Bismillahir-Rehmanir-Rahim

Mr. Speaker,

1. Once again, as I have the honor of presenting the Budget 2015-16, I bow my head before Allah (SWT) for untold and immeasurable blessings He has bestowed on this nation and the singular distinction He has conferred on Mohammad Nawaz Sharif, Prime Minister of Pakistan and his Government in restoring the health of a broken economy. The economic performance we have rendered in two years is unparalleled in the history of democratic governments. This has been made possible by the design of sound economic policies, first announced in PML (N) Manifesto for Elections 2013 and then incorporated and implemented in the Budget 2013-14 and since then faithfully and steadfastly observed and followed by the Government.

Mr. Speaker

2. This august House is well aware that when we took office, the most vicious rumor taking rounds in the local and international financial circles was the imminent default that Pakistan was set to make in June 2014. This was a clever guess based as it was on the level of available reserves and the payments falling due until that date. In the backdrop of completely dried-up foreign flows, as IFIs had declined to work with Pakistan, the reserves were destined only to travel south. However, we were determined to prove these economic pundits wrong and the country saw that not only we proved them utterly wrong but have steered the economy of Pakistan to safer shores.

3. In June 2013 we had a clear road-map of three objectives:

(a) Preventing Pakistan from default in 2014;

(b) Achieving macroeconomic stability by June 2015; and,

(c) Promoting inclusive economic growth for creation of job opportunities and providing resources to alleviate poverty from 3rd year onward.

4. We formulated policies and programs to achieve these objectives and we never hesitated in taking difficult decisions, no matter how unpopular, so long as they were critical for the revival of the economy. Accordingly, the economy of Pakistan has been stabilized and poised to grow at an accelerating rate.

Review of Economic Performance 2013-14

Mr. Speaker:

5. I would like to place before this august House the following key economic indicators, based largely on 9 or 10 months data for the current fiscal year:

(a) Economic Growth during 2014-15 has been provisionally recorded at 4.24% compared to the revised estimate of 4.03% last year, showing a rising growth trajectory. During 2008-13, the growth rate had averaged around 3% and hence this is the highest growth rate in seven years. The growth target for the year was 5.1%, which could not be achieved for the following reasons:

- Massive floods in September 2014;

- Economic disruption during August-December 2014 due political agitation; The massive decline in international commodity prices, particularly oil affecting the output of these and associated sectors;
- The unusually long and cold winter weather had a negative impact on the Rabi crops, including wheat;
- The output of large-scale manufacturing has been affected due to shortages in gas and electricity, despite improvements in their supplies.
- Credit to private sector has grown at a slower pace as commercial banks continued to lend to the Government.

(b) Per Capita Income, which stood at $1384 last year has increased to increase to $1512, showing a growth of 9.3%;

(c) Inflation, which had averaged around 12% during 2008-13 before our government, was recorded at 4.6% for Jul-May2014-15, which is lowest in 11 years;

(d) FBR Revenues, which had registered only 3% growth in 2012-13, were up by 16.4% during 2013-14 and have risen by another nearly 13% in the first 11 months of 2014-15 and are expected to close at 15% increase;

(e) Fiscal Deficit, in June 2013 was at 8.8%, which was brought down to 8.2% within weeks. In. 2013-14, this was brought down to 5.5% of GDP. In the current fiscal year we are on course to achieve the target of 5%;

(f) Credit to Private Sector, grew by 11% during 2013-14. It is projected to further grow at 7%during the year. The share of fixed investment in credit has significantly increased compared to last year.

(g) Policy Rate of SBP was 10% in November 2013, which has now been cut to 7% during the current fiscal year. This is the lowest policy rate in decades. The commercial lending rates are determined by the policy rate and have been declining in line with the policy rate. It will help spur investment, as the cost of capital will decline significantly;

(h) Exports were $20.18 billion during Jul-Apr 2014-15 compared to $20.83 billion last year, showing a decline of 3%%, largely due to negative price effect in the global commodity markets. Even though we have exported larger quantities but because of lower international prices, we have realized lower values;

(i) Imports were recorded at $34.65 billion during Jul-Apr 2013-14 compared to $34.09 billion for same period in the current year, showing a marginal decline of 1.61%. More notably, imports of machinery have increased by an impressive 10.3% an indication of rising investment in the economy;

(j) Remittances were recorded at $12.89 billion during Jul-Apr 2013-14, rose to $14.97 billion for the same period this year, showing an increase of 16.14%, which is remarkable and for which I once again salute my expatriate Pakistanis for playing such a critical role in country's economy;

(k) Exchange Rate has shown remarkable stability in the last more than a year, except for a brief period during August-September due to political instability. Presently, the rate is hovering around Rs.102/$ in the inter-bank market. For an economy like Pakistan, Exchange Rate has a pivotal position, as it impacts pervasively on all other variables. Accordingly, a competitive and market determined stable exchange rate reduces uncertainty and boosts confidence of investors and consumers alike. The exchange rate stability we have achieved has not been witnessed in recent years and is source of rebuilding the credibility of our economy;

(l) Foreign Exchange Reserves were in a precarious state in June 2013. The State Bank reserves were at $6 billion, of which $2 billion were due to a swap that was payable in August and nearly $3.2 billion were falling due for repayments to IMF during the year, bulk of which in the first half. On 10th February 2014, SBP's reserves had further declined to $2.7 billion. Resultantly, the overall reserves, including those held by commercial banks, were $7.7 billion. It looked as if the notorious rumors were finally becoming reality. However, Alhamdulillah, we have strengthened the economy against fluctuations in external markets. Today country's foreign exchange reserves have climbed to about $17 billion, of which the SBP reserves are around $12 billion, showing that all the increase in reserves has come in SBP reserves. We are poised to take the reserves level to a historic high of nearly $19.0 billion during the year.

(m) Karachi Stock Exchange (KSE) Index stood at 19,916 on 11 May 2013, the day the elections, has now surged to around 34,000, showing an increase of 70%. Also, this increase meant an increase of about 40% in market capitalization.

(n) Incorporation of New Companies was recorded at 3664 during Jul-Apr last year while during the period in 2014-15, this number has increased to 4100, showing an increase of 11.9%;

6. In addition to above, we have accomplished a number of other successes in different areas, some of which are noted below:

(a) International Sukuk: We entered the international Sukuk market, after 8 years, in November 2014, by issuing a five year Sukuk aiming to raise $500 million, but we received $2.3 billion, nearly five times the subscription and decided to take $1 billion. The proceeds of Euro Bonds and Sukuk have gone to retire an equivalent amount of domestic debt in the SBP and hence there is no increase in Public Debt due to this borrowing.

(b) Eligibility for IBRD: In the last budget I had informed this House about the resumption of policy lending from the World Bank and Asian Development Bank, which was suspended for lack of a stable macroeconomic framework before June 2013. After achieving macroeconomic stability and the requisite increase in foreign reserves, in February 2015, Pakistan is declared eligible again for IBRD facilities.

The above review of economic indicators and policy initiatives fully demonstrates the fact that the country has achieved macroeconomic stability. It clearly shows an economy that is moving in the right direction. The expert assessments I will be citing shortly are reflective of the rising confidence of our development partners as well as investors. Pakistan is offering such investment opportunities, which few countries in the region can match. Accordingly, as we enter the third year we are confident that the year would bring even better economic results.

Mr. Speaker,

The picture painted above is not based exclusively on our own views. The international analysts and observers are all praise for our performance and potential for future growth. Some of these are worth bringing to the knowledge of this august House:

Japan External Trade Organization (JETRO)has declared Pakistan as likely to be second choicest place for FDI;

- Goldman Sach's Jim O'Neill has forecast that Pakistan would be world's 18th largest economy by 2050 from its present 44th position;
- Overseas Investors' Chamber of Commerce and Industry (OICCI) has found that Business Confidence Index amongst its members, which stood at -34 has climbed to as high as +18;
- Moody's and Standard and Poor's have both improved Pakistan's outlook from negative to stable and recently from stable to positive;
- Nielsen's Global Survey of Consumer Confidence rose to 99 in the 1st quarter of 2014 from the lowest level of 86 in 3rd quarter of 2011;
- David Darst, Chief Investment Strategist, Morgan Stanley, has said 'Pakistan is set to take-off, it is a matter of time';
- Bloomberg News says that despite challenges (a) corporate earnings in Pakistan are soaring and (b) stocks have surged.
- The Economist London in its 2nd May 2015 issue has praised Pakistan's economic recovery;
- World Trade Organization (WTO) Trade Policy Review, April 2015 has praised economic performance of Pakistan;
- Financial Action Task Force (FATF), the international body for monitoring anti-money laundering and terrorist financing had included Pakistan in its "Grey List" in 2012. After Government's actions including changes in laws, Pakistan has been included in the "White List" in February 2015.

Mr. Speaker

9. The goals we have set are our guide in the economic journey. Our actions have been guided by these goals. 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. A democratic

government is answerable to Parliament and people and it would be held accountable on its promises made to both of them. While moving on to the third year of our Government, we continue to remain faithful to this vision and the third budget will fully reflect its application in our proposals.

