	193926

Public Order and Safety Affairs	12957	14048	15068
Economic Affairs	78163	54758	48767
Environment Protection	132	132	136
Housing and Community Amenities	821	926	832
Health Affairs & Services	2804	2809	3254
Recreational, Culture and Religion	2002	2003	2197
Education Affairs and Services	9645	9640	12214
Social Protection	535	737	539
TOTAL:	645234	714019	700770

Under the New Chart of Accounts, the bulk of expenditure has been booked under General Public Service. The expenditure against this head has been budgeted at Rs 423836 million as compared with Rs 448430 million in the revised estimates and Rs 377926 million in the budget estimates of 2003-2004 . An amount of Rs 349516 million will be consumed by Executive and Legislatives Organs or 50% of the Current Expenditure. While 27.67% for Defence, 7% for Economic Service and 1.74% for Education have been allocated in the budget estimates 2004-05.

GENERAL PUBLIC SERVICE

The details under General Public Service are given in the Table.

Classification	(Rs.in Million)		
	2003-2004	2004-2005	
	Budget	Revised	Budget
GENERAL PUBLIC SERVICE	377926	448430	423836
Executive & Legislatives Organs, Financial	1308440	377216	349516
Superannuation Allowance & Pension	37625	40995	42533
Servicing of Foreign Debt	39490	44945	44039
Foreign Loan Repayments	45978	111258	51081
Servicing Domestic Debt	170500	161520	170209
Others	14847	18499	41653
Foreign Economic Aid	61	61	60
Transfer Payments	62058	65026	65412
General Services	1639	1644	1727
Basic Research	404	577	566

R&D General Public Services	2114	2187	2453
Administration of General Public Service	189	189	422
General Public Services not defined elsewhere	3021	1529	3681

DEFENCE AFFAIRS & SERVICES

Estimates of expenditure on Defense Affairs and Services in 2003-2004 (budget & revised) and 2004- 2005 (budget) are given below:

(Rs.in Million)

Classification	2003-2004		2004-2005
	Budget	Revised	Budget
DEFENCE AFFAIRS & SERVICES	160250	180537	193926
Defense Administration	484	485	382
Defense Services	159765	180051	193544

PUBLIC ORDER AND SAFETY AFFAIRS

Under this head an amount of Rs 15068 million has been provided in the budget 2004- 2005 as compared with Rs 14048 million in the revised estimates and Rs 12957 million in the budget estimates 2003-2004. The allocation for Police forms the major component under this classification. At Rs 13967 million it is higher by 11% as compared with the revised estimates and 16.9% as compared with the budget estimates 2003-2004. The following table provides the details.

(Rs.in Million)

Classification	2003-2004		2004-2005
	Budget	Revised	Budget
PUBLIC ORDER & SAFETY AFFAIRS	12957	14048	15068
Law Courts	432	447	492

Police	11943	12577	13967
Fire Protection	42	42	46
Prison Administration & Operation	13	12	14
Administration of Public Order	528	970	549

ECONOMIC AFFAIRS

The allocation under this head in the Budget 2004 -2005 has been projected at Rs 48767 million. This is 10.9% lower than the revised estimates of 2003-2004 mainly because of reduced allocation in respect of General Economic, Commercial and Labor Affairs. The following table provides the details under this head:

(Rs.in Million)

Classification	2003-2004		2004-2005
	Budget	Revised	Budget
ECONOMIC AFFAIRS	78163	54758	48767
General Economic, Commercial & Labor Affairs	63628	40451	37507
Agriculture, Food, Irrigation, Forestry and Fishing	7671	7498	3956
Fuel and Energy	148	174	213
Mining and Manufacturing	416	415	437
Construction and Transport	5472	5391	5672
Communication	680	680	819
Other Industries	149	149	163

ENVIRONMENT PROTECTION

Environment Protection has been provided with Rs 136 million under Water Waste Management. This is slightly higher than the budget and revised estimates 2003-2004.

(Rs.in Million)

Classification	2003-2004		2004-2005
	Budget	Revised	Budget
ENVIRONMENT PROTECTION	132	132	136
Water Waste Management	132	132	136

HOUSING AND COMMUNITY AMENITIES

An allocation of Rs 832 million has been provided in the budget 2004-2005 for community development which is 10.2% lower than the revised estimates for 2003-2004. However, it is more by Rs 11 million as compared with the budget estimates 2003-2004.

(Rs.in Million)

Classification	2004-2004		2004-2005
	Budget	Revised	Budget
Housing and Community Amenities	821	926	832
Community Development	821	926	832

HEALTH AFFAIRS AND SERVICES

Under Health Affairs and Services a total allocation of Rs 3254 million in the budget estimates 2004-2005 have been provided. This allocation is higher by 16% when compared with budget estimates of 2003-2004. Details are given in the following table.

