

BUDGET SPEECH FOR FISCAL YEAR 2010-11

Madam Speaker!

1. Let me start by thanking Allah for granting me the privilege and the responsibility for presenting the Federal Budget, for the fiscal year 2010-11, the third budget of this Government. I also want to start by recognizing the historic role of this House. This House is democratically elected. It has met high standards of parliamentary discourse and has passed landmark legislation. Above all, this House has restored the 1973 Constitution to its original purity. For this I want to congratulate you Madam Speaker, the Leader of the House, Prime Minister Yusuf Raza Gilani, the Leader of the Opposition, Chaudhry Nisar Ali Khan and all the members. It is only appropriate that the Constitution has been restored by a coalition led by the party of Shaheed Zulfikar Ali Bhutto, the architect of the 1973 Constitution who brought the leadership of the entire federation to come together in one of the shining moments of our history. I may also congratulate President Asif Ali Zardari for his leadership in making the passage of the 18th amendment possible. Let us also celebrate that Pakistan has again found collective solutions

on key outstanding issues like 7th NFC Award, the granting of provincial rights and the abolition of the concurrent list.

Madam Speaker!

2. It is my intention to introduce in this budget a fresh approach to economic management that will complement these momentous political reforms with responsible economic and fiscal management. The people clearly want a government that is capable of taking hard decisions and leading them to a bright future.

Madam Speaker!

3. These are extraordinary times. Over the last two years the world has gone through the worst recession since the 2nd World War. The global economy has contracted following the sub-prime crises in the USA. We have seen iconic names crash to the ground. AIG and Citi Group lost most of their capitalization; Lehman Brothers and other well known names vanished. This global storm ravaged many countries and continues to do so. No region of the world has been unaffected. Unemployment in the USA touched a 25 years high above 10%. Currently, the downturn is severely affecting some European countries like Greece, Spain and Portugal which were thought to be more stable and are part of the EU. Greece alone has been recently bailed out by the IMF and the EU, with one of the largest rescue packages ever.

4. Pakistan's economy also suffered due to the global down turn, the security situation in the neighborhood, and policy weaknesses. The fragility in our fiscal and balance of payments situation was exposed. The economy recorded an inflation rate of 25%— the highest in the last three decades. Economic growth fell

to 1.2 percent —the lowest in three decades. Pressures mounted on reserves. The exchange rate had to depreciate.

Madam Speaker!

5. In the face of this unprecedented economic crisis, your government had to take difficult, even unpopular decisions. These decisions included: (i) adjusting the price of those items, whose international prices had risen; (ii) curtailment of expenditures; (iii) and adoption of a tight monetary policy. The government also had to enter into a programme with the IMF to secure balance of payments support and prevent a default.

6. Throughout the adjustment process, the weak segments of society and the poor were not forgotten. To name one example: The Benazir Income Support Programme was introduced. This program alone provides Rs.1000 a month to support 3.5 million households.

Madam Speaker!

7. I am happy to report that we are seeing the beginning of an economic recovery. Inflation has moderated considerably although we still need to bring it down further. GDP growth has begun to turn upward reaching 4.1 percent in the outgoing year. Foreign Exchange Reserves have surpassed US\$16 billion. Remittances are up sharply to a record level of US\$ 8.5 billion. The premium on Pakistani debt has decreased substantially while our credit rating has improved. I am reminded of a famous quote of Shaheed Mohtarma Benazir Bhutto who once remarked:

“...the success of a nation, as we head towards a new century, shall be based upon its level of exports, hard currency reserves, its per capita GNP, and creative genius of its citizens”.

Madam Speaker!

8. We seem to be heading towards this thought process of Shaheed Mohtarma. We have been successful in achieving a measure of macroeconomic stabilization, checking inflation, restoration of a growth momentum, effectively managing our international commitments, and developing innovative schemes for the disadvantaged. There are, however, areas where we could have done better: domestic resource mobilization, reform of public sector enterprises and in dealing with severe energy shortages. I also remain conscious that job creation is less than adequate.

Madam Speaker!

9. This budget represents several departures from the past. In making this budget, we have placed our faith in the people of Pakistan. Our first point of differentiation is that this budget is based on transparency in the budgetary process. We have had a widespread consultation with many segments of society. These consultations have included Economists, Chambers of Commerce, Consumer groups, Parliamentary Committees, Provincial Governments, media and industry representatives. All information, statistics and data have been openly shared. This budget has become, perhaps the most debated, scrutinized and commented upon budget in Pakistan's history.

