



Southern Regional Committee
THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF PAKISTAN



**Macro Economic
Aspect of the Budget**

Presenter :

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The **Federal
Budget
2010**

Defence Authority Country
& Golf Club, Karachi.

Thursday, 10 June 2010

Macro Economic Aspect of the Budget

Budget at a glance

(Rupees in Billions)

REVENUE	Budget Estimate 2009-10	Revised Estimate 2009-10	Budget Estimate 2010-11	% of Variation over 2009-10
Tax Revenue				
<u>Direct Taxes</u>	38 %	36 %	37 %	
Income tax	544.5	520.4	633.0	21.6
Others	21.1	20.0	24.7	23.5
	565.6	540.4	657.7	21.7
<u>Indirect Taxes</u>	62 %	64 %	63 %	
Customs	162.2	164.9	180.8	9.6
Sales tax	499.4	540.3	674.9	24.9
Federal excise	152.8	134.4	153.6	14.4
Carbon Surcharge on POL/CNG	112.0	101.5	110.0	8.9
Others	1.5	1.5	1.7	13.3
	927.9	942.6	1,121.0	18.9
Total Tax Revenue:	1,493.5	1,483.0	1,778.7	19.9

Macro Economic Aspect of the Budget

Budget at a glance

(Rupees in Billions)

REVENUE	Budget Estimate 2009-10	Revised Estimate 2009-10	Budget Estimate 2010-11	% of Variation over 2009-10
Total Tax Revenue B/f:	1,493.5	1,483.0	1,778.7	19.9
Non Tax Revenue	513.7	568.9	632.3	11.1
	2,007.2	2,051.9	2,411.0	17.5
Less Provincial Share	655.2	655.2	1,033.6	57.8
	1,352.0	1,396.7	1,377.4	-1.4
Net Capital Receipts	190.5	260.3	325.4	25.0
External Receipts	510.4	578.0	386.6	-33.1
Self Financing of PSDP by Provinces	173.0	183.9	341.6	85.8
Change in Provincial cash balance	72.9	77.6	166.9	115.0
Privatisation Proceeds	19.3	-	-	-
Bank Borrowings	144.2	89.1	166.5	86.9
	2,462.3	2,585.6	2,764.4	6.9

Macro Economic Aspect of the Budget

Common Man's Perception of Economic Development



Macro Economic Aspect of the Budget

Common Man's Perception of Economic Development

- Food at affordable prices
- Health support on efficient basis
- Housing and shelter
- Access to utilities (water, power, gas, telephone) on consistent basis at affordable cost
- Education
 - Good quality at low costs
 - Aligned to required skills and vocational development demand
- Employment opportunities – Massive investment in human capital
- Freedom of access to information
- Value for contribution to federal, provincial and local revenue
- Potential for vertical migration in terms of quality of life and a mechanism to balance consumption and savings
- Good governance

Macro Economic Aspect of the Budget

Budget for a 'Common Man' - Key Drivers

Welfare of the people

Reduce unemployment
and create more jobs

Reduce inequity of distribution of
resources and income

Target reduction
of Poverty

Focus on Agriculture
value addition,
productivity and research

Rationalize subsidies

Direct cash
transfers

Induce growth of
manufacturing sector and
productivity improvement

Improve Tax GDP ratio

Micro-finance
reach

Skills Development
And Training

Enhance social sector allocations

Access to basic
needs

Provide quality health and other
services at affordable costs

Inflation target

Macro Economic Aspect of the Budget

Key objectives for the Budget 2009-10



Macro Economic Aspect of the Budget

Key objectives for the Budget 2010-11

Protect the economic recovery by reinforcing the fiscal austerity.

Check inflation and restrict borrowings from the State Bank.

Achieve a measure of self reliance through better domestic resource mobilization and to reduce reliance on borrowings.

Reform and enhance social protection regime by innovative schemes, better targeting of the subsidies for the needy and eliminating waste.

KEY OBJECTIVES

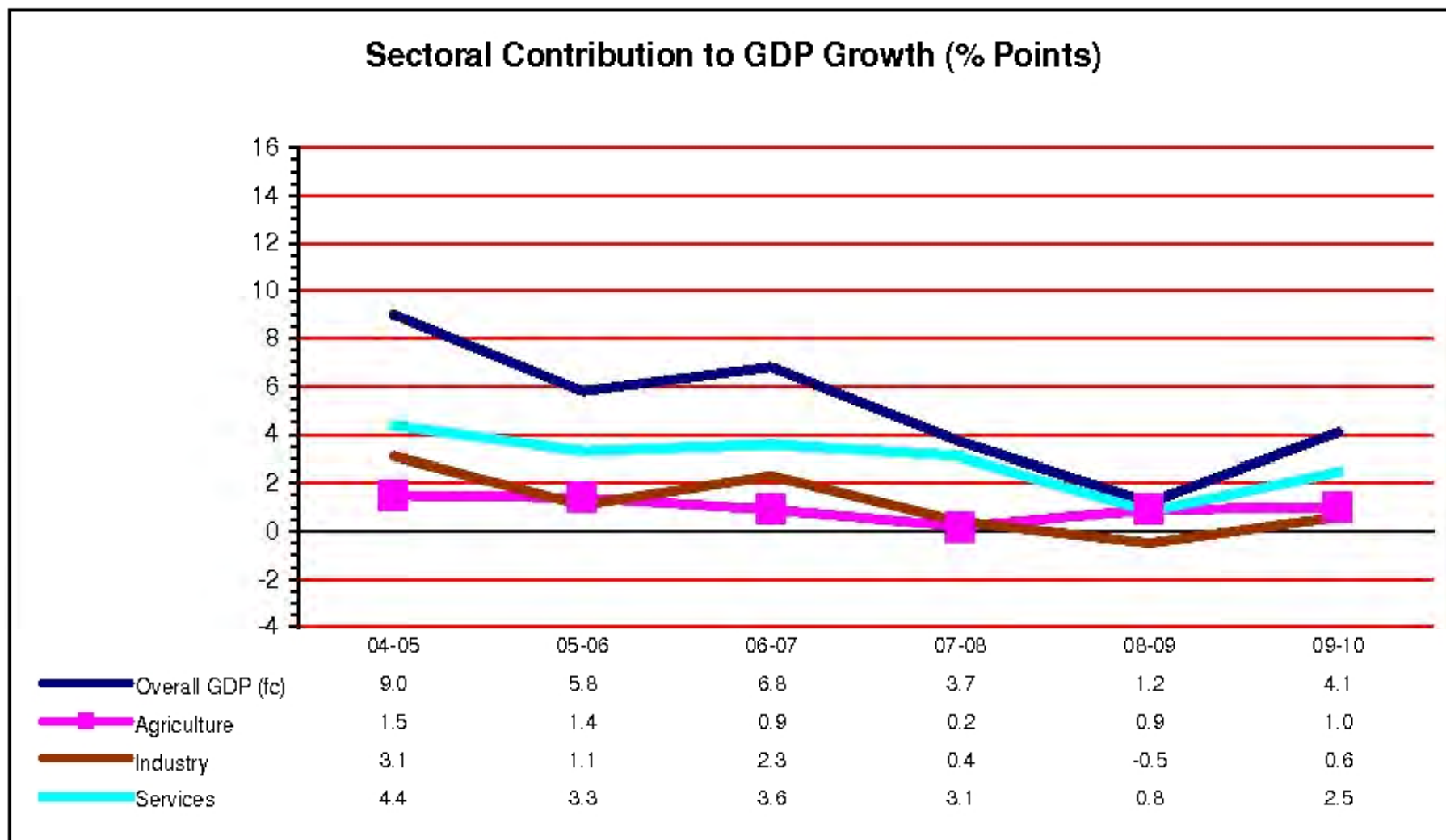
Reduce the burden of public sector enterprise.

