

# **Federal Budget**

## **BUDGET SPEECH**

**2011-2012**

**DR. ABDUL HAFEEZ SHAIKH**

**Minister for Finance, Revenue,  
Economic Affairs, Statistics and  
Planning & Development**

GOVERNMENT OF PAKISTAN  
FINANCE DIVISION  
ISLAMABAD

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

## BUDGET SPEECH FOR FISCAL YEAR 2011-12

### Part-I

#### Introduction: Democracy is Functioning

**Madam Speaker,**

1. Let me start in the name of Allah, the most gracious, the most merciful. I am thankful to Allah for the responsibility placed upon me to present the fourth budget of the democratic Government before this historic Parliament. In presenting the fourth budget, Prime Minister Gilani, has become, after Shaheed Zulfiqar Ali Bhutto and Liaqat Ali Khan, the longest running PM in Pakistan's history. This is a great tribute to the political leadership of our country, to President Zardari, to the leadership of all the major political parties.

2. This is a historic Parliament. It reflects the will of the people. It has set high standards of debate. It has conducted itself honorably. It has passed landmark

legislation. It has strengthened the Federation. It has redressed historical inequities. It has empowered the provinces. Above all, it has restored the constitution.

3. The Constitution of Pakistan was framed in 1973 by Shaheed Zulfikar Ali Bhutto and the national leaders of that time. It was a shining moment for Pakistan. In that moment we all came together. Our Constitution was assaulted in 1977. It took us 32 years to restore the constitution. This national duty was performed by this House. Let us pay a tribute to those who are responsible for meeting the aspirations of our people. Let us pay a tribute to the President Asif Ali Zardari, who voluntarily gave up his powers to the Parliament. Leader of the House, Prime Minister Gilani, and Leader of the Opposition, Chaudhry Nisar Ali Khan also deserve special tribute for playing a key role in ensuring the supremacy of the Parliament. The restoration of the Constitution was another shining moment. We again came together. A new Pakistan emerged. A new beginning was made.

**Madam Speaker,**

4. Whenever we have come together we have surprised the world with our achievements. In 1947 when we came together we overcame the odds and this country was born. In 1965 when our country was attacked we came together, and aggression was resisted. In 1998 we came together to protect our nation and the world witnessed our capabilities. In the earthquake of 2005 and the floods of 2010 we came together and showed the world our resilience and generosity.

5. This is a Pakistan in which democracy has made a comeback. The new Pakistan is also one of coalition politics. Of give and take. Of the balancing of forces. Of developing shared understanding. Of lively public discourse. Of getting

along. Of generating consensus. Of responsiveness to Parliament, the media, the business community, civil society, and above all, to the People of Pakistan. The judiciary is free to interpret the Constitution, to apply checks on the Government, and to provide justice. The media is free to report, to comment, and to critique. Provincial Governments have been assigned greater responsibilities and given greater resources. The Parliamentary committees provide oversight and scrutiny on the working of the Government. The financial institutions like the State Bank, the Securities and Exchange Commission, and the Competition Commission enjoy extraordinary autonomy. They are empowered to conduct monetary policy, regulate the financial sector, and curb monopolies and cartels. The regulatory bodies such as PTA, NEPRA, OGRA, are free to conduct their affairs without Government intervention. And in an extraordinary act of bipartisanship, a move unheard of in parliamentary history, the Leader of the Opposition is the Chairman of the Public Accounts Committee. And he performs this role with great responsibility and enthusiasm. These are the foundations of a new Pakistan that make us all proud.

**Madam Speaker,**

6. However, a lot of hard work still needs to be done. We must let democracy take root. We must safeguard our freedoms. We must allow our institutions to strengthen. We have to build sound governance that serves people. Madam Speaker, with hard work I am confident that the foundations for transformation will be securely laid.

### **The Economy We Inherited**

**Madam Speaker,**

7. Let us all recall where the economy was when this House and this Government took charge in 2008. My friend, Senator Ishaq Dar sahib, who was

the first Finance Minister of this Government, was rightly alarmed at the state of the economy that he inherited. He said then;

*“The mismanagement of economy has resulted in overspending of Rs. 558 billion and if the Government does not take corrective measures then fiscal deficit will touch 9.5 per cent of GDP by June 2008.”*

8. By 2007, a combination of oil price increases, expenditure on security and policy lapses had set the stage for a full blown crisis. The fiscal space created by the 2001 debt rescheduling and successful privatization was squandered by fueling a consumption boom instead of undertaking structural reforms in the country. Double digit inflation has been recorded since 2006 and had reached to an alarming level of 25%, perhaps the highest ever. Growth had slowed down, fiscal deficit had ballooned to 7.6%, and the external current account deficit was 8.5%. International reserves had declined from 16 to 6 billion dollars and a sharp decline in the value of the rupee and the further evaporation of reserves was imminent.

### **The Government Response**

**Madam Speaker,**

9. Thus, the Government of President Zardari and Prime Minister Gilani, inherited on March 8, 2008, a fragile economy, an acute BOP crisis and a large fiscal shock. The Government had no choice but to go to the IMF. A stabilization program was sought amounting to \$11.1 billion to strengthen our international reserves, and tighten fiscal and monetary policies to fight inflation.

10. The efforts of the Government began to pay off. Inflation was moderated and the growth momentum started to return. The fiscal deficit was brought down

and new pro poor schemes were launched. Areas where we needed to show better results were in domestic resource mobilization, creation of new jobs in private sector, resolving the energy shortages and better targeting of subsidies.

