3 June 2014

Bismillahir-Rehmanir-Rahim

PART-I

Mr. Speaker,

1. As I rise to present the second budget of the democratic government, I want to thank Allah (SWT) for remarkable mercies He has bestowed on us by giving enormous success to the policies and initiatives we announced in our first budget. This success is the outcome of a democratic process that has allowed people to choose their representatives and they, in turn, are working to achieve their aspirations.

2. When we started our journey, we were facing the most daunting task of repairing a broken economy. We embarked on a very comprehensive agenda of economic reforms aimed to reinvigorate the economy, spur growth, maintain price stability, provide jobs to the youth and rebuild the key infrastructure of the country. Prime Minister Mohammed Nawaz Sharif set a rare example of foresight, courage and political sagacity when he did not shy away from taking painful decisions; decisions that were surely unpopular but imperative for restoring economic health of the country. Today, with the blessings of Allah, I say in all humility that we have not only restored the health of the economy but have put it firmly on the path of stability and growth. I by no means, am claiming that we have achieved our highest goals, however, I can gratefully and with humility, inform this House that Pakistan today is much more strong, healthy and prosperous than where it was one year before. But we need not be complacent with achievements so far.We are far from our destination. Therefore, we have to continue to strive and move forward, so that we achieve the status and stature among the nation, which we deserve, given our abilities. This is a national agenda and we hope that in order to achieve this, both side of the Parliament shall guide and favor us with valuable suggestions.

Review of Economic Performance 2013-14

Mr. Speaker:

3. I would like to place before this august House the following key economic indicators, based largely on latest data, which point to an unmistakable revival of the economy:

(a) **Economic Growth**, which had averaged around 3% in the five years before our government, has been projected at 4.14%as per the revised estimates. This is the highest growth in the last six years;

(b) **Per Capita Income**, which stood at $1339 last year is projected to increase to $1386, showing a growth of 3.5%;

(c) **Industrial Sector**, which grew by a meager 1.37% during Jul-Feb last year, has registered a growth of 5.84%, aided by increased availability of electricity and better management of available gas supplies. This is also highest in the last six years;

(d) **Inflation**, which had averaged around 12% in the five years before our government, was recorded at 8.6% for Jul-May 2013-14, that too despite the fact that we had takendifficult decisions to raise taxes and rationalize energy prices;

(e) **FBR revenues**, which had registered one of the poorest performances of in the recent past of 3% growth in 2012-13, are up by 16.4%, rising from Rs.1,679 billion to Rs.1,955 billion in the first 11 months of the current year;

(f) **Fiscal deficit**, which was registered at 5.5% during Jul-Apr 2012-13, has been brought down to only 4.0% for the same period this year. Here I would like to remind that in the revised estimates for 2012-13, we were told that the fiscal deficit will be 8.8%. We had taken office only a few days earlier but even then in the three weeks of June 2014, concerted efforts were made to economize on spending. The result was that actual deficit was brought down to 8.2%. This year, the target was to reduce deficit to 6.3%, but we are achieving a deficit of 5.8%, which is an excellent achievement;

(g) **Credit to Private Sector**, which was registered at Rs.92.5billion during 1st July 2012 to 9thMay 2013has increased to Rs.296.4 billion for the same period this year, showing a growth of 318% and reflecting increased investment activity in the private sector, thanks mainly to reduced borrowings by the government, mainly from SBP, which were completely eliminated from a level of Rs.417 billionlast to a negative Rs.11 billion during this year;

(h) **Exports** were recorded at $21billion during Jul-Apr 2013-14 compared to $20.1billion last year, showing an increase of 4.24%;

(i) **Imports** were recorded at $37.1 billion during Jul-Apr 2013-14 compared to $36.7 billion last year and showing a marginal growth of 1.2%. However, imports of machinery have increased by an impressive 11% an indication of investment activity;

(j) **Remittances,** which were recorded at $11.6 billion during Jul-Apr 2012-13, rose to $12.9 billion for the same period this year, showing an increase of 11.5%, which is remarkable and for which I salute my expatriate Pakistanis for playing such a critical role in country's economy;

(k) **Exchange Rate**, which experienced some instability due to speculative activity and initially declining reserves due to heavy repayments due from previous IMF loan, has been successfully stabilized and significantly appreciated subsequently. The speculators had thought that government would sit idly while they play havoc with the dollar. They had pushed the rate to approximately Rs.111on 3rd December, which was totally unacceptable, as it had no economic justification. While dealing sternly with them we have expended serious efforts to stabilize the reserves position and also improved the basic economic indicators. Since

3rd December 2013, the rupee has appreciated by 11%. It has been trading in the range of Rs.98-99 for nearly three months, and this is the single most important indicator of economic stability as it affects a large number of other variables like prices and cost of production. A stable exchange is the lynchpin of a stable economy;

(l) **Foreign Exchange Reserves**, which had declined to a precarious level when in June 2013 SBP they stood at $6 billion, of which $2 billion were due to a swap that was payable in August. More importantly, besides regular debt servicing, a payment of $3.2 billion was due to IMF, bulk of which in the first half of the fiscal year. On 10th February 2014, country's reserves had further declined to $7.58 billion, of which SBP reserves amounted to a meager $2.70 billion and those of commercial banks amounted to $4.88 billion. Many had predicted that Pakistan would soon default. It is from such a precipice that we have pulled the economy back and put it in on sound footing. For reasons I will be alluding to in my speech, foreign exchange reserves of the country have entered safe territory and no longer pose any risk to the economy. Even though reserves at present stand at around $13.5 billion, we will be pushing them to $15.0 billion, much in advance of our target to achieve this level by 31st December.

(m) **Karachi Stock Exchange Index**, which stood at 19,916 on 11 May 2013, the day the elections were held, has continuously scaled new heights and stood at 29,543 on 29 May 2014, showing an increase of 46%. Also, this increase meant an increase of approximately 39% in market capitalization both in rupees and dollars.

(n) **Incorporation of New Companies**, which was recorded at 3212 during Jul-Apr last year has increased to 3655 during the same period this year, showing an increase of 13.79%;

4. In addition to above, we have achieved certain results that have eluded the previous government for its five year term:

(a) **Euro Bond:** Every year, since 2007-08, a provision had been made to raise foreign exchange resources through the issuance of Euro Bonds, which were last issued in 2006 and each year either no efforts were made as performance of the economy did not warrant or once a team on the roadshows aborted the attempt for lack of interest and demand for Pakistan bond. And please note that this was an exchangeable bond with equity in OGDCL, a company registered and traded in London Stock Exchange. Allah has been extremely kind in making our efforts remarkably successful in the very first year of our government. After achieving economic stability we immediately embarked on raising resources from the international capital market. We had set a modest target of $500 million. As we completed the roadshows on 7th April 2014 and briefed investors about our policies and results so far achieved, we received an unprecedented response from them. Against our target of $500 million, investors offered $7.0 billion, which meant nearly 14-time oversubscription. Encouraged by this phenomenal response, and keeping in view our pressing needs for building reserves, we decided to accept $2.0 billion of offers. The pricing was internationally competitive and significantly better than the prices at which we are raising resources domestically, even after accounting for possible exchange rate adjustments. More importantly, the foreign resources so raised have allowed us to retire domestic debt that is more expensive, and enabled greater flow of credit toward the private sector, as I have already noted.

(b) **Resumption of Program Lending:** For a long time, and largely due to failure to implement the previous IMF program the country was denied access to program lending both by World

Bank and Asian Development Bank (ADB). These loans, particularly the cheap financing from the World Bank, are given for budgetary support and augment foreign resource availability for the purpose of balance of payments. The high quality of economic management undertaken by the government has inspired the confidence of both these institutions and we have succeeded in securing $1.4 billion from these two institutions in the two key sectors namely energy reforms and competitive and growth support reforms.

(c) **Auction of Spectrum License:**Anothernotable achievement of our government is the successful auction of radio spectrum license of 3G and 4G. This is again an area where budget provision of Rs.50-79 billion has been consistently made since the budget of 2009-10 without any success. Even though we had raised the budgetary provision to Rs.120 billion we succeeded in realizing our goal. Not only have we achieved our target price, through a built in incentive mechanism that prompted two of the four winners to make upfront payment of 100% price, we still have two more licenses that we will sell during the next fiscal year. All of this we have achieved with total transparency, competition and in full view of the world. Pakistan has lagged behind in introducing new technologies but we have removed this obstacle. Those who have purchased these licenses are extremely bullish in their assessment of Pakistan's growth potential. To understand the potential of what is in store for economic growth from this sector, it may be noted that even though we have more than 130 million cell phone subscribers, we have less than 10% penetration of broadband (data transmission), which will make all smartphone connected to internet and thereby all users to take advantage of global connectivity. A new wave of economic growth is likely to be spurred from the introduction of this technology in the country.

