

Adverse effects of flood in pakistan



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Executive Summary:

The Flood of 2010 which affected around 20 million people in Pakistan directly and left them homeless have been the worst flood that Pakistan and the world has ever seen.

The research was conducted on the subject of “ adverse effects of flood in Pakistan” and how it has affected our agriculture, banks, economy, imports and exports. The research was basically exploratory in nature in which we gathered articles from various institutions, organizations and newspapers. There is so much material available on the topic that it became a challenge for us to remain specific and to the point. One more problem was that due to many sources there were a clash in the facts & figures so we have taken out the reliable resources in order to make it less confusing.

The research concluded that the flood has caused unprecedented devastation to Pakistan’s economy, agriculture, infrastructure, imports/exports and above all, to human lives and dignity. Not only 20 million have to be given food and shelter but for the long term the government and the people have to create jobs so that they can stand on their own feet again.

Introduction

Natural Disaster is the effect of natural hazards which includes flood, tornado, volcano eruption, earthquake or landslide that affects the environment, leads to financial, environmental and/or human losses. It is terrible event that is not caused by human activity and results in deaths, injuries or damage to property. The resulting loss depends on the capacity of

the population to support or resist the disaster, and their resilience. This perceptive is concentrated in the formulation: disasters occur when hazards meet vulnerability . A natural hazard will hence never result in a natural disaster in areas without vulnerability, e. g. strong earthquakes in uninhabited areas. The term natural has therefore been disputed because the events simply are not hazards or disasters without human involvement. Natural disasters which occur due to the change of plate tectonics are earthquakes, volcanoes, geyser eruptions and tsunamis. These different types of natural disasters have taken away millions of lives and have caused trillions of dollars in terms of financial losses.

The recent flood in Pakistan was one of the worst natural disasters in Pakistan's history and in world's history. It was one of the biggest disasters that the world have ever experienced not in terms of death but in terms of people affected, area affected and in terms of financial losses that occurred. Almost one- eighth of the population was directly affected by flood. The floods that recently caused great damage to Pakistan had more impact than the combine impact of tsunami in 2004, Haiti earthquake in 2010 and Earthquake of 2005 that affected northern areas of Pakistan. The affected people in these combine three disasters were around 11 million people but in the recent flood affected around 20 million people across Pakistan.

Pakistan has experienced floods and the details of those floods are provided below:

Flood in September 1992 affected 12 million people

Flood in August 1992 affected 6 million people

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Flood in August 1976 affected 5 million people

Flood in July 1978 affected 2.2 million people

Flood in July 1995 affected 1.2 million people

The Flood of 2010 which affected around 20 million people in Pakistan directly and left them homeless have been the worst flood that Pakistan and the world have ever seen. Only eight million out of 20 million people were affected in the province of Punjab. It has caused billions of dollars losses to Pakistan's economy, agriculture, imports etc. According to World Bank and Asian Development Bank the economic impact of recent flood is estimated as much as 43 billion dollars.

Topic:

Adverse effects of floods in Pakistan.

MAP:

This map is highlighting the flood affected areas from severe (red) to moderate (orange).

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Purpose Statement:

To determine the adverse effects of recent floods in Pakistan.

Research Questions:

How the recent has floods affected Pakistan?

Sub-Research Question:

How has the floods affected our agriculture?

How has the floods affected the banks?

How has the floods affected our economy?

How has the floods affected our Imports and Exports?

Hypothesis:

The recent floods have an adverse affect on our economy.

LITERATURE REVIEW**Effect on Agriculture**

Agriculture sector have been the backbone of the Pakistan's economy and Pakistan is known as agriculture based country. According to the facts provide by the Food and Agriculture Organization (FAO), Agriculture is one of the main sector of Pakistan's economy employing more than 42% of the labor force and accounts to 23% of the GDP (Gross Domestic Product). The recent floods did not only led to human loss but had a large impact on the agriculture sector directly. It destroyed many crops and over an estimated area of 1. 38 million acres were affected due to recent flood of 2010.

Pakistan's major crops are cotton, wheat and rice. Wheat is one of the Important produce of Pakistan has been severely damaged in the flood.

