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Federal Budget 2014-15 – An Overview

Perfor-mance of the economy improves

In the outgoing fiscal year 2013-14, macroeconomic performance of the economy improved. GDP growth picked up, mainly driven by improved performance of industry and services sector. Economic growth has suffered in recent years because of problems in the energy sector, security concerns and a difficult investment climate. GDP growth has averaged 3 percent in the last few years, well below what is required to provide jobs to the growing youth population and in reducing poverty. As energy supplies improved with the payment of power sector circular debt, there was some reduction in power shortages during the year which contributed positively towards the growth of the industrial sector. Electricity generation and its distribution contributes 9.2 percent in industrial sector and its share in the GDP is nearly 2.0 percent. This sub-sector registered a growth of 3.72 percent in FY14 compared to negative growth (-16.33%) a year earlier. Improved supplies helped uplift industrial activities, and large scale manufacturing registered a growth of 5.31 percent as compared to 4.1 percent in the preceding year.

Low rate of investment

A major concern for economic growth is the low level of investment in the economy. The rate of investment to GDP has fallen from 19.2 percent in FY08 to 14.0 percent in FY14. The decline has been more pronounced for private fixed investment which has fallen from 12.8 percent to 8.9 percent in the corresponding period. With low domestic savings in the economy, the saving investment has to be financed by foreign resource inflows. Meanwhile, with credit to private sector improving it would lend support for further private investment in the near future.

Inflationary pressures ease

Inflationary pressures eased and CPI inflation was recorded at 8.6 percent in FY14, down from 11.0 percent in FY12, though slightly higher than 7.4 percent registered in FY13. The increase was mainly because of a 2.0 percentage point rise in food inflation. There was a rise in prices of perishable food items, an increase in the price of wheat and its related items, an increase in GST rate, and the reduction in subsidies on fuel and electricity, pushed up administered prices of energy.

Fiscal deficit reduced

The fiscal deficit has been brought down from 8.8 percent of GDP in 2012-13 to 5.8 percent of GDP in FY14, lower than the budgetary target of 6.3 percent. While there has been some success in containing the deficit, efforts to broaden the tax base and increase tax-to-GDP ratio has met with limited success. Tax GDP ratio has remained within the narrow band of 9.0 to 10 percent in the last few years, rising to 10.6 percent in FY14. Sluggish performance in total revenues is mainly attributed to less than targeted tax revenues due to failure to implement the tax reforms and a slowdown in economic activity on account of energy crisis, states the *Pakistan Economic Survey 2013-14*. Structural reforms would help raise the level of tax collection in the economy and broaden the tax base.

Due to a number of both domestic and external factors Pakistan could not attract foreign direct investment in the last few years. However, with an improved macroeconomic outlook, inflows are expected to improve. Foreign direct investment are expected at $1.4 billion during July-May 2014.

Trade deficit narrows

According to figures compiled by Pakistan Bureau of Statistics, Pakistan's trade deficit decreased during FY14 (July-May). Balance of trade narrowed to $17.7 billion in FY14 (July-May) compared to $18.7 billion in the comparable period of FY13. While imports were contained at $40.8 billion against $41.0 billion earlier, exports grew by 3.7 percent to $23.11 billion from $22.28 billion in FY13. Of the total imports in FY14, petroleum alone constituted $13.4 billion, or 32.84 percent of the import bill.

A redeeming feature of the economy is the rising trend in workers' remittances which have helped contain the balance of payments

Box

Pakistan Economy 2013-14 — Highlights
Targets 2014-15

In the outgoing fiscal year 2013-14, the domestic economy showed a pick up in economic growth, compared to lackluster performance in the earlier few years. Broad based economic recovery, strengthening of macroeconomic stability and elimination of external account vulnerability are major achievements of the outgoing fiscal year, states the *Pakistan Economic Survey 2013-14*. During the year, economic growth picked up, inflation was contained in single digit, workers' remittances rose, fiscal deficit was reduced, Pak Rupee strengthened, foreign exchange reserves improved, exports rose, fiscal deficit was brought down, there was a rise in foreign direct investment and stock market. The year also witnessed the successful launch of the Euro Bond and auction of long pending 3G and 4G licenses.

We give below highlights of the *Pakistan Economic Survey 2013-14* recently released: -

Growth Trends

- GPD grew by 4.14 percent against 3.7 percent a year earlier. The agricultural sector grew an estimated 2.12 percent, the industrial sector by 5.84 percent, large scale manufacturing by 5.31 percent and the services sector by 4.29 percent.
- The agriculture's crop sub-sector grew by 1.2 percent against preceding year's 2.3 percent, due to a decline in growth of 'other crops'. Among the important crops, sugarcane, rice, wheat and maize recorded higher outputs over a year earlier, while cotton output declined due to a fall in area sown.
- State Bank of Pakistan is pursuing a strategy for achieving the annual indicative agriculture disbursement targets.
- The subdued manufacturing growth performance last year was mainly because of power shortages. The elected government cleared the circular debt of Rs480 billion soon after assuming office. Improved electricity generation was reflected in higher industrial performance.
- SMEDA has been tasked with an advisory role in implementation of the Prime Minister's Youth Business Loan Scheme both in terms of developing information tools and resources and also guiding and disseminating information to loan aspirants.

Investment and Savings

- Investment in Pakistan has suffered from security concerns, deteriorating law & order situation and other internal and external factors. Investment to GDP ratio has fallen from 15.08 percent in 2011-12 to 14.57 percent in 2012-13 to 13.99 percent in 2013-14.
- Public investment has increased, while private investment has fallen. As a proportion of GDP, public investment rose from 3.33 percent in FY13 to 3.45 percent in FY14, while private investment declined from 9.64 percent to 8.94 percent in the corresponding period.
- Both national and domestic savings declined as a proportion of GDP. National savings fell to 12.94 percent from 13.5 percent, while domestic savings fell to 7.54 percent from 8.33 percent.
- Due to a number of factors, Pakistan could not attract foreign direct investment in the last few years. Situation is gradually improving. Total foreign investment inflow reached $2.98 billion during July-April 2014 compared to $1.28 billion in the corresponding period a year earlier.
- Workers' remittances have risen to $12.89 billion by April, 2014.

Inflation

- Inflation as measured by Consumer Price Index stood at 8.3 percent in May 2014, against 10.9 percent in November 2013. Food inflation dropped to 7.4 percent from 13.0 percent, while non-food inflation was at 9.0 percent, against 9.4 percent in November 2013.

Fiscal Developments

- The overall fiscal deficit for FY14 is estimated at 6.3 percent of GDP, compared to 8.2 percent a year earlier.
- In FY14, some measures were taken to ensure fiscal sustainability. The government focused on improving the fiscal accounts through phasing out of electricity subsidies, restructuring/privatisation of public sector enterprises and raising tax and non-tax revenues.
- Earlier the sluggish performance in total revenues was mainly attributed to less than targeted tax revenues due to failure to implement the tax reforms and a slowdown in economic activity on account of energy crisis.
- Expenditure management has remained difficult. High interest payments, untargeted subsidies particularly to loss making public sector enterprises and energy subsidies resulted in sharp increase in total expenditures.
- The government's reform programme seeks to raise tax revenues to 15 percent of GDP over the medium term, and contain expenditure, thereby bringing down the fiscal deficit to 4.0 percent of GDP. In an effort to remove the distortions and increase the tax revenues, government is focusing on removing the SRO culture.

Monetary Developments

- During the first half of fiscal year FY14, the State Bank of Pakistan increased policy rate by 100 basis points, in two stages of 50 bps each. The rate which was 9.0 percent in June 2013 was raised to 9.5 percent in September 2013 and further to 10.0 percent in November 2013. This rate has been maintained since.

- During July-May 2013, net government borrowing from the banking system was reduced significantly to Rs199.6 billion from Rs992.9 billion recorded in the same period of FY13.
- During FY14, there was a significant growth in credit to private sector, due to structural reforms initiated. During July-May 2013-14 credit to private sector increased to Rs296.4 billion against the expansion of Rs92.5 billion in the comparable period of the preceding year.
- Asset quality of the banking sector has shown gradual improvement. Non performing loans for all banks stood at Rs602.4 billion in March 2014, and the net NPLs to net loans ratio came down to 3.34 percent in March 2014 from 4.55 percent in March 2013.
- The coverage of the branchless banking network is expanding significantly.
- Share of Islamic banking assets in overall banking system rose from 4.9 percent in 2008 to 9.6 percent by December 2013, while in terms of deposits the share increased from 4.78 percent to 10.40 percent.

Balance of Payments

- Exports showed a moderate growth during the period July-April FY14 In absolute terms, these increased to $20.143 billion from $20.997 billion in the comparable period of 2013. Imports during the corresponding period rose to $37.104 billion from $36.664 billion.
- Pakistan has been granted GSP Plus after efforts for its inclusion in EUs scheme for preferential market access. The GSP Plus arrangement, which is conditional to ratification and implementation of 27 international conventions, would assist Pakistan to promote its exports.
- Current account deficit widened to $2.16 billion in FY14 (July-April) from $1.57 billion in FY13 (July-April).
- During the FY14 (July-April) foreign private investment declined, due to a fall in both foreign direct investment and portfolio investment.
- Pakistan's foreign exchange reserves improved.
- Workers' remittances rose during July-April 2013-14 to $12.89 billion compared to $11.57 billion last year.
- Pak Rupee recorded an appreciation of 1.1 percent in July-March FY14, compared to 3.8 percent depreciation in the same period last year.

Energy

- The government retired circular debt of Rs480 billion soon after assuming office which added 1752 MW of electricity into the system.
- Subsidies are being gradually withdrawn. The present government is trying to rationalize the tariffs and is moving towards cheaper energy mix for energy supplies especially for electricity generation.
- Ten coal-fired power projects, with a capacity of 660 MW each are being initiated at Gadani, Balochistan, which would add a total of 6660 MW in the national grid.
- To ensure energy security, the government is taking a number of measures to develop alternate, renewable energy resources in the country.

Public Debt

- The composition of public debt has changed in the last few years with increased reliance on domestic debt owing to lower external debt inflows. This has resulted in increase in its share to around 70 percent of total public debt.
- Measures have been initiated by the government to manage public debt portfolio effectively.
- Total public debt reached Rs15.5 trillion by end March 2014, primarily because of an increase in domestic debt which touched Rs10.8 trillion against Rs9.5 trillion in 2013.
- The decline in external debt during FY14 (July-April) is mainly attributable to net repayments and appreciation of Pak Rupee against US dollar.
- Pakistan's foreign exchange reserves have improved to $13.4 billion by end May 2014, where reserves with SBP had risen to $8.6 billion.