Generate employment opportunities.

Make country fertile for investment by improving governance & markets and emphasizing on productivity & efficiency.

Macro Economic Aspect of the Budget

Economic Analysis



Macro Economic Aspect of the Budget

Economic Analysis

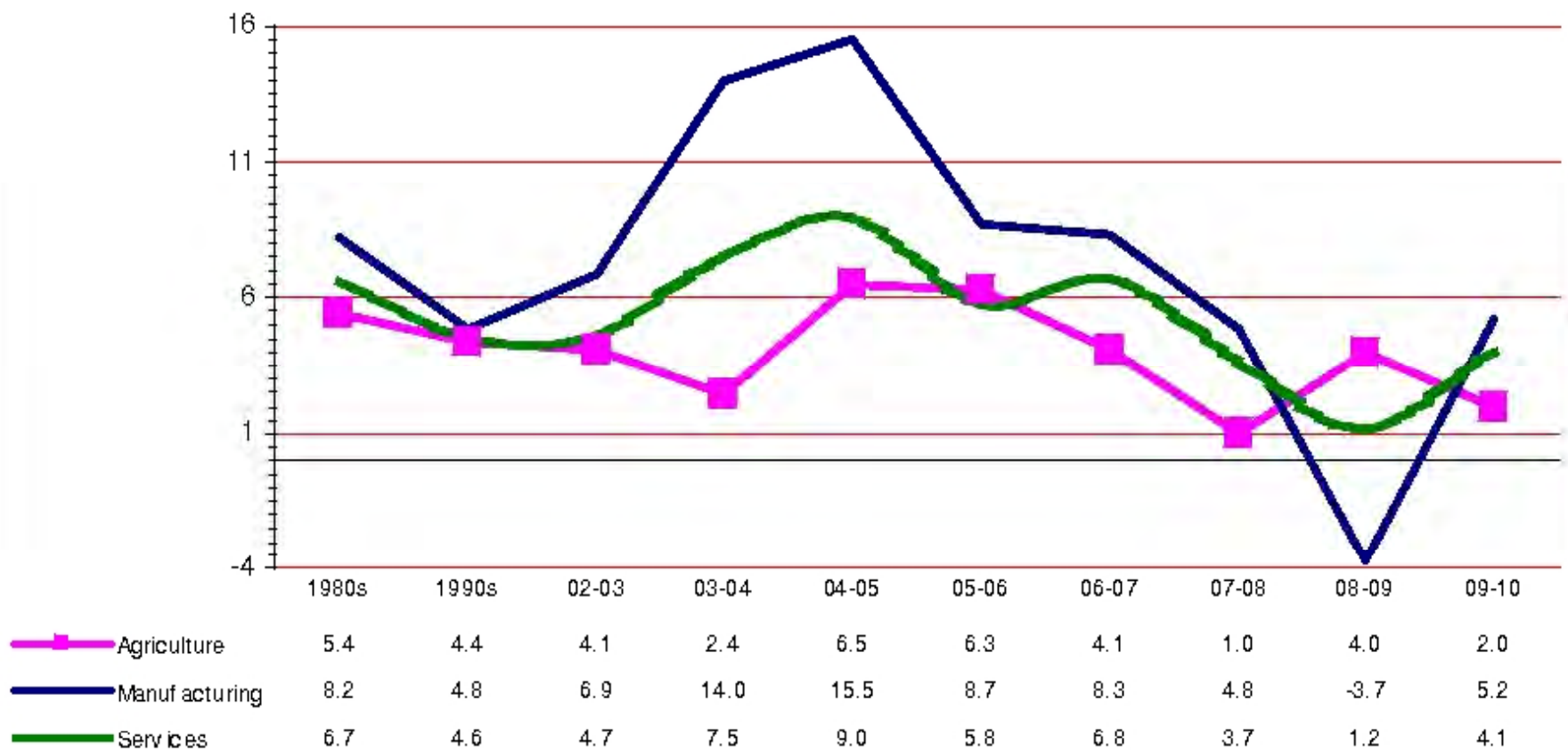
Sectoral Contributions to the GDP growth (% Points)

	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Overall GDP	9.0	5.8	6.8	3.7	1.2	4.1
Agriculture	1.5	1.4	0.9	0.2	0.9	1.0
Industry	3.1	1.1	2.3	0.4	-0.5	0.6
Services	4.4	3.3	3.6	3.1	0.8	2.5

Macro Economic Aspect of the Budget

Economic Analysis

Sectoral GDP Growth (% Points)



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Economic Analysis

Sectoral GDP growth (% Points)

	1980s	1990s	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
Agriculture	5.4	4.4	4.1	2.4	6.5	6.3	4.1	1.0	4.0	2.0
Manufacturing	8.2	4.8	6.9	14.0	15.5	8.7	8.3	4.8	3.7	5.2
Services	6.7	4.6	4.7	7.5	9.0	5.8	6.8	3.7	1.2	4.1

