FEDERAL BUDGET

2017-18

PRESS BRIEF

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Government of Pakistan
Finance Division
Islamabad

Review of Economic Performance since 2012-13

- ❖ **Real GDP Growth** at 5.28% this year is the highest in the past decade. Four years' ago, the economic growth was 3.68%. For the first time the size of the economy has surpassed $300 billion;
- ❖ **Agriculture sector** has turned around. The sector has performed impressively this year. Compared to last year's stagnation this sector has registered a robust 3.46% growth. All major crops including Wheat, Cotton, Sugarcane and Maize have registered healthy growth;
- ❖ **Industrial production** grew by 5.02% and businesses are now hiring additional workers.
- ❖ **Services sector** - which includes banks, retail, transportation, housing, etc. - grew by 5.98%;
- ❖ **Per Capita Income:** Per capita income today stands at $1,629 as compared to $1,334 four years ago;
- ❖ **Inflation** was on average 12% between 2008-13. In this current year inflation is expected to be around 4.3%;
- ❖ **Fiscal deficit:** The government followed a policy of fiscal consolidation because of which fiscal deficit reduced from 8.2% to the current year's 4.2%. This was achieved through higher revenue collection through improved administration and broadening of the tax base, undoing decades-old concessionary SRO and curtailing non-development expenditure of the government;
- ❖ **FBR Revenues:** In fiscal year 2012-13 FBR collection was Rs.1,946 billion. For the current year the target is Rs.3,521 billion. This represents a historic increase of 81% in the last 4 years with average annual growth of 20%. Tax to GDP ratio which was 10.1% in fiscal year 2012-13 is likely to increase to 13.2% this year;
- ❖ **Policy rate of State Bank of Pakistan** has come down from 9.5% in June 2013 to the current 45-year low of 5.75%. Similarly, mark-up rates of Export Refinance Facility have been reduced from 9.5% in June 2013 to 3% in July 2016. In addition, the mark-up rate on Long Term Finance Facility has been gradually reduced from 11.4% in June 2013 to 6% for exporters and 5% for textile sector. This has led to a spurt in credit to the private sector;

- Resultantly **Credit to private sector** has grown to Rs.507 billion till May of this year, as compared to Rs.93 billion in fiscal year 2012-13, resulting in expansion of business activity in the country;
- **Agriculture credit** was Rs.336 billion four year's ago which at the end of 2016 was Rs.600 billion and is targeted to increase to Rs.700 billion during the current financial year;
- **Imports:** Imports have been recorded at $37.8 billion during July-April showing an upward trajectory compared to the same period last year. This vibrancy in imports is attributable to over 40% increase in capital machinery, industrial raw material and petroleum products and the increased investment under the CPEC projects focused on energy and infrastructure sectors;
- **Exports** during the first ten months of this year have shown an overall minor decrease of 1.28% compared to 7.8% decline during the same period last year. This reversal has been the result of timely support by the government to exporters in shape of a comprehensive package of Rs.180 billion in January 2017 and efforts of our exporters;
- **Foreign Exchange Reserves:** In June 2013 foreign exchange reserves held with the State Bank were $6.3 billion which included short-term swap of $2 billion for which payments were to be made within weeks. This means that the real reserves were $4.3 billion. Foreign exchange reserves currently stand at a comfortable level of $16 billion despite a larger than expected trade deficit mainly due to increased import of capital goods. If we include foreign exchange deposits with commercial banks, the total foreign exchange reserves of the country have increased to around $21 billion;
- **Exchange Rate:** Inter bank rate of dollar on 30th June 2013 was Rs.99.66. Within a few months this rate increased to around Rs.111. After better economic management and increase in foreign reserves the exchange rate reverted to Rs.99. Due to political disturbances between August and December 2014 the rate again increased close to 104.80. Since then this rate is the same;
- **Remittances:** Over the past four years, remittances increased from $13.9 billion to $19.9 billion. This 40% increase was made possible due to government's revival and payment of outstanding dues of Pakistan Remittance Initiative. The remittances for the first ten months of the current FY stand at $15.6 billion and are expected to grow in the last two months due to Ramazan and Eid despite challenging economic situation in the gulf region;
- **Pakistan Stock exchange:** The merger of the three stock exchanges was completed in January 2016 after successful resolution of issues pending for

