ECONOMIC BULLETIN

May - June, 2010

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Editor's Corner

Dear Readers,

One of the key focus area of the Federal Budget 2010-11 is food security, with emphasis on the development of agriculture and water resources. Stress would be laid on enhancing agricultural productivity and ensuring that the poor have the means to purchase food. Without adequate purchasing power, the poor may not be able to afford in the midst of plenty.

Pakistan's agricultural sector suffers among others from low productivity, rising yield gaps and poor investment in developing the water infrastructure. Agriculture consumes 69 percent of the water in the country. Any shortage of this critical input affects level of agricultural production. Managing scarce water resources is a major issue facing the economy. The demand for water falls short of availability. It has been estimated that per capita availability of water has fallen to 1066 M^3 in 2010, against 2129 M^3 in 1981 when population was 84 million. Mention has been made in the Budget Speech of launching of Diamir-Basha dam during FY11, which would generate 4500MW electricity and store 6450 MAF water. Besides, this, raising of Mangla dam, Satpara dam and Gomal Zam dam would be completed in the forthcoming fiscal year.

Political commitment on this grave issue in the prevailing economic conditions had become all the more imperative. According to recent reports and international rankings, food insecurity is an increasing issue and a difficult challenge for the country. A new food security index, the *Food Security Risk Index*, that measures the availability and access to basic food stocks, as well as the impact on nutrition and health that result from food insecurity, Pakistan has been placed among the extreme risk countries. Recently the *Global Hunger Index* prepared by the *International Food Policy Research Institute*, has placed Pakistan among the most food insecure countries in Asia. Over 45 percent of Pakistanis are food insecure today, according to a Swiss sponsored report. In 2007, Unicef concluded that nearly half of child deaths could be attributed to poor nutrition.

The common definition of food security is — when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food that meet their dietary needs and food preferences for an active and healthy life.

Agriculture plays a key role in providing food availability and is an important source of income to purchase food and foods with high nutritional value. Pakistan is an agriculture based country, with the sector accounting for 21 percent of GDP, absorbing 45 percent of the country's total labour force. Nearly 62 percent of the country's population resides in rural areas and is directly or indirectly linked with agriculture for their livelihoods. Whatever happens to agriculture is bound to affect the livelihood and consequently food security of the people.

Investment in agriculture as such is important to increase food security, for it not only ensures food availability, but is a primary means to generate income for the poor, securing their access to food. Investment in improving irrigation facilities and introducing drought tolerant crops reduces prices and income variability. The level of agricultural production is directly related to the availability and effective use of water as a major input. Developing of water resources, storage capacity, its conservation and demand management would help combat water security risk.

In Pakistan, growing population, where births per 1000 population (25.1) exceed that of India (21.3) Bangladesh (23.8) and China (12.2), has a significant negative effect on per capita income growth and exerts tremendous pressure on land and resources. The problem has compounded over the years, as the agriculture sector has been suffering from a decline. After growing by 5.4 percent in the 1980s, growth declined to 4.4 percent in the 1990s and to 3.2 percent in 2000s. Growth in the sector, particularly in the crop sub-sector, has been falling for the past three decades. Productivity, which is a key to food security, remains low by international standards.

In Pakistan, providing food security to an every growing population is an enormous challenge, especially during times when food prices are high. Food expenditure has a high share in the total consumption expenditure (50%) in Pakistan, nearly half of the household consumption expenditure is made on food items.

Though a significant contribution of the country's GDP comes from the agricultural sector, at times shortfall in production necessitates import of basic food amenities like sugar, wheat, edible oil, etc. Growing unemployment, income disparities, rising prices of food, lack of family planning are some obstacles towards a well nourished society. Malnutrition persists in Pakistan and affects physical and mental health, resulting in low labour productivity and poverty. In 2006, nearly 37 million people were under-nourished, of the total population of 158 million. About 50 percent of infant and child deaths relate to malnutrition.

The panel of economists to the Planning Commission, in their report *'Medium Term Development Imperatives & Strategy for Pakistan'* to the Government of Pakistan have suggested some measures to develop the agricultural sector. As almost all possible arable land is now under cultivation, enhancement in agricultural production will have to come from the increase in yields per acre. The potential for raising yields and diversifying agricultural production to enhance incomes and even employment will require a variety of interventions including better extensive services.

To enhance agricultural productivity and growth, the Report suggests introduction of BT cotton, integrated pest management, improved availability of good quality certified seed, efficient utilization of water, speedy implementation of projects relating to cold storages, constructing farm to market roads, allowing farmers opportunities to export and strengthening agricultural marketing.

To fulfil its role as an engine of growth, food security and poverty alleviation, agricultural sector needs to grow. And growth cannot be achieved and sustained without investing in agriculture.

Ayesha Mahmud

Federal Budget 2010-11 — An Overview

Economic scenario

During fiscal 2009-10, political and security concerns remained high. The deteriorating security situation has resulted in an outflow of population from the troubled areas. It has fallen upon the government to rehabilitate the displaced persons and rebuild the affected areas, thus placing considerable stress on state finances.

Security situation affects economy

While the outgoing fiscal year saw a modest recovery, the security conditions and power shortages prevented any meaningful improvement in economic performance. Severe energy shortages have reduced overall GDP growth by approximately 2.0 percent. The economy grew by 4.1 percent in FY10, against only 1.2 percent in the previous year. The commodity producing sectors grew by 3.6 percent in FY10, compared with 0.8 percent a year earlier, largely because of better performance by the manufacturing sector. Services sector growth picked up, as wholesale & retail trade and transport & communication showed good performance.

The economy suffers from lower availability and inadequate water storage capacity, affecting the level of agricultural production, which is directly related to the availability of water as a major input. Whatever water is available is utilized in an inefficient manner. The agriculture sector is also beset with low yield per hectare, poor quality of extension services, issues with market committees, and low investments in the sector.

IMF releases fifth tranche

The IMF had extended about $7.6 billion to Pakistan in November 2008, under a Standby Arrangement. The amount was raised to $11.3 billion and extended through end-2010. The fourth review of Pakistan's economic performance under the programme supported by SBA has been completed, enabling disbursement of $1.13 billion, bringing total disbursements under the arrangement to $7.27 billion so far.

The programme has helped inspite of security concerns to bring about an improved GDP growth, while strengthening the external sector. Inflationary pressures persist, alongwith energy sector problems, security related spending pressure, and shortfalls in revenue collection. Investment outlays have not picked up and unemployment pressures remain strong.

Inflationary pressures have eased from an average of over 20.8 percent in FY09 to 10.3 percent by December '09. This has allowed State Bank to cut its discount rate. However, there has been a resurgence in inflationary pressures in recent months.

Inflationary pressures resurface

The year-on-year Consumer Price Index has started to show an upward movement and in May 2010 it rose to 13.1 percent over May '09. With further adjustment in electricity and gas tariffs, increase in domestic prices of petroleum products and changes in food prices it could give a further push to inflation. The monetary policy remains focused on bringing down inflation. The current monetary policy stance appears to have helped in restraining inflationary expectations as reflected in banks' inclination to purchase longer maturity T-bills in recent auctions.

Government borrowings from the banking system for budgetary support increased during FY10. The net bank credit availed by the government for budgetary support as well as financing its commodity operations amounted to Rs286.4 billion during July-April 2010, against Rs239.5 billion during the same period last year, reports the Economic Survey 2009-10. This is attributable to rising fiscal spending, lower availability of external financing and low inflows in national saving schemes.

