

Budget Speech 2019-20

PART – I

BismillahirRehmanir Raheem

Mr. Speaker,

1. I would like to start by thanking Almighty Allah, the most gracious, the most merciful, as I present the first Annual Budget of the democratic government. A new journey has begun under the leadership of Prime Minister Imran Khan. *Tehreek-e-Insaaf* brings a new vision, a new commitment, a new Pakistan.

2. 22 years of hard work, and the will of the people of Pakistan have brought us here today. It is now time to improve the lives of citizens, to remove corruption from public life, to inject merit in our institutions, and to lead the economy, to remember the forgotten and to fulfil the destiny of our people.

3. In 1947 our forefathers came together to convert Iqbal's vision into reality and Pakistan emerged as a reality. In 1973, another generation came together and gave our nation its Constitution. Now we are the custodians of both our country and its rule of law.

Economy We Inherited

Mr. Speaker,

4. Let us recall the economic situation inherited by this government that existed at the time when this government took over: an economy at the brink of a financial crisis. Please allow me to state some of the facts:

- a. Our total debt and liabilities were about Rs.31,000 billion
- b. Foreign debt and liabilities were around \$97 billion. Many of the commercial borrowings were undertaken at high rates of interest
- c. Foreign exchange reserves with the State Bank of Pakistan had fallen from \$18 billion to less than \$10 billion in the last two years
- d. Current account deficit had increased to a historic high of \$20 billion, and trade deficit \$32 billion
- e. Exports growth over the last five years was zero
- f. Fiscal deficit, government's revenues less expenditures, was a threatening Rs.2,260 billion. Reckless disregard for financial discipline in an election year had contributed towards this high deficit
- g. Electricity circular debt had swelled to Rs.1,200 billion, adding Rs.38 billion per month
- h. The miserable performance of Public Sector Enterprises was reflected in a cumulative loss of Rs.1,300 billion
- i. Billions of dollars were used to keeping the Pak Rupee over-valued. This expensive policy proved disastrous for exports, subsidised imports and hurt the economy. It could not be sustained, and the Rupee began to adjust itself from late 2017
- j. Momentum of growth had been lost

- k. Pressures on commodity price increase were fast building with inflation was touching 6 percent.

Our Government's Response

Mr. Speaker,

5. The government had to take actions to control the situation. We confronted the immediate threats and took measures to stabilise the economy. These included:

- a. Increase in duties to cut imports - from \$49 billion to \$45 billion by April– and trade deficit was reduced by \$4 billion
- b. Increase in remittances by \$2 billion as Prime Minister provided confidence to Pakistanis living abroad
- c. Electricity circular debt which had reached Rs.38 billion per month was brought down by Rs.12 billion to Rs.26 billion per month
- d. \$9.2 billion mobilised from China, UAE and Saudi Arabia. I am thankful to our friends for their support
- e. To boost exports, the government provided:
 - Subsidised electricity and gas to industrial and export sectors
 - Loans at low interest rates
 - Import duties on raw materials of export-oriented industries reduced with a benefit of Rs. 10 billion
 - Prime Minister's export package extended to three years

- Duty free access to 313 items secured from China

These initiatives led to higher volumes of exports. Knitwear exports increased 16%, readymade garments 29%, fruits 11% and vegetables 18%, and basmati rice 22%.

f. An agreement has been reached with the IMF for a \$6 billion programme. Once approved by the IMF board, this programme will have the following benefits:

- Generate additional international assistance of \$2 - \$3 billion from the World Bank and Asian Development Bank at relatively lower interest rates
- Signal government resolve for fiscal discipline and reforms leading to favourable response from international capital and investors
- Achieve stabilisation of the economy and build a sustainable platform for growth.

g. A deferred payment of \$3.2 billion for purchase of oil and gas products from Saudi Arabia acquired to reduce pressures on foreign reserves. The government operationalised Islamic Development Bank for deferred payment facility of \$1.1 billion.

6. With these measures, it is expected that the current account deficit for the year will reduce by \$7 billion this year.