(Rs.in Million)

Classification	2003-2004		2004-2005
	Budget	Revised	Budget
Health Affairs and Services	2804	2809	3254
Medical Products, appliances and Equipment	26	26	32
Hospitals Services	2229	2239	2623
Public Health Services	195	195	227

R & D Health	3	3	3
Health Administration	352	346	369

RECREATIONAL, CULTURE AND RELIGION

In budget 2004-2005 an amount of Rs 2197 million has been provided for Recreational, Culture and Religion. The bulk of the expenditure has been earmarked for Broadcasting and Publishing which is 77.5% of the total allocation under this head.

Classification	(Rs.in Million)		
	2003-2004	2004-2005	
	Budget	Revised	Budget
Recreational, Culture and Religion	2002	2003	2197
Recreational & Sporting Services	4	4	8
Cultural Services	142	140	154
Broadcasting & Publishing	1550	1539	1702
Religious Affairs	238	253	263
Administration of Information Recreation and Culture	68	67	71

EDUCATION AFFAIRS AND SERVICES

The Education Affairs and Services have been provided with Rs 12214 million in the budget estimates 2004-2005 as compared with Rs 9640 million under the revised estimates and Rs 9645 million in the budget estimates 2003-2004 respectively. The bulk of expenditure, that is Rs 7920 million has been allocated for Tertiary Education Affairs and Services in budget 2004-2005.

Classification	(Rs.in Million)		
	2003-2004	2004-2005	
	Budget	Revised	Budget
Pre-Primary & Primary Education	1293	1288	1412
Affairs Services			
Secondary Education Affairs and Services	1465	1462	1738

Tertiary Education Affairs and Services	5424	5425	7920
Education Services non-definable by leve	115	15	16
Subsidiary Services to Education	19	17	21
Administration	676	676	821
Education Affairs, Services not elsewhere	752	758	287
Total :-	9645	9640	12214

SOCIAL PROTECTION

The social protection with Rs 539 million in the budget 2004-2005 million maintained the same level as in the budget 2003-2004, but it is less by 26.86% when compared with the revised estimates 2003-2004.

(Rs.in Million)

Classification	2003-2004		2004-2005
	Budget	Revised	Budget
Administration	329	531	307
Others	206	206	232
Total :-	535	737	539

BUDGET AT A GLANCE - RECEIPTS

(Rs. in million)

Receipts	Budget Estimate 2003-04	Revised Estimate 2003-04	Budget Estimate 2004-05
a) Tax Revenue (CBR)	510000	510000	580000
Direct Taxes	161100	161500	181900
Income Tax	154200	154638	174362
Capital Value Tax	700	600	650
W. W. Tax	6200	6262	6888
Indirect Taxes	348900	348500	398100
Customs Duties	78100	86600	103200
Sales Tax	223100	218400	249200
Federal Excise	47700	43500	45700
b) Tax Revenue(Other than CBR)	67560	70108	74806
Workers Participation Tax	3000	3000	4000
Foreign Travel Tax	2500	2088	4216
Petroleum Development Levy	46135	46400	47506
Surcharge on Natural Gas	15000	14226	15023
Arrears(Surcharges)	0	3774	2777
Airport Tax	925	620	1284
c) Non-Tax Revenue	150811	180875	141517
Gross Revenue Receipts(a+b+c)	728371	760983	796323
I. Less Provincial Share in Taxes	214835	211412	239157
II. Net Revenue Receipts	513536	549572	557165
III. Net Capital Receipts	36677	39789	64439
IV. External Receipts	159129	144820	156355
V. Self Financing of PSDP by Provinces	29990	34845	33110
VI. Change in Provincial Cash Balance	27967	14331	31551
VII. Privatization Proceeds	10000	11000	15000
VIII. Bank Borrowing	27936	74036	45150
Total Resources (I to VII)	805234	868392	902770

BUDGET AT A GLANCE - EXPENDITURE

(Rs. in million)

EXPENDITURE	Budget Estimate 2003-04	Revised Estimate 2003-04	Budget Estimate 2004-05
A. CURRENT EXPENDITURE	645234	714019	700770
General Public Services	377926	448430	423836
Defense Affairs and Services	160250	180537	193926
Public Order & Safety Affairs	12957	14048	15068
Economic Affairs	78163	54758	48767
Environment Protection	132	132	136
Housing and Community Amenities	821	926	832
Health Affairs and Services	2804	2809	3254
Relational, Culture & Religion	2002	2003	2197
Education Affairs & Services	9645	9640	12214
Social Protection	535	737	539
B. DEVELOPMENT EXPENDITURE	160000	154373	202000
Federal Government	113000	106859	148000
Ministries/Division	61332		96581
Corporation	35699		31334
Special Programmes	6600		8840
Special Areas	9369		11245
Provincial Government	47000	47514	54000
TOTAL EXPENDITURE(A + B)	805234	868392	902770

PROVINCIAL BUDGET 2004-05

Punjab Finance Minister Sardar Hasnain Bahadur Dareshak presented the provincial budget for the fiscal year 2004-05 with an approximate outlay of Rs.180 billion or more, carrying an annual development programme (ADP) of about Rs. 40 billion, in the provincial assembly on Thursday, 17th June 2004.