Macro Economic Aspect of the Budget

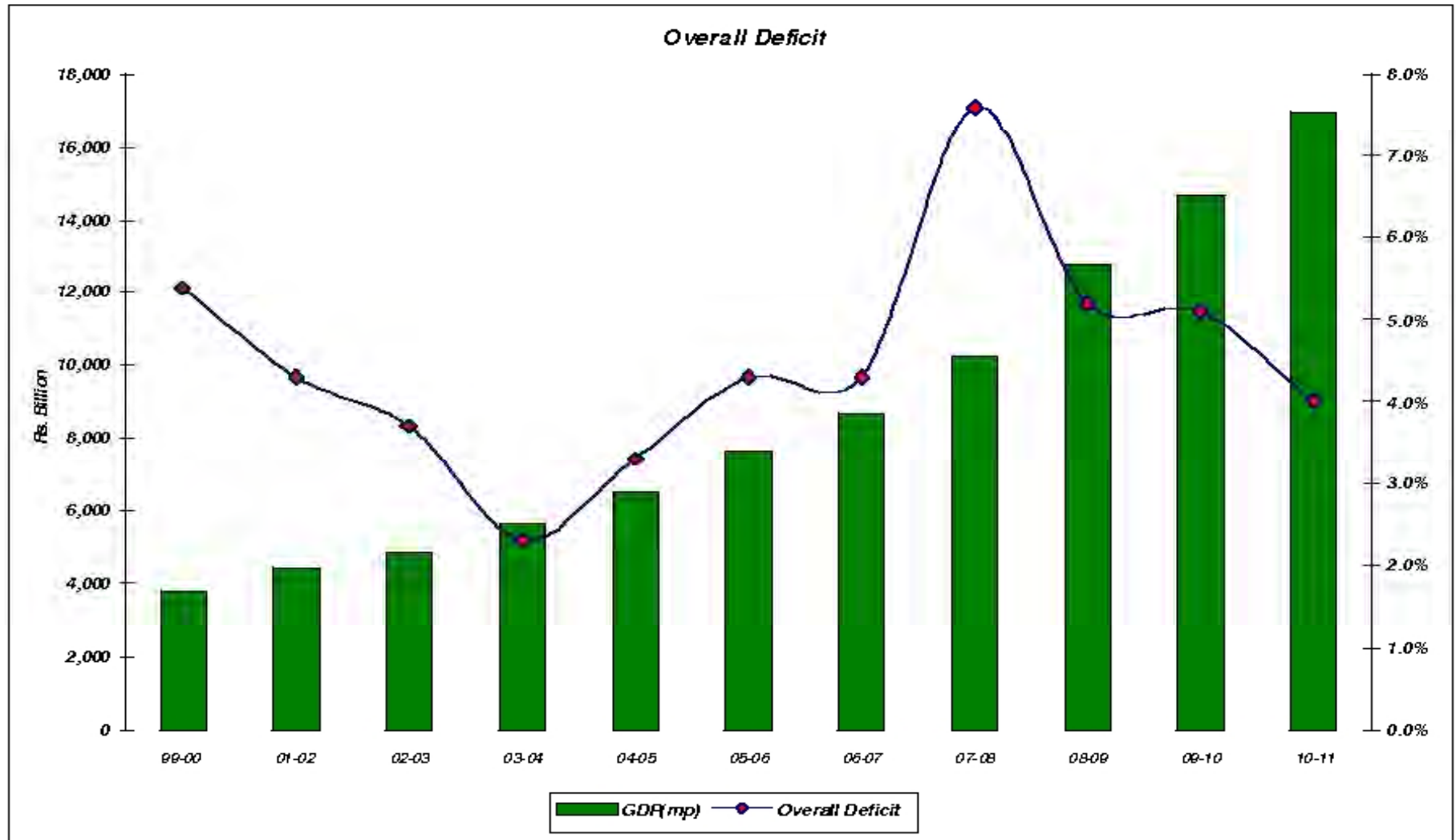
Economic Analysis

Trade Deficit / Current Account Deficit

	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10 (Jul- Mar)
Exports	9,140	10,889	12,396	14,401	16,388	17,119	20,207	18,918	14,218
Imports	9,434	11,333	13,604	18,753	24,647	26,614	35,027	31,410	22,242
Trade balance	-294	-444	-1,208	-4,352	-8,259	-9,495	-14,820	-12,492	-8,024
Services –net	-2,617	-2,128	-3,594	-5,841	-7,304	-7,968	-10,530	-7,922	-4,175
Private transfers	4,249	5,737	6,116	8,440	9,914	10,102	11,048	11,019	9,305
(Workers remittances)	2,389	4,237	3,871	4,168	4,600	5,494	6,451	7,811	6,551
Current Account	1,338	3,165	1,314	-1,753	-5,649	-7,361	-14,302	-9,395	-2,894