7. In addition to the stabilisation effort, the government took other measures including:

- a. An Asset Declaration Scheme is being implemented to enhance the tax base and bring *benami* and other unregistered assets in the formal economy
- b. Required funds were released to complete 95 projects in the development budget
- c. Accountability, institutional strengthening and governance were strengthened, including:
 - Greater autonomy to State Bank of Pakistan. The monetary policy is used for controlling inflation
 - A Treasury Single Account has been created disallowing government money to be parked in commercial bank accounts.
- d. Pakistan *banao* certificate launched as an investment opportunity for overseas Pakistanis with 6.75% of return in dollars
- e. FBR increased refunds to Rs.145 billion from Rs.54 billion last year to provide liquidity
- f. Provision of support and relief to vulnerable segments of our society through a combined set of programmes
- g. Clean and Green Pakistan and billion tree Tsunami initiatives were launched
- h. High priority was awarded to mainstreaming of FATA in the province of Khyber Pakhtunkhwa.

Budget 2019-20

Mr. Speaker,

8. I shall now discuss the budget 2019-20. The overriding goal of the government in this budget of course is the welfare and prosperity of the People of Pakistan. We have the following guiding principles:

a. **Managing the external deficit** –by reducing imports and aiming for higher exports. We want to bring current account deficit from \$13 billion estimated this year to \$6.5 billion in 2019-20. For increasing exports, the government will:

- Support duty structure on raw materials and intermediate goods
- Improve mechanism for tax refunds
- Provide electricity and gas at competitive cost
- Redo the Free Trade Agreements and make Pakistan part of the global value chain.

b. **Reduction of fiscal deficit** – A challenging target of Rs.5,555 billion FBR revenue collection will be combined with aggressive expenditure controls to reduce primary deficit to 0.6% of GDP. Both the civil and military governments have announced unprecedented reduction in expenditure

c. **Enhanced collection of taxes** - Our fundamental reform in will be that of tax enhancement. Pakistan has one of the lowest tax-to-GDP ratios at below 11 percent which is lower than others in our region. Only 2 million people file income tax returns - of which 600,000 are employees. 380 companies alone account for more than 80 percent of the total tax. There are over 341,000 electricity and gas connections - but only 40,000 are

registered with sales tax. Only, 1.4 million out of 3.1 million commercial consumers pay tax. There are estimated 50 million bank accounts but only 10 percent pay taxes. Out of 100,000 companies registered with Securities and Exchange Commission of Pakistan only half pay tax. Many rich do not contribute to our taxes. This has to change in Naya Pakistan.

Pakistan cannot develop until we reform our tax system. Historically, we have under allocated for health, education, drinking water, municipal services, and things that matter to the people. Now we are reaching a point where we have difficulty in paying our debts and even our salaries without recourse to borrowing. This situation has got to change.

- d. **Austerity**– shall be put in place in the regular civil and defence budgets. As a result, the running of civil government which was Rs.460 billion this year, is being budgeted at Rs.437 billion for the coming year, a decrease of 5%. The defence budget is being maintained at the last year level of Rs.1,150 billion. In taking these difficult decisions on austerity, I want to appreciate the wisdom of the Prime Minister and the support of armed forces leadership in particular the Army Chief. Let me be clear on one point the sovereignty and defence of Pakistan is paramount. All other considerations are secondary to that of national dignity and honour. We will ensure that the capacity of our armed forces to defend our country and our people is never compromised
- e. **Protection of vulnerable segments** – I want to highlight four policy proposals:

- **Subsidy to low electricity consumers** – Around 75 percent of total electricity consumers use less than 300 units of electricity in a month. Government will provide electricity to them at the rate lower than the cost of generation. Subsidy of over Rs.200 billion is being proposed in the next year's budget
- ***Ehsaas*** - A new Division of Poverty Alleviation and Social Safety has been established to design and implement social safety programmes in the country. The beneficiaries of *Ehsaas* programme are extreme poor, orphans, widows, the homeless, the differently abled, medically challenged, and the jobless.
 - A new ration-card scheme shall provide nutritious food to 1 million deserving people
 - Special nutritious food will be provided for infants and mothers
 - 80,000 deserving poor to be provided interest-free each month
 - 6 million women to get stipends in their saving accounts and increased access to mobile phones
 - 500 *Kifalat* centres to be provide online access to free courses to women and children
 - Wheelchairs, hearing aids and related provisions shall be provided to differently abled persons
 - Special incentives will be provided for parents to send their children to schools in lagging districts

