

## **Text of budget speech of Finance Minister**

ISLAMABAD, Jun 11 (APP): The following is the text of budgete speech of Finance Minister Syed Naveed Qamar in the National Assembly here on Wednesday.

Dawn after a decade

Madam Speaker

I rise to present budget before the House after a long time. We presented the budget 12 years ago when it was certainly a different budget, a different social environment, a different House and a different Pakistan.

2. Budget was not that large but at the same time the deficits were also not large. At that time we did not have such a large population, but the society also did not have so much of poverty, hunger, un-employment and disease. The House was not so large but it did not have such complex issues to face. It was the same Pakistan but it did not have problems and challenges of such magnitude.

3. We handed over the country after putting an end to load-shedding, but today not only the country but destiny and hopes of the people are immersed in complete darkness. This was an agricultural country which has been handed back to us with famine like conditions. There were small law and order problems, but we were not so helpless before the terrorists because of which lives of innocent people have become unbearable. Every city is a dead place and fear has gripped every house. On top of it, with the demise of our brave leader, Shaheed Benazir Bhutto, the hopes and aspirations of the people were also shattered.

Madam Speaker

4. We did not have so much resources but we were not confronted with such grave problems. We may not have had such a large infrastructure but infrastructure was neither hallow nor crumbling which could break into pieces with a slight tremor. Life was not so difficult and hopeless to make living a burden. There was democracy and the country was not under the rule of a dictator which makes life oppressive.

Madam Speaker

5. History is witness to the fact that whenever we were entrusted with power we inherited a broken Pakistan, surrounded by upheavals, dangers, poverty, hunger, terrorism and injustice. Our leader Shaheed Zulfiqar Ali Bhutto and Shaheed Benazir Bhutto nurtured this country and its poor peoples. However, we accept the present challenge and assure the nation that we will salvage the situation and retrieve the country from the problems that

surround it.

Madam Speaker Where are we standing?

6. Before I present the specific proposals of the Budget for the consideration of this House, it will be necessary that I present the condition of the economy that we inherited and the budgetary conditions prevailing in the current fiscal year. Such an appraisal will enable my colleagues to judge for themselves the economic conditions surrounding us and appreciate the difficult choices we are faced with.

7. The economy we have inherited was built on the windfalls of the aftermath of 9/11. Economic progress made has not proved to be sustainable. Significant amount of capital was withdrawn from the West and transferred to the developing countries; informal channels of financial transfers were blocked, thereby resulting in huge inflow of remittances through the normal banking channels; sizeable support was received by the country from its partners in the war on terror. The phenomenal increase in the flow of foreign capital helped the country to build reserves as well as sustain high demand for imports. The economy expanded significantly and high rates of growth were achieved. However, much of the growth was driven by growth in consumption, such as in consumer durables - cars, TVs, refrigerators, air-conditioners, mobile phones and similar consumer products. Commensurate investments in industry, infrastructure and agriculture were not made to support high growth on a sustained basis. This mismatch in growth and supporting infrastructure is poignantly reflected by the fact that we have no electricity to use such durable goods. Similarly, urban roads were not built to accommodate the growth in the motor cars.

Madam Speaker,

8. The fragile foundation of growth was exposed as the country suffered a series of shocks since the eruption of judicial crisis on March 9, 2007. This was followed by oil price shock and widespread food shortages. Just as these crises were brewing the government went into policy inaction, delaying some painful decisions needed to face these challenges, as it was politically expedient in view of presidential and parliamentary elections. The current budget has taken the brunt of all ills that were associated with these crises so much so that it is threatening to undo much of the gains which the economy had achieved in the last 4 years.

9. A quick account of unfavorable developments during the year would enable us to gauge the damage done to the economy:

(1) In 2007-08, the economy will grow at 5.8 % compared to the target of 7.2 %, and the actual growth rate of 6.8 % last year;

(2) Both manufacturing and agriculture sectors have recorded very low growth of 5.4 % and 1.5 % respectively;

(3) Inflation is running at 11 % as compared to 7.8 % last year;

(4) Budget deficit after concerted efforts of this government is still estimated at 7.0 % of

GDP, against the target of 4 %;

(5) There was a phenomenal build-up in subsidies in the budget, which are largely responsible for this huge deficit. These subsidies, totaling Rs. 407 billion include; petroleum Rs. 175 billion; electricity Rs. 133 billion; wheat Rs. 40 billion, and textiles and fertilizers Rs. 48 billion, of which only Rs. 114 billion were provided in the budget;

(6) Largely due to an exceptionally high fiscal deficit, balance of payments is facing unprecedented deficit as well. The current account deficit is projected at \$ 11.9 billion or 7 % of GDP;

(7) Reserves have declined from a high of \$ 16.5 billion in October, 2007 to less than \$ 12.3 billion as at end April 2008. This has put pressure on the exchange rate which has depreciated by nearly 6.4 % during July 2007 to April 2008;

(8) Much of the deficit had to be financed from borrowing from the State Bank, which is like printing more money. As much as Rs. 551 billion (up to May 2008) have been borrowed from the central bank, which is unprecedented in country's history. It is not difficult to imagine what this printing of money means. With more money and no new production, only prices are likely to increase, which is what is happening. We have to stop this process otherwise the inflation will be running much higher than what it is at present, and as I noted it is already highest in country's history.