Macro Economic Aspect of the Budget

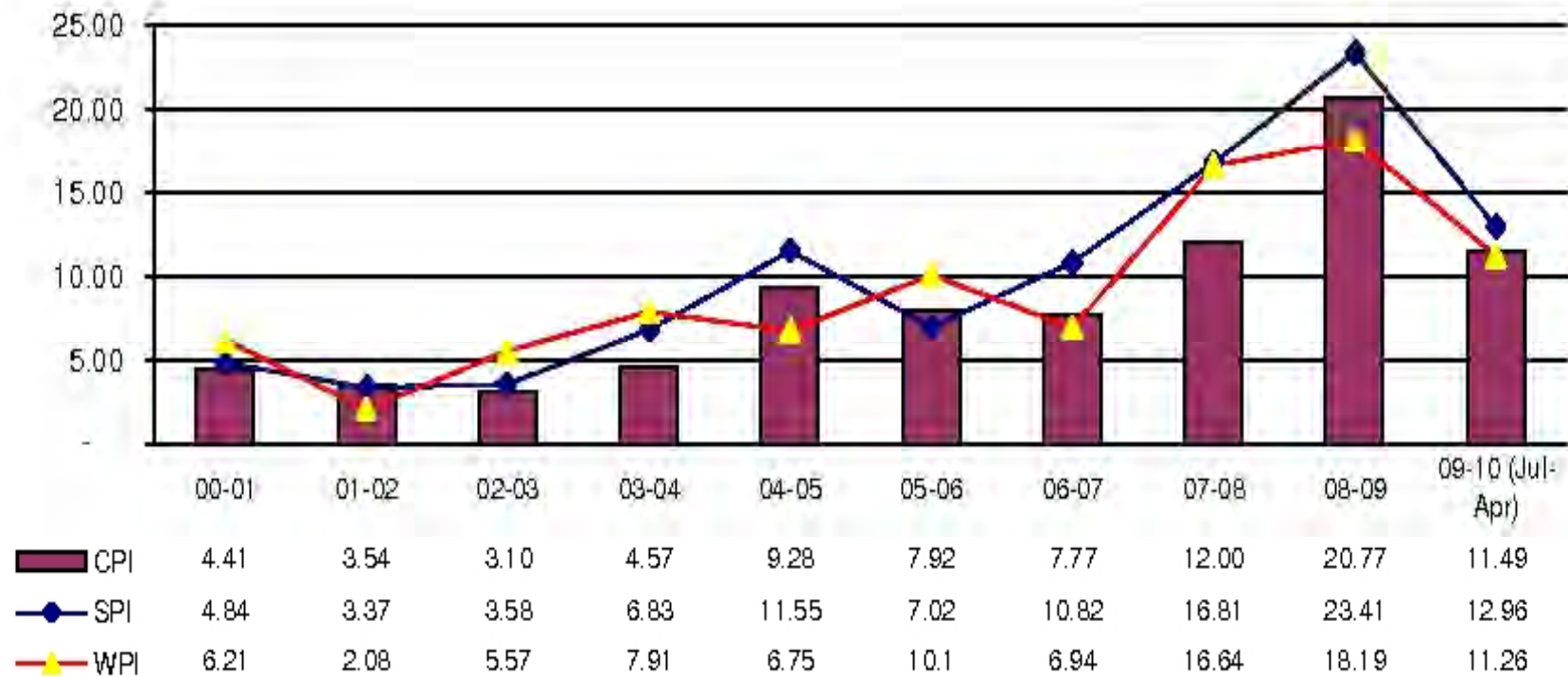
Economic Analysis



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Economic Analysis

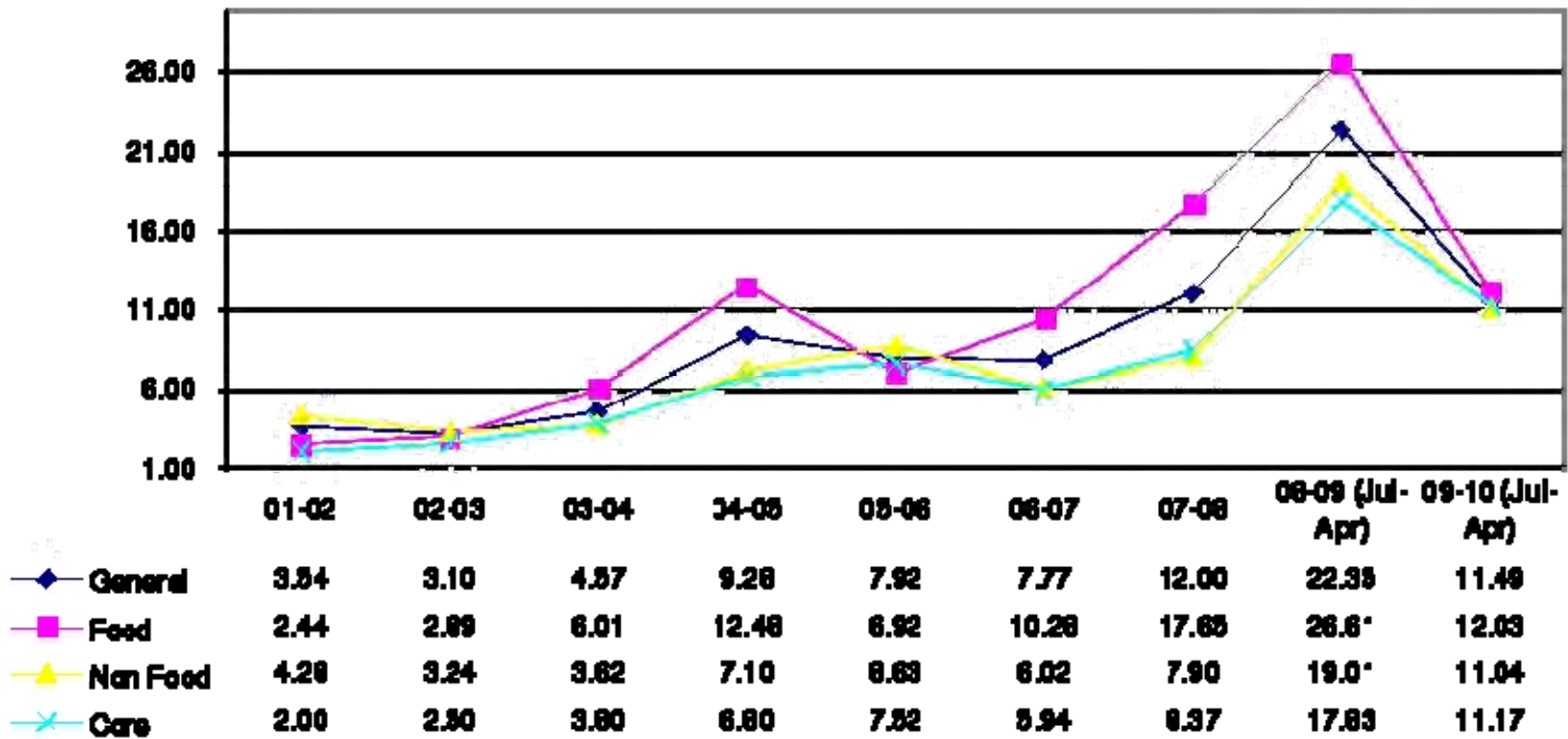
Inflation



Macro Economic Aspect of the Budget

Economic Analysis

Components of Inflation



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Economic Analysis

Inflation



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Economic Analysis

Average retail prices of essential items

	Kerosene (per ltr)	Gas (100 cf)	Petrol Super (per ltr)	Electricity charges (upto 50 units)	Tele local call charges (per call)	Wheat Flour (Avg Quality per Kg)	Basmati Rice (Broken per Kg)	Beef (Cow / Buffalo with bone per Kg)
2000-01	16.84	248.55	29.34	1.46	2.22	9.80	15.35	56.01
01-02	18.58	259.26	31.60	2.18	2.31	9.67	15.49	55.19
02-03	22.48	259.35	33.08	2.45	2.31	10.14	18.07	61.21
03-04	24.95	79.45*	33.69	2.54	2.31	11.71	19.04	75.45
04-05	29.11	84.6*	40.74	2.47	2.31	13.28	20.19	94.83
05-06	36.19	88.92*	55.12	2.14	2.31	13.06	20.16	106.84
06-07	39.09	99.79*	56.00	2.49	2.31	13.64	23.11	117.87
07-08	43.44	97.17*	57.83	2.76	2.31	18.07	37.77	123.30
08-09	66.79	96.91*	67.68	3.18	2.38	25.64	47.12	143.82
09-10 (Jul-Apr)	71.45	105.10*	66.49	3.58	2.42	29.05	43.75	170.93
% Inc 09-10	7.0	8.5	(1.8)	12.6	1.7	13.3	(7.2)	18.9