Main Elements of Budget Strategy

Mr. Speaker

The main elements of our budget strategy are as follows:

(1) Reduction of fiscal deficit: We will continue to consolidate the gains we have made in reducing fiscal deficit. In 2015-16 we will target a deficit to 4.3% compared to 5% in 2014-15;

(2) Raising Tax Revenues: Part-II of the speech will deal with tax proposals. At this stage, however, I would say that the proposed reduction in deficit will be achieved through a combination of better tax collection and tight expenditure controls;

(3) Continued Focus on Energy: Energy is one of our key priorities. This can be judged by the fact that the Prime Minister is devoting considerable type to oversee developments in the sector. A Cabinet Committee on Energy has been constituted, which is headed by the Prime Minister himself. Keeping in view the current gap in demand-supply of power in the face of high GDP target, we plan to bring 7000 MW on stream besides setting up 3600 MW LNG-based projects. By December 2017, we will bring 10600 MW in the system. Beyond December 2017, other projects such as Dasu, Diamer-Bhasha, Karachi Civil Nuclear Energy and many other projects will also be completed.

(4) Exports Promotion: In this budget, we would be announcing additional measures to incentivize exports and taking other measures to ease the cost of doing business and improving the overall regulatory regime to facilitate exporters.

(5) Investment to GDP Ratio: The Investment-to-GDP ratio, which was registered at 12.4% during 2012-13, improved to 13.4% during 2013-14 and is provisionally estimated at 13.5% for the current fiscal year. The combined effect of increased public sector investments has also played a role in reversing the declining trend. We are projecting this ratio to rise to 16.5% during 2015-16.

(6) Public Debt Management: Debt management has received special attention in our overall efforts for fiscal management. The fiscal consolidation we have achieved has paved the way for a reduction in public debt, which fell from 63.9% in 2012-13 to a now projected level of 62.9% at the close of current fiscal year. In the next three years, Debt to GDP ratio will be brought down to less than 60% in accordance with the provisions of the Fiscal Responsibility and Debt Limitation (FRDL) Act, 2005, Insha Allah.

(7) Benazir Income Support Program (BISP): This program is an effort to provide relief to the poor and vulnerable people of society as a matter of our

responsibility and their right. The following have been the main achievements in this program:

1. From Rs.40 billion in June 2013, we have increased the size of the program to Rs.97 billion during the current year. We are further enhancing this allocation to Rs.102 billion, representing more than 155% increase since 2012-13;
2. Until 2012-13, the cash transfer program was covering 4.1 million families, which would be taken to 5.0 million during the current year. By end of next financial year the number of beneficiary families would increase to 5.3 million, showing an increase of 29% since 2012-13;

Besides the above program, we are providing an additional Rs.2 billion to Baitul Maal for supporting its welfare activities, notably the hospitalization costs for the vulnerable people. The allocation has been increased by to Rs.4 billion for 2015-16, which is 100% increase.

(8) Development & Promotion of ICT Sector:-A number of initiatives were announced in the last budget for the development of promotion Information and Communication Technology (ICT). These initiatives have been operationalised with the following key features:

- Universal e-telecasters: A project for Universal e-telecasters with an investment of Rs.12.0 billion has been approved. In the first phase 500 tel centers would be established in all provinces including FATA. For this purpose, 217 land sites across Pakistan have been selected. Program is at advance stage of implementation and would soon be rolled out.
- Improved Connectivity for Remote Areas: For connectivity of remote area the Government has decided to invest Rs.2.8 billion laying optic fiber cables. Work on this program is going on at fast track basis. In consultation with Provincial Governments 128 tehsils and towns have been identified nationwide, which do not have optic fiber connectivity. Rural telecommunication is another program, which envisages investing Rs.3.6 billion on connectivity of rural un-served areas with the rest of country.
- Rationalization of International Clearing House (ICH):In October 2012, a new policy for International Clearing House (ICH) was initiated. There have been several problems with the policy as it resulted in losses to users and increase in grey traffic. Since government intends to provide relief to people, therefore, we have reformed this policy and rationalized the rates of international calls. This is benefiting expatriate Pakistanis and promoting legal traffic, which has increased from 367 million minutes per month in November 2014 to 1,100 million minutes per month by now – a three fold increase.
- Prime Minister's National ICT Scholarship Program: As announced in the last budget, 500 IT scholarships with a total cost of Rs.125 million will be provided to the talented students from rural/non-metropolitan areas. The program provides fully funded 4 years undergraduate degree scholarships in

ICT related disciplines in the leading ICT universities of Pakistan. Under the program 480 students availed the scholarship by joining in 21 top Pakistani universities. The program will be continued in the future.

Medium-term macroeconomic framework

Mr. Speaker

As always, our budget strategy is embedded in a three year medium term macroeconomic framework spanning the period 2015-16 to 2017-18, the main features of which are as follows:

(a) GDP growth to gradually rise to 7% by FY 2017-18.

(b) Inflation will be contained to single digit;

(c) Investment to GDP ratio will rise to 20% at the end of medium term;

(d) Fiscal deficit would be brought to down to 3.5% of GDP;

(e) Tax to GDP ratio will be increased to 13%;

(f) Foreign exchange reserves would be maintained above $20billion, insha Allah;

12. In view of the performance we have registered in the first two years in office, we are confident to achieve the goals set out in the medium-term framework. We have no doubt that we would remain on course while pursuing the above framework.

Development plan

Mr. Speaker

The current Five Year Plan 2013-18 is a comprehensive roadmap and sets timelines for achieving high growth rate. The outlook for 2015-16 is positive with a significant recovery in growth momentum. The growth of GDP for 2015-16 is targeted at 5.5% and gradually steering it to over 7 per cent by 2017-18. In order to achieve the targeted growth rate of 5.5 per cent, the sectoral contributions are agriculture (3.9%), industry (6.4%) and services (5.7%).

The plan is geared towards developing human and social capital of the country by enabling universal access to education and health facilities, empowering women and eradicating poverty; thereby capitalizing the demographic dividend and increasing the total factor productivity.

16. Strategies have been devised to encourage public-private partnerships in the development process. Transport, communications, financial, industrial, and services sectors have been identified as important areas with high growth potential. Consequently, comprehensive action plans have been outlined to improve growth rates for these sectors and increase their respective contributions to the GDP.

17. National Development Program of worth Rs.1,513 billion is being earmarked for 2015-16. The development program 2015-16 includes Rs.700 billion as federal

PSDP. In addition to increasing the public Investment, concerted efforts are being made to entice the private investment through a variety of mechanisms such as promoting public private partnerships, FDI, creating special economic zones with fiscal incentives.

18. These measures are expected to boost economic growth for key sectors and increase their respective contributions to the GDP.

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

Water

20. The most important sub-sector claiming resources in our development plan is the water sector, where we are investing Rs.31 billion for projects in various parts of the country. A project that will be the future lifeline 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.15 billion for land acquisition during the year and have kept a provision of Rs.6 billion for construction of lot 1 out of 3. In addition, another important hydropower project is Dasu, which will have the capacity to generate 2160 MW. We are committed to make these two dams a reality and preparatory works has already started.

21. 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. Main focus will be on the existing projects that can be completed within the next 1 – 2 years. In this regards, work is in advanced stages on projects such as Kachhi Canal (Dera Bugti and Nasirabad), Naulong Storage Dam (Jhal Magsi), extension of Pat Feeder Canal to Dera Bugti and Shadi Kaur Dam (Gawadar). Besides these large projects, we will also invest in building small dams in the province. This year we will start work on Basool Dam in Gawadar.

22. Similarly, in Sindh, projects that are advancing gradually are Rainee Canal (Ghotki and Sukkur), extension of Right Bank Outfall Drain from Sehwan to sea, and Darwat Dam. In addition, this year we will start the work on Makhi Farash Link Canal project. In Punjab work on channelization of Nullah Deg and Ghabir Dam (Chakwal) will commence. In Khyber Pakhtunkhwa, other than Dasu, funds will be provided for Keyal Khawar hydropower project, and other small dams. In FATA funding for Kurram Tangi in North Waziristan, and Gomal Zam Dam in South Waziristan will continue.

23. Besides, numerous schemes of lining of water-courses will be undertaken in Khyber Pakhtunkhwa, Sindh and Punjab to reduce water wastage together with flood protection and drainage schemes all over the country.

Power

24. I have already stated the focus we have on the energy 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 energy shortages.

25. As in the past, we have allocated the largest amount of resources to add new and economical capacity in the country. During the current year a sum of Rs.248 billion will be invested in this sector up from Rs.200 billion allocated in last year's budget. Of this, Rs.73 billion will come from the PSDP. The government is aiming to almost end load shedding by December 2017.