Government tax revenues fell short of expenditure requirement. Pakistan has one of the lowest tax GDP ratio in the world and rising current expenditure leaves little alternative but to resort to borrowings. To maintain fiscal sustainability it is necessary that this expenditure is reduced. Cutting down on development expenditure hurts the

Box

Economy 2009-10
Highlights

The Economic Survey 2009-10 has been released. We give below highlights from the Report:-

Growth Trends

- Modest recovery has been recorded in the outgoing fiscal year. GDP grew by a provisional 4.1 percent against 1.2 percent in the preceding year.
- The agricultural sector grew an estimated 2 percent, against a target of 3.8 percent and previous year's 4.0 percent. Both the major and minor crops sub-sector showed declines of 0.2 percent and 1.2 percent respectively.
- The manufacturing sector grew by 5.2 percent against a fall of 3.7 percent a year earlier, with LSM growing by 4.4 percent against a decline of 8.2 percent in FY09.
- The major contributors to LSM growth were autos and allied industries, electronic goods, pharmaceuticals, leather, fertilizer goods.
- Services sector grew by 4.6 percent, compared to 1.6 percent in 2008-09.
- Gross fixed capital formation is estimated to have declined by 0.6 percent, compared to a growth of 5.5 percent a year earlier.
- Inflow of foreign direct investment declined during the period July-April 2009-10, to \$1.8 billion as compared to \$3.2 billion in the same period of FY09.
- The economic impact of the war on terror is estimated at \$43 billion for the period 2005-10. The negative effects of the war is manifested in decline in growth and investment, huge budgetary outlay on the rehabilitation of the IDPs and has also affected the export sector, with a substantial employment base.
- Consumer Price Index (CPI) inflation was recorded at 13.3 percent in April 2010, with food inflation at 14.5 percent and non-food at 12.2 percent.

Fiscal and Monetary Developments

- Agriculture contributes 22 percent to GDP but 1 percent towards taxes, while industry which contributes 25 percent to GDP has a 63 percent share in taxes. Services with a 53 percent share in GDP has 26 percent contribution in taxes.
- Tax collection amount is around 9-10 percent of GDP.
- Declining tax to GDP ratio is amongst Pakistan's biggest structural weaknesses.
- The overall fiscal deficit is provisionally estimated at 4.9 percent of GDP against 5.2 percent a year earlier.
- The main objective of introducing VAT is to increase the tax to GDP ratio to above 14 percent by 2013.
- Government budgetary borrowing from the banking sector remained higher in FY10 compared to FY09. Bank credit availed by the government for budgetary support as well as financing its commodity operations amount to Rs286.4 billion during July-April 2010, against Rs239.5 billion during the corresponding period of FY09.
- With industrial and business activity showing some improvement, lending to private sector has picked up.
- Private sector credit demand is concentrated in textiles and energy.
- Consumer financing contracted in July-March FY10.
- Lending rates have declined during the last one year. Deposit rates have come down from 6.7 percent in March 2009 to 6.1 percent in March 2010.

Balance of Payments

- During July-April 2009-10, exports amounted to \$15.9 billion as against \$14.7 billion in the same period a year earlier.
- Exports remained concentrated in five items — cotton manufactures, leather, rice, synthetic textiles and sports goods. However, the share of other items in overall export has increased to 29.1 percent.
- Imports during July-April FY10 declined by 2.8 percent to \$28.12 billion compared with \$28.92 billion a year earlier.
- Current account deficit narrowed to \$3.06 billion in July-April FY10, as against \$8.98 billion in the corresponding period of FY09.
- Workers' remittances have risen to \$7.31 billion during July-April 2009-10, a 15 percent increase over preceding year's remittances of \$6.35 billion.
- Pakistan's foreign exchange reserves increased substantially from \$12.4 billion in end June 2009 to \$15.0 billion in end April 2010.
- Pakistan's currency vis-à-vis US dollar depreciated by 3.9 percent during July-March 2009-10, compared to a sharp decline of 16.2 percent in the corresponding period a year ago. Volatility in the kerb market however, remained substantial during this period.

Public Debt

- Pakistan has one of the highest public debt-to-GDP ratio amongst emerging economies. The ratio has ranged between 55–60 percent in the last five years. By contrast, public debt ratios in emerging economies has been lower at around 30 to 40 percent of GDP.

- The stock of public debt has reached $8160 billion by end March 2010.
- Public debt servicing aggregated Rs640.2 billion at end March 2010, which is almost 46 percent of government revenues.
- Pakistan's external debt and liabilities stood at $54 billion as of end March FY10, which is 31.1 percent of GDP.
- Commitments of foreign economic assistance were $4.7 billion during July-March FY10. About 66 percent of the total were in the shape of project aid, while the remaining comprised non-project aid. Of the total committed amount, $2.13 billion were disbursed for different purposes.

Capital Market

- The period July-March FY10 saw a recovery in the country's capital market.
- A total of 650 companies were listed on the Karachi Stock Exchange as of end March 2010, with paid up capital of Rs894.2 billion.
- Foreign portfolio investment in KSE rose. This stood at $431.93 million in July-March FY10.

Energy

- Energy sector issues severely constrained Pakistan's economy in 2009-10.
- The cumulative effect of the energy crisis on the economy is estimated at upward of 2 percent of GDP during FY10.
- The imbalance between cost of generation and distribution, and the final tariff, is the root cause of the circular debt issue.

Social Sector

- There has been noticeable improvement in some health indicators over the years. On the whole, Pakistan ranks poorly on this count.
- Public expenditure on health remains low and has declined as a percentage of GDP.
- Public spending on education as a percentage of GDP is amongst the lowest in the region.

Targets for 2010-11

- The economy (GDP) is expected to grow by 4.5 percent in FY11, with the agricultural sector growing by 3.8 percent, manufacturing 5.6 percent and services sector by 4.7 percent.
- In the agricultural sector, major crops sub-sector is envisaged to grow by 3.7 percent, minor crops by 3.0 percent, livestock 4.2 percent, fisheries 2.0 percent and forestry 2.5 percent.
- Production targets of major crops are: rice 6.2 million tons, (basmati 2.5 million tons, others 3.7 million tons), sugarcane 53.7 million tons, cotton 14.01 million bales, and wheat 25 million tons.
- The targeted investment to GDP ratio is projected at 17.9 percent, with private sector fixed investment to GDP ratio estimated to remain around 12 percent.
- National savings as a percentage of GDP is estimated at 14.5 percent, while the rest of the investment requirement is projected to be financed by foreign savings of 3.4 percent of GDP.
- Inflation is envisaged to be 9.5 percent against expected inflation of 12 percent in 2009-10.
- Exports are projected at $19.9 billion, while imports are expected to increase to about $31.7 billion. As a result, the trade account is projected to be in deficit by $11.7 billion or 6.1 percent of GDP.
- Workers' remittances are estimated at $9 billion, against $8.4 billion in FY10.
- The current account deficit is targeted at $6.5 billion, or 3.4 percent of GDP.
- Gross aid disbursements are expected to be $3.9 billion.
- Gross reserves are likely to be around $15 billion.
- A Strategic Trade Policy Framework 2009-12 has been initiated by the Government to overcome weaknesses of the past as well as to provide a way forward for the future.
- The major thrust of the policy is redesign of export refinancing scheme and sectoral credit allocation parameters, while focusing more on high value sectors, more sophisticated export products and nontraditional items.
    - adoption of an exchange rate policy to promote exports and manage imports.
    - measures to promote procedural efficiencies and trade facilitation.
    - revamping the business processes in line with international best practices so to enhance productivity and improve competitiveness.
- The installed power generation capacity is expected to increase from 22176MW in 2009-10 to 24295MW in 2010-11. The increase would accrue from rental plants (420MW), IPPs (1241MW), hydropower (298MW), wind power (44MW) and from KESC (115.9MW).

development prospects of the economy. Investment in infrastructure such as electricity generation and human capital suffers and even affects the inflation outlook as the gap between aggregate demand and supply widens.

Budget FY11 has an outlay of Rs2764 billion

The Federal Budget 2010-11 has a total outlay of Rs2764 billion, 7 percent higher over last year's revised estimates of Rs2585.5 billion. The size of the current expenditure has been reduced to Rs1997.9 billion, against preceding year's Rs2017.2 billion. Budgeted development expenditure has been raised by 30.0 percent to Rs663.0 billion, compared with Rs510.0 billion in FY10. While other development expenditure receives Rs123.5 billion, with an estimated operational shortfall of Rs20.0 billion in expenditure.

Higher current expenditure

In fiscal 2009-10, revised estimates of current expenditure were 18.7 percent higher over the allocation of Rs1699.2 billion in the budget. This increase is attributable to larger foreign loan repayment, and servicing of domestic debt, higher superannuation allowance and pension, larger transfer payments and higher defence expenses (employees related expenses).