10. Keeping our faith in the public and honesty of approach, the second differentiating feature is that we have kept the budget *realistic*. This realism in

budgeting will allow federal and provincial departments and institutions and other economic agents plan better. In this manner, expectations of participants in the economy are anchored and they have better predictability of their plans.

11. The third differentiating feature of the budget is that it is the first budget after the new NFC Award. The co-operation, partnership, and enhanced role for the provinces is an integral part of this budget, reflecting the will of the people. The additional transfer of financial resources to the provinces means more money for law and order, education, health, drinking water and municipal services. Correspondingly, this means reduced fiscal space for the federal government and an incentive for better management of its diminished resources. It also means that Federal Government spending on social sectors would be limited generally to tertiary levels of education and health with major responsibility for these sectors shifted to the provinces.

12. The fourth differentiating feature of the budget is that we are operating in the framework of international commitments. It is important that we as a sovereign nation keep our commitments and do not erode our international credibility. While maintaining our commitments we must ensure that we become self-reliant and less dependent on foreign loans and assistance.

13. The fifth and most important aspect of our current situation is that of security. We are faced with a situation where our armed forces, jawans, rangers, paramilitary, police and other security forces are sacrificing their lives and engaged in hardship for the safety of our land and citizens. I want to salute them all. I want them to know that this House and the whole nation is behind them. We will do all we can to support our valiant soldiers.

Madam Speaker!

14. Before turning to the objectives of the budget, I would like to place the budget in the perspective of economic management. In today's world, economic management of a modern internationally open economy is a continuous year-long task. The budget is but one important instrument of economic management. However, the importance of this once a year ritual should not be overly exaggerated. There are important linkages between the budget and other instruments of government policies, including monetary; trade; pricing of agriculture, electricity, gas and petroleum products as well as various economic packages. We need to sharpen our understanding of the role of the government and its interventions and make them more effective. Ultimately results depend on the impact of a combination of these policies. This is what economic management is all about.

Madam Speaker!

15. The ultimate objective of the budget—indeed of all government endeavours—is to improve the welfare of the people. The citizens of Pakistan are at the center of the budget. In order to achieve this goal we have decided to lay primary focus on the following objectives:

16. Our *First* objective is that we must protect the economic recovery. Stabilizing the economy is a precondition for generating the momentum for growth. The recovery that has been achieved remains fragile. The dangers of slippage are high. The international situation remains fragile. The security concerns have not vanished. The budget deficit is still high. And we continue to remain dependent on external assistance. We will therefore continue to follow—

indeed reinforce—fiscal austerity. Waste will be eliminated, expenditures tightly controlled, and the policy mix carefully managed for a strong and stable recovery.

17. The *second* objective is that we must check inflation. High inflation is devastating, especially for the poor. The best relief package we can offer is to do whatever we can to reduce inflation. Why did inflation rise? This issue is debated all the time. Different points of view are forwarded by experts. But on one point all agree—that “inflation is primarily a monetary phenomenon.” What this means, and is true for Pakistan, is that it is caused by excessive credit expansion. In our case, we have borrowed heavily, our borrowing continues to increase rapidly, including from the State Bank. All of us know such borrowing from the State Bank means a rise in the rate of inflation.

Madam Speaker!

18. The *third* objective is to achieve a measure of self reliance through better domestic resource mobilization. By this means we will be able reduce our reliance on loans. Indiscriminate borrowing over the last four years has brought us to a debt level of 55 percent of GDP which is approaching the limit under the Fiscal Responsibility and Debt Limitation Act. This borrowing by the government also means higher interest rates and crowding out of the private sector. If we do not control our expenditures, and raise resources, we run the risk of being permanently in debt. High fiscal deficits have also curtailed our development budget.

19. The *fourth* objective is the reform and enhancement of our social protection regime. Innovative schemes, better targeting of the subsidies for the needy and eliminating waste could allow rapid poverty alleviation.

20. The *fifth* objective is the reduction of the burden of public sector enterprises without which we will never be able to achieve a sustainable fiscal situation. All efforts to gain control of the economic situation are hostage to a few badly managed public sector enterprises. The productivity and efficiency of every sector of our economy is badly compromised because of the failure of the PSEs.