* The units were changed from 100 cm to 100 cf.

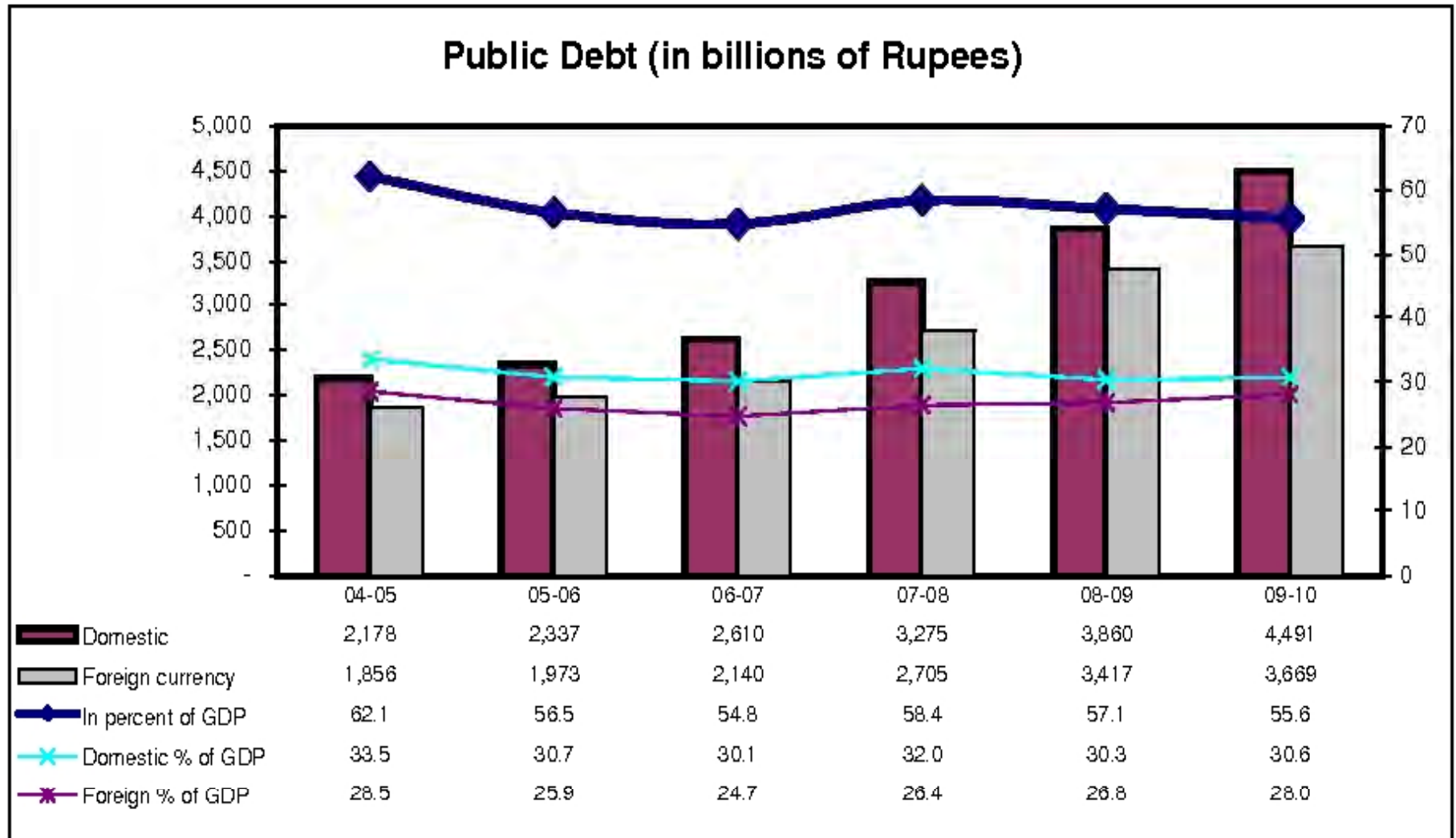
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Economic Analysis

	Chicken (Farm per Kg)	Mutton (Goat Avg Quality – per Kg)	Eggs (Hen Farm – per Dozen)	Sugar (open market - per Kg)	Milk (Fresh – per ltr)	Tea (in packet Super Qlty – per 250 gm)	Cooking oil (Dalda – per 2.5 ltr)
2000-01	50.65	109.38	26.35	27.11	18.23	53.73	155.64
01-02	52.04	111.53	28.57	22.87	17.92	57.00	170.97
02-03	54.01	124.95	30.69	20.77	18.35	61.50	199.68
03-04	57.50	154.31	30.03	19.01	19.21	64.68	203.98
04-05	66.43	185.19	37.45	23.45	21.28	61.99	204.99
05-06	66.08	202.10	35.07	31.16	23.90	62.62	204.41
06-07	74.16	224.07	38.31	31.85	26.72	68.39	224.48
07-08	83.39	236.49	49.45	27.92	30.45	68.28	316.32
08-09	103.12	262.03	58.80	38.72	36.62	97.94	371.38
09-10 (Jul-Apr)	126.22	307.19	67.19	56.25	41.70	118.87	356.43
% Inc 09-10	22.4	17.2	14.3	45.3	13.9	21.4	(4.0)