Electricity tariffs are being adjusted and the government is working on a framework for the power sector that would ensure no tariff differential subsidies. In fiscal 2009-10, tariff differential subsidies far exceeded the budget amount.

Subsidies

(Rs Bn)

	Budget 2009-10	Revised 2009-10	Budget 2010-11
WAPDA	62.9	147.0	84.0
Inter-disco Tariff differential	10.0	77.0	30.0
KESC	3.8	32.5	3.3
KESC on account of Tariff differential	2.0	31.7	2.0

Source: Budget in Brief 2010-11, Government of Pakistan

Subsidies reduced

As the government pursues a policy of bringing down subsidies, the budget allocations under this head have been reduced to Rs126.7 billion in FY11. This is nearly 45 percent less than the revised allocations of Rs229 billion last year. 66 percent has been budgeted for WAPDA, where the major amount would be used for interest on TFCs. On account of tariff differential KESC would receive Rs2 billion. Trading Corporation of Pakistan (TCP) would receive subsidies for wheat imports while bulk of allocation of Rs4.2 billion to Utility Stores Corporation (USC) is for sale of sugar.

Subsidies

(Rs Bn)

	Budget 2009-10	Revised 2009-10	Budget 2010-11
TCP	30.0	30.0	17.1
TCP on Imports of Sugar	4.0	4.0	4.0
TCP for Wheat Imports	25.5	25.5	12.0
USC	4.2	4.2	4.2
Oil Refineries	15.0	11.2	10.8

Source: Budget in Brief 2010-11, Government of Pakistan

PSDP reduced

In FY09, the size of Federal PSDP was slashed by Rs121 billion, reducing it to an estimated Rs300 billion, against the budgeted size of Rs421 billion. Ministries/Divisions/Corporations for which allocations were reduced substantially: -

PSDP

(Rs Bn)

	Budget 2009-10	Revised 2009-10	Budget 2010-11
Education Division	8.1	5.5	5.0
Higher Education Commission	22.5	18.5	15.7
Finance Division	44.8	17.0	14.5
Food & Agriculture Division	17.9	12.0	10.8
Health	23.1	18.5	16.9
Industries & Production Division	8.7	4.3	3.2
Planning & Development Division	18.6	8.5	9.4
Water & Power Division	47.0	28.5	28.4
WAPDA (Power)	22.8	14.0	12.0
National Highway Authority	39.9	36.8	44.6
Special Programme	38.4	23.7	25.7

Source: Budget in Brief 2010-11, Government of Pakistan

The PSDP for 2010-11 has identified some ongoing projects specially pertaining to infrastructure development, roads and highways, water development projects, and education and health projects, which would be completed on priority basis.

Revenue Receipts

Revised estimates for 2009-10 show that gross revenue receipts exceeded the budgeted figure of Rs2007.2 billion by 2.2 percent. This is attributable to higher non-tax revenues (10.7%), as tax revenue fell short of the target of Rs1493.6 billion by 0.70 percent. During the year, indirect tax collection increased by 1.6 percent over FY09 budgeted figure, while direct taxes fell short (4.45%).

Income tax collection declines

Tax-wise details show that in case of direct taxes, there was a decline in income tax collections. The *FBR Quarterly Review, January-March 2010*, states, the following factors which impeded the growth of collection of direct taxes.

a) Change of payment of advance tax date from 15th of last month of the quarter to the 15th of the following month of the quarter.

b) Moreover, the amount of PSDP has been slashed down by almost 50 percent which has adversely impacted the revenue collection under WHT on contracts and domestic supplies.

Indirect taxes are estimated to have achieved the target, except for Federal Excise duty which has a limited base. During the year, banking and insurance services were shifted from FED to sales tax, while FED on motor vehicles was also withdrawn in the Budget 2009-10.

Sales tax collection have shown an estimated increase of Rs41 billion in FY09. It is the major revenue generating source of federal tax receipts. Petroleum products are the main revenue generating source of collection of sales tax domestic. Collection from services has also increased as two services were shifted from FED to sales tax in the Budget 2009-10. Increased electricity tariff has raised collection from electricity.

For fiscal 2010-11, tax revenue is budgeted at Rs1778.7 billion, an increase of nearly 20.0 percent over last year's revised estimates.

Revenue Receipts

(Rs Bn)

	2009-10		2010-11
	Budget	Revised	Budget
Tax Revenue*	**1493.5**	**1483.0**	**1778.7**
Direct Taxes	**565.6**	**540.4**	**657.7**
Income Tax	544.5	520.4	633.0
Workers Welfare Tax	-	15.6	20.0
Workers Participation Tax	13.8	-	-
Capital Value Tax	7.2	4.4	4.7
Indirect Taxes	**927.9**	**942.6**	**1121.0**
Customs	162.2	164.9	180.8
Sales Tax	499.4	540.3	674.9
Federal Excise	152.8	134.4	153.6
Other Taxes	1.5	1.4	1.6
Airport Tax	0.06	0.07	0.07
Petroleum Levy	112.0	101.5	110.0
Non-Tax Revenue	**513.6**	**568.9**	**632.2**
Income from Property & Enterprises	**118.7**	**115.5**	**169.9**
Profits (PTA/Pak Post Office)	1.3	1.0	51.1
Interest (Provinces)	16.8	18.7	16.6
Interest (PSEs & Others)	25.3	36.7	38.0
Dividends	75.2	59.1	64.2
Receipts from Civil Admn & Other Functions	**281.0**	**337.9**	**332.2**
General Admn	1.0	0.7	0.8
SBP Profits	150.0	213.0	185.0
Defence	128.0	121.4	133.5
Law & Order	0.7	1.5	1.7
Community Services	0.7	0.7	0.8
Social Services	0.3	0.4	10.4
Miscellaneous Receipts	**113.9**	**115.4**	**130.0**
Economic Services	1.7	1.9	2.4
Gas Development Surcharge	29.9	30.0	30.0
Discount Retained on Local Crude Oil	15.0	6.0	12.0
Royalty on Oil	7.9	14.2	15.5
Royalty on Gas	27.0	28.0	32.0
Passport & Citizenship Fee	8.9	8.9	10.0
Others	23.1	26.2	27.3

* Out of which FBR collection has been projected at Rs1380.0 billion for 2009-10, at Rs1380.0 billion for RE 2009-10 and at Rs1667.0 billion for 2010-11 (BE).

