

BUDGET SPEECH FOR FISCAL YEAR 2009-10

I rise to present the Budget for the Fiscal Year 2009-10.

Madam Speaker!

I have the honor to be the first woman in the history of Pakistan to present a budget before the august House. It is indeed the privilege of the Pakistan People's Party to have given the country its first woman Prime Minister, Mohtarma Benazir Bhutto Shaheed. The People's Party also has the singular honour of nominating the first woman Speaker of the National Assembly in Pakistan. These are important milestones in our quest for women empowerment and gender equality.

Madam Speaker!

2. The efforts of the government to manage the economic and financial affairs of the country need to be viewed in the context of the prevailing state of security in the country. Pakistan today is not simply a front line state against the war on terror; in fact we are today fighting insurgency and terrorism within the country. The war on terror has already cost us over \$ 35 billion since 2001-02 in economic costs. We now face the prospect of incurring huge costs on account of counter-insurgency expenditures. We have to meet the maintenance and rehabilitation costs of almost 2.5 million brothers, sisters and children displaced as a result of the insurgency. The International community has pledged its support for this human cause. However, your government is fully conscious of its responsibility and has allocated Rs. 50 billion, I repeat Rs. 50 billion, in the budget 2009-10 for the relief, rehabilitation, reconstruction and security of the internally displaced persons. I also take this opportunity to salute the efforts of the people of Pakistan in contributing generously to the relief effort and demonstrating that we are all one and stand united in the face of terrorism. I may also express the gratitude of the government to all those generous households who have opened their homes and hearts to the displaced people in the true spirit of Islam.

Madam Speaker!

3. Our armed forces are in the forefront of the war against terror and in fighting insurgency in the country. Our western border is most volatile and faces the brunt of insurgency. The President of Pakistan has been pleased to announce an increase in the allowances of the personnel of armed forces deployed in the

western theatre, equal to one month's basic pay with effect from 1st July, 2009. He has further announced that this benefit be extended to the entire armed forces from 1st January, 2010. The government is in complete support of the President's decision. Today, the nation stands behind our valiant armed forces. No amount of compensation is adequate enough to cover the risk to one's life. I hope this small gesture on the part of the government helps in building the morale of our jawans and officers in the war against terror.

Madam Speaker!

4. While presenting last year's budget the government had given a detailed account of the economy as was inherited by us from the previous government. We had highlighted that our economy could not sustain a high level of artificial growth. We had presented that sustainable growth was only possible through investments in the real sectors of the economy that is, agriculture and industry. These, unfortunately, were neglected in the past. Instead growth was fuelled through high consumption and extensive luxury imports and those too financed through external borrowings. No wonder the fiscal deficit mounted to 7.6% of GDP, the current account deficit became unmanageable, there was a run on foreign exchange reserves and the stock market crashed. More importantly, inflation started to rise steeply and peaked at 25% in October 2008. In the face of these developments the economy suffered but the poor of Pakistan suffered the most.

Madam Speaker!

5. Surely this state of affairs was intolerable! The government reacted to this by formulating a Nine Point Agenda of economic and social recovery. The first

pillar of our agenda was to stabilize the economy. As a result of our efforts, the fiscal deficit would decrease by 3.3 percentage points in 2008/09.. The current account deficit was brought down from a high of 8.5% in 07-08 to 5.3% of GDP in 2008-09. **Madam Speaker!** It is now universally acknowledged that reducing inflation is the best recipe for reducing poverty. Through the efforts of your government, inflation declined from 25% to 14.4% in May, 2009. Inshallah, it is expected to be in single digit by the end of the next fiscal.

Madam Speaker!

6. While stabilization of the economy was necessary it was achieved at a cost. A tight monetary policy coupled with strict public expenditure management adversely impacted access to capital in the private sector and a reduction in the public sector development programme. The biggest casualty of stabilization was economic growth which declined to around 2%. The contraction in the economy adversely affected growth in manufacturing. However, our pricing policy for Agriculture sector helped this sector in recording a growth of 4.7% in 08-09 as compared to 1.1% in the previous year. The government was fully conscious that stabilization and a contracting economy would impact the poor adversely. That is why it triggered the 2nd pillar of its nine point agenda that is, social protection. Through the Benazir Income Support Program (BISP) we targeted the poorest of the poor through an income grant of Rs. 1000 per month, allocating Rs. 34 billion for the programme. In the next financial year we propose to allocate Rs. 70 billion for BISP to bring over 5 million households in the ambit of the programme.

Madam Speaker!

7. Having attained a certain level of stabilization it is now time to move towards growth by targeting the real sector of the economy that is Agriculture and Industry. Beginning with this year's budget we propose to announce policies and undertake budgetary and legislative measures which would put our real sectors of the economy onto the path of greater productivity. This paradigm shift would help the country in attaining sustainable growth which would help in the reduction of poverty. Madam Speaker, we propose to pursue growth with equity. Madam Speaker, we propose to pursue stabilization with a human face. This government believes that the focus of government's policy and investment program has to be the well being of the people, especially the poor segments of our society.

Madam Speaker!

8. The government is managing the affairs of our country within a strategic policy framework expressed in its Nine Point Agenda of economic and social recovery. I take this opportunity to highlight these nine pillars:

- I. Macroeconomic Stability and Real Sector Growth.
- II. Protecting the Poor and the Vulnerable.
- III. Increasing Productivity and Value Addition in Agriculture.
- IV. Making Industry Internationally Competitive.
- V. Capital and Finance for Development.
- VI. Removing Infrastructure Bottlenecks through Public Private Partnerships.
- VII. Integrated Energy Development Programme.
- VIII. Human Capital Development for the 21st Century.
- IX. Governance for a Just and Fair System.