26. Large projects that are part of this year's allocation are:

- Rs.52 billion have been allocated for Stage 1 of Dasu Hydro Power Project which will produce 2160 MW of power;
- Rs.21 billion have been allocated for land acquisition and construction of Lot 1-5 for Diamir-Bhasha Dam and Hydropower Project having a reservoir of 8 MAF and 4500 MW of power;
- Rs.11 billion have been allocated for Neelum Jhelum Hydro Power Project having a capacity of 969 MW;
- Rs.11 billion have been allocated for completion of Tarbela-IV Extension Hydro Power Project with a capacity of 1410 MW;
- Rs.5 billion have been allocated for Up-gradation of Guddu Power Project having a capacity of 747 MW of highly economical power;

27. In addition a number of other projects such as two Karachi Nuclear Coastal Power Projects (2200 MW) with Chinese assistance; Chashma Civil Nuclear Power project (600 MW); Golan Gol Hydro Power Project (106 MW); Evacuation of power from wind power projects at Jhimpir and Gharo Wind Clusters; Interconnection of Chashma Nuclear Power Plants III and IV

28. This year we will start work on new important projects such as:

- Interconnection scheme for import of power from CASA-1000
- Evacuation of power from 2160MW Dasu HPP Stage-I
- Evacuation of power from 1320MW Power Plant at Bin Qasim
- Alliot switching station and its interconnection with SukiKinari HPP

29. 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

30. Pakistan's location is such that it can play a central role in regional connectivity. In order to maximally exploit the natural advantage of its geography and to translate it into economic gains, there is an imperative need to invest in communication infrastructure. Accordingly, we have allocated Rs.185 billion for construction of roads, highways and bridges, compared to last year allocation of Rs.112 billion, which is an increase of 65%.

31. An area of our priority in the highways sector is the completion of Lahore-Karachi Motorway. We firmly believe that this 1152 kilometers long highway will change the fate of this country. It will provide jobs, farm-to-road connectivity and economic growth in Pakistan. In the Budget 2015-16, we have allocated Rs.20 billion for Lahore-Abdul Hakeem Section which is about 230 kilometers long. Similarly, an allocation of Rs.61 billion has been allocated for Multan-Sukkar Section (387 kilometers), whereas in order to complete the Sukkur-Hyderabad Section (296 kilometers), a provision of Rs.10.5 billion has been made in the PSDP.

32. Apart from completion of various segments of Karachi-Lahore Motorway, we have made allocations to start work on other section of China Pakistan Economic Corridor. In order to acquire land and undertake technical studies of Islamabad-Dera Ismail Khan Route, we have made provision of Rs.10 billion in this budget. Furthermore, we plan to start Thakot-Havelian link, which is the priority section of Raikot-Islamabad KKH Phase II project for which we have allocated Rs.29.5 billion.

33. We have earmarked resources for numerous projects in Highways sector in this budget. Some of them are: Gwadar-Turbat-Hoshab Section of Gwadar-Ratodero Road which is 200 kilometers long, Widening and improvement of N-85 Hoshab-Nag-Basima-Surab Section, Construction of Faisalabad-Khanewal Expressway, Lowari Tunnel and Access Roads in Dir etc.

34. In addition to above, as a gift to the people of Karachi, we are establishing a world class bus transit system namely Green Line Bus Transit System which will operate between Saddar and Surjani Town and will be able to commute 300,000 passengers per day. This project is planned to be completed by December, 2016 with a total cost of about Rs.16 billion.

35. Islamabad-Lahore Motorway (M2) was a path-breaking project of Pakistan Muslim League (N) government which revolutionized road-travel in Pakistan. Such highways require re-surfacing after every 8-10 years. However M2 has not received re-surfacing in last 18 years. Under the directions of the Prime Minister Muhammad Nawaz Sharif, the government has undertaken the initiative of M2 re-surfacing with financing from private sector.

Railways

36. Railway is supposed to provide cheaper, faster and convenient mode of passenger and freight transport. Accordingly, its development is one of our important priorities.

37. Newly launched Green Line train express between Islamabad and Karachi is the result of efforts of the Railways Ministry. However, this is the beginning of a bright future. Pakistan Railways will target its investments around locomotives, bogies, tracks, signaling systems, and improvement of existing railway stations.

38. For the current year's budget the following projects will be our key priority:

Work on doubling of track from Khanewal to Raiwind, and from Shahdara to Lalamusa will be completed during FY 2015-16. Both of these tracks will cover major portion of the north-south mainline. In coming years Pakistan Railways will aim to double the remaining tracks. In addition, we hope to complete the rehabilitation of track from Karachi to Khanpur. Work on track rehabilitation on Khanpur-Lodhran section will continue.

- I am also happy to state that strengthening and rehabilitation of 159 weak railway bridges will be completed by June, 2017.
- Pakistan Railways faces shortage of 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 170 engines to the system through procurement while 100 old engines will be repaired for use.
- 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.
- From this year we plan to start working on an important project that will lead to improvement of signaling system on Lodhran-Khanpur-Kotri Section and provision of centralized traffic control.
- 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.

39. In this budget, we have allocated Rs.78 billion, of which Rs.41 billion are in PSDP for 52 development schemes and Rs.37 billion for 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

40. 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.

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

- A sizeable allocation of Rs.20.5 billion has been made for 143 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.51 billion is made for HEC. Thus a combined outlay of Rs.71.5 billion will be made for higher education. The combined allocation represents about 14% increase, which is sizeable considering the tight fiscal conditions prevailing in the country.

- Health sector service delivery has been fully devolved to the provincial governments. As per the decision taken by the Council of Common Interests in 2010, the Federal Government continued to support the provincial Governments till this year for the national health and population welfare programs. From the next fiscal year, we expect the provinces to fund for these initiatives. However, the Federal Government will continue to lend technical support to the provincial Governments in execution of important national programs.
- We had announced first in the PML (N) Manifesto and reiterated by the Prime Minister our resolve to increase the expenditure on education as percentage of GDP to 4% during our tenure. We continue to remain committed to this goal. However, it should be noted that a major share of education expenditure is the responsibility of the provinces. The share of federal government in this expenditure is only 20%. Moving from the present level of 1.67% of GDP to 4.0% of GDP will require the federal government to increase its spending from 0.34% of GDP to 0.80% and the provinces to increase from 1.33% of GDP to 3.20%. The federal government will fulfill its commitment and after the recent discussion in the National Economic Council (NEC) Meeting, I am confident that the provinces will come forward and fulfill their responsibilities.

TDPs and Security Enhancement: Special Development Program

Mr. Speaker

42. Our country has rendered enormous sacrifices in both blood and treasure in fighting terrorism. Yet this is a menace that requires a long-term effort to eradicate. The operation Zarb-e-Azb had been initiated with a steely resolve to uproot this peril for good, and our Armed Forces have fought valiantly and accomplished exemplary successes, for which they deserve the gratitude of every Pakistani. However, the atrocities committed by retreating and desperate remnants elements in Peshawar and Karachi are a reminder that we cannot be complacent in this war.

43. These events have established the need for further reinforcement in country's internal defenses with objectives of protecting the areas from where the terrorists have been evicted, rehabilitating the displaced persons allowing them to honorably restart their lives. To cater for these needs Government is undertaking a Special Development Program of Rs.100 billion to enhance the security apparatus and rehabilitate the affected areas and resettle the temporarily displaced persons (TDPs).

MDGs Community Development Program

44. With a view to promote achievement of MDGs, and in the larger national interest of diffusing development works at the local level, the Government has initiated a development program for undertaking small development schemes in the

fields of health, education, small roads linking farms to markets, spurs and small dams, being selected and implemented by the provincial governments with the participation of community representatives. For this program Rs.20 billion have been allocated in the 2015-16 budget.

China-Pak Economic Corridor

45. China-Pak Economic Corridor is the vision of the Prime Minister Nawaz Sharif top Chinese leadership for reviving and rebuilding the historical connectivity between China and Pakistan and to eventually enable extended connectivity to central and West Asia. Kashgar-Gawadar linkage will not only enhance trade but will also act as an energy corridor. We are proud of this flagship project that will transform Pakistan's economy.

46. Pakistan and China have jointly signed projects worth about $46 billion that include building of roads and rail networks and telecommunications, development of Gwadar Port and major projects for additional power and improvement in power transmission sub-sector.

47. Some of the key projects proposed to be undertaken under the CPEC program are as follows:

- 2 x 660 MW Coal-Based Power Projects (IPP) at Port Qasim;
- Power Evacuation from Mitiari to National Grid (IPP);
- 3.5 MT/A Coal Mining and 2×330 MW Power Plants based on Thar Block-II SECMC;
- Solar Power Park at Bahawalpur;
- 2793 MW (Three) Hydro Power Projects;
- Multan-Sukkur section (387Km) of Karachi-Lahore Motorway;
- Karakoram Highway (Phase-II) Raikot to Islamabad;
- Fiber Optic;
- Rehabilitation & Up-gradation of Karachi-Lahore-Peshawar (ML-1) Railway Track;
- Gawadar Package;
- East Bay Expressway at Gawadar (18.98 Km);
- Jhimpir Wind-Power 200 MW;
- 2 x 660 MW Coal-Based Power Projects at Sahiwal;
- Jetty + Infrastructure at Gaddani as IPP (preferably) or Public Sector;

48. The government is determined to fulfill the necessary financial requirements of CPEC Projects.

Development of Gawadar

49. Keeping in view the significant role Gawadar has to play for strengthening the economy of Pakistan in the coming days, the government takes the development

of this area very seriously. Accordingly, we are allocating significant resources for a host of development projects aimed at uplift of this area. Some of them are:-

50. Rs.3 billion are being allocated in 2015-16 for New Gawadar International Airport

51. A provision of Rs.2 billion has been made for Gawadar Development Authority in next budget, and

52. For necessary facilities of water treatment, supply its distribution in Gawadar, we are making a substantial allocation of Rs.3 billion.