Targets 2014-15

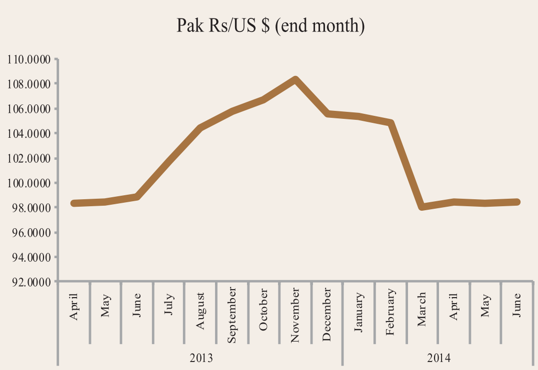
- The Annual Plan 2014-15 targets GDP growth at 5.1 percent, with contributions from agriculture (3.3%), industry (6.8%) and services (5.2%).
- Inflation is targeted at 8 percent.
- The investment to GDP ratio is proposed to improve from current level of 14 percent to 15.7 percent.
- Fixed investment is expected to increase from 12.4 percent to 14.1 percent of GDP.
- National savings are expected to improve from 12.8 percent of GDP in FY14 to 14.2 percent in FY15.
- Exports for FY15 are projected at $27 billion and imports at $44.2 billion. Hence the trade balance would be in deficit by $17.8 billion.
- The current account is projected to be in deficit by $2.8 billion or 1.1 percent of GDP in FY15.
- The overall balance is likely to be in surplus by $3.8 billion.
- Workers' remittances are projected at $16.67 billion.
- Direct investment is estimated to grow to $4.3 billion.

deficit. Inflow of remittances crossed $14 billion during FY14 (July-May) against $12.7 billion in the comparable period of FY13. The current account deficit stood at $2.57 billion against $2.15 billion in FY13.

In the outgoing fiscal year Pakistan received financing through IMF's Extended Fund Facility, an inflow of $1.5 billion from Saudi Arabia, nearly a billion from auction of 3G and 4G licenses and by raising loans in the international market, where foreign exchange resources were raised through issuance of Euro Bonds. Against a target of $500 million, investors offered $7.0 billion, of which $2 billion of offers were accepted. The external inflows helped in building of foreign exchange reserves and stabilisation of Pak Rupee to US dollar. Foreign exchange reserves with State Bank of Pakistan, which had fallen to $3 billion in November 2013, has since risen to $9 billion by June 27, 2014. The pressure on Pak Rupee has eased as US dollar exchange rate which had risen to a high of Rs108.38 in November 2013 has since come down to Rs98.40 (April 2014).

Pak Rupee gains

Exchange Rate



The main elements of the budget strategy to be followed in FY15, includes; reduction of fiscal deficit, raising of tax revenues, arresting inflationary pressures, focusing on the energy sector, promoting exports, creating new jobs, raising investment for growth, managing public debt, protecting the poor, strengthening social safety net programmes and development and promotion of the ICT sector.

The Federal Budget 2014-15 has a total outlay of Rs4.30 trillion, 6.0 percent higher over the revised estimates of Rs4.06 trillion in 2013-14. Higher allocation is envisaged for current expenditure (Rs3.43 trillion against Rs2.9 trillion a year earlier), while development expenditure is budgeted at Rs838.5 billion, lower by 2.35 percent over preceding year's revised figure of Rs858.7 billion. Federal PSDP has been budgeted at Rs525.0 billion, while last year it had declined by a substantial 21.3 percent to Rs425.0 billion over the year's budgeted figure of Rs540.0 billion. Development loans and grants to provinces are budgeted at Rs151.68 billion over preceding year's Rs144.3 billion.

High mark up

Of the total current expenditure of Rs3.13 trillion, budgeted for FY15, mark up on domestic debt alone constitutes 39.1 percent, followed by defence 22.4 percent. Government's domestic debt has risen to Rs10.82 trillion by March 2014, constituting 42.6 percent of GDP, against Rs8.8 trillion a year ago (39.1% of GDP) a 23 percent jump.

Public Debt

(Rs. bn)

	Stocks June 2013	Stocks March 2014
Public debt	14574.7	15882.1
Public Domestic debt	9520.9	10820.0
Public External debt	5053.7	5062.2
Government External debt	4311.1	4373.4
Debt from the IMF	434.8	356.4
External Liabilities	307.8	332.1

Source: State Bank of Pakistan

Over two thirds of the domestic debt is in the form of Market Treasury Bills and Pakistan Investment Bonds. Saving schemes constitute 19.5 percent of the domestic debt. While the increase in interest rate on National Saving Schemes in October 2013 and January 2014, resulted in increased mobilisation, the income support levy announced in the budget FY14 led to large encashment as it discouraged individuals from keeping their savings in NSS.

Banks increased their participation in PIBs during the third quarter of FY14, and about one half was raised through 3 year paper. As a result there was a tenor wise change in the composition of domestic debt, which saw an increase in the share of medium term debt with maturity between 1-3 years. Banks PIB holdings more than doubled from Rs744.3 billion in the second quarter of FY14 to Rs1.5 billion in the third quarter.

Subsidies reduced

Budgetary allocation for subsidies show a 37.1 percent reduction in FY15. Higher allocation of Rs230 billion last year for inter-disco tariff differential against the budgeted figure of Rs150 billion had led to a 34 percent jump in the subsidy bill. Subsidies have been brought down. For instance subsidy to WAPDA/PEPCO alone has been reduced to Rs245 billion in FY14 and is budgeted at Rs156.1 billion in FY15, against Rs419 billion in FY12. To KESC the subsidy bill has been brought down from Rs84 billion to Rs29 billion (budget) FY15.

Foreign loan repayments see a rise of 26.4 percent in FY15 to Rs333.2 billion against Rs263.6 billion in FY14.

PSDP size raised

The size of Federal Public Sector Development Programme (PSDP) is envisaged at Rs525 billion against Rs425 billion in FY14. With a substantial rise of 66.7 percent in allocation for provinces, the size of national PSDP has jumped to Rs1.17 trillion from Rs814.7 billion in FY14. Key priorities of PSDP are investment in energy, railways, water and power, education and health services, infrastructure development with emphasis on highway projects.

Water sector

An investment of Rs43 billion is budgeted for water sector, where projects will be undertaken in different parts of the country. Work on the Diamir Basha Dam will be initiated during the year and some projects will be initiated in Balochistan, with focus on completing those projects which have been delayed. A number of schemes of lining of water courses will be undertaken to reduce water wastage together with flood protection and drainage schemes.

Power sector

Power sub-sector receives priority in the budget. Energy shortages has resulted in the inability of the power system to meet the growing demand for electricity, leading to power outages. This has caused distressed to millions of households and also loss of production in the commercial and industrial sectors. The government has taken steps to address the structural problems such as system losses, recoveries, theft and inter corporate circular debt.

It has also adopted the National Power Policy which gives high priority to increasing the electricity supply using low cost sources, notably coal and hydropower. The circular debt which had built upto Rs500 billion by May 2013 was cleared by the new government. Electricity tariff was raised at the end of July 2013.

Large sum of money (Rs205 billion) will be invested in this sector. The projects included in the program include Neelum-Jehlum Hydro Power Project, Diamir-Bhasha Dam and Hydropower Project, Tarbela Fourth Extension Project, Thar Coal Gasification Project, Chashma Civil Nuclear Project among others.

Highway sector

Extensive programs in the highways sector comprising 74 projects of motorways, highways, bridges, tunnel and regional roads would be developed. Alongwith the development of roads and motorways, rehabilitation of railways would be undertaken. Higher allocations have been made in the budget for procurement and repair of 500 engines, for new wagons/bogeys, for renovation and upgradation of railway stations, laying of new railway tracks and rehabilitation of old tracks, revive Karachi Circular Railway, introduce a modern metro train in Lahore and initiate the project of Islamabad – Murree-Muzaffarabad Rail link.

The Federal government and the provincial governments are initiating programs and making some efforts to meet the challenges of the education and health sector. The challenge is not only to increase the number of enrollments at the school level, but equally important is arresting the declining quality of education provided. The large numbers of illiterates are a drag on the national economy, especially where a large proportion is youth population. Alongwith education, skill development is equally important. While health sector service delivery has been devolved to the provinces, the Federal Government continues to support the provinces in their attempts to achieve health related Millennium Development Goals. The Federal government will also work with the provincial governments on polio eradication, the Expanded Program of Immunization, National Maternal Neonatal and Child Health Program and several other programs.

Challenges of the education and health sectors

Gross revenue receipts are estimated at Rs3597.1 billion, higher by 5.2 percent against the budgeted figure of Rs3420.0 billion. The increase is attributable to higher non-tax receipts as tax collection was short of its target. Revised tax revenue figures show that direct and indirect taxes could not meet the year's target. Direct taxes at Rs891.0 billion were short by 8.7 percent, as income tax collection was lower by 7.6 percent over the year's target of Rs948.7 million. Indirect taxes were smaller by 7.7 percent as the major sub-heads showed decline.

Gross revenue receipts

Customs duty was lower by 13.6 percent. The *State Bank Third Quarterly Report 2013-14*, on the *State of Pakistan's Economy* states, 'around one-third of total customs duties are collected from imports of vehicles, petroleum products and edible oil. Growth in the import value of these items has been subdued during the year, the import of automobiles (completely built units) is declining as the age limit of re-conditioned cars was reduced from five years to three years in December 2012; the import value of petroleum products was lower in Q3 FY14 compared to the previous two quarters (due to stable international prices) and palm oil import fell, mainly due to a rise in international prices.

Customs duty lower

For FY2014-15, the Government has budgeted tax revenue collection at Rs3129.2 billion, up

Revenue Receipts

(Rs Bn)

	2013-14		2014-15
	Budget	Revised	Budget
A. FBR TAXES (I+II)	**2475.0**	**2275.0**	**2810.0**
I. Direct Taxes	**975.7**	**891.0**	**1180.0**
Income Tax	948.7	876.9	1163.8
Workers' Welfare Fund	21.0	13.5	15.5
Capital Value Tax (CVT)	-	0.59	0.68
Income Support Levy	6.0	-	-
II. Indirect Taxes	**1499.3**	**1384.0**	**1630.0**
Customs Duties	279.0	241.0	281.0
Sales Tax	1053.5	1005.0	1171.0
Federal Excise	166.8	138.0	178.0
B. OTHER TAXES	**196.4**	**238.9**	**319.2**
Other Indirect Taxes (ICT)	3.0	3.8	4.7
Airport Tax	0.075	0.085	0.090
Gas Infrastructure Development Cess	38.0	88.0	145.0
Natural Gas Development Surcharge	35.3	39.0	46.4
Petroleum Levy	120.0	108.0	123.0
TOTAL TAX REVENUE	**2671.4**	**2513.9**	**3129.2**
NON-TAX REVENUE (A+B+C)	**748.6**	**1083.2**	**816.3**
A. Income from Property and Enterprise	**239.9**	**321.3**	**192.0**
Pakistan Telecom Authority	14.0	2.1	14.7
PTA (3G Licences	120.0	89.0	56.0
Regulatory Authorities	0.368	2.4	0.350
Mark up (Provinces)	13.3	14.1	12.9
Mark up (PSEs & Others)	23.8	68.4	26.0
Dividends	68.4	77.5	82.0
Profit Others	-	67.6	-
B. Receipts from Civil Admn and Other Functions	**316.8**	**389.5**	**417.4**
General Admn Receipts	1.4	6.4	2.9
Share of Surplus Profit of SBP	200.0	260.0	270.0
Defence Services Receipts	112.1	118.6	140.2
Law & Order Receipts	1.0	1.5	1.1
Community Services Receipts	0.1	1.5	1.5
Social Services	1.2	1.5	1.6
C. Miscellaneous Receipts	**191.9**	**372.4**	**206.8**
Economic Services Receipts	2.5	2.9	3.0
Foreign Grants	29.9	204.2	35.0
Passport & Citizenship Fees	16.5	17.0	20.0
Discount Retained on Local Crude Price	18.0	18.0	20.0
Royalty on Crude Oil	32.5	33.3	32.2
Royalty on Natural Gas	39.7	42.7	49.1
Windfall Levy against Crude Oil	25.0	15.0	17.0
Petroleum Levy on LPG	1.0	1.0	1.0
Others	26.6	38.3	29.4