PUNJAB BUDGET HIGHLIGHTS

- ❖ Total outlay budgeted at Rs.185.32 billion, revenue expenditure of Rs.141.8 billion and Annual Development Programme of Rs.43.44 billion.
- ❖ The annual development programme will be financed to the extent of Rs.34.7 billion from provincial resources and Rs.8.78 billion from foreign assistance.
- ❖ The development outlay is more than double preceding year's allocation.
- ❖ Social sector and infrastructure development to receive priority.
- ❖ Of the total ADP, Rs.34.44 billion has been allocated for provincial programme and Rs.9 billion for the district programme.
- ❖ Punjab government has finalized its Poverty Reduction Strategy Paper, aiming to reduce the incidence of poverty from 33% to 28% by 2005 -06.
- ❖ The provincial government has been able to swap its expensive cash development loan with low priced loans. This policy would help save at least Rs.10 billion within the next 3 years.
- ❖ Property tax exemption given to one house of five marlas used for residential purposes of Companies.
- ❖ Stamp duty reduced on conveyance, exchange and gift of urban property.
- ❖ Stamp duty on agricultural land and rural property reduced.
- ❖ The base of professional tax has been broadened to include contractors, suppliers.
- ❖ Professional tax on lawyers and doctors has been streamlined.
- ❖ Lifetime token tax for motorcycles/scooters has been enhanced.

ECONOMIC SURVEY OF PAKISTAN

2003-04

HIGHLIGHTS

GDP GROWTH: Real GDP growth, once again, surpassed the target (5.3 percent) by a wide margin and grew by 6.4 percent in 2003-04 compared to last year's 5.1 percent. When compared with other developing countries in general and East and Southeast Asian countries in particular, Pakistan's growth performance has been quite impressive. Developing countries grew, on average, by 6.1 percent, while East and Southeast Asian countries registered growth rates ranging from 1.1 percent to 5.5 percent in 2003-04. Only China, India and Thailand grew faster than Pakistan during this period.

The growth is supported by 2.6 percent, 13.4 percent, and 5.2 percent growth rates in agriculture, manufacturing and services respectively for fiscal year 2003-04. The target was 5.3 percent, with agriculture and manufacturing growing by 4.2 percent and 6.8 percent. GNP at factor cost exhibited a deceleration in growth from 7.9 percent in 2002-03 to 5.2 percent in 2003-04 mainly due to a decline of 30.5 percent in net factor income from abroad.

SERVICES: The services sector has also registered handsome growth of 5.2% against the target of 5.0%. Electricity, gas, water supply and construction have registered growth above the target rate. Most notable performance has been witnessed in construction and gas and electricity sub-sectors. Against a decline of 2.5% last year, a phenomenal growth of 23% was recorded in the case of gas and electricity sub-sector.

AGRICULTURE: The performance of agriculture fell short of the target by growing at 2.6 percent against the target of 4.2 percent and last year's achievement of 4.1 percent.

The slippage in agriculture target was mainly attributable to weak performance of both the major and the minor crops. Major crops, accounting for 34 percent of agriculture value-added, grew by 2.8 percent against 6.9 percent rise in value-addition for last year and a target of 5.5 percent for 2003-04. Minor crops, which contribute 12 percent of value-addition in agriculture, grew by 1.7 percent in 2003-04 against the growth target of 3.5 percent and a slight increase of 0.4 percent last year. The performance of two major crops, cotton and wheat, was lackluster as the cotton crop suffered from pest problems in southern Punjab while wheat production was adversely affected by lack of rain in March when the formation of wheat grain takes place.

MANUFACTURING: One of the most important developments of the year has been the sharp acceleration in manufacturing growth. Overall manufacturing grew by 13.4 percent in 2003-04 against a target of 7.8 percent and last year's 6.9 percent.

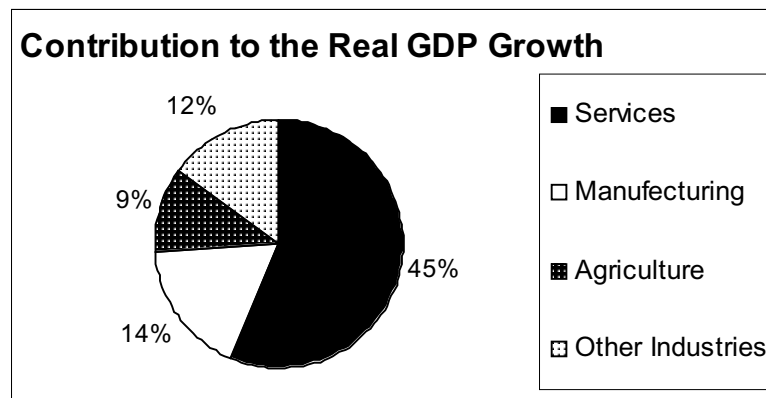
Large-scale manufacturing registered the highest ever growth of 17.1 percent against the target of 8.8 percent and last year's 7.2 percent. Over the last four years, the large-scale manufacturing has grown at an average of 10 percent per annum. Improvements in the macroeconomic environment, a decline in the cost of capital, the availability of consumer financing at affordable rate and strong growth in exports have

been responsible for this unprecedented growth in large-scale manufacturing.