Status of Initiatives in the Budget 2014-15

Mr. Speaker

49. Before I announce the new initiatives in the Budget 2015-16, I find it necessary that I bring to this House's attention the status of initiatives I had announced in the last budget. In the Budget 2014-15, the government had announced to undertake a number of new initiatives aimed at strengthening various sectors including textiles industry, exports, agriculture, health, telecommunication, taxation and social safety nets. Such initiatives included the establishment of various new organizations e.g. Land Port Authority (LPA), Mortgage Refinance Company (MRC), National Food Security Council (NFSC) etc. Furthermore, a number of new schemes were announced to be launched including Credit Guarantee Scheme for Small and Marginalized Farmers, Reimbursement of Crop Loan Insurance Scheme and introduction of Health Insurance System etc. Being fully cognizant of the significance of these well-designed initiatives, we have strived hard for their implementation over the last year and I am proud to announce that despite the resources constraints and the gigantic economic challenges, out of total 34 new initiatives announced in the previous budget, 20 have been fully implemented while the work on the remaining is continuing.

Special Initiatives for 2015-16

Mr. Speaker

50. Pakistan is poised to grow at an accelerating pace. At this stage of transition we need to consolidate recent gains, hasten the process of reforms and take required measures to enable some of those sectors that have not performed as per expectations. In this section I will confine to the last of these objectives as I have already dealt with the other two. I now outline some of the measures we propose in the budget for enabling those sectors to perform to their potential.

Exports Promotion

51. I have already noted somewhat weak performance of the exports during the year. The main reason behind this is the major decline in global commodity prices, particularly those of cotton and rice. Even though a small country cannot affect global prices, we need to look at some of the irritants that may be impeding our exports competitiveness. The following measures are being adopted for promotion of exports:

(1) EXIM Bank of Pakistan (Specialized DFI)will be helpful in enhancing export credit and reducing 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 start operations in 2015-16.

(2) Exports Refinance Facility (ERF):In the last budget, the Government, through the State Bank of Pakistan, had arranged to reduce its mark-up rate on exports finance from 9.4% to 7.5%, This rate was reduced in February 2015 to 6.0%, and it will be further brought down to 4.5% from 1st July 2015;

(3) Long Term Finance Facility: In the last budget, the Government, through the State Bank of Pakistan had arranged to reduce its mark-up rate on long term financing facility for 3-10 years duration from around 11.4% to 9.0% to allow export sector industries to make investments on competitive basis. This was further reduced to 7.5% in February 2015 and will be further brought down to 6.0%;

(4) Removing Anti-exports bias in Imports: A series of measures being announced in this Budget relating to rationalization of tariff and taxes having bearing on the export industries will gradually remove the anti-export bias in country's tariff policy and make exports more competitive.

(5) Export Development Initiatives: Ministry of Commerce is formulating initiatives for (a) production diversification, (b) value addition, (c) trade facilitation, (d) enhanced market access and (e) institutional strengthening. An allocation of Rs.6 billion has been made to support initiatives. The Export Development Fund (EDF) Board has been reconstituted to also support this program.

(6) Establishment of Pakistan Land Port Authority: The initiative for establishing the Land Port Authority of Pakistan was announced in the last budget. We have completed the requisite formalities for its formal launching. In the meanwhile we have invested Rs.352 million for the establishment of infrastructure at the Torkham Border to enable it to operate under the conditions of a modern port environment.

Textiles Package

52. Textiles Industry is the mainstay of Pakistan's economy. It accounts for more than 50% of our exports value and is the single largest employment provider in the manufacturing sector. It has a very long production chain from cotton picking to ginning, spinning, weaving, knitting, processing and stitching, whereupon considerable value-addition is done at each step. In recognition of its significance, the government had announced a special package for Textiles Sector in the Budget 2014-15. The following facilities announced in the package shall remain available for the textile sector during the FY 2015-16:-

(1) Under Textiles Policy 2014-19 financial package of Rs.64.15 billion has been approved in order to double the textiles exports and create 3 million additional jobs by the year 2019.

(2) To resolve the various issues pertaining to textile sector and for implementation of Textiles Policy 2014-19, the government has restructured the Federal Textile Board with majority members from the private sector.

(3) The benefit of Drawback of Local Taxes & Levies Scheme shall remain available for the textile exporter in the FY 2015-16 under which they shall be entitled to the drawback on FOB values of their enhanced exports if increased beyond 10% of their previous year's exports, as per following rates:

1. Garments = 4%,
2. Made-ups = 2%; and
3. Processed fabric = 1%

(4) Since 1st July 2015, Export Refinance Facility and Long Term Finance Facility will be available for textile-exporters at the most reasonable rates of the history i.e. at 4.5% and 6% respectively.

(5) The Custom Duty on import of textile machinery under SRO 809 is zero for the Year 2015-16 as well.

(6) In order to facilitate and incentivize the investments in plants and machinery, Technology Up-gradation Fund Scheme will be launched in the FY 2015-16, as per the provisions of Textiles Policy 2014-19.

(7) Government is committed to introduce latest seed technology. To this end, amendments in Seed Act have been passed by the National Assembly, whereas Plants Breeders Right Act will be also be promulgated on priority basis.

(8) Spadework has been completed on a mega project worth Rs 4.4 billion for training of 120,000 unskilled men and women over a period of 5 year. This scheme shall be launched in FY 2015-16.

Agriculture

53. Agriculture remains a major focus of our government despite the devolution of much of the operational responsibilities to the provinces. It is on the agenda of the government to take requisite measures to give positive price signals to farmers, protect them from vagaries of market fluctuations and support them in the face of natural calamities.

54. A number of tax incentives are provided to help agriculture sector, which be discussed in Part-II. Here I give an account of measures we had announced last year:

55. Credit Guarantee Scheme for Small and Marginalized Farmers: The Credit Guarantee Scheme announced in the last budget has been made operational. Under the scheme, the 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 while the government will have a contingent budget cost of Rs.5 billion.

56. Crop Loan Insurance Scheme (CLIS):Crop loan insurance scheme is already in operation and will continue in the future.

57. Livestock Insurance Scheme: Livestock is contributing more to agriculture than the major crops. Recently, significant investment has been made in this sector. To encourage more investments and to incentivize farmers to engage in livestock development, last year we announced a scheme for reimbursement of premium for livestock insurance to mitigate the risk of losses of small livestock farmers. This scheme is now operational and allows small farmers having 10 cattle to get this support. The scheme will cover livestock insurance in case of calamity and disease.

58. Agriculture Credit: We have given boost to agriculture credit, as we know the role of credit in enhancing the output of agriculture. During the year, we had targeted a credit flow of Rs.500 billion, compared to Rs.380 billion during 2013-14, an increase of 32%. I am pleased to inform this House that in first 10 months of the year 2014-15, the credit to agriculture has been registered at Rs.369 billion, which is in line with our target. For the next year, we are targeting a 20% increase to take it Rs.600 billion. Together with the insurance schemes mentioned earlier, the farmers will have much better access to financial sector than in the past.

59. Interest Free Loans for Solar Tube Wells: In order to facilitate the small growers and to reduce heavy expenditure incurred on diesel/electricity tube wells, it has been decided after the approval of Prime Minister Muhammad Nawaz Sharif to provide interest free loans for setting up new solar tube wells or replacing the existing tube wells with solar tube wells. It is estimated that the cost of half cusec solar tube well may be up to Rs1.1 million. Against a deposit of Rs.100,000 the government will provide interest free loans through the commercial Banks. The government will pick up the mark-up cost on these loans. Under this scheme it is proposed to provide mark-up free loans for 30,000 tube wells in the next 3 years. All farmers with landholdings up to 12.5 Acres will be eligible to apply for this loan. In case the number of applications in any one-year is more than 10,000, the beneficiaries will be selected through transparent balloting. After installing solar tube well, a farmer using diesel engine for five hours a day will save Rs.1660 per day and a farmer using electric pump for five hours a day will save Rs.466 per day in running costs.

60. Increase in the Value of Production Index Units (PIU): The present value of PIU was fixed at Rs.2000 in July 2010. This is woefully shortage of the current values of agriculture land. In order to enable farmers to raise larger financing facilities, it has been decided to increase the PIU to Rs.3000 with effect from 1st July 2015.

61. Prime Minister's Health Insurance Scheme: Under this scheme, insurance shall be provided for tertiary health care. In 2015-18, the premium cost of the scheme will be Rs.9 billion. Initially, the scheme will be launched in 23 districts and coverage for hospitalization for several diseases. The project coverage will be gradually increased to 60% of poorest segments of population over the next three years. For areas falling under Federal Government responsibility, such ICT, FATA, GB and AJK, the secondary medical coverage will also be provided. The targeting of population will be done on the base of poverty score methodology that is used for the BISP.