(d) **Revival of the Privatization Program:**The privatization of public sector assets, based on strategic partnership or through divestment in the capital market, was one of the key reforms we had proposed in our Manifesto and duly reflected in the budget strategy announced last year. This is again an area that lied dormant and unattended for last many years, as the previous government, despite making an announcement and short-listing 65 entities for this purpose, could not succeed. We have reinvigorated the program with considerable effort and injected new vigor in its execution, as per the program charted out by the previous government. Before the close of the calendar year, we would be divesting government shares in HBL, UBL, ABL and partially increasing the public listing of PPL and OGDCL. We have also appointed financial advisers for various public sector corporations where we plan to establish strategic partnership with private sector investors. These are those corporations that are burdening the pubic sector resources by their constant bleeding. The proposed strategic partnership will transform them into profitable organizations and remove their burden on the exchequer. Furthermore, besides bringing much needed foreign investment in the country, this process will help lowering the debt burden of the country and make more resources available for investing in the poverty reducing programs in accordance with the privatization law. I would like to assure this House that while pursuing this program, our government will not let the interests of workers and employees of public sector corporations compromised. Their welfare and rights will be duly protected.

(e) **Import of LNG:** Yet an important area that eluded others has been the plan for import of LNG in the country. Our present supplies barely meet 50% of our demand. Import of LNG is critical for our industry, power sector and fertilizer production. We had invited private sector to invest in a terminal for receiving 200 MMCFD of LNG to be expanded to 400 MMCFD. We have succeeded in awarding, again through a transparent and competitive process, the work of building the terminal at the Port Qasim. The work on the terminal has started and within one year the flow of gas is likely to begin. We have also rolled out the process of procuring 3.5 million tons of LNG from the international market, which is again done through a competitive process.

5. From what I have stated above, it can be seen that it is a picture of an economy that is not facing any threat of instability. It is in fact poised to take off toward a sustained path of growth. Investments are re-bounding, confidence is building and people are forming expectations of a better tomorrow. It is indeed the results of a consistent and credible policy regime that the government has fashioned and practiced.

Mr. Speaker:

6. You would recall that when presenting the first budget of the Government, I had outlined the vision that is guiding our economic policies. The six elements of the vision were:

(a) promotion of trade and investment and protection of economic sovereignty;
(b) making the private sector primary engine of economic development;
(c) public investment to cater for building a strong infrastructure of roads, highways, railways, ports, water, hydro-power and related infrastructure;
(d) equitable sharing of the burden of development by eliminating the culture of tax exemptions and concessions and recovering cost of public services to ensure their sustainable supplies;
(e) practicing austerity and frugality in public expenditures and containing them within the available resources; and,

(f) protecting the weak and vulnerable segments of population both by insulating them from inflationary pressures as well as giving cash grants to mitigate the adverse impact of economic adjustment and reforms.

7. We have scrupulously followed the vision we have set out for the economy. In every aspect of the vision, we have acted as we promised. The brief description of our performance, given above, and what will be highlighted later in this speech, exemplifies the faithfulness and seriousness with which we are working to realize this vision. This is a reflection of a responsible representative government that is answerable to Parliament and the people who have voted it to office. And as we move to the second year of our government, the new budget will continue to reflect the same spirit and commitment as embedded in this vision.

Main Elements of Budget Strategy

Mr. Speaker

8. I would now like to draw your attention to the main elements of the budget strategy we are adopting for the next fiscal year.

(1) **Reduction of fiscal deficit:**We will continue to reduce the fiscal deficit still further from 5.8% of GDP to 4.9% of GDP;

(2) **Raising Tax Revenues:**Although I will give details in the second part of the speech, this reduction in deficit will be achieved through a combination of better tax collection and tight expenditure policy.

(3) **Arresting Inflationary Pressures:**We have successfully warded off the inflationary pressures that were inevitable due to difficultdecisions we took in the first budget. As I noted, inflation has been kept firmly in the single digit territory. We gave more than Rs.20 billion in subsidy to avoid passing on the petroleum price increases. In the last one year, in nearly 8 months either

prices were unchanged or decreased. The following developments will further strengthen the inflationary outlook going forward:

i. Continued reduction in deficit;
ii. Borrowings from SBP were eliminated during this fiscal year and next year these will be further brought down.
iii. The shift toward foreign borrowings we have contracted carry an average cost of less than 5%, which is considerably lower than the domestic cost that is averaged more than 12%. This will save us Rs.26 billion annually in interest payment and will help reduce the cost of debt servicing;
iv. Regular price monitoring is being undertaken with a view to ensure adequate supplies of all commodities and maintain stable prices. Apart from the ECC that regularly reviews price situation, a price monitoring committee comprising all federal and provincial ministries and departments headed by Finance Minister also meetsevery two months for more coordinated approach toward maintaining price stability. Provincial Governments have established extensive networks of *Juma* and *Itwar* bazaars all across the country. These bazars provide additional avenues of purchasing essential items at considerably lower prices than those prevailing in the markets. Remedial measures are taken whenever shortage of an essential commodity is noticed. Tariff, taxation and trade policy instruments are used to stabilize supplies and prices by making appropriate adjustments in duties, sales tax and income tax.

(4) **Continued Focus on Energy Crisis:**The 4Es we have given in our Manifesto refer to economy, energy, education and extremism. Thus energy occupies a central position in our program. We had inherited an energy sector that was at brink of total collapse. Load shedding was running at 16 hours in urban

and 20 hours in rural areas. A gigantic circular debt of more than Rs.500 billion had stranded a sizable amount of capacity for want of liquidity. Critical projects, such as Neelum-Jehlum and Nandipur, were delayed or nearly abandoned due to sheer negligence. We were not deterred by the enormity of the challenges facing the sector as we realized that without fixing this sector no realistic hope of economic revival couldbe made. We settled the circular debt and freed up and added some 1700 MW in the national grid. These initiatives have paid off as the provisional figures of national accounts show that the value-added in the power sector increased by 3.72% as against a negative growth of 16.33% last year. But more importantly, we are working on a comprehensive program to add more power, improve energy mix to reduce the need for tariff increase, attract private sector investment and invest in transmission and distribution system to improve the efficiency of the entire power sector. I will be mentioning these initiatives in the context of the development plan;

(5) **Exports Promotion:** An emerging challenge on the horizon is the growth in exports critically needed to support a stable balance of payments over the medium to long term. Since 2000-01, our exports have grown at the rate of 8% compared to a growth rate of 13% for imports, leading to a large trade gap in the country. During the same period, the export to GDP ratio has declined from 13% to 10% whereas the import to GDP ratio has increased from 15% to 19%. This rising imbalance in the trade account has been significantly corrected by a remarkable growth in remittances, which have grown by nearly 25% during this period, with the result that our current account has been stable in recent years. Not surprisingly, the terms of trade for the country during this period have also continuously worsened, eroding competitiveness of our exports. This is not a satisfactory state of affairs. Our trade balance, largely due to lackluster growth in exports, is not consistent with our economic potential.

There is no escape from facing the challenge of stemming the declining trend in country's export to GDP ratio by giving a big push to the exports and redirecting our energies for enabling our industry and agriculture to create an exportable surplus in the country. To this end, this budget will be laying the basic foundations for a major thrust on export promotion. I will announce a number of initiatives aimed at giving boost to our potential exports.

(6) **Creating New Jobs:**We need to create jobs to absorb the rising number of young men and women entering the job market. As I said previously, much of this activity has to take place in the private sector, as our primary job is to provide an enabling environment for the private sector to undertake investments. The 3G-4G technologies, successfully introduced by our government, will spur growth not only in rolling out this facility but enabling other users to improve productivity and efficiency in their operations. A detailed study on the impact of 3G-4G technology on employment has estimated some 900,000 jobs will be created in the next four years.Investments are encouraged through other policies, most notably by reducing government borrowings and making more credit available for private investments. On our part, a major increase in development spending is planned during the year. PSDP will be increased from Rs.425 billion during 2013-14 to Rs.525 next year, an increase of nearly 24%. As I will enumerate shortly, these funds will be invested in major projects of infrastructure that will not only create immediate jobs but will go a long way in promoting more investments in the private sector.

(7) **Raising Investment for Growth:**Investment remains a challenge for the economy. The plans we have in this regard are at an advanced stage of preparation and work on some mega projects is just starting. Even the phenomenal increase in the flow of credit to private sector, which I noted earlier, has not been fully reflected in investment figures projected on the basis

of data for 9 months. There would be a significant acceleration in investment in the country in months and years ahead. For the first time in recent history of the country we are investing the fullest available development outlay of Rs.425 billion. This is a remarkable achievement in view of the fact that we have made a fiscal adjustment of 2.4% during the year. Frequently, in the past, whenever such adjustment was made it was essentially made by cutting development spending. We have broken this tradition. Those who have constantly criticized the government for slow development spending did not realize that the new government needed time to reset priorities in the development plan to ensure that such projects are undertaken that are consistent with the economic program of the government that enabled it to win the confidence of the people. We have done this and with that the pace of development spending has accelerated.

(8) **Public Debt Management:** The composition of public debt has witnessed major changes in past few years with increased reliance on short-term domestic debt owing to lower external debt inflows, which entails high rollover and refinancing risk. Besides, the effective cost and stock of external public debt increased due to rapid depreciation of Pak Rupee in the recent past. The present government has taken immediate corrective measures to manage its public debt portfolio effectively. Key elements of our debt management policy are:

– A Medium Term Debt Management Strategy (2014-18) has been developed to lengthen the maturity profile and reduce the refinancing risk along with sufficient provision of external inflows to relieve the pressure on domestic resources and to enable private sector to access more credit from the banking system;

– To broaden the investors' base and have a liquid government securities market, trading of Treasury Bills commenced on the stock exchanges. This has provided an additional investment channel to retail investors.