21. The *sixth* objective would be that the recovery must not be jobless. Employment generation will be an important test of our policies. Our youth, the largest segment of our population will expect this.

Madam Speaker!

22. The *seventh* objective would be to make the country fertile for investment. Our nascent recovery can only be sustained through increased investment and results by the private sector. Indeed the role of the government should be primarily that of facilitating investment. We want to be able to show the people of Pakistan that the growth rate achieved in many Asian countries can also be attained in Pakistan. In order to achieve growth, we must make Pakistan attractive for investment. Surveys of competitiveness and cost of doing business suggest that reforms need to be undertaken to improve governance and markets in Pakistan. In order to attract investment we also need to emphasize productivity and efficiency, given our limited resource availability.

Madam Speaker!

23. Let me now elaborate on two areas that have a direct bearing on some of the objectives listed above: energy and food security. Both these areas will be receiving greater attention and will be allocated greater amounts both in the Public Sector Development Program and from external assistance programs such

as the Kerry Lugar, World Bank, Asian Development Bank and other bilateral assistance programs.

24. **Madam Speaker!** Energy shortages have darkened homes, closed down factories and shops, making life difficult and slowing down economic activity. The government is fully conscious of the difficulties faced by the people due to the prevailing energy crisis. The crisis has arisen because of poor policy choices in the past and underdevelopment of domestic energy sources such as hydel, coal, and natural gas. It is compounded by high oil prices and inefficiencies due to public sector management.

25. We have used a consultative approach with some success in dealing with immediate shortages. An Energy Summit was convened with the participation of all Chief Ministers and private sector stakeholders to frame a conservation plan for the electricity sector. As a result of the initiatives agreed during the summit, including the key issue of inter corporate circular debt, the nation witnessed some relief in load shedding. Nearly, 1000 MW was saved which brought some relief to domestic consumers as well as provided some extra energy to the industry.

26. Prime Minister's Vision of the Power Sector contains a number of measures to increase supply, manage demand through energy conservation and take administrative measures to streamline the transmission and distribution of electricity. In the short-term, efficiency and conservation measures being undertaken are;

- Diversion of natural gas to power plants to improve their efficiency.
- Rehabilitation of generation and transmission infrastructure.
- Free distribution of 30 million energy savers

Madam Speaker!

27. We also propose to take measures to enhance the supply of electricity. In the medium and long-term we plan to create an optimal energy mix to produce energy at affordable prices through hydel, coal and renewable sources.

28. In order to secure private sector investment in the power sector in a transparent manner, an Energy Development Fund is being established in consultation with Asian Development Bank. The proposed fund is likely to be started with seed money of Rs. 20 billion.

29. We have also taken steps to increase the availability of gas and the Iran-Pakistan Pipeline project has finally been signed after 17 years of work. The Government is also committed to import LNG in a transparent manner.

30. I must stress that a deep structural reform effort is required in the energy sector if we are to provide affordable energy to the growing economy. We intend to take this action forward this year. In FY 2010-11, an allocation of Rs.131 billion has been made for hydel, thermal and nuclear energy projects to augment generation and improve transmission.

Madam Speaker!

31. The second area of our focus is *food security*, with emphasis on the development of agriculture and water resources. In this effort we will emphasize sharp increase in productivity. Agriculture must find more productive solutions based on more efficient markets that provide incentives for improved technology with better water and input utilization. In addition to food availability we seek to ensure that the poor have the means to purchase food, and this is critical in

supporting the vulnerable. Without adequate purchasing power the poor may starve in the midst of plenty.

32. Our special programme for food security and productivity enhancement for smaller farmers, covering 13,000 villages starting with 1,012 villages in all provinces, has commenced successfully and is expected to gather momentum.

33. We are committed to managing our water resources better. Several initiatives have been taken. I would like to draw your attention to the raising of Mangla Dam, Gomal Zam Dam and Satpara Dam, which would be completed in FY 2010-11. This will substantially add to the availability of water.

34. Diamir-Basha Dam shall be launched as a mega project in FY 2010-11 which would generate 4500 MW electricity and store 6,450 MAF water. It is gratifying to share that the “resettlement chapter” has been conclusively settled by the Government which would now enable us to fast track this project.

35. As a testimony to our efforts at attaining food security the combined budgeted allocation in Development Budget 2010-11 for water, food and agriculture, livestock and dairy development sectors is in excess of Rs 40 billion.