Prime Minister's Special Schemes

56. In fulfillment of our promises made during the election campaign regarding the welfare especially that of the youth, the government announced the launching of special schemes in Budget 2013-14 on the orders of the Prime Minister Muhammad Nawaz Sharif. I would like to present an overview before this House as to how these schemes have benefited the people:-

(a) Prime Minister Youth Business Loans (PMYBL) Scheme: This scheme was started for promotion of youth entrepreneurship and eradication of unemployment. Based entirely on merit and transparency, this scheme offers loans at subsidized mark-up rates. It is encouraging to note that after National Bank of Pakistan and First Women Bank Limited, 7 privatized banks have also joined this program. So far, more than 15000 loans have been approved under this scheme. About 20,000 applications are in under process. In the Year 2015-16, the mark-up rate for borrower is being lowered from 8% to 6%, a reduction of 2%.

(b) Prime Minister's Youth Skills Development Program: This program intends to promote capacity building and giving employment to unemployed educated youth through training in 100 demand-driven trades across the country. Up till now 25,000 youth have benefitted from the said program, whereas the process for training of another 25000 is at an advanced stage. For the year 2015-16, the Program is being extended to include Madrasah students, juvenile prisoners and the victims of terrorism.

(c) Prime Minister's Interest Free Loan Scheme: Under this scheme, interest free loans of Rs.50,000average size are being made available to the men and women from households with a score of up-to 40 on the Poverty Score Card (PSC) and with little or no access to banks or microcredit institutions. In 2014-15, Rs.1.75 billion has been released for this scheme. So far, this scheme has benefited 44,000 persons and it has shown 100% recovery rate.

(d) Prime Minister's Fee Reimbursement Scheme for Students of Less Developed Areas: Through this scheme, Federal Government pays tuition fee for all the students registered in Masters and Ph.D programs in HEC-approved public sector educational institutions who are domiciled in less developed areas of Baluchistan, Gilgit, Baltistan, FATA, Interior Sindh, Southern Punjab (Divisions of Multan, Bahawalpur & DG Khan), Districts of Layyah, Mianwali, Bhakkar, Khushab and Attock and less developed areas of KPK (Lakki Marwat, Batgram, Kala Dhaka/Torghar, Kohat, Bannu and Hangu). A total of 41871 students benefited in this year, whereas average fee of Rs. 35,000 per student has been borne by the Federal Government. To ensure maximum transparency and facilitation, HEC has designed Student Service Portal for online applying as well as for maintaining data of beneficiary students of this Scheme. This scheme has helped enhancing the enrolment by 100%.

(e) Prime Minister's Youth Training Program: will provide one year internship to unemployed educated youth nationwide who have completed 16 years of formal education. This program will build their capacity, enhance the employability, groom the skills and will provide experience to the youth for the job market. In this regard, the preliminaries have been completed and the scheme shall be launched in the Year 2015-16, wherein 50,000 internships shall be extended in the first phase, both in public and private organizations and a stipend of Rs.12000 per month per student shall be paid. The internships shall be distributed on the basis of NFC quota.

(f) Prime Minister’s Scheme for Provision of Laptops to Talented Students: Under this scheme, laptops are procured through open competitive bidding under PPRA Rules and under the vigilance of Transparency International Pakistan, which are then delivered to public sector universities/institutions across Pakistan and AJK. 70,000 laptops have been distributed so far in this manner. In addition, 700 laptops have been manufactured locally on a state-of-the-art laptop Assembly plant. It will additionally help in technology transfer as well as creation of jobs.

57. In total, Rs.2 billion are being allocated in FY 2015-16 for execution of Prime Minister’s Special Schemes.

Performance Management & Compensation system

58. A key challenge for development is lack of an effective performance management and aligned compensation system in public sector resulting in large gaps in effective delivery of public services. Therefore, the most important single theme for reform across all areas is promotion of institutional efficiency through Performance Management and Compensation System at an individual, departmental or collective level. In this regard, the Prime Minister of Pakistan has constituted a Performance Based Remuneration Committee. On initial recommendations of the said Committee, a lump sum amount of Rs. 1.0 billion is being allocated in the Budget 2015-16 for compensating high performance Ministries / Divisions and individuals for achieving pre-determined results.

Budget Estimates

Mr. Speaker,

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

60. Gross revenue receipts of the federal government for 2015-16 are estimated at Rs.4,313 billion compared to the revised figures of Rs.3,952 billion for 2014-15, showing an increase of 9.1%. 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.

61. The share of provincial governments out of these taxes will be Rs.1,849billion compared to Rs.1,575 billion revised estimates for 2014-15, showing an increase of about 17.4%. For the year 2015-16, net resources left with the federal government will be Rs.2,463 billion compared to the revised estimates of Rs.2,378 billion for 2014-15, showing an increase of 3.6%. Federal Government recognizes that the provincial governments have increased responsibilities of social sector service delivery under the new arrangements. Therefore, we are consistently raising

the level of provincial transfers to enable them to improve the social services and law and order for the people of Pakistan.

62. Total expenditure for 2015-16, is budgeted at Rs.4,089 billion compared to the revised estimates of Rs.3,902 billion for 2014-15, showing meager increase of 4.8% which is lower than the target inflation rate for 2015-16. 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 expenditures in real terms will make us self-reliant and sustainable.

63. The current Expenditure is estimated at Rs.3,128 billion for 2015-16 against a revised estimate of Rs.3,151 billion for 2014-15, showing an actual decrease in expenditure in nominal terms. However, we have catered for the needs of the Armed Forces keeping in view the security challenges. The defense budget is being increased from the Rs.700 billion for 2014-15 to Rs.780 billion for 2015-15, which is an increase of about 11%.

64. The development budget has been adequately funded in order to meet the investment requirements of a growing economy. Against a revised estimate of Rs.542 billion for PSDP during 2014-15, and for 2015-16 we have budgeted Rs.700 billion showing an increase of nearly 29%. This also includes the Special Development Program for security enhancement as well as for rehabilitation and resettlement of TDPs as I have explained earlier.

65. As I said earlier, we have brought down fiscal deficit to 5% in 2014-15. We are targeting to reduce it further to 4.3% in 2015-16. The federal deficit is projected at Rs.1,625 billion for 2015-16 compared to the revised estimate of Rs.1,524 billion for 2014-15. With surplus contribution from provinces of Rs.297 billion from the provinces, compared to a revised deficit of Rs.142 billion in 2014-15, we have projected an overall fiscal deficit of Rs.1328 billion for 2015-16, compared to the revised estimate of Rs.1383 billion in 2014-15.

PART-II

Mr. Speaker,

Now I present Part-II of the speech which consists of tax proposals.

1. The country needs adequate fiscal space for spending more on development and welfare of its people. Our government believes in taxation in a growth paradigm. We have to enhance our efforts for resource mobilization and for having an equitable and just tax system. Like last year, this time again we have made conscious efforts so that the burden of our tax proposals should not affect unprivileged and poor. Our proposals will ensure that affluent classes and specially those who do not pay taxes should come forward and contribute towards this national cause.

Mr. Speaker,

Broad Principles of Taxation Proposals

2. The proposals for the budget 2015-16 are mainly based on the following principles:-

Second phase of withdrawal of exemptions to further eliminate the discriminatory tax exemptions and concessions.

1. Expand the scheme of differential taxation for filers and non-filers for penalizing non-compliance without adding any further burden on the compliant.

iii. Customs tariff be rationalized to reduce both the number of slabs and the maximum duty rate.

1. Reviewing tax laws and procedures to cut down on discretion.
2. Removal of sectoral distortions in domestic taxes.
3. Measures for broadening of the tax base and documentation of economy.

vii. Increasing the share of the direct taxes.

Revenue Measures

3. I will now give a brief summary of the Revenue measures proposed in the budget:

4. Change in Rate of Tax and Taxable Holding Period for Securities:

Rate of Capital Gains Tax for Tax Year 2015 was increased to 12.5% for securities held up to 1 year and 10% for securities held for a period between 1 and 2 years. In line with the policy of increasing rates in phased manner, it is proposed to increase the rates from 12.5% and 10% to 15% and 12.5% respectively. In addition, it is proposed that securities held for a period of more than 2 years and less than 4 years be also taxed, though, at a reduced rate of 7.5%.

1. Increasing Cost of Non-Compliance with Tax Laws:

In order to promote tax culture, to discourage non-compliance with tax laws and to address the concerns of citizens paying due taxes and resultantly having higher cost of doing business than tax evaders, a distinction was created between a compliant and non-compliant taxpayer by prescribing higher withholding tax rates for those not filing their Returns through Budget 2014-15. That measure has shown good results. Continuing with the same policy, the regime of different rates for Filer and Non-Filer is proposed to be extended on certain other transactions. Accordingly, it is proposed that the rate of tax in the case of Non-filers be increased in the case of contractors by 3%, in the case of suppliers by 2% and in case of commission agents by 3%. The rate of tax on non-filer transporters is also proposed to be enhanced by various percentages. The rates in the case of non-residents may also be revised accordingly, to provide a level playing field. Any person can avoid payment of this advance tax by filing of return and can also claim adjustment or refund of this tax by filing return after the payment.