- Pakistan successfully tapped international capital markets after a gap of 7 years, which highlights investors' confidence on country's leading economic indicators, external finances and structural reforms undertaken by the present government.
- The program loans received from multilateral/bilateral development partners during 2013-14 as well as financing raised from international capital market in the form of Euro Bond will not only assist in lengthening of maturity profile of public debt, there are also strong concessional element associated with these loans i.e. low cost and longer tenors. The annual cost saving on these loans, as mentioned earlier, is around Rs.24 billion as compared with the domestic financing.

(9) **Protecting the Poor:** Reaching out to the poor is a major policy objective of our government. The main intervention we have designed for this purpose is the National Income Support Program (NISP) which consists of Prime Minister's Youth Program and Benazir Income Support Program. Of this BISP remains the biggest effort to help the poor through cash-transfers. The following achievements have been made in this regard:

i. In 2008, I was the one who made an allocation of Rs.34 billion for BISP. However, when we inherited this program last year, only Rs.40 billion were spent. Given our commitment to the welfare of the poor, we immediately raised the funding to Rs.75 billion, while adding an important component for schemes under the PM's Youth Progam. We are further enhancing this allocation to Rs.118 billion, representing approximately 200% increase since 2012-13;

ii. Until 2012-13, the cash-transfer program was reaching out to 4.1 million families, which will have taken to 4.8 million during the current year. Next year we will be increasing the number of beneficiary families to 5.3 million, showing an increase of 29% since 2012-13;

iii. The monthly stipend under the program was initially set at Rs.1000, which continued for five year, until we enhanced by 20% last year to Rs.1200. This year we announce another increase of 25% by raising the monthly stipend to Rs.1500. Therefore, in the last two years, we have raised the monthly stipend by 50%

iv. Besides the above, an allocation of Rs.21 billion has been provided to fund the special schemes under the Prime Minister's youth program announced previously, most of which are now fully functional and those that will be announced in this budget.

v. We are proud of this support that we are providing to our vulnerable and young people. We owe it to them; it is their own resources that we are managing in trust and making sure that in their state of vulnerability we are there to help them. I would also like to emphasize that we are not promoting a culture of dependency for the poor. We have adopted a methodology that constantly watches the economic state of recipients and there is a very structured process through which families are graduated from being recipients to become economically independent. This program is therefore a program only to help families under need and encourage them to gain a life that does not finally depend on such assistance.

(10) **Strengthening Social Safety-net Programs:** A large number of social safety-net programs are scattered across different ministries and departments and it is not evident if these programs are fully synergized with each other. To strengthen these programs it has been decided to establish a high-powered Task Force to undertake a detailed review of the programs' performance, assess their effectiveness, and to determine that these programs are optimally operated and no overlapping in their scope and work is present. Based on the report of the Task Force a new policy will be formulated that would allow more

coordinated delivery of social safety-net services by the government.

(11) **Development & Promotion of ICT Sector:-** The Government is fully cognizant of the importance of Information & Communication Technology and its potential role in trade, foreign direct investment, women empowerment, employment, education, national competitiveness and ultimately the economic growth. We are making adequate provisions in this budget for the development and promotion of the this vital sector, namely:

- **Establishment of Universal e-Telecentres:** In order to improve public access to ICT services such as NADRA facilities, biometric verification devices for issuance of SIMs, e-facilitation in health, agriculture, commerce, governance, learning etc. and to generate local employment and entrepreneurial opportunities, Universal Services Fund (USF) shall fund a mega program for establishment of Universal e-Telecentres. In the first phase, 500 Telecentres will be established in the four provinces and Islamabad. An investment of approximately Rs.12 billion shall be made on this program over the next three years.

- **Improved Connectivity of Remote Areas:** This year USF shall invest another Rs.2.8 billion in its ongoing program whereupon optic fiber cable is being aggressively laid to provide connectivity to outlying areas particularly in Baluchistan, FATA, rural KPK and other parts of country. Additionally, Rs.3.6 billion have been earmarked out of USF to be spent on Rural Telecommunications Program. All these efforts shall result into rapid rollout of next generation ICT services in the remote areas.

- **Prime Minister's ICT Scholarship Program:** This Program aims at providing the highest quality ICT education opportunities at top universities to the students belonging to rural and semi urban areas. This year, Rs.125 million have been allocated out of National ICT R&D Fund to provide 500 scholarships in a transparent manner.

Medium-term macroeconomic framework

Mr. Speaker

9. As the in past, our budget strategy is embedded in a three year medium term macroeconomic framework, the main features of which are as follows:

(a) GDP growth to gradually rise to 7.1% by FY 2016-17.
(b) Inflation will be maintained in single digit throughout the medium term.
(c) Investment to GDP ratio will rise to 20% at the end of medium term.
(d) Fiscal deficit to be brought to down to 4% of GDP by 2015-16 and maintained at this level afterward.
(e) Tax to GDP ratio will be increased 13% by the year 2016-17
(f) Pakistan's foreign exchange reserves will be increased to more than $22 billion at the end of 2016-17.

10. Encouraged by the performance in the first year in office, we are confident that these ambitious targets will be achieved with consistent and resolute determination to remain on-course on the path of reforms.

Development plan

Mr. Speaker

11. I would now present some highlights of the development budget, focusing mainly on the sectors that will contribute most to the economic development.

Water

12. One of the greatest assets bestowed on this nation by the Almighty (SWT) is the abundance of water resources. Pakistan has got one of the largest irrigation networks in the world. After initial big investments in the development of water resource we have stopped adding to our water storage capacity while the existing dams have accumulated silt over the years.

13. The most important sub-sector claiming resources in our development plan is the water sector, where we are investing Rs.42 billion for projects in various parts of the country. A project that will be the future life-line of Pakistan is the Diamir Bhasha Dam, which will store 4.7 MAF of water and generate electricity of 4500 MW. We have provided Rs.10 billion for land acquisition during the year and have kept a provision of Rs.15 billion for completion of the land acquisition process. We are committed to make this dam a reality and construction work will start soon on the site. Water projects in Baluchistan are the second most important focus of water sector investments comprising construction of delay action dams, flood dispersal structures, canals and small storage dams. Major focus is on completing the long delayed projects such as Katchi Canal (DeraBugti and Nasirabad), Naulong Storage Dam (JhalMagsi),Extension of Pat Feeder Canal to DeraBugtiandShadi Kaur Dam (Gawadar). In Sindh, the projects ofRainee Canal(Ghotki and Sukkur), extension of Right Bank Outfall Drain from Sehwan to sea will be undertaken. In Punjab Ghabir Dam (Chakwal), and in AJK, completion of raising of Mangla Dam will be executed. In Khyber

Pakhtoonkhwa, Palal, Kundal and Sanam Dams (Khyber Pakhtoonkhwa) and in FATA, KurramTangi Dam (North Waziristan), GomalZam Dam (South Waziristan) will be undertaken. Besides, numerous schemes of lining of water-courses will be undertaken in Khyber Pakhtoonkhwa, Sindh and Punjab to reduce water wastage together with flood protection and drainage schemes all over the country. Moreover, new water sector projects are being initiated which include a series of small dams across Baluchistan and Khyber Pakhtoonkhwa includingBasool Dam in Ormara and Makhi Frash Link Canal in Thar and Channelization of NullahDeg in Punjab.

Power

Mr. Speaker

14. Another sub-sector that is getting our utmost attention is the power sector. Widespread power shortages have badly damaged our industrial sector and added to the sufferings of the common people. Prime Minister Nawaz Sharif has devoted personal attention to the process of reforms and investments in this sector. We have taken a number of steps to address structural problems of the sector including reduction in system losses, improvement in recoveries, elimination of theft and settlement of inter corporate circular debt. However, our real focus is on developing additional resources of energy so as to permanently overcome the problem of shortages. Therefore, in keeping with last year's practice we have allocated the largest amount of resources to create more economical capacity in the country. During the current year a sum of Rs.205 billion will be invested in this sector. The projects included in the program include Neelum-Jehlum Hydro Power Project (969 MW), Diamir-Bhasha Dam and Hydropower Project (4500 MW), Tarbela Fourth Extension Project (1410 MW),Thar Coal Gasification Project (100 MW), Chashma Civil Nuclear Power project (600 MW), Two Karachi Nuclear Coastal Power Projects (2200 MW) with Chinese assistance, KeyalKhawarHydro Power Project (122 MW), AllaiKhawar Hydro Power Project (122 MW), Combined Cycle Power Projects at Nandipur(425 MW) and Chichoki Malian (525MW), Refurbishment and Up-gradation of Generation

Units of Mangla Power Station, Up-gradation of Guddu Power Project (747 MW gas-based), conversion of oil based power projects to coal at Muzaffargarh and Jamshoro (3,120 MW), transmission network to evacuate power from Wind Power Projects in Jhimpir and Gharo, interconnection of Chashma Nuclear III and IV, interconnection of Thar Coal based Engro (1200 MW) and massive allocations to improve the transmission lines, grid-stations and distribution systems. We have expended unusual efforts to make the dream of Dasu Hydropower Project a reality. TheWorld Bank will soon be approving $700million for financing this critical project that will add more than 4500 MW of power after completion. We are designing innovative ways to mobilize the requisite finances for constructing this project within the shortest possible time.