Madam Speaker

10. The budget for 2008-09 is part of a perspective plan on which the new government is currently working and will shortly be finalized. Accordingly, we are taking a long term perspective while announcing the budget. It will be useful to spell out the key assumptions about the macroeconomic conditions assumed to prevail during the year and will affect the budget. These are :-

- (a) GDP growth will increase by 5.5 % in the year 2008-09;
- (b) Inflation will be contained at 12 %;
- (c) Gross investment to GDP ratio will be maintained at 25 %;
- (d) Fiscal deficit will be contained to 4.7 %;
- (e) Current account deficit will be reduced to 6 % of GDP;
- (f) Foreign exchange reserves will be increased to \$ 12 billion. Development Plan

11. Public investment remains an important engine of growth, even though its share vis-a-vis private sector has declined in recent years, which is a good thing as we want private sector to bear an increasingly larger burden of economic development. The National Economic

Council has approved a development plan of Rs. 549.7 billion for the year 2008-09. This represents an increase of nearly 5% over the budgetary target of Rs. 520 billion for 2007-08, despite serious resource constraint facing the economy.

#### Budget estimates for 2008-09 and Revised Estimates 2007-08

12. We are setting the following key objectives for the budget 2008-09 :-(1) Restore economic stability through:

- (a) Significant reduction of fiscal deficit;
  - (b) Rationalization of subsidies;
  - (c) Reduction in current account deficit; and,
  - (d) Build-up of foreign exchange reserves to a minimum of \$ 12 billion.
- (2) Protect the vulnerable Groups by increasing their incomes through a targeted program of cash transfers;
- (3) Focus on agriculture and manufacturing sector to raise their productivity and competitiveness;
- (4) Restore investors confidence by declaring government's commitment to economic growth and investment and private sector's lead role in the process;
- (5) Remove key bottlenecks in supportive infrastructure for spurring growth;
- (6) Increase social sector allocations to bring about a meaningful change in the social indicators;
- (7) Make significant additions to low cost housing to lessen the rising gap in housing stock, especially for the low income groups.

13. The budget estimates for the year 2008-09 together with a review of budgetary performance of the current year i.e. 2007-08 is presented below.

14. Against a revised fiscal deficit of 7 % of GDP for this year, the budget for 2008-2009 envisages a budget deficit of 4.7 % of GDP. This represents a significant fiscal adjustment and promises stability in public finances. A combination of better revenue collection and expenditure control measures has made it possible for us to aim for this target.

15. FBR revenues will rise to Rs. 1250 billion from revised estimates of Rs. 1000 billion for 2007-08, representing an increase of about 25 %. A combination of natural growth and discretionary effort proposed in the budget will provide the necessary base for projecting this meaningful increase in revenue collections. Current Federal expenditure has been budgeted at Rs. 1493 billion against the revised estimates of Rs. 1516 billion for 2007-08. We will try to achieve further savings in current expenditure on the basis of measures proposed to be

adopted for bringing fiscal discipline.

16. The government will reconstitute and convene the meeting of National Finance Commission as soon as nominations of members are received from the provinces. Provincial transfers (including grants) are projected at Rs. 606 billion against the revised estimates of Rs. 490 billion for the current year, representing an increase of 24 %. The projected income and expenditures indicate that the provinces are likely to have an improvement of about Rs. 79 billion in their cash balances after catering for the local component of their PSDP and extra expenditure.

17. Based on the above estimates, we expect that our budget will help stabilize the economy, promote fiscal discipline and further the process of economic revival. Our measure of success will be reflected in averting any further decline in market confidence and better flow of investment both from local as well as from foreign investors.

#### Impact on vulnerable groups Madam Speaker

18. It is widely documented that income distribution in Pakistan has worsened during the last decade. The wealth accrued during this period was not equitably distributed. Even though much of the inflation is due to foreign price increases, and while a large part of the required price increase has yet to be passed on, the conditions facing the vulnerable and fixed income groups are precarious at best, and down right unbearable at worst. We cannot afford to remain oblivious to the plight of the poor. We still have time to act. It is incumbent on us to react to their voices before they are taken over by despair that state is unable to play any meaningful role in their lives. We must insulate these people from the vagaries of rising prices and falling real incomes. The founding fathers of PPP had 'social justice' as the core value guiding their struggle for democracy. Accordingly, we are determined to fulfill our responsibility toward such groups and the current budget will address this issue.

#### Infrastructure shortages

19. As I stated earlier, investment in key infrastructure projects needed to support rising and sustained growth were not undertaken either in public sector or encouraged in the private sector. For instance, in the power sector, the country is facing the most severe load-shedding of its history. The peak demand-supply gap was recorded at some 4500 MW. I cannot resist making the point that this gap has occurred despite the fact that 6500 MW of private power was added in the last decade, all approved by the Peoples' Government under its Energy Policy of 1994. These IPPs, which are now our saviors, were unjustifiably maligned and castigated. Similarly, and even though significant amount of additional gas was injected in the system again because of the incentives offered under the Energy Policy of 1994, yet there is a demand-supply gap of nearly 1.5 bcf at present and rising rapidly unless major sources of additional supply are added to the system. We have to augment our supplies both from indigenous sources as well as from outside, both through imports and cross border pipelines, as we are raising the priority of gas supply to power sector to ensure that we fully utilize our

existing facilities.

20. When we took over, the nation was suffering from load-shedding and black out. We took stock of the position and are undertaking numerous measures in the short term, medium term and long term to relieve the people, industry and agriculture from the menace of electricity shortages. These include conservation in electricity use, revamping and efficient use of installed capacity which will make available 1500 MW of electricity. We assure the nation that by taking these measures, load shedding will be substantially reduced. While textile industry will have continuous round the clock supply, flour and ghee mills will have 18 hours of supply. Agricultural tubewells will have continuous power supply for 10 hours at a stretch every night to avail rebated tariff.

21. Water availability is now a real issue facing the country. The need for expansion in storage capacity has never been more pressing. However, at the same time efficiency in water use is equally important. Thus alongside increasing water storage capacity, we need to pay equally serious attention to water use efficiency.