Madam Speaker!

36. Let me now turn to the *reform of PSEs*, which is one of our important budgetary objectives. Lack of attention to this reform is subverting all efforts at stabilization and economic revival.

37. Pakistan's public sector enterprises are inefficient and have very poor management, generating huge losses which are then passed on to the economy and the budget. Power sector enterprises alone cost the exchequer around Rs 180 billion in FY 2009-10 while Railways, PIA, TCP, PASSCO, Steel Mills, NHA and Utility Stores add an additional Rs 65 billion. The large loss of Rs.245 billion destabilizes the entire budgetary process exposing us to breaching our debt ceiling. As a result we are continually seeking external assistance. Not dealing with this issue makes our entire budgetary process and expenditure control unmanageable. It also leaves no room for development expenditure. This is an issue that we wish to address with some urgency in the coming year.

38. Let me commit that restructuring of the eight major Public Sector Enterprises would be the major objective of the Government during FY 2010-11. A restructuring model along with timelines, approved by the Cabinet will be implemented. Hemorrhaging in the PSEs is causing a drag on our economy. We must make these PSEs financially solvent.

Madam Speaker!

39. I would now provide some details of the social protection program of the government which has linkages with our efforts to protect the poor and the vulnerable while driving growth.

40. At present, our subsidies regime does not distinguish between the rich and the poor, and much of our subsidy spending goes to the well-to-do groups in society that do not need it. We must ensure that only the poor receive public subsidies.

41. The government is deeply sensitive to the needs of the poor. For the first time we have developed a subsidy program that clearly targets only the poor — the Benazir Income Support Programme (BISP). This will remain the government's main program for targeted cash grants to the poorest of the poor. Rs 46 billion would be disbursed in the outgoing year, and we will increase the outlays to Rs 50 billion next year to benefit four million families.

42. The Government will develop innovative schemes for benefitting the poor. In this connection, a health insurance scheme (Waseela-e-Sehet) has been introduced on a pilot basis to provide health insurance cover of Rs 25,000/- per family per year for hospitalization.

43. The government is fully conscious that beneficiaries of BISP need to graduate into income earning individuals. We are designing a comprehensive exit strategy based on international best practices. Several initiatives have already been taken. For example, *Waseela-e-Haq* provides self employment through setting up of small businesses. Vocational training to one person of a beneficiary family is also been launched.

44. In addition, Pakistan Baitul Maal shall continue to run pro-poor programmes with an allocation of Rs 2 billion.

Madam Speaker!

45. A landmark achievement of the government is giving ownership to workers in state-owned enterprises under Benazir Employees Stock Option Scheme. To empower the workers and give them ownership rights, 12% shares

have been given to the workers in State-owned Enterprises. The scheme would help improve productivity and add value to the earnings of the workers.

Madam Speaker!

46. Our Government historically has been conscious of labour rights. Consequently, under the new Labour Policy for FY 2010-11 the minimum wage of workers has been raised from Rs 6,000 to Rs 7,000. To ensure its implementation, it has been made mandatory for the employer to make salary payments to the workers through banks. Similarly, dowry grant for daughters of workers has been enhanced to Rs 70,000 and the facility would be available for all the daughters instead of two as was the previous policy. The wage threshold for receiving social security benefits by the workers has been raised to Rs 10,000/-.

47. Our youth is the future of the nation. A key goal of our economic policy is the development of skilled youth engaged in productive employment. For this we have developed the “National Internship Program” which provides a one year internship to young unemployed postgraduates from all over the country. The interns work on various governmental projects and receive a monthly stipend of Rs. 10,000. Their employability increases after completion of their internship. More than 27,000 interns have benefitted in FY 2009-10. Rs 3.6 billion have been allocated in the budget for the National Internship Programme in FY 2010-11.

Madam Speaker!

48. I now present the **Salient Features of the Budget 2010-11.**

- i. The overall size of the budget, including provinces, is projected at Rs. 3259 billion which is 10.7% higher than the current year's outlay. The total revenues are projected at Rs.2574 billion. This translates into a projected fiscal deficit of Rs.685 billion (4.0% of GDP). Gross federal revenues (tax and non-tax) are projected at Rs.2411 billion.
- ii. FBR collection is projected at Rs.1667 billion (tax-to-GDP ratio of 9.8%).
- iii. A sum of Rs.1033 billion will be transferred to the provinces under the 7th NFC Award compared to Rs.655 billion estimated during the current financial year.
- iv. The federal budgetary outlay is proposed at Rs.2229 billion (13.1% of GDP).
- v. As an austerity measure, a cut shall be imposed on all budgeted non-salary current expenditure which shall stand frozen at 2009-10 level.