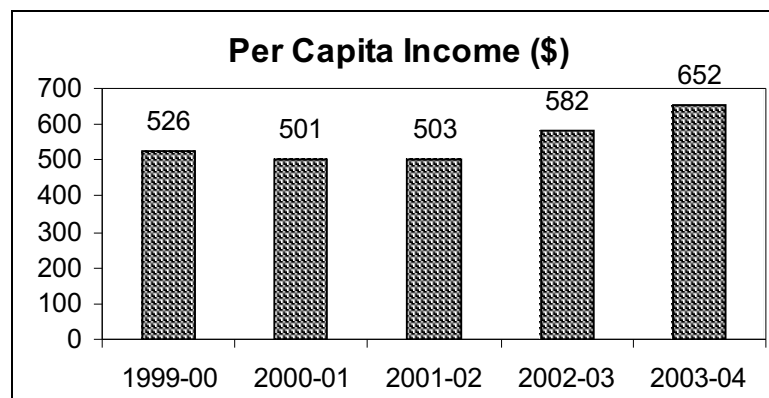
CONSTRUCTION: Another star performer has been the construction sector, registering a growth of 7.9 percent against the target of 5.4 percent and last year's growth of 3.1 percent.

The construction sector grew by 7.9 percent against 3.1 percent of last year and a yearly target of 5.4 percent. The electricity and gas distribution sector registered a massive increase of 22.5 percent against a decline of 2.6 percent last year and a yearly target of 5.3 percent.

The largest contribution to the real GDP growth rate of 6.4 percent came from the commodity producing sector (3.6 percentage points). Within the sector, the industrial sector alone contributes 3.0 percentage points with the major share coming from the manufacturing sector (2.2 percent). The services sector contributed 2.8 percentage points of 43 percent to real GDP growth.



PER CAPITA INCOME: The sharp rise in per capita income, which was witnessed last year, continued during 2003-04 as well. Against an annual average rate of 1.4 percent in 1990s, per capita income grew at an average rate of 13.9 percent per annum during the last two years (2002-04) and 12 percent during 2003-04. The per capita income in dollar terms increased from \$526 in 1999-2000 to \$652. In 2003-04, an increase of 24 percent in last four years.



INVESTMENT: Total investment picked up sharply to 18.1 percent of GDP in 2003-04 against 16.7 percent of last year. Fixed investment also rose sharply to 16.4 percent of GDP against 14.8 percent of last year.

Private sector investment also increased from 11.2 percent to 11.7 percent of GDP. Public sector investment improved significantly by moving from 3.6 percent of GDP of last year to 4.6 percent of GDP this year.

Fixed investment in rupee term grew by 25 percent this year as against 4.9 percent last year. What was highly encouraging was the significant rise in private sector investment, which grew by almost 18 percent this year against 9 percent of last year - twice as fast as of last year. Public sector investment, on the other hand, grew by 54 percent this year.

Public sector investment also accelerated by growing 40.8 percent in 2003-04. Most importantly, private sector real investment in large scale manufacturing registered an extraordinary growth of 25.4 percent in 2003-04, indicating a sharp rise in private sector confidence on the economy.

INFLATION: Overall inflation averaged 3.9 percent during the first 10 months of the fiscal year as against 3.3 percent of the same period of last year. Food inflation averaged 4.9 percent as against 3.1 percent of last year. Much of the surge in the food inflation over last year has been due to both demand and supply factors resulting in an increase in the prices of wheat, wheat flour, rice, meat, edible oil and onion.

POVERTY: The efforts of the last five years have started yielding positive results and this year has seen the incidence of poverty declining, enrolment in primary, middle and matric levels rising, and various quality of life indicators improving.

The minister said that next financial year at least a million jobs will be created to transfer benefit of fairly good economic growth at the grass root level. The incidence of poverty has declined by 4.2 percentage points over 2001 figures. Other social indicators such as enrolment in primary, middle and matric levels; access to sanitation, safe drinking water, housing, electricity and gas have all showed marked improvements.

MONETARY POLICY: The State Bank of Pakistan (SBP) continued with an easy monetary policy stance during the year with a view to reinforcing the growth momentum that had picked up last year. Accordingly, the interest rate environment not only remained investor-friendly but middle class borrower also benefited from such environment. During July-March 2003-04, money supply grew by 12.3 percent as against the target of 11.1 percent and last year's growth of 12 percent in the same period.

Unlike previous two years, when the bulk of the monetary expansion resulted from a strong build-up in the net foreign assets of the banking system, this year saw an unprecedented increase in private sector credit amounting to Rs 245 billion during the first nine months of the fiscal year against an increase of Rs 107 billion during the same period last year.