According to the data provided by Ministry of Food, Agriculture and Livestock shows and we quote:

Punjab: 44, 896 tonnes

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Khyber Pukhtunkhwa: 80, 823 tonnes

Sindh: 5, 41, 696 tonnes

Balochistan: 321, 651 tonnes

The above facts stated by the Ministry of Food, Agriculture and Livestock shows that total of 0. 6 million tones of wheat has been damaged throughout the county and major places that were affected were parts of Sindh and Balochistan but the government is taking out positives from these flood that is they think that these flood would lead to more fertile land and that would lead to bumper crop in coming year in the flood- affected regions.

According to analysis done by Dr. Abdul Rashid, Member Monitoring and Evaluation, Punjab Agriculture Board, he told Dawn. com and we quote “ This fertile layer will result in good yields in the coming years.”

According to former Federal Minister for Food Agriculture and Livestock Khair Muhammad Junejo, he said and we quote “ Flood overall effect for land will be beneficial.”

Dr Abdul Rashid further said and we quote “ The floods will recharge the water in the soil and underground water resources will increase.”

According to another expert Dr Shamsuddin Tunjo, professor at the faculty of Crop Production at the Sindh Agriculture University, Tandojam is of the opinion and we quote: “ Plain lands may benefit in the terms of fertility... the floods erode away rich layers of soil and if water stands for a long time in the land, the next season’s crop may not be grown.”

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This picture surely tells us what has happened to our agriculture land.

According to the Facts Stated by Food and Agriculture Organization (FAO) which works under the United Nation Organization:

It is almost impossible to measure the gravity of losses to the agriculture sector as they are huge and further unfolding.

Almost 80% people in the flood affected areas rely on agriculture for their livelihood and they see it as their main source of income

One of the toughest task that the farmers will have to face is to recover their land in time when the new season begins in September/ October.

Overall throughout the country millions of people have lost their entire means to sustain themselves in the immediate and longer term, all this is due to the destruction/ damage of standing crops and means of agriculture production.

According to FAO although they have completed in half of all flood affected districts shows that 1. 3 million hectares of standing crops have been damaged.

According to their statistics 0. 5-0. 6 million tones of wheat stock have been affected.

According to their Livestock Department recent flood caused death of 1. 2 large and small animals, and 6 million poultry.

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With the assessment still taking place, the losses are going to affect millions directly and indirectly and will have the direct impact on the country's GDP as these crops would have to be imported to meet the country's demand for wheat and rice.

Response to needs in the agriculture sector cannot be ignored nor delayed.

According to their estimates standing crops on over 10, 000 hectares have been washed away and nearly 8000 livestock have been destroyed in Khyber Pukhtunkhwa province alone.

The worst affected districts are Swat, Nowshera, Charsadda, Shangla and Kohistan. Nowshera and Charsadda are the most fertile areas in the country producing variety of crops.

Wheat is the main staple in Pakistan, fulfilling almost 35% of the average per capita calorie requirement in 2008. This year in Pakistan a record harvest took place for wheat around 23. 4 million tones prior to flood, the flood water result in serious losses of wheat stocks that were held at household level.

The loss of wheat can have a negative impact on the planting of next season which will begin in October/November because the flood have caused loss of seeds, fertilizers, livestock and savings.

According to their estimates 1. 2 million livestock and 6 million poultry have perished. One of the main reason that this figure is so high is because when people were rescued during the recent flood people did not take their animals with them and opted to save their life. The major challenge faced by different agencies working in Pakistan during this flood was to provide food

to animals who survived as the supply was very limited and they face difficult task of transporting this food supply as majority of infrastructure was also destroyed. The United Nation has appealed for emergency assistant of \$ 5. 7 million for livestock.

A closer look has been done by CASSIM Investments (PVT) LTD (18 Aug 2010)

They have identified major crops that have been affected due to recent flood in Pakistan and they have given details of damages incurred by different crops.

Cotton: It has been worst hit crop, as according to initial estimates we have lost as much as 2 million bales. This will direct impact on our textile industry and will lead to import of cotton. This will put pressure on our current account deficit and lead to deprecation of our currency.

Wheat: According to them , they estimate they due to recent flood that have damaged wheat badly will lead to wheat shortage which is main staple in Pakistan.