Madam Speaker!

49. Government remains committed to capital investment necessary to support our growth. The size of the PSDP 2010-11 is Rs.663 billion including Federal Component of Rs.280 billion plus Rs 10 billion for Earthquake Rehabilitation (ERRA).

50. We have kept PSDP 2010-11 at a realistic level. This will facilitate predictable, timely and automatic releases for project implementing agencies.

51. We prioritized available resources for *completion* of ongoing projects and managed to complete 216 projects in transport, power and the social sectors which include;

- a. Mansehra-Naran-Jhalkhad road,

- b. Completion of 106 km of Nutal-Sibbi-Dhadar road,
- c. 124 km of D.I.Khan-Zam Tower-Mughal Kot,
- d. Procurement of 69 DE locos by Pakistan Railways
- e. Doubling of track from Lodhran-Khanewal.
- f. 72 MW Khan-Khawar Hydropower project is due for commissioning this month
- g. Right Bank Outfall Drainage-III project is ready for commissioning
- h. Higher Education Commission completed 86 projects
- i. Ministry of Health expanded its Lady Health Worker's programme from 90,000 to 104,000 workers.

52. Early completion of projects will be the key objective of PSDP in 2010-

11. Some of the important projects marked for completion are as follows:

- a. 300 MW Chashma Nuclear Power Plant
- b. 1600-1800 Km of highways
- c. 200 Km on Gwadar-Ratodero Road upto Hoshab,
- d. Rahim Yar Khan-Bahawalpur Additional Carriageway (166 Km)
- e. Gomal Zam dam,
- f. Satpara dam
- g. Impoundment of water in Mangla Dam which will add 3 MAF of storage
- h. Karachi Bulk Water Supply scheme,
- i. Chaghi Water Management and Agricultural Development
- j. Polytechnic Institute for Girls in Turbat

Madam Speaker!

53. We are also very serious about expenditure control. Some important steps that are being taken in this regard are as follows:

- i. Obtain Cabinet approval for any supplementary grants beyond 10% of the approved budget.
- ii. Present report on quarterly budget outturn to the National Assembly to ensure parliamentary oversight.
- iii. Streamline releases against PSDP allocations with upfront authority/release of funds to ensure smooth implementation of development projects.
- iv. Ensure that proposals for approval of ECC/ Cabinet having fiscal impact would be Budget neutral i.e. additional revenues or savings would be identified at the time of approval.

Madam Speaker!

54. After the passage of 18th amendment, a Transition Committee has been constituted with a mandate to oversee the transition of subjects to the provinces in the erstwhile concurrent list. The said Committee would finalize devolution of such subjects before June 2011. It is expected that the number of federal ministries and divisions would be reduced during this period creating some fiscal space.

Madam Speaker!

55. Allow me to submit the highlights of taxation proposals for the year 2010-11. The tax measures being proposed by the government are fair, just and equitable guided by the principle of 'ability to pay' set in context of a war economy.

Customs

56. No customs duty on any product will be increased. For twenty nine categories of products, customs duties will be simplified and reduced.

57. In order to reduce the price of vegetable ghee and oil, reduction in duty on import of Crude Palm Oil is proposed from Rs.9,000/MT to Rs. 8,000/MT. This measure will provide relief to the general public.

58. To provide relief to the sick, concessionary import of 6 additional medical raw materials and medicines is being proposed. The import of X-ray film is also proposed to be exempted from customs duty.

59. In order to address the energy crisis and to encourage use of Renewable Energy Resources, import of four dedicated items in use of these resources is proposed to be allowed at a concessionary rate of 5% import duty. The government has already allowed duty free import of Energy Saving Lamps. In order to encourage local manufacturers of these lamps, five more inputs used in their production are being proposed to be exempted from customs duty.

60. In order to reduce the manufacturing cost of soap and detergent, duty rates on their raw materials, Coconut Acid Oil and Sodium sulphate are proposed to be reduced from 15% to 10%.