over a decade. Since then, Pakistan Stock Exchange has graduated from frontier to emerging markets in the Morgan Stanley Capital International (MSCI) Index. It has been declared as Asia's best performer and 5th best performing market in the World by Bloomberg. The index has increased from 19,916 on 11 May 2013 to over 52,000 points currently. And during this period market capitalisation has increased from $51 billion to $97.3 billion depicting a 90% increase;

- ❖ **Registration of New Companies:** This year 5,855 new companies have been incorporated till March. Four years ago, in the entire financial year 3,960 companies were incorporated;
- ❖ Enactment of Economic Laws: The government has in its tenure completed 24 pieces of legislation in different sectors of the economy including; Benami Transactions Prohibition Act, Special Economic Zones Amendment Act, Deposit Protection Corporation Act, Credit Bureau Act, Corporate Restructuring Companies Act, National Energy Efficiency and Conservation Act, Anti-Money Laundering Act, Gas Theft Control and Recovery Ordinance, and Limited Liability Partnership Act. 10 new pieces of legislation are currently in the process which would lead to further augment the enabling legal environment required for a flourishing economy;
- ❖ **Companies Law:** The Parliament has approved the companies law 2017 only this week. I thank congratulate both the houses. This law has replaced the 33-year old Companies Ordinance of 1984. This is a major reform to consolidate the provisions / laws relating to companies so as to encourage and promote corporatisation in Pakistan based on the best international practices. This law will simplify procedures creating ease of starting and doing business and protect investors. It addresses issues related to protection of minority shareholders and creditors, eases regulatory compliance requirements for smaller companies, and among others provides relaxation for registration of agricultural promotion companies for the development of agriculture sector. Keeping in view the importance of women, the new law will allow women membership in boards of directors of listed companies;

❖ **Ease of Doing Business:** Reforms have been undertaken to make it easy for firms to do business in the country. As a result, Pakistan's ranking in the World Bank's ease of Doing Business index improved from 148 to 144 in the report launched in 2016, based on performance in 2015. Pakistan was also recognised as one of the top ten reforming countries in the World. On the basis of additional reforms undertaken during the period 2016, Pakistan expects further improvement in the ranking of World Bank's Doing Business report to be published in October 2017.

Budget Strategy

- Increase in real GDP growth of 6%;
- Investment to GDP 17%;
- Development budget of Rs.1,001 billion
- Inflation below 6%;
- Budget deficit at 4.1% of GDP;
- Tax to GDP ratio at 13.7%;
- FBR revenues are targeted to increase by 14% while the Federal expenditures will grow by 11%;
- Non-tax receipts of the Federal government are budgeted to increase by 7%.
- The current expenditure will be kept under tight control, Federal PSDP for the next year is budgeted at Rs.1,001 billion. If we add the provincial ADPs the outlay for development of FY 2017-18 would be a whopping Rs.2.1 trillion;
- Foreign exchange reserves level that can cover a minimum of 4 months of imports;
- Net public debt to GDP ratio below 60% of GDP;
- Continuation of targeted social interventions.

Medium Term Goals 2017-20

- GDP growth to gradually rise to over 7.0%;
- Inflation will be contained to single digit;
- Federal Government's fiscal deficit will be brought down to 4% of GDP by June 2020;
- Tax to GDP ratio will be increased to over 14%;
- Public debt will be brought down to around 55% of GDP.