Rice: Pakistan is one of the main rice exporter in the world and they estimate that Pakistan might not be able to meet its target of rice exports this year as they expect losses in crop as well. This will result in loss of foreign exchange and widening of current account deficit

Sugar: They have estimated a loss of 500, 000 tonnes of sugar cane, approximately 2-3% of the sugar cane demand. They believe it will have minimum impact on the availability of refined sugar.

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Effect on Economy

The congressional research report that was present to the congress member on recent flood in Pakistan stated the economic effects of floods. According to them it is too early to assess the damage caused by flood and it can only be assessed once the water goes away to examine the extent of damage caused to crops, housing, roads and bridges, electrical grid and other critical elements to its economic recovery. According to the preliminary assessment done by the Asian Development Bank and FAO shows that around 14% of cultivated land has been affected by floods, that resulted in loss of 25% of the cotton crop and some other crops, Pakistan has also lost 1% of its livestock and there is danger of this percentage rising due to feed shortages and lack of veterinary care after the flood waters recede.

The broader effect of flood can also be felt with price of domestic items soaring and creating high inflation. In addition to this government spending on relief activities is going to widen the fiscal deficit.

According to United Nation Organization it estimates that the recent flood will increase Pakistan's fiscal deficit expenditures by \$4 billion in fiscal year 2010/11. A preliminary evaluation reported submitted to the Pakistan's ministry of finance has estimated that there will be zero percent GDP growth and 25% inflation this year. The figure shows that Pakistan is going to face tough challenges ahead in year 2010/11 because the targets set by the IMF (International monetary fund) varied with these figures. IMF set a target of 4.5% GDP growth and with 9% inflation. The long-term economic effects are not easy to assess. According to one source, repairing damaged infrastructure that includes roads, bridges and dams would cost Pakistan <https://assignbuster.com/adverse-effects-of-flood-in-pakistan/>

whopping \$15 billion. There are 44 critical factors that will hamper the speed of Pakistan's economic progress over the next few years. Now Pakistan which is already face tough challenges since 2008 has the lowest TAX-GDP ratio in the world with figures accounting to 8-9 %. The World Bank and the Asian Development have agreed to give loans \$ 1 billion and \$2 billion respectively but they have also attached conditions to these loans. The IMF which have provided loan of \$ 10-11 billion have asked Pakistan to review its monetary policy and fiscal policy. They have set targets for Pakistan and prior to these floods Pakistan have failed to achieve some of the targets set by the International Monetary fund. The IMF set condition of lowering fiscal deficit to 5. 1 % during this year while Pakistan exceeded this limit and had a fiscal deficit of 6. 2 % of the GDP, now that flood have occurred it looks impossible that Pakistan would be able to meet the targets set by IMF. Pakistan have to pay back the loan to IMF by 2012/13 and it would cost the country \$3 billion per year. Pakistan external debt has already amounted to \$55. 5 billion which is 56% of the GDP. These figures are a prove that Pakistan which is already unable to meet the requirements set by the international donors will find it impossible to meet the target after the recent flood that have moved Pakistan decades back.

According to CASSIM INVESTMENTS (PVT) LTD

They have stated that since the entire infrastructure have been badly destroyed specially in Khyber Pakhtunkhwa and some areas of Punjab. All this will have to build to revive economic activity and thus this has forced the government to cut down is Public Sector Development Program by almost 50 % this means that all the development projects which were taking place in

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order to improve the economy have now been stopped and the funds have been shifted towards the flood affected areas.

They have also stated that the imports of goods for relief purpose will widen the current account deficit. Foreign Aid will help the country in the short term, but will constrict the amount of PSDP available with the financial cost burden in the future. A current account shortage will cause devaluation of the currency, which is favorable for sectors for exports but if we see in our country it will have negative impact because depreciation would result in high inflation damaging Pakistan's fiscal policy and monetary policy.

According to an article in Daily Times on August 29 2010 it states that and we quote

“ Government of Pakistan will revise its economic growth targets and major budget projections in consultation with International Monetary Fund (IMF), official sources informed here on Saturday.