Source: Budget in Brief 2010-11, Government of Pakistan

Fiscal Measures – Highlights

Some of the measures adopted in the Federal Budget 2010-11

Income Tax	Customs Duty	Sales Tax/Federal Excise Duty

▪ Basic exemption limit for salaried tax payers raised from Rs200,000/- and for non-salaried tax payers from Rs100,000/- to Rs300,000/.
▪ Senior citizens currently enjoy reduction in tax liability by 50 percent provided their income does not exceed Rs750,000/-. This monetary limit of taxable income is proposed to be raised to Rs1,000,000/-.
▪ The rate of advance tax deductible from monthly electricity bills of commercial and industrial consumers is proposed to be reduced from 10 percent to 5 percent.
▪ To rehabilitate the economy of Khyber-Pakhtunkhwa, FATA and PATA, some amendments are proposed to be introduced in the Income Tax Ordinance. The measures would provide relief to industrial and commercial tax payers of these areas. These measures are: -
  ▪ waiver of entire amount of default surcharge & penalties till June 30, 2010 subject to payment of the principal dues;
  ▪ exemption from withholding tax on electricity bills for the tax years 2010 and 2011;
  ▪ exemption from withholding tax on exports; and
  ▪ exemption from advance tax on import of plant and machinery upto June 30, 2011.
▪ A tax credit @10 percent of the tax payable is proposed to be allowed to a listed company in the purchase of plant and machinery for installation or for the purpose of BMR in an industrial undertaking upto June 2015.
▪ A tax credit of 5 percent of the tax payable is proposed to be allowed to a company which seeks to enlist on any of the stock exchanges in the country.
▪ Various banking transactions are proposed to be subjected to withholding tax at an enhanced rate of 0.3 percent if payments on account of such transactions exceed Rs25,000/- in a day.
▪ Withholding tax on gross value of inland air ticket is proposed @5 percent..
▪ Capital gain on sale of securities are liable to tax at the rate of 10 percent if held for less than six months and at 8 percent if such securities are held for more than 6 months but less than 12 months.
▪ The rate of withholding tax on crossword puzzles, prizes, raffle and winnings on quiz is proposed to be reduced from 20 percent to 10 percent.
	▪ Reduction of customs duty on crude palm oil from Rs9000/MT to Rs8000/MT.
	▪ Reduction of duty to 5 percent on pharmaceutical raw materials and drugs.
	▪ Exemption of customs duty on import of photographic plates and film for x-ray.
	▪ Reduction of duty on equipment for dedicated use of renewable energy to encourage use of renewable energy resources.
	▪ Exemption of customs duty on import of raw materials/ components for energy saving lamps.
	▪ Exemption of customs duty on import of fully dedicated LPG buses and dispensing equipment to encourage use of cheaper environment friendly fuel.
	▪ Exemption of customs duty and sales tax on rice processing machinery to boost value addition and export of rice.
	▪ Reduction of duty on raw materials of leather and glass industry to make them more competitive.
	▪ Exemption of duty on milk filters to support dairy industry.
	▪ Substitution of export duty by regulatory duty for determination of value of exported goods.
	▪ To curb the tendency of misdeclaration in self assessment, appropriate measures introduced.
	▪ Facility of filing of goods declaration after examining the goods is now restricted to used goods only.
	▪ Time limit imposed to finalize the cases of provisional assessment within three months.
	▪ General penalty rate enhanced to Rs50,000/.
	▪ Enhancement of penalty to the extent of twice the value of the offending goods besides the confiscation of goods for violation of Section 128 and 129 of Custom Act, 1969.
	▪ Concession of customs duty on import of Road Sweeping Lorries to increase efficiency of municipal and local governments.
	▪ Reduction of duty on secondary quality tin mill black plate for manufacturers of tin plate to reduce their manufacturing cost.
		▪ Enhancement in the rate of sales tax from 16 percent to 17 percent w.e.f. July 1, 2010.
		▪ Sales tax would continue — Value Added Tax deferred.
		▪ Period to maintain any records and documents has been enhanced from 5 years to 6 years.
		▪ Authorized officers would have access to premises, stocks, accounts and records.
		▪ Increase in the rate of sales tax on import of soyabean seeds by 1 percent from 6 percent to 7 percent.
		▪ Enhancement in the rate of duty on import of rapeseed by solvent extraction industries from 14 percent to 15 percent.
		▪ Rate of sales tax on supply of natural gas by gas transmission and distribution companies to CNG stations enhanced by 1 percent from 25 percent to 26 percent.
		▪ Upward revision of federal excise duty on cigarettes.
		▪ Levy of federal excise duty of Rs1 per filter rod of cigarettes.
		▪ Increase in the rate of Federal excise duty on natural gas from Rs5.09 per MMBTu to Rs10/- per MMBTu.
		▪ Increase in federal excise duty on other petroleum gases in gaseous state from Rs5.09 per MMBTu to Rs10 per MMBTu.
		▪ Levy of 10 percent federal excise duty on electricity intensive home appliances.
		▪ Enhancement in the rate of sales tax from 18 percent to 19 percent for flat-rolled products of, iron or non alloy steel of given specifications, stainless steel and other alloy steel.
		▪ Import of specified plant, machinery, equipment and apparatus, including capital goods has been exempted from levy of sales tax, subject to certain specified conditions including that the imported goods are not listed in the locally manufactured items specified through a general order.
		▪ Enhancement in rate of sales tax from 21 percent to 22 percent for areca (betel nuts), palm stearin, asbestos, petroleum jelly, palm acid, gum base use for manufacturing of chewing gum among others.

Direct taxes would contribute 37 percent, while 63 percent would be generated from indirect taxes on commodities and transactions.

Last year the carbon surcharge was replaced by Petroleum Development Levy and Rs101.5 billion were collected under this head.

The proposed reformed General Sales Tax (GST) has been deferred till October 2010. Once in place it will eliminate multiple tax rates and replace it with a single lower rate of 15 percent. It would not apply to education, health and food items consumed by the poor.

Higher non-tax receipts

Non-tax receipts of the federal government were higher (10.7%) in revised estimates of FY09 against the budget figure of Rs513.6 billion, primarily because of larger receipts from SBP profits (Rs213 billion against Rs150 billion budgeted) interest earned from public sector enterprises and others. In FY11, non-tax revenues are budgeted to generate Rs632.3 billion.

To meet the resource deficit, (Rs673.9 billion) in FY09, external resources were budgeted for Rs510.4 billion, Rs19.3 billion was to accrue from privatisation proceeds and bank borrowings would amount to Rs144.1 billion. However, revised estimates for FY10, show higher internal resources, 7.3 percent more than the budgeted figure, 13 percent increase in external resources and lower bank borrowings (38.2%).

Objectives of the Budget

The Federal Budget 2010-11 has been presented with the objective to achieve; fiscal austerity, lower inflationary pressures, self reliance through better resource mobilisation, social protection, public sector enterprise reform and to generate employment and enhance investment in the economy.

These are difficult challenges and require concerted efforts. For instance a fundamental challenge facing the economy is to enhance its employment generating ability. For this , among others, agriculture and livestock sector would have to be improved and SME clusters would have to be promoted.

Low levels of investment

Pakistan has had low rates of investment, largely owing to low levels of domestic savings. The gap is met by inflows and borrowings from abroad. Domestic savings are made up of savings of households, retained earnings of the corporate sector and government net savings (revenues> recurrent exp). Thus there is a need to increase savings at all levels, so to enhance investment in the economy. The panel of economists to the Planning Commission have suggested among others;

- Enhancing household savings, ensuring real returns on financial savings, which are positive and sufficiently attractive.
- To improve public savings the country needs to generate a large revenue surplus and raising resources from other earnings, say through a more efficient system of user charges for public services.
- Incentivize savings by the corporate sector through a tax reduction for retention of earnings.

The plight of the vulnerable segment of society is perhaps the major challenge facing the economy. Not all have benefited from growth, as a large percentage of the population exists in poverty. Pakistan's Constitution, one of the few in developing countries delineates social security as an explicit citizenship right. This commitment however, remains largely unfulfilled.

Like other developing countries, Pakistan has adopted social protection programmes to aid in reducing inequality, facilitate households to engage in productive activities and strengthen poor people's capabilities to manage risk. Despite its limited resources it has been trying to provide relief to its citizens through various social protection initiatives.

While a number of programmes have been initiated for this purpose, they were unable to produce desired impact on poverty alleviation due to problems in their implementation. This is a great challenge for the government due to limited fiscal space. *The Third Quarterly Report of SBP for FY08* advocates a multi-pronged strategy which comprise of short term measures like targeted transfers (ration cards, cash transfers) supported by proper identification of poor and vulnerable, transparent delivery system, an efficient allocation of resources and ensured access to the poor. A well structured and coordinated social protection framework will indeed help Pakistan in improving the socioeconomic indicators of the country.

Deteriorating law & order situation and security concerns have greatly impacted Pakistan's investment climate. The war on terror has been imposing a heavy cost on the economy since 2001. Estimated loss to the economy during the period 2005-09 is $43.0 billion. An additional $4 billion has been incurred on security related operations since 2007 and an amount of $600 million was set from the budget for rehabilitation of the IDPs.

This has had negative effects on growth investment, export levels, manufacturing activity etc.

Energy sector and food security are areas that would receive greater focus and higher allocations in the PSDP and from external assistance programmes. Currently Pakistan is facing a major energy crisis and it is estimated that energy crisis have resulted in a loss of approximately 2.0 – 2.5 percent of GDP in FY10.

The government plans to secure private sector investment in the power sector, conservation measures have been undertaken, transmission and distribution system of electricity would be streamlined and LNG would be imported.

