

EMBASSY OF PAKISTAN ECONOMIC DIVISION

JUNE 20, 2008

Highlights of the Federal Budget Fiscal Year 2008-09

I. OBJECTIVES OF THE FEDERAL BUDGET 2008-09

- **Restoring** economic stability through—
 - Significant reduction of fiscal deficit
 - Rationalization of subsidies;
 - Reduction in current account deficit; and,
 - Build up of foreign exchange reserves to a minimum of \$ 12 billion.
- **Restoring** investors confidence by declaring government's commitment to economic growth and investment and private sector's lead role in the process
- **Focusing** on agriculture and manufacturing sector to raise their productivity and competitiveness
- **Removing** key bottlenecks in supportive infrastructure for spurring growth
- Increasing social sector allocations to bring a meaningful change in the social indicators
- **Protecting** vulnerable Groups by increasing their incomes through a targeted program of cash transfers;
- **Making** significant additions to low cost housing to lessen the rising gap in housing stock, especially for the low income groups.

II. PRIORITIES OF PUBLIC SECTOR DEVELOPMENT PROGRAM

- **Reviving** growth in agriculture and manufacturing so as to overcome food shortages and generate vitally needed incomes and employment.
- **Overcoming** energy and water crisis in a planned and systematic manner.
- **Building** up human resources at all levels of education including technical education.
- **Priority** to development and uplift of Balochistan, NWFP and Special Areas (FATA, AJK, Northern Areas)
- **Providing** a comprehensive safety net against severe hardship faced by the poor and vulnerable groups.

III. SALIENT FEATURES OF THE BUDGET

Resources

- **Total outlay** of budget 2008-09 is Rs 2010 billion, 29.7 % higher than the size of budget estimates Rs 1549.6 for 2007-08 and 3.2 percent higher than the **revised** estimates of current year (Rs.1948.0 billion).
- **Resource availability** during 2008-09 has been estimated at Rs 1836 billion against Rs 1394 billion in the budget estimates of 2007-08.
- **Net revenue receipts** for 2008-09 have been estimated at Rs 1111 billion indicating an increase of 23.1% over the budget estimates of 2007-08.
- **Capital receipts (net)** for 2008-09 have been estimated at Rs 221 billion against the budget estimates of Rs 59 billion in 2007-08.
- **External receipts** in 2008-09 are estimated at Rs 300 billion showing an increase of 16.1 % over the budget estimates for 2007-08.

Tax and Non-Tax Receipts

- **Tax revenue** is estimated at Rs 1251.462 billion in 2008-09 showing an increase of 24.5 % over revised estimates Rs 1005.562 billion for 2007-08.
- **Direct Tax** receipts are estimated at Rs 496.000 billion in 2008-09 against Revised Estimates of Rs 388.250 billion in 2007-08, an increase of 27.8%
- **Indirect Tax** receipts are estimated at Rs 755.462 billion in 2008-09 compared to Rs 617.319 billion in R.E.2007-08, an increase of 22.1%
- **Non-tax revenue** has been projected at Rs 427.776 billion in 2008-09 as compared with Rs 393.349 billion in revised estimates 2007-08.
- **Share of Direct Tax** in total tax is 39.6% against 38.6% in 2007-08 and indirect tax is 60.5% against 61.4% in 2007-08

Expenditures

- **Overall expenditure** during 2008-09 has been estimated at Rs 2010 billion
- **Current expenditure** is Rs1493 billion, 41.3 percent over budget estimate of 2007-08 (Rs.1056.4 billion) and a decrease of 1.5% over Revised Estimates Rs 1516 billion of 2007-08
- **Share of current expenditure** in total budgetary outlay for 2008-09 is 74.3 % as compared to 77.8 % in revised estimates for 2007-08.
- **General Public Services** expenditure (inclusive of debt servicing_transfer payments and superannuation allowance) is estimated at Rs 930 billion.

- **Defense expenditure** is estimated at Rs.296.1 billion or 2.4 percent of GDP as against revised estimates of Rs.277.3 billion or 2.6 percent of GDP, an increase of 6.8%
- **Debt servicing** is estimated at Rs.619.4 billion which is higher by 9.8 percent over current year's **revised** estimates of Rs.564.2 billion.
- **Current Expenditure** include 62.3% for General Public Services, 19.8 % for Defense, 13.5 % for Economic Affairs and 4.4 % for other services
- **Development Program** is Rs 550 billion or 4.5% of GDP, an increase of 20 % in 2008-09 over the revised estimates of Rs 458 billion in 2007-08
- **Share of development expenditure** in total budgetary outlay increased to 25.7 percent as against 22.2 percent in 2007-08

Fiscal Deficit

- **Fiscal deficit** as percentage of GDP is targeted at 4.7 percent or Rs.582.3 billion, including earthquake-related spending and without earthquake it is estimated at Rs.555.3 billion or 4.5 percent of GDP. Fiscal deficit is targeted to decline by 20.6 percent from last year (*Rs.733.8 billion or 7.0 percent of GDP*).