Damage caused to the backbone of the economy; the agriculture sector of is provisionally estimated at Rs 244. 6 billion and losses due to the damage to the infrastructure and private and public properties are estimated to be around Rs 600 billion in all four provinces, Azad Jammu and Kashmir and Gilgit Baltistan.

Consultation on revision in macro-economic targets is to be taken during the ongoing fifth review of Pakistan's economy with IMF authorities at Washington. Economic growth targets and major budget projections for the 2010-13 were approved under the Medium Term Budgetary Framework for

the next three years, however, the floods have changed the entire scene on the economic landscape of the country that requires major revision.

Devastation caused by the floods across the country has seriously damaged the main sectors of economy especially the agriculture sector and Pakistan's development priorities have changed and a major portion of resources are being planned to divert towards rehabilitation of flood affecters. Recent floods across the country have caused devastations worth Rs 244. 6 billion in the agriculture sector with maximum damage suffered by the small farmers who have faced a loss of around Rs 98 billion, some facing total annihilation of their crops.

While on the other hand, Finance Ministry has convened an important meeting, to review key macroeconomic indicators of the country following devastation of floods.

Sources said that meeting of the Medium Term Budgetary Framework (MTBF) being held at Ministry of Finance would review the rolling targets of key macroeconomic indicators for the next three years, which were unveiled in the budget. They recent floods have changed the economic priorities of the country and budgetary targets have become totally irrelevant on the face of massive displacement caused by worst ever floods in the history of the country. This information is expected to be shared with IMF during talks currently underway in Washington that would continue till September 2.

Growth target of 4. 5 percent for 2010-11 was to reach 5 percent in 2011-12 and 5. 5 percent for 2012- 2013 under the MTBF. Sources said that growth target for the current fiscal year as well as for the next two years would have

to be revised because of the devastating floods whose impact on economy would remain for the next few years. Inflation was targeted to be brought down to 9.5 per cent in the ongoing fiscal year and 8 and 7 percent for 2011-12 and 2012-13 respectively. These targets have become irrelevant and would be readjusted in view of the present situation; the same is the case with revenue collection targets. The government's revenue collection targets of 15.2 percent of the GDP for the ongoing fiscal year and 15.5 and 15.9 percent for the next two years respectively are unlikely to be met."

http://msnbcmedia.msn.com/j/MSNBC/Components/Slideshows/_production/ss-100730-Pakistan-floods/ss-100819-Pakistan-floods-03.ss_full.jpg

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One of the many industries drowned in the flood.

Dr. Amjad Waheed, CFA, Chief Executive Officer of NBP Fullerton Asset Management Limited

(Formerly National Fullerton Asset Management Limited) has written an in depth article on the country's economic condition and has projected the future trends in our economy.

Highlights are given below.

Total Losses estimated at 5.8% of GDP. Around 15% of the Pakistani population has been affected by the floods. According to some initial estimates agricultural losses may exceed Rs 250 billion whereas infrastructure losses may exceed Rs 600 billion. Thus total estimated losses of around US\$10 billion will equal 5.8%

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of Pakistan's GDP.

Economic Growth rate expected to be subdued. We expect agriculture sector to show a negative growth, and industry and services sector to grow by about 3%. We project corporate earnings to rise by 14% over the next four quarters, down from our previous estimates of 18%

growth.

Fiscal Deficit is expected to balloon to 7.5% of GDP in FY11. The slowdown in economy as a result of the floods will make tax collection target of Rs 1.7 trillion extremely difficult to achieve. On the other hand, government expenditures are expected to rise substantially to re-build the infrastructure in the floods-affected areas and rehabilitate the effected families. Domestic Government borrowing in the form of Treasury Bills and National Savings Schemes is also expected to rise substantially. In the months of July and August 2010, the Government Treasury Bills stock has already risen by about Rs 137 billion. This will also continue to crowd out the private sector. As a result, the budget deficit is estimated to cross 7.5% of GDP in FY11.

Inflation and Interest Rates are expected to rise further. The imposition of value added tax from October, damage to crops from floods, projected rise in utility prices and expected additional taxes to support people affected with floods may result in inflation rising to around 15% in FY11.