Madam Speaker

22. Agriculture is the backbone of the economy which remained neglected and side lined during the last 8 years. Numerous measures and policy directions are being put in place to ensure relief and motivation to the farmer as well as incentives to the agriculture sector to contribute its due share to the national economy. These include :-

- a) Increase of support price of wheat from Rs 510 to Rs 625 per 40 KG.
- b) Review of the support price for the next year's wheat crop in August-September i.e. before the next sowing season keeping in view the input cost and prevailing international prices.
- c) Provision of Rs 75 billion in the PSDP to improve the availability and efficient use of water resources through construction of dams, rehabilitation of irrigation, improve drainage system, lining of canals and water courses throughout the country.
- d) To ensure that agriculture produce retains its value and quality and to facilitate its export. Cold chains will be set up in the country.
- e) Arrangements for import of bulldozers through foreign collaboration to increase and improve the cultivable area.
- f) DAP fertilizer is an essential input that enhances crop yields. The steep increase in its international prices is discouraging the use of this important fertilizer and thereby adversely affecting productivity. Our government will more than double the subsidy on DAP from Rs. 470 per bag to Rs 1000 per bag. Subsidy on other fertilizers will also continue. A total allocation for subsidy on fertilizers has been increased from Rs 25 billion to Rs 32 billion.

Complete exemption from sales tax and other duties on imported and local supply of fertilizers and pesticides, so that the farmers can get these at much cheaper prices. The effect

of exemption from duties in respect of both fertilizers and pesticides is Rs 6 billion.

g) Availability of credit to agriculture sector has been limited compared to industry and other sectors. During the year an additional amount of Rs 30 billion will be made available in addition to total credit to agriculture sector amounting to Rs. 130 billion disbursed this year.

h) We are also revamping ZTBL and will broaden its outreach. Madam Speaker

23. In addition to above measures, agriculture sector will also be provided more incentives and facilities through fiscal measures as well, which are :-

a) Exemption from 10% custom duty on import of rice seeds to ensure healthy and quality production of rice in the country.

b) Duty free import of machinery and equipment for grain handling and storage facilities to be de-linked from the conditionality of local manufacture. This will largely help in improving the grain handling and storage facilities in the country.

c) It is also proposed to waive off the levy of 5% Federal Excise Duty on premium of crop insurance policy also. These measures shall yield higher productivity and substantial raise in the income levels of the common man.

#### Livestock and Dairy

24. a) Livestock and dairy is a major source of income and livelihood for the rural population. Pakistan is the fifth largest producer of milk. However, this potential has not been optimally leveraged. In order to encourage this sector, the Prime Minister's under his Special Initiative for "White Revolution", an allocation of Rs. 1.5 billion is proposed for the projects through the PSDP in this sub-sector. These include livestock production and development of meat production, Veterinary services for livestock, milk collection and processing and dairy production and development program, establishment of an integrated national animal and plant health inspection services facility and up-gradation of animal health laboratories at NARC for poultry diseases.

b) In the fisheries sector such important projects like aqua culture and shrimp farming, stock assessment survey program in EEZ of Pakistan and fisheries training center in Gwadar are being undertaken for which an allocation of Rs. 1.1 billion is proposed in the budget.

25. To enhance supply of quality seed to farmers, a National Commercial Seed Production Program is being prepared. Negotiations have been started for fast track, formal release of Bt cotton varieties in Pakistan. This would help in making our farmers more competitive in production of cotton.

26. Foreign investment in agriculture sector will be encouraged to increase our productivity and develop cultivable areas. Large tracts of land will be made available to foreign investors to induct capital and technology in our local farming sector.

## Industry and Manufacturing Madam Speaker

27. Our industry is losing its competitive edge, which is most notably reflected in the slow-down in all categories of textiles, which is the mainstay of our exports. There are procedural irritants that add to the cost of doing business in Pakistan. Similarly, a number of inefficiencies inherent in the provision of infrastructure services, such as electricity, have led to increased cost of production, thereby adversely affecting our competitive edge. A number of fiscal measures are being undertaken to incentivize local manufacturing, which are :-

- i) Customs duty on import of sewing machines in CKD/SKD condition is therefore being increased from the existing 5% to 20% to promote and protect the local manufacture of sewing machine parts and components,
- ii) import duties on raw materials, parts and components of these industries are proposed to be reduced to the lower slabs of zero, 5% and 10% respectively depending on their nature and requirements,
- iii) Tariff based system of the auto industry is being improved further. For this purpose various additions, deletions, mergers and creation of new tariff lines in Schedule-1 of the Customs Act, 1969 have been proposed. The new tariff lines will continue to attract additional duty at the rate of 15% as the respective items are being manufactured locally,
- iv) PTA is very important chemical for production of Polyester Staple Fibre (PSF). It is proposed that now rate of customs duty on PTA may be reduced from 15% to 7.5% and duty on Polyester Staple Fibre (PSF) may be reduced from 6.5% to 4.5%. It is expected that this proposal will not only benefit the textile industry in general but fabrics and garments, in particular,
- v) In order to maintain the prices of medicines at the present levels and to provide relief to the local industry, it has been proposed to reduce the rates of customs duties on respective chemicals, active pharmaceutical ingredients and packaging materials from the existing 10% down to 5%. Similarly as many as 18 more life saving drugs and medicines, as are used for treatment of cancer and other terminal diseases, are being completely exempted from import duties,
- vi) the import duty on calcium carbide is proposed to be reduced from the existing 15% down to 5% ,
- vii) the import duty on caustic soda is proposed for reduction from the existing rate of Rs. 5000/- per metric tonne to Rs. 4000/- per metric tonne, being the industrial input,
- viii) reduction of customs duty on import of printing screens from the present rate of 15% to the lower slab of 10% whereas its raw materials are proposed for complete exemption of duty in order to promote their local manufacture,
- ix) reduction in customs duty on import of buckram from the higher slab of 25% to the lower slab of 10%, for value addition to textile industry,
- x) extension of duty free import facility of samples of no commercial value, to all