### **Budget 2010-11**

**Madam Speaker,**

11. One challenge that the Budget for FY 2010/11 faced was that this was the first year after the landmark NFC Award, which substantially enhanced the share of Provincial Governments in the divisible pool and increased the challenge of the Federal government to finance its expenditure obligations. We however, consider it a temporary difficulty that in the long run is the best thing that has happened to augment the welfare of our people. Since, a much bigger share of expenditure responsibilities that affect our people, such as health, education and law and order are provided by the Provincial Governments, we are hopeful that national expenditures on these services will rise as additional resources are transferred from the federation to the provinces.

12. It was against this setting that the Budget for FY 2010-11 was presented in which we took several measures to provide relief to our citizens. Salaries were increased by 50%, benefitting Government employees. Tax exemption limits were increased from Rs 100,000 to Rs 300,000 benefitting 1.2 million low income tax payers. No income taxes were levied. Custom duties were not increased for any item and brought down for 29 to reduce the burden on the public. A comprehensive reform proposal for sales tax was offered doing away with exemptions and special treatments and capital gains tax was imposed to bring short term gains from stock trading into the tax net. Very importantly, a deficit target was fixed at 4% and strong austerity measures were introduced to check

inflation. All non-salary expenditures of the federal Government were frozen at the level of previous year's actual. The PSDP was also frozen at the previous year's level. To protect the poor and vulnerable segments, targeted social safety nets such as BISP were enhanced.

### **Adverse Shocks**

**Madam Speaker,**

13. However, soon after the budget three major events jolted us severely which I would like to share with this august House:

Our country was struck by the greatest natural calamity of our history: The Great Floods of 2010. The world has not seen a calamity of this magnitude in modern times. No country has had to deal with a disaster of this scale. No area of the country was spared. The floods struck us all the way from the mountains in the north to the sea in the south, covering a length of a thousand miles. All four provinces were affected. Eighty plus districts were inundated. Families saw their loved ones drown. Farmers saw their standing crops – of rice and cotton -- destroyed. People saw their homes washed away. Our brothers and sisters had to spend days in fear and nights under open skies. Bridges, roads, railways, dams, power plants, factories, refineries, irrigations systems, schools, hospitals and other infrastructure were impacted. Entire towns like Nowshera, Charsaddah, Muzaffargarh, Rajanpur, Jacobabad, Khairpur Nathan Shah and Qambar-Shadadkot and Jafferabad and Dera Allahyar were submerged or cut off for weeks.

**Madam Speaker,**

14. Once the waters had receded only then could the economic toll be calculated: 20 million people affected; 1.6 million homes damaged; 2 million ha

of standing crops destroyed; 300,000 cattle lost; 25,000 km of roads destroyed; inflation increased due to disruption of supplies while revenue collection suffered. The overall assessment of damage stood at \$10 billion or Rs 850 billion and GDP growth reduced by two percent. The requirements of looking after the flood affected, allocations for their support and rehabilitation, resulted in additional fiscal strain on the Government and the macro-economic framework had to be adjusted.

15. While the floods caused us grave economic hardship....and the effects will be felt for a long time.... they also showed the true character, resilience, dignity, generosity and strength of our people. Many in the international community helped us both through the UN and through bilateral support. These included the US, Japan, UK, China, Saudi Arabia, Turkey, UAE and others. We are thankful to all of them. I would like to pay a special tribute to the First Lady of Turkey who donated her personal necklace to be auctioned to help our brothers and sisters. While others helped, the big story of the Floods is that Pakistanis helped Pakistanis. They opened their homes and their hearts for their brothers and sisters. The Government, its organisations like the armed services, the NDMA, elected representatives and above all the civil society rose to the occasion and we again became a nation united, both, in sharing of the pain and in sharing of our generosity. Let us pay a tribute to those who reached out. Let us also pay a tribute to overseas Pakistanis, from Oslo to Jeddah and from Houston to Abu Dhabi for their support. Above all let us recognize whose hearts were there for their fellow countrymen. Above all let us honor the resilience, the strength and the grace of the people of Pakistan who have suffered this calamity. We salute you. We will not forget your suffering. And we will do whatever we can to alleviate your suffering and bring you back into the economic mainstream.



16. The Government tried to deal with the floods at various levels. A program of Cash Compensation was launched for giving Rs. 160 billion. In the first phase Rs. 32 billion have been disbursed. Farmers have been given subsidized credit and fertilizer and seeds. The cost of this package is Rs. 8 billion. Hundreds of billions of rupees are being allocated for the rehabilitation and development of flood affected infrastructure.

**Madam Speaker,**

17. The second factor which impacted us seriously was the unexpected increase in the international price of oil. As you know, dependence on imported oil is a great source of vulnerability and threat to our economy. The price of oil is affected by the increase in the demand from the fast growing economies of Asia, the matters of psychology and speculation, and of course the uncertainty and disruption of supplies from the recent developments in the oil producing Middle East. Madam Speaker, when our last year's budget was prepared the price of oil was expected to be in the range of 70-75 dollars per barrel. However, the prices rose to \$125 per barrel during the year.

**Madam Speaker,**

18. The high price of oil pushed up prices of many products, caused hardship to our citizens and severely impacted the supply of electricity and threatened the stability of the economy. The Government tried its best to keep prices low for less privileged income groups. The Government even sacrificed more than Rs.50 billion of its own in the process. Unfortunately, there is no good way to subsidize only the needy. The rich benefit from the subsidy as well. Thus, while the Government loses money the benefit is enjoyed not only by the poor users of public transport but also by the rich owners of luxury cars. This is not a fair

system. We must show courage and move away from such general subsidies to subsidies only for the deserving. I will say more on this subject later in my speech.