61. In order to encourage value addition and export of rice, its processing machines are proposed to be exempted from customs duty.

62. Road Sweeping Lorries imported by civic bodies are being proposed to be allowed at concessionary rate of 5% duty.

Sales Tax

Madam Speaker!

63. The Government of Pakistan is committed to reform the existing system of General Sales Tax. The existing General Sales Tax (GST) has degenerated into

an unfair tax, with multiple rates (between 16% and 25 %), exemptions and domestic zero rated facilities for vested groups and the privileged. It has also contributed greatly to the opportunities for corruption and rent seeking. The proposed GST reforms, will address both policy and administrative shortcomings of our current GST to remove all the deficiencies listed above.

64. The proposed GST reform:

- Will eliminate multiple tax rates and replace it with a single lower rate of 15 %.
- Will not apply on health, education and food items consumed by the poor.
- Will not apply to turnover less than Rs. 7.5 million per year where as the current threshold is Rs 5 million per year.
- Will be automated thus reducing possibilities of corruption and refund delay.
- Will broaden the tax base instead of burdening the existing tax payer thus introducing greater equity into the tax system

65. We expect the proposed GST reform to be in place by October 1, 2010 in consultation with all the provinces and other stakeholders.

66. Meanwhile as an interim measure the GST rates are proposed to be raised by 1 percentage point. Once the reform GST is in place the proposed single lower rate of 15 % will become effective. In addition, an accompanying relief measure of the GST reform will be the abolition of the current 1% Special Excise Duty presently levied on most items of imports and local manufacture.

Federal Excise Duty

67. FED incidence on all categories of cigarettes is proposed to be enhanced. It is also proposed to levy FED at Rs. 1 per filter rod of cigarettes. This levy is proposed to be adjustable by registered manufacturers which will also discourage illicit production of low quality and harmful cigarettes. It will generate additional revenue to cope with the health system costs of effects of smoking.

68. In order to fulfill Government's obligation under the 7th NFC Award, the rate of FED on natural gas is proposed to be increased to Rs. 10 per MMBTU.

69. To discourage consumption of electricity intensive appliances, levy of FED @ 10% ad valorem on air conditioners and deep freezers is proposed.

Madam Speaker!

Income Tax

70. A number of relief measures in income tax have been proposed in the Finance Bill. These are:

- Exemption limit for the salaried taxpayers to be enhanced from Rs 200,000 to Rs.300,000 benefiting approximately 430,000 taxpayers.
 - Exemption limit for non – salary income is also proposed to be raised from Rs.100,000 to Rs.300,000 per year benefiting approximately 350,000 taxpayers.
- Rate of income tax collected along with monthly electricity bill from industrial and commercial consumers is proposed to be reduced from 10% to 5%. This will provide a relief of Rs.4.5 billion to the 66,000 taxpayers
- Under the Prime Minister's Fiscal Relief Package to Khyber Pakhtunkhwa, FATA & PATA additional tax relief of about Rs.2

Billion have been provided to benefit 300,000 taxpayers of this province.

- Instead of monthly withholding tax statements, now only quarterly withholding statement will be required to be e-filed. A large number of taxpayers will benefit from reduction in this sizeable compliance requirement which will further bring down the cost of doing business in the country.
- Taxation on interest free/concessionary interest loans provided by an employer is proposed to be waived.

71. In order to further facilitate taxpayers and to incentivize the foreign investment a number of steps are also proposed to be taken for improvement in Direct Taxes:

- rate of final withholding tax on non-specified payments to non-residents is to be reduced from 30% to 20%
- Tax free payments to non-residents on profits on debt will be allowed
- 10% tax credit for balancing, modernization and replacement to all companies.
- A 5% tax credit is proposed to be allowed to a company in the tax year of its enlistment.
- 10% withholding tax as final charge on profit on debt (in debt instruments), and also for the investment in government securities (treasury bills and PIBs) to allow hassle free compliance by non-residents.