15. Addition of a number of hydel projects, coal based plants, wind energy and nuclear projects will correct the energy mix to provide cheap electricity to the people of Pakistan while improvement of the transmission and distribution system will reduce the system losses. The drive against energy theft will further reduce the burden on the common man.

Highways

Mr. Speaker

16. Pakistan has significant importance in regional connectivity. It provides crucial North to South and East to West corridors to three regions and some of the fast-growing economies in the world. But in order to benefit from this natural advantage, Pakistan needs to develop state of the art rail, road and energy infrastructure.

17. Leaders have to see through the future. Prime Minister Nawaz Sharifrecognized in 1990 that Pakistan will not progress rapidly unless it develops an extensive network of motorways to link distant parts of the country. Therefore, he launched his vision of a modern communication system, which could not be materialized due to negligence of a number of intervening governments. But we are picking up the pieces from where we left

off and we intend to complete most of the North to South Corridor projects during the next four years. Broadening his vision of connectivity the Prime Minister along with his Chinese counterpart has developed the vision of Pak-China Economic Corridor that would link Kashgar and Gawadar through both motorways and railways. It is not difficult to imagine the phenomenal economic development that would be engendered by such an epoch-making project. Various components of the project have been undertaken starting this year.

18. The premier project that would transform the south-north corridor, linking Sindh to Up-country through a rapid transit mode, is the 959 KM Karachi-Lahore motorway project for which Rs.25 billion have been allocated for land acquisition this year and Rs.30 billion in the next year's development budget. This will enable complete land acquisition for the project. Construction work on 276 KM Lahore to Khanewal Section, 387 KM Multan to SukkurSection, 296 KM Sukkur to Hyderabad Section and 136 KM Hyderabad to KarachiSectionwill start soon and will be undertaken on public-private partnership basis. It is estimated that the project will be completed before the term of the present government expires. On the other hand, work on the remaining portions of 892 KM Gawadar-Ratodero Motorway has been expedited and the works on 200 KM long Gawadar-Turbat-Hoshab Section have been prioritized by meeting all its financial requirements. For northern connectivity, work on for construction of 460 KM Raikot-Havelian-Islamabad Section of the corridor will also be starting as well as for widening of the Khunjrab-Raikot Section of the Karakorum Highway.

19. There are many more highway projects included in the development plan. This include184 Km Faisalabad-Khanewal Section and 57 KM Khanewal-Multan Section of M4. In addition, allocations have also been made for a number of crucial bridges and tunnels to open up unconnected areas. These include accelerated completion of Lowari-Tunnel, Lipa Tunnel in Lipa Valley, a bridge on River Chenab near Sultan Bahoo, Baba Farid Bridge near Pakpattan, Syedwala Bridge on River Ravi near Nankana Sahib, and a bridge on Indus River to connect N5 and N55.

20. In order to address the problem of urban congestion, allocations have been made in the current budget for the Peshawar Northern-Bypass, Karachi Northern Bypass, Lyari Expressway, Dualization of Sukkur Bypass, and Lahore Eastern Bypass. Moreover Ratodero, Dadu-Sehwan Road and Rakhi-Gaj-Bewala East-West road are also being constructed to improve connectivity.

21. This is an extensive program in the highways sector comprising 74 projects of motorways, highways, bridges, tunnels, and regional roads and a sum of about Rs.113 billion has been kept in the budget for this purpose. Numerous job opportunities will be created while undertaking the above projects.

Mr. Speaker

Railways

22. Railways is supposed to provide cheaper, faster and convenient mode of passenger and freight transport. But despite inheriting a large railway network spread across Pakistan, we have mismanaged the railway assets to the extent that nobody would chose to use it as a first option. Railway was headed for near extinction when PML N took over last year. Marginalization of Railways was simply unacceptable to us because the world over, rail transport is regaining its lost glory as more investments are made and faster trains are built for both passenger and goods transport.

23. In the budget for 2014-15, Government has allocated amounts for doubling of track from Khanewal to Lalamusa, covering a major portion of the north-south mainline. Remaining tracks will also be doubled in coming years.

24. Similarly allocations have been made for rehabilitation of track from Karachi to Khanpur and Khanpur to Lodhran. Allocations have also been

made to strengthen and rehabilitate 159 weak railway bridges. These measures will improve the speed and reduce travel time.

25. Modern railways depend heavily on technology that increases efficiency and reduces accidents. However we have not upgraded our system to benefit from technological advancements. In the budget for the current year the Government has allocated significant amounts for mechanization of track maintenance, replacement and improvement of signaling system and provision of a centralized traffic control system.

26. Pakistan Railways was in severe shortage of engines and bogeys when PMLN took its charge. We have given special attention to these shortages and huge investments in locomotives and rolling stock have been made in the current as well as next year's budget. Allocations have been made in the current budget to add more than 500 engines to the system through procurement and repair. This will address the issue of shortage of engines.

27. Similarly around 1500 new wagons/bogeys are also being arranged. Pakistan Railways is taking these steps to improve the travelling experience of its customers. In order to further enhance the convenience of travelling with Pakistan Railways, this budget has allocated special amounts to renovate and upgrade railway stations in various cities.

28. In order to make Pakistan Railways profitable, the Government has planned to offer increased freight services. Allocations have been made in this budget to procure additional wagons for freight operations and a feasibility study is being commissioned to study the possibility of a dedicated freight corridor.

29. All these steps have been taken to revive the existing services of Pakistan Railways. In addition to the revival of the existing system, the Prime Minister of Pakistan has a vision for high tech, modern and viable railways. Therefore, some entirely new and bold steps are being taken to take Pakistan

Railways to new heights. Huge investments are being made under the China Pakistan Economic Corridor, which will bring fast, modern and reliable railways to Pakistan.

30. Similarly urban railway is being introduced initially in Karachi and Lahore. Allocations have been made in the Federal budget to revive the Karachi Circular Railway while the Government of Punjab has planned to introduce a modern metro rail in Lahore. This is a new beginning and InshaAllah the people will feel the difference in service delivery of Pakistan Railways in the coming years.

31. A path-breaking project of Islamabad-Murree-Muzzaffarabad Rail Link is being initiated and a new company with the name of Kashmir Railways is being established to construct and manage this exceptional project in the scenic area of Galyat and Kashmir. This project will open new avenues in tourism and travel pleasure and this would prove to be a special gift of Pakistan Muslim League to the nation.

32. In this budget, we have allocated Rs.77 billion for 45 development schemes and pay & pensions of railway employees. Private and international investments are expected during the course of the financial year in this sector, as well.

Human Development

Mr. Speaker

33. People are the most precious resources of any nation. Therefore we consider the expenditures on human development as investments as they lay the foundation of future growth at an accelerated pace.

34. Initiatives that will be undertaken for the promotion of this sector are as follows:

(a) A sizeable allocation of Rs.20 billion has been made for 188 projects of the Higher Education Commission, which will support development plans of different universities all over the country. It may be noted that on the current side also a hefty allocation of Rs.43 billion is made for HEC. Thus a combined outlay of Rs.63billion will be made for higher education. The combined allocation represents about 10% increase, which is sizeable considering the tight fiscal conditions prevailing in the country.

(b) Health sector service delivery has been fully devolved to the provincial governments. But the Federal Government is cognizant of its responsibilities to support the provinces in eradication of deadly diseases, regulation of the health sector and coordination to achieve the Millennium Development Goals (MDGs). Therefore the current budget allocates Rs.26.8 billion for the health sector programs. Our major focus will be polio eradication. An emergency plan has been made for this purpose and the Federal Government will work closely with the provincial jurisdictions to eradicate polio from Pakistan.

(c) Additionally the budget will also fund the Expanded Program of Immunization (EPI), National Maternal Neonatal and Child Health Program, National Program for Family Planning and Primary Healthcare and several national programs for prevention and control of important diseases such as blindness, TB, Hepatitis and AVN Influenza.

(d) Most importantly, funding for the provincial programs for population welfare has been kept at Rs.8.2 billion.

SPECIAL INITIATIVES

Mr. Speaker

35. Having stabilized the economy and announced a significant acceleration of investment program in the public sector let me turn to some special initiatives our government is announcing in order to meet the special needs of exports, in general, and textiles, in particular, commerce & industry, agriculture and housing. These sectors are central to economic development and there recent dormant performance has been a cause of concern. Accordingly, we have decided to give impetus to development in these sectors.

Exports Promotion

36. I had earlier highlighted the weaknesses in our exports performance that have emerged over the last decade. We must arrest this low exports growth and declining export to GDP ratio. The following measures are being adopted for promotion of exports:

(a) **Setting up of EXIM Bank of Pakistan (Specialized DFI):**The Government has decided to set up the Export-Import (EXIM) Bank of Pakistan to enhance export credit and reduce cost of borrowing for exporting sectors on long term basis and help reduce their risks through export credit guarantees and insurance facilities. The bank will provide liquidity to exporters. Its authorized capital will be Rs.100 billion while the initial Paid-up Capital will be Rs 10 billion. Legal framework for the establishment of the Bank will be developed through an Act of Parliament.