1. Adjustable advance income tax on banking instruments and other modes of transfer for Non-Filers:

The existence of a parallel informal economy is a major policy challenge in Pakistan. The informal sector takes benefit of all the services of state but does not contribute to the revenue required to provide these services. Accordingly it is proposed that adjustable advance income tax at the rate of 0.6% of the amount of transaction may be collected on all banking instruments and other modes of transfer of funds through banks, in the case of persons who do not file Income Tax returns. I would like to reiterate that this provision shall not be applicable on taxpayers.

1. Rationalizing Tax Rates for Various Sources of Banking Companies:

Presently, tax rate of 35% is applicable to banking companies from all sources except income from dividend which is taxed at various rates from 10 to 25% and income from capital gains which is taxed at a rate of 10 and 12.5%. This arrangement discriminates between different sources of income for banks. Accordingly rate differential for different sources is proposed to be removed and income of banks from all sources is proposed to be subjected to income tax @35%.

1. Taxation of Dividend:

The present rate of tax of 10% on dividend income is on the lower side as compared to most other countries. It is proposed that the rate be increased to 12.5%. Consequently, in case of non-filers the rate of tax is proposed to be increased from 15% to 17.5% of which 5% shall continue to be adjustable. For Mutual Funds the existing rate of 10% shall continue.

1. Taxation of Capital Gains from Trading of Futures Contracts: Capital gains derived from trading of commodity future contracts on Pakistan Mercantile Exchange (PMEX) is not exempt from tax. However, the traders are neither filing their returns nor any withholding tax is applicable on these transactions. It is proposed that advance adjustable income tax at the rate of 0.1% on each transaction may be introduced to be collected on every purchase and sale of futures contract.
2. Domestic Electricity Consumption:

At present, adjustable advance income tax is collected at a rate of 7.5% on domestic electricity bills above Rs 100,000. Due to reduction in electricity prices it is proposed that the threshold be reduced to Rs. 75,000.

1. Renting Out Machinery and Certain Equipments:

At present there is no withholding tax on either use or right to use of commercial, industrial and scientific equipment or on renting out of machinery. For non-residents, 15% final tax is already in place on use or right to use of commercial, industrial and scientific equipment. It is proposed that a 10% withholding tax be imposed on renting out machinery and for use or right to use commercial, scientific or industrial equipment, in case of residents also, and be treated as final tax liability.

1. Dividend from Real Estate Investment Trusts (REIT):

Since at present no special regime for unit holders of REIT has been prescribed it is accordingly proposed that unit holders for REIT be treated at par with the unit holders of Mutual Funds and dividend be subjected to same tax rates.

1. Taxation for Not Distributing Dividend:

The government has taken many measures for encouraging corporatization and several measures have been announced in this budget to encourage investment in corporate sector through stock exchanges. However, such measures will be ineffective if small shareholders do not get return on their investments. In order to protect interest of shareholders and to encourage companies to distribute dividend, it is proposed that in the case of a public company other than a scheduled bank or a modaraba, which does not distribute cash dividends within six months of the end of the tax year or distributes dividends to such an extent that its reserves, after such distribution, are in excess of 100% of its paid up capital, the excess amount may be taxed at the rate of 10%.

1. Revenue for Rehabilitation of Temporarily Displaced Persons:

The terrorism and counter-terrorism efforts have resulted in displacement of hundreds of thousands of people of FATA and Khyber Pakhtunkhwa from their homes. The vulnerable sections of the population, women, children, elderly and sick have suffered the most. The host communities have also taken a toll. The cost of rehabilitation of these displaced persons has been estimated at 80 billion rupees. These direct affectees of the war on terror deserve the full support and facilitation of the Nation. To meet enhanced revenue needs for the rehabilitation of Temporarily Displaced Persons in a dignified and befitting manner, it is proposed to levy a one-time tax on the affluent and rich individuals, association of persons and companies earning income above Rs. 500 million in tax year 2015 at a rate of 4% of income for banking companies and 3% of income for all others. It is expected that the provinces will also contribute their due share in this national cause and the entire receipts from this source shall be utilized for rehabilitation of TDPs.

Relief Measures

l Reduction in Tax Rate for Companies:

The government has been encouraging corporate culture and documentation in the economy and has introduced a policy of reducing corporate income tax rate by 1% annually from 35% until the tax rate is reduced to 30%. Accordingly the rate was reduced to 33% in the preceding year. It is proposed that, continuing with the policy, the rate may further be reduced to 32% for Tax Year 2016. This will encourage businesses to join the formal sector.

1. Exemption to Electricity Transmission Projects:

Energy is critical for the economic growth. In order to attract Private Sector Investment in electricity Transmission Line Projects, it is proposed to exempt profits and gains derived from Transmission Line Projects for a period of 10 years, provided that the project is set up by 30th June, 2018.

1. Tax Credit for new investment in shares:

The government wants to encourage saving and investment in documented sectors by the general public. At present, an individual is entitled to tax credit for an investment made in shares offered by public company listed on stock exchange subject to a maximum of 1 million rupees. To encourage investment in new companies quoted on stock exchange, it is proposed that this limit be enhanced to 1.5 million.

1. Tax Credit for Enlistment:

At present, a 15% tax credit is available to a company, if it opts for enlistment in any registered stock exchange in Pakistan. To encourage enlisting of companies on stock exchange, it is proposed that the credit be enhanced to 20%.

1. Reduction in Withholding Tax On Token Tax and Transfer of Vehicles:

(i). On demand of the Provincial Governments, the rates of adjustable advance Income Tax collected with Token Tax is proposed to be reduced by around 20 to 25% in the case of Income Tax Returns filers.

(ii). The rate of adjustable advance Income Tax collected on transfer of vehicles is proposed to be reduced by around 75% in the case of Income Tax Returns filers and also reduced by around one-third in the case of non-filers.

1. Expanding the Scope of Small Company:

Income Tax Ordinance provides a reduced rate of 25% for taxing the income of a small company as an incentive for corporatization. To make the concession more meaningful the limit of capital at Rs 25 million is proposed to be enhanced to Rs 50 million for qualifying as a small company.

1. Relief to Small Taxpayers:

Salaried taxpayers earning taxable income from Rs 400,000 to Rs 500,000 are chargeable to tax at a rate of 5%. To provide relief to this class the rate of tax is proposed to be reduced to 2%. Non-Salaried individual taxpayers and Association of Persons earning taxable income from Rs 400,000 to Rs 500,000 are chargeable to tax at a rate of 10 %. To provide relief to this class the rate of tax is proposed to be reduced to7%.

1. Option to Exporters to Opt Out of the Final Tax Regime:

At present the tax withheld on the export proceed realized by an exporter is the final tax on his income. The exporters are being authorized to opt for assessment under the normal regime and the withheld tax will be treated as minimum tax in such cases.

Customs

Mr. Speaker,

4. Now I will present the proposals relating to Customs:

Tariff Reforms

Mr. Speaker,

Last year, on the direction of the Prime Minister, tariff reforms were initiated and the maximum slab of 30% was reduced to 25% which resulted in reduction of tariff slabs from 7 to 6. This year, it is proposed to further reduce the maximum rate from 25% to 20%. It will bring down the number of slabs from 6 to 5. We are also determined to reduce the slabs to 4 by the year 2016.

Revenue Measures relating to Sales Tax and Federal Excise Duty

Mr. Speaker,

5. Now, I present proposals relating to sales tax and federal excise duty.

6. Increase in rates on cigarettes:

Cigarette smoking is a health hazard and for discouraging people from smoking, rates of federal excise duty on cigarettes are proposed to be increased from 58% to 63%. For making informal sector pay due taxes on cigarettes, adjustable FED is proposed to be levied on filter rods @ 0.75 rupees per filter rod.

1. Rates of Further Tax:

For encouraging sales tax registration and penalizing non –compliant businesses, rate of further tax is proposed to be enhanced from 1%to 2%.

1. Mobile phones:

Sales Tax payable on various categories of imported mobile phones is proposed to be increase from 150, 250 and 500 rupees to 300, 500 & 1000 rupees respectively. On the implementation of new rates RD imposed on import of mobile phones will be withdrawn.

1. FED on Aerated Waters:

At present, aerated waters are chargeable to FED at concessionary rate of 9%. It is proposed to increase this rate to 12%.

1. Rationalization of sales tax rate on export oriented sectors.

The applicable rates on export oriented sectors are 2%, 3% and 5% which are far below the standard rate of sales tax @ 17%. Certain irresponsible tax payers are misusing this concessional tax regime. In order to curb the mal practices it is proposed to rationalize the rates to 3%, 3% and 5%. I would also like to announce that the refund due to the export oriented sectors relating to tax periods till 31st May, 2015 shall be issued by 31st August, 2015. Similarly the value addition tax on commercial imports of these sectors is being reduced from 2% to 1% and 100% sales tax adjustment will also be allowed.