Circular debt is a major issue plaguing the power sector and has arisen from a disparity between cost and tariffs of energy. Consumers energy tariff were not increased prior to FY08, even though generation cost kept increasing, giving rise to substantial cost tariff differential. Electricity tariff is being raised by 7.6 percent w.e.f. July 1, 2010. It applies to all categories of consumers, covered by Pakistan Electric Power Company's eight distribution companies and KESC.

Last year alone, the government gave Rs31.7 billion as subsidies to KESC on account of tariff differential. WAPDA received Rs77.0 billion as inter-disco tariff differential against the budget amount of Rs10.0 billion. Subsidies are being gradually reduced and the government is working towards eliminating the remaining tariff differential subsidies by adjusting electricity tariff rates.

Addressing challenges in the energy sector would ensure that installed production capacity is better utilized, thus improving growth outlook and employment opportunities.

Sectoral Implications of the Federal Budget 2010-11

Oil Sector

Upstream, Downstream

Measures

- The government in FY11 budget has set a target collection of Rs110 billion through Petroleum Levy (PL).This is about 1.8 percent lower against the outgoing budget target of Rs112 billion.
- The GoP has retained PL on the various products namely; Rs10/litre on motor gasoline 87 ROM, Rs14/litre on high octane blending content (HOBC), Rs8/litre on high speed diesel (HSD), Rs6/litre on kerosene oil, Rs3/litre on light diesel oil (LDO) and Rs9/litre on Ethanol fuel (E-10).
- In Finance Bill 2010 the government also notified that PDL collected during March 1, 2010 to June 30, 2010 will be deemed valid and will not be refunded. This situation arose as PDL ordinance lapsed in March 2010 and was not presented for approval to the parliament till announcement of the budget.
- Federal Excise Duty on Natural Gas has been enhanced from Rs5.09/mmbtu to Rs10/mmbtu. The gas transmission and distribution companies are required to charge sales tax at the rate of 9 percent supply of natural gas to CNG stations of the value.
- A royalty on oil and gas from E&P companies is estimated at Rs47.7 billion where Rs15.5 billion is expected to be collected from oil and Rs32 billion from gas. The GoP targeted Rs35 billion last year, while actual collected amount stood Rs42.2 billion.
- The government in the finance bill 2010 has allowed deduction of decommissioning cost over the ten year period or life of the field whichever is lower starting from the commencement of commercial production for tax purpose. This would be effective from tax year 2010. This was one of the thorny issue between E&P companies and FBR, which we believe would be resolved as the same was being demanded by E&P companies.

We expect neutral impact of the above developments on the overall oil and gas sector.

Impact - Neutral

Since E&P sector is regulated under the Petroleum Policies, as expected, no specific measures are part of this announced budget. While in case oil marketing companies, though the government implements levies and GST through budget, however, ex-refinery prices and OMC margins determination are the responsibility of Oil and Gas Regulatory Authority.

Power Sector

Measures

- Advance tax deductible on monthly electricity bill for industrial and commercial consumers is being reduced from 10 percent to 5 percent resulting in a relief of Rs4.5 billion.
- In Budget FY11 the government has allocated Rs84 billion as subsidy for WAPDA compared to Rs62.9 billion last year. The government though was forced to revise this allocation to Rs147 billion. KESC has been assigned Rs3.3 billion compared to last year's revised budget amount of Rs32.5 billion. Initially the allocated amount was Rs3.8 billion.
- The government has set aside Rs30 billion for inter-Disco tariff differential compared to Rs10 billion allocated last year which was later raised to Rs77 billion. Moreover, Rs40 billion has been reserved for payment of interest on Term Finance Certificates (TFCs) issued against Rs30 billion budgeted in 2009-10. Allocation for FATA is Rs10 billion for subsidy.
- Rs131 billion has been allocated for Hydel, Thermal and Nuclear energy projects and to improve transmission in FY11 budget. Moreover, Energy Development Fund (EDF) is being setup with Rs20 billion to improve private sector investment in the power sector.
- Under the development budget a sum of Rs118.34 billion has been earmarked for the power sector, including Rs29 billion for construction of Diamer Basha Dam and Neelum Jhelum Hydro Power Project.
- 30 million energy savers will be provided in a bid to conserve electricity, while 5 percent concessionary import duty on items utilized for

the purpose of increasing the renewal energy resources.

No specific fiscal measure, directly impacting IPPs was announced. Moreover, their returns are determined on the basis of Power Purchase Agreements (PPA). We continue to hold Positive stance on power sector though the government did not announce any specific measures in the budget for resolution of the circular debt issue. Though the removal of power subsidy is a positive step which may lead to better cash flows for PEPCO and KESC. However, to improve overall situation, rising transmission and distribution losses needs to be curtailed and management need to be improved.

Impact - Positive

Fertilizer Sector

The salient features of the budget pertaining to the fertilizer sector are: -

Measures

- The Government has doubled the FED on gas from 5 percent to 10 percent, translating into a Rs10 per MMBTU charge in FED.
- GoP will continue to provide the feedstock gas subsidy to the fertilizer companies.
- FFBL will get a subsidy of Rs185 million in FY11 as compared to the allocated Rs210 million in FY10, although the actual subsidy given was Rs439 million.

There was no element of surprise in the FY11 budget for the fertilizer sector except for the increase in FED on gas. The impact of the FY11 budget on the fertilizer sector is but neutral because any increase in gas tariff is generally passed on to the consumers so no major impact on the companies would be witnessed. We believe with expansion coming online in 2HCY10, the industry will have excess capacity which could lead to export opportunities.

Impact - Neutral

Cement Sector

The Government announced a Public Sector Development Program (PSDP) of Rs663 billion, up by 2.6 percent over the original allocation of Rs646 billion in FY10, which was revised downward. Yet the actual release of funds were short of the revised estimates.

The salient features of the budget pertaining to the cement sector are: -

Measures

- The size of PSDP for FY11 has been set to Rs663 billion, while for other development expenditures, Rs124 billion has been set.
- Initiation of Diamer Basha Dam at a cost of Rs894.25 billion in the current fiscal year (a mega project capable of producing 4,500MW electricity and storage capacity of 6,450 MAF water). Other dams such as Gomal Zam Dam, Satpara Dam and the renovation of Mangla Dam are expected to be completed in the next couple of years. Allocation of Rs868 million has been made for Bunji Dam.
- Increase in turnover tax from 0.5 percent to 1.0 percent would likely impact loss making cement companies.

The Rs663 billion PSDP for FY11 is an over ambitious figure like last fiscal year, which was cut by more than half when it came to the actual release of funds. In comparison to the original allocation of last fiscal year, PSDP is up by 2.6 percent and 30 percent if it is compared with the revised estimated figure for FY10.

Impact - Neutral to Negative

A higher PSDP is bound to impact the sector positively but given the current economic condition a higher PSDP may also push inflation upward. The GoP may decide to revise the allocation downward on the back of stringent monetary policy. On the contrary, if the target of GDP of 4.5 percent for FY11 is achieved and the total allocated funds for PSDP are released, we should expect optimistic results for the majority of the companies in the sector.

Banking Sector

Measures

- Division VIA of Part IV of the First Schedule: Withholding Tax on cash withdrawal from banks are proposed to be increased to 0.3

percent, for various transactions including Demand Draft, Pay Order, On-line Transfer, Telegraphic Transfer, Term Depository Receipts, CDR, STDR and RTC.

- Increase in WHT to 0.3 percent would apply to transactions that exceed Rs25,000 in a single day. This WHT would be deducted in advance and is tax adjustable.

- In order to finance the budget deficit, additional Rs166.5 billion would be borrowed from the banking sector during FY11.

Impact - Neutral to Positive

The recent measures taken by the Government of Pakistan in the federal budget FY11, on the banking sector would have a neutral impact. Increase in WHT to 0.3 percent to be applied to various banking transactions, is for the purpose of augmenting government revenues. Since this tax could be reclaimed, its net impact on banking sector transactions would be minimal.

Several speculations regarding an increase in corporate tax-rate by 250 bps, for banks having spreads greater than 5 percent, was not the part of the final budget. Keeping one flat corporate tax rate would positively impact the entire banking sector. Earnings of top five banks including NBP, MCB, UBL, ABL and HBL, would have been reduced if this proposal would had been a part of the final budget document. However, in its absence banking sector would continue making high earnings.

