

EMBASSY OF PAKISTAN, USA ECONOMIC DIVISION

HIGHLIGHTS FEDERAL BUDGET 2007-08

I. OBJECTIVES OF THE FEDERAL BUDGET 2007-08

The Federal Budget 2007-08 has been presented with a view to:

- a) Providing relief to common man, including the government employees, industrial workers, pensioners, widows of industrial workers etc.
- b) Federal Budget 2007-08 is investment friendly, farmers friendly and people's friendly.
- c) Promoting investment and sustaining growth momentum.
- d) Creating employment opportunities.
- e) Improving social indicators.
- f) Strengthening country's physical infrastructure.

II. SALIENT FEATURES OF THE FEDERAL BUDGET 2007-08

- Total outlay of the **Federal Budget** is Rs.1874 billion. This is 21.7 percent higher than the size of the **budget** estimates of 2006-07, amounting to Rs.1353 billion.
- Current expenditure is Rs.1353 billion which is up by 2.2 percent over the **revised** estimates of 2006-07, that is, Rs.1033.5 billion.
- The share of current expenditure in total budgetary outlay is 66.0 percent as compared with 72.4 percent in **revised** estimates of 2006-07.
- Debt servicing is estimated at Rs.437.5 billion which is up by 50 percent over the **budget** estimate and 12.2 percent over the **revised** estimates of 2006-07. The massive increase in debt servicing is mainly due to 67 percent increase in the servicing of **domestic debt** which increased from Rs.190.8 billion in **budget** estimates of 2006-07 to Rs.318.2 billion in the budget estimates of 2007-08. The government in 1996-97 and upto a part of 1999-2000, borrowed heavily at a very high cost (*18% and tax free*) through the instruments of National Saving Schemes (NSS), particularly from the Defence Saving Certificates which are 10 years investment with a bullet payment. This year (2006-07) the additional impact on debt servicing was Rs.80 billion and next year (2007-08) this impact will be Rs.163.0 billion **only on account of this particular instrument.**
- Defense budget is estimated at Rs.275.0 billion or 2.8 percent of GDP as against **revised** estimates of Rs.252.6 billion or 2.9 percent of GDP.
- Expenditure on running civil administration is estimated at Rs.128.2 billion in 2007-08 as against Rs.127 billion in 2006-07.

- Total size of the PSDP is Rs. 520.0 billion in the **budget** estimates of 2007-08, which is up by 31.8% against the **revised** estimates of 2006-07, (*Rs. 394.5 billion*). Of this, the federal PSDP is Rs. 335 billion while the size of the provincial PSDP is estimated at Rs. 150 billion. Allocation of Rs. 35 billion is made for earthquake reconstruction and rehabilitation work. An allocation of Rs.23 billion is made against other development expenditure. An amount of Rs. 204 billion will be spent on development programs **outside** the PSDP. Therefore, the grand total of development program amounts to Rs. 747 billion – the largest development program ever undertaken in the country’s history. Details are in the Table.

SIZE OF PUBLIC SECTOR DEVELOPMENT PROGRAM 2007-08

(Rs. Billion)

A	Federal PSDP	335
B	Provinces	150
	PSDP size (A+B)	485
C	Earthquake Reconstruction	35
	PSDP size (A+B+C)	520
D	Other Development Expenditure	23
E	Total Development Expenditure (A+B+C+D)	543
F	Outside PSDP	204
	Grand Total (A+B+C+D+F)	747

PSDP Outside the Budget

(Rs. Billion)

S.No	Sector	Finance
1	Power	72.8
2	Fuel	72.8
3	Transport and Communication	42.0
4	Industry	1.4
5	PP & H	15.0
	Total	204.0

- The share of development expenditure in total budgetary outlay is 34 percent as against 27.6 percent in 2006-07.
- Out of the Federal PSDP of Rs.300 billion (excluding operational shortfall), 49.7 percent will be spent on physical infrastructure and 46.6 percent on social sector. These two sectors account for 96.3 percent of the Federal PSDP.
- Within infrastructure, water and power, including village electrification receive Rs.84.1 billion or 50.5 percent. This allocation is up by 19.0 percent from the current year.
- Allocation to communication (including NHA, Ports and Shipping and Railways) is Rs.42.0 billion or 25.2 percent of infrastructure development.
- Within social sector development, allocation to the health and population amounted to Rs.18.6 billion – which is up by 24 percent from the current year.