Stock Market performance expected to remain lackluster in FY11. Floods are expected to have a negative impact on the banking industry, auto industry and oil marketing companies, at least in the short run. In the remaining

period of FY11 the stock market may not be able to show a double digit growth from the current levels. The Margin Trading System, even if implemented, is not going to make a significant difference to the performance of the Pakistani stock market, in my opinion, as the economic and political fundamentals will take time to improve.

Trade and Current Account Deficit are expected to Rise. Pakistan's exports will suffer due to damage to the key crops and textile sector resulting from floods, as well as power shortfall and high inflation. Pakistan's imports, on the other hand, are expected to show an increase due to import of around 2-3 million bales of cotton and food products.

Investors are advised to remain conservative and prefer money market funds relative to equity funds for the time being.

Effect on Banks

“ The Moody's investor services changed the long-term local currency deposit ratings and bank financial strength ratings of the big-5 banks from stable to negative,” said Muniba Saeed, an analyst at Invest Capital, here Saturday. “ The change in the outlook of the banks was driven mainly by the impact of flood giving rise to economic challenges.”

The food shortage and rising input prices will further hinder the corporate sector's recovery due to the slowdown in the economic growth and inflationary pressures.

The rating agency expects that higher input prices would lead to a loss of competitiveness in certain export-oriented sectors, especially textiles.

According to data from the State Bank of Pakistan, the banking sector exposure to textiles as of June stood at eight per cent of the total exposure, however, the banking sector exposure to cumulative textiles and the crop growing category of agriculture stood at 11 per cent of the total, or Rs635 billion.

As textiles being the highest borrower in the manufacturing sector, such dependence are likely to dent the sectors profitability, owing to increased provisioning requirement and resultant increased probability of the non-performing loans.

The banks' non-performing loans (NPLs) have grown to an alarming level of Rs456 billion by March this year on the back of a sliding economy, according to the State Bank of Pakistan (SBP). The increasing NPLs are squeezing the profits of the banks, as they are required under the prudential regulations to make provisions against their bad debt.

National Bank of Pakistan, the lender with the highest delinquency ratio, faces an increase in loan failures after the worst flooding in the country's history damaged farmland in areas where the bank lends.

Syed Ali Raza, the bank's president, said in an interview in Karachi, " There will certainly be some impact on non-performing loans. The impact will be containable but it will be there." He continued, " While there were immediate losses from floods largely in the agriculture sector, there is a positive side to the disaster as it has refreshed farmland across the country. The yield from those farms is likely to improve with better, more fertile soil and availability of water in the next season."

Abdul Shakur, a research analyst at BMA Capital Management Ltd. in Karachi said “ With around 25 percent of its total lending to agriculture related business, it will be a real challenge for National Bank to register growth in profit,” He estimates a 22 percent decline in National Bank’s profit in 2010.

Muhammad Imran, head of research at Arif Habib Investment Ltd. in Karachi said “ The flood losses and the discount rate rise may limit the ability of borrowers to return loans. Banks may be asked to reschedule and ease terms.”

The central bank said in an e-mailed statement “ Given the likely impact of the recent floods, ongoing challenging economic environment, power shortages and security situation in the country, the increased portfolio of non- performing loans and heightened credit risk remain the major challenge for the banking system.”

Effects on the Imports/Exports

The recent floods in Pakistan have badly affected the Pakistan’s economy. The floods as caused a widespread destruction badly affecting the infrastructure, the farmlands and many industries.

The floods have caused destruction to cotton, wheat and rice crops extensively thereby affecting the exports of finished products such as textile, and also raw material such as rice and cotton bales.

According to the USDA Report, Due to the devastating floods, Post revises its 2010/11 rice production estimates for Pakistan to 4. 4 MMT, a decrease of 32%. Pakistani rice exports for 2010/11 are similarly reduced to an estimated

2. 3 MMT, a decline of 36%. Rice is Pakistan's second largest export product and the reduction in rice exports is expected to have implications for its balance of payments.

However the figures given for cotton are bleaker, as before Pakistan used to export cotton but now this year Pakistan is forced to import cotton from India and other countries to meet its own local demand and also in order to fulfill the export orders.

