

Starting from this week, this e-bulletin from IDSA will seek to focus on major developments in Pakistan on weekly basis and bring them to the notice of strategic analysts and policy makers in India.

EDITORIAL

The weekly bulletin highlights various aspects of Pakistan's budget which includes expenditure on major social sectors and spending on defence. The budget also reflects the state's inability to generate revenue due to the small tax network and its dependency on financing the budget from internal and external borrowing. According to reports, 'excluding liabilities', the volume of net public debt as on September 30, 2016 was Rs19.9 trillion, out of which domestic debt was Rs14.4 trillion and external debt stood at Rs5.5 trillion. This weekly bulletin also has interesting data on the presence of various banned sectarian and other terrorist groups in the social media.

An Analysis of Pakistan's Budget 2017-18

Compiled by Dr Zainab Akhtar

Pakistan Finance Minister revealed the Budget for the Fiscal year 2017-18. A careful study of this year's budget points to the fact that a major chunk of the money allocated for the Public Sector Development Programme (PSDP) would be invested in the road and energy projects that are linked to the larger regional connectivity initiative under the CPEC. Some experts in Pakistan have argued that the new budget is an 'extension of the China Pakistan Economic Corridor initiative' and an attempt by the Sharif government to complete the energy and road development projects before it goes to the elections scheduled in 2018.

An analyses of this year's budget reflects that the government has accorded highest priority to the transport and communication sector with an allocation of

Rs411bn, which includes Rs320bn that is earmarked separately for the highways. This is followed by the energy sector which has received second highest priority with an allocation of Rs 401bn.

China would provide a loan of Rs. 168.3 bn to Pakistan which is likely to be invested mostly in port city of Gwadar for developing an international airport and vocational training centre. Also, 55% of this loan is said to be used for the development of the planned orange line metro project in Lahore.

Some analysts in Pakistan argue that the budget does not take into account the actual population figure of Pakistan as it stands today since the last official census was conducted in 1998. They further point out that the 2017-18 budget is based on "market-driven economic model" and it lacks "redistributive fiscal policies" and therefore it is bound to widen the rich-poor divide in Pakistan. The economic scene also does not depict a brighter prospect. The latest Economic Survey 2016-17 shows that "the current account deficit is rising at a rapid pace. In the first 10 months of the fiscal year, the deficit has risen to \$7.2bn, more than triple the figure for the same period last year".

Economic Survey of Pakistan, 2016-17, paints a mixed picture. Pakistan has missed most of the economic targets that were set in the last year's budget. According to the survey what continues to drain and bleed Pakistan financially is its war against terrorism. The Economic Survey notes that "the country had to spend \$123.13 billion, equivalent to Rs 10.373 trillion, in direct and indirect cost due to incidents of terrorism in last 16 years". Mohammad Ziauddin in Daily Times dated 26 May 2017, while summing up the loopholes in

the budget argued that the country's balance sheets is at best fictional and therefore, they naturally adds to the national woes.

The budget also makes provision for numerous subsidies and special packages that constituted 5.2 per cent of the total budget. Both the agricultural and export sectors remain heavily reliant on subsidies. The budget offered Pakistan's farmers Rs1,001 billion (\$6.8 billion) in loans, as well as fuel and electricity subsidies. There is a conspicuous absence of any pro-poor measures in this year's budget. The education budget was set at \$887 million and health sector was allocated \$126 million. The agriculture sector grew at 3.5% while the service sector saw a growth at 6% in the last financial year. The debt servicing was a whopping Rs1520 billion which constitute 29.5 per cent of the budget. 19.2 per cent of the budget is devoted to defence. Pakistan's budget also gave every soldier a 10 percent salary hike and 'Zarb-i-Azb allowance' for fighting terror. The defence budget was set at Rs 920-2 billion (\$9 billion) compared to Rs 841 bn (\$8.4 billion) last year. The operating expenses for the armed forces have been allocated Rs 225.5bn, while almost Rs 322bn will be spent on salaries and remuneration. The armed forces will get Rs244bn for 'physical assets' and Rs128.35bn for 'civil works'. Pakistan Army would see its spending increased by 9.8pc, whereas Pakistan Air Force would spend 8.3pc more and Pakistan Navy 8.9pc more. Interestingly nearly one fourth of the revenue for financing the budget comes from borrowing. Structural reforms that can contribute to making the economy more efficient is a major problem in Pakistan.

Despite of the rosy picture painted by the Finance Minister Ishaq Dar, experts in Pakistan overtly argue that the present budget is padded with populist measures designed for the upcoming elections and is of little value to the Pakistan's economy in the medium to long term. A report in *Daily Times* dated 07 June underlines that Government has not been able to meet its revenue targets which fell short by 6.39%. However shortfall in tax and non-tax collection would mean more domestic and foreign borrowings to bridge the budget deficit.

Earlier the government had estimated to generate Rs50 billion from the privatization proceedings and auction of telecom licenses during Fiscal year 2017 but failed to do so.. Also, the government has budgeted Rs75 billion

for the current financial year which it wants to raise through auction of telecom spectrum. However, reports adds that the auction advisory committee has projected the auction of the remaining 4G with a base of around \$300 million thus stretching the budget deficit further.