- Allocation to education including Higher Education has been increased to Rs.24.5 billion – up by 21.3 percent.
- Tax collection by CBR is targeted at Rs.1025 billion – up by 22.8 percent against the revised estimates of Rs.835 billion in the 2006-07.
- Direct tax is estimated at Rs.405 billion – 27.4 percent higher than the revised estimates the current year and indirect tax is targeted at Rs.620 billion – 20.0 percent higher than the revised estimates of the current year.
- Total revenues are estimated at Rs 1,475 billion
- Fiscal deficit as percentage of GDP is targeted at 4.0 percent (Rs 398 billion) including earthquake-related spending and without earthquake spending it is targeted at 3.65 percent of GDP, mainly on account of unprecedented increase in the PSDP.
- Provinces will be transferred Rs 497 billion (46% of the divisible pool) against Rs 418 billion in 2006-07

III. RELIEF TO THE COMMON MAN

a) Salary and Pension

- In the last four Budgets of this government, the salary of the government servants was raised every year. In the Budget 2007-08 the government will provide an increase of equivalent to 15 percent of pay to all federal government employees – civilian and defense employees.
- Pensions of the government servants have also been raised. Those government servants who retired **before** July 1, 1997, their pensions are up by 20 percent. Those who retired after July 1, 1997, their pensions are up by 15 percent.
- Upgradation of employees in BPS-1 to BPS-4 to the next grade; and the upgradation of the post of clerical/ auditors from BPS-5 to BPS-7; BPS-7 to BPS-9; and from BPS-11 to BPS-14.
- Upgradation of posts of operational staff in Pakistan Railways and enhancement in the rates of their operational Duty Allowance. Upgradation of basic scale by one step for all remaining staff (*excluding secretarial*) in Railways.
- The Employees Old Age Pension, old or new, has been increased by 15 percent
- Workers' minimum pension has been increased from Rs.1300 to Rs.1500 per month.
- In the event of the death of the workers, the grant to their heirs has been increased from Rs.200,000 to Rs.300,000.

- Earlier, husband or wife both contributing to old age pension were not entitled for the pension of the deceased pensioners. Now the serving partner will get the pension of the deceased spouse also.
- **The Minimum Wage of Worker has been increased by 15.0 percent, that is, from Rs.4000 to Rs.4600 per month.**
- The contract employees will also be entitled to get share in profit for which, the Companies Profit / Worker's Participation Act 1968 is being changed. The difference between contract and permanent employee is being eliminated. The minimum ceiling is being revised from Rs.12,000 to Rs.20,000. This measure will benefit the contract employees.

b) **Food Subsidy**

- In order to provide relief to the common men the government has increased food subsidy to Rs. 13 billion. Essential items such as Sugar, Atta, Pulses, Edible Oil/Ghee, medicine (some basic medicines) and other essential items will be sold at discounted prices through the Utility Stores.
- Gram pulse will be sold at Utility Stores at Rs. 29 per Kg against the average market price of Rs. 38 per Kg.
- Moong pulse will be sold at Rs. 47 per kg against the average market price of Rs. Rs. 56 per kg.
- Daal Mash will be sold at Rs. 57 per kg at the Utility Stores against the average market price of Rs. 72 per kg.
- Ghee is currently being sold at Utility Stores at Rs. 67 per kg against the average market price of Rs. 80 per kg.
- Sugar will be available at Rs. 25 per kg at Utility Stores as against the average price of Rs. 30 per kg in the open market
- Tea will be sold at Rs. 10 per kg **less** than the market price at Utility Stores
- The different varieties of Rice will be sold at Rs. 5 per kg **less** than the market price
- The number of Utility Stores is currently 1000 in the country. In order to extend the coverage of the Utility Stores to the Union Council level, the government is opening 5000 more Utility Stores, one in each Union Council, in 4 months time. This will not only create job opportunities but will enhance the availability of essential commodities at the door step of the people even at the union council level at an affordable price.