19. Madam Speaker, the third factor which continued to affect us adversely was security. We live in a difficult neighborhood. We are faced with threats to our country's security. We remain engaged in a struggle for the safety of our citizens. We are the victims of war and terrorism. We have paid a heavy price. 5,000 of our jawans have embraced martyrdom. 30,000 of our citizens have lost their lives. Even women and children have not been spared. Our towns, villages and bazaars have been bombed. Our schools and hospitals have been targeted. Our FC academy, our Intelligence offices, our police stations, our navy installations and even our GHQ has been attacked. Even our mosques and the shrines of Bari Imam, Data Darbar and, Abdullah Shah Ghazi have not been spared. I want to pay a tribute Madam Speaker to our armed forces, to our paramilitary, to our police and above all to our citizens. I want them to know that the nation is with you. That we salute you. And that in these difficult times we have to stand united.

20. This security situation has grave consequences for our economy and the welfare of our people. It affects our perceptions. It affects our business environment. It affects our investment flows. It affects the growth of our economy. And ultimately it affects the welfare of our people.

### **Governments Response**

**Madam Speaker,**

21. Our Government responded to these challenges by

- Deepening our austerity measures through another round of expenditure cuts amounting to Rs. 20 billion, banning of fresh recruitment and reducing petrol allowances of senior Government officials.
- Pruning of expenditures through a Rs 100 billion cut in development expenditures, while preserving regional balance and early completion of projects.
- Further limiting un-targeted subsidies
- Pushing for public sector enterprise reform especially in the area of energy ( I will say more about that later)
- In keeping with our objective to strengthen resource mobilization we took several revenue actions:
  - While we could not enact the RGST law because political consensus eluded us, our resolve to expand the resource envelope was not weakened. Exemptions and zero ratings in our sales tax system were removed.
  - Establishment of an automated refund system
  - Levied one-off additional taxes to meet the requirement of our citizens affected by floods. Measures for this effort were (i) a small surcharge on income tax liabilities and (ii) raising the special excise duty by 1.5%.
  - We also worked on administrative reform at FBR reform ( I will dwell on this later) which has started to yield results and the targets for revenue collection are being achieved.

**Madam Speaker,**

22. As we begin the new fiscal year, I am confident that the difficulties we have faced in the last three years are moderating. There are signs of recovery. Most notably, during the year, our exports have shown an unprecedented growth of 28% in the first ten months of the fiscal year. Similarly, remittances are likely to cross the double digit mark at \$11.2 billion, which is again historic. Remittances have crossed the one billion mark in each of the last three months--

another record. I can also report that we will have a surplus in the current account of balance of payments at the end of this year. Owing to these positive factors, the country has accumulated historic reserves of \$17.3 billion and the rupee has displayed stability.

**Madam Speaker,**

23. Rural areas have benefitted from our policies. Due to the historic decision of our Government to ensure higher commodity prices to our farmers, Rs.400 billion have been injected into our rural economy, which in turn has increased the production of agricultural commodities and the demand for durable goods in the economy has helped revive industrial production and brought prosperity. However, there should be no mistake that our challenges remain daunting and there is little room for complacency.

### **Challenges and Vision**

**Madam Speaker,**

24. To put the economy on a stable and desirable long term growth trajectory, several persistent challenges must be addressed NOW! We as a country:

- have struggled with chronic fiscal difficulties for the last 25 years leading us to have worked a number of times under the IMF Programme.
- our growth rate has been less than what was needed to meet our development needs.
- lack a long term focus and consistency in our economic policies to give investors and entrepreneurs a stable enabling environment.
- have public sector enterprises that continue to drain the budget and block market opportunities.
- have regulatory and governance structures that do not encourage investment and the development of competitive markets.

**Madam Speaker,**

25. Democracy must be bold enough to take on these challenges, I urge my colleagues to come to grips with these challenges. We must deliver development to the people of our society while reducing our aid dependence.

26. We have a young population- 50% of our population is under the age of 20, labor force is growing at 3.6% per annum. To employ the youth entering the labor force, we need a growth rate of 7% per annum and more importantly we must be able to sustain this growth rate for a decade or more. Unfortunately we have never been able to sustain a growth rate of more than 6% for more than three years. Moreover, our productivity growth rate is also far lower than comparator countries. We need to address these issues and begin a period of sustained high growth.

### **Growth Strategy**

**Madam Speaker,**

27. We will make **“jobs and growth”** a national priority!

28. By factoring in our local conditions and after extensive engagement with various stakeholders we have developed strategies to stimulate growth in the economy. The Government tasked the Planning Commission to develop a New Growth framework to address the constraints to investment, productivity and competitiveness. Even in this resource constraint environment where the PSDP is limited, we estimate that a sustained implementation of reform strategy could increase our growth rate by as much as 3 percentage points per annum.

29. While our development program will continue to build infrastructure (and I will talk about that later), let me highlight some aspects of our **“jobs and growth”** strategy;

- We must make productivity measurement and improvement a priority everywhere. To begin with governance reforms will be developed to put in place performance based and professional management focused on public sector service delivery.
- Public Sector Enterprise (PSE) Reforms and selected privatization will not only improve public sector productivity but will also provide more space for private sector investment.
- More focused and professional regulation along with openness will seek to develop vibrant markets to attract private investment.
- We will configure our cities through better management and liberalized building and zoning regulations to unleash the potential of several industries including construction, retail, ware housing, entertainment, hospitality, transport etc.
- Youth will be engaged and included in every aspect of our economy. We hope to unleash the potential of youth entrepreneurship in several of our new creative cities.

**Madam Speaker,**

30. This is a large reform agenda, but one whose time has come. The challenge is to work with the various ministries and provincial and local Governments to operationalize and implement this agenda. If we are able to implement this reform agenda well not only will we be able to accelerate our growth to 7%, we will extend gainful opportunities to a large segment of our youth. This is long overdue!