STOCK MARKET: Another land mark achievement of this year has been the impressive growth in the share index of Karachi Stock Exchange (KSE). KSE index

increased by 2027 points, or almost 60 percent, rising from 3403 points on June 30, 2003 to 5430 points on April 30, 2004. The aggregate market capitalization also increased by 92 percent, rising from \$12.9 billion to \$25 billion.

FISCAL POLICY: Pakistan made considerable gain on fiscal side during 2003-04. The overall fiscal deficit declined from 3.7 percent of GDP in 2002-03 to 3.3 percent in 2003-04. The CBR was targeted to collect Rs 510 billion this year.

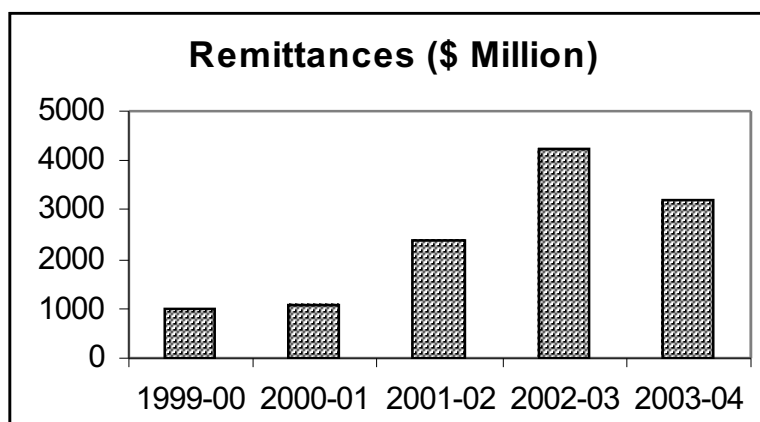
Another important development on fiscal side was the near-elimination of revenue deficit (total revenue minus current expenditure) in 2003-04. Over the last two years, revenue deficit had declined from Rs 76 billion (1.3 percent of GDP) to Rs 13.3 billion (0.2 percent of GDP).

PUBLIC DEBT: As a result of considerable improvement on fiscal side, the public debt situation improved immensely. This year the pace of accumulation of public debt slowed to 2.8 percent. Public debt declined from 75.2 percent of GDP last year to 69.7 percent this year, a sharp decline of 5 percentage points in one year.

BALANCE OF PAYMENTS: Exports grew by 13.1 percent during July-April 2003-04 and are expected to cross the target of \$12.1 billion. Imports grew by 19 percent during the first 10 months of the fiscal year. Given the rising level of economic activity, the import target of \$12.8 billion is likely to be surpassed with a projection of over \$14 billion for the entire year.

Most importantly, non-food non-oil imports were up by almost 32 percent this year. The exceptionally strong growth in non-food non-oil imports was one of the leading indicators of a surge in domestic economic activity.

REMITTANCES: The inflow of workers remittances continued to maintain its momentum. Remittances were targeted at \$3.6 billion for the current fiscal year or \$300 million per month. During the first 10 months (July-April) of the current fiscal year, the flow of remittances was \$3.21 billion or \$321 million per month. Given the average monthly trend of inflows, the year is going to end with remittances of \$3.8 billion.



CURRENT ACCOUNT BALANCE: Sustaining a current account surplus for the third year in a row has been another major achievement of this year. The current account

balance excluding official transfers remained in surplus at \$1369 million or (1.4 percent of GDP) during July-March 2003-04.

FOREIGN DIRECT INVESTMENT: Pakistan succeeded in attracting \$760 million in FDI during July-April 2003-04 against \$696 million in the same period of last year, thereby registering an increase of 9.3 percent. By the end of the fiscal year, FDI is expected to cross \$1.0 billion on account of the issuance of two cellular phone licenses amounting to \$291 million each--half proceeds of which are expected to be received before the end of the fiscal year.

FOREIGN EXCHANGE RESERVES: By end-April 2004, foreign exchange reserves stood at \$12.5 billion. During the year, Pakistan added \$1.8 billion to its reserves despite pre-payment of expensive debt.

EXTERNAL DEBT: Until a few years ago, Pakistan was facing serious difficulties in meeting its external debt obligations. Following a credible debt reduction strategy, Pakistan has not only succeeded in reducing the stock of external debt and liabilities but at the same time built up a substantial stock of foreign exchange reserves.

The stock of debt was as high as \$37.9 billion at the end of the 1990s but declined to \$35.8 billion by end March 2004. As percentage of GDP, external debt and liabilities stood at 51.7 percent in end June 2000, declined to 43 percent in June 2003 and further to 37.8 percent by end March 2004 - a decline of almost 14 percentage points of GDP in just less than four years. External debt and liabilities as percentage of foreign exchange earnings declined from 297 percent in 1999-2000 to 181 percent in 2002-03 and further to 169 percent by end-March 2004.