Share of the Provinces

- **Provincial share** in federal revenue receipts is estimated at Rs 568 billion during 2008-09 which is 24% higher than the revised estimates of Rs 457 billion for 2007-08.

	Rs in Billion		
Province	B.E.2007-08	R.E.2007-08	B.E.2008-09
Punjab	236.239	228.838	292.758
Sindh	144.153	141.591	168.924
NWFP	55.936	56.699	72.212
Balochistan	29.636	30.074	34.443
Subventions	31.270	33.391	38.166

Subsidies

- **Subsidy expenditure** in 2007-08 increased to Rs 407 billion or 3.9% of GDP against budget estimates of Rs 114 billion or 1.1% of GDP because of (a) payments to Oil Marketing Companies as Price Differential Claims (PDC), (b) subsidy on imported wheat (c) subsidy on electricity and (d) subsidy on fertilizers.

- **Subsidy details** are as follow:

Rs in billion

	<u>B.E.2007-08</u>	<u>R.E.2007-08</u>	<u>B.E.2008-09</u>
Crude Oil	15.00	175.00	140.00
Fertilizer	13.50	29.50	35.00
Wheat	0.00	40.00	20.00
Electricity	72.48	133.25	88.41
Others	12.94	29.73	11.79
Total	113.92	407.48	295.20

PUBLIC SECTOR DEVELOPMENT PROGRAM (PSDP)

RS IN BILLION

- **Federal PSDP** **400.00**
 - Share of Ministries 234.00
 - Corporations 51.00
 - Special Programs 62.00
 - Income Support Fund 34.00
 - Peoples Works Program 28.00
 - Special Areas Development Program 26.00
 - ERRRA 27.00
- **Provincial Development Program** **150.00**

VARIOUS POLICY MEASURES TAKEN IN THE BUDGET 2008-09

a) Agriculture

- Subsidy on DAP fertilizer** increased from Rs.470 per bag to Rs.1000 per bag. This will cost government to Rs.32 billion – up from Rs.25 billion last year.
- Exemption from sales tax and other duties** on imported as well as local supply of fertilizer and pesticides. This will reduce the price of fertilizer and pesticides. This will cost Rs.6 billion to government.
- Availability of agricultural credit** will be increased by Rs.30 billion over and above of last year's level of Rs.130 billion.
- Support price of wheat** was increased from Rs.510/ 40 kg to Rs.625 /40 kg. Furthermore, the government will review the support price for the next wheat crop in August – September 2008, that is, before the sowing season.

- v. **Rs.75 billion** is allocated for the improvement in availability of water in PSDP 2008-09 through construction of dams, rehabilitation of irrigation, improve drainage system, lining of canals and water courses throughout the country.
- vi. Government will make arrangement for **import of bulldozers** through foreign collaboration to increase and improve the cultivable area.
- vii. **Cold chain** will be set up in the country to ensure that agricultural produce retains its value and quality.
- viii. Government will **revamp ZTBL** and will broaden its outreach.
- ix. **Exemption from 10 percent custom duty** on import of rice seeds to ensure healthy and quality of rice in the country.
- x. **Duty free import of machinery** and equipment for grain handling and storage facilities to be de-linked from the conditionality of local manufacture. This will largely help in improving the grain handling and storage facilities in the country.
- xi. **Waiving off the levy of 5 percent** Federal Excise Duty on premium of crop insurance policy. This measure will yield higher productivity and substantial raise in the income levels of the farmers.
- xii. **Allocation of Rs.1.5 billion** is made in PSDP to promote livestock and dairy sector.
- xiii. **Rs.1.1 billion** allocation is made in PSDP to promote fisheries in Gwadar.

b) Industry

A number of fiscal measures are being taken to incentivize local manufacturing:

- **Customs duty on import of sewing machines** in CKD/SKD condition is being increased from 5 percent to 20 percent to promote and protect the local manufacturing of sewing machines.
- **Raw materials, parts and components** of sewing machine are reduced to zero, 5 percent and 10 percent, respectively depending on their nature and requirements.

- PTA is very important chemical for production of Polyester Staple Fibre (PSF). **Custom duty on PTA** is reduced from 15 percent to 7.5 percent and duty on PSF is reduced from 6.5 percent and 4.5 percent.
- **Customs duties on chemicals**, active pharmaceutical ingredients and packaging materials are reduced from 10 percent to 5 percent.
- **Eighteen more life saving drugs and medicines**, used for treatment of cancer and other terminal diseases, are exempted from custom duty.
- **Import duty on calcium carbide** is reduced from 15 percent to 5 percent.
- **Import duty on caustic soda** is reduced from Rs.5000/- per metric ton to Rs.4000/- per metric ton.
- **Reduction in customs duty** on import of buckram from 25 percent to 10 percent.
- **Duty on Bitumen** is reduced to zero from 5 percent.
- **Duty on import of base oil** for lubricating oil is reduced from 20 percent to 10 percent.
- **Exemption available to capital gains** on shares of listed companies is extended to 30th June, 2010 without any change in the withholding tax and CVT regime.
- **Zero rating of molasses** for the manufacturing of acetic acid which is widely used in the textile industry.
- **Duty on 300 luxury items** has been raised to discourage their consumption and reduced import growth.