**Budget Strategy 2011-12**

**Madam Speaker,**

31. We will strengthen our stabilization efforts this year.

- We hope to reduce the fiscal deficit further.
- We hope to reduce our rate of inflation to single digit levels through continued fiscal consolidation.
- Develop a broad, equitable and stable revenue mobilization system to meet our development needs.
- Maintain and further develop social safety nets for the vulnerable while moving rapidly towards the elimination of untargeted subsidies.
- Strengthen restructuring of the loss making public sector enterprises where possible. We must also find the courage to close down or privatize where required.
- Invest through our public sector development program in vital infrastructure and much needed human resource development.
- Reduce our debt to sustainable levels, well below the required 60% of the Fiscal Responsibility and Debt Limitation Act (FRDL).

32. To meet these objectives Madam Speaker, we are continuing to reduce the fiscal deficit towards a long run target of 3% of GDP. Recall that last year the deficit was 6.3% of GDP. As I noted before, this year, despite large and unprecedented floods, substantial unprecedented increase in oil prices and large increase in food prices, our efforts have achieved a fiscal deficit of 5.1% of GDP. The budget of 2011-12, Madam Speaker, will target a budget deficit of 4% of GDP. This target will allow us to achieve some debt reduction since our deficit this year is going to be less than our requirement for debt servicing.

**Madam Speaker,**

33. We hear the complaints of the people and therefore are strongly committed to reducing the rate of inflation. We have already committed to discontinue borrowing from the State Bank through an amendment of the State

Bank Act which this House judiciously passed. We will also eliminate our debt to the State bank within a period of eight years. Through these efforts, like other prudent countries, we have ended the period of fiscal policy dominating monetary policy.

**Madam Speaker,**

34. Meanwhile we are also taking several administrative measures for easing the burden of inflation on the people.

- i. We have intervened in commodity markets such as wheat and sugar to ensure stable supplies at affordable prices.
- ii. At times such as Ramadan, generous packages for the vulnerable have been made available
- iii. Our 7000 plus Utility Stores as well as itwar and juma bazaars have provided crucial supplies at favorable prices to many
- iv. Many levels of Government have collaborated to monitor supplies and prices to prevent hoarding, shortages and excessive price increases
- v. The Government gave hundreds of billions to energy sector as subsidies
- vi. The Government reduced its borrowing from the State Bank through strict controls on spending to reduce inflation.

### **Energy Reforms**

**Madam Speaker,**

35. I must emphasize that without eliminating our untargeted subsidies, budgetary control will be impossible. In particular, our power system must operate efficiently and cost effectively without subsidy and ensure full cost



recovery. The taxpayer must not pay for the management inefficiencies of these entities.

36. The Government has subsidized power sector losses of over Rs. 1000 billion in the last three years to ensure a lower tariff to consumers. The Government has taken various steps to reduce inter corporate circular debt including picking up of Rs 400 billion, improving PEPCO's receivables and creating efficiency to reduce the difference between determined and notified tariff. In addition, the Government has initiated conservation programmes to create efficiency in the use of energy to control demand.

37. The Government is taking steps to improve regulatory oversight by empowering NEPRA to notify monthly fuel adjustments in tariff directly. NEPRA will also be professionally upgraded to manage and regulate the power sector more effectively following PEPCO's dissolution in July, 2011.

38. This Government has added over 2000 MW of electricity generation and another 1400 MW are being added in this year.

**Madam Speaker,**

39. It must be recognized that reform will only be complete when we have DISCOs and GENCOs that are professionally run as independent corporate entities, controlling their losses, collecting their bills, and earning the trust of their consumers. We have made a start in that direction, thanks to our leadership. The Prime Minister has put in place professional Boards of Directors to begin the process of corporate restructuring. In addition the Cabinet Committee on Restructuring has approved codes of Conduct for the BODs, and rules for

inducting CEOs and CFOs. There are plans to bring the private sector to manage these electricity companies.

### **Public Sector Enterprises (PSE) Reform**

**Madam Speaker,**

40. Public Sector Enterprise inefficiency is choking our economy. These must be urgently restructured. Our Cabinet Committee on Restructuring has developed a restructuring model based on a professional Boards of Directors and by inducting professional management from the market.

**Madam Speaker,**

41. Some progress has been achieved including restructuring BODs of 8 Power Sector Distribution Companies (DISCOs), National Transmission and Dispatch Company (NTDC), Pakistan Steel Mills (PSM) and Pakistan Railways. Turn around plans for power sector and PSM are under implementation and consequently hemorrhaging has been curtailed in these PSEs. Madam Speaker, we need to strongly push this reform forward in the next year. The restructuring of PIA, PASSCO, USC and TCP is also underway. This is essential to reduce the burden on the budget and improve public service delivery.

**Madam Speaker,**

42. In addition to our restructuring efforts, the Cabinet Committee on privatization has also identified several public sector enterprises listing on stock market and privatization in the Public Private Partnership (PPP) mode. Given our fiscal problems, resources from the listings, a public offering and PPP-privatizations of enterprises such as State Life, National Insurance, Steel Mill,

PIA, PSO, PPL and OGDCL could help provide much needed funds for development and other important needs. In addition, these initiatives could invigorate our markets and spark interests of the international investors in Pakistan. Madam Speaker, many countries have involved the private sector to grow their economy. We should also!