manufacturers irrespective of the fact whether they are direct or indirect exporters,

xi) Bitumen is presently charged to a concessionary rate of 5% duty which is proposed to be exempted,

xii) the existing 20% duty on import of base oil for lubricating oil is proposed to be reduced to the lower slab of 10%,

xiii) under the existing tariff regime, equipment used in the telephone call centers are chargeable to 5% duty with complete exemption from sales tax. Two of the major components namely voice cards and "vast terminals" which are meant for use in the telephone call centres are however chargeable to 10% customs duty whereas the "other digital call recorders" attract 20% duty on import. It is proposed to reduce customs duty on the said category of equipment and components to the lower slab of 5% with exemption from sales tax,

xiv) The rate of duty for polyester films is proposed to bring at par with other items of the same category and it will also become liable to 20% duty,

xv) In order to encourage import of dedicated CNG buses, 15% customs duty on their import will be abolished,

xvi) It is proposed to allow the import of dredgers free of customs duty in order to reduce the cost of port operations,

xvii) Energy Saving incentives: In order to achieve the objective, the customs duty on import of energy saver bulbs is proposed for complete exemption. Two components namely "Generators" and Deep Cycle Batteries", which are meant for dedicated use in the solar energy equipment, are also proposed for exemption from the customs duty,

xviii) It is further proposed that WAPDA and its generation companies be allowed temporary import of power generation plants free of customs duty as against the existing rate of 5% duty. The local manufactures' production will be purchased by WAPDA for distribution,

xix) In order to deal effectively with the energy crisis in the country and to keep the prices as low as possible so as to encourage its use, it is being proposed that energy saver lamps may be exempted from sales tax. This measure would not only ensure the availability of energy saving lamps on cheaper prices but also save energy up to 1000 mega watt,

xx) in order to incentivize the investment in domestic manufacturing industry, the Government allows import of raw materials, parts and components etc., either at zero or reduced rate of duty provided these are not manufactured locally. It has been observed that the conditionality of local manufacture as envisaged in respective notification SRO. No. 565(I)/2006 unnecessarily hampers the scheme of incentive. Therefore the condition pertaining to local manufacture for import of inputs at concessionary rate of duty under SRO. 565(I)/2006 is proposed to be deleted,

i) it is proposed that any plant, machinery, equipment and capital goods which is worth US\$ 50 million (C&F) or more, being imported for setting up of new industrial projects may be de-linked from the conditionality of local manufacture. This will curtail the discretionary powers of the administrative authorities and will provide for the hassle free investment

environment,

ii) tax incentives like time-bound tax holidays and creation of tax free zones/ industrial estates etc. for industrial development in the past ignored rural and under developed areas. It is proposed that 90% First Year Allowance and 10% normal depreciation be allowed to the industries established in specified rural and under developed areas duly notified by the Government. It will generate economic activity and employment in such areas besides eradication of poverty and illiteracy. Linked with this is providing enabling environment for future Direct Foreign Investment (DFI) and stabilizing economic growth by extending further already available exemption to "Capital Gain" on sale of shares of companies listed on stock exchange for a period another two years,

xxiii) it is being proposed that caustic soda/flakes, cotton linter and sequins should be zero-rated so that financial liquidity in the Textile sector is increased and the textile producers are free from the hassles of delays in getting refunds on this account,

xxiv) it is, proposed that sales tax paid by non-resident entrepreneurs/ traders arriving in Pakistan on trade fairs may be exempted by inserting suitable provision in the Sales Tax Act, 1990. This exemption will be available to foreign entrepreneurs on reciprocal basis,

xxv) The Government has strong desire to provide health facilities on cheaper rates to the people of Pakistan. For this purpose, the import of medical equipment, apparatus, reagents, disposables, spares and donations supplied to Government hospitals and charitable institutions are exempt from sales tax. However, such goods are taxable if produced locally which increases the cost of health facilities. It is proposed that the local supply of medical equipment, apparatus, reagents, disposables and spares to the Government hospitals and charitable hospitals having more than 50 beds and proceeds to be exempted from sales tax,

xxvi) the Government of Azad Jammu and Kashmir does not allow its registered persons to get refund of input tax paid in Pakistan because of paucity of funds with the Government of Azad Jammu and Kashmir. The business community of Azad Jammu and Kashmir has been demanding since long that it should be given refund of input tax paid in Pakistan. To resolve this long standing issue, it is being proposed that registered persons in Azad Jammu and Kashmir may be allowed to claim refund on supplies of inputs from Pakistan. Accordingly, a new section is being added in the Sales Tax Act, 1990 to authorize FBR authorities to pay such refunds/repayments.

28. Expansion in communication links - roads, railways, ports and terminals -is an equally pressing need. Gwadar port has yet to take-off for lack of supportive road links to transport cargo up-country. We have to guard against such occurrences because huge development funds were invested, yet the economy has so far reaped no benefits from such a gigantic project.

29. All the above factors, particularly infrastructure shortages, are stunting our growth. We have undertaken a detailed review of the current pipeline of approved projects for development budget. We have decided to prune projects as we saw little benefit to the economy from such projects. Details of this review will be provided separately. However, I would like to state that the development plan we are giving to the nation reflects our priorities which are based on economic realities as well as people's aspirations.