72. Number of taxation measures, aimed at rationalizing tax structure are proposed as below:

- It is proposed that income tax be raised for the Association of Persons (AOPs) at a flat rate of 25% against the existing progressive rate averaging up to 20%. This step will encourage corporatization.
- Tax on short-term Capital Gains on stocks/ shares will be charged at 10% where shares are held for a period less than six months and at 7.5% where they are held for more than six months and less than 12 months. However, stocks held for over one year will not be subject to CGT.
- The withholding tax rate payable by commercial importers is proposed to be increased from 4% to 5%
- A withholding tax on banking transactions including withdrawal through demand draft, pay order, RTCs, CDRs etc. will be charged at 0.3% where such transaction exceeds Rs.25000 in a day.
- Turnover tax on loss making companies and AOPs is proposed to be increased from 0.5% to 1%
- Withholding tax on domestic air travel is proposed to be charged at 5% on gross value of the ticket

Madam Speaker!

73. I would now like to address the issue of compensation of government servants. The recommendations of the Pay and Pension Commission as adopted by the government would be implemented over the next three years. The following decisions are being announced for implementation with effect from 1st July 2010:

- a. Federal Government employees will be allowed an adhoc monthly allowance equal to 50% of one month's basic pay. This benefit would not be available to such federal government employees who

are already in receipt of a monthly allowance equal to one month's basic pay.

- b. Medical allowance for employees in BS-1 to 15 would be doubled. For employees working in BPS-16 to 22, medical allowance will be allowed at 15% of monthly basic pay.
- c. Pensioners who are retired after 2001 will be allowed 15% increase and those who retired prior to 2001 will be allowed 20% increase.
- d. Pensioners who retired in BS 1 to 15 will be allowed medical allowance at 25% of pension drawn while those retired in BS 16 to 22 will be allowed medical allowance at 20% of pension drawn.
- e. The minimum monthly pension is proposed to be raised from Rs.2000 to Rs.3000.
- f. The rate of family pension is proposed to be enhanced from 50% to 75%.
- g. A number of other minor allowances for employees in BS-1 to 16 namely, night duty allowance, conveyance allowance for late sitting staff, daily allowance and special pay are proposed to be raised substantially.

Madam Speaker!

74. I may now announce a new intervention which aims at employment generation for rural unskilled workers. Under this scheme the unskilled workers in rural areas would be guaranteed employment for one hundred days in a year. The main feature of this scheme would be carrying out of small local level works with a guaranteed daily wage equal to the minimum wage. A pilot scheme will be launched in 120 union councils in 12 least developed districts, and others that have suffered the most due to the security situation. A training element will also

be added to provide skills that would facilitate absorption into the labour market. An amount of Rs 5 billion shall be provided for this programme, which shall be financed from the savings to be made by freezing the non-salary component of the non-development expenditure of the civil government at the level of last year. 200,000 households are expected to benefit from this scheme in FY 2010-11.

Madam Speaker!

75. I would like to thank my Cabinet colleagues and members of this august house for their support in the finalization of this Budget. I would also like to thank all others who have tirelessly contributed in the preparation of this Budget.

Madam Speaker!

76. Before I conclude, let me recap what I had stated at the beginning of my speech. I had said that in this budget we would attempt to lay down a direction for the economic management of the country. The intention was to present a way forward in which each of us as a citizen could participate and contribute to a common cause.

77. Our morale as a nation should be strengthened as our economy does not face the kind of stress being faced by many other economies. Policy action on many fronts is underway. The path of recovery is slowly taking hold but key structural issues present challenges to economic management. The Budget seeks to address these challenges to shape a more austere, efficient and fundamentally self reliant economy.

78. We will continue to chart a stable course for the economy, build efficiency in the way we do business, increase jobs for the under privileged and lay down

policies that encourage investment opportunities for the entrepreneurs. Let there be no doubt in the minds of the people that there exists tremendous upside potential in the economy and the country. It is up to all of us to harness the potential to the best of our ability.

79. We have shown our ability to put aside our political differences and face difficult challenges in a spirit of harmony and togetherness. Continuing with this spirit we have the ability to carve out a golden future for our country. Government will continue to play the role of providing an enabling environment for all the citizens to fully engage in the process of economic development.

80. Let me conclude with the words of the father of the nation, Quaid-e-Azam Muhammad Ali Jinnah on the occasion of the creation of our nation which are perhaps equally relevant today:

81. *“Let us now plan to build and reconstruct and regenerate our great nation... It is in your hands. We have undoubtedly talents. Pakistan is blessed with enormous resources and potentialities. Providence has endowed us with all the wealth of nature and now it lies with man to make the best of it.”*

82. Madam Speaker, Even today our destiny is in our own hands! Let us as a nation united go forward and make it into a reality!

Pakistan Zindabad