### **Social Protection**

**Madam Speaker,**

43. Even in these difficult times we have remained committed to the ideals of Shaheed Zulfiqar Ali Bhutto and Shaheed Mohtarma Benazir Bhutto, and provided for the poor, the weak and the vulnerable. Our Benazir Income Support Program (BISP) has received acclaim from our development partners. It targets the poor on international standards through surveys and score cards. It uses technology so that the possibilities of corruption are limited. It is also a very large financial inclusion program since the subsidy is routed through the banking system. This year we have spent Rs.35 billion for providing a monthly support of Rs.1000 to such households and next year we will take this amount to at least Rs.50 billion and if additional resources are available this amount may be increased to Rs.65 billion. Other than BISP, there are numerous other programs under the Government auspices, both at federal and provincial levels, such as Bait-ul-Mal, Poverty Alleviation Fund (through micro-finance), EOBI, Workers Welfare Fund and Zakat through which support to low income families is provided.

### **Development Program**

**Madam Speaker,**

44. Let me now turn to the development program of the Government. As you are aware, this was a very difficult year in which resources were diverted to meet

the challenges of relief and rehabilitation for the victims of the floods. Then there were unanticipated subsidies for electricity. To contain the budget deficit, which was feared to be exceeding 8%, it was inevitable to cut the development expenditure. At the federal level, the development plan was reduced from Rs.290 billion to Rs.196 billion while the provincial plans were reduced from Rs. 430 billion to Rs. 270 billion. Thus the total development plan was reduced from Rs.720 billion to Rs.466 billion.

45. Clearly, this was not a satisfactory solution but the consequences of following the other path of increasing the deficit through printing of money would have meant devastating effects on our people, especially the weaker segments.

46. The NEC has approved an annual development plan of Rs.730 billion with federal PSDP at Rs.300 billion and provincial plans at Rs.430 billion for FY 2011-12.

47. Let me share some of the key features of the development priorities set in the Federal PSDP. These include completion of projects; regional balance; provision of key infrastructure especially energy; provision for higher education; continuation of vertical programs for health and education which will be continued at the Federal level post 18<sup>th</sup> Amendment.

48. Major allocations in various sectors approved by the NEC:

- a. First, we have allocated 96% of the development plan to on-going schemes, in an effort to minimize the throw-forward in our portfolio. Projects with foreign assistance and infrastructure have been given preference.

- b. 55% of the allocations have been made in the infrastructure sector while 44% in the social sectors. It may be noted that social sector allocation is still very high despite devolution of these sectors to the provinces. This is because the federal Government has agreed to continue to bear the cost of some of the key vertical-nation-wide schemes such as lady health workers, immunization and family planning.
- c. Within the infrastructure sectors, the top priority has been given to the water sector. Agriculture is the back-bone of our economy. With rising population food security will require major expansion both in agriculture output as well as productivity. While working on water conservation to make better use of existing resources, our future depends on radically altering the management of water resources in the country. In the present budget we have kept an allocation of Rs.33.2 billion, or 12% of the total PSDP for water sector projects. Besides completion of Mangla Raising, the program will include important projects like Satpara Multipurpose Dam (Gilgit-Baltistan), Gomalzam (FATA), Kachhi Canal (Balochistan), Raineer Canal (Sindh), Lower Indus Right Bank Irrigation and Drainage Sindh, (Balochistan) Effluent Disposal into RBOD, Extension of Right Bank and out fall Drain from Sehawan to Sea, lining of Distributaries and Minors in Sindh.
- d. The second most significant allocation in the infrastructure has been accorded to power generation to overcome serious supply and demand gaps in the sector. An allocation of Rs.32.5 billion is planned for power generation, transmission, distribution and conservation. Apart from this there will be an investment of Rs.83 billion which WAPDA and PEPCO will make through their own resources. These investments will go a long way in addressing the problem of the load-shedding in the country.
- e. In the power sector many important projects are included in the plan: Diamir Bhasha Dam (Rs.18 billion), Neelum Jhelum Hydro Project of 1000 MW (Rs.10.8 billion), Guddu Combined Cycle

Power Project of 747 MW (Rs.14.6 billion) and Chicho ki malian Thermal Power Project 525 MW (Rs.13.9 billion). In addition, nuclear power projects such as C-3, C-4 for a capacity of 600 MW are also being implemented and Rs.15.5 billion are allocated. These projects will help meet the growing energy needs of the country.

- f. In the Transport and Communication Sector a sum of Rs.50 billion has been allocated. Of this, Rs.36 billion has been allocated for NHA and Rs.15 billion for Railways.
- g. Health and Education are now provincial projects. However, some responsibilities have been voluntarily accepted by the Government in view of their critical need for the economy. For instance in the health sector Rs.15 billion have been allocated to finance vertical programs such as Expanded Program for Immunization, Lady Health Workers, Primary Health Care and National Maternal Neonatal and Child Health program. In the education sector, HEC will remain the financial responsibility of the federal Government and during the year Rs.40 billion have been allocated for its development programs besides bearing the full amount of current expenditures. Population welfare program will also be funded by the federal Government at a cost of Rs.4 billion.
- h. For special areas, including FATA, Gilgit-Baltistan and AJK an amount of Rs.28 billion has been kept to promote development in these areas.
- i. Rs.33 billion have been allocated for People's Works Program which are small infrastructure schemes undertaken on the recommendations of the Parliamentarians.
- j. In keeping with our growth strategy we will invest in the infrastructure of our major cities. In particular, this year we hope to start mass transit projects in Karachi and Lahore.