(b) **Exports Refinance Facility (ERF):** The Government, through the State Bank of Pakistan, has arranged to reduce its mark-up rate on exports finance from 9.4% to 7.5%, which will bring it in line with such rate prevailing in the countries competing with Pakistan which will reduce the financial cost of exporters by 2%;

(c) **Long Term Finance Facility:** The Government, through the State Bank of Pakistan has arranged to reduce its mark-up rate on long term financing facility for 3-10 years duration from around 11.4% to 9% w.e.f 1st July 2014 which will reduce financial cost of exporters by 2.4%;

(d) **Removing Anti-exports bias in Imports:** A tariff rationalization program, being announced in the present budget, will gradually remove the anti-export bias in country's tariff policy and make exports more competitive.

(e) **Revitalizing Export Development Fund (EDF):** The EDF was established through the contributions of the exporters for the promotion of exports. However, over the years projects undertaken with Fund's resources were not entirely helpful to exports. The EDF Board has been reconstituted and its organization is overhauled with a view to make it more responsive and effective for the benefit of exporters.

(f) **Establishment of Pakistan Land Port Authority:**It has also been decided to establish Pakistan Land Port Authority to transform land ports into efficient facilitators of trade while being responsive to risks such as security issues, smuggling and human trafficking. This measure will help Pakistan to increase its exports through the overland route where numerous opportunities are offered by regional countries and connectivity to northern and western corridors;

Textiles Package

37. Textiles sector is the mainstay of country's exports as it accounts for more than half of country's exports. Its performance has been affected due to poor crops, delays in introduction of quality seeds and regulatory approvals for introduction of Bt cotton, widespread energy shortages, numerous local

taxes and levies, high cost of finance and restricted trade regimes adopted by importing countries.

38. A meaningful export promotion policy will not be possible unless we provide the much-needed support for the development of this sector. Accordingly, the following package of support and incentives is provided for the textile sector:

(a) Draw-back for local taxes and levies to be given to exporters of textile products on FOB values of their enhanced exports if increased beyond 10% (over last year's exports) at the following rates:

- o Garments 4%
- o Made ups 2%; and
- o Processed fabric 1%

(b) Mark up rate for Export Refinance Scheme of State Bank of Pakistan is being reduced from 9.4% to 7.5% from 1st of July 2014.

(c) The Expeditious Refund System is being improved and a fast track channel for manufacturers-cum-exporters is being created. I have already directed FBR to dispose of all their pending Sales Tax refund claims before 30th September 2014. In future, all admissible refund claims of exporters shall be disposed off within 3 months, if not earlier.

(d) The textile sector value chain will be given protection as per the study carried out by National Tariff Commission (NTC). This will provide a predictable tariff regime for the foreseeable future.

(e) Textile industry units in the value added sector would be provided Long Term Financing Facility (LTFF) for up gradation of technology from State Bank of Pakistan at the rate of 9% for 3-10 years duration.

(f) Textile sector enjoyed duty free import of machinery under textile policy 2009-14. This facility will end on 30th June 2014 (SRO-809). It is proposed that in view of the need to take full advantage of GSP plus facility, this concession would be allowed for another two years.

(g) Use of Bt Cotton will be promoted by expediting regulatory approvals. To enable availability of quality seeds requisite amendments in Seed Act 1976 will be made and Plant Breeders' Right Act will be promulgate.

(h) A new vocation training program will be launched to train 120,000 men and women, over the five year period, for skills required in the textile sector, especially in the value added sector such as garments and made ups. The scheme will have following features;

- Total Cost: Rs 4.4 billion
- Monthly stipend of Rs.8,000 per month
- 3 months training program
- To be run through TEVTA institutes and textile industry

Agriculture

39. Agriculture occupies a central position in country's economy as besides contributing more than 21% to GDP it houses more than 65% of population and employs nearly 45% of our labor force. It has also great export potential but little has been done to this end, except a few token efforts to provide some support for transport of agriculture produce. The key to improving agriculture productivity is access to seeds, water, credit, research and extension serves, markets and better pricing. Many of these responsibilities have been devolved to provinces and we are urging provinces to play their role in this regard. However, the federal government remains actively engaged with provinces in developing policies required for maintaining national food security and undertaking research in basic agriculture activities. With a view to develop a national policy for the long-term sustainability of agriculture on profitable basis it has been decided to establish a National Food Security Council. The council will be responsible for ensuring policy coordination across provinces and

relating to productivity improvements, market reforms, value addition and prices that ensure stable incomes for farmers.

40. Within the areas where Federal Government can help the following package of incentives and support are being announced for the agriculture sector:

(a) **Credit Guarantee Scheme for Small and Marginalized Farmers:**The government is introducing Credit Guarantee Schemein order *to* encourage banks for financing to unbanked small farmers. Government, through the State Bank of Pakistan, will provide guarantee to commercial, specialized and micro finance banks for up to 50% loss sharing. The scheme will cover farmers having up to 5 acres irrigated and 10 acres non-irrigated land holdings. It will benefit 300,000 farmer households/families with a loan size up to Rs.100,000. Total disbursement under this scheme will be Rs.30 billion.

(b) **Reimbursement of Crop Loan Insurance Scheme (CLIS) Premium:**Farming is one of the most vulnerable occupations in the face of natural calamities, climatic changes and plant diseases. In order to cover the risk to various crops the Government has introduced the crop loan insurance scheme for farmers with landholdings of 12.5 acers. From this budget, the scope of CLIS premium reimbursement is being enhanced up to 25 acres. All farmers obtaining loans for production of 5 major crops are eligible to benefit from this scheme. 700,000 farmers households/families will benefit from this scheme. Total budget cost of the scheme is Rs.2.5 billion.

(c) **Livestock Insurance Scheme:** Pakistan is a major livestock and milk producer. But the majority livestock ownership is at subsistence level which increases the risk of loss. In order to mitigate the risk of losses of small livestock farmers, the Government is introducing the Livestock Insurance Scheme for all farmers getting financing for up to 10 cattle. The scheme will cover livestock insurance in case of calamity and disease. The scheme will benefit 100,000 Livestock farmer households/families. An allocation of Rs.300 million has been made in the current budget for the scheme.

(d) **Reduction in Sales Taxes on Tractors:**The previous government levied sales tax on tractors which w.e.f. 1st January 2014 stands enhanced to 16%. This has adversely affected local buying of tractors. To encourage use of tractors by the growers it is proposed that the sales tax will continue to be charged at the reduced rate of 10%.

(e) **Establishment of Commodity Warehouses/Receipt Financing Mechanism**: In order to develop a mechanism for establishment of quality warehouses, silos, cold storages and cold chains, and linking it to finance through warehouse receipt system, the Government, through the State Bank of Pakistan, is helping to develop a regulatory mechanism for establishment of a warehousing clearing system and introducing special incentives for potential investors. This scheme will cover all existing or new warehouses, silos and cold storage for farmers, aggregators, traders and other value chain players. Under the scheme, Rs.1 billion will be invested as GOP-equity for establishment of a PPP-company to regulate and monitor this system. Additionally, State Bank has decided to provide LTF facility for establishment of storage and cold-chain facilities.

(f) **Agriculture Credit**:Credit to agriculture is critical for enhancing famers' productivity. We are conscious of the difficulties faced by the farmers in getting credit through the loan sharks. During the year, our Government has increased credit availability to agriculture sector from a targeted Rs.315 billion to Rs.380 billion. The State Bank has now decided to enhance overall credit to Rs.500 billion for the year 2014-15. With increased credit availability, and various insurance schemes, farmers' problems with respect to access to financial sector will be addressed to a large extent.

(g) **Incentives for Processing Industries of Special Areas**: In some parts of the country, such as in Makran Division,Gilgit-Baltistan, Swat District and FATA regions, agriculture produce suffers great losses for lack of processing and transport facilities. To encourage establishment of processing units at such places, Government is introducing a policy to support processing projects in Makran,GilgitBaltistan, Swat Valley and FATA. These units will enjoy duty and tax-free import of machinery not locally manufactured and will also have access to SBP LTF facility and 5 years tax holiday. Additionally, a concessionary long-term financing facility shall be provided to them through State Bank of Pakistan.

(h) **Airfreight Subsidy:**Governmenthas also decided to provide 50% airfreight subsidy for horticulture produce from Gilgit-Baltistan.

Housing

41. Housing is a basic need of the human beings and the government owes it to its people to facilitate provision of housing in the country. The following initiatives are being planned to promote housing sector in the country:

(a) **Low Cost Housing Guarantee Scheme: T**he government has specially designed a program to provide housing credit to low cost housing units to enable the poor to have their own houses. Banks will provide loans of up to Rs.1 million and financial institutions, under this scheme while the government will guarantee 40% of the portfolio amount. The scheme will cover all areas of Pakistan and 25,000 loans worth Rs.20 billion will be provided through this innovative method of supporting low and middle-income families.