30. Pakistan has to make important strategic choices to ensure sustainable growth in the

manufacturing sector in a rapidly changing and challenging international competitive environment. This requires massive structural changes rather than a marginal change, a shift in the production paradigm to technology and knowledge-based industrialization with a focus on the quantitative and qualitative growth of an integrated and competitive industry in private sector. The in-efficiencies of import substitution must give way to export-led strategy.

31. The Government is creating a synergy between public and private sectors to benefit from the respective strength of each. A policy and operational framework for fostering public private partnership is gradually evolving. Ministry of Industries and Production also decided to "re-position" it to play a leadership role in formulation and implementation of a comprehensive strategy for rapid industrialization of Pakistan which aims at maximizing job creation and enhancing Pakistan's international competitiveness.

32. Government is taking a number of initiatives to facilitate investors. The most effective support in this regard is the establishment of industrial estates with relevant infrastructure facilities. An allocation of Rs. 1.0 billion is proposed for establishment of Export Processing Zones (EPZ) in Balochistan to support the growth and development activities around the Gwadar port. China-Pak Economic Zone in Hattar, industrial estate for Reconstruction Opportunity Zones (ROZs) in Khushal Garh, NWFP and improvement, rehabilitation and modernization of industrial estates in NWFP are three initiatives to be taken in NWFP, where industrial development needs acceleration. Specialized zones such as textiles city, garments city and Marble and Granite city are also in hand through public private partnership.

33. As I said earlier, significant shortages are emerging in such critical sectors like power, gas, railways and highways which are now exacting a toll in form of slow down in growth. Before any further damage is suffered it is necessary to add to the stocks of such key infrastructural resources. Accordingly, adequate funds have been provided to meet this challenge:

(1) Power sector: Government is attaching highest priority to reduce the demand supply gap for power, which is crippling the economy.

The larger burden of this responsibility will fall on the private sector as under the regime introduced by the Energy Policy of 1994. It was to restrict the public sector to only provide supportive infrastructure, policy making and regulatory responsibilities. However, in view of the urgency of the situation, limited temporary -term investments have been allowed in the public sector on the understanding that these will be disinvested at the earliest possible opportunity. An allocation of Rs. 66 billion is proposed to be made for a number of power sector projects. The projects included cover all the sub-sectors, power generation, transmission, distribution and alternate energy. It is estimated that 2,200 MW of power will be brought on stream by the early next year and we will not face the same situation as during this year.

Roads and Highways: Communication links are central to economic development. To give a significant impetus to the growth of road network in the country, an allocation of Rs. 37 billion is proposed to be made in the budget. This will cover more than 60 schemes covering such important projects like Makran coastal highway, Islamabad-Peshawar motorway (M-I), Karachi Northern By-pass, Indus Highway Phase-III project, Noshki-Dalbandin road, Mansehra-Naran-Jhalkhad-Chilas road, Lowari Tunnel access roads, rehabilitation, improvement and widening of KKH, Hasanabadal-Abbottabad-Mansehra expressway and

Faisalabad-Khanewal expressway.

Special Areas development program: It is proposed to increase the allocation of for Special Areas Development Programs for AJK, NA and FATA from Rs. 21.2 billion to Rs. 26.2 billion, which represents an increase of 24 %. This program will ensure equitable progress in less developed regions of the country.

Human Development and Poverty Reduction Madam Speaker

34. The main plank of democratic government's economic policy will be human development and poverty reduction. To this end, we are adopting a multi-pronged strategy. First, allocations for expenditures related to poverty reduction will be enhanced. Second, Special programs will be initiated to enhance the incomes of low income groups. Third, a regionally diversified program of low cost housing will be started that would aim to significantly enhance availability of housing for low income group. J--

35. The main features of development program and other measures we plan to take in this budget to close the social gap are as follows:

(1) Education: In the development plan we have proposed to allocate Rs. 24,6 billion for education. It may be noted that of the total federal PSDP for ministries, the funds allocated to education sector constitute about 10 % which is a very good allocation. It may also be stated that larger expenditure on education and health is done by the provincial governments and federal government does basically a supportive role in these areas.

(2) Health: An allocation of Rs. 19 billion is made in the development plan for the health sector programs. The main vehicle for implementing preventive health care is the Lady Health Workers (LHWs). This was a program which Shaheed Mohtarma Benazir Bhutto started back in 1994. Presently, 100,000 LHWs are in the field, but the desired coverage of population is incomplete. To further broaden this program, government will be recruiting 100,000 more LHWs during the year. I may point out that we will be doubling the number of LHWs in one year as compared to the number recruited in 14 years. A number of preventive health programs such as the Expanded Program of Immunization (EPI), enhanced HIV/AIDS control program, national TB control program, national program for control of blindness, control of hepatitis, maternal and-neo-natal and child health program will be strengthened.

(3) Critical curative infrastructure is also planned which includes such projects as a 400 bedded hospital for chest disease for women, national plan for disease surveillance, strengthening of district hospital and up-gradation of BHUs.

(4) Clean drinking water: To improve the quality of life for the poor of the country, government is launching the clean drinking water initiative. An allocation of Rs. 2.2 billion is proposed for this program, under which filtration plants will be installed throughout the country, eventually at the village level. This is a participatory program between federal and provincial government, on the one hand, and between provincial and local government, on the other. This project will mean a lot for the health of our nation as the majority of our

population is afflicted by water borne diseases.

Access to clean drinking water will greatly reduce the risk of such diseases.