## **Relief to Government Employees**

**Madam Speaker,**

49. The Government last year allowed an ad-hoc monthly allowance equal to 50% of basic pay. In addition, there was an increase in Medical Allowance and Pension. Despite tight financial position, the Government is aware of difficulties being faced by Government servants and pensioners. In order to provide some economic relief to the Government servants, following measures are proposed to be extended to the Civil Servants and the Personnel of the Armed Forces with effect from 1<sup>st</sup> July, 2011:-

- i. Pensioners who retired on or after 01.07.2002 may be allowed an increase @ 15% and those who retired on or before 30.06.2002 may be allowed an increase @ 20% in pension.
- ii. Existing Conveyance Allowance may be increased by 25% to all the employees in BPS 1-15 and their equivalent in the Armed Forces.
- iii. All the Civil Servants and Personal of the Armed may be allowed Conveyance Allowance at the prescribed rates irrespective of their place of duty.
- iv. Increase in misc allowance mostly admissible to the employees in BPS 1-15.
- v. All the ad-hoc relief allowances granted upto 01.07.2009 may be merged in the Basic Pay Scales-2008 and to introduce the new pay scales.
- vi. Compulsory Monetization of transport facility to the Civil Servants in BPS-20 to BPS-22 of the Federal Government.
- vii. Increase in pay @ of 15% to all Government Employees and the personnel of Arm Forces w.e.f. 1<sup>st</sup> July, 2011.

**Madam Speaker,**

50. It is important to undertake detailed scrutiny of all expenditures in order to reduce Government expenditure and to assess which expenditures are essential for the welfare of the people. The Government is establishing an independent commission to scrutinize all development and current expenditure with a view to ensuring their necessity, efficacy and value to the public exchequer.

51. The salary structure of the Government has been distorted. The Government is thus establishing an independent commission to examine the structure of pay and allowances across the public services to bring equity and fairness across them.

**Revised Estimates FY 2010-11, Budget Estimates FY 2011-12**

**Madam Speaker,**

52. Let me now highlight the key features of the Budget 2011-12.

- (i) The federal budgetary outlay for FY 12 is proposed at Rs. 2504 billion which is 12.3% higher than current year's outlay and total net federal revenues are projected at Rs. 1529 billion. This translates into a projected federal fiscal deficit of Rs. 975 billion. Owing to higher revenue transfer to provinces through 7<sup>th</sup> NFC award, a fiscal surplus of Rs. 125 billion is expected from provinces. Overall fiscal deficit would be at the level of Rs 850 billion i.e. 4% of GDP.
- (ii) Gross federal revenues (tax and non-tax) are projected at Rs. 2732 billion. FBR collection is projected at Rs. 1952 billion (FBR tax to GDP ratio of 9.3%).



- (iii) A sum of Rs. 1203 billion will be transferred to the provinces under the 7<sup>th</sup> NFC Award compared to Rs. 998 billion estimated (revised) during the current financial year.

## **PART-II**

### **TAXATION PROPOSALS**

**Madam Speaker,**

53. I turn now to an issue of the greatest importance in the budget. This is our historic failure to mobilize our resources. Our inability to raise tax-to-GDP ratio.

**Madam Speaker,**

54. If we are really concerned about our sovereignty, if we actually want a better quality of life for our citizens, then we have to be self-reliant. We have to collect more revenues at the domestic level. A country the size of Pakistan cannot be managed in a self-reliant manner if our tax-to-GDP ratio continues to remain as low as 10%. If the tax-to-GDP ratio of Sri Lanka can be 14%, of India 16%, of Malaysia 18% and Turkey 29% - why is it that Pakistan's revenue base is one of the lowest in the entire world?

**Madam Speaker,**

55. Just look at some facts relating to income tax.

- We are a country with a population of 180 million
- Only 2.8 million individuals are registered for income tax
- Only 1.5 million actually file returns

**Madam Speaker,**

56. There is huge affluence in Pakistan amidst a sea of poverty. Yet the affluent do not wish to be taxed. We have to correct that. The Government has compiled credible data of people living in huge bungalows in posh localities, driving luxury vehicles, possessing assets and bank accounts, traveling abroad at will, who do not pay a single paisa of their income as tax. Indeed, these individuals do not even possess a tax number!

**Madam Speaker,**

57. The Government has narrowed in on these individuals. We have identified 2.3 million such individuals. We have selected 700,000 individuals, for the first round to make them pay taxes. 71,000 notices have already been issued. In the next three months, each one of them would have been put on notice. Madam Speaker it is our resolve to pursue these non-taxpayers, bring them in the tax net and add to the revenue base of our country. The initial results are most encouraging. 9687 people who were sent notices have filed returns. Of the initial 7484 provisional assessments made, a tax demand of around Rs.3 billion has been created.

**Madam Speaker,**

58. While the Government is determined to increase the tax base of Pakistan the people of Pakistan look up to this august House and to its Parliamentarians to lead the way and discharge their responsibility in promoting a culture of paying tax. Each one of us has a personal and a joint responsibility to emerge as leaders in the campaign for tax compliance. God forbid, if we shirk our responsibility in this cause, we would have failed our nation.

**Madam Speaker,**

59. After the passage of the 7<sup>th</sup> NFC award and the 18<sup>th</sup> Constitutional Amendment much of the potential for growth in tax revenue has shifted to the Provincial Governments. The Constitutional amendment gives the Provinces more autonomy but along with it comes the responsibility to maintain fiscal discipline. The enhanced role of Provincial Governments must compel them to take the lead in ensuring an equitable tax structure and to effectively bring in areas such as agriculture income, services and property in the tax net.

**Madam Speaker,**

60. Our country suffers from an absence of a responsive tax culture. Tax evasion is a big problem. This evasion is only possible with the collusion of the tax machinery. I wish to share with you some facts about tax evasion in our country:

- Only 50% of registered corporate taxpayers and withholding agents file their returns.
- Only 100,000 persons are registered under sales tax. Even out of this small number, 24% do not file sales tax returns.
- There are massive complaints about evasion in customs duties through under-invoicing and under-valuation.
- Alarming anomalies have surfaced in Afghan Transit Trade; the missing containers case is only one instance of its misuse.