- Work on build ‘Ehsaas homes’ for the elderly has started
- BISP under Ehsaas programme is using unconditional cash transfer intervention with Rs.5,000 per quarter to 5.7 million poorest of the poor families, with an annual budget of Rs.110 billion. Keeping in view current inflation level, government is going to enhance the quarterly stipend from Rs.5,000 to Rs.5,500. National Socio-economic targeting data is being updated and expected to be completed by May 2020 with coverage of 32 million households and 200 million population. 3.2 million children of BISP beneficiary families in 50 districts are receiving conditional cash transfer of Rs.750 per quarter helping government to reduce the drop-out ratio. Expansion to further 100 districts is planned. Government plans to enhance stipend amount for girls from Rs.750 to Rs.1,000 from the next year.
- ***SehatSahulat*** - This program is a health insurance scheme for the poor. The recipient of this scheme is entitled free of charge healthcare to indoor health care services worth Rs.720,000 per year from any of the 270 selected hospitals across Pakistan. As a first step, the program has been launched in 42 districts of Pakistan addressing the health needs of 3.2 million poor families. The program shall be gradually expanded to cover 15 million poor and vulnerable families in all districts of Pakistan which includes all families of merged districts of Khyber Pakhtunkhwa,

District Tharparkar and disabled individuals and their families.

- **Low-cost housing** - Initiatives are being taken in low-cost housing, addressing climate change – through billion tree tsunami and clean and green Pakistan.

f. **Fighting inflation** - we will attempt that there is minimal increase in prices. If, however due to movement in international markets we are forced with any price increase we will ensure that consumers are protected to the extent possible. Accordingly, we have made budgetary allocations to enhance social safety net for the vulnerable population. Fighting inflation will be paramount for us. We will tailor our fiscal and monetary policies, coordinate with the provinces and adopt administrative measures to fight this menace. The measures proposed for 2019-20 budget shall be as follows:

- Government borrowing from the State Bank is inflationary, the government will no longer use this facility with effect from 1 July 2019
- Our medium-term inflation target will be in the range of 5 - 7%.

In addition, we will continue to focus on good governance and remain committed to fighting corruption. We will assign autonomy to our institutions, strengthen their capacity and choose their leadership on merit.

The year 2019-20 shall continue to be the period of stabilisation. This is a difficult transition that we want to achieve within a minimum amount of time. We will try to minimise the adverse effects of any difficult decisions on our citizens.

Mr. Speaker,

9. I now present the development budget for infrastructure projects for economic growth, connectivity and job creation. This year, the combined allocation of national programmes is Rs.1,863 billion. Out of this the Federal PSDP is Rs.951 billion which will be increased from Rs.500 billion.

10. Policy priorities are water management, building a knowledge economy, fixing electricity transmission and distribution, low-cost hydel power generation, China-Pakistan Economic Corridor, investing in human and social development and "Public Private Partnership" in eligible sectors such as highways

11. Notable details are:

- a. **Water** – To better utilise our water resources the PSDP focus is on building dams and drainage projects with an allocation of Rs.70 billion. Diamer Bhasha Dam shall be allocated Rs.20 billion for land acquisition, while Mohmand Dam “hydel power” will get Rs.15 billion for its ongoing construction
- b. **Road / rail networks** – Some of these projects of road networks are also part of China-Pakistan Economic Corridor. Around Rs.200 billion is allocated of which Rs.156 billion is through the National Highways Authority. Key projects are:

- Rs.24 billion for Havelian-Thakot road

- Rs.13 billion for Burhan-Hakla motorway
- Rs.19 billion for Sukkur-Multan section of Peshawar-Karachi motorway.

Additionally, “Public Private Partnership” financing mode will be utilised for construction of Chakdara-Bagh Dheri extension of Swat expressway, Construction of road from Sambrial-Kharian Motorway, and dualization of Mianwali-Muzaffargarh road.

- c. **Energy** –Rs.80 billion of projects shall be undertaken. For construction of Dasu hydro power Rs.55 billion are allocated.
- d. **Human development / knowledge economy**–Rs.58 billion are proposed in budget for human development. Health, education, attainment of development goals, and climate change are some of the key areas. For higher education record funds of Rs 43 billion are proposed to for an important sector
- e. **Agriculture** – While agriculture sector is administratively under the domain of the provinces, the Federal Government is investing a record Rs.12 billion for multiple projects in consultation with them
- f. **Quetta development package** – the government has announced second phase of “Quetta development package” for Rs.10.4 billion. This is in addition to Rs.30 billion of water and road sector projects that the federal government is financing
- g. **Karachi development package** –9 projects costing Rs.45.5 billion are being undertaken.