Relief Measures

- 10% increase will be given on the pay of all officers and Jawans as special allowance
- In the budget speech FY 2016-17 three allowances were merged. However, the 2008 adhoc relief allowance to the Army and the 2010 adhoc relief allowance for the civilians was not merged. A 10% adhoc relief allowance on the merged salary to all civil and armed forces employees is proposed
- 10% increase is also being proposed in pensions
- Up to BPS-5 employees are being exempted from paying house-rent charges at the rate of 5%
- Daily allowance - domestic - is being increased by 60%
- Orderly allowance is being revised from Rs.12,000 to Rs.14,000
- Rate for transportation of dead bodies and local burial of are being revised from Rs.1,600 to Rs.4,800 and Rs.5,000 to Rs.15,000 respectively
- Constant attendant allowance admissible to Armed Forces and CAF is being increased from Rs.3,000 to Rs.7,000
- Different allowances for offices and sailors of Pakistan Navy are being revised including; hard-lying pay, compensation for batman, uniform allowance and ration allowance
- Design allowance is being increased by 50%
- For employees of Pakistan Post, certain rates of allowances are being revised
- The Jawans of the Frontier Constabulary are performing their duties all over Pakistan. In order to make their salary structure attractive it had been decided to allow them a Rs.8,000 per month fixed allowance. One-third of that allowance has been allowed w.e.f 1st March 2017; the one-third of it will be allowed from 1st July 2017 and the balance one-third from 1st July 2018
- The above measures are estimated to cost an additional Rs.125 billion. It should be remembered that additional amount in last year’s increase in salary and allowances was Rs.67 billion
- Minimum wage: On the pattern of increase in the pay of Government employees the minimum wage of labour for their benefit is being increased from Rs.14,000 to Rs.15,000 per month.

New Initiatives

WELFARE

- Welfare scheme for family of Shuhadah (Martyrs) - CDNS - preferred profits will be offered
- Scheme for disabled persons - CDNS - preferred profits will be offered
- Loan write-off of widows - HBFC - upto Rs.500,000
- Facilitating elderly, widows and pensioners - CDNS - IT, on-line connectivity, and alternative service delivery mechanisms - ATMs, mobile, etc.
- Overseas Pakistanis - non-convertible bond, an exclusive sector in Islamabad by CDA
- BISP Beneficiary Graduation Program - Grants to willing self-employed individuals - Rs.50,000 grant per family will be provided to 250,000 families in the first phase
- Provision of off-grid solar solutions in sparsely populated areas especially Balochistan

AGRICULTURE

- Continuation of subsidized electricity for agri-tube wells
- Single-digit (9.9%) mark-up rate for farmers utilizing loans up-to Rs.50,000
- Continuation of subsidy on electricity to low-income and low-usage customers
- Credit to agriculture sector – increased from Rs.700 billion target of the current year to Rs.1,001 billion

FINANCIAL INCLUSION

- Financial inclusion - loans to low-income segments through micro-finance banks, exemption from WHT on branchless banking agents

INFORMATION TECHNOLOGY

- Setting up of an IT Park
- IT export houses/ companies shall be allowed to open Foreign Exchange Accounts in Pakistan
- Reduction of the withholding income tax on cell phone call from 14% to 12.5% and Federal Excise Duty from 18.5% to 17%

- Smart / android phones - custom duty to be reduced from Rs.1,000 to Rs.650
- Import duty is being reduced on mobile telecom products
- The start-up software houses shall be exempted from Income Tax for the first 3 years
- Exports of IT services from Islamabad and other Federal territories shall be exempted from Sales Tax

OTHERS

- Minimum wage of labour increased from Rs.14,000 per month to Rs.15,000 per month
- Bait al Maal allocation increased by 50% from Rs.4 billion to Rs.6 billion
- Risk sharing guarantee scheme - house building finance

TEXTILES

- To stabilize cotton prices in the country, a system of cotton hedge trading for the domestic cotton will be initiated
- Launch of Brand Development fund for textile sector
- The approval process of establishment of 1,000 stitching units has been completed and its implementation will start during FY 2017-18 and shall be completed in three years;
- Online textile business/trade portal for textiles using B2B (business to business) and B2C (business to consumer) mode