These measures will provide great relief to low income group

- In order to provide essential commodities at a reasonable price to the people the Federal Government, in collaboration with provincial and district governments, has decided to setup farmers' market in different parts of the country.
- The first wholesale bazaar will be established in Islamabad very soon.
- In order to protect the people from the unprecedented increase in international prices of oil the government is providing a subsidy of Rs. 5.61 and Rs. 6.21 per liter as price differential with respect to diesel and kerosene oil, respectively. The government has earmarked Rs. 15 billion for this purpose.
- An amount of Rs. 72.5 billion is proposed to be allocated to subsidise power sector to pick up price/tariff differential and additional surcharges against the GST through the WAPDA and KESC.

PROVIDING SOCIAL SAFETY NETS

- The government is enhancing the coverage of micro credit by increasing the number of borrowers from 1 million to 3 million by 2010.
- Under *Khushhall* Pakistan and KPF, small schemes at local level through tehsil and district level are being proposed to be implemented. An amount of Rs. 34 billion to be spent on these programs.
- An amount of Rs. 2.3 billion has been allocated for skill enhancement through NAVTEC for this year.
- Internship program where a stipend of Rs. 10 thousand per month is paid to unemployed Graduate with 16 years of schooling is already in operation. A budget of Rs. 3 billion has been provided in this budget. Currently, 8000 graduates are already working as intern. This number will be increased to 30,000 in 2007-08.
- The coverage of assistance from Pakistan Bait-ul-Maal to destitutes, widows, orphans, invalid and other needy persons has been increased from 1.506 million household to 2.248 million households. Allocation in this regard has been increased from Rs.5.0 billion to Rs.7.5 billion.
- Sales tax on sale of sewing machines and bicycles is being withdrawn to keep the prices of these items at affordable level.

IV) PRESIDENT'S INITIATIVES

- Under the President's Initiatives, the launch of Rozgar Scheme has been very successful. Many young people have already established their businesses with a loan at a fixed interest rate of 6.0 percent per annum. In the next 5 years, 1.8 million young people will establish their businesses.

- The President's Initiative for Urban Clinics has been launched and some 815 medical clinics are being established in Islamabad, Rawalpindi, Karachi, Lahore, Faisalabad, Peshawar and Quetta. In every clinic, there will be one doctor, one lady health worker and one dispenser to provide medical consultation.
- Clean drinking water plant in each Union Council level. Already 327 plants have been installed.

V) HOUSING INITIATIVES

- Housing schemes for poor is being launched. Land will be provided on official rate by district/ provincial governments. This scheme is expected to provide 250,000 units and shall benefit more 1.5 million families in all provinces.
- A scheme is under preparation for construction of 37000 apartments for low paid federal government employees.
- The government has instructed the CDA to develop a Sector of 3 and 5 marla plots for low paid employees.
- In addition, in Sector I-15 in Islamabad, 5500 plots and 8500 apartments will be reserved for low income employees.

VI) AGRICULTURE

- The government has allocated Rs. 15.8 billion in budget 2007-08 for the development of agriculture in the country.
- In order to provide relief to the farmers the government is proposing a 25% discount on the charges of electricity for the use of agriculture tube wells.
- In order to increase the productivity of agriculture the government is proposing to increase the subsidy on DAP from Rs. 400 per bag to 470 per bag. The total subsidy on the use of fertilizer is estimated at Rs. 17 billion.
- The government has allocated Rs.336 million for the provision of better quality seeds and for this purpose, 15 new testing laboratories are being established.
- The construction of Neelum-Jhelum dam project is announced at the cost of Rs.84.5 billion.