Second Phase of Elimination of SROs

Mr. Speaker,

6. Exemptions and concessions allowed under different concessionary regimes cause huge loss to the national revenue. These exemptions and concessions have been granted over the previous decades prima facie to reduce costs of inputs for industry, incentivize exports, encourage local investors, attract FDI, and provide relief to general public. However, these concessionary regimes in the shape of different SROs created a complex and opaque tax structure hampering trade and breeding malpractices. The scope and impact of these concessions were so pervasive that in 2013 we learnt that the share of non-dutiable imports was 62%.

But the general public was simmering under high prices and no benefit on these concessions was passed on to them. These concession benefited special classes and awarded plethora of discretionary powers on Government functionaries.

Mr. Speaker,

7. When our government undertook this gigantic task of analyzing these concessions, it was apprehended that it would be very difficult to touch the widespread and complex concessionary regime in our socio-economic milieu. It goes to the unwavering will and commitment of the Prime Minister of Pakistan that despite presence of strong and influential pressure groups, the process of elimination and curtailment of exemptions has been initiated and in the budget 2014-15, approximately 1/3rd of these concession with a tax cost of Rs. 105 billion has been withdrawn and rationalized. This historic achievement has been recognized and appreciated by all sections.

Mr. Speaker,

8. This year, as a 2nd phase of the plan of rationalization of concessionary regime in-depth deliberations and wide-ranging consultations for minimizing the remaining concessions have been conducted. Exemptions and concessions relating to customs, sales tax and income tax amounting to 120 billion rupees are proposed to be withdrawn.

Mr. Speaker,

9. This process of withdrawal of discriminatory SROs will help to further rejuvenate economic activity especially by SMEs and reduce the cost of doing business in the country. The equity in taxes will breed competitiveness and provide a better and reliable environment for local and international investors.

Mr. Speaker,

I would also like to announce that the powers of the FBR to issue exemptions/concessions have been withdrawn and those of the Federal Government have been limited to exceptional circumstances. This reflects our belief in the supremacy of the Parliament.

Tax Reforms Commission

Mr. Speaker,

10. In my last budget speech, I announced formation of Tax Reforms Commission for analyzing and reviewing the entire tax policy and tax administration. Subsequently, the Commission was formally established. It comprises eminent experts in taxation and law and leaders of the business community. The Commission is doing a commendable job in identifying areas of tax structure and administration where policy intervention is required for improving the system. The TRC has submitted its interim report and the final report shall be submitted by July this year.

Mr. Speaker,

11. By the grace of Almighty Allah the economy is out of turbulent waters. The challenge that we have accepted for the next three years of our current tenure is

take the economy on a higher trajectory of growth. In order to do so it is important to have a special focus on those areas of economy that can be catalysts in economic growth. Accordingly, we have decided to give special incentive packages to the Construction, Agriculture, Manufacturing and Employment Generation Sectors. These sectors can be engines of economic growth that can pull other sectors along for the following reasons:

- These sectors form a significant part of national GDP
- These sectors are labour-intensive and employ a large number of people
- Agriculture has a short gestation period and its effect on the broader economy will be felt sooner.
- Construction Industry has a ripple effect on sixteen other sectors of the economy.
- Manufacturing leads to employment and thus has direct effect on the quality of life of a large number of people.

Mr. Speaker,

12. I will now give the details of the incentive package for Construction sector:

13. Housing Credit:

Mark-up on housing loans obtained by individuals from banks and other institutional lenders for construction or buying a house is proposed to be allowed as a deduction against income up to 50% of taxable income or Rs. 1 million.

1. Suspension of Minimum Tax on Builders:

The minimum tax on builders leviable for the business of construction and sale of residential and other buildings is proposed to be exempted till 30th June, 2018.

1. Real Estate Investment Trust (REIT) Development Schemes:

We want to encourage the organized and corporatized sector to make investment in housing sector. Accordingly, certain incentives are announced for REIT development schemes:

30. Capital Gains of any person who sells a property to a REIT development scheme formed for the development of housing sector is proposed to be exempt from Income Tax up to 30.6.2018.

31. It is also proposed that if a development REIT Scheme for the development of housing sector is set up by 30.6.2018, for the first three years the rate of Income tax chargeable on dividend income of such REIT may be reduced by 50%.

32. Bricks and crushed stone:

In order to reduce cost of construction, it is proposed that supply of bricks and crushed stone may be exempted from Sales Tax for three years up to 30.6.2018.

1. Reduction in customs duty on import of Construction Machinery:

On import of Dump trucks, Super swinger truck conveyors, Mobile canal lining equipment, Transit miners, Concrete placing trucks, Truck mounted cranes and Crane Lorries in used condition by the Construction Companies registered with Pakistan Engineering Council and SECP, the Customs Duty is proposed to be reduced from 30% to 20%.

Mr. Speaker,

13. The following incentives are proposed to be given to employment generating industries:-

14. Employment Credit to Manufacturers:

In order to encourage the companies to generate employment, it is proposed that if a company, being a manufacturer, is set up during next three years and employs more than 50 employees duly registered with Social Security and Employees Old Age Benefit Institution an employment tax credit equal to 1% of the income tax payable for every 50 employees may be provided to the company, subject to a maximum of 10%.

1. Exemption to Greenfield Projects:

Under Prime Minister's Package exemption was allowed from explaining source of investment for new investment in Greenfield industrial undertakings. On demand of various investors and business community, it is proposed that this exemption be extended up to 30th June, 2017.

1. Import of Solar Panels:

Certain items are only exempted from Sales Tax and Customs Duty on import if they are not locally manufactured. However, import of Solar Panels and certain related components was exempt from this 'local manufacturing' condition until 30th June 2015. It is proposed that exemption from Sales Tax and Customs Duty in this manner may be extended for one year to 30th June, 2016.

1. Domestic Production of Solar and Wind Energy Equipment Manufacturing:

At present commercial imports in respect of items for dedicated use for renewable sources of energy such as solar and wind are exempt from withholding tax on import. However, no exemption is available for the domestic manufacturers of solar and wind energy plants and equipments. It is proposed to grant exemption, for 5 years, to industrial undertaking engaged in the manufacturing of equipment, plant and items required to produce solar and wind energy.

1. Concession of Customs Duty for Power Units:

"Local manufacturing" condition is not applicable on import of machinery, equipment and other capital goods for power units valuing US $ 50 million and above. It is proposed that the condition of 'US $ 50 million and above' may be replaced with the condition of 'power units of 25 MW and above'.

Mr. Speaker,

14. Incentives for Agriculture Sector are as follows:

15. Tax Holiday for Agricultural Delivery Chain:

It is proposed that for new industrial undertakings engaged in

(i) setting up and operating cold chain facilities, and

(ii) setting up and operating warehousing facilities for storage of agriculture produce;

May be granted Income Tax holiday for 3 years if they are set up before 30th June, 2016.

1. 'Halal' Meat Production:

Pakistan's share in one trillion dollar global halal food market is a pittance. In order to encourage new investments in the halal meat production and to increase the use of modern and state-of-the-art machinery and equipment in this sector, companies which set up 'halal' meat production plants and obtain 'halal' certification by 31st December 2016 are proposed to be allowed tax exemption from Income Tax for four years from the date of set up.

1. Relief to Rice Mills:

Due to low demand in international market rice mills have suffered huge losses. In order to provide relief to them, it is proposed that Rice Mills may be exempted from minimum tax for the Tax Year 2015.

1. Exemption on Supply of Fish:

Supply of agriculture produce including fresh milk, live chicken birds and eggs is exempt from deduction of withholding tax subject to certain conditions. It is proposed that exemption from withholding tax on supply of agricultural produce may also be extended to supply of fish.

1. Import and Local Supply of Agricultural Machinery and Equipment:

In order to promote farm mechanization and enhance productivity it is proposed that non-adjustable sales tax at reduced rate of 7%, instead of existing rate of 17%, may be charged on the local supply and import of certain agricultural equipment/machinery used in Tillage and seed bed preparation, seeding or planting, irrigation, drainage and agro-chemical application etc.

1. Import of Agricultural Machinery:

At present Customs duty, Sales Tax and withholding tax on import of agricultural machinery in aggregate is 28% to 43%. It is proposed to reduce Customs Duty, Sales Tax and Withholding Income Tax cumulatively to 9% as under:

1. Customs duty from existing rate of 5-20% to 2%;
2. Sales Tax from 17% to non-adjustable Sales Tax at 7%; and,

iii. WHT from 6% to 0%

1. Interest Free Loans for Solar Tube Wells:

In order to facilitate the small growers and to reduce heavy expenditure incurred on diesel/electricity tube wells it is proposed to provide interest free loans for setting up new solar tube wells or replacing the existing tube wells with solar tube wells. It is estimated that the cost of half cusec solar tube well may be up to Rs 1.1 million. Against a deposit of Rs.100,000 the government will provide interest free loans through the commercial Banks. The interest on these loans will be picked up by the government. Under this scheme it is proposed to provide interest free loans for 30,000 tube wells in the next 3 years. All farmers with landholdings up to 12.5 Acres will be eligible to apply for this loan. In case the number of applications in any one year is more than 10,000 the beneficiaries will be selected through transparent balloting. After installing solar tube well, a farmer using diesel engine for five hours a day will save Rs.1660 per day and a farmer using electric pump for five hours a day will save Rs.466 per day in running costs.