Source: Budget in Brief 2014-15

Fiscal Measures — Highlights
Some of the measures adopted in the Federal Budget 2014-15

Income Tax

- A five year income tax exemption is proposed for persons setting up processing plants for locally grown fruits, in Balochistan province, Malakand Division, Gilgit-Baltistan and FATA.
- To encourage electricity generation from local coal, it is proposed to exempt the profits and gains of coal mining projects in Sindh supplying coal exclusively to power generation projects and also to tax their dividends at reduced rate of 7.5 percent.
- Capital Gains Tax rates are proposed to be 12.5 percent for securities held up to 12 months and 10 percent for securities held for a period which is between 12 to 24 months. Tax on capital gains for securities held for more than 24 months will remain exempt.
- Corporate tax rate shall be reduced to 20 percent for a company setting up an industrial undertaking between July 1, 2014 to June 30, 2017, subject to the condition that at least 50 percent of the project cost including working capital is financed through Foreign Direct Investment in the equity of the company.
- Reduction in corporate tax rate from 34 percent to 33 percent, from tax year 2015 and onwards for other than banking companies.
- It is proposed to reduce tax liability of disabled persons on income up to Rs1 million by 50 percent.
- It is proposed to repeal the Income Support Levy Act, 2013.
- In case of a joint venture, where one of the members of the joint venture is a company, the income of company shall now be taxed separately at the applicable corporate tax rate, whilst joint venture, shall be taxed as an AOP on the income excluding share of the Company from AOP.
- Reduction of advance tax on functions/gatherings from 10 percent to 5 percent.
- Exemption from Income Tax to Sindh Pension Fund.
- Flying allowance of Pilots exceeding an amount equal to the basic salary shall be taxable at 7.5 percent.
- Subscribers of mobile telephones to be subject to a reduced withholding rate of 14 percent as against 15 percent.
- To document and bring into tax net the real estate transactions it is proposed that an adjustable advance tax be collected on purchase of immovable property at the rate of tax is 1 percent for compliant taxpayers and 2 percent for non-compliant persons. However, properties with value less than 3 million and schemes introduced by the government for expatriate Pakistanis will be excluded.
- For domestic electricity consumers, it is proposed to collect adjustable advance tax @7.5 percent on the monthly bill of above Rs100,000.
- It is proposed that an advance adjustable income tax, in addition to the tax collectable from return filers, be collected from persons who do not file income tax returns on certain transactions at rate of 5 percent for dividend income, 5 percent for interest income above Rs500,000, 0.2 percent for cash withdrawals from banks and 0.5 percent in case of advance capital gain tax collected from seller of immovable property.
- It is proposed to levy advance income tax at the rate of 3 percent on purchase of international air tickets in club/executive/first class. In case of those persons who have not filed their return for the preceding tax year the rate shall be 6 percent. No tax is to be collected by economy class tickets.
- Withholding tax rates on services under section 153 increased to 8 percent from 6 percent for companies and to 10 percent from 7 percent for other than companies.
- Withholding tax rates of collection of tax at imports stage have been revised, and a new table has been introduced.
- Withholding tax exemption on payments to foreign news agencies has been withdrawn.
- To broaden the tax net it is proposed to make obtaining NTN a compulsory condition for obtaining commercial/industrial electricity and gas connections.
- Despite huge number of bonus shares issued, the amount of tax paid on account of capital gains on bonus shares is very small. In order to discourage tax avoidance in this area, it is proposed that bonus shares be treated as dividend and taxed deducted at the rate of 5 percent the ex-bonus price of the shares.
- Currently, foreign institutional investors in stock exchanges are neither voluntarily paying due taxes on capital gains by filing returns nor are they subject to deduction of tax like many other investors. To prevent loss of revenue, it is proposed to bring FIIs under the withholding tax regime.
- Withholding tax rate on cash withdrawals from banks for non-filers shall be 0.5 percent and for filers it shall remain at 0.3 percent.
- On sale of immovable property, advance capital gain tax shall be collected at the rate of 0.5 percent in case of filers and 1 percent for non-filers.
- Banks shall apportion expenses against dividend income and capital gains on listed shares. Rate of tax on the capital gains derived by banks increased to 12.5 percent from 10 percent.
- Collection of tax at 4.5 percent has been specified for import of ships by ship-breakers.

Customs Duty

- Maximum general tariff rate of 30 percent is proposed to be reduced to 25 percent.
- The number of slabs has been brought down to 6.
- Regulatory duty levied on luxury goods.

- Substitution of 0 percent duty slab with 1 percent customs duty in Tariff. Socially sensitive items continued at 0 percent in new Fifth Schedule to the Customs Act.
- Exemptions and concessions allowed under various SROs reviewed to minimize exemptions. Concessions considered non-essential, and which were minimally utilized withdrawn. Concessions considered socially sensitive retained. Essential concessions retained on enhanced concessionary rates by incorporating in newly added Fifth Schedule to the Customs Act.
- Plant, machinery and equipment imported for setting up fruit processing and preservation industrial units in Gilgit-Baltistan, Balochistan and Malakand Division exempted from whole of customs duty.
- Plant, machinery and equipment imported for setting up industries in FATA, exempted from whole of customs duty.
- Customs duty on UPS reduced from 20 percent to 15 percent to provide relief to general public.
- Customs duty on petroleum coke not-calcined decreased from 5 percent to lowest slab of 1 percent to reduce input costs for manufacturing concerns.
- Customs duty on networking equipments increased from 5 percent to 10 percent.
- Fixed amounts of duty and taxes on used vehicles revised upward by 10 percent.
- Customs duty @ 5 percent levied on import of generators above 1100 KVA.
- A uniform rate of 10 percent customs duty on all kinds of CDs/DVDs levied.
- Customs duty on Satellite mobile phones whether or not functional on cellular networks reduced from 25 percent to 10 percent.
- Duty on hybrid electric vehicles rationalized – 50 percent reduction up to 1800cc and 25 percent reduction on to above 1800cc.

Sales Tax/Federal Excise Duty

- Sales tax exemption available to retailers having annual turnover not exceeding Rs5 million has been withdrawn and two tier system has been introduced. First tier: Large retailers of national or multinational chains will operate under normal sales tax regime. Second tier: Sales tax at the rate of 5 percent will be collected from retailers with monthly electricity bill if such bill would be up to Rs20,000 whereas sales tax at the rate of 7.5 percent will be collected in case the electricity bill exceeds Rs20,000.
- It is proposed to withdraw federal excise duty on locally manufactured motor vehicles exceeding 1800cc.
- List of items exempted from sales tax has been expanded by introducing new items including high efficiency irrigation equipment and greenhouse farming equipment in order to promote agriculture.
- Certain SROs have been transposed to relevant schedules in order to reduce the number of SROs.
- Reduction in rate of sales tax from 16 percent to 10 percent on local supply of tractors is being proposed in order to promote farm mechanization.
- Reduction in rate of federal excise duty on Telecommunication Services from 19.5 percent to 18.5 percent is being proposed in view of increase in the scope of telecommunication services with the advent of 3G and 4G technologies.
- Import of plant, machinery and equipment of Gilgit-Baltistan, Balochistan Province and Malakand Division and FATA has been exempted from sales tax to promote industrialization, job creation and economic uplift of the less developed regions.
- Sales tax on mobile phones under SRO 460(1)/2013 has been shifted to Ninth Schedule to provide the legal support for charging sales tax.
- Collection of 17 percent sales tax on the consumers' supply value from CNG stations by Gas Transmission and Distribution Companies is proposed to be included in the law, which was earlier introduced through the Sales Tax (Amendment) Ordinance, 2014.
- FED on international air travel is increased from Rs3,840 to Rs5,000 per ticket for economy and from Rs6,840 to Rs10,000 per ticket for business class.
- Chartered flights are chargeable to FED at 16 percent of the charges.
- Reduction of duty rate at 1 percent on telecommunication services for Islamabad and Balochistan.
- Imported motor vehicles with engine capacity in excess of 1800cc will be chargeable of FED at 10 percent. No FED on locally produced vehicles will apply.

by 24.5 percent over preceding year's revised estimates of Rs2513.9 billion. Direct taxes are expected to grow by 32.4 percent to Rs1180 billion and indirect taxes by 17.8 percent to Rs1630 billion. Specific measures have been announced in the budget to generate these resources. A process has been initiated to phase out concessions over a period of three years. The regime of concessionary SROs which had developed gradually over the last many years had not only caused huge loss to the national revenue, but had also distorted the level playing field. The government is focusing on making the rich classes contribute proportionately more to the exchequer and at the same time make the non-compliant citizen to pay more tax than the compliant taxpayer. Besides these steps, the government has also taken some policy decisions; to gradually reduce the burden of indirect taxes, impose no new tax in case of sales tax and federal excise duty, broaden the tax base, remove distortions and anomalies, simplify the tax regime and promote automation.

Direct taxes

Income tax

Income tax is budgeted to grow by 32.7 percent to Rs1163.8 billion. Focus is on making the affluent classes pay more. The budget has proposed advance tax on purchase of immovable property, where the proposed rate of tax is 1 percent for compliant taxpayers and 2 percent for non-compliant persons. The rate of adjustable capital gains tax on sale of immovable property has been raised from 0.5 percent to 1 percent for non-compliant persons among other measures.

Sales tax

Collection against sales tax is budgeted at Rs1171.0 billion against a revised estimate of Rs1005.0 billion in FY14, a 16.5 percent increase. Several measures have been proposed to raise the sales tax. A simplified sales tax regime for retailers has been introduced, rationalisation of sales tax on steel sector, increase in taxes on tobacco, and rationalisation of sales tax on domestic sales of export industries. Federal excise duty is budgeted at Rs178.0 billion against a collection of Rs138.0 billion in the preceding year.