**Madam Speaker,**

61. We have already taken steps to curb tax evasion and corruption in our country. We are fully committed to collect all taxes. FBR has been shaken up.

Hundreds of placements have been made without influence and politics. Merit is our only criterion. I have personally addressed the rank and file of FBR. I have made it clear to them that if they work honestly and diligently, I would personally champion their case for rewards and performance bonuses. I have also informed them that corruption and slackness would not be tolerated. They would have to go. There cannot be any compromise on this principle. We cannot afford it! Our country cannot afford it!

**Madam Speaker,**

61. Let me share with you the results shown by a rejuvenated FBR:

- It is this very FBR which has collated data from different sources, including NADRA, to identify the affluent who do not pay any tax.
- It is this very FBR which is making concerted efforts to bring 700,000 non-taxpayers into the tax net.
- It is this very FBR which, in just three months, has detected a short deduction of Rs.25 billion in withholding taxes.
- It is this very FBR which has detected Rs.26 billion in irregular input adjustment in sales tax; FIRs have been lodged against all companies involved, without fear and favour.
- The FBR has completed 3577 risk based audit, raising a demand of Rs.42 billion and collecting Rs.3.4 billion already.
- The FBR has been re-activated to pursue in Courts, the recovery of tax demand of Rs.131 billion; applications for early hearing of cases and vacation of stay orders beyond six months are being filed and monitored on a monthly basis.

**Madam Speaker,**

62. This is just a beginning. More needs to be done. My point is that an organization which was the subject of public ridicule and scorn can be changed into an effective and functional organization provided we are prepared to accept and discharge our leadership role. Allow me to share with you some data on a matter of constant public concern, that is, tax refunds:

- The regime of sales tax refunds has been criticized by the stakeholders and businesses for slowness and corruption. It was alleged that even genuine refund cheques were only available after paying a price.
- Taking note of this practice, we introduced a centralized system of cheque distribution at FBR level in end September, 2010. Please see what has happened!
- In the period September to May, 09-10, only 13,000 cheques worth Rs.16 billion were refunded; in the same period for 10-11, 46,600 cheques worth Rs.40 billion have been refunded

**Madam Speaker,**

63. I can claim with pride that all these cheques were issued to the taxpayers in a most transparent manner and without the exchange of a single paisa of graft. I quote believe that with resolve and good intentions we will be able to minimize and ultimately eliminate corruption from our tax machinery. In this regard, we are optimizing the use of technology to reduce the unnecessary contact between the taxpayer and the tax man.

**Madam Speaker,**

64. Administrative reforms in the FBR must be accompanied by structural changes in our taxation system. One important example is replacement of our prevalent sales tax system with a modern, integrated and reformed system. The reformed GST legislation is pending with the Parliament, for approval. Meanwhile, we propose to continue with our structural reforms in this direction.

**Madam Speaker,**

65. In March, 2011 we removed some zero ratings and exemptions from the sales tax regime. We are continuing with our efforts to remove distortions in our sales tax system by removing more exemptions and zero ratings. However, I hold out a pledge that in our tax proposals relating to sales tax we have protected those sectors which affect the common man. Madam Speaker, I affirm that the Government does not wish to propose any sales tax on food items, education sector and health sector. In addition, no sales tax is leviable on agricultural produce. We also propose to abide by our international commitments on sales tax exemption, as well as protect charities from the operation of sales tax law.

**Madam Speaker,**

66. Since we have embarked on a program of broadening the tax base and reforming our system of sales tax, I have the privilege to announce a reduction in the rate of sales tax from 17% to 16%. On full implementation of the sales tax reforms we pledge to reduce the rate even further. This reduction, on an across the board basis, would lower prices, provide relief to the common man as well as reduce the cost of doing business for our trade and industry.

**Madam Speaker,**

67. This budget presents a vision for future tax reform in Pakistan.

- We believe in equitable taxation; all sectors of the economy and all persons deriving income beyond the exemption limit should be brought in the tax net.
- In this context we are working closely with the provinces to improve the systems and collections from agriculture income tax, sales tax on services and taxes on property.
- I have already spoken in detail about the efforts at the federal level to bring non-taxpayers into the tax net and to minimize tax evasion.
- In our vision the tax system needs to be simple. As such, we propose to move away from multiple tax regimes and retain just three main taxes – income tax, sales tax and custom duties.

**Madam Speaker,**

68. In furtherance of this objective, I am happy to announce that:

- All special excise duties are proposed to be abolished.
- In addition, 15 items out of the list of 46 federal excises are proposed to be removed from the excise law.
- 392 regulatory duties out of 397 are proposed to be abolished, limiting these to luxury vehicles, cigarettes, arms and ammunitions, betel nuts and sanitary ware / tiles.
- FED on cement shall be phased out in 3 years. A reduction of Rs. 200/MT is proposed in the first year and equal reduction of the balance of Rs. 500/MT in the next two budgets.
- Further, federal excise duty on beverages is also being phased out. It is being reduced to 6% this year and would be completely abolished next year.

**Madam Speaker,**

69. The revenue loss on account of the above measures would be compensated by the following:

- Removal of selected exemptions and zero-ratings under GST.
- Revision of federal excise structure on cigarettes.
- Revision in rate of tax in lieu of value added tax on commercial importers from 2% to 3%.
- Improving tax compliance through effective monitoring and risk based audits

**Madam Speaker,**

70. We are contemplating different schemes to incentivise the taxpayer to become fully compliant; prizes on sales tax receipts would be offered during the year to customers who retain these receipts. In this way, we propose to create a partnership with our citizens and make them responsible for ensuring that taxes paid by them are not pilfered by withholding agents.