Mr. Speaker,

15. The contribution of Aviation Sector in Pakistan is a small fraction of one percent of GDP as compared to share of the sector at 3.4% in the global GDP. Our Government is confident that the following package shall cause a spurt in the growth of this sector. In this regard a few proposals are presented below :-

16. Exemption from Customs Duty and Sales Tax:

It is proposed that Customs Duty and sales tax in respect of following items used in Aviation Sector may be exempted.

1. Aircraft – Whether imported or leased
2. Maintenance Kits for Trainer aircraft.

iii. Spare parts for use of aircraft, trainer aircraft and simulator

1. One time import of Machinery, equipment & tools imported by recognized Maintenance, Repair & Overhaul company
2. Operational tools, machinery, equipment and furniture & fixtures on one time basis for authorized Greenfield airports
3. Aviation simulators by recognized airline company

1. Remote Area Routes:

Infrastructure connectivity with major economic hubs is key to economic development of a region. Some areas of the country having great economic potential are however located far from existing major economic routes. In order to open up remote areas through aviation links it is proposed that air routes in Gilgit Baltistan, Makran Coastal belt, Azad Jammu and Kashmir, Chitral and FATA be exempted from payment of FED and withholding tax.

Relief Measures for Khyber Pakhtunkhwa

Mr. Speaker,

16. Last but not the least, let me share with this house some relief measures for Khyber Pakhtunkhwa.

Mr. Speaker,

As all of us know that the economy of Khyber Pakhtunkhwa has suffered immensely due to terrorism and efforts to counter it. In order to revive the economy of Khyber Pakhtunkhwa and to provide relief to the people, the following measures are proposed:

2018. a) Five years Income Tax holiday on all new manufacturing units set up in KP between 1-7-2015 and 30-6-2018. Such units shall also be exempted from payment of turnover tax for five years.

2019. b) To address the demand of traders and to facilitate exports from KP to Afghanistan, exports of perishable goods namely fruits, vegetables, dairy products and meat are proposed to be allowed against Pak currency instead of dollars w.e.f. 1-7-2015.

2020. c) Quota for ghee and vegetable oil under DTRE for export to Afghanistan and Central Asia is proposed to be enhanced three times from 1000 Metric Ton per 90 days to 1000 Metric Ton per month.

2021. d) The legacy issues regarding minimum tax payable on turnover under the previous KP package available for tax years 2010 to 2012 shall also be resolved. Minimum Income Tax is leviable under the existing law however, to address the hardship of KP businessmen suitable amendments shall be made.

2022. e) The pending issue of Sales Tax refunds payable as a result of the above mentioned package shall be resolved latest by 30th September, 2015.

Mr Speaker,

1. f) I would also like to share with this August House a breakthrough in trade with Central Asia. Exporters from KP in particular and other exporters in general were facing hardship because of the requirement of financial guarantees equivalent to 110% of the Custom duty by Afghanistan on our exports to Central Asia. Moreover, our exporters had to pay US $ 100 on each 25 tons of export transiting through Afghanistan to Central Asia. I am happy to announce that during the recent visit of the Prime Minister of Pakistan to Kabul, the issue was taken up with the Afghan side and Economic Adviser to Afghan President informed me on telephone on 31st May, 2015 that they have decided to abolish these measures.

This decision will boost our exports to Central Asian countries, and will reduce the cost for exporters.

PART- III

Relief Measures

Pay and Allowances for Government Employees

1. As you know, we are a resource poor economy where demands are many and resources are limited. The present government is committed to reduce non-productive expenditure to achieve greater availability of fiscal space for development spending. This year inflation has substantially come down and there is a trend of price stability. However, the government is fully cognizant of low compensation level of government employees and pensioners. As per past practice, the Government had constituted a committee which submitted its recommendation keeping in the inflation and fiscal constraints. The government has taken following decisions in this regard:-

1) 7.5% Ad-hoc Relief Allowance on running basic pay will be allowed to all federal government employees with effect from 1st July 2015, as against the recommendation of 5% increase by the Committee.

2) Ad-hoc increases of 2011 and 2012 will be merged in the pay scales as recommended by the Committee.

3) Medical Allowances of all government employees is being enhanced by 25%.

4) One premature increment will be allowed to employees of grade 5 with effect from 1st July 2015. Last year pre-mature increment was allowed to employees of grade 1-4.

5) A uniform Ph.D. Allowance of Rs.10,000 per month will be allowed to Ph.D./D.Sc. degree holders working under federal government with effect from 1st July 2015. This will replace the existing Science and Technology Allowance of Rs.7,500per month and Ph.D. Allowance of Rs.2,250 per month.

6) The rates of special pay to Senior Private Secretaries, Private Secretaries and Assistant Private Secretaries are being increased by 100%.

7) The rate of orderly allowance and special additional pension is also being increased to Rs.12,000 per month.

8) For the welfare of the labor class and in line with increase in pay of government employees, the minimum wage rate is also being increased from Rs.12,000 to Rs.13,000 per month.

Pensioners

Following relief measures are being announced for the pensioners;-

(1) 7.5% increase in net pension to all pensioners of federal government with effect from 1st July 2015.

(2) Medical Allowances of pensioners is being enhanced by 25%.

(3) Extension of family pension to widowed/divorced daughter for life or till re-marriage with effect from July1, 2015.

(4) Revival of policy for restoration of surrendered portion of commuted value of pension after outliving the prescribed period.

(5) Upper limit of investment in Bahbood Saving Scheme of National Savings by the pensioners and senior citizens is being enhanced from Rs.3 million to Rs.4 million.

3. Additional financial impact of the proposed increase in pay, pension and allowances is estimated at Rs.46 billion/annum.

Support for Widows of Victims of Suicidal Attacks

Mr. Speaker

4. Our nation has sustained great losses due to suicide attacks. Many families have seen their loved ones sacrificing lives and their hardships have increased as their bread-earners have gone. To provide relief to the widows of suicide attack victims, the Government has decided that any outstanding loan including markup up to Rs.1 million as on 30-6-2015, obtained by the deceased husband in his own name or in the name of the widow from a bank or financial institution will be borne by the government. Entitlement to this facility will be applicable to a widow who has not remarried and provides an affidavit that the government has not previously given any compensation on this account and that she has no resources to discharge the loan and markup obligation.

Compensation to Mirani Dam Affectees

Mr. Speaker

5. A tropical cyclone had hit the site of Mirani Dam on 26th June 2007 and heavily damaged houses, orchards and property of the residents in its vicinity. The issue of compensation against these damages hasnot been given due attention in the past. In order to provide relief to the affectees, Prime Minister Muhammad Nawaz Sharif has decided that Federal Government and Balochistan Government will jointly compensate for the damages to the tune of Rs.3.5 billion.

Concluding Remarks

Mr. Speaker

6. In the backdrop of economic performance in the last two years, I have presented the Budget 2015-16. After achieving 2 of the 3 objectives set in June 2013, namely prevention of default and stabilization of the economy, we are now embarking on the path of promoting inclusive growth.

7. Federal PSDP of Rs.700 billion and provincial investments of Rs.814 billion will take public sector development spending to Rs.1514 billion, which is nearly 5%

of GDP. Together with investments in private sector, including under CPEC (other than those included in the PSDP), the investment to GDP ratio will rise to the target of 16.5% from 13.5% registered in the current year.

8. This investment will spur growth that will create job opportunities for our youth. Both through employment effect of this investment as well as poverty alleviation programs undertaken by the Government people will be lifted from poverty. The public investments in infrastructure, particularly in water, power, highways and railways, will have secondary effects both on growth and employment as new opportunities will emerge and cost of doing business will decline.

9. We are doing so on the back of a stable economy. We are following a serious program of reforms in all sectors of the economy aimed at removing distortions, inefficiencies, enhancing regulatory oversight and encouraging competitive markets.

10. We are confident that Pakistan has a bright future. We are devoting energies to actualize the true potential of our people, which is second to none. All that is needed is an environment of merit, transparency, sincerity and sacrifice for the nation, which is what we are committed to. As I said last year, Prime Minister Nawaz Sharif believes in the destiny of this nation and he is determined to lead the country toward this destiny through tireless devotion, sagacity and service to the people.

11. This destiny was recognized by none other than the father of the nation, Quid-e-Azam Mohammad Ali Jinnah, who said, while addressing a mammoth rally at University Stadium at Lahore on 30th October 1947:

> “Do your duty and have faith in God. There is no power on earth that can undo Pakistan. It has come to stay. Our deeds are proving to the world that we are in the right and I can assure you that the sympathies of the world, particularly of the Islamic countries, are with you. We in turn are grateful to every nation who has stretched out to us its hand of help and friendliness.”

12. The Quid was fully aware of the latent potentialities of our people. He had the foresight to see that Pakistan has come to stay. But the man who gave the vision of Pakistan had done so much earlier. It was such a destiny he also recognized when he said:

13. I end my speech with the prayer that may Allah enable us to realize the hidden potentialities of this nation. Aameen.

14. Pakistan Paindabad.