

How I Met My Budget

Every morning I wake up, go for a walk and on my way back pick up a newspaper from my local stand. As soon as I open the newspaper I am bombarded with a wide array of economic jargon. Analysts tell me that Pakistan's budget deficit is ballooning, tax revenues are missing estimates, expenditures are over-blown, subsidies have exceeded budgetary allocation, government borrowing has reached unprecedented levels and debt payments are unsustainable. When I share some of the highlights of the daily with the stall owner he replies nonchalantly by saying "***Pata nahi sahib kya matlab hai iss ka***" (I don't understand what this means). It's an unfortunate fact that a majority of our population doesn't understand these problems. If they don't understand the problem than surely they can't figure out the solution. These are the very people who hold the key to change but are sadly lost in translation.

Little effort has been made to explain our economic situation in a more easy-to-understand language. This article is an attempt in this direction. The article will compare the government's budget with that of a typical Pakistani family. For simplicity we take Pakistan's budget figures which are in trillions and convert them to thousands. The figures are in the same ratio as they are in our annual federal budget.

Aslam's Family Budget	
Annual Family Income	100,000
Annual Family expenditure (spending)	137,000
New Annual Loan	37,000
Total Loan Outstanding	580,000

The budget will be explained through the story of a typical Pakistani named Aslam who owns a grocery shop at your local market. His dependents include a wife and three kids and he lives in a small house in a close-by colony. Aslam's annual income is 1 lakh (government tax revenue) while his annual family spending is 1 lakh 37 thousand rupees (government expenditures). This means that he spends Rs. 37,000 more than what he earns. To spend more than what he earns he has to take a loan or use a credit card to make up for the gap of Rs. 37,000 (new debt added by government in a year). This is not the first time he has taken a loan; in-fact he has been over-spending for a few years and owes to his lenders a whopping RS 580,000 (loan that government already owes to lenders – outstanding debt).

The problem with the Aslam's budget is evident - he *borrow*s money to meet his needs. Taking a loan would be justifiable if a large portion of the loan of RS 37,000 was invested in his shop i.e. expand his shop or add new in-demand items to enhance his revenue. Aslam, however, borrows money to buy expensive clothes, shoes and jewelry; most importantly Aslam borrows money to pay interest on these very borrowings. The Pakistani government faces a similar problem; it spends its borrowed money on unproductive activities like subsidies, defense and interest payments.



Surprisingly, Aslam spends only Rs.2,049 on the education of his three children. It would be wise for him to cut expenses on extravagances like clothing, jewelry etc. and instead spend money on his college going children. In the long run the children will be able to better contribute towards the family revenue if they are educated rather than by working in a mechanic shop or standing on a shop counter. That's what Pakistan must do – invest in its children so that they and our country can have a brighter future.

Aslam also shows unwarranted benevolence towards his part-time employed brother by giving him up-to RS. 9000 annually (subsidies to Power sector, PIA, Railway and Pakistan Steel Mill). The brother can easily find a full-time job but Aslam's continuous financial help has made him lazy and unwilling to find a full-time job. It beggars belief that Aslam decides to *give-away* money when he himself is living-off debt.

The most substantial figure in the table above is the amount of loan Aslam has accumulated over the years. To satisfy his extravagant spending needs he has borrowed a whopping Rs. 563,000 from his Uncle (State Bank of Pakistan) Akbar at a high interest rate. What's worrying is the fact that the uncle has continued to lend money despite knowing that most of it is spent of unproductive activities.

Uncle Akbar has come to a point where he wants to tell Aslam to borrow less from him. But since Aslam is his beloved relative, Uncle Akbar directs his son Naveed (Banks) to lend money to Aslam. Naveed is an intelligent person and lends to Aslam at a slightly higher cost/interest than his father does, making money for himself in the process. Since Aslam needs that money to fuel his spending habits he borrows that money at the higher cost. This is exactly what the SBP is doing by giving money to the Banks (OMO injections) who in-turn pass this on to the government at a higher rate.

Aslam has also borrowed Rs.17, 000 out of Rs.580,000 from his friend Jamil (IMF). The thing with Jamil is that he gives a loan to Aslam at a cheaper rate than his Uncle Akbar but in return asks Aslam to mend his ways rather than waste it on his lazy brother (power sector, PIA, railway, PSM) or other non-essential items. Aslam doesn't like Jamil's poking into his life (deep down he obviously knows that Jamil is giving the right advice).

Lastly but most importantly Aslam pays Rs. 40,000 as interest on his total accumulated loan (RS. 580,000). Remember that he earns only Rs. 100,000 a year! What's worse is that next year his loan would have increased from Rs. 580,000 to Rs. 617,000 because he borrowed Rs. 37,000 this year. And because the total loan would have increased, his net interest payments would have also increased. There would come a time when Aslam would be borrowing money from his creditors only to pay back the interest (debt trap); every year this amount will increase to a point when he would be spending everything he has to pay interest on his debt. That would be the day he would file for bankruptcy (Government going bankruptcy). Unfortunately, Pakistan is heading towards this very debt trap.

To make matters worse, Aslam's annual borrowing of Rs. 37,000 is in the form of short term debt. This means Aslam has to pay back the interest and the principal amount within the year. It is better for Aslam to borrow long term (2, 5, 10 year) because that way he can delay the principal re-payment. The only cost of taking a long term loan is that he would have to pay a slightly higher interest rate on it. This is obviously a lot less stressful than having to pay the loan interest and principal within a year.



As for the solutions, Aslam obviously needs to increase his annual family income. For starters, he can tell his 25 year old son to find a job and start contributing to his annual family income. This means that the Pakistani government has to increase its tax base. Specifically, it's time for the rich citizens, politicians and the agriculture sector to start coughing up some much needed tax money. Another step he should take is stop paying Rs, 9,000 to his lazy and part-time employed brother. Aslam should borrow money long-term and it should be invested in his shop (government spending on infrastructure and creating useful resources) or on his children's education. Importantly, he needs to stop fighting with his neighbors and save the Rs. 23,500 he spends on defense. There are a number of other remedies as well but those listed here would be a good start.

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