The latest economic survey suggests that real GDP growth was above four percent in 2013-14 and has smoothly increased during the last four years to reach 5.28 percent in 2016-17, which it says is the highest in 10 years (with a growth rate of 5.28 percent as compared to the expected 5.7 percent).

Source: Dawn, Daily Times, Express Tribune, The News and other media sources

Dr Zainab Akhtar is a Researcher at the IDSA's South Asia Centre and a member of Pakistan project.

THE WEEK AT A GLANCE

ECONOMY

Budget

Chinese footprint on the Pakistani budget

The Nawaz Sharif government's this year's budget is more or less an extension of the China-Pakistan Economic Corridor initiative. It is an effort by the government to complete the energy and road development projects before going into the 2018 elections. The highest priority has been given to the transport and communication sector with an allocation of Rs411bn, including Rs320bn for highways. The energy sector has been assigned the next priority with an allocation of Rs401bn, including an investment of Rs317bn to be undertaken by Wapda/Pepco/NTDC. Beijing will provide loans of Rs168.3bn, including Rs1.3bn as grants for the international airport and a vocational training centre in the port city of Gwadar, to Islamabad next year. Over 55pc of the Chinese loan, or Rs93.4bn, is meant for the controversial orange line metro train project in Lahore.

<https://www.dawn.com/news/1336106/chinese-footprint-on-the-pakistani-budget>

Rs 1.97 trillion tax-free Punjab budget unveiled

Finance Minister of Punjab Dr Ayesha Ghaus Pasha presented Rs 1.97 trillion tax-free annual budget for the fiscal year 2017-18. Rs 635 billion was set aside for the development projects in the province. The development budget is 15% higher than the last year's budget. The finance minister announced a 10% increase in salaries of public servants as well as pensions of the retired employees, with a minimum wage fixed at Rs 15,000 per month. The government has earmarked an amount of Rs 111 billion for health sector, an increase of 58.4% compared to last year's budget. An amount of Rs 20.4126 billion has been allocated for providing free medicines. A sum of Rs 7.567 billion has been allocated for the industries in the proposed budget. Technical Education & Vocational Training Authority (TEVTA) will receive about Rs 5.054 billion as grant-in-aid. An amount of Rs 179.354 million has been reserved for the Inspectorate of Mines, whereas the Punjab Small Industries Corporation will get Rs 1.420 billion as grant-in-aid. The minister announced that GST (general sales tax) on construction services would be reduced from 16% to 5% while new construction firms would be exempted from registration fee to encourage investment in the province.

<http://dailytimes.com.pk/pakistan/03-Jun-17/rs-197-trillion-tax-free-punjab-budget-unveiled>

POLITICS

Banned outfits in Pakistan operate openly on Facebook

An investigation carried out by *Dawn* across the month of April 2017 has revealed that 41 of Pakistan's 64 banned outfits are present on Facebook in the form of hundreds of pages including groups and individual user profiles. Their network, both interconnected and public, is a mix of Sunni and Shia sectarian or terror outfits, global terror organisations operating in Pakistan, and separatists in Balochistan and Sindh. *The biggest outfits on the social network, in order of size, are Ahle Sunnat Wal Jamaat (ASWJ) with 200 pages and groups, Jeay Sindh Muttahida*

Mahaz (JSMM) with 160, Sipah-i-Sahaba (SSP) with 148, Balochistan Students Organisation Azad (BSO-A) with 54 and Sipah-e-Muhammad with 45. In general, the Facebook updates are in Urdu or Roman Urdu rather than English, suggesting the content is primarily for local consumption. A very small number are in Sindhi or Balochi, also indicating a niche target audience. A majority of the groups and users appeared to be based in larger urban centers such as Karachi, Lahore, Peshawar and Quetta. Outfits with most Facebook pages are ASWJ 31%, BSO-A 22%, SMP 8%, Tehreek-e-Islami 4%, JeM 4%, SSP 4%, Others 27%. The largest pages are those of ASWJ, Hizbut Tahrir Pakistan and BSO-A (between 15,000 to 20,000 users). Outfits with most Facebook groups Jeay Sindh Muttahida Mahaz (JSMM) 28%, SSP 26%, ASWJ 25%, Others 21%. The largest groups are ASWJ, BSO-A and Peoples' Aman Committee (between 2,500 to 7,000 members).

<https://www.dawn.com/news/1335561/banned-outfits-in-pakistan-operate-openly-on-facebook>

Balochistan wants China to include mining industry in OBOR initiative

Resource-rich Balochistan wants Chinese companies to kick-start a boom in its mining industry by including the sector into Beijing's One Belt, One Road (OBOR) initiative, said a senior provincial mining official. Beijing has pledged \$57 billion for the China-Pakistan Economic Corridor (CPEC), a flagship OBOR project that first focused on Chinese firms building roads and power stations but is now expanding to include setting up industries. Mineral extraction is a deeply contentious issue in Balochistan, where many indigenous people are angry that the province remains Pakistan's poorest despite its vast mineral wealth. It has a significant natural gas industry but large-scale mining has failed to take off. Foreign firms have been put off by security fears and a high-profile litigation case with Canada's Barrick Gold and Chile's Antofagasta over Reko Diq, one of the world's biggest undeveloped gold and copper mines, in the province.

<https://tribune.com.pk/story/1425736/mineral-rich-balochistan-open-china-silk-road-firms/>