There are various other incentives given to industry which are documented in Finance Minister's Budget Speech.

c) Infrastructure

c1) Power Sector

- Government is attaching highest priority to bridge demand-supply gap of power in the country.
- Allocation of Rs.66 billion is made in the PSDP for a number of power sector projects.
- 2200 MW of power will be brought on stream by the early next year.

- Power plants imported by WAPDA will no longer carry custom duty.
- Duty on energy saver lamps and bulbs has been removed.
- Deep cycle batteries and generators, used in solar energy equipments, are exempted from custom duty.

c2) Roads, Highways and Communication

- Allocation of Rs.37 billion is made in the PSDP to cover more than 60 roads and highway projects.
- In order to encourage import of dedicated CNG buses, 15 percent customs duty on their import will be abolished.
- Import of dredgers free of customs duty is allowed to reduce the cost of port operation.
- Allocation of Rs.1.0 billion is made in the PSDP for establishment of Export Processing Zones (EPZ) in Balochistan to support the growth and developmental activities around the Gwadar port.

D) RELIEF TO THE COMMON MAN, GOVERNMENT EMPLOYEES, PENSIONERS ETC.

Table in this regard is reflected on the next page and Budget At A Glance is at the following page.

Relief Measures

1	Benazir Income Support Program - Rs.1000/ month for 5.0 million households	=	Rs. 34.0	billion
2	Baitul Mall allocation for destitutes widows, orphans and needy persons	=	Rs. 6.6	billion
3	Pakistan Poverty Alleviation Fund	=	Rs. 5.7	billion
4	Peoples' Works Programs	=	Rs. 28.4	billion
5	Minimum Wages Increased from Rs.4600 to Rs.6000/ month	=	Rs.	
6	20 % Increase in pay	=	Rs. 16.8	billion
7	20 % increase in pension	=	Rs. 4.1	billion
8	100% Increase in Conveyance allowance for BS 1-19 employees of Fed. Government	=	Rs. 1.1	billion
9	Medical Allowance for BS 1-16 Increased from Rs.425 to Rs.500/ month			
10	Minimum pension increased from Rs.300 to Rs.2000/ month			
11	Housing Schemes for poor and government servants	=	Rs. 2.0	billion
12	Setting up Employment Commission			
13	Regularization of contract employees in lower grade			
14	National Internship Program	=	Rs. 1.6	billion
15	Power Subsidy to agricultural tube wells	=	Rs. 6.8	billion
16	Subsidy for DAP fertilizer increased from Rs.470/ bag to Rs.1000/ bag	=	Rs. 35.0	billion
17	Exemption of ST at the import and local production of fertilizer	=	Rs. 6.0	billion
18	Exemption of ST on energy saver lams	=	Rs. 0.4	billion
19	Oil subsidy	=	Rs. 140.0	billion
20	Power subsidy	=	Rs. 89.0	billion
21	Wheat subsidy	=	Rs. 20.0	billion

Others

i	freezing of non-salary expenditure			
ii	Ban on purchase of physical assets (car etc)	=	Rs. 162.1	billion
iii	Enhancement of basis exemption limit for salaried person from Rs.150,000 to Rs.180,000 for male employees and from Rs.200,000 to Rs.240,000 for women	=	Rs. 500.0	million
iv	NSS Rate Increases by 2%			
	Total	=	Rs. 398.0	billion
				3.2% of GDP

BUDGET AT A GLANCE

2008-09

(Rs. in Billion)

Receipts		Expenditure	
	1251.5	<u>(A) CURRENT</u>	<u>1493.2</u>
(a) Tax Revenue*	427.8	General Public Service	929.5
(b) Non-Tax Revenue	1679.2	Defence Affairs & Services	296.1
Gross Revenue Receipts	568.3	Public Order Safety Affairs	26.8
Less Provincial Share	1110.9	Economic Affairs	201.2
I Net Revenue Receipts	221.3	Environment Protection	0.2
II Net Capital Receipts	300.2	Housing and Community	1.4
III External Receipts	124.4	Health Affairs and Services	5.5
IV Self Financing of PSDP by Provinces			
V Change in Provincial Cash Balance	78.9	Recreational, Culture Services	3.2
VI Privatization Proceeds	25.1	Education Affairs Services	24.6
		Social Protection	4.8
		<u>(B) DEVELOPMENT</u>	<u>516.6</u>
VII Bank Borrowing	149.0	PSDP	549.7
		Federal Government	399.7
		Provincial Government	150.0
		Est. Operational Shortfall	-77.0
		Other Dev. Expenditure	43.9
<u>TOTAL RESOURCES</u>	<u>2009.8</u>	<u>TOTAL EXPENDITURE</u>	<u>2009.8</u>
(I to VII)		(A + B)	

*Out of which FBR collection has been estimated at Rs.1250 billion