9. The budget 2009-10 has been prepared to obtain the twin purposes of stabilization with a human face and growth with equity. I would wish to clarify as to what stabilization means. Stabilization is essentially an expression which advises households, organizations and governments to live within their means. Surely, this is what we all want. And if additional resources become available we need to use these to obtain the best dividend for our people. As a measure of support towards attaining a reasonable growth target the total expenditure, including Provinces, is estimated at Rs. 2897.4 billion. The total revenue is estimated at Rs. 2174.9 billion. The overall fiscal deficit of Rs. 722.5 billion would be 4.9% of the GDP. This deficit would be met through external financing of Rs 264.9 billion and domestic financing of Rs. 457.6 billion. Pakistan is likely to receive external resources equivalent to 1.2% of its GDP (Rs. 178 billion) from pledges made in the Donors' Conference at Tokyo. We further expect resources equivalent to 0.3% of the GDP (Rs. 48 billion) for expenditure on internally displaced persons. In essence the real deficit would be 3.4% of the GDP.

Madam Speaker!

10. The core budget of the federal government estimates net revenues of Rs 1377.5 billion with a current expenditure of Rs 1699.19 billion. The development expenditure (including Provinces) is estimated at Rs. 783.1 billion against the revised estimates of Rs. 421.9 billion, an increase of 85%. This increase is unprecedented. The Public Sector Development Programme approved by the National Economic Council is pitched at Rs. 626 billion in BE 2009-10 against Rs. 359 billion in RE 2008-09. It is expected that full utilization of the development allocation would strongly assist in revival of growth.

Madam Speaker!

11. May I offer a note of caution at this stage. Pakistan has one of the lowest tax to GDP ratios in the world. In the outgoing year we were only able to attain tax revenues equivalent to 9% of our GDP. We expect to improve our tax to GDP ratio by 0.6% in the next financial year. Allow me to state that if we as a nation do not imbibe the tax culture, if each citizen capable of paying tax does not do so, Pakistan shall never be able to stand on its own feet. It is, therefore, imperative that each one of us as a citizen of this great country meets his or her tax obligation. While government would be undertaking deep rooted reforms in tax policy and its administration, success of any initiative would hinge on the support given by the entire nation. We have to broaden our tax base; there is no escape from this reality.

Madam Speaker!

12. The government made a commitment that it would pursue stabilization with a human face. Our tax and duty measures in Budget for Fiscal Year 2009/10 would revolve around the following concepts:-

- Provide protection to the poor and vulnerable against the current economic downturn;
- Revive manufacturing and industry, especially export-oriented industry;
- Broaden the tax base instead of overburdening the existing taxpayers; and
- Restrain unnecessary imports to improve the Balance of Payment position.

Madam Speaker!

13. As a measure to broaden the tax base we had desired that the provinces bring additional services into the net of sales tax. We had also desired that the provinces impose capital gains tax on immovable property. This would have marked a beginning towards further broadening of the tax base. However, the provinces would much rather wish to discuss these issues in meetings of the National Finance Commission. While we respect the decision of the provinces none-the-less measures would be taken in the Budget 2009/10 to bring additional services into the excise net as well as continue with Capital Value Tax. On reaching agreement with the provinces in the NFC discussions, the Capital Value Tax as well as excise on services would be considered for replacement by provincial taxation on these subjects.

I. MACROECONOMIC STABILITY AND REAL SECTOR GROWTH

Madam Speaker!

14. The immediate threat to economic stability and the servicing of international debt obligations were overcome through a homegrown Macroeconomic Stabilization Programme. The Programme has already ensured adjustment in petroleum prices and significant cuts in expenditures to reduce the budgetary deficit; while keeping a tight monetary policy in place. These measures are paying dividends under precarious global and domestic conditions. Recent trends in most macroeconomic variables also suggest that a disciplined implementation of this Programme has started paying off.

Madam Speaker!

- During the Fiscal Year 2009/10 real GDP is expected to grow by 3.3 percent and by 4 and 4.5 percent during Fiscal Years 2010/11 and 2011/12, respectively.
- This will be contributed by sectoral growth rates of agriculture amounting to 3.8 percent; manufacturing totaling to 1.8 percent; and services contributing 3.9 percent.
- For Fiscal Year 2009/10 the inflation target is 9.5 percent, which will be brought down to 7 and 6 percent during Fiscal Years 2010/11 and 2011/12, respectively.
- A targeted decrease in current expenditure to 15.3 percent of GDP in FY 2009/10 and 14.7 percent of GDP in 2010/11, owing to elimination of unproductive subsidies is planned in order to maintain the fiscal deficit at sustainable levels.
- The Government is going to take all necessary measures to ensure documentation of the economy and broadening of the tax base in order to shift reliance on domestic resource mobilization.
- Total revenue will grow by 15.7 percent and Federal Board of Revenue collection is projected to grow by 16.8 percent.
- Tax to GDP ratio will be 9.6 percent, with measures, as against 9 percent during Fiscal Year 2008/09.
- Revenue as a percentage of GDP is projected at 14.7 percent in Fiscal Year 2009/10 and will increase to 15.1 percent during Fiscal Year 2010/11.

II. TARGETING THE POOR AND THE VULNERABLE

Madam Speaker!

15. The previous government pursued a policy of trickle down, expecting that the benefits of growth would automatically reach the poor. The flaw in this strategy was that the rich became richer and the poor became poorer. Our

government is tackling the issue of poverty by launching a frontal attack against it. Our efforts at poverty-reduction aim to eliminate poverty.

16. As a tribute to our leader, Shaheed Mohtarma Benazir Bhutto, who laid down her life for democracy, the introduction of the government's flagship programme, named 'Benazir Income Support Programme' to provide direct cash transfers to the poor, is proof of its commitment to reach out to the most vulnerable to share their burden and ease their misery as much as possible. Following our Quaid, Shaheed Zulfikar Ali Bhutto's words, 'The Masses Will Rule'.

Madam Speaker!

17. The conception behind the Benazir Income Support Programme was not only providing financial assistance to the needy but also to ensure women empowerment and child care. During Fiscal Year 2008/09, Rs 22 billion was distributed to 1.8 million beneficiaries. During fiscal year 2009/10, it is proposed to increase the allocation of BISP to Rs 70 billion. Madam Speaker, this would constitute more than 200 percent increase; I repeat more than 200 percent increase over the last year's distribution. Five million families would benefit from this increase in the coming financial year. A programme for the Internally Displaced Persons has also been started by Benazir Income Support Programme wherein the Internally Displaced families are being identified and cash grants are being paid to them on regular basis.