Non tax revenue

Non tax revenue has been budgeted at Rs816.29 billion in FY15, lower by 24.6 percent against the revised estimates of Rs1083.2 billion in FY14. Last year's revised estimates were higher over the year's target primarily attributable to higher profits under *others* sub head (Rs67.6 billion against nil receipts budgeted for), mark up of public sector enterprises and others with receipts of Rs68.4 billion against the budgeted figure of Rs23.8 billion and larger surplus profit of State Bank of Pakistan (Rs260 billion against budgeted figure of Rs200 billion) after making usual provision for reserve funds and payment of dividend, and Rs204.2 billion received under sub-head of foreign grants against a budgeted figure of only Rs29.9 billion. The auction of 3G licenses by Pakistan Telecommunication Authority show receipts of Rs89 billion against a budgeted figure of Rs120.0 billion in FY14.

Provincial share in revenue receipts are budgeted at Rs1720.2 billion, against preceding year's share of Rs1413.3 billion. The increase is attributable to higher share of provinces in the divisible taxes. Budgeted figures for FY15 show that Punjab, Sindh and Khyber-Pakhtunkhwa are to receive 23.7 percent enhanced share, while Balochistan is budgeted to receive 14.6 percent more from the divisible taxes, and Rs2.4 billion more under straight transfers mainly from royalty on natural gas.

Net capital receipts

Net capital receipts of the Federal government are placed at Rs600.0 billion in revised estimates for 2013-14, which is 21.6 percent higher over the budgeted figure of Rs493.2 billion. This is attributable to higher capital receipts which grew by 13.7 percent, while disbursements showed a 3.7 percent growth. Receipts under Public Debt are estimated at Rs524.3 billion, a hundred percent jump over the year's target, primarily because of receipts of Rs500.0 billion from Pakistan Investment Bonds (permanent domestic debt). However, receipts from saving schemes at Rs126.6 billion were short of the budgeted figure of Rs239.4 billion by 47.1 percent.

Disbursements are placed at Rs407.8 billion, in revised estimates of FY14, while for FY15 these have been budgeted at Rs276.86 billion. Under this head, disbursements for federal government miscellaneous investments show a much lower budgeted figure of Rs18.1 billion against last year's revised figure of Rs144.0 billion.

External resources

The gap between internal resources and expenditure is met through external resources and bank borrowing. External resources comprise of (i) project loans (ii) loans and credits from friendly countries and specialized international agencies and (iii) grant assistance under Food Aid Convention, World Food Programme and other specific country programmes. The loans, credits and grant assistance, collectively described as foreign aid, fall into four broad categories. These are project aid, commodity aid, food aid and other aid.

For 2013-14, the government had budgeted external resources at Rs590.24 billion, while revised estimates show these to be higher by nearly 21 percent at Rs714.1 billion.

External Resources

(Rs Bn)

	Budget 2013-14	Revised 2013-14	Budget 2014-15
Project Aid	200.65	191.46	205.70
Commodity Aid (non-food)	110.27	249.38	201.46
Tokyo Pledges	1.11	0.00	0.00
Kerry Lugar	1.0	16.22	15.95
Other Aid	277.20	257.04	247.50
Privatisation	79.2	0.0	198.0
Total External Resources	590.24	714.11	868.61

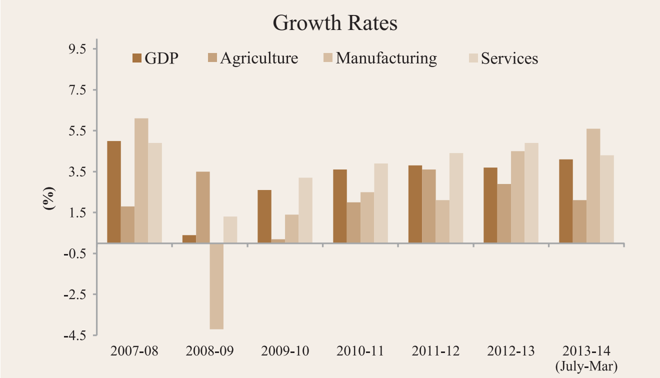
Source: Explanatory Memorandum of Federal Receipts 2014-15

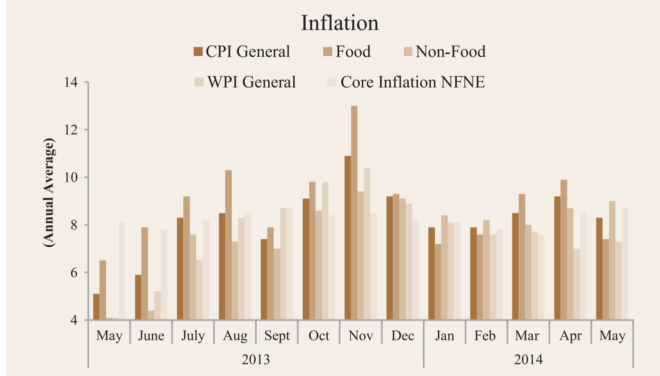
Disaggregated figures for external resources show a substantial jump in commodity aid. The goods imported under this aid generally are industrial raw materials, equipments & spares, consumer goods, chemicals, fertilizers. Privatization proceeds were budgeted for Rs79.0 billion, but this did not materialize. For 2014-15, external assistance has been budgeted at Rs868.61 billion.

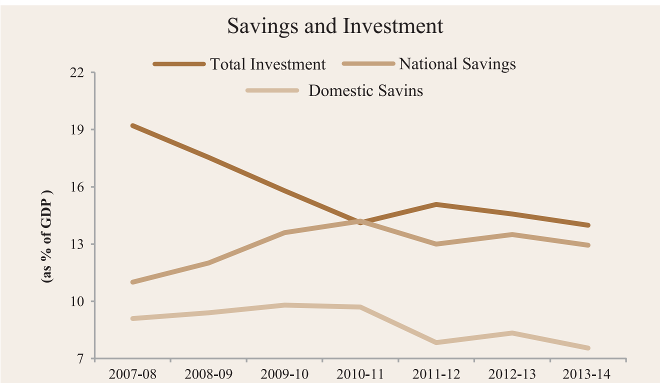
Bank borrowings to finance the deficit declined in FY14 to Rs376.27 billion, against the target of Rs974.98 billion. For FY15, bank borrowings are budgeted at Rs227.9 billion. Containment of borrowing for budgetary support is largely a reflection of improved fiscal accounts.

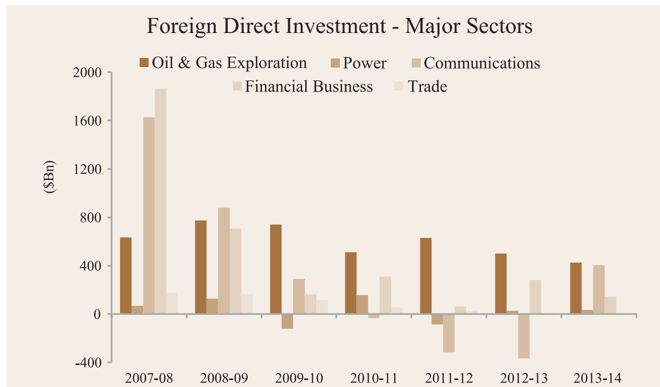
The budget has schemes for the lower income strata. A programme has been designed to provide credit for low cost housing units to enable the poor to have their own houses. There is a Rs6 billion provision in the budget for PM's low income housing scheme. There is a provision of Rs1 billion for an insurance scheme which is being designed to help the poorest segments of population obtain health insurance. Minimum pension has been raised to Rs6000, minimum wage rate has been increased to Rs12,000. The government is introducing Credit Guarantee Scheme for small farmers so to encourage banks for financing the unbanked small farmers, and the Livestock Insurance Scheme for all farmers getting financing for upto 10 cattle. The scheme will cover livestock insurance in case of calamity and disease.