Benazir Income Support Program:

36. As I said, protecting the vulnerable from the vagaries of price hike is the main objective of this budget. For this purpose, government is launching a new program to be known as "Benazir Income Support Program". Under the program we are initially providing an amount of Rs. 34 billion to be raised to Rs 50 billion to be given to the poorest of poor. The salient features of the program are: -

- a) Cash grant of Rs 1000 per month will be given to each qualifying household.
- b) Selection will be done through the computerized NADRA database under set criteria.
- c) Computerized National identity Card (CNIC) will be used as well as their thumb impression.
- d) The disbursement will be to the head of the household from the nearest bank or post office.
- e) Those who do not have CNIC will be encouraged to apply for a card free of cost.
- f) Data will be continuously updated to include eligible households.
- g) The beneficiaries of Benazir Card will also be provided, in due course, other welfare facilities like employment, skill development training for family youth, medical insurance, food subsidy.
- h) In addition to the above welfare measures, the poor will be supported through the existing program of Bait ul Mal, food items at subsidized rates will continue to be provided through the Utility Stores whose network will be expended to 6000 stores.

37. People's Works Program: Improving access of low income groups to basic necessities of life will play an important role in reducing poverty and improving the quality of life. Thus we are reviving the erstwhile People's Works Program of small development schemes that would cover such basic areas like provision of electricity, gas, farm to market roads and water supply. I propose to allocate an amount of FCs. 28.4 billion in the development plan for this purpose. The schemes to be undertaken will be identified by the elected representatives. This program will also create sizeable employment opportunities and therefore add to the increased income of our people.

38. Human Resources Development Commission: Government is setting up a Commission which will review the state of unemployed people in the country, regularly monitor the unemployment rate and suggest measures for its control. It will coordinate all programs

aimed at providing employment, imparting skills to the unemployed, broadening the opportunities for technical training and vocational education and encouraging work for food programs. Adequate resources will be provided to fund the activities of the Commission.

39. National Internship Program: This program was started last year for the benefit of those who have completed 16 years of education. It is proposed to continue this program. It is estimated that a minimum of 30,000 post-graduate students will take benefit of this program during 2008-09. An allocation of Rs. 1.6 billion is proposed to be made in the budget for funding the internship program.

40. People's Rozgar Program: Creation of self employment opportunities has to form part of any program for employment generation. For this purpose, we have to make arrangements so that the unemployed can have access to credit to enable him to start a useful business. Credit will be provided to unemployed persons to start own small businesses. The current self employment scheme being undertaken through National Bank will be augmented and new businesses made eligible.

41. Women development: No nation can progress by ignoring half of its population. We believe in the social and economic role of the women in particular women's contribution to the economic growth of the country. A ten percent quota for women across the board in all government departments has been approved by the government, thus increasing their role in the decision making process. Mohtarma Benazir Bhutto had established the First Women Bank. We will continue to support it. In addition, Khushhali Bank, Zarai Taraqati Bank will be encouraged to provide credit for women for promoting women entrepreneurship. In line with its commitment to remove gender imbalances in society, the government, through its Poverty Reduction Strategy Paper and Medium Term Development Framework, has initiated the process of gender responsive budgeting for mainstreaming gender dimension in the budgetary process at the federal level.

42. Microfinance: Microfinance plays a critical role in the lives of the poor. The potential client base of microfinance sector is around 25-30 million borrowers. It is noteworthy the female clients make up 45% of the total microfinance users. Government will strive to increase the outreach of microfinance services to 3 million borrowers by 2010 including increase in rural micro-finance.

43. Low cost housing: Shaheed Zulfikar Ali Bhutto had given the slogan of roti, kapra and makan to Pakistan's people. In keeping with this commitment, the Prime Minister, in his 100 days program had announced that 1 million housing units will be added to country's housing stock, for low income groups and government employees. It is proposed to allocate Rs.2 billion as a revolving fund which will be further expanded through innovative financing during the year to initiate these projects, so that the execution of these projects is not dependent on the availability of budgetary resources.

Restoring fiscal discipline Madam Speaker

44. Controlling fiscal deficit is the foremost need for stabilizing the economy. We are moving in a number of directions for this purpose. Many of the measures proposed for this purpose, have been included in the Finance Bill which I will be placing before the house for its

consideration.

(1) Freezing of non-development, non-salary expenditure: As a first major step of economy, it is proposed that government's non-development and non-salary expenditures may be frozen at the revised level of the last year. This measure has been adopted after realizing the grimness of the budgetary situation and seeking the cooperation of key institutions. However, the pink book had to be published much earlier and, therefore, is not reflected there. However, it is understood that all budgets in excess of this limit will be slashed to adhere to this principle.

(2) Ban on purchase of physical assets: With a view to further economizing on public resources, it has been decided to place a ban on the purchase of motorcars, air-conditioners and other office equipment.

(3) Budgetary cuts for the Prime Minister Secretariat, National Assembly and Senate: Prime Minister has offered this sacrifice at the outset. The budget of his office has been curtailed from Rs. 329,8 million to Rs. 230.9 million. Also both National Assembly and Senate have agreed to freeze their non-development non-salary expenditure at the level of the last year.

(4) Budgetary cut of NAB: The Prime Minister, in his opening speech to the National Assembly, had announced that appropriate measures will be taken to wind-down the National Accountability Bureau (NAB). In view of this decision, there is no justification for NAB to carry a budget that is not commensurate with its future status. Since legal and procedural requirements have to be met before it is decided to wind-up NAB, it will function with a truncated mandate. Accordingly, a 30 % cut is proposed in the budget of NAB.

(5) Disclosure of details of defense budget: In a major policy move government has decided to do away with the past practice of presenting a single line budget for defense. All the relevant details of the defense expenditure are available for the review and debate of the Parliament. This will go a long way to bring greater fiscal discipline by inducing more economical use of available resources.