Telecom Sector

Measures

- With VAT implementation delayed until October 2010, FED on telecommunication services are expected to remain constant at 19.5 percent.

Impact - Neutral

The government in its budget has shown intentions of continuing with the policies of the past. FED charged on telecom services is kept unchanged at 19.5 percent until the implementation of VAT. If VAT is to be implemented, this rate of FED may subside down providing relief to the telecommunications sector. This possible reduction in taxation as a result of VAT would enhance the affordability of customers to the use of basic telephony services. Measures such as this would impact neutrally on the sector and may aid to attract further foreign direct investment.

Auto Sector

Measures

- Status quo has been maintained in terms of CKDs, CBUs and used cars.

- Rationalization of controlled prices would also be favorable for the consumers. The economic indicators highlight the fact that the economy is being driven in the right direction so an optimistic picture can be expected.

- Subsidies for Benazir Tractor Scheme have been abolished; this might hit the auto sector to an extent.

- WHT on import of vehicles raised to 5 percent.

Impact - Neutral to Positive

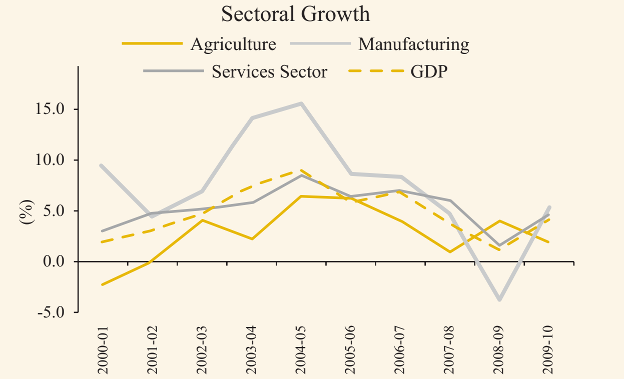
With no change in the existing framework, as the same level of protection has been provided to the local industry. The government has decided to defer the AIDP to next year, whereby the local auto manufactures would be required to pay an additional duty of 15 percent on certain parts in case of imports which would have raised costs.

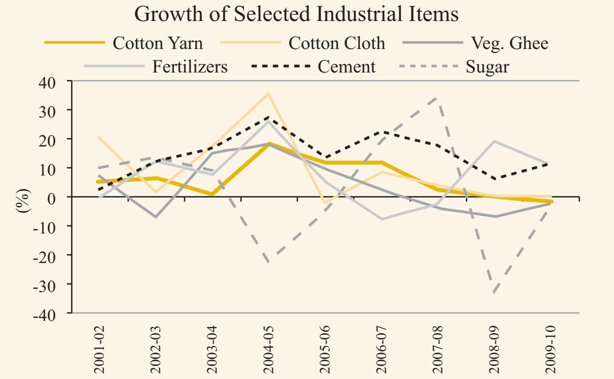
This will be most beneficial to Pak Suzuki as most of its customers are from the low income segment, and who are sensitive to price increments. Apart from the budget, key drivers for the auto sector would be the availability of auto-financing and economic indicators such as, improvement in per capita income.

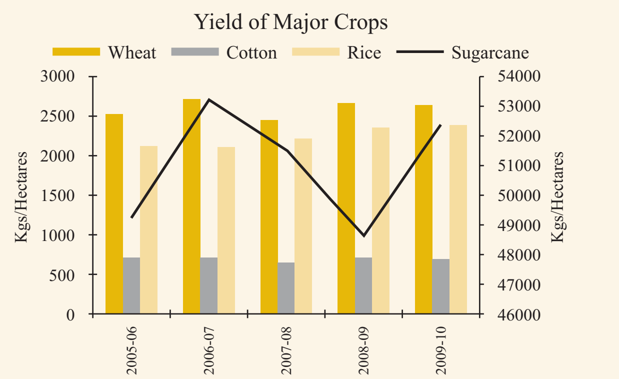
Withholding tax on imported vehicles has been raised to 5 percent on import of vehicles. A decision has also been taken to maintain WHT of 3 percent on auto spare parts. Although the increase is minute it will have a positive impact on the auto sector.

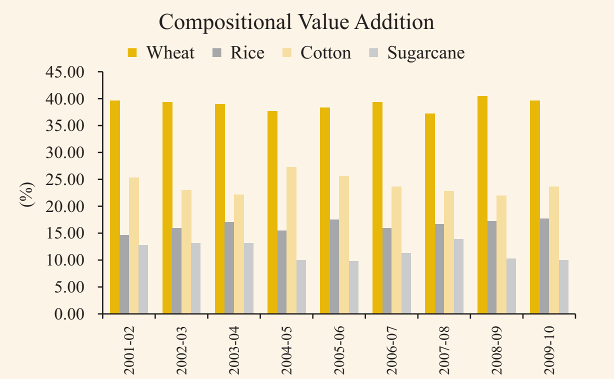
(Contributed by Taurus Securities Ltd, a subsidiary of National Bank of Pakistan)