Job Creation

Mr. Speaker,

12. Creating jobs is our top consideration. Ours is a young country. Every year the number of young men and women seeking jobs is increasing. We have to meet their expectations. Here are some of initiatives we are adopting:

- a. **Housing** – The Prime Minister’s scheme of 5 million houses will benefit 28 industries and employ many. We have started by acquiring land in Lahore, Quetta, Peshawar, Islamabad, Faisalabad, etc. Other areas will follow. Financing arrangements are being completed. This initiative will provide low-income housing, trigger economic activity, develop related infrastructure and attract foreign investment. The Prime Minister has inaugurated 25,000 housing units at Rawalpindi / Islamabad and 110,000 units in Baluchistan which includes low-cost housing facilities for fishermen
- b. **Self-employment for youth** – *KamyabJawan* programme provides Rs.100 billion in low cost loans for entrepreneurs to setup / expand businesses
- c. **Jobs in industry** – To boost jobs the government is providing a series of subsidies and incentives to industrial sector. These include:
 - Rs.40 billion subsidies to industry for electricity and gas
 - Rs.40 billion for export development package
 - The government will continue to provide Long-Term Trade Financing.

Agriculture

13. This year agriculture sector registered decrease of 4.4 percent. To improve agriculture sector, an important 5-year programme worth Rs.280 billion for uplift of agriculture sector is being launched in consultation with the provinces. Details include:

- a. **Improvement of water productivity through building water infrastructure** including small water conservation projects – Rs.218 billion worth of projects will be implemented
- b. **Increase in yields of wheat, rice, sugarcane, cotton** – Rs.44.8 billion shall be provided for this purpose
- c. **Harnessing untapped potential in fisheries through shrimp farming, cold water trout farming etc.** – Rs.9.3 billion of shall be spent on these projects
- d. **Undertaking livestock initiatives for small and medium farmers** – Rs.5.6 billion will be provided for backyard poultry and save the buffalo calf programme
- e. In addition, in the budget 2019-20, the proposals are for:
 - **Continuation of subsidy to agriculture tube wells** - Agriculture sector tube-wells were charged Rs.5.35 at off-peak hours and Rs.10.35 during peak hours. In January 2019, the government introduced a flat rate of Rs.5.35 for both peak and off-peak hours with annual subsidy of Rs.30 billion. In Balochistan, a flat rate of Rs.10,000 per month is charged from the farmers and excess bill up to Rs.75,000 per month is

shared by the Federal and provincial Governments

- **Crop loan insurance** – Small farmers who had incurred losses due to damages to their crops shall be provided loan insurance scheme. In this regard, Rs.2.5 billion have been proposed in the budget 2019-20.

Reforming Public Sector Companies

Mr. Speaker,

14. Each year our public sector enterprises are incurring massive losses and this drain on the economy is detrimental to productivity, innovation and job creation. In the coming years this sector will be an important plank of government's reform agenda. A detailed implementation plan that includes corporatisation, privatisation and restructuring is being formulated and will be presented. The two LNG power plants are being privatised for expected proceeds of \$2 billion and other smaller entities. International investors have been approached for a joint-venture in the Pakistan Steel Mill, renewal of telecom licenses for mobile sector in excess of \$1 billion.

Reforming Energy Sector

Mr. Speaker,

15. Currently the circular debt is Rs.1.6 trillion. Gas sector faces the similar situation where circular debt of Rs.150 billion. The circular debt is created due to non-recovery of bills and high transmission and distribution losses. The present government has undertaken a number of initiatives to ward-off this menace. Circular debts force government to borrow expensive debt to ensure the continuing operation of these inefficient companies. I would like to mention some of them:

- a. Power and gas tariff were revised ensuring that minimum impact is transferred to low end consumers
- b. Campaign against power defaulters and power thieves was launched to recover over Rs.80 billion in the last six months which has proved successful
- c. Transmission bottlenecks were removed to transmit 3,000 megawatts of electricity resulting in zero load shedding in almost 80% of feeders
- d. Government is clearing subsidy arrears to improve liquidity position

16. Collectively, the above measures have resulted in reduction of circular debt from Rs.38 billion per month to Rs.24 billion per month. Over the next 18months, further measures will be taken with the aim to reduce the circular debt to zero. These achievements will change the energy system once in for all.