According to Fibre to Fashion (a leading textile news website), More than one million bales of cotton crops have been destroyed, and the Government is not in the capacity to achieve its target of 14 million bales of annual production. Due to this, Pakistan, being Asia's fourth largest producer of cotton is likely to fall back by 10-15% of its cotton production.

Incessant downpour has damaged the fields in Piplan Layyah, Mianwali, and Mithankot. Regions in the Central Punjab such as Rajanpur, Lyia, Rahimyar Khan, and DG Khan were seriously affected losing thousands of bales of cotton crop. Areas of Ghotki, Daherki, Sukkar, and Naushehro Feroz, Bhakkar, Jhang, Shorkot, and Mianwali were also affected by floods.

This devastation has badly affected the Pakistani industry as well, and the destruction would also create difficulties as the raw material would not be available; however there are some positive feelings that the cotton would be imported with already huge shipments in line and that would help in meeting the international export orders. Also Pakistan has been able to achieve concessions from EU for exporting its produce with lesser duties thereby giving a lifeline to the industrial sector.

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Methodology:

Our research is totally based on collection of data through articles, interviews and reports. We have found articles and reports on internet that have been previously written on this topic. We have collected facts and figures from websites of NGOs, Social welfares and government. We have conducted interviews with the NGOs and the welfare organizations to try to get the answers of our research questions. One of our group member also went to the affected places to try to know the ground situation. We have divided our research question into four categories and found their answers individually as well. We have gathered around 40 articles and from that we have shortlisted 17 articles.

Analysis

If we take into account the data above we can just analyze that Pakistan's economy and other sectors have been adversely affected by the recent flood. It is not a vague statements but we have will proved it with facts and figures that although the recent flood have some positive impact as well but the negative effects over weigh the positive effect of recent flood of 2010.

According to the statements given by Ali Raza the president of National bank of Pakistan says and we quote:

“ There will certainly be some impact on non-performing loans. The impact will be containable but it will be there.” He continued, “ While there were immediate losses from floods largely in the agriculture sector, there is a positive side to the disaster as it has refreshed farmland across the country.

The yield from those farms is likely to improve with better, more fertile soil and availability of water in the next season.”

He is of the view that yes banks will be facing tough time in coming future but the agriculture sector can take out some positives from this flood that is more fertile land means bumper crop. The availability of water and more fertile soil will benefit the farmers in the long run, at the same time he was of the view that banks will start having a impact of the flood next year means start of 2011 when people would be unable to pay their loans and percentage % of non- performing loans will increase. So this shows that one sector of the economy will have to face tough time in near future while the other sector can take out some positives from the recent flood.

According to former Federal Minister for Food Agriculture and Livestock Khair Muhammad Junejo, he said and we quote “ Flood overall effect for land will be beneficial.”

This also shows that the former minister is of the view that yes indeed flood have caused damages to farmland in this year but it will have a positive impact in the next year with more fertile land and with availability of water.

Abdul Shakur, a research analyst at BMA Capital Management Ltd. in Karachi said “ With around 25 percent of its total lending to agriculture related business, it will be a real challenge for National Bank to register growth in profit,” He estimates a 22 percent decline in National Bank’s profit in 2010

This statement shows that Abdul Shakur who is one of the experts is of the view that this flood will not only harm agriculture sector but the banking

sector as well because banking sector relies heavily on the agriculture sector with quarter of its loans are being given to agriculture sector.

When the National Bank of Pakistan will be facing tough time showing profit this means all the other banks will have a much larger impact if the agriculture fails to pay back their loans.

The United Nation organization estimates that the recent flood will increase Pakistan's fiscal deficit by 4\$ billion that means with the current exchange rate Pakistan fiscal deficit will increase by 350 billion rupees. Pakistan who is already face challenges because of their war on terror and does not look good economy wise. Their targets set by IMF were 5. 1 % of the GDP for fiscal deficit but they exceeded these targets by more than one percent and achieved 6. 2% prior to these flood. This flood will not make things better for Pakistan but worse

According to the Prime Minister of Pakistan Syed Yousuf Raza Gillani the government have decided to cut their PSDP (Public Sector Development Projects) by 50 % this means that from 650 billion government will only utilize around 325 billion and the rest of the funds wil