EDUCATION: The education is becoming one of the defining enterprises of the 21st century with the emergence of globalization and increasing global competition. Total number of Public and Private Institutions at primary level is 156,100, middle level is 28716 and at high school level is 16059 in the financial year 2003-04. Over the last five years, primary, middle and high school institutions increased by 5.7 percent, 12.7 percent and 8.6 percent respectively. Similarly, total enrolment at public and private institutions, as documented in table 11.2, registered an increase of 4.7 percent, 7.3 percent, and 6.0 percent in primary, middle and high school levels, respectively. It is encouraging to note that enrolment of girls child increased by 6.4 percent while boys enrolment increased by 3.5 percent over the last four years.

HEALTH & NUTRITION: The government attaches a very high priority to the improvement of health facilities so as to translate the economic success into social benefits. The total outlay on health during 2003-04 is estimated at Rs.32.8 billion which shows an increase of 13.8 percent over last year and works out to 0.8 percent of GNP. The new health facilities added to the overall health services system during 2003-04, include the construction of 30 new facilities (25 BHUs and 5 RHCs), up-gradation of 35 existing facilities (25 BHUs and 10 RHCs), addition of 1600 hospital beds and training of 3500 doctors, 200 dentists, 2000 nurses and 4500 paramedics besides the recruitment of 17000 LHV's. To control the common diseases and to alleviate their pain and suffering, various health programmes like TB, Malaria and AIDS Control Programmes were also carried out.

POPULATION & LABOUR FORCE AND EMPLOYMENT: Pakistan's population in mid-2004 is estimated at 148.72 million - 1.9 percent higher than last year. Pakistan's population has been growing at a decelerating pace. On the basis of the estimated population of 148.72 million and the participation rate of 29.61 percent, as per the Labour Force Survey 2001-02, the total labour force is estimated at 45.05 million. Of this, 30.19 million or 67.03 percent is in the rural areas and 14.85 million or 32.97 percent is in the urban areas.

The agriculture sector absorbs 17.4 million or 42.1 percent of the total workforce in 2004. This sector employed 18.09 million people in 2000 with a relative share of 48.4 percent. The share of the employed labour force in the community and social services sector, which was 14.2 percent in 2000, has increased to 15.5 percent in 2004. The share of the trade sector has also increased from 13.5 percent in 2000 to 14.8 percent while that of the manufacturing sector has increased from 11.6 percent to 13.8 percent in the same period. The construction and transport sectors accounted for 6.1 percent and 5.9 percent workforce respectively in 2004. About 3.72 million people in the labour force were estimated to be unemployed in 2004 compared to 3.65 million in 2003. The unemployment has increased from 7.82 percent in 2000 to 8.27 percent in 2004.

ENERGY: In Pakistan, primary commercial energy supplies increased by 4.0 percent during 2002-03 compared to 1.8 percent in the previous year reaching 47.1 million tonnes of oil equivalent mainly due to an increase in natural gas, hydel power and coal at rates of 1.4, 0.8 and 0.3 million tonnes respectively. However, the supply of oil decreased by 0.4 million tonnes of oil equivalent in 2002-03 due to a decline in the import of furnace and high speed diesel oil. The cement industry has started using coal, both local, as well as, imported to replace natural gas and furnace oil.

During July-March 2003-04 the production of crude oil per day has decreased to 62,139 barrels, from 64,905 barrels per day during the same period of last year, showing decline of 4 percent. The overall production of crude oil has also decreased to 17.1 million barrels during July-March, 2003-04, from 17.8 million barrels during the same period last year.

The production of natural gas during July-March, 2003-04 was 3,173 million cubic feet per day against 2,648 mmcf/d during the same period last year, showing an increase of 525 mmcf/d or almost 20 percent.

More than 1,300 licences for the installation of CNG stations have been issued of which 500 CNG (38.5 %) stations have been actually established in different parts of the country compared to 362 in 2002-03, an increase of 38 percent upto March 2004.

ENVIRONMENT: Air pollution levels in Pakistan's most populated cities are among the highest in the world and climbing, causing serious health issues. The Government offered numerous incentives to private investors to invest in CNG over the last decade with the result that today Pakistan is the largest user of CNG in Asia. Currently, 500 CNG stations are providing CNG to more than 450,000 vehicles all over the country. During July - March 2003-04, 3173 million cubic feet of natural gas was supplied per day as against 2648 million cubic feet per day during the same period last year, showing an increase of almost 20 percent.

During the fiscal year 2003-04, major projects under implementation with the environmental sector were Institutional Strengthening, Capacity Building, Mass Awareness, Forestry and Watershed Management, Fuel Efficiency in Road Transport and Industrial Efficiency and Environmental Management Sector Development Program.