Merged districts in Khyber Pakhtunkhwa

17. The federal government will allocate Rs.152 billion for development of districts that were previously part of FATA. This includes a 10-Year development package in which the federal government shall allocate Rs.48 billion this year. This 10-year package is part of Rs.1 trillion to be provided by both federal and provincial governments.

China Pakistan Economic Corridor

18. China Pakistan Economic Corridor continues to be the priority of the present government. Scope of CPEC has been enhanced through inclusion of new sectors including socio economic development, agriculture and industrial development of Pakistan through establishment of Special Economic Zones. Funds have been allocated for providing utilities i.e. electricity and gas to the special economic zones under CPEC. Allocation

has also been made for the ML-1 railway project for revamping the railway sector.

Anti-Money Laundering

19. Money laundering is a menace and source of bad publicity and economic cost, a completely new regime is being proposed to curb the practice of trade-based money laundering.

Enhancing institutional capacity

20. Greater autonomy is being awarded to State Bank of Pakistan in determination of monetary policy which is used for controlling inflation.

21. A Treasury Single Account has been created disallowing government money to be parked in commercial bank accounts.

Relief Measures

Mr. Speaker,

22. For Federal government employees and pensioners following relief measure are proposed:

- a. Ad-hoc Relief Allowance @10% on running Basic Pay of BPS 2017 to civil government employees in BPS grade 1 to 16, and employees of Armed Forces
- b. Civil employees BPS 17 – 20 will be given ad-hoc Relief Allowance @5%
- c. Civil employees in BPS 21 and 22 will receive no increase in pay as they have decided to sacrifice for the sake of improvement in economic situation of the country

- d. Increase in net pension @10% will be given to all civil and armed forces pensioners of federal government
 - e. Special conveyance allowance for disabled employees will be enhanced from Rs.1,000 per month to Rs.2,000 per month
 - f. Special pay admissible to SPS/PS/APS to Ministers, Ministers of State, Parliamentary Secretaries, Additional Secretaries, and Joint Secretaries will be enhanced by 25%.
23. In addition to the above, minimum wage is being increased to Rs.17,500 per month.

Budget Estimates FY 2019-20

Mr. Speaker,

24. I would now like to present key budgetary figures for the revised estimated 2018-19 and budget estimates 2019-20:
- a. The outlay of the federal budget for FY 2019-20 is proposed to be Rs.7,022billion, which is 30% higher than the revised outlay of Rs.5,385 billion for the outgoing financial year
 - b. The gross federal revenues have been estimated at Rs.6,717 billion during FY 2019-20 as compared to Rs.5,661billion budgeted for Financial Year 2019-20, reflecting an increase of 19%

- c. FBR is expected to generate Rs.5,555billion, reflecting an FBR tax to GDP ratio of 12.6%
- d. Out of federal revenue collections, a sum of Rs.3,255 billion will be transferred to the provinces under the 7th NFC Award as compared to Rs.2,465 billion during the current financial year, which means an increase of over 32%
- e. The net federal revenues are estimated at Rs.3,462 billion during 2019-20 in comparison to the Rs.3,070 billion budgeted in the current year, which indicates an increase of 13%
- f. This is expected to produce a federal budget deficit of Rs.3,560 billion
- g. Provincial surplus is estimated at Rs.423 billion during Financial Year 2019-20
- h. The consolidated fiscal deficit is estimated at Rs.3,137 billion or 7.1% of the GDP as against 7.2% of the GDP in Financial Year 2018-19.

PART – II

Finance Bill

25. I shall now present the Finance Bill:

CONCLUDING REMARKS

Mr. Speaker,

26. The government is committed to get our country out of its financial predicament which was not of its making. A quick solution would have been to borrow extensively from all sources both external and internal. But the government has refrained itself from applying quick solutions. Instead, we have chosen the difficult path for country's sake. As described above we have focused on the entire gamut of financial management from macro-policy reform to business flow to med-term strategy towards debt restructuring. The initial year or so will be tough but eventually the fruits of our labour will show in a sustainable manner to the benefit of our people and Pakistan. As Quaid-e-Azam Muhammad Ali Jinnah said, '*With faith, discipline and selfless devotion to duty, there is nothing worthwhile that you cannot achieve*'.

Pakistan Paindabad