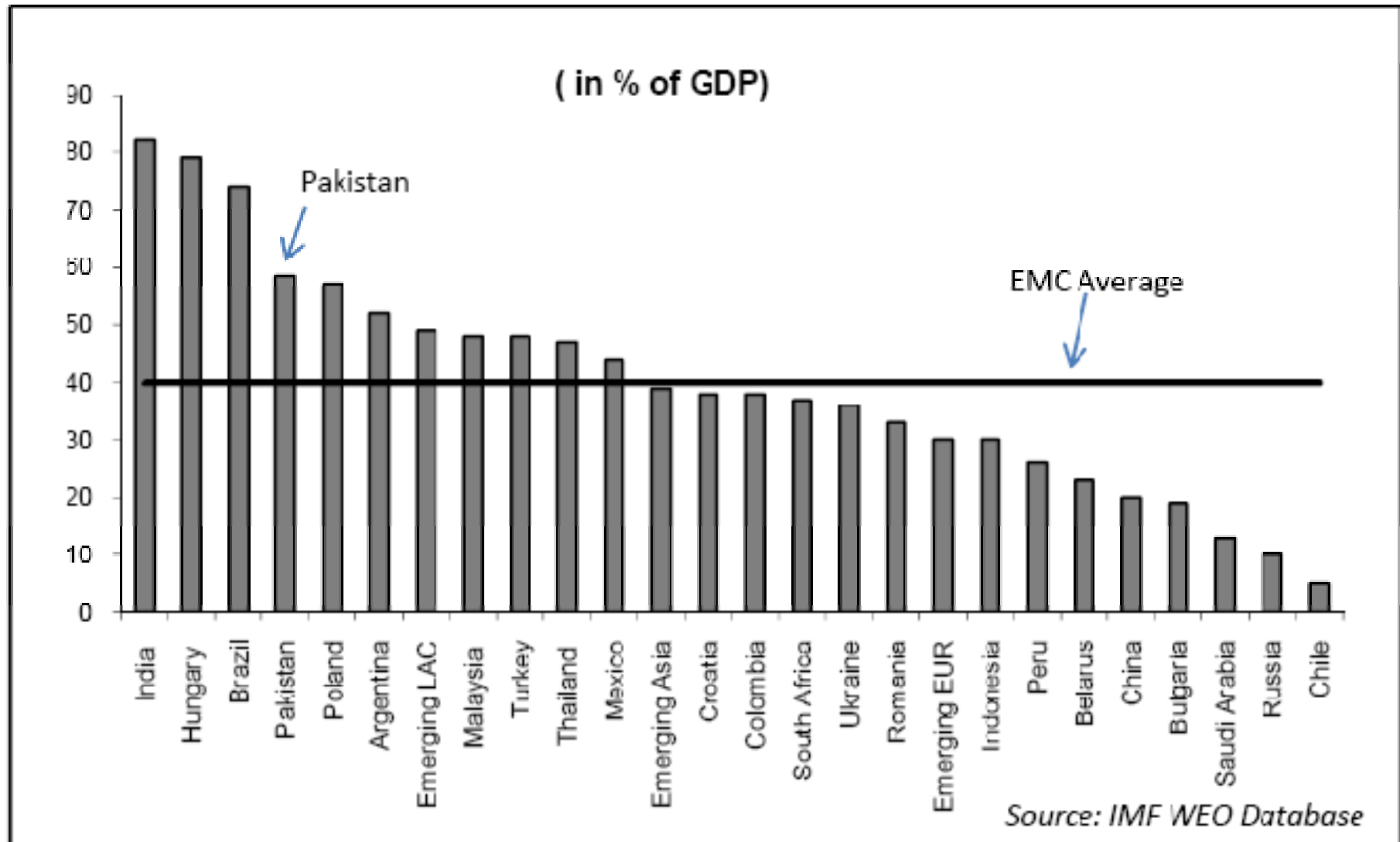
Macro Economic Aspect of the Budget

Economic Analysis



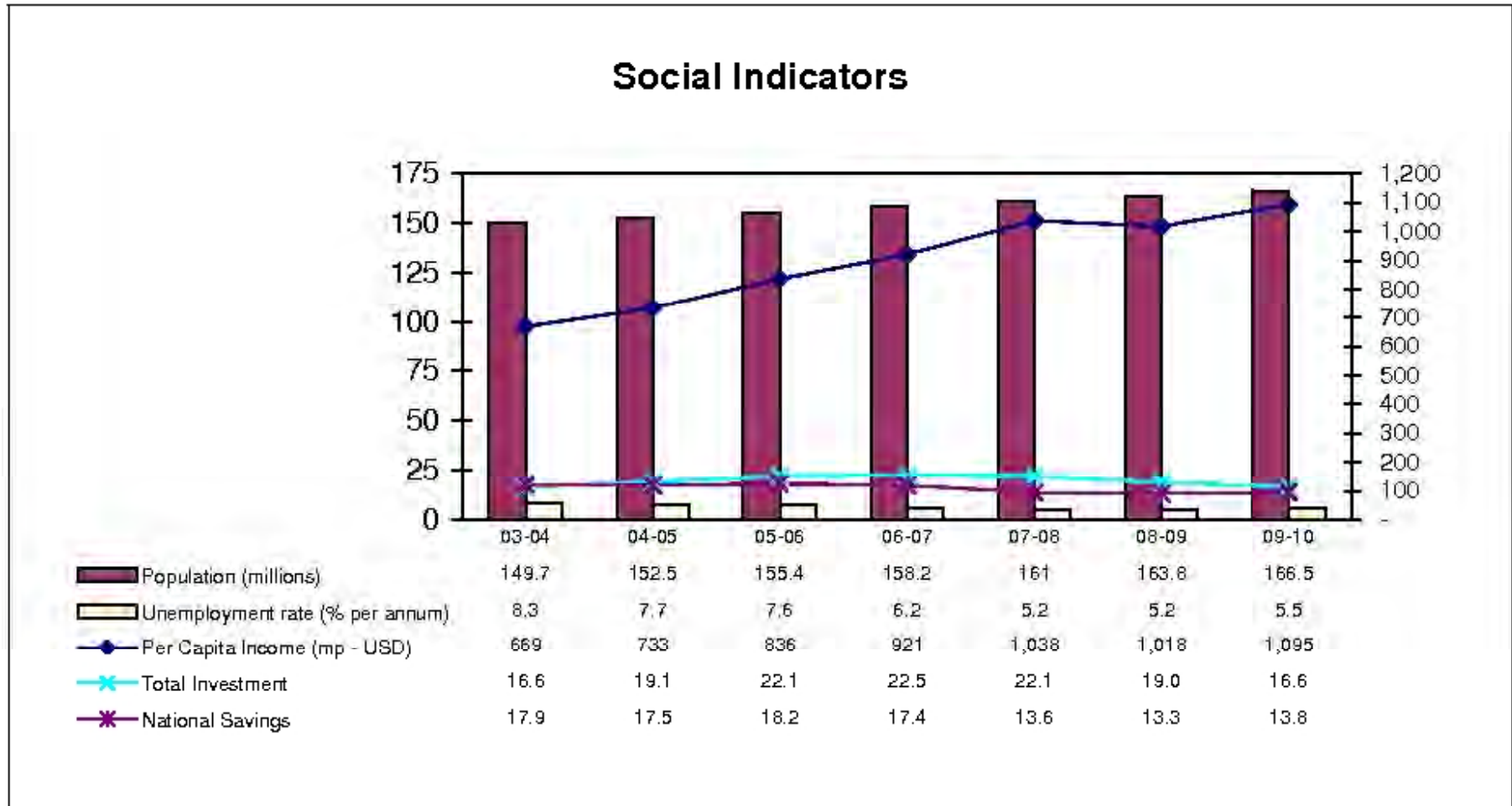
MACRO ECONOMIC ASPECT OF THE BUDGET

Emerging Market Countries: Gross Government Debt, 2010



Macro Economic Aspect of the Budget

Economic Analysis

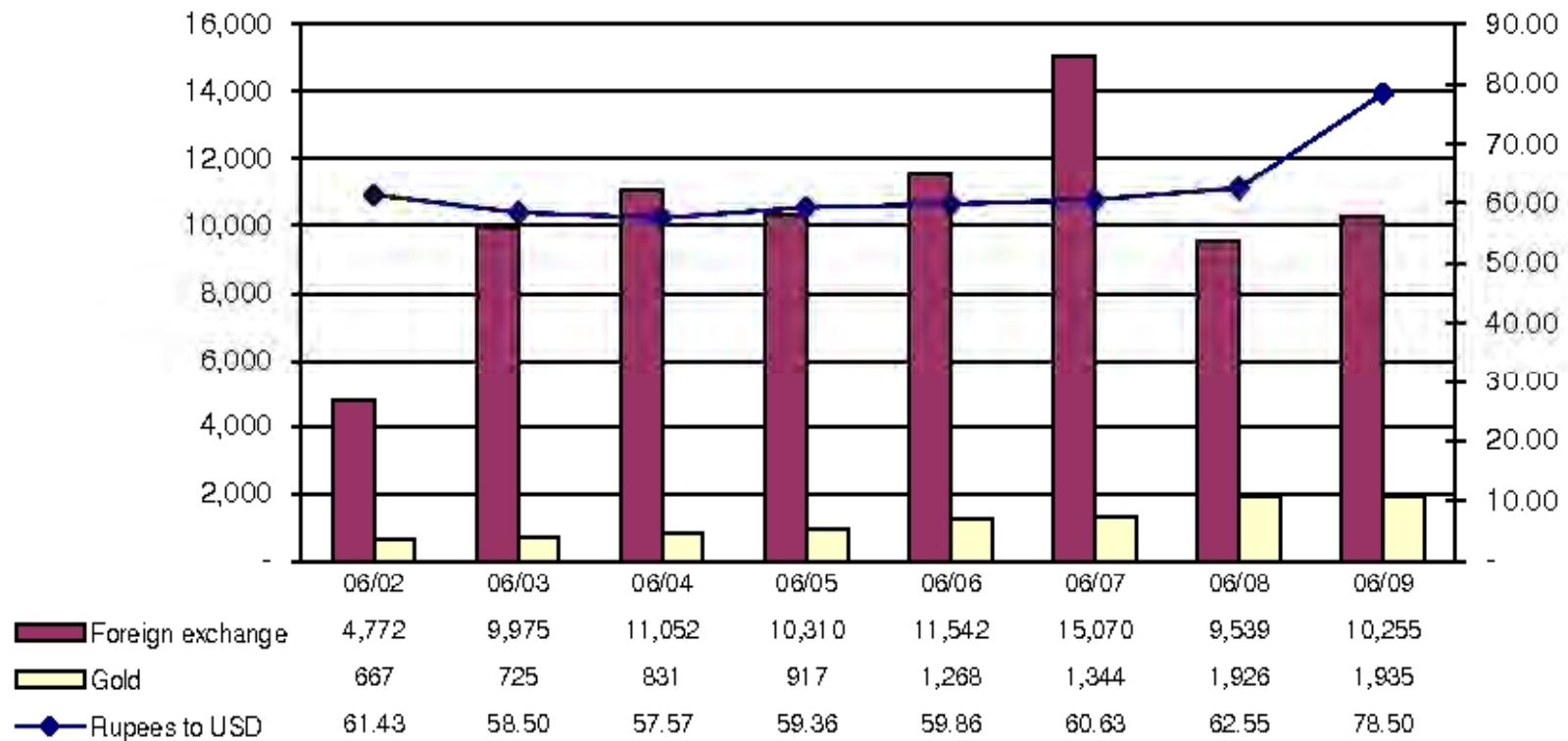


* Per capita income for 2009-10 is estimated at USD 1,051 based on revised population numbers released by Sub-Group II for the 10th Five Year Peoples Plan for 2010-15.

Macro Economic Aspect of the Budget

Economic Analysis

Exchange Reserves (in USD millions)



Total exchange reserves at end of April 2010 reached USD 15,100 million with Rupee – US Dollar parity reaching 84.40

Macro Economic Aspect of the Budget

Economic Analysis

Subsidies

(Rupees in Billions)

	Budget 2008-09	Revised Estimates 2008-09	Budget 2009-10
<u>Current</u>			
WAPDA	63	147	84
KESC	4	33	3
TCP (Wheat & Sugar)	30	30	17
USC	4	4	4
Oil Refineries / OMC / Others	15	11	11
Others	4	4	7
TOTAL SUBSIDIES:	120	229	126