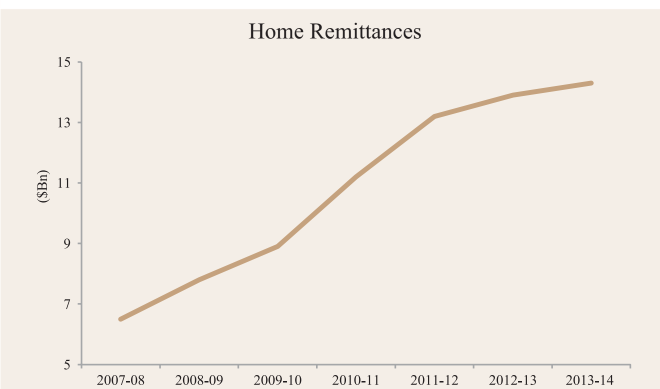
Economy at a Glance

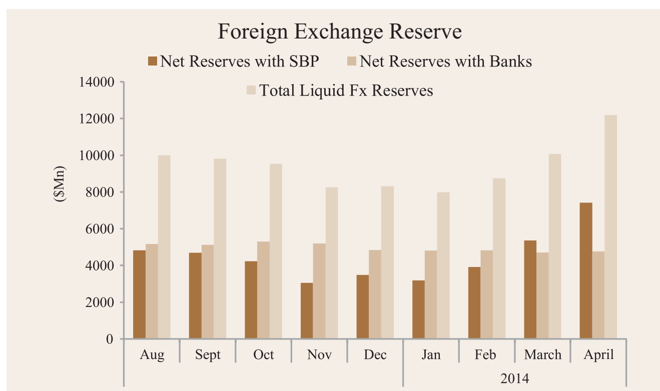


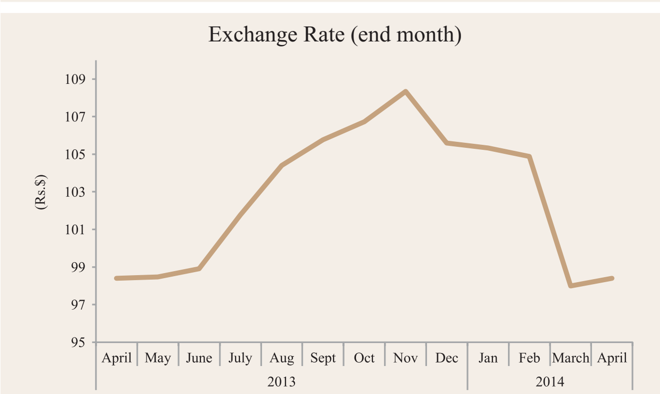


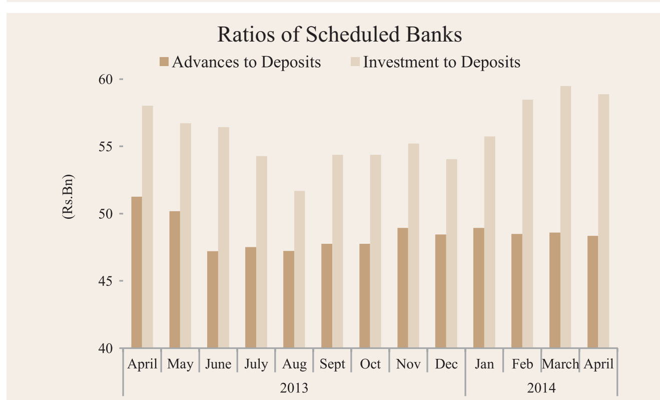




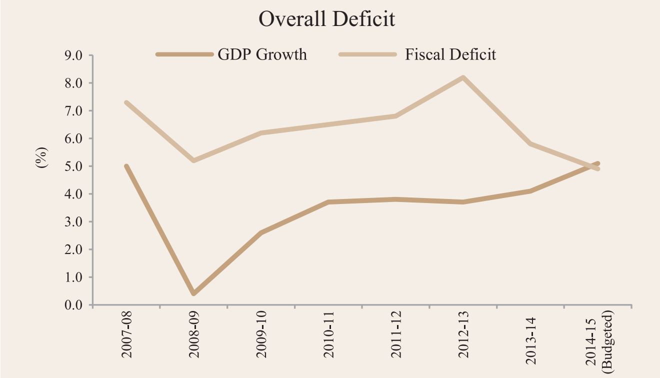


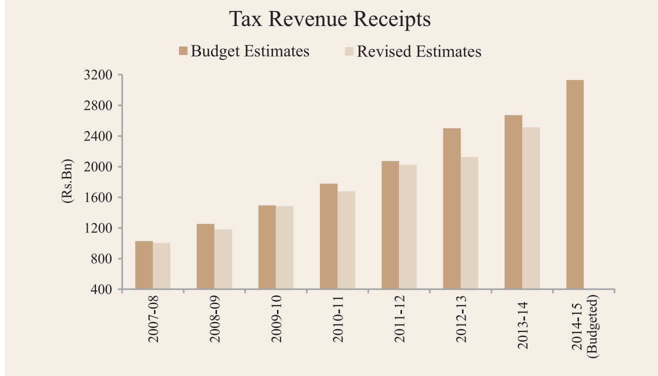


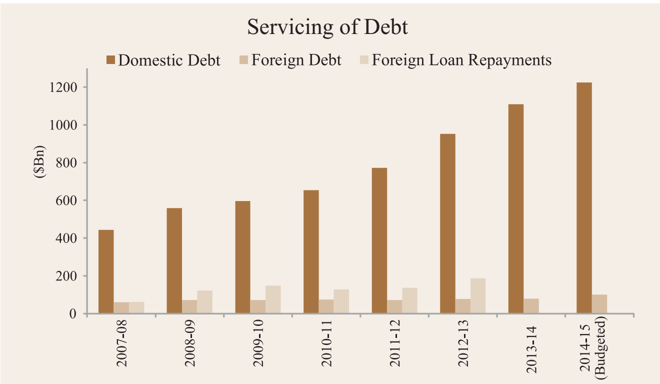


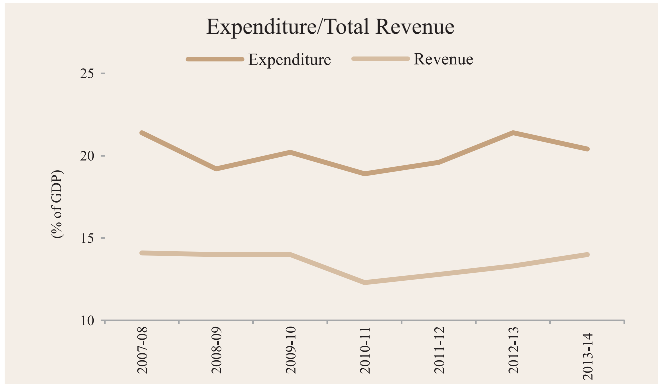


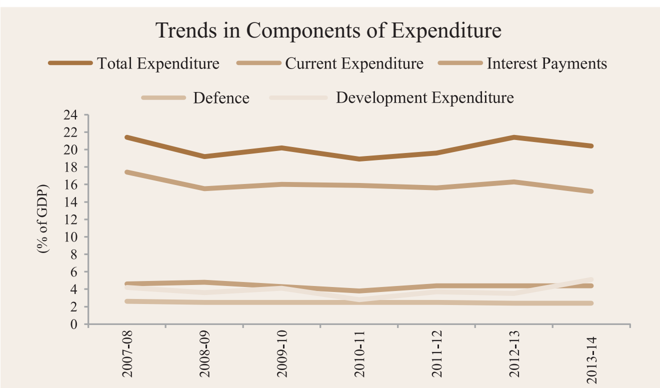
Fiscal Indicators

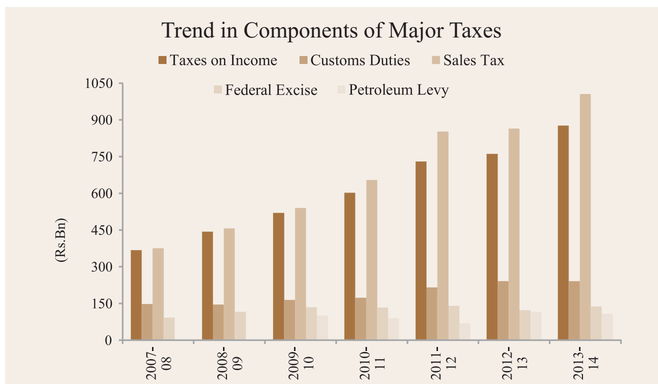


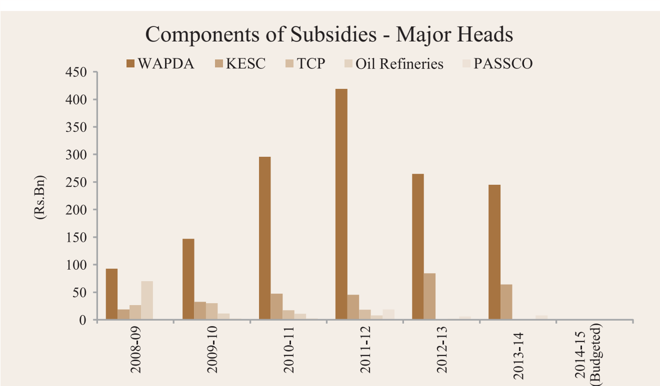


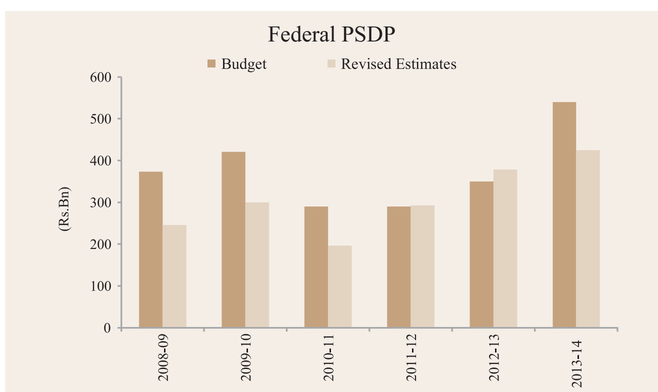












Sector-wise Impact of the Federal Budget 2014-15

Sector	Key Measures	Impact
Personal Goods	* Cut in Export Refinance Scheme rate from 9.4% to 7.5% from 1st of July 2014. * Reduction in the long term financing facility from 11.4% to 9%.	**Positive:** Given the high leverage nature of the industry, this reduction is expected to provide decent favors to the net margins of the company to make up for other cost escalations.
	Tax credits to be provided on local taxes and levies to exporters which witness at least 10% Year-on-Year increase in exports. Garments 4% Made ups 2% Processed fabric 1%	**Positive:** The move is expected to work as a catalyst for the industry to make the most out of its exports in a way that provides benefit on local taxes and levies. NML is well poised to make the most out of this change because of its tilt towards exports.
	* Extension of 2 years for duty free import of machinery. * GST imposition on the imported goods consumed locally. * The government attracting FDI through incentive of 20% corporate tax rate for 5 years for projects commencing before 30th June and having 50% equity financing.	**Partially Positive:** With the declining Chinese demand and the dip witnessed in yarn margins, the government is seen to provide the spinning dominated textile industry a way to diversify. Encouraging FDI, import of duty free machinery and GST imposition on imports, are all expected to club in towards catering the local industry.
	* An increment in the cess to Rs300/mmbtu. * The government has also proposed a 20% increase in the minimum wage rate to Rs12,000.	**Negative:** The increment cess alongside inflated labor costs are expected to add a sour flavor. The raging power costs had been a persistent problem for the textile industry and it seems the longevity of those problems has increased for units like NCL which seem to have low reliance on internal generation at current levels. Moreover, while the industry was hoping to avoid any cost increases to protect its margins, a 20% rise in the minimum wage rate is expected to play its role in the shrinking margins.
Autos	Reduction in rate of sales tax on local supply of tractors from 16% to 10%.	**Positive:** After the hike in GST rate to 16% in January 2014, the monthly volumetric sales dipped to two year low in January to reach 189 units. In order to ensure farm mechanization and increase the subdued agricultural growth rate, the government seems to have opted for this decision, which bodes well for tractor assemblers.
	Withdrawal of 10% FED on motor vehicles cars, Sports Utility Vehicles (SUVs) and other motor cars exceeding 1800cc, which was imposed last year.	**Positive:** Toyota's Fortuner and Hilux sales have suffered post imposition of this tax last year, with sales volumes on these cars expected to increase.
	Hybrid Electric Vehicles up to 1800cc granted 50% exemption on duty and above 1800cc granted 25% exemption of duty and taxes.	**Neutral:** 1200cc category removed and 50% exemption applied till 1800cc.
Telecom	1% reduced, WHT, which will now be 14%. 1% decline in FED, which will now be 18.4%.	**Positive:** 1% reduction in withholding tax and 1% reduction in FED will reduce the taxes on telecom services to 32.5%, down from 34.5%.
	Two dormant telecom licenses to be sold in FY15.	**Slightly Negative:** Going forward, the competition for existing players will increase if the government is able to sell off the two dormant licenses.
Cement	Public Sector Development Program (PSDP) fund size of Rs1,175 billion (Rs520 billion Federal component, Rs650 billion Provincial component & Rs5 billion ERRA), is 44% above the actual disbursed amount of Rs815 billion in FY14.	**Positive:** Higher PSDP expenditure will support the local cement dispatches resulting in improved profitability of the companies. However, actual PSDP utilization remains a key challenge in the wake of optimistic deficit target. On the flip side, Low Cost Housing Scheme Projects, Mortgage Refinance facility, allocation of Rs42 billion for developing hydropower projects and higher allocation to NHA will further bolster local cement consumption.
	Gas cess has been increased by two-folds to Rs300/mmbtu while budget document further shows a significant hike in gas development surcharge.	**Slightly Negative:** Hike in gas price will hurt margins of the cement manufacturers depending upon their reliance on gas for electricity requirements. Increase in gas cess requires Rs8-9/bag rise in cement price for Lucky Cement to sustain its current margins..