HOUSING SECTOR: Globally, the construction and housing industry account for 10-12% of GDP and 7% of employment. Pakistan has over 19.3 million Housing units in the country. About 24.8 million Housing units for a population of 148.7 million people are required. Hence, a shortfall of 5.5 million homes is estimated as of end June 2004. A number of measures have been taken by the Government for reviving the housing and construction sector, which has been declared a priority industry. The government has also announced various incentives in the National Housing Policy for providing affordable housing for the poor. These measures include; the improvement in the availability of housing finance by encouraging commercial banks to extend housing loans, the reduction in interest rates from 17-18% to 7.5 to 8.5%, streamlining of the legal frame work for loan recovery of financial institutions, and the enhancement of bank exposure to housing finance from 5% to 10% of net advances. The maximum housing loans per party limit has been increased from Rs.5 million to Rs.10.0 million and the maximum debt-equity increased from 70:30 to 85:15. The maximum loan tenure for housing finance has been increased from 15 to 20 years and the maximum limit of lending for HBFC has been increased from Rs.20 million to Rs.50 million.

ECONOMY 2003 – 2004

SUMMARY

Growth Trends

- ❖ GDP grew by 6.4%.
- ❖ Manufacturing sector growth rose by 13.4%.
- ❖ Services sector showed a 5.1% rise.
- ❖ Agricultural growth lagged at 2.6%.
- ❖ Per capita income increased to \$652.
- ❖ Total investment as proportion of GDP rose to 18.1%.
- ❖ Public sector investment improved to 4.6% of GDP, while private sector investment rose to 11.7% of GDP.
- ❖ National savings as a proportion of GDP was around 20%, while domestic savings stood at 17.8% of GDP.
- ❖ While cotton production was lower over the preceding year, the other crops; rice, sugarcane and wheat showed increase in output.
- ❖ The government announced a package deal for the farmers.
- ❖ Under the micro credit scheme, financing extended showed a 27.3% increase to Rs.47.9 billion.

- ❖ The impressive 17.1% growth by large scale manufacturing was mainly because of the significant growth by automobile, electronics, and food group (vegetable ghee, cooking oil and sugar).
- ❖ Foreign direct investment stood at \$760.4 million in 2003 -04 (July- April), but as a result of outflow of \$131.3 million of portfolio investment, total foreign private investment stood at \$629.1 million.
- ❖ Privatization proceeds received through various transactions during FY04 (July-March) were of a sum of Rs.33.1 billion and by end March 2004, Pakistan had received gross proceeds of Rs.134.4 billion.

Fiscal & Monetary

- ❖ Budget deficit contained at 4% of GDP.
- ❖ Debt servicing has been brought down.
- ❖ Fiscal reforms continue.
- ❖ Monetary expansion estimated at 15%.
- ❖ Total public debt has been reduced to 69.7%.
- ❖ Real cost of borrowing of public debt was 3.2% during 2000 -04.
- ❖ As result of the easy monetary policy pursued by the State Bank of Pakistan, interest rate environment remained investor friendly.
- ❖ Private sector credit expansion was substantially higher over a year earlier.
- ❖ Government borrowings for budgetary support increased during the year. It rose to Rs.273.0 billion.
- ❖ The banking spread (average lending rate – average deposit rate)
- ❖ narrowed to 3.4% from 8.74% in June 2001.
- ❖ The non-performing loans of the financial sector have declined to Rs.222.7 billion at end December 2003, against Rs.247.1 billion a year earlier.
- ❖ Inflation has been contained at around 4%.

Trade & Balance of Payments

- ❖ Exports are expected to reach \$12.5 billion, an increase of 12% as against the growth target of 8%.
- ❖ Imports grew by 19% against the target of 5%. It has crossed \$15 billion mark.
- ❖ Remittances from abroad have crossed \$3.2 billion.
- ❖ Current account will be in surplus at \$1.6 billion.
- ❖ Foreign exchange reserves stand at \$12.5 billion.
- ❖ The average exchange rate of the Pak rupee versus the dollar remained stable during the year.

External Debts

- ❖ External debt and liabilities declined by \$2.1 billion in the last four years to \$35.8 billion.
- ❖ As a percentage of GDP, external debt has fallen to 37.8%.
- ❖ Pakistan has pre-paid a part of its expensive debt; the pre-payment schedule is spread over a four year period.

- ❖ The build-up in foreign exchange reserves helped Pakistan in its debt servicing; in FY04, the actual amount paid was \$4.0 billion and the rolled over amount \$1.1 billion.
- ❖ Pakistan returned to the international capital market and issued \$500 million Eurobond.

Social Sector Indicators

- ❖ Literacy is estimated at 54% and is envisaged to rise to 60% by 2006.
- ❖ Health indicators are low compared to some other countries; high population growth (2.2%) low life expectancy (64%), high infant mortality (82/1000) and child mortality rate under 5 (105/1000).
- ❖ Poverty has declined by 4.2 percentage points.
- ❖ The poverty reduction strategy is being followed by; improving economic growth rates, with emphasis on pro-poor growth, (focusing on agriculture, housing & construction, SMEs, information technology and the oil & gas sector).