INFRASTRUCTURE FINANCE

- Establishment of Pakistan Infrastructure Bank

FINANCIAL INCLUSION STRATEGY

- A Rs.8 billion fund will be created at the State Bank of Pakistan to provide loans to low-income segments through microfinance banks;
- In order to facilitate transactions through mobile banking, e-gateway systems, mobile banking, the Government is establishing a state-of-the-art e-gateway systems at the State Bank of Pakistan at a cost of Rs.200 million. Technical training and handholding of the service delivery organisations shall also be undertaken through this project;
- Exemption from withholding tax on Cash Withdrawals by Branchless Banking Agents- exemptions on withholding tax will be given on withdrawal of cash from branchless banking;

- Pakistan Micro Finance Investment Company: The Government of Pakistan in 2016 launched Pakistan Microfinance Investment Company (PMIC) jointly with DFID and KFW to augment the availability of capital for Micro Finance institutions. It is estimated that this will lead to doubling of small loans;

SMALL AND MEDIUM ENTERPRISES

- Establishment of Risk Management Facility
- Innovation Challenge Fund
- Secure Transaction for moveable property

SALES TAX REFUND

- Sales tax refunds: All the pending sales tax refunds whose RPOs have been sanctioned by 30th April 2017 shall be paid in two parts. RPOs upto the value of Rs.1 million will be paid till 15 July, and the remaining RPOs will be paid till 14th August 2017.

SALIENT FEATURES OF THE BUDGET 2017-18

- The total outlay of budget 2017-18 is Rs 5,103.8 billion. This size is 4.3% higher than the size of budget estimates 2016-17.
- The resource availability during 2017-18 has been estimated at Rs 4,713.7 billion against Rs 4,442 billion in the budget estimates of 2016-17.
- The net revenue receipts for 2017-18 have been estimated at Rs 2,926 billion indicating an increase of 5.3% over the budget estimates of 2016-17.
- The provincial share in federal taxes is estimated at Rs 2,384.2 billion during 2017-18, which is 11.6% higher than the budget estimates for 2016-17.
- The net capital receipts for 2017-18 have been estimated at Rs 552.5 billion against the budget estimates of Rs 453.6 billion in 2016-17 i.e. an increase of 21.8%.
- The external receipts in 2017-18 are estimated at Rs 837.8 billion. This shows an increase of 2.2% over the budget estimates for 2016-17.
- The overall expenditure during 2017-18 has been estimated at Rs 5,103.8 billion, out of which the current expenditure is Rs 3,763.7 billion and development expenditure is Rs 1,340.1 billion.
- The share of current and development expenditure respectively in total budgetary outlay for 2017-18 is 73.7% and 26.3%.
- The expenditure on General Public Services is estimated at Rs 2,553.6 billion which is 67.8% of the current expenditure.
- The development expenditure outside PSDP has been estimated at Rs 152.2 billion in the budget 2017-18.
- The size of Public Sector Development Programme (PSDP) for 2017-18 is Rs 2,113 billion. Out of this, Rs 1,112 billion has been allocated to provinces. Federal PSDP has been estimated at Rs 1,001 billion, out of which Rs 377.9 billion for Federal Ministries/Divisions, Rs 380.6 billion for Corporations, Rs 30 billion for Prime Minister's SDGs Achievement Programme, Rs 40 billion for Special Federal Development Programme, Rs 12.5 billion for Energy for All, Rs 12.5 billion for Clean Drinking Water for All, Rs 7.5 billion for Earthquake Reconstruction and Rehabilitation Authority (ERRA), Rs 5 billion for Special Provision for Competition of CPEC Projects, Rs 45 billion for Relief and Rehabilitation of IDPs, Rs 45 billion for Security Enhancement, Rs 20 billion for Prime Minister's Initiative and Rs 25 billion for Gas Infrastructure Development Cess

- To meet expenditure, bank borrowing has been estimated for 2017-18 at Rs 390.1 billion, which is significantly lower than revised estimates of 2016-17.