Sector	Key Measures	Impact
	Mechanism to charge FED on cement has changed from Rs400/ton to 5% on retail price.	**Slightly Negative:** Variable FED resulting in Rs6/bag impact while we view it as slightly negative since any incremental increase in cement bag price will benefit the government exchequer.
	The government has slashed custom duty on pet coke from 5% to 1%.	**Slightly Positive:** Lower custom duty will improve retention price & margins for manufacturers especially, MLCF (as it fulfills 50% of its fuel requirement from pet coke).
Fertilizer & Chemicals	The government has decided to increase the fuelstock price for Fertilizer sector by two-folds to Rs300/mmbtu, while feestock GIDC exemption on Fatima & EFERT (Enven plant) may also be withdrawn.	**Negative:** Hike in fuel stock price requires fertilizer manufacturers to increase the price by Rs70/bag in order to maintain the margins at current levels. Previously with feedstock GIDC rate, exemption on new plants was explicitly mentioned in the finance bill, which is not the case this time.
	The government has slashed the subsidy allocation for imported urea fertilizer from actually disbursed amount of Rs30 billion in FY14 to Rs25 billion in FY15.	**Slightly Positive:** Intention of government seems visible to improve local urea demand by decreasing imported urea subsidy.
	Agriculture Credit growth of 32% to reach Rs500 for FY15, while crop loan insurance scheme for farmers with landholdings of 12.5 acres has also been introduced to cover the risk of various crops.	**Positive:** Improved credit facility and crop loan insurance would increase the crop productivity and boost fertilizer demand. All these measures should help boost agricultural output which is positive for the fertilizer industry.
	Custom duty on PTA has been increased from 3% to 4%.	**Positive:** LOTCHEM has been lobbying for higher custom duty, which has finally been increased from 3% to 4%.
Banking Sector	Income from capital gains tax on shares having a holding period between 12 to 24 months, is to be taxed at 12.5% as against 10% previously.	**Slightly Negative:** While the income from capital gains and dividend was taxed at 10% previously, the tax rate on capital gains with a holding period of 12 to 24 months is to be taxed at 12.5%, which will be slightly negative for Banks.
	To align the expenses to specific heads, the banking companies are expected to allocate their taxes to respective heads in order to be a true reflection of the bank's tax bill.	**Slightly Negative:** While much depends on the actual expenses of respective categories, our preliminary analysis suggest that this move is expected to be slightly negative for the banking sector with the PAT levels of the banks witnessing a slight dip.
	While the corporate tax of the companies has witnessed a decline to 33%, it remained unaltered at 35% for the banking sector.	**Neutral:** Although a tax reduction would have been welcomed, a status quo would not come out as a big negative for the banking sector.
	Dividend income also kept constant at 25%.	**Neutral:** Much to the relief of banking sector, the dividend income remained taxable at 25%, providing cushion to the bottom line of the banks.
Independent Power Producers (IPPs)	In order to arrest un-targeted subsidies, the government has reduced the power subsidies and allocated Rs185 billion (down 40% Year-on-Year) to power distribution companies as against revised amount of Rs310 billion for FY14.	**Positive:** Though subsidy on tariff differential has been reduced substantially, we view it as neutral since electricity tariffs increased in FY14 and more increase in tariff is expected in FY15 if the government is to adhere to its power subsidy projection.
	Despite 24% Year-on-Year increase in Federal PSDP allocation for FY15, the government earmarked lower amount of Rs107 billion for development of WAPDA and PEPCO. The government has allocated Rs205 billion in power sector including Diamir-Basha Dam, Neelum-Jehlum Hydro Power Project, Tarbela Fourth Extension Project, Thar Coal Gasification Project etc.	**Slightly Negative:** Lower allocation on development of WAPDA and PEPCO may affect the T&D system and result in loss of electricity but government long term stance to improve electricity situation is likely to bode well for the sector
	GIDC and surcharge on gas supply has been increased by two-folds to Rs300/mmbtu for IPPs and state owned power utilities.	**Slightly Negative:** Though it is a pass through, but cost of doing business will increase.

Sector	Key Measures	Impact
Fast Moving Consumer Goods (FMCGs)	Increase in FED rate on cigarettes. Total rise of around 13% in FED rate.	**Negative:** FED rate raised to Rs2,632 per thousand cigarettes (up 13%) for premium brands and to Rs1085 per thousand cigarettes for the value brand (up 24%). The government is targeting an increase of 45% from this head, which is budgeted to reach Rs90 billion in FY15.
	Zero-rating facility for dairy products maintained.	**Neutral:** Against market rumors of withdrawal of zero-rating regime on dairy products, it has been maintained.
	FED on aerated beverages reverted back from capacity tax to normal tax regime.	**Positive:** Capacity tax was opposed by smaller players, while tax collection under this also suffered and legal tussle also ensued in FY14. With reverting back to normal tax regime, the government is targeting an increase of 8% in FED collection from this head, projected to reach Rs12 billion.
Exploration & Production and Oil Manufacturing Companies (OMCs)	Corporate tax rate maintained for E&P companies.	**Neutral:** Although corporate tax rate has further been reduced by 1%, E&P companies do not fall under income tax ordinance. Their taxes are determined by PCAs and PPs. So, it have no bearing on profitability of E&P companies.
	Turnover tax maintained at 0.5% for OMCs and refineries.	**Neutral:** Although the finance bill proposes reduction in turnover tax from 1%, the same on OMCs was 0.5% last year, so no change in T.O. tax for OMCs and refineries in the current bill, which will not impact earnings of either OMCs or refineries.
	Corporate tax rate for OMCs and refineries reduce by 1%.	**Slightly Positive:** As envisaged in previous budget, the government has further cut tax rate by 1%, bringing it down to 33% from 35% in last two years, which will marginally improve earnings of PSO and APL.

(Contributed by Taurus Securities Ltd,
a subsidiary of National Bank of Pakistan)

Corrigendum

In the March-April 2014 issue of the *Economic Bulletin, References* to the article *Islamic Banking – Making a Path* by Mr. Yawar Hasan Zaidi, VP, Islamic Banking Division, were inadvertently omitted.

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Provincial Budgets 2014-15

Highlights

Sindh

- The Sindh budget has a total outlay of Rs686.2 billion. Total receipts are projected at Rs672.118 billion, showing a deficit of Rs14.06 billion.
- The Annual Development Programme has been allocated Rs168 billion, against current year's Rs185 billion. Revenue expenditure is budgeted at Rs436.09 billion, capital expenditure at Rs34.7 billion, and Rs47.5 billion is for other development expenditure.
- The province is budgeted to receive Rs381.4 billion under federal transfers, Rs82.6 billion under straight transfers and Rs10.25 billion under a grant to offset losses due to abolition of Octroi Zila Tax.
- Provincial own receipts are estimated at Rs125.1 billion. The provincial collection of sales tax on services is estimated at Rs49 billion, provincial tax receipts (excl. sales tax) at Rs58 billion and provincial non-tax receipts at Rs18 billion for next financial year.
- Development grants are estimated at Rs22.47 billion.
- Enhanced allocations for payment of electricity bills. The budget has allocated Rs26 billion for payment of electricity bills, increasing it substantially from current year's allocation of Rs9.5 billion. The allocation for all government entities for payment of electricity dues has also been raised.
- The provincial government has started the second phase of Sindh Education Reform Program with the assistance of the World Bank.
- The Sindh Government has incorporated Sindh Wind Power Development Company and has also established Alternative Energy Development Fund.
- The provincial government has announced a 10 percent increase in salary for government employees in grade 1-5 and 5 percent raise in conveyance allowance.
- Minimum pension has been raised by Rs1000 to Rs6000 per month. A 10 percent raise in pension for all retired government employees has been proposed.
- The government proposes to reduce sales tax on services to 15 percent from 16 percent.
- 250,000 new jobs would be created.
- The Sindh government is proposing to levy Sindh sales tax on the services which are already liable to sales tax in other provinces but are not yet taxable in Sindh.

Punjab

- The Punjab budget has an outlay of Rs1.04 trillion. Current expenditure is budgeted at Rs699.95 billion, while Rs345 billion has been set aside for Annual Development Programme. This includes Rs290 billion for core ADP, Rs40 billion for other development initiatives and Rs15 billion for special initiatives.
- Federal transfers are budgeted at Rs804.2 billion.
- The ADP aims to overcome energy shortages, development of human capital, boost growth of export oriented industries, ensure equitable regional development and encourage public private partnership.
- The provincial government targets tax receipts of Rs164.8 billion. The tax measures undertaken target big and luxury houses, raising stamp duty on transfer of immovable property, enhancing collection of provincial sales tax on services, and expanding the number of services to be taxed.
- Non-tax receipts are budgeted at Rs64.2 billion.
- The Budget estimates revenue to increase from stamp duty on account of introduction of e-stamping. The one percent levy as registration fee has been discontinued in favour of a flat rate of Rs500 (for property upto Rs500,000), Rs100 (for property exceeding Rs500,000) and a one percent enhancement in the stamp duty rate has been made.
- The ADP focuses on completion of ongoing schemes.
- Adequate funding for foreign aided and mega projects.
- ADP allocates Rs119 billion for social sector investments with major focus on education (Rs48 billion) and health (Rs31 billion).
- A separate legislation is also being introduced to impose Punjab Infrastructure Development Cess. This tax will be levied on goods destined for export or import and passing through the limits of Punjab.
- The government has completed automation of property tax record in five major districts of the province. In FY15, the revised valuation tables with a 50 percent enhancement in rental rates and a further reduction in Urban Immovable Property Tax rates to 5 percent would be enforceable.
- A tax has been levied on luxuries and palatial houses.
- Ten new services have been incorporated in the sales tax net.
- An increase of 10 percent in salary and pension.

Khyber-Pakhtunkhwa

- The provincial budget for 2014-15 has a total outlay of Rs404.8 billion. Current revenue expenditure is budgeted at Rs250.0 billion, capital expenditure at Rs15.0 billion and development expenditure at Rs139.8 billion.
- General revenue receipts are budgeted at Rs357.2 billion.
- The provincial government has launched a project for the computerization of land record in seven districts of the province in Phase-I.
- Necessary amendments in West Pakistan Land Revenue Act 1967 has been placed before the provincial assembly for approval. Amendment in The Registration Act 1908 has also been placed before the Provincial Assembly.
- The provincial revenue receipts for FY15 are estimated at Rs28.78 billion, comprising of tax receipts of Rs19.45 billion, non-tax receipts of Rs9.32 billion.
- Emphasis is on hydel power generation. Efficient utilisation of net hydel profits.
- Emphasis on power generation through gas fired or coal based power project in private sector.
- Rural electrification through mini-micro hydel and solar projects.
- The provincial government has decided to transfer 10 percent share of net hydel profits receivable from WAPDA/Federal Government to the respective districts where the dams are located.
- For the year FY15, the size of foreign assistance is Rs39.75 billion for 75 projects. Of this amount, Rs31.48 billion is grant while Rs8.3 million is loan.
- Salaries of provincial government employees has been raised by 10 percent.
- For employees in grade 1-15, the provincial government has announced an increase in medical allowance by 20 percent and conveyance allowance by 5 percent.
- The provincial government has proposed one premature increment for employees in grade 1-4.
- Nearly 16,000 clerical staff of the province has been upgraded.
- An increase of 10 percent in pension has been announced for retired employees of the provincial government.
- Minimum pension has been raised from Rs5000 to Rs6000.
- For employees in grade 20 and above orderly allowance has been fixed at Rs12,000.
- For 2014-15, minimum wages has been fixed at Rs12,000.