(b) **Mortgage Refinance Company:A Mortgag**e Refinance Company is being established with a broad shareholding of the

Government of Pakistan, Commercial Bank, Development Finance Institutions, Multilaterals and others for this purpose, to generate long-term liquidity for housing finance. Total paid up capital of the company would be Rs.6 billion. The company will provide refinance facilities through purchases of loans from the financial institutions engaged in loan origination and packaging them for sale to long-term investors. Government of Pakistan will invest Rs.1.2 billion in the equity of the company.

(c) **Revival and Restructuring of HBFC**:House Building Finance Company Limited has been the premier for providing housing finance to low and middle-income families. There is an urgent need to rehabilitate this institution to enable it to play its important role in the housing sector. The following actions will be taken for this purpose:

- Immediate formation of Board of Directors;
- Improvements in efficiency and capacity;
- Simplification of procedures;
- Major drive to recover non-performingloans.
- Provision of new resources;

(d) **PM Low Cost Housing Scheme:**Inaddition to above, a provision of Rs.6 billion has been kept in the budget for PM's low income housing scheme.

42. **Prime Minister's Health Insurance Scheme:**At present, only a quarter of population in Pakistan is covered for health care costs, whereas 74% of Pakistanis, mostly poor and from rural areas, have to pay for such expenditures out of their own pockets. Urgent corrective measures warranted to rectify this situation. Accordingly, with the involvement of provincial governments an insurance scheme is being designed that will help the poorest segments of population obtain health insurance for tertiary care and special diseases, ifthe provincial governments provide the coverage for the primary and secondary care. A provision of Rs.1 billion is being kept in the budget for launching of this scheme on pilot basis, which will be rapidly replicated in in increasingly larger number of districts.

Pakistan Development Fund

Mr. Speaker,

43. In the past, an effort was made to establish the forum of Friends of Democratic Pakistan (FODP), which did not produce any tangible results. With the grace of Allah, we have established a company titled Pakistan Development Fund Limited, for which resources of Rs.157 billion have been arranged. The Company will provide financing to key infrastructure projects and promote Public-Private Partnerships (PPPs) for this purpose.

Islamic Banking

Mr. Speaker

44. We have revived the efforts to promote Islamic banking and financial system in the country. A Committee has been constituted for this purpose comprising prominent *Ulema,*bankers, economists and government officials, which will finalize its recommendations by 31st December, 2014 suggesting measures to enhance the current share of Islamic banks in the overall banking assets, remove difficulties in expanding the outreach of Islamic banking, enlarge the set of Islamic financial products, design instruments for financing government fiscal operations on *Shariah* principles and identify steps required to ensure wider application of Islamic financial system in the country. A Center of Excellence in Islamic Economics is also being established to further the research work in Islamic Banking and Finance.

Budget Estimates

Mr. Speaker,

45. Now I turn towards the estimates of revenues and expenditures for the next fiscal year.

46. Gross revenue receipts of the federal government for 2014-15 are estimated at Rs.3,945billion compared to the revised figures of Rs.3,597 billion for 2013-14, showing an increase of 10%. We have set an ambitious target for tax collections, as without collecting more taxes we cannot hope to increase development spending that is crucial for economic growth. I shall share more details of this in Part-II of my speech.

47. The share of provincial governments out of these taxes will be Rs.1,720 billion as compared to Rs.1,413 billion revised estimates for 2013-14, showing an increase of about 22%. Net resources left with the federal government will be Rs.2,225billion compared to the revised estimates of Rs.2184 billion for last year. Federal Government recognizes that the provincial governments have increased responsibilities of social sector service delivery under the new arrangements. Therefore, we have raised the level of provincial transfers over the last year from Rs.1,215 billion to Rs.1,720 billion, which is an increase of 42%, in orderto enable them to improve the social services and law and order for the people of Pakistan.

48. Total expenditure for 2014-15, is budgeted at Rs.3,937billion compared to the revised estimates of Rs.3,844 billion for 2013-14, showing meager increase of 2% which is much lower than the inflation rate. The budgetary needs of our Armed Forces as per their needs have been duly provided in the budget. Viewed within the overall increase, the government expenditure in real terms is actually contracting instead of expanding. This approach of gradually increasing the revenues and reducing the expenditure will make us self-reliant and sustainable. The current budget is estimated at Rs.3,130billion for 2014-15 against a revised estimate of Rs.2,935billion for 2013-14, showing an increase of 6.6%. However, the development budget has been adequately funded in order to meet the investment requirements of a growing economy. Against a revised estimate of Rs.425 billion for PSDP, we have budgeted it at Rs.525 billion showing an increase of nearly 24%.

Budget deficit is considered as the main culprit behind economic instability as it leads to both inflation and exposes the country to external vulnerabilities. As I noted earlier, we are making significant progress in reducing deficit, as it was brought down to 5.8% from 8.2% last year. This year we are reducing it to 4.9%. The federal deficit is projected at Rs.1,711billion for 2014-15 compared to the revised estimate of Rs.1,660 billion for last year. By requiring surplus of Rs.289 billion from the provinces, compared to a revised deficit of Rs.183 billion last year, we have projected an overall fiscal deficit of Rs.1422 billion for 2014-15.

49. Mr. Speaker

50. This shows a gradual trend of reducing fiscal deficit marking responsible behavior of the government towards fiscal and economic stability. We will continue this practice and further reduce the deficit to just 4% in the coming years. This will further stabilize the economy.

PART-II

Mr. Speaker,

51 Allow me to begin Part II of my speech, which relates to taxation proposals.

52 Our government had inherited perhaps the worst possible tax collection performance during the fiscal year 2013-14. Against a budget target of Rs.2381, we were given the revised collection figure of Rs.2050 billion, which meant a massive reduction of Rs.331 billion from the budget estimate. However, what was most shocking is the final collection of only Rs.1946 billion, another shortfall of Rs.104 billion from the revised target. This amounted to a meager growth of 3% over tax collections during 2011-12, the lowest ever nominal growth.

53 We have started picking pieces from such dismal performance and, as I noted earlier, our tax collections are up by 16.4%. While this is quite respectable under the circumstances of an economy going through a stabilization phase, we need to exert a great deal more efforts in pushing the tax revenues of the country which are commensurate with both our development ambitions and needs of fiscal sustainability.

Principles of Taxation Proposals

54 At the outset, I would like to lay before the House the basic principles and objectives guiding the taxation proposals included in the Budget 2014-15. These are as follows:

a. The share of direct taxes in overall taxes shall be increased;
b. The incidence of tax measures will be on those outside the tax net and those already in the net will be protected;

c. The non-compliant taxpayers will have to bear a cost of non-compliance, which will raise their cost of doing business;
d. The tax regime will be simplified and inequities created by SRO based concessions and distortionary provisions will be removed through a phased plan.
e. The tax revenues will be increased so as to improve the Tax to GDP ratio.
f. Without compromising the basic character of simplified and distortion-free tax regime, appropriate incentives will be provided for facilitating foreign investment in the country, development of less developed areas, agriculture sector etc.

55 These are very sound principles of taxation that have guided our proposals. Let me turn to specific proposals.

Phased Elimination of SROs

56 Because of a large and complex regime of concessionary SROs, developed gradually over many years, a convoluted and multi-layered structure of duties and taxes has emerged that continues to bedevil the taxpayers and creates inequities in the system. These SROs not only cause huge loss to national revenue but also, more crucially, distort the level playing field and breed corruption.

57 Over the last many years, a number of SROs were issued at the behest of interest groups having the power and influence to manage changes in the tax structure for their benefits. These exemptions serve as entry barrier for SMEs, give preferential treatment to big stakeholders, and have created factually a licensing regime that grants approvals and sanction quotas.

Mr. Speaker,

58 A high-powered committee approved by the Prime Minister Muhammad Nawaz Sharif diligently reviewed and extensively deliberated on the entire

concessionary regime on the basis of principles developed after broad-based consultations. The committee, which included representatives of trade and industry recommended phasing out of the concessions over a period of three years, which the Honorable Prime Minister has approved.

Mr. Speaker,

59 This is a momentous occasion in the history of the tax reforms in this country because privileges granted to influential classes over the years are being abolished. We are taking a giant step towards evolving a simple, transparent and an equitable tax structure. Now those small and medium entrepreneurs, who do not have the financial resources and capacity to go through the complex and cumbersome procedures for obtaining concessions, shall have access to level playing field. A major source of discretion and malpractices is being done away with.

Mr. Speaker,

60 The thrust of our government is to promote growth and equity in the economy. Our proposed tax measures are another step in this direction. We believe that the engine of growth has to be the private entrepreneurship and all measures are being taken to promote it across the board i.e. from SMEs to the large industrial undertakings. The tax regime would help promote the growth paradigm. We do not want to stymie growth. Accordingly our proposals will not put any additional burden on economic activity. We shall only tax the income and expenditure of the affluent class. Our vision is to make Pakistan self reliant by generating our own resources. Our aim is to increase the tax-to-GDP ratio, reduce budget deficit gradually and thereby divert more resources for development, which would engender growth and bring its benefits to the public.