(6) Phasing out of subsidies: There is an unbearable burden of subsidies currently carried by the budget. Much of it is unintended and benefiting such groups who are neither needy nor should they be subsidized. It is estimated that at present more than Rs. 400 billion are provided in subsidies of all kinds from the budget. A detailed pruning of subsidies is, therefore, necessary and inevitable to preserve country's finances.

(7) Limiting borrowing from the State Bank: Borrowings from central bank have reached an unacceptable level. This is a major source of inflationary pressures and should be contained. Partly it is the result of fewer choices available to attract non-bank resources and relatively underdeveloped capital market. We are taking a number of measures to address this problem. A new borrowing instrument to be called Government Commercial Paper has been designed and will be launched shortly. This will be available on tap from all authorized commercial banks for maturities of 3 months and 6 months and 1 year. New products of shorter maturities will also be introduced in the National Savings Schemes. More importantly, pricing on all government borrowing instruments will be made attractive and competitive with market rates. With these changes, dependence on central bank borrowing will likely decline considerably. Amendments in Foreign Exchange Regulatory Act are being undertaken to make SBP more effective against irregular foreign exchange operations. Similarly,

SECP is also being empowered through introduction of legislation to protect the investors from insider trading and malpractices.

#### Relief Measures Madam Speaker

45. As I noted earlier, fixed income groups have been hardest hit by the price hike. The largest segment of such people is in the service of the government. Accordingly, it is imperative that immediate relief should be provided to this group. Similarly, pensioners also fall within this group and they also need some relief. Finally, individuals investing in government savings schemes need relief as real returns have fallen considerably in face of rising prices.

46. Keeping these needs in view, government has decided to provide following relief to the above groups:-

- a) A 20 % increase in basic pay is proposed to all Federal Government employees. The similar increase will also be allowed to defence services.
- b) A 20 % increase in net pension is proposed for all civilian and defence pensioners.
- c) Minimum Pension increased from Rs. 300 to Rs 2000/-.
- d) 100 % increase in Conveyance Allowance, for government employees from BS-1 to BS-19, which is currently at a very low level.
- e) Medical Allowance for BS-1-16 is being increased from Rs 425/- to Rs 500/- p.m.
- f) Increase in minimum wages level from Rs. 4600/- to Rs. 6000 per month.
- g) Profit rates of National Savings Schemes (NSS) are being increased by 2%. The rates will be revised quarterly instead of biannually so as to minimize the gap between NSS and market rates.
- h) Those government employees who are unable to work due to illness, accident, earth quake and terrorism will get complete pension benefits. The condition of 10 years service is abolished.
- i) Regularization of contract staff from BS-1 - 15 is proposed.
- j) A Pay and Pension Commission to be set up to review pay and pension of government employees.
- k) No. of posts of Judges of the Supreme Court is being increased from 16 to 29.

#### Taxation Proposals Madam Speaker!

47. I now turn to the Revenue proposals for the year 2008-09. Most of the Fiscal incentives for Agriculture Growth, Industrial and Energy sector have already been presented. As we all know that we are facing a very challenging economy. Our foremost need is to stabilize the fast deteriorating economic conditions. A number of far reaching steps have been taken to control the expenditures so that the burden on budget is reduced. However, such measures are not enough to meet the ambitious target for deficit reduction which we have set in the budget. Accordingly, the rest of the burden will have to be shared by carrying out a more diligent and concerted effort on revenue mobilization.

Madam Speaker

48. There is a realization that our Tax Administration revenue effort and service standards need drastic improvements. Accordingly Reform of Tax Administration would be a continuous commitment of the Political Government with the objective to convert Tax Administration into a modern, progressive, effective and credible organization and thereby enhancing the capability of the tax system for optimizing revenue, increasing the tax to GDP ratio, broadening the tax base, strengthening audit and enforcement procedures, fair and equitable application of tax laws through modern techniques, quality service and promoting compliance with tax laws.

49. Before I place the taxation proposals before the House, let me spell out that despite all odds, the net collection during this year is expected to be around Rs. One trillion. The heavy dependence on indirect taxes is being now shifted to direct taxes which has gone up to 39%. There is marked improvement in the tax return filers. Due to low tax/GDP ratio, there is ample scope to further improve revenue collection by FBR.

Customs

50. There is a compelling need to curtail the widening gap in Pakistan's international trade by discouraging imports of the non-essential and luxury items.

It has therefore been proposed to enhance import duties on about 300 non-essential and luxury items from the existing 15%, 20% and 25% slabs of import duties to the higher slabs of 30% and 35% respectively. These items generally include perfumery, cosmetics, crockery, ceramics, bath room fittings, kitchen utensils, furniture, sporting arms and domestic appliances such as air conditioners, refrigerators, deep freezer, cooking range, ovens and other such equipment. The list also includes confectionary items like biscuits, chocolates and cookies besides cigarettes, cigars and some of the food preparations.

51. Similarly, the customs duty on the luxury vehicles of 1800cc engine capacity and above is being increased from the existing 90% to 100%.. Used motorcars and jeeps of below 1800cc engine capacity are presently being charged to the fixed amounts of duty and taxes. Respective fixed amounts of duty and taxes are proposed to be enhanced by 10%. Specific customs duty of Rs. 500 per set is being proposed on the import of mobile cellular phones. Import duty on betel leaves is proposed to be enhanced from Rs. 150/- per kg to Rs. 200/-

per kg.