Balochistan

- Total expenditure of the province is budgeted at Rs215.71 billion. Current expenditure has an outlay of Rs164.97 billion, while Rs50.74 billion has been allocated for development (provincial PSDP Rs48.0 billion and foreign project assistance loan of Rs2.7 billion).
- Revenue receipts are budgeted at Rs176.77 billion; of which the province will receive Rs141.21 billion from the divisible pool, Rs16.59 billion as straight transfers, Rs10 billion as grants and provincial own receipts are of a sum of Rs8.97 billion.
- Capital receipts are budgeted at Rs23.28 billion.
- The budget shows a deficit of Rs15.66 billion.
- Of the taxes collected by Board of Revenue, stamps contribute 55 percent, registration 17 percent and land revenue 28 percent.
- The education sector receives focus in the budget.
- Increased allocations are for health services.
- Provincial government gives priority to development of infrastructure, which has been markedly dominated by the roads sub-sector.
- Increased allocation for maintenance of law & order.
- The government has proposed setting up of Balochistan Revenue Authority. It is hoped that its creation would improve tax efficiency, promote accountability, prevent tax evasion, and facilitate tax payers, thereby enhancing revenue collection.
- The minimum wages have been fixed at Rs10,000 per month.
- The government proposes to create 4000 new jobs.
- A 10 percent adhoc increase in salaries and pensions have been announced for provincial government employees.

(This was prepared from newspaper reports)

Market Analysis

Hefty foreigners buying in May

In what was turning out to be the usual dull month of May (Pre-budget jitters), both in terms of volumes and price gain, the highest single days net inflow in over a year from foreigners on May 29 resulted in market again closing the month on a new high. The market closed up by 0.8k points in May (though much below the previous two months positive close), inching near the 30k mark. Budget and CGT related news kept the market range bound for the most part of the month. Foreigners continued their buying spree on the back MSCI FM index weight gain with net buying of $70 million, while other key participants remained on the net selling side.

On a month-on-month basis, the benchmark KSE-100 index augmented by 2.9 percent to close at 29,737 points. The top three key outperforming sectors were Pharmaceuticals, Banks and Construction & Materials. Amongst the laggards, Telecom sector was the biggest underperformer. The month of May saw volumes dip by a hefty 43 percent to average 166 million shares/day, while value traded depicted a decrease of 36 percent month-on-month.

Continuing with its positive close witnessed in the previous two months, the market again closed up by 2.9 percent in May at 29,737 points. The market remained range bound for the most part of the week, rising by a mere 74 points till 28th May, due to seasonal budget related jitters and CGT hike issues. However, the largest single days net inflow from foreigners side in over a year on 29th May gave the much needed impetus to the market, resulting in month-on-month positive close of 824 points. The month of May saw volumes fell by a hefty 43 percent to average 166 millionmn shares/day, while value traded depicted a decrease of 36 percent month-on-month.

In a similar situation as last month, the top two outperforming sectors remained Pharmaceuticals and Banks. Pharmas continue to outperform due to hopes of medicine price hike and rising margins due to Pak Rupee appreciation. Banks also remained in limelight due to continued shift within IDR towards PIBs resulting in NIM expansion going forward. Amongst the laggards, telecom sector also again remained the biggest underperformer due to slowdown in international calls volume.

Foreigners again remain the only meaning-ful buyer

In the month of May, there was only one meaningful net buyer i.e foreigners. A net inflow of $70 million was witnessed from foreigners side, while Individuals and Mutual Funds sold stocks worth $31 million and $29 million, respectively. Buying form Foreigners remained largely on the positive side throughout the month, with a hefty single day net inflow of $16.6 million (highest in over a year) in the twilight of the month giving the much needed impetus to close the month on a positive.

June was an eventful month for the market due to the Federal Budget and restart of dormant privatization program after seven years. The KSE-100 index saw an intra-month decline of 3.5 percent.

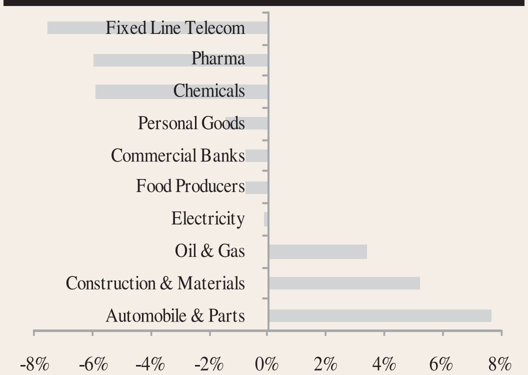
Foreigners continued their buying spree in June as well, while Mutual funds were the biggest net sellers. On a month-on-month basis, the benchmark KSE-100 index closed 0.3 percent negative at 29,652 points. The top three key outperforming sectors were Automobiles, Construction & Materials and Oil & Gas. Amongst the laggards, Telecom sector was the biggest underperformer. The month of June saw volumes improve by a hefty 18 percent to average 195 million shares/day, while value traded depicted a higher increase of 29 percent month-on-month.

Timid perfor-mance in June

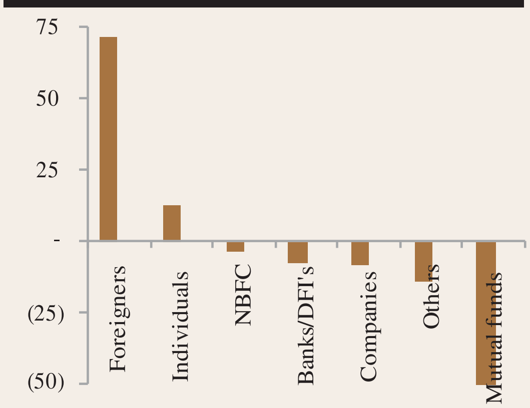
After posting three months of meaningful positive close during Mar-May, the month of June saw the market remaining in negative territory during most part of month. The KSE-

100 index saw an intra-month decline of 3.5 percent. Apart from political noise, another reason for the timid performance for the most part of the month was speculation over success of UBL and PPL, SPO, initiated by the government after a gap of seven. Both the SPO saw an overwhelming response especially in the case of UBL (given its hefty size).

Key sector return in June-14



June-14 participants activity (US$ mn)



The month of June saw volumes improve by a hefty 18 percent to average 195 million shares/day, while value traded depicted a higher increase of 29 percent month-on-month. The top three key outperforming sectors were Automobiles, Construction & Materials and Oil & Gas. Amongst the laggards, Telecom sector was the biggest underperformer.

Autos continued to outperform, especially PSMC, after Punjab Government announced a new taxi scheme, while INDU also saw a double digit price rise due to anticipation over launch of new Corolla model. Cement stocks also outperformed the index due to Lafarge deal coming near conclusion and positive price performance in sector heavy weight LUCK (post entry in MSCI FM index). Oil & Gas sector also improved MoM due to crude oil price hike globally and better than anticipated strike price of PPL SPO. Amongst the laggards, telecom sector again remained the biggest underperformer due to ICH removal decision by the government which will negatively impact the earnings.

Foreigners agains remain the only meaningful buyer

In the month of June, there was only one meaningful net buyer i:e Foreigners. A net inflow of $71 million was witnessed from Foreigners side, while Mutual Funds sold stocks worth$50 million in June. Buying form Foreigners remained largely on the positive side throughout the month, but the bulk of net buy was witnessed in the earlier half of the month.

Future outlook

While we are comfortable with the external side due to benign current account and improvement in financial account, we feel that DR will remain at status quo during the July MPS review. This is due to elevated CPI numbers for the month of June, where we expect the year-on-year numbers to clock in at 8.8 percent. With political noise expected to fizzle out during Ramadhan, we don't expect any downside for the market. Anticipation over annual results and dividend payout is expected to keep the key stocks in limelight. Our bet is on those stocks which will benefit from Pak Rupee appreciation such as Autos and other import dependent industries.

(Contributed by Taurus Securities Ltd, a subsidiary of National Bank of Pakistan)

Selected Economic Indicators of Countries where National Bank of Pakistan has a Presence

Country	Population (Mn) 2012	GDP Size ($ Bn) 2012	Total Debt (% of GDP) 2011	Exchange Rate Local Currency to US$ (2012)	Total Reserves ($ Bn) 2012	Electric Power Consumption (Kilowatt-hrs) 2010	Current Account Balance ($ Bn) 2012	Time Required to start a Business (Days) June 2012	Merchandise Trade (% of GDP) 2011	Foreign Direct Investment Net Inflow ($ Mn) 2011	Gross Savings (% of GDP) 2011	Domestic Credit provided by Banking Sector (% of GDP) 2011
Afghanistan	29.8	20.5	-	50.92	7.15	-	-7.29	7	33.1	83	-	-2.9
Azerbaijan	9.3	66.6	6.4	0.79	11.28	1603	14.98	8	71.3	4485	45.9	20.0
Bangladesh	154.7	116.4	-	81.86	12.75	279	2.65	19	54.2	798	36.5	70.4
Bahrain	1.3	29.0	-	0.38	5.45	9814	2.94	9	-	781	30.1	75.2
Canada*	34.9	1821.4	52.5	1.00	68.55	15137	-62.26	5	52.7	39510	19.6	177.6
China*	1350.7	8227.1	-	6.31	3387.51	2944	193.14	33	49.8	220143	52.7	145.5
France	65.7	2612.9	93.7	-	184.52	7729	-57.25	7	47.3	45209	17.9	133.5
Germany	81.9	3428.1	55.3	-	248.86	7215	238.71	15	75.8	39067	23.9	124.8
Hong Kong	7.2	263.3	39.2	7.76	317.36	5923	6.07	3	388.9	95352	29.4	207.1
Japan	127.6	5959.7	189.8	79.79	1268.09	8394	60.86	23	28.6	79	21.7	341.7
Kazakhstan**	16.8	203.5	9.9	149.11	28.30	4728	7.72	19	67.1	13227	29.7	40.3
Republic of Korea	50.0	1129.6	-	1126.47	327.72	9744	43.34	7	96.7	4661	31.5	102.7
Kyrgyzstan	5.6	6.5	-	47.0	2.10	1375	-1.43	10	105.1	694	18.2	-
Kingdom of Saudi Arabia	28.3	711.0	-	3.75	673.74	7967	164.76	21	82.6	16308	46.8	-4.8
Pakistan	179.2	225.1	-	93.40	13.69	457	-2.03	21	33.2	1309	20.4	43.3
Tajikistan**	8.0	7.0	-	4.74	0.63	2004	-0.25	24	68.1	11	23.2	-
Turkmenistan	5.2	35.2	-	-	-	2403	-	-	72.7	3186	-	-
USA	313.9	16244.6	78.9	1.00	574.27	13394	-440.42	6	25.0	257528	11.7	234.9
Uzbekistan*	29.8	51.1	-	-	-	1648	-	12	51.2	1403	-	-

*Representative Offices ** Subsidiary NA Not Available

Source: World Development Indicators 2013

Book/Report Reviews

Directions in Development
Human Development
Student Learning in South Asia
Challenges, Opportunities, and Policy Priorities
Halil Dundar, Tara Beteille,
Michele Riboud, and Anil Deolaikar
The World Bank

In recent year Governments of South Asian countries have been investing heavily to achieve the education Millennium Development Goals. Despite some significant gains, like an increase in net enrollment rates in primary schools, the drop in the number of out of school children ages 8-14 years, and a decline in the number of out of school girls in the region, the report shows that learning outcomes and the averages level of skill acquisition in the region are low in both absolute and relative terms.