VII) PROMOTING INVESTMENT AND GROWTH

- In order to enhance local industrialization, capacity building, production competitiveness and efficiency, duty rates on raw materials, parts and components for manufacturing of the following items/products have either been reduced or eliminated:-
 - a. CNG compressors.

- b. Paper and paperboard.
 - c. Items/equipments which have dedicated use in non-conventional/ alternate renewable energy resources like solar, wind and bio tech.
 - d. Gum base.
 - e. Transformers, submersible motors, electricity meters, switchgears and electric bulbs and tube lights.
 - f. Light engineering products.
 - g. Polystyrenes and their raw materials.
 - h. Energy saving lamps and its raw materials/ parts.
 - i. Petroleum bitumen/ asphalt.
 - j. Footwear.
 - k. Football bladder.
 - l. Aviation equipments.
- New sectors/sub-sectors has been added under the incentive regime for local manufacturing. Existing exemption regime available to different industrial segments has been deepened.
 - Reduction/elimination of duty for introduction of Second Generation Tariff Policy Reforms for:
 - a. Gems & Jewelry
 - b. Furniture
 - c. Marble & Granite
 - d. Horticulture
 - e. Surgical equipment/medical devices.
 - Poultry feed items, poultry vitamins, evaporation air coolers, insulated sandwich panels and silos for storage of poultry have been exempted from duty.

Revenue measures:

- Levy of 1% Special surcharge on imports excluding vegetables/pulses, edible oil/ghee, crude petroleum, furnace oil, HSD, medicines, fertilizers, imports under chapter 99, temporary imports etc.
- Merger of Capital Value Tax (CVT) in Customs duty.

Other measures:

- Downward revision of 5 yrs. capping to 3 yrs. for import of old/used cars/jeeps.
- 5 yrs. tariff plan for auto sector.
- Reduction/elimination of duty rates on specified diesel generating sets.

- Inputs used by the newspaper industry are being provided at concessionary rate.
- Duty rates on equipments for broadcasting sector have been reduced to 5%.
- Extention of incentives for expansion and up-gradation of existing hospitals.
- Inclusion of PSF in DTRE scheme, payment of duty drawback and R&D support.
- Zero-rating of sales tax on sewing machines and bicycles is aimed at providing relief to the general public.
- Cottonseed oil is the only locally produced vegetable oil subject to sales tax. To bring it at par with other local vegetable oils and to provide relief to the oil mills, sales tax on cottonseed oil has been exempted.
- To promote education and to make available essential educational items at reduced cost, sales tax on writing ink and exercise books has been zero-rated.
- In order to rationalize the taxation on POL products, excise duty @ 88/- paisas per litre on motor gasoline and @6/- paisas per litre on jet fuel has been abolished. The products remain chargeable to sales tax.
- To fulfill the increasing demand of bitumen in the country due to extensive roads construction, it is important to make the imported bitumen compatible with locally produced bitumen. Therefore, excise duty @ Rs. 2000/- PMT on bitumen has been abolished. Customs duty is also being revised downwards.
- To promote the domestic production of better trailers and semi-trailers for the improvement of goods transport, it is proposed to zero-rate sales tax on trailers and semi-trailers.
- Abolition of excise duty on exchange companies and health insurance.
- Zero-rating of utilities of rice exporters.
- Exemption of sales tax on glass bangles.
- Abolition of excise duty on cable TV operators.
- Zero-rating of sales tax on uncooked poultry meat.
- Exemption of sales tax on surgical tapes and ultrasound gel.
- Medicines are exempt from sales tax. Therefore, the scope of exemption has been extended to two more medicinal items which are surgical tapes and ultrasound gel.
- Income of Micro Finance Banks (MFBs) exempted from tax for five years.
- Withholding tax on passenger transport services reduced from 6% to 2% on the analogy of goods transport services.
- Withholding tax rate on all exports to be unified @ 1%.