#### Sales Tax & Federal Excise Duty (FED), Madam Speaker

52. Following are some Sales Tax and Federal Excise measures for the industrial growth:

53. To achieve sustained economic growth, it is essential that sufficient revenues may be available with the Government to spend on the socio-economic well-being of the people. Presently, 15% rate of sales tax is comparatively low in the region. In some cases, it is even 20%. In order to meet the increased requirements of greater revenue generation, it is being proposed that the rate of sales tax may be increased from 15% to 16%. To facilitate cross subsidization of PDC, an enabling amendment is being made in the relevant law for the government to levy PDL on transport fuels like CNG, LPG whenever considered necessary.

54. It is also being proposed to increase the rate of federal excise duty on telecommunication services from 15% to 21% which is collected in VAT mode.

55. It is, proposed that 5% FED may be imposed on the imports as well as on the local supply of cars having engine capacity exceeding 850cc.

56. To keep our rates of FED in line with the neighboring countries and to increase tax to GDP ratio, it is being proposed that rate of FED on banking, insurance and franchise services may be increased from 5% to 10%.

57. The fixed rate of Federal excise duty on cement is being proposed to be increased from Rs. 750 PMT to Rs. 900 PMT on account of indexation of inflation.

#### Income Tax Madam Speaker

58. Now, I highlight some of the important measures proposed for Direct Taxes :-

59. Despite 20% annual increase in the number of taxpayers during the last three years 2.2 million taxpayers in a population of 160 million people is still very low in the region. Like-wise tax to GDP ratio having remained static at about 11% for the last so many years does not reflect any appreciable performance. Your government proposes to take two steps to improve the tax base:

a) Withdrawal of 35 income tax exemptions which would be a landmark achievement and bold initiative compared with the past governments.

b) Launching of a liberal "Investment Tax Scheme" whereby taxpayers are proposed to declare past business, capital formation and assets acquired, by paying just 2% on their market value and come forward to play their constructive role in the advancement of documented economy. The declarants would not have any fear of investigation in their tax affairs for the past. A massive campaign would be undertaken to make the scheme a success

so that there is a fair improvement in tax to GDP ratio and number of taxpayers.

Madam Speaker

60. Following are the Tax Reliefs through Direct Taxes: -

- a) Minimum tax @ 0.5% on declared turnover is levied on loss making companies or companies whose income is not chargeable to tax due to specific exemption provided in law. This tax is obviously paid out of equity in the absence of income for the year and is also regressive. It is proposed to abolish levy of minimum tax to improve economic growth and incentivize the taxpayers to grow in business.
- b) Basic Exemption of Rs. 150,000 for salaried taxpayers is being raised to Rs. 180,000 and for Rs. 200,000/- to Rs. 230,000/- for the women taxpayer. This measure would provide relief to more than 75,000 taxpayers.
- c) Taxation of salaried persons was rationalized to provide 21 income slabs for levying income tax starting from 0.25% to 20%. However, hardship has been caused in the shape of higher tax incidence, when income crosses a slab to next higher slab and tax rate. This may happen frequently due to incremental changes in salary income. To provide relief to salaried class, it is proposed to allow marginal relief in tax at every incremental slab of income.

Madam Speaker

61. Following are the Direct Tax Revenue Measures: -

62. Advance income tax is collected on import of goods @ 1% to 5% on individual and commercial importers. Instead of a facilitation measure it has caused dichotomy where manufacturers stately misuse low rate of tax and possibility of maneuvering tax payment at import stage by applying incorrect withholding tax rates in connivance with the state functionaries cannot be ruled out. To make the tax payment transparent a uniform tax rate of 2% is proposed for commercial as well as industrial importers. This tax has also been made adjustable in the case of companies who are engaged in manufacturing activities.
63. Industrial as well as commercial consumers of electricity are proposed to pay advance tax @ 10% on their electricity bills exceeding Rs. 20,000 per month, which would be adjustable against their final tax liability. It will help to discharge their tax liability in 12 installments.

Madam Speaker

64. A couple of years back income tax on property income was levied @ 5% of the gross rent where the rent amount, being only income of an individual or association of persons, was above Rs. 150,000. It was a clear favour to the higher income group and disincentive for the lower income bracket. To make it equitable on the principle "the more you earn the more you pay", it is proposed to provide progressive withholding tax rates for higher income brackets,

ranging from 5% to 15% on different income slabs.

65. The most lucrative investment in recent past has been investment in real estate which has really retarded industrial growth in the country. Development of land into housing schemes, construction of high-rise residential and commercial building attract huge profits but the tax contribution in this field is very low, it is therefore proposed that the developers and builders should pay Rs. 100 per sq. yard on developed plots sold during the year and Rs. 50 per sq. ft. on the sale of constructed property as minimum tax.

#### Concluding Remarks Madam Speaker

66. This is a budget that will herald a new era of economic stability, social justice and prosperity to all sections of the society. This vision of Pakistan is the one which was given by Shaheed Zulfiqar Ali Bhutto on that historic day of 14th April, 1972 as President of Pakistan, when he addressed the National Assembly which first met to frame a constitution for Pakistan. He said:

Apart from the obvious requirement of justice and equity between man and man and between regions, there is a fundamental philosophy governing [our] approach. Our economic muscle and national cohesion can grow only with a just economic and social order. It is only when every peasant and every worker and the entire population of all the regions are convinced in their own mind that each one of them is striving and struggling for the good of all, that the creative energies of the entire nation will be fully harnessed. Otherwise, we shall not overcome our national crisis.

67. This budget is for all the people of Pakistan. It is seeking sacrifices from all sections who can afford it. It is protecting the poor and the weak. It gives an inclusive message, a sense of sharing. The crises we are facing are daunting but this nation has been tested in the past and we will prove that we are worthy of successfully facing and overcoming these challenges.

Pakistan Paindabad.

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