The report explores the kinds of interventions that hold promise for improving learning outcomes in South Asia. It seeks to answer three questions; How well do education systems in South Asia perform; what determines student learning outcomes; and what policy options are effective in improving learning outcomes. The report covers education from primary through upper secondary school.

The report has identified certain key messages:

- South Asia has made considerable progress in improving access to education but faces a major quality challenge in primary and secondary education.
- The poor quality of education, as measured by learning outcomes, undermines the region's competitiveness, economic growth, and efforts to alleviate poverty.
- Although low learning achievements can be partly explained by factors outside the control of education policy makers, effective and learning outcomes could make a major difference.
- To improve quality, the education reform agenda needs to prioritize interventions that focus on outcomes rather than on inputs.
- To be successful, policies to improve student learning outcomes should be embedded within a larger agenda of inclusive growth and governance reform.

Chapter 1 gives a definition of the concept and discusses the issues related to measuring student learning. It shows that while more children are in school, the region still has a major learning challenge in that the children are not acquiring basic skills. Poorly prepared graduates of both government and private schools in South Asia constrain not only the growth and competitiveness of the private sector but also deter creation of more and better jobs, according to a World Bank study. Chapter 2 summarizes the evidence on the status of learning outcomes across the region based on student achievement tests and natural assessment. Most students in South Asia do not, in fact, understand what they are being taught and thus do not acquire problem solving skills.

Chapter 3 reviews the evidence from South Asia on what individual and household characteristics may influence student achievement. Chapter 4 looks at the literature on how child health, nutrition and care and stimulation in the years before children enroll in school influence their school experience, applying region-specific examples. Chapter 5 examines the impact of teacher quality and chapter 6 looks at other classroom inputs, classroom procedures, teaching methods, and technology.

Meanwhile, chapter 7 documents evidence about the use of public finance to improve the quality of learning. Chapter 8 explores the use and effectiveness of student assessments in improving the quality of learning in South Asia. Chapter 9 describes the extent of private education in South Asia and how it has evolved over time. It presents evidence on levels of learning achievements in private vs public schools, discussing differences and factors that contribute to those differences. It spells out implications for policy formulation and in particular, make recommendations on how to improve quality in both private and public schools.

Pakistan — Selected Economic Indicators

	Unit	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Output and Prices								
GNP Size *fc*	Rs.bn	10564	12888	14815	18468	20397	22768	25459
GDP Size *fc*	Rs.bn	10355	12542	14248	17647	19361	21606	24085
Income Per Capita	$	1053	1026	1072	1274	1321	1340	1386
Income Per Capita	Rs	64157	76635	86268	105347	114008	124736	136736
Real Growth	(%)							
GNP		4.9	0.92	3.8	4.2	3.8	3.7	4.6
GDP		5.0	0.4	2.6	3.6	3.8	3.7	4.1
Agriculture		1.8	3.5	0.2	2.0	3.6	2.9	2.1
Manufacturing		6.1	(-)4.2	1.4	2.5	2.1	4.5	5.5
Services Sector		4.9	1.3	3.2	3.9	4.4	4.9	4.3
Prices	(%)							
Consumer Price Inflation		12.0	17.0	10.1	13.7	11.0	7.4	8.3*
Wholesale Price Inflation		16.4	18.9	13.8	21.2	10.4	7.3	7.3*
Food Inflation CPI		17.6	23.7	12.9	18.0	11.0	7.1	7.4*
Non Food Inflation CPI		7.9	18.4	8.3	10.7	11.0	7.5	9.0*
Core Inflation†		8.4	11.4	7.6	9.4	10.6	9.6	8.7*
GDP Deflator		12.9	20.7	10.7	19.5	5.7	7.6	7.0
Gold Tezabi (Karachi)	Rs./10 grams	16695	22195	29587	37658	48444	50744	44502[b]
Petrol Super	Rs/Ltr	57.83	67.68	67.56	75.70	92.93	101.26	111.30[a]
Kerosene Oil	Rs/Ltr	43.44	66.79	72.65	84.89	104.84	116.07	124.41[a]
Wheat Flour (Avg. Quality)	Rs/Kg	18.07	25.64	28.73	29.40	30.26	34.53	-
Savings and Investment	% GDP							
National Savings		11.0	12.0	13.6	14.2	13.0	13.5	12.9
Domestic Savings		9.1	9.4	9.8	9.7	7.8	8.3	7.5
Gross Fixed Investment		17.61	15.90	14.20	12.51	13.48	12.97	12.39
Public Sector		4.8	4.3	3.7	3.2	3.7	3.3	3.4
Private Sector		12.8	11.7	10.5	9.3	9.7	9.64	8.94
Public Finance								
Revenue Receipts	% GDP	14.1	14.0	14.0	12.3	12.8	13.3	14.0
Tax Revenue	% GDP	9.9	9.1	9.9	9.3	10.2	9.8	10.6
Total Expenditure	% GDP	21.4	19.2	20.2	18.9	19.6	21.4	20.4
Overall Budget Deficit	% GDP	7.3	5.2	6.2	6.5	6.8	8.2	6.3
Tax Collection (Fed Govt)	Rs.bn	1005.6	1180.5	1483.0	1679.4	2024.6	2124.6	2513.9
Direct Taxes	% share	38.6	39.0	36.4	37.3	36.8	36.7	39.2
Indirect Taxes	% share	61.4	61.0	63.6	62.7	63.2	63.3	60.8
Monetary Sector								
Growth of Broad Money (M2)	%	15.3	9.6	12.5	15.9	14.1	15.9	5.9
Currency in Circulation	Rs.bn	982.3	1152.2	1295.4	1501.4	1673.7	1938.2	2116.9[b]
Public Sector Borrowing (net)	Rs.bn	1508	2034	2441	3020	4258	5737	6018[b]
Borrowings for Budgetary Support	Rs.bn	1365	1681	2011	2602	3800	5246	5661[b]
Credit to Private Sector	Rs.bn	2890	2907	3020	3141	3376	3357	3693[b]

*† non-food non-energy. * May 2014 over May 2013. [a] July - April. [b] as of March*

	Unit	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Social Sector								
Population	Mn	166.41	169.95	173.50	177.10	180.71	184.35	188.02
Education Expenditure	as % of GDP	2.4	1.8	1.7	1.8	2.2	2.0	2.0
Literacy Rate	(%)	56	57	58	58	58	58	60
Health Expenditure	as % of GDP	0.6	0.6	0.5	0.23	0.27	0.35	0.40
Karachi Stock Exchange								
Total Listed Companies	Nos	652	651	652	639	591	569	559[b]
Funds Mobilized	Rs.bn	62.9	44.9	111.8	31.0	115.1	29.5	37.5[b]
Total Turnover of Shares	Bn	63.3	28.3	43.0	28.0	38.0	54.0	48.5
Banking Sector								
Scheduled Banks Deposits (end June)	Rs.bn	3832	4120	4661	5599	6403	7316	7585[c]
Scheduled Banks Advances	Rs.bn	2943	3168	3309	3505	3740	3869	4088
Non-Performing Loans All Banks	Rs.bn	314	432	548	607	636	616	602.4[a]
Lending and Deposit Rates	weighted average							
Deposits	% per annum	4.13	4.44	4.29	4.53	4.56	4.38	4.63[d]
Advances	% per annum	12.49	14.25	13.63	13.46	12.81	11.66	11.18
Open Market Operation								
SBP Reverse Repo Rate	% end period	12.00	14.00	12.50	14.00	12.00	9.0	10.0
Treasury Bills Yield - 6 Months	% end period	11.48	12.00	12.30	13.70	11.90	8.9	9.98[a]
KIBOR - 6 Months	% end period	13.95	12.65	12.25	13.65	11.94	8.97	10.1
Yield on 5 Years PIBs	weighted average	10.80	12.40	12.50	14.03	13.08	10.05	12.55[a]
Interbank Call Rates (Overnight)	%	9.90	13.20	11.60	12.40	11.70	9.09	9.68[c]
SBP Export Finance Rate	%	6.50	6.50	8.00	10.00	10.00	8.3	8.4
External Sector								
Exports	$ bn	19.05	17.69	19.67	25.35	24.70	24.80	18.92
Imports	$ bn	39.97	34.82	31.21	35.87	40.46	40.23	31.10
Balance of Trade	$ bn	-20.92	-16.93	-11.54	-10.52	-15.76	-15.42	-12.20
Current Account Balance	$ mn	-13874	-9261	-3946	214	-4658	-2496	-2173[b]
Workers' Remittances	$ mn	6451	7811	8906	11201	13187	13922	11583[b]
Foreign Private Investment	$ mn	5454	3210	2739	2000	761	1576	2262
Direct	$ mn	5410	3720	2151	1635	821	1456	1631
Portfolio	$ mn	44.3	-510	588	365	-60	120	630.8
Public Debts								
Domestic Debt	Rs.bn	3266	3852	4651	6016	7637	9517	10823[b]
Funded Debt	% of Internal Debt	69.0	67.2	68.7	72.5	76.5	77.5	79.2
Unfunded Debt	% of Internal Debt	31.0	32.8	31.3	27.5	23.5	22.5	20.8
External Debt and Liabilities	$ bn	46.2	52.3	61.6	66.4	65.5	60.9	61.8
Total Public Debt as % of GDP	%	56.8	57.8	60.0	58.5	63.1	63.9	61.2[b]
Domestic Debt as % of GDP	%	30.7	29.2	31.4	32.9	38.1	42.3	42.6[b]
National Saving Schemes (Outstanding)	Rs.bn	1094	1361	1586	1821	2010	2396	2565[e]
Gold & Foreign Exchange Reserves	$ mn	13436	13971	17921	20942	16493	10831	12761[c]
Exchange Rate (Average for year)	Rs/US$	62.5465	78.4983	83.8017	85.5017	89.2359	96.7272	98.4003[c]

[a] *end March* [b] *July-March* [c] *as of April* [d] *as of December* [e] *end April*

Source: Pakistan Economic Survey 2013-14