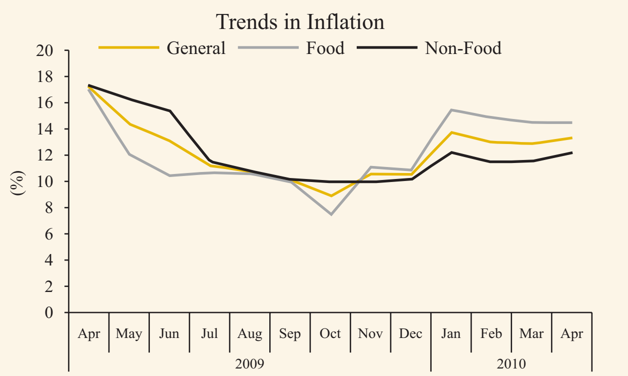
Economy at a Glance

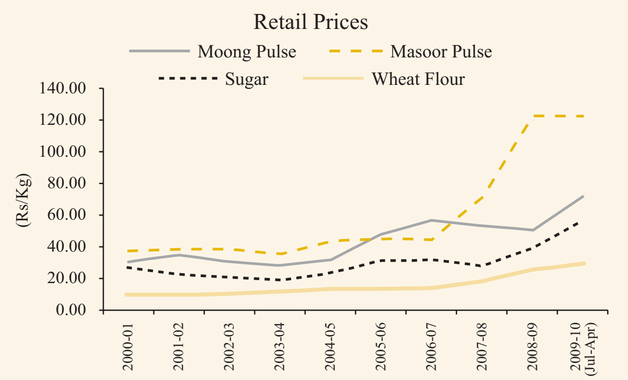


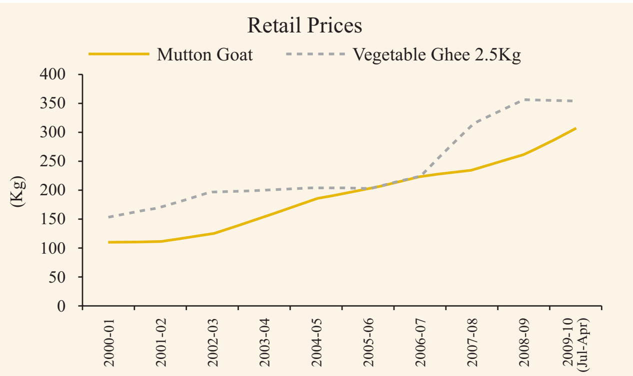


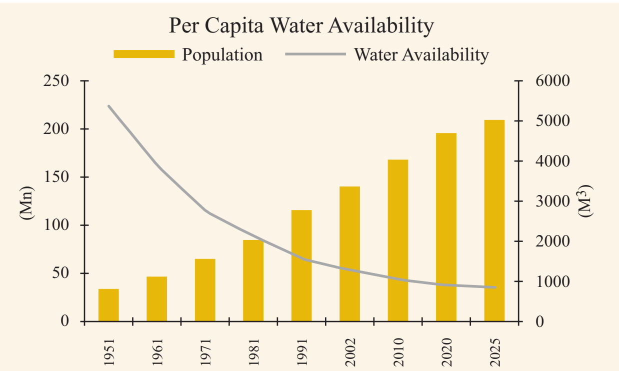


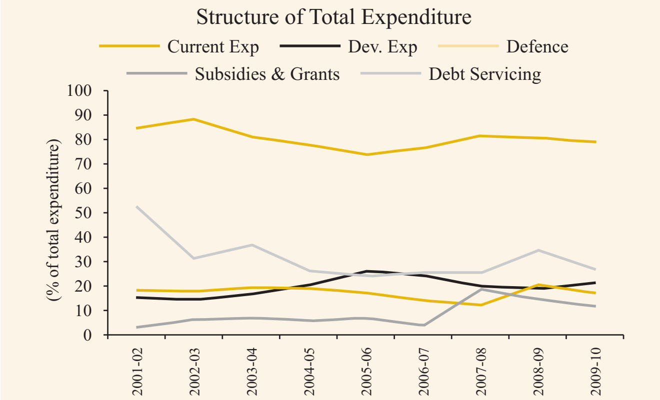


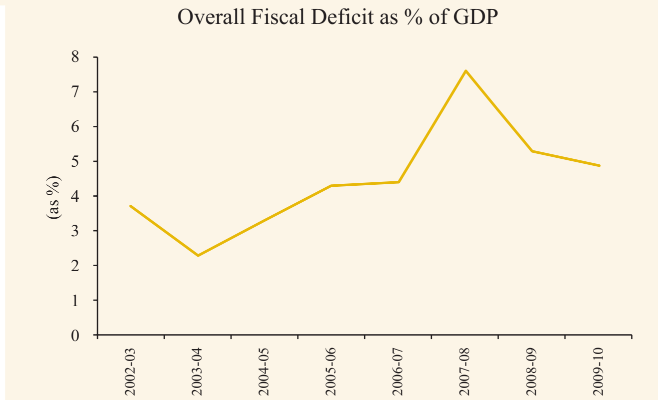


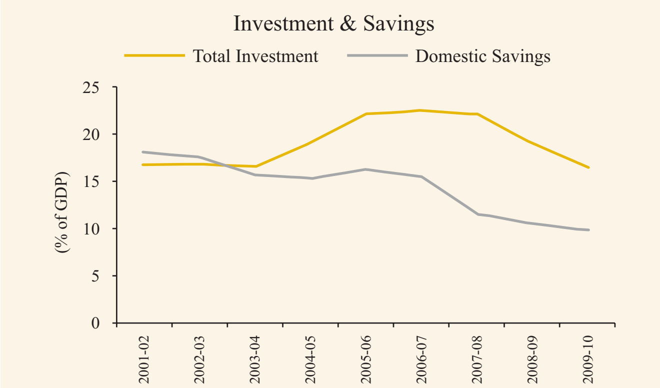


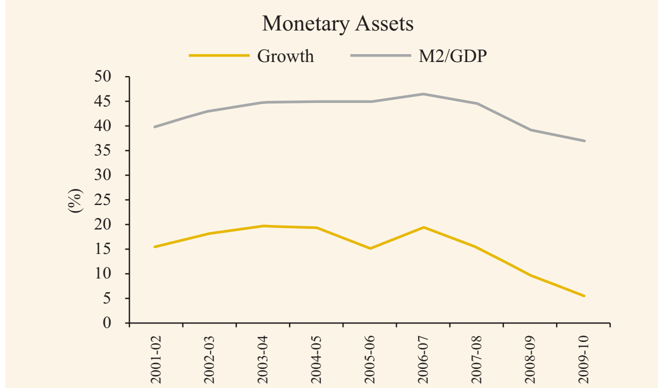


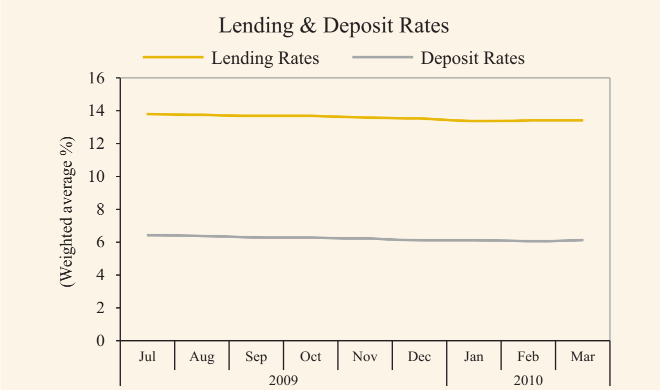


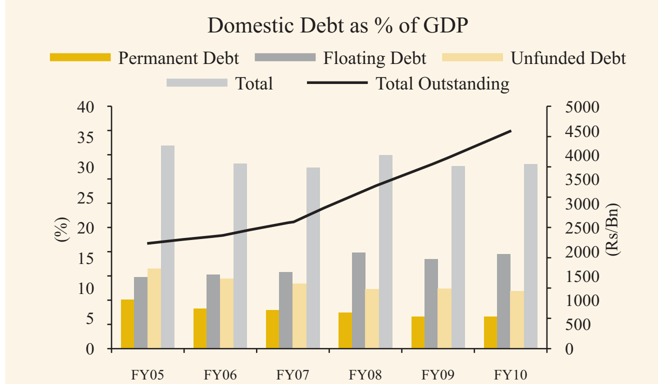

Structure of Total Expenditure
Current Exp
Dev. Exp
Defence
Subsidies & Grants
Debt Servicing
(% of total expenditure)
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10

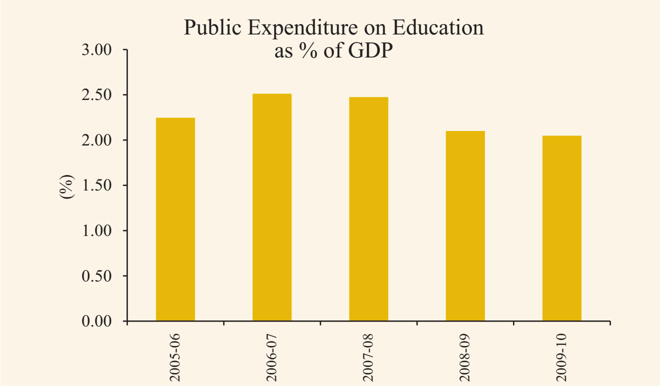

Overall Fiscal Deficit as % of GDP
(as %)
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10

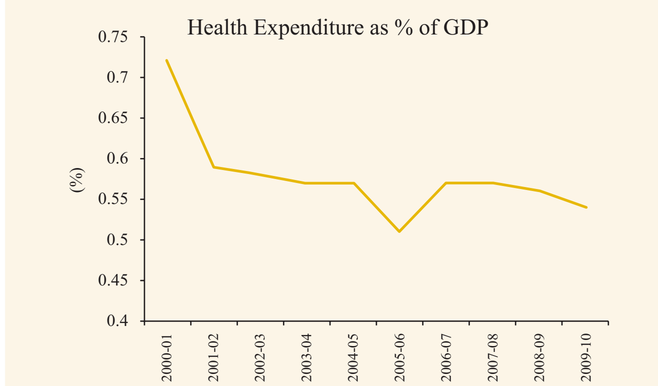

Investment & Savings
Total Investment
Domestic Savings
(% of GDP)


Monetary Assets
Growth
M2/GDP
(%)

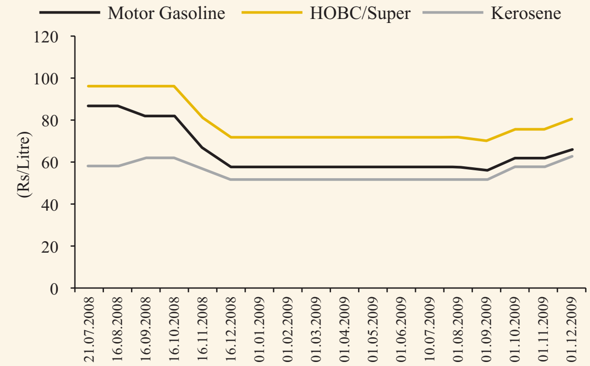

Lending & Deposit Rates
Lending Rates
Deposit Rates
(Weighted average %)
Jul Aug Sep Oct Nov Dec Jan Feb Mar
2009
2010