Housing

- ❖ Construction sector has grown at a rate of about 8%.
- ❖ There are 19.3 million housing units in the country, while the demand is for 24.8 million.
- ❖ While demand for housing finance is about Rs.70 billion, currently
- ❖ Rs.3-4 billion is available.

- ❖ Government has initiated measures to develop the housing sector.

CONCLUSIONS

The verdict on the economic performance during FY2004 and on the Budget for the year FY2005 is mixed. Clearly, the higher than targeted GDP growth rate, particularly the stellar growth in large-scale manufacturing, is commendable. This is the first time since FY1996 that the GDP growth rate has surpassed 6 percent and the manufacturing growth rate is a record. Imports and exports have both picked up appreciably and tends to corroborate manufacturing growth data. One particular bright spot is the emergence of engineering goods on the export front. Revenue receipts have again exceeded the target. Net of debt repayment, current expenditures have also been on target. The pre-payment of expensive foreign debt is a positive move and correspondingly reduces the economic as well as the political burden on the national economy.

Most importantly, there appears to be a welcome change from the trend prevailing in the last few years, i.e., a tentative move away from an almost exclusive concern with stabilization goals and an acknowledgement of the importance and urgency of growth objectives. This is evident from the fact that the development allocation for FY2004 has been utilized to the extent of over 96 percent, that there is an over 30 percent increase in development expenditure over revised expenditure of FY2004, and that it is for the first time since FY1993 that the allocation for development has exceeded that for defence; albeit marginally.

There are concerns too, beginning with questions regarding the data, which raises unease relating to transparency, plausibility and reliability. There are instances of one set of data failing to corroborate another set of data. For example, the higher than targeted GDP growth rate is not matched by higher than targeted tax revenue collection; the significantly higher manufacturing growth rate is not matched by a corresponding increase in industrial energy consumption; customs duty receipts for several commodities increase at the same rate and this phenomenon continues for 3 years in a row; targeted and actual direct and indirect tax collections are exactly the same; and so on.

There are other concerns too. Agricultural growth is disappointing. That growth is low in *all* sub-sectors points towards serious underlying problems technical, economic and institutional – in the agrarian economy. In manufacturing, the challenge now is to broaden and sustain the growth momentum. And the critical factor here is to build or enhance the capacity of the traditional as well as the newly emerging industries to enter the export market. Herein, arises the issue of the cost efficiency of the manufacturing sector, in order to enhance the competitiveness of the sector. The Budget does not appear to have taken due cognizance of these fundamental problems facing the two principal commodity-producing sectors.

While the economy has performed relatively well in FY2004, it also needs to be kept in mind that certain macroeconomic indicators, i.e., current account balance, appears to be positive on account of net receipts from outside the economy rather than the performance of the domestic economy.

A disturbing aspect of economic performance is that there appears to be what may be described as jobless growth. Despite the high GDP growth and even higher large-scale manufacturing growth, unemployment has risen. This is not surprising given the composition of industrial growth; i.e., the high growth industries are largely capital-intensive and assembly or packaging type operations.

A glaring deficiency of the Economic Survey 2003-04 is the absence of any meaningful reference to the issue of income distribution, including regional disparity. There is now clear evidence that inter-personal inequality has risen and a north-south divide has emerged in the country. Yet, poverty is stated to have decreased. However, given the low growth in agriculture, where over 40 percent of the country's labour force resides, increased unemployment, and the rise in inter-personal as well as inter-regional inequality, the reported decline in poverty is counter-intuitive. An examination of the methodology by which the estimate has been made shows that it is conceptually and statistically flawed on a number of points. By the same token, the results on living conditions and selected social indicators, based on HCES 2004, are equally open to question.

The Budget 2004-05 deserves to be commended on several points. The inhibition regarding allowing the budget deficit to rise appears to have been shed. However, the most outstanding feature is the projected Rs. 13.2 billion or 2 percent decrease in current expenditure over the revised expenditure of FY2004. On the down side, the combined share of the two power utilities in total subsidies amounts to 68 percent in FY2004 and increases to 73.7 percent in FY2005. It appears that WAPDA and KESC, which have received significant write-offs of accumulated deficits over the last 2-3 years, are continuing to hemorrhage the public treasury. Further, the continuing decline in the share of direct taxes has distributional implications. Moreover, the Budget does not appear to make meaningful allocations for direct efforts to generate employment or reduce poverty.

Budgets and budget evaluations are annual phenomena. However, a longer term 30 year view of budgets shows that the basic structure of revenues and expenditures has remained more or less constant. At the same time, unemployment and poverty has continued to rise, income and asset distribution have become more unequal - inter-personally and inter-regionally -, and access to basic opportunities and services for the poor has tended to stagnate. It may, therefore, be necessary to consider a parametric shift in the manner allocations of tax burdens and expenditures are made. At the very minimum, at least 5 percent of GDP needs to be allocated for development expenditures; implying a minimum allocation of Rs. 255 billion in FY2004 prices; with employment generation, housing, health and education being treated as priority sectors for allocation of development funds.

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