Mr. Speaker

61 Our government does not believe in arbitrary and one-sided decision-making. In conformity with our philosophy we undertook an extensive and intensive consultative process before formulating our tax proposals. Economic Advisory Council, FPCCI, Chambers of Commerce & Industry, representatives of all major trade bodies, Anjuman-e-Tajiran, chambers of commerce and industry, professional organizations and economists were invited to give their proposals and suggestions for the current budget and their recommendation were duly considered and incorporated so far as possible in the proposed measures.

Relief Measures

Mr. Speaker

62 I will now highlight some of the relief measures to be introduced through Budget 2014-15:

a. **Relief for Capital Market:** A star performer of Pakistani economy during the FY 2013-14 has been the stock market. The rate of capital gains tax was to increase from 10% to 17.5% with effect from 1st July 2014. However, to ensure continued stability in the stock market, it is proposed that with effect from 1st July 2014 CGT rates shall be 12.5% for securities held up to 12 months and 10% for securities held for a period which is between 12 to 24 months, whereas the securities held for more than 24 months shall be exempt from CGT.

b. **Investment Incentives for Foreign Direct Investment:** To achieve the vision of an industrialized Pakistan in the foreseeable future we want to attract both domestic and foreign investment into the manufacturing sector. This august House would recall that the Prime Minister had earlier announced a special package for promoting investment in the manufacturing, construction, housing and mining sectors for the domestic investors. In order to attract Foreign Direct Investment in manufacturing, construction and housing sectors, it is proposed that corporate tax rate be reduced to 20% if the investment is in a new industrial undertaking or a construction or housing project to be set up by 30th June 2017 and at least 50% of the total project cost in the form of equity through FDI. This will also generate employment, which is one of our major challenges.

c. **Incentive for Joint Ventures between Companies and AOPs:** The non-resident companies investing in Pakistan had to create a joint venture with a local company and the contract receipts of such joint ventures were taxed as final tax in the hands of the joint venture/AOP and thus the non-resident companies could not enjoy their status of being a non-resident. To facilitate such arrangements for the non-residents, it is proposed that if one member of the joint venture is a company, it should be taxed separately at the applicable rate while the individuals should be taxed as an AOP separately.

d. **Incentives for Agriculture:** To promote agricultural sector we are proposing concessions for encouraging tunnel farming by removing customs duty on import of plastic coverings and mulch film, anti-insect net and shade net. Sales tax on high irrigation equipment and equipment for green house farming is also proposed to be exempted.

e. **Reduction in the Corporate Tax Rate:** Business community has been agitating that corporate tax rates are quite high and act as deterrent to the promotion of corporatization. In accordance with the already announced policy it is being proposed to reduce the corporate tax rate by one percent. Therefore, for tax year 2015, the corporate tax rate shall be 33%.

f. **Reduction in the Withholding Tax on Marriages and Functions:** Last year the adjustable advance withholding tax

@ 10% was introduced on persons arranging marriage and other functions for the purpose of documenting expenses made by persons out of the tax net. At present, the rate of advance income tax on functions and gatherings is 10%. Marriage functions at shadi halls are becoming the norm. Therefore the 10% rate is creating hardship even for the middle class. It is proposed to reduce the rate from 10% to 5%.

g. **Relief for the Disabled Persons:** The Government feels that the disabled persons need empathy and special consideration. It is being proposed to reduce tax liability of such persons having income up to Rs.1 million by 50%.

h. **Reduction of Taxes on Telecommunication Sector:** Telecommunication has become a necessity for all segments of society. Telecom Services are highly taxed as both FED and GST on Services continue to be imposed on them. In order to simplify the tax regime, it has been decided to withdraw FED from those provinces which have imposed GST on Telecom Services. In areas where FED shall continue to be collected, the rate is proposed to be reduced from 19.5% to 18.5%. Furthermore, it has been decided to reduce the rate of Withholding Income Tax on telephone services from 15% to 14%.

i. **Removal of Income Support Levy:** Income Support Levy Act was promulgated through the Finance Act, 2013. The aim was to mobilize additional resources for the economically distressed persons. However, the public at large did not accept this measure as it was considered harsh and was perceived as double taxation. The Government has decided to accept the demand and it is proposed to repeal the Income Support Levy Act, 2013.

Income Tax

Mr. Speaker,

63 Now I come to our Income tax proposals to enhance revenue and resultantly increase tax-to-GDP ratio.

64 As I said earlier, our thrust is to focus on making the affluent classes contribute proportionately more to the exchequer and at the same time to make the non-compliant citizens to pay more tax than the compliant taxpayers. In the case of income tax the following proposals are presented:

a. **Advance Tax on First and Business Class Airline Tickets:** It is proposed that Airlines may collect advance tax @ 3% on the sale of first class and club/executive class air tickets if the passenger is a compliant taxpayer (i.e. those who filed their Income Tax returns for the preceding tax year), and 6% tax if the passenger is a non-compliant person. The passengers travelling through the economy class shall be exempt from this tax to ensure that working classes and students travelling to foreign destinations are not burdened by this measure.
b. **Advance Tax on Purchase of Immovable Property:** Real Estate sector is attracting a major chunk of investment in an attempt to make quick profits largely through speculative buying and selling. The investment in this sector, unless it leads to construction, is unproductive and needs to be channelized to more productive sectors. To document and bring into tax net the real estate transactions it is proposed that an adjustable advance tax be collected on purchase of immovable property. The proposed rate of tax is 1% for complaint taxpayers and 2% for non-compliant persons. However, properties with value less than Rs.2 million and schemes introduced by the government for expatriate Pakistanis will be excluded from this provision. Similarly, the rate of adjustable capital gains tax on sale of immovable

property is proposed to be enhanced from 0.5% to 1% for the non-compliant persons.

c. **Advance Tax on Electricity Bills over Rs.100,000 per month:** To ensure due contribution from the rich and to discourage consumption, it is proposed to collect adjustable advance tax @ 7.5% on the monthly bill of Rs.100, 000 and above from the domestic electricity consumers.

d. **Higher Advance Tax on Interest Income and Dividends:** For the persons who are non-compliant, it is proposed that 5% additional adjustable advance tax be deducted from them on payment of dividend and interest. However, they can claim adjustment of the additional tax paid if they file return. The additional tax on interest shall not be deducted in case of people earning income on interest up to Rs.500,000 in order to avoid hardship to low and middle-income earners.

e. **Higher Advance Tax on Cash Withdrawal by Non-filers:** Similarly, the non-compliant shall have to pay additional tax on cash withdrawals at 0.2%, additional tax on booking with manufacturers or registration of vehicles.

f. **Higher Advance Tax on Car Registration by Non-filers:** The non-compliant shall have to pay a higher rate of tax at the time of registration and payment of token tax on motorcars and SUVs.

g. **Removal of Inequities:** There are certain distortions and inequities in the tax system. The tax structure favors choice of one entity over another. In this regard, distortions and inequities in the mutual fund industry and other corporate entities are proposed to be removed.

h. **Taxation of Accounting Income:** In corporate cases, taxable income is usually far less than accounting income. The difference is the result of careful tax planning to avail all possible avenues of tax avoidance allowable technically. An alternate corporate tax @ 17% is proposed to be imposed on accounting income. The companies shall be taxed at ACT or corporate tax whichever is higher. Facility of carrying forward ACT up to 10 years and exclusion of exempt income is also proposed.

i. **Removal of Tax Loopholes:** Tax on certain classes of income was being avoided because of loopholes. Taxation of bonus shares by companies and bonus units of mutual funds and modarbas was different than that of dividend. This anomaly is now being corrected.

j. **Tax Rates for Services:** At present rate for deduction of tax on services are 6% and 7% for corporate and non-corporate taxpayers respectively. Considering that persons providing or rendering services usually enjoy high profit margins due to low costs, the existing rates are considered lower. Hence, to rationalize, it is proposed to enhance tax rate on services to 8% in corporate cases and 10% in other cases.

k. **Changes in Final Tax Regime:** Persons under final tax regime (FTR) file only statements without accounts. Actual income earned in such cases is not ascertainable. Moreover, FTR is liable to misuse as persons having other sources of income also file statements only. To enforce returns and accounts, it is proposed that existing rates of tax deduction or collection in certain cases such as commercial importers, resident and non-resident contractors, service providers, exporters, petrol pump operators and commission agents shall be applicable only in case returns are filed by them otherwise they shall be charged higher rate of tax.

l. **Application of Tax on Foreign Institutional Investors:** Currently, the foreign institutional investors neither file returns nor their tax is collected on capital gains. It is therefore proposed to bring FIIs under the withholding tax regime. This measure will broaden the tax net.

m. **Mandatory Requirement of NTN:** Further measure to broaden the tax net is a proposal to make obtaining of NTN a compulsory condition for seeking commercial/industrial electricity and gas connections.

Sales Tax and Federal Excise

Mr. Speaker,

65 The government has made a conscious policy decision to enhance the contribution of direct taxes, which are progressive taxes, and gradually reduce the burden of indirect taxes, which affect the common man. Therefore, you will be pleased to know that no new tax has been imposed in case of sales tax and federal excise duty.