**Madam Speaker,**

71. Several initiatives have been taken in this budget to promote investment, which include increasing the money base for private credit, special incentives for equity based projects, BMR, expansion of existing production capacity and capital market growth measures.

72. Allow me to highlight the fiscal measures for banking sector/capital market growth measures:



- In order to increase the money base for private credit and to provide an incentive to individuals and non-residents, the tax rate on **interest income from Government securities will be 10% with no tax return requirement.**
- The rate of withholding tax on **cash withdrawal is being brought down** from 0.3% to 0.2%.
- Last year we provided a 5% **tax credit to a company in the year of its enlistment.** This year, this rate is being increased to 15%.
- **Limit for adjustment of minimum tax on turnover** is being increased from 3 years to 5 years.

73. In order to promote savings, some of the measures taken are:

- Tax credits for investment in shares through IPOs and in voluntary pension funds are being allowed at 15% from 5%.
- Capping of Rs. 500,000 is being deleted to encourage investments in voluntary pension scheme.

And for facilitating exports:

- Supply against international tenders is proposed to be treated as deemed exports since winning of international tenders by local bidders is important to promote entry into international procurement markets.

**Madam Speaker,**

74. We are aware of the increase in cost of living and of our responsibility to deliver financial assistance where needed and support families and their children.

At the cost of repetition, let me announce that:

- The GST rate is being reduced from 17% to 16%.
- Special excise duty is being abolished. Some federal excise duties are also being abolished; others are being phased out.

- The Government has also decided to raise the tax-free limit from Rs. 300,000 to Rs. 350,000. However incomes above Rs. 300,000 would continue to be subjected to filing of returns, to institute a culture of compliance; no wealth statement would be required on incomes upto Rs. 1 million; at present the threshold is Rs. 500,000.
- We are not increasing custom duty on any product. In fact, for 31 categories, customs duty is being simplified and reduced.
- Custom duty on 22 essential raw materials for the pharma industry used for producing anti-biotic, anti-allergic, anti-diabetic and TB medicines are being reduced substantially.
- I am also happy to announce that as promised, there is no extension in the duration of the one-off taxes levied due to floods: 15% surcharge on income tax and 1.5% increase in special excise duty.
- Regulatory duty on 392 out of 397 items is being abolished.

**Madam Speaker,**

75. Our country suffers from the menace of smuggling and under-invoicing. The Afghan Transit Trade facility is being abused by some of our importers creating distortions in the market. I am happy to report that we have signed the Afghan Pakistan Transit Trade Agreement (APTTA) 2010. Under the agreement it has been made mandatory to submit financial guarantees equivalent to leviable taxes. This guarantee would only be releasable on cross-match of data with Afghan Customs. The following measures are also noteworthy:

- Equipment support such as weigh bridges, container scanners and tracking posts will be installed to monitor movement of containers
- transport of afghan transit goods has been restricted to vehicles of customs bonded carriers hired by NLC for effective monitoring and inventory control
- A mechanism for exchange of data through Electronic Data Interfacing (EDI) is being established at Torkhum and Chamman.

- a national valuation database has been established which provides online access for verification of mis-declaration of value

**Madam Speaker,**

76. I have presented the highlights of our taxation measures for the financial year 2011-12. The full details have been provided in the Finance Bill.

**Madam Speaker,**

77. I would like to graciously appreciate the guidance and support that I and my team continue to get from the President, Prime Minister, my Cabinet colleagues and all other members of the Government. This year has been difficult. But our efforts have paid off. With difficulty we seem to have navigated troubled waters and are beginning to see calm sea. However, there is much to be done to consolidate stabilization and accelerate and sustain growth.

78. Through this year we have engaged in an extensive consultative process across the country to share the challenges that we face. In addition we have been totally transparent in all policy deliberations with our allies as well as the opposition. In this connection I would like to extend my gratitude and professional appreciation to our allied political parties-ANP, MQM and PML-Q. I and my team have benefited enormously from interactions with several civil society organizations and forums, such as the Chambers of Commerce. In particular I would like to mention the efforts of the experts of the Economic Advisory Council and the Revenue Advisory Council.

**Madam Speaker,**

79. The Budget that I have presented to you today is ambitious but realistic. It is embedded in a medium term macroeconomic strategy that will create enabling environment for strong private sector investment. I am convinced that

implementation of this budget and strategy will secure the foundations of financial discipline that we have been seeking for decades which will push the economy on to a higher and sustainable growth path.

**Madam Speaker,**

80. We have laid an ambitious program of reform before you. This reform program is essential for delivering the vision of a poverty-free and a prosperous Pakistan entrusted to us by Shaheed Mohtarma Benazir Bhutto and Shaheed Zulfiqar Ali Bhutto. We must prove ourselves worthy of their legacy.

**Madam Speaker,**

81. I hope that all of us will put aside our minor differences to bring progress and prosperity to our people who are beset with security challenges, economic hardships and unrealized dreams. With the help of a united Parliament we can be assured of a strong implementation of the program and policies that we have presented to you today. It is this quality of unity that is required to accelerate us out of a current recession into a high growth trajectory of over 7% per annum to employ our youth.

82. Let us all feel the resolve of our forefathers who created this nation and take on the challenge to carry it into the 21<sup>st</sup> century. We must all recall the golden rule of the Quaid-i-Azam. I quote:

“there would be ample revenues from equitable taxation levied in a manner consistent with social justice to finance good governance and allow us to have a state as good as any in the world and better than many sovereign countries on the map of the world today”

83. I thank you Madam Speaker! Pakistan Paindabad