MACRO ECONOMIC ASPECT OF THE BUDGET

BMI Ratings

BMI Ratings	Rank	Pakistan	Emerging Markets Average	Global Average	Regional Average
ST Political	16	41.3	63.4	66.3	70.2
LT Political	12	53.4	58.2	62.4	57.4
ST Economy	14	44.6	50.1	51.9	60.5
LT Economy	16	40.8	49.9	52.5	58.2
Business Environment	13	36.7	41.4	45.8	51.1
Business and Operational					
Risk ratings		36.7	41.4	45.8	51.1
Infrastructure		35.5	-	47.39	49.0
Institutions		32.9	-	47.46	47.56
Market Orientation		41.7	-	48.65	52.31
Investor Protection					
Investor Protection		46.5	-	36.8	43.0
Rule of Law		15.1	-	48.8	51.4
Contract Enforceability		35.7	-	49.9	50.0
Corruption		14.1	-	40.2	50.0
Trade Rating					
Protectionism		16.3	-	47.1	43.5
Bureaucracy		42.9	-	45.2	47.4

Source : Pakistan Business Forecast Report Business Monitor International

MACRO ECONOMIC ASPECT OF THE BUDGET

Key Macroeconomic Indicators – Rolling Targets (MTBF)

	Items	Estimates 2008-09	Provisional Estimates 2009-10	Budget Estimates 2010-11	Target for	
					2011-12	2012-13
1	Real GDP Growth (%)	1.2	4.1	4.5	5.0	5.5
2	Inflation (%)	21.0	12.0	9.5	8.0	7.0
(As percent of GDP)						
3	Total Revenue	14.5	14.7	15.2	15.5	15.9
	- Tax Revenue	9.5	10.5	10.9	11.7	12.3
	- FBR Revenue	-	9.4	9.8	10.5	11.1
4	Total Expenditure	19.9	20.0	19.2	19.2	19.1
	- Current Expenditure	16.0	15.9	14.8	14.0	13.1
	- Development Expenditure	3.9	4.1	4.4	5.2	6.0
5	Fiscal Deficit	-5.3	-5.3	-4.0	-3.7	-3.3
6	Revenue Deficit/ Surplus	-1.4	-1.2	0.4	1.5	2.8
7	Total Public Debt	57.1	54.8	51.5	48.9	46.3
8	GDP (mp) Rs. Billion	12,426	14,668	16,975	19,546	22,416

Macro Economic Aspect of the Budget

Economic Outlook

- ❖ Security woes to remain a GDP drag
- ❖ Consumption to be primary growth catalyst
- ❖ Growth limited by low investment spending
- ❖ Long-term potential exists but security must improve
- ❖ Fiscal overspend to continue
- ❖ Defence and debt servicing remain substantial burdens – 80 % of Revenue
- ❖ Revenue growth so far disappointing
- ❖ Persistent inflation reduces rate cut potential
- ❖ CPI to drift lower short-term cost push pressure to limit medium-term CPI downside
- ❖ PKR bounce to prove short lived
- ❖ Banking sector expansion on hold

Macro Economic Aspect of the Budget

Economic Outlook – Security concerns



MACRO ECONOMIC ASPECT OF THE BUDGET

Economic Outlook – Power crisis and Education



Macro Economic Aspect of the Budget

Economic Outlook

- ❖ Financial sector remains underdeveloped
- ❖ Economy is a hurdle to banking sector development
- ❖ Growth is mainly based on private consumption
- ❖ Demographics supportive – uncertain future
- ❖ BMI expects per capita income to grow from \$973 in 2008-09 to \$1,439 in ten years as against India's per capita income growth from \$1,119 in 2008-09 to \$3,830 in 10 years
- ❖ GDP targetted at 4.5 for 2010-11 whereas World Bank and Business Monitor International estimated it to be around 3 to 3.5 percent.
- ❖ Fiscal deficit to be reduced to 4 percent from 5.1 percent.
- ❖ Investment spending Public Sector Development Programme raised to 3.9 percent of GDP as against 3.5 percent.

Macro Economic Aspect of the Budget

Economic Outlook

❖ Unsustainable Debt

	2009-10		2008-09		2004-05	
	Rupees in Billions	% of GDP	Rupees in Billions	% of GDP	Rupees in Billions	% of GDP
Domestic	4,491	30.6	3,860	30.3	2,178	33.5
Foreign	3,669	28.0	3,417	26.8	1,856	28.5
Total Debt :	8,160	55.6	7,277	57.1	4,034	62.1

- ❖ Foreign Debt in US increased from \$ 42.2 to \$ 43.5 and in rupee terms net PKR 138.7 billion increased (148 - 9.3) due to exchange rate variation.
- ❖ Funding large deficits by new debits at higher interest rates.
- ❖ Severe Cash Crunch resulting in deficit financing to the tune of PKR 178 billion which resulted in increase in CPI inflation from March 2009 of 8.9 percent to 13.3 percent in March 2010.

Economic Outlook

- ❖ Power tariff hikes of 12 percent and GST increase would lead to higher inflation.
- ❖ Salary hike will also increase demand side inflation.
- ❖ Inflation estimate to reduce to 9.5 percent appear to be difficult to be achieved and independent estimates are around 12 percent for 2010 – 2011.
- ❖ Rationalization of power subsidy from PKR 180 billion to PKR 87.3 billion and only 0.2 percent of GDP allowed for power sector projects. However, the power crisis has cost 2.5 percent of GDP in 2009 -10. At peak times power short fall is 5000 MWs.
- ❖ Circular debt is around PKR 206 billion which may reduce due to reduction of subsidy but no long term plan is in place for its resolution.

MACRO ECONOMIC ASPECT OF THE BUDGET

Economic Outlook – Security concerns



Macro Economic Aspect of the Budget

Challenges

- **Marshal plan for improvement of Governance**
- **Sustainability of growth momentum**
- **Addressing structural problems in energy, agriculture and exports sector**
- **Job creation**
- **Poverty alleviation**
- **Improving social indicators and enhancement of efficiency of safety nets**
- **Strengthening of physical infrastructure**
- **Converting the demographic transitions into demographic dividend**
- **Leverage the current strategic role in achieving meaningful economic dividends**
- **Supply side improvement to match growing domestic demand**
- **Achieve political stability and institutional strengthening**
- **Harmonious relationship amongst Federation and its units**
- **Equitable distribution of resources between Federal, Provincial and Local governments**
- **Revenue generation by provinces**
- **Balanced approach of combination of Fiscal and Monetary Policy measures to combat inflation**
- **Containment of exposure to war on terror**

MACRO ECONOMIC ASPECT OF THE BUDGET

Economic Outlook – The Eternal begging bowl ?





THANK YOU !



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