66 In case of sales tax and federal excise duty, since last budget for 2013-14, the government's main objectives are to broaden the tax base and increase the cost of non-compliance for those who remain outside the tax net, to remove distortions and anomalies and to promote automation in order to reduce interaction between tax payer and tax collector. Some of the steps being taken in this regard through this budget are:

a. **Simplified Sales Tax Regime for Retailers Tier-I:** Because of a variety of reasons, most of the retailers are still not in the tax net. Previous governments made many attempts to register the retailers, but did not succeed. After carefully studying the issue, carrying out in-depth analysis and holding consultations with representatives of retailers, we have concluded that most of the retailers are willing to pay their due share of taxes, but only want a simple and easy method of doing so. Consequently, the retailers have been divided into two tiers or categories. The first tier comprises the following:
    1. Those retailers who operate as part of national and international chain stores; or
    2. Operate in air-conditioned shopping plazas; or
    3. Have machines for credit or debit cards; or

4. Have monthly electricity bills in excess of Rs 50,000.

These retailers will be required to pay sales tax in the normal regime and to keep electronic cash register of approved-specifications in order to record their transactions. Another important challenge of bringing the high-end retail trade is how to incentivize the consumers to demand a GST paid receipt from the retailer. In order to do so we shall not only launch an aggressive outreach program to educate the taxpayers but shall also launch a periodic prize scheme based on the GST paid receipt.

b. **Simplified Sales Tax Regime for Retailers Tier-II:** All remaining retailers will fall in the second tier. For these, we are introducing the simple mechanism of payment of sales tax due through their electricity bills. Thus, retailers having electricity bills of less than Rs.20,000 in a month shall be charged only 5% of the bill as sales tax on retail sales, while those with higher bills shall be charged 7.5% as sales tax on retail sales.

c. **Sales Tax on Domestic Sales of Export Industries:** The government desires to encourage exports. But at the same time, the facility meant for exporters should not extend to domestic sales, otherwise it will create distortions in the market. SRO 1125(I)/2011 was issued in order to encourage the five major export-oriented sectors – textiles, leather, carpets, surgical and sports goods. However, under this SRO, even imported finished goods were enjoying concessionary rates of sales tax. Because of this notification, there was a great disparity between the concessionary rates of sales tax on imported finished goods of these five sectors sold in the local market against the standard rate. This was leading to distortion, evasion and malpractices. Accordingly, import of finished goods of these sectors are proposed to be charged to sales tax at standard rate, because they are meant for local consumption by affluent classes and do not contribute to exports.

d. **Rationalization of Sales Tax on Steel Sector:** The steel sector had been paying fixed sales tax at the rate of Rs.7/unit of electricity up to February 2013. But this rate was reduced to Rs.4 per unit of electricity without any rationale, which is much below the normal rates. I am pleased to announce that the steel sector has expressed its resolve to come forward and contribute to the national cause, and all stakeholders have agreed to revive the rate from Rs.4 to Rs.7 per unit of electricity. The Government has also accepted their demand to collect withholding tax of their purchases through their electricity bills @ Rs.1 per unit of electricity.

e. **Increase in Taxes on Tobacco:** Pakistan is a signatory to WHO's Framework Convention on Tobacco Control (FCTC), which demands increase in prices and taxes of tobacco to discourage consumption. In this regard taxes on tobacco are being increased as specified in the Finance Bill.

Customs

Mr. Speaker Sir

67 I will now present the proposals relating to Customs, which are as follows:

a. **Exporters Facilitation:** At present, six different facilitation schemes are available for export sector. It has been felt that complexity and multiplicity of these schemes creates problems for exporters. Therefore, we have decided to introduce a consolidated Export Facilitation Scheme. The scheme will be implemented after broad-based consultation with exporters.

b. **Reduction in Maximum Rate of Tariff and Tariff Slabs:** High customs tariff rates not only create barriers for trade liberalization, but lead to malpractices at operational level. Our Government has decided to reduce the maximum tariff and number of total slabs. As a first step towards tariff reforms, maximum rate of 30% is being abolished, bringing down the number of slabs to 6 and the highest tariff to 25%. However, luxury items consumed by wealthy segment of society are being subjected to regulatory duty equivalent to the above facility.

c. **Minimum Import Duty:** At present, 40% of imports are totally exempt for customs duty. For addressing the structural flaw in tariff and improving assessment and documentation, 0% slab in tariff is being substituted by 1%. However, socially sensitive items like petroleum products, fertilizers, and all food items etc. are being kept at 0% rate, through inclusion thereof in a new schedule to the Customs Act.

Tax Reforms Commission

Mr. Speaker,

68 During our deliberations and consultations in the budget making exercise we have received couple of detailed proposals on reform and rationalization of General Sales Tax and other taxes. I am grateful to FPCCI and other representative bodies of business for their detailed suggestions in this regard. In fact there is a need to carry out an in-depth analysis and review of the entire tax policy and tax administration in the country so that we may organize them along the contemporary needs. Accordingly we have decided to establish a Tax Reforms Commission in the country with the objective of undertaking such an exercise. The Commission would comprise public finance experts, practitioners, businessmen, tax lawyers and retired civil servants. The composition and terms of reference of the commission will be announced shortly.

PART-III

Relief measures for government employees, pensioners and labor

Mr. Speaker

69. As you know, we are still in the stabilization mode as we are focusing on reducing public expenditures. However, it is imperative that we do the bare minimum that is possible within the limited resources available especially for lower grade employees. Accordingly, the following measures are announced:

(a) A 10% ad-hoc relief will be allowed to all federal government employees with effect from 1st July 2014;

(b) A 10% increase will be allowed to those employees in Grade-1 to 15 drawing fixed medical allowance of Rs.1000 per month;

(c) A 5% increase will be allowed in conveyance allowance to those employees working in Grade-1 to 15;

(d) The post of superintendent is being upgraded from Grade-16 to Grade-17;

(e) One pre-mature increment will be allowed to employees of Grade-1 to 4.

(f) For welfare of the labor class, and in line with the increase in pay of government employees, the minimum wage rate is also being increased from Rs.10,000 to Rs.11,000.

70. Last year I had raised the minimum pension for government employees from Rs.3000 per month to Rs.5000, representing an increase of 67%. Considering the difficulties faced by low pension employees, I am announcing a further increase of Rs.1000 in minimum pension to make it Rs.6000. This means that the minimum pension has been doubled since 1st July, 2013. A 10% increase in pension will also be allowed to all retired federal government employees.

Concluding Remarks

Mr. Speaker,

71. I have announced a budget of hope and aspirations. We had started this journey under the most challenging circumstances. The achievements we have made within a period of less than one year are remarkable. The economy has been set in a stable direction. It was not too long ago that some false prophets of doom, both international and local, had predicted that Pakistan's economy will default and collapse in the month of June 2014. Allah has enabled us to prove them patently wrong.

72. All honest and impartial stakeholders are convinced that a serious, clean and purposeful economic environment is finally in place in Pakistan. This is the most fundamental requirement of a growing and prospering economy. Policy-making is nothing more than signaling, since it is the people who do the real hard work. Unambiguous and credible signals have gone all across that Pakistan is fully fit for doing business.

Mr. Speaker,

73. I have laid the budgetary proposals before this august House. In the end, I have only one request to make through your good self to the honorable members of the House that they should rest assured of our determination, honest intentions and our ever-lasting commitment to the national goals & targets. They are well aware that the prosperity of a country can be assured only through the peace and stability. The country which is in the grip of terrorism for the last one decade, now craves for peace and political stability. Civilized nations address their issues through constitutional means. We will open-heartedly welcome any positive remarks, criticism and suggestion aimed at bringing about rectifications & improvements. I say this full conviction that instead of gathering in squares, intersections and street, let's sit in this House and solve our problems. This nation has paid a heavy price for long

dictatorships. Nothing positive can ever chaos and lack of peace. Now this nation deserves reprieve. Our youth need appropriate education, the educated need employment, laborers need job and ample wages, the farmers need due compensation for their toil, our women have to play their role in the nation-building, our industries and factories demand energy, the dark villages are expecting electrification, and rural areas are to be equipped with the basic facilities, the poor need bread and butter, and above all Pakistan has to regain its lost glory among the community of nations.
All this is possible only if democracy and development are allowed to perpetuate, and we continue to march towards our goal hand-in-hand, for the pride of Pakistan and the betterment of its people.

74. Prime Minister Nawaz Sharif, who believes in this destiny of the nation, is expending his energies in transforming Pakistan to its true worth. The worth of our country is stated most succinctly by none other than the founder of the nation, who while addressing a mammoth rally at Lahore on 30th October 1947, had following to say:

> Do not be overwhelmed by the enormity of the task. There is many an example in history of young nations building themselves up by sheer determination and force of character. You are made of sterling material and are second to none. Why should you also not succeed like many other, like your own forefathers. You have only to develop the spirit of a *Mujahid*, You are a nation whose history is replete with people of wonderful grit, character, and heroism. Live up to your traditions and add to it another chapter of glory.

75. Perhaps, AllamaIqbal had a similar determination of our destiny when he said:

افراد کے ہاتھوں میں ہے اقوام کی تقدیر
ہر فرد ہے ملت کے مقدر کا ستارہ

Mr. Speaker,

76. Let me end my speech by a prayer that may Allah continue to bestow His mercies on Pakistan, protect its economic sovereignty and make it prosperous, powerful and a stable democracy. Ameen.

Pakistan Paindabad.

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