Domestic Debt as % of GDP
Permanent Debt
Floating Debt
Unfunded Debt
Total
Total Outstanding
(%)
(Rs/Bn)
FY05 FY06 FY07 FY08 FY09 FY10

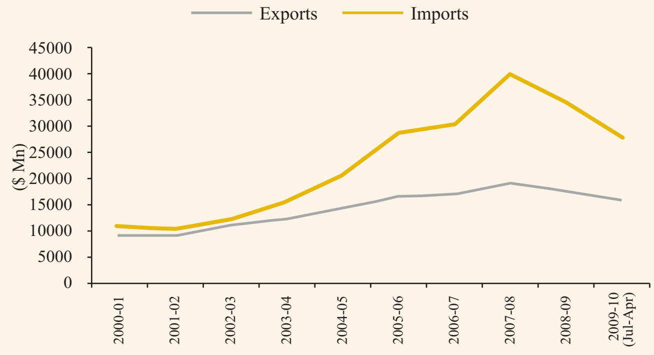

Public Expenditure on Education as % of GDP
(%)
2005-06
2006-07
2007-08
2008-09
2009-10


Health Expenditure as % of GDP
(%)
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10

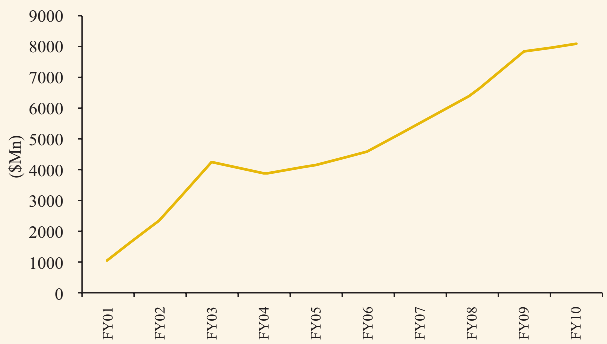
Oil Sale Prices



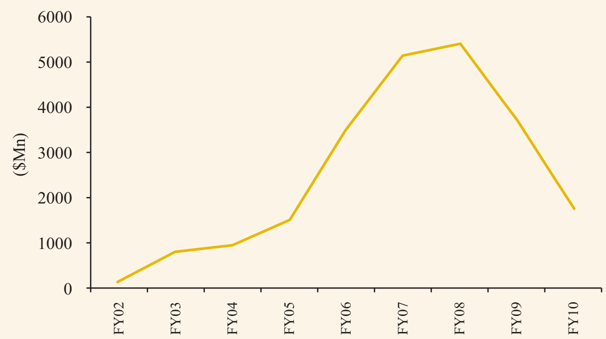
Exports & Imports



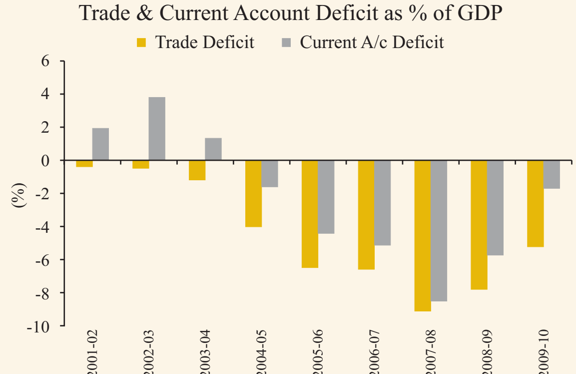
Workers' Remittances



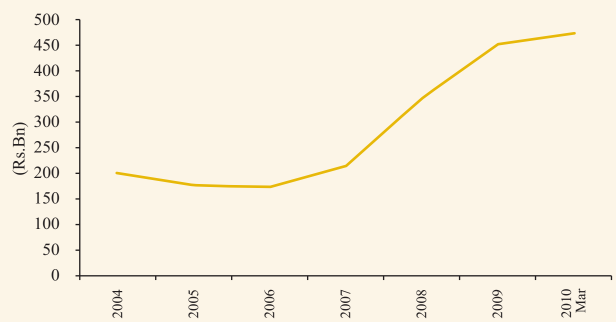
Foreign Direct Investment



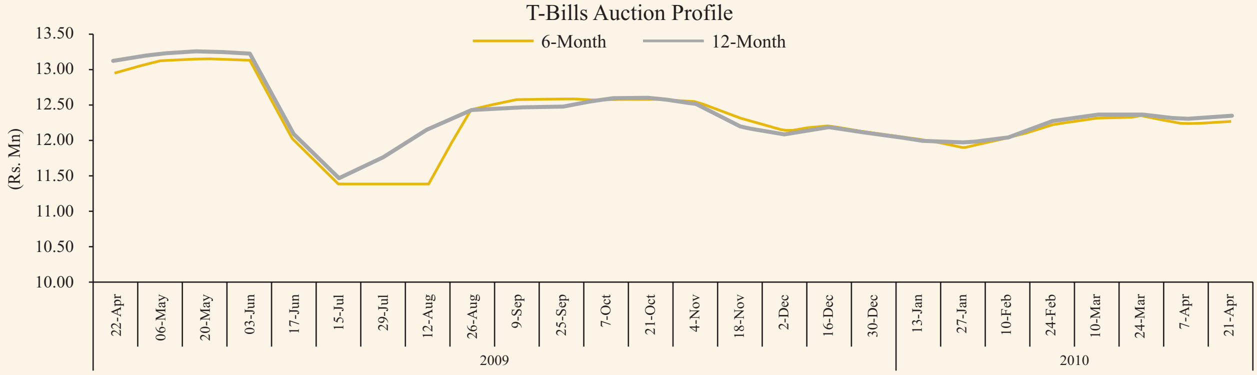
Trade & Current Account Deficit as % of GDP



Non Performing Loans
(Domestic & Overseas Operations)



T-Bills Auction Profile



Provincial Budgets 2010-11

Highlights

Sindh

- Total expenditure of the province is budgeted at Rs422 billion for FY2010-11.
- Total receipts of the province is estimated at Rs397 billion.
- The budget shows an estimated deficit of Rs25 billion.
- Rs115 billion have been allocated for the Provincial Annual Development Programme, 53 percent higher against preceding year's budget estimates of Rs75 billion and 85 percent more over revised estimtes of Rs62 billion. Increased allocations have been budgeted for almost all sectors.
- The deficit would be met by containing current expenditure through ban on wasteful expenditure, especially purchase of vehicles, discouraging unnecessary foreign visits etc.
- The province is budgeted to receive Rs207.3 billion as federal tax assignment against revised estimates of Rs125 billion in FY10. Provincial receipts are budgeted at Rs50 billion, provincial sales tax on services at Rs25 billion, straight transfers at Rs51 billion.
- Stamp duty on conveyance deed is proposed to be reduced to 2 percent from existing 3 percent and registration fee to be reduced from 1.0 percent to 0.5 percent.
- The exemption limit of annual value for assessment of property tax in respect of properties owned by widows, minor orphans, permanently disabled persons has been enhanced from the existing limit of Rs24,000 to Rs48,000.
- Sindh government would set up industrial estates near gas fields, so that natural gas can be provided to them without transmission losses.
- 50 percent adhoc increase in basic pay would be given to provincial government employees, 100 percent increase in medical allowance for employees in Grade 1 to 15 and employees in BS-16 to BS-22 would be given 15 percent of their initial basic pay as medical allowance.
- Capital value tax would be levied @2 percent for Residential and 2.5 percent for commercial immovable property.
- Under public–private partnership two roads – Link road from National Highway to Super Highway and road on Malir Band from KPT Bridge to Super Highway have been planned.
- Police budget increased to Rs29.6 billion.
- Rs16 billion have been allocated for different schemes of Karachi.
- Stamp Duty is being reduced in favour of Real Estate Investment Trust.
- Stamp Duty on Conveyance Deed proposed to be reduced to 1 