18. In the short to medium term, the Benazir Income Support Programme will also serve as a platform for complementary social assistance programmes, the

main being **health insurance** for the poor and the vulnerable. This will cover full hospitalization, pregnancy, daycare treatment, diagnostic tests and accident compensation for earning members of the family to a maximum limit of Rs 25,000/- per family per year. In addition, cash transfer programmes will be complemented to promote household independence via various **poverty exit strategies**, which can help to upgrade the poor beneficiaries to the level of self-sufficiency by various means including transition to Conditional Cash Transfers; training and employment of one person per household; and provision of workfare through small public works under a social mobilization programme initiatives. The latter programme is based on the concept of small development schemes for construction of paved streets and water and sanitation facilities at the local level with help of community contribution.

Madam Speaker,

19. I hold out an assurance that the government is committed to ensuring complete transparency in the management of BISP. A census would be completed within three months in 16 districts of Pakistan as a pilot to benchmark incomes. This would be extended to the entire country within the calendar year. The Benazir Income Support cards would serve as vehicles of transparent management and addressing the needs of the vulnerable.

20. The government also plans to bring in legislation during the next financial year for creating a social security protection programme for the haris. It is the firm resolve of the government to mainstream the marginalised haris, provide them with social protection available to other labour in the country and to make them proud citizens of Pakistan.

21. The government also plans to revamp the Ministry of Social Welfare by replacing it by a Ministry of Social Protection and Development in order to provide a common platform for safety nets and enhanced institutional capacity for social service delivery.

Peoples' Works Programme

Madam Speaker!

22. This programme covers basic areas like provision of electricity, gas, farm to market roads and water supply. An allocation of Rs 35 billion is proposed in the Fiscal Year 2009/10 for this purpose. This will create sizable employment opportunities and, therefore, will increase the incomes of the less privileged.

Workers Welfare

Madam Speaker!

- For the Fiscal Year 2009/10, an amount of Rs 10.8 billion has been allocated for different Worker Welfare development schemes in the housing, health, education and technical education sectors. Quota has been abolished with the result that every worker will now be provided marriage grants irrespective of number of daughters. The rate of marriage grant has been increased from Rs 50,000 to Rs 70,000 per daughter. Construction of 9,469 housing units and flats for industrial workers is also proposed.

- The President of Pakistan has directed to take necessary measures for empowerment of employees of State Owned Enterprises through their representation on the respective Boards by transferring 12 percent shares to employees in order to revamp privatization process.

Microfinance

- Microfinance plays a critical role in improving lives of the poor and particularly women.
- The Government has set the target to increase outreach of the microfinance services from 2 million to 3 million borrowers in fiscal 09/10.

Housing

Madam Speaker!

23. Our founder leader Shaheed Zulfiqar Ali Butto's vision and foresightedness identified four decades ago that housing is the basic necessity and raised the slogan of Roti, Kaprha Aur Makan.

24. We, being the followers of Shaheed Zulfiqar Ali Bhutto, have taken the following initiatives to turn the dream of our leader into a reality.

- Affordable housing under a phased programme for the low-income population through community participation and squatter-settlement regulation; and

- For facilitation of working journalists, the Ministry of Information & Broadcasting managed to reserve a good number of residential plots in Islamabad for them.
- In this budget, tax credit limit on interest paid on loans for construction of a new house or acquisition off a house is proposed to be enhanced from Rs 500,000 to 750,000.

III. INCREASING PRODUCTIVITY AND VALUE ADDITION IN AGRICULTURE

Madam Speaker!

25. The Government's agriculture policy is aimed at ensuring food security; generating jobs; and enhancing farm profitability and competitiveness through realizing the existing productivity potential of various crops. The vast and rapidly changing agriculture sector offers enormous opportunities to millions of rural poor to move out of poverty.

26. **'Increasing productivity and value addition in agriculture'** will receive high priority. Self-reliance in commodities, food security through improved productivity of crops as well as development of livestock and dairy would be the main pillars of policy. More importantly government would continue to ensure a minimum guaranteed price to the farmers based on international comparisons. The response given by the farmers to the price policy of the government for the wheat crop raises hopes for improved production of other crops. Government

would continue with this pricing policy. Other areas of support for agriculture and livestock would be through:

- focusing on research and development by upgrading existing R&D facilities and initiating the establishment of two world class institutes of research for wheat and cotton;
- development of new technologies;
- more productive use of water through precision land leveling and high efficiency irrigation systems;
- promoting production and export of high value crops;
- accelerating the move towards high-value activities, such as livestock rearing, dairy production, fisheries, and horticulture;
- creating necessary infrastructure; and
- ensuring availability of agricultural credit.
- Formation of common facilitation centres.
- encouraging research and extension.

In addition:

- Establishment of ten model agricultural union councils for each major crop across the country will be undertaken;
- Promotion of model organic farming would be supported.

Overall PSDP allocation for Agriculture will be increased by 25 percent from Rs 14.4 billion in Fiscal Year 2008/09 to Rs 18 billion during Fiscal Year 2009/10. An amount of Rs 2.5 billion is proposed for Fiscal Year 2009/10 to ensure food security and productivity enhancement of farmers.

Madam Speaker!

27. Interventions made in this light have already started providing dividend in the shape of record production of major food crops like wheat and rice. The policy measures undertaken by the government have led to an estimated transfer of resources of about Rs 294 billion in to the rural economy. Government has made an agreement with Ms Monsanto of United States of America to formally introduce Generally Modified cotton into Pakistan on fast track basis. It has been planned that the farmers will be offered BT cotton hybrids varieties during Fiscal Year 2009/10. It is the vision of the government to treat livestock, agriculture and fisheries as an industry. In this context, the nil customs duty regime on tractors, poultry inputs and cattle feed would be continued in future.

Water Use Efficiency

Madam Speaker!

28. To boost production of crops and improve water use efficiency, a major initiative of 'National on Farm Water Management Programme' was implemented by the Ministry of Food and Agriculture.

29. Water sector has been allocated Rs 60 billion, which comes to 14 percent of the total federal programme. A total of 32 small and medium dams, 8 in each province are being financed. Similarly, adequate allocation has been made to projects such as National Programme of Watercourses, irrigation system, rehabilitation, lining of canals, and distribution, etc. Improved water management

efforts under the PSDP for Fiscal Year 2009/10 to raise agricultural productivity will involve allocations of:

- Rs 12 billion for Raising of Mangla Dam including resettlement;
- Rs 10 billion for the improvement of water courses; and
- several projects in all the provinces with allocations of Rs 15 billion for canal improvement and rehabilitation of irrigation system

Madam Speaker!

30. For Fiscal Year 2009/10 the strategy adopted is to complete ongoing mega projects side by side with construction of small/medium dams. The Government has launched a massive programme of water resource development and is earmarking an amount of Rs 47 billion in the PSDP for Fiscal Year 2009/10. Major water sector irrigation projects being completed in the water sector include raising of Mangla Dam, Gomal Zam, Dam and Satpara Dam. Preparatory works on Basha, Akhori, Mujda, Naigaj Dam have been initiated. Kachi Canal in Balochistan and Raineer Canal in Sindh will be completed in mid 2010.

31. The lining of irrigation channels in saline zones is being undertaken in Punjab, Sindh and NWFP to save the seepage and other losses. A national programme of Small Dams covering all the four provinces is being implemented. A comprehensive plan is also being developed for rainwater harvesting and ground water recharge.

Madam Speaker!

32. Development of agriculture infrastructure including warehousing facilities will involve Integrated Agriculture Marketing and Storage Infrastructure including feasibility study projects the total cost of which is Rs 37 billion, with Rs 500 million allocated for Fiscal Year 2009/10.

33. To assist small farmers the Government is launching the Benazir Tractor Scheme costing over Rs 4 billion over two years.

34. In order to ensure food security and to improve productivity of small farms, the Government is implementing a phased 'Special Programme for Food Security and Productivity Enhancement of Small Farmers' covering 13,000 villages by the year 2015 starting with 1,012 villages. This programme will be executed in all the four provinces in addition to Azad Jammu & Kashmir, FATA and FANA during the first phase at a cost of Rs 8.013 billion.

Madam Speaker!

35. A new Agriculture Model Village Programme has been initiated in 26 villages under the auspices of Zarai Taraqiati Bank Limited. The objective is to organize the farming community at the village level ensuring farmers easy access to agri credit.

36. In Fiscal Year 2009/10 the Government plans to initiate new programmes like commercialization of the seed sector in order to enhance high quality supply

through setting up an industry on the concept of Public Private Partnerships and diverting major investments in building and strengthening infrastructure in the sector.

Livestock and Dairy

Madam Speaker!

37. Livestock plays an important role in our economy. The Ministry of Livestock & Dairy Development, created in November, 2008 envisages food security, greater availability of quality products at competitive prices and the promotion of deep sea fishing to enhance foreign exchange earnings to address livelihood concerns of fishermen. A number of initiatives to strengthen livestock sector include:

- a. Prime Minister's Special Initiative on Livestock;
- b. livestock production and development for meat production;
- c. Prime Minister's Special Initiatives for White Revolution, that is, Doodh Darya and Dairy Pakistan projects are serving as a primary vehicle to bring about a white revolution through fundamental changes in the dairy sector;
- d. National Programme for the control and prevention of Avian Influenza;
- e. upgrading and establishing animal quarantine stations;
- f. efforts to enter into the halal food market; and
- g. improving reproductive efficiency of cattle under smallholders system.

38. Projects foreseen during the Fiscal Year 2009/10 include:

- a. 'Capacity Enhancement of Dairy Products under Public Private Partnership' a project worth Rs 3,500 million, for which Rs 300 million will be allocated during Fiscal Year 2009/10;

- b. 'Poverty Reduction through Small Holders Live Stock and Dairy Development' worth Rs 3,539.13 million, from which an amount of Rs 400 million will be allocated in Fiscal Year 2009/10;
- c. More model dairy community, biogas and breeding farms, cooling tanks, rural services providers and pasteurization plants.

Fisheries

Madam Speaker!

39. During the Fiscal Year 2009/10 focus will be on:
- a. lifting European Union's ban on fisheries export by upgrading fishing vessels;
 - b. improvement of infrastructure facilities for value added products;
 - c. establishing a fisheries training centre at Gawadar;
 - d. landing sites along the coastal line;
 - e. reducing post harvest losses through improved fish handling along the food chain and marketing; and
 - f. establishment of shrimp aquaculture in the country.

IV. MAKING INDUSTRY INTERNATIONALLY COMPETITIVE

V. CAPITAL AND FINANCE FOR DEVELOPMENT

VI. REMOVING INFRASTRUCTURE BOTTLENECKS THROUGH PUBLIC PRIVATE PARTNERSHIPS

Madam Speaker!

40. As a result of international recession, energy shortages, and a contraction in the economy, the industrial sector in Pakistan has been adversely affected. This sector posted a negative 3.3 percent growth in the outgoing year with large scale manufacturing posting a negative 7.7 percent growth. The industrial sector is our engine of production and employment. The government proposes to declare fiscal 2009/10 as the year of industrial recovery. Our industry is fragmented and lacks consolidation. It is being provided the following support measures:

Financial Measures:

- With a view to moving industry towards consolidation and value addition an Export Investment Support Fund, worth Rs. 40 billion has been proposed for FY 2009-10. The government will contribute Rs 10 billion towards this fund; another Rs 10 billion would be contributed by the Export Development Fund; balance Rs 20 billion would be contributed by governmental agencies through mopping up of surpluses in commercial banks.
- In order to support the SME sector by providing access to credit, a fund worth Rs. 10 billion for Credit Guarantees is going to be established. This fund would be financed by the government and the private sector in the ratio of 50:50 over the next two years. The government has already proposed Rs 2.5 billion in the Budget 2009/10 as its share to the fund.

- For citizens who lack equity financing, a Venture Capital Fund of Rs 10 billion is also proposed to be established which shall be financed in the same manner as the SME Credit Guarantee Fund. A provision of Rs 2.5 billion has again been proposed for this fund in Budget 2009/10.
- A new DFI is being created for industrial financing.
- Industrial clusters are going to be involved for the skill development to ensure ownership, monitoring/oversight and relevance of programs
- The allocation for M/o Industries will be increased by 335 %, I repeat 335%, from Rs.2.0 billion in FY 2008-09 (R.E) to Rs.8.7 billion in FY 2009-10.
- The budgetary allocation for Science & Technology has doubled from Rs 1,510 million in FY 2008/09 to Rs 3,140.4 million during FY 2009/10.

41. Government is not going to enhance tax incidence on industry, except tobacco; rather following tax facilitations have been proposed:-

- In order to assist automobile manufacturers and their vendor industries a reduction of 5% excise duty on automobiles (CKD) is proposed.
- In order to revive the construction sector a reduction of Rs 200 per ton in the excise duty on cement. This decrease shall be passed on to the consumer.
- In order to support Textile sector, withdrawal of FED on import and supply of Viscose Staple Fiber (VSF) and zero rating of chemicals used in manufacturing of fire retardant fabrics is proposed

- Cellular service providers have been provided the following relief:
 - Elimination of Regulatory Duty of Rs 250/- per set.
 - Reduction in Customs Duty from Rs 500/- per set to Rs 250/- per set.
 - Reduction in Excise Duty from 21 percent to 19 percent.
 - Sim activation charges reduced from Rs 500/- to Rs 250/-.
- Incentives for documented sector in case of 90% purchases from sales tax registered suppliers.
- Zero rating duty on exports sector will continue this year as well.
- To protect the local industry from under invoicing by importers, improvement in Customs valuation and enforcement mechanism would be ensured.
- Refund procedure would be streamlined - FBR to pay interest on refunds delayed beyond 90 days.
- To facilitate all tax payers including industry harmonization of tax laws (Sales, Excise, Income, Customs) would be ensured.
- The limit of credit on donations in case of companies is proposed to be enhanced from 15% to 20%.

Madam Speaker!

42. In order to revive our industrial sector, following additional initiatives have been proposed:-

- Industry would receive priority in allocation of gas and electricity.
- Cross subsidy in electricity and gas tariffs would be reduced in a phased manner to provide relief to the industry.

- Large Export Houses would be established to support the export industry.
- Development of Special Economic Zones and Special Industrial Zones would be fast tracked.
- Market access to USA and EU is being negotiated to provide level playing field to our industry in international market.
- Corporate Rehabilitation Act (CRA) is being finalized to improve bankruptcy and insolvency regime.
- Proposals to form Resolution Trust Corporation (RTC) to promote consolidation of industry are being finalized.
- SECP Reforms like Holding Company Formation facilitation and number of other business environment improvement initiatives are underway to develop competitive markets for the private sector
- Capital markets are being developed for financing of trade and industry.
- The Industrial Relations Act 2008 has been passed by the Parliament to improve the labor-owner relationship regime.
- In order to provide opportunities to the entrepreneurs for expansion as well as assist the government in disposing off public assets, a transparent privatization policy based on Public Private Partnership is being pursued through sale of 26 percent shares to the private sector or allow privatization of management on profit sharing basis.
- To improve industrial competitiveness implementation of the National Trade Corridors Improvement Program has been launched.
- To achieve a high quality road and rail network, allocations for National Highway Authority amounted to an increase from Rs.36 billion to Rs.40.2 billion whereas in the case of Pakistan Railways from Rs.6.6 billion to Rs.12.7 billion.

- Custom duty is proposed to be reduced on a number of items to provide cheaper raw materials to different sectors like poultry, dairy, fish processing and pharmaceuticals. Adequate protection is also proposed to be given to local industry.

VII. INTEGRATED ENERGY DEVELOPMENT PROGRAMME

Madam Speaker!

43. Uninterrupted supply of energy is not only the need of the citizens but of all sectors of the economy. The industrial sector has already been hit very badly in the outgoing financial year. Prime Minister's Economic Advisory Council has developed an integrated energy plan to cater for the short, medium and long term energy needs of the country. This is the first ever integrated energy plan of Pakistan as previously energy sector had been dealt in isolation.

44. Government is well aware of the problems that have arisen in the wake of energy crisis in the country. The previous regime's short sighted policies handed over its legacy in the form of abrupt powers shortages, load shedding and unaffordable energy mix. We have taken a number of measures in order to improve energy scenario of the country to give impetus to our agriculture and industrial sector

Madam Speaker!

45. In this light, PSDP allocations for the power sector will be increased by 100 percent, from Rs 11.4 billion in Fiscal Year 2008/09 to Rs 22.8 billion during Fiscal Year 2009/10.

46. The previous Government left a huge backlog of circular debt in the energy sector. A total lack of decision making to address this issue in a timely manner on the part of the previous government has left the present government with a huge challenge. We have not shied away from our responsibility. In this regard the government has taken up the challenge to resolve the issue of circular debt which has reduced the efficiency of the energy sector. In order to improve the liquidity position of the power sector, the Government/ specially created holding company:

- will assume the entire bank loan liabilities of Rs 216 billion and pay the markup on these loans from budgetary resources;
- has already arranged TFC facilities of Rs 92 billion for PEPCO from banks to discharge its payment obligations towards Independent Power Producers and oil and gas companies;
- will assist to settle the remaining payables of PEPCO at Rs 61 billion;
- has decided to pick up the entire past arrears of PEPCO against FATA consumers to the tune of Rs 80 billion and pay the current electricity bill of FATA; and
- will help PEPCO to clear its outstanding receivables from federal and provincial government departments and entities, mainly KESC and KW&SB.

47. Projects have been undertaken to reinforce the transmission and distribution systems to minimize power losses and outages so as to provide a stable and reliable supply to consumers. Currently 15 Independent Private Power Houses with a total capacity of 2,921 Megawatts are in different stages of development. Out of these, 9 projects for 1,861 Megawatts will be commissioned in 2009; 4 projects for 776 Megawatts will be completed in 2010; while 2 projects for 284 Megawatts are due for completion in 2011.

Madam Speaker!

48. To meet the Government's target of eliminating load shedding by 2009, agreements have been made with 5 rental Power Projects for 800 Megawatts. Work on 16 Hydropower Projects in the private sector with a total capacity of 4,160 Megawatts has been initiated. Two new combined cycle power projects of 500 MW each in the public sector to supplement total capacity are planned at Chichoki Mallian and Nandipur.

49. The Government has also made an elaborate plan for electrification of all villages where electricity can be extended from grid supply. This was achieved in 6,419 new villages last year.

50. Demand side measures including conservation have been initiated including:

- massive media campaign to raise public awareness;
- induction of energy saver lamps for peak chopping; and
- enforcement of Daylight Saving Time during summer.

51. Other major activities proposed to be undertaken in the Fiscal Year 2009/10 include:

- induction of two hydro projects i.e. Khan Khwar & Jinnah Hydro, with total capacity of 168 Megawatts;
- setting up call centres in all Distribution Companies to improve customer services; and
- infrastructure development to reduce energy losses.

52. The PSDP allocation of Rs 4,000 million for FY 2009/10 has been made for the 4,500 Megawatts Diamer Basha Dam Project. Construction of more than 30 small and medium Dams in different provinces has also been funded.

53. In order to ensure transparency in the pricing of petroleum products and to reduce its use as well as assist in the cause of environmental protection, the petroleum development levy is being abolished and replaced by a specific Carbon Surcharge.

54. The government has determined the ideal policy mix for energy needs of Pakistan. These are hydel, coal, wind and solar. A comprehensive renewable energy policy is being formulated. The following steps are being taken in FY 2009-10:-

- A 50 Megawatt Solar Thermal Power Project to be established in Southern Punjab;
- Development of Wind Farms in areas in addition to Gharo-Keti Bandar, identifying new corridors of available wind potential in Punjab, Balochistan and NWFP;

- Solar Water Heaters Programme;
- Production of solar cells and modules up to an annual capacity of 80 Kilowatts;
- Depreciation allowance for renewable energy being enhanced by 100 percent;
- Allowance of duty free import of equipment under nine categories of alternate energy being considered.

VIII. HUMAN DEVELOPMENT FOR THE 21ST CENTURY

Madam Speaker!

55. **‘Human resource development’** is a prerequisite for improving all aspects of the quality of life of our citizens. The government is aware that improvement in social indicators needs to be expedited and has, therefore, adopted human resource development as a priority area particularly in education; health; clean drinking water and sanitation; population planning; and gender equality.

Education

Madam Speaker!

56. Significant reforms in education sector include:

- Strengthening the planning and implementation capacity of the government;

- Improving utilization of resources by educational institutions;
- Enhancing governance for greater accountability of education service providers to the community;
- Capacity building of district and local level institutions; and strengthening the role of communities through school committees.

Budget proposal for Fiscal Year 2009/10

- Major programmes of the Ministry of Education include:
 - (i) Establishment and operation of basic education and community schools in the country; (Rs 2 billion) and
 - (ii) Education for All through providing missing facilities to primary schools. (Rs 2 billion)
- Development funding to Higher Education Commission is being enhanced by 60% to Rs 22.5 billion in Fiscal Year 2009/10; current budget provision is being enhanced by 26% to Rs 21.5 billion.
- National Vocational & Technical Education Commission is targeting one million trainees every year in a phased programme. An allocation of Rs 2.2 billion has been provided in FY 2009-10.
- Skill development (vocational/technical) programmes aimed for labour export market are being planned.

Health

Madam Speaker!

57. The health strategy has been constructed on the key principles of equity, universal access to essential healthcare, timeliness, results, accountability, strong leadership and strategic coordination of the overall effort. The Strategy envisages

addressing special needs of the vulnerable population, especially women and children particularly in the rural areas. The health sector continued to remain the focus of attention of the elected Government during Fiscal Year 2008/09 and received a special thrust in terms of enhanced PSDP allocation and initiation of a number of new projects aimed at improving the health of the nation.

- Allocations for health under the PSDP have increased by 66 percent, from Rs 13.99 billion in Fiscal Year 2008/09 to Rs 23.15 billion during Fiscal Year 2009/10.
- National programmes for Family Planning and Primary Healthcare; and Expanded Programme of Immunization continue to receive top priority with respective allocations each of Rs 7 billion and Rs 6 billion.
- The Prime Minister's Emergency Action Plan for disease has been launched and will cost Rs 11 billion in the next five years.
- A concessionary import duty rate on 35 raw materials used in pharmaceuticals, medicines and diagnostic kits is also being proposed.
- Zero rate sales tax on import and supply of wheelchairs for the special people is proposed.
- Tobacco taxation is being increased as per World Health Organization recommendations for protecting health of the population.

Clean Drinking Water for All and Environment

Madam Speaker!

58. Clean drinking water is the first line of defense in protecting public health. The Clean Drinking Water Project is a promising initiative for the masses prone to waterborne diseases. The work for installation of filtration plants is going on and about 600 plants have been operationalized till now.

59. It is proposed that 3,500 plants will be installed one in each union council by end of Fiscal Year 2009/10 for which an amount of Rs 6 billion is being allocated. Besides providing safe drinking water, the project will also create sufficient job opportunities contributing to reduction in unemployment.

60. The budget for environmental protection has been increased from Rs 1.14 billion in Fiscal Year 2008/09 to Rs 2.96 billion for Fiscal Year 2009/10. This amount will be spent on forestry; environment friendly public transport and on provision of clean drinking water.

Gender Equality

Madam Speaker!

61. Pakistan has also expressed its commitment to gender equality and equitable development in many international forums and conventions including Convention on the Elimination of all Forms of Discrimination against Women and the Beijing Platform for Action. In order to advance the goal of gender equity in the process of implementing socio-economic policies, the Federal Budget for Fiscal Year 2008/09 showed a hefty increase in budgetary allocations for women specific expenditures amounting to Rs 44.7 billion compared to Rs 7.7 billion during Fiscal Year 2007/08.

62. The Government is committed to maintain gender equality in policies and programmes. It is pertinent to mention that health and education, the two core

social sectors, are the main recipients and sources of gender specific allocations, with the Benazir Income Support Programme also having emerged as a key source of growth in gender targeted allocations. Targeted and pro-women allocations in the federal budget with the intention to bridge the gap between men and women in acquiring access to basic service is surely a commendable policy. Gender mainstreaming project is being run at the Planning Commission and an engendering budget exercise is being also carried out under the Medium Term Budgeting Framework in the Ministry of Finance.

Human Rights

Madam Speaker!

63. Following the footprints of former Prime Minister, Mohtarma Benazir Bhutto Shaheed's dreams of addressing the problems of the oppressed in Pakistan, for Mohtarma created a wing of Human Rights, we have built upon that and have established a full fledged Ministry of Human Rights.

64. Steps are being taken to establish "Benazir Shaheed Human Rights Fund" and the bill for creation of the National Commission of Human Rights has been tabled on floor of the House. The Board of Governors of the Women Distress and Detention Fund has been reconstituted. The Provinces are being requested to allocate their share in the fund. We have distributed cheques to eligible petitioners out of the Relief and Revolving Fund to redress their grievances.

Youth Affairs, Culture and Sports

Madam Speaker!

65. Youth is the most important asset of our country, particularly at this stage when we are endeavouring to rapidly modernize and introduce technological innovation. They can play an important role in the decision making process for development of the country. During the fiscal year 2009/10, following initiatives have been envisaged,

- Different programmes for youth motivation, character building, awareness and integration, and establishment of youth activity centers will be undertaken under the National Youth Policy.
- Approximately 30,000 educated postgraduates will be offered internships under the National Internship Programme for which the Government has allocated Rs 3.6 billion for Fiscal Year 2009/10.
- A Mobile Youth Computer Literacy and Awareness Programme have been started through Mobile Computer Vans to educate/train the youth of rural areas.
- Approximately 15,000 volunteers from all walks of life have been registered for community development activities and disaster management.
- An amount of Rs 450 million for Fiscal Year 2009/10 for cultural development has been allocated which is an enhancement of Rs 186 million over the previous year's allocation.
- The government is placing special focus on the development of sports in the country. An amount of Rs 583 million has been allocated in PSDP in FY 2009/10 against an allocation of Rs 140 million in RE 2008/09. Government wishes to promote sports with private sector participation to afford the children and youth an opportunity for healthy recreation and sports related employment opportunities.

IX. GOVERNANCE FOR A JUST AND FAIR SYSTEM

Madam Speaker!

66. Improved 'Governance' is a must for a just and fair system. The manner in which public institutions and officials acquire and exercise authority to shape public policy and provide public goods and services is at the crux of our agenda. Political instability, corruption, volatile law and order situation and inadequate infrastructure have all left a detrimental impact on Pakistan's business environment. Autonomous institutions are needed, capable of outlasting their creators and resisting capture by individuals lusting for power and money. They must so function as to inspire confidence, which means that they must protect the rights of society against the exercise of arbitrary power.

Madam Speaker!

67. To strengthen governance, an additional amount of Rs 500 million was provided to the provincial implementing agencies of the ongoing Access to Justice Programme to support improvements and development measures in Fiscal Year 2008/09. An opportunity has now been created for the people of Pakistan under Access to Justice Programme to build upon the existing framework of reform initiatives for securing immediate and visible improvements in the system of justice administration. The initiatives that will be carried out in the near future under this programme include:

- Establishment of Public Defender and Free Legal Aid System across the country;
- Establishment of Fast Track and Evening Courts at the federal level and provincial headquarters; and
- Pro-poor legislation and automation of the justice sector.

Madam Speaker!

68. During Fiscal Year 2009/10, greater focus will be on administrative reforms. We have already constituted a Pay and Pension Commission to make recommendations to the government linking compensation with performance. We believe that the compensation package of government servants should be brought close to market salaries in a phased manner. The Pay and Pension Commission is expected to make realistic recommendations regarding the following concepts which we have included in our agenda of governance reforms:-

- Monetizing incentives for civil servants;
- Making public sector the ultimate choice for talent, in other words ‘Employer of choice’;
- Improved service delivery;
- Greater transparency and self-accountability;
- Market-based competitive salary structure.

Madam Speaker!

69. We realize that the government servants are not adequately paid. In order to revise the compensation package a Pay and Pension Commission has already

be constituted. During the course of the year, we would be benefited by the recommendations of the said Commission. However, to compensate government servants, I have the pleasure to announce:

- an ad-hoc relief allowance of 15% of pay of serving government servants from 1st July, 2009.
- An increase in the allowance of armed forces deployed on the western front equal to one month's initial basic pay with effect from 1st July 2009, as announced by the President of Pakistan.
- For the remaining armed forces personnel, allowance equal to one month's initial basic pay will be admissible from 1st January 2010 in line with the Presidential announcement; in the interim period, an adhoc relief allowance of 15% of pay will be allowed. This adhoc relief allowance will be withdrawn w.e.f. 31st December 2009.
- The retired government servants and armed forces personnel will also get 15% increase in their net pension from 1st July 2009

70. In addition:

- Limit for the exemption on Income Tax for salaried male is being enhanced from Rs 180,000 to Rs 200,000
- Limit for the exemption on Income Tax for salaried female is being enhanced from Rs 240,000 to Rs 260,000
- Senior citizens will now enjoy 50 percent relief in their tax liability in case of income upto Rs 750,000/-; previously this limit was upto Rs 500,000/-.

71. The government would also take measures during the next financial year to undertake the following actions in its drive towards governance reforms:

- Public sector enterprises including Pakistan Railways, Pakistan Steel Mills, Pakistan International Airlines and the Power Distribution Companies would undergo financial reforms to improve their management and service delivery.
- National Savings Organisation and the Federal Bureau of Statistics would move towards becoming corporate entities displaying the highest level of efficiency and service delivery.

Madam Speaker!

72. Federal and provincial solidarity is a must in the process of governance reform. Criticism must be genuine and solutions should be just and realistic. The line between government and opposition should not be based on vendetta and abuse, but on a sincere difference in principles.

National Finance Commission

73. The present government has constituted the National Finance Commission which would be convened immediately in the next financial year. It is our belief that decision making on financial matters relating to the distribution of resources between the federation and the provinces need to be addressed in an institutional manner. This notwithstanding, we have made efforts to increase the share of the provinces in the divisible pool of taxes alongwith special grants from the existing 47.5% to 49% during fiscal year 2009-10. On a cumulative basis the provinces would receive federal transfers in excess of Rs 708.1 billion against Rs 600 billion in the last financial year, an increase of 18%.

National Assembly Secretariat, Provinces and Parliamentary Affairs and Opposition

Madam Speaker!

74. The National Assembly is an important organ of the Federation's consultative process and needs further strengthening. A budget provision of Rs 1.1 billion was approved for the activities of National Assembly Secretariat during the Fiscal Year 2008/09, while for fiscal year 2009/10 an amount of Rs 1.3 billion is being allocated. Other improvements to strengthen the Parliament made during FY 2008/09 include:

- Sovereignty of the newly elected Parliament has been ensured through discussion and debate on all issues of national importance in the Parliament;
- The Defence Budget was presented in the Parliament for the first time after 1964;
- The Prime Minister regularly attends the National Assembly sessions and himself responds to questions, points of orders, motions and other important issues;
- Formation of Standing Committees in time and in proportion to the political parties' strength in the Parliament;
- Chairmanship of the Standing Committees has been given to the Opposition according to their strength;
- Chairmanship of the Public Accounts Committee has been given to the **Leader of the Opposition for the first time** in the Parliamentary history of Pakistan in line with established traditions of parliamentary democracy in the developed world; and
- Equal distribution of development funds has been made amongst the members of the Parliament irrespective of party affiliations.

Taxation Proposals

Madam Speaker!

75. Allow me to give you the highlights of taxation proposals for the year 2009/10. I have already presented the important fiscal incentives for the different sectors of the economy. Allow me to add that the tax measures being proposed by the government are fair and equitable guided by the principle of “ability to pay”, set in the context of an economy fighting a war.

76. Excise duty on petroleum products is being levied in the shape of a carbon surcharge which would eliminate the existing petroleum development levy. This would ensure transparency in the pricing of petroleum products, curb consumption, save foreign exchange and reduce carbon emissions.

77. In order to discourage consumption of cigarettes excise duty and sales tax on cigarettes is proposed to be enhanced. This would generate estimated revenues of Rs 15 billion.

78. As a revenue measure and to broaden the tax base, FED in VAT mode is proposed to be levied on the following additional services:

- Fees charged by banking services.
- Fees charged by import cargo handlers.
- Fees charged by stock brokers.
- Fees charged by insurance companies.
- Fees charged by electronic media for advertisements.

The estimated revenue impact of these measures is Rs 16 billion

79. It is proposed to enhance the rate of withholding tax on imports of commercial nature from 2% to 4%. This measure would result in estimated revenue of Rs 23 billion.

80. Following the policy of broadening the tax base and putting the burden on those who can bear it, it is proposed to enhance the rate of Capital Value Tax on property from 2 to 4 percent. Government intends to adopt effective measures to ensure its collection. It is estimated to generate revenues of Rs 15 billion.

81. To help the internally displaced persons, it is proposed to levy for a single year:

- a nominal tax of 5% on the tax payable by every individual deriving income above rupees one million.
- It is further proposed to levy a flat rate of 30% on bonuses earned by individuals in the corporate sector drawing salary exceeding Rupees one million.

82. It is proposed to levy a Minimum Tax under section 113 of the Income Tax Ordinance 2001 on the income of a resident company, provided that this will not be applicable to a company which has declared gross loss before set off of depreciation and other inadmissible expenses under the Ordinance.

83. To promote documentation of the economy, it is proposed that certain sectors may be pulled out of the presumptive, or final, tax regime. These sectors will now be required to file returns. Phasing out the presumptive tax regime will be an on going process.

Madam Speaker!

84. What the nation and the people need now is a guarantee for permanence in policy, permanence in ideology and permanence in approach which cannot be found in elusiveness. **Our power is the power of the people.** Our founding father, Quaid-e-Azam, Mohammed Ali Jinnah pledged that Pakistan would have a government and a constitution chosen by the people. Mankind has reached great heights by pursuing democratic ideals. **Democracy is our polity and all power belongs to the people.**

Madam Speaker!

85. As Shaheed Zulfiqar Ali Bhutto stated, “A new era is emerging in the political life of the nation. The politicians of Pakistan are facing a crucial new test as destiny stands at the dawn of a New Year. A new look amid a new style will have to emerge. The old ways will no longer appeal to the people. A new all-round approach will have to be found in every facet of politics. The hand must reach the ground, the eye must perceive the sub-surface movements and the ear be able to hear the sound of music in the far distance. Crescendos of ‘Zindabad’ and warm ovations at public meetings are not going to be the final tests of political acumen.”

86. Pakistan is a rich country in terms of both natural and human resources. Yet clearly, Pakistan has not fully exploited its potential. In this scenario, the government will ensure that clearer priorities and pro-poor sectoral programmes are in place that will provide an appropriate strategic framework to effectively reduce poverty.

Madam Speaker!

87. “Let us welcome the sound of bells of another year which is likely to bring more hope for all than the one that has ended. Time and with it events are moving faster.....But as a new page is being turned in an old book, let us end on a hopeful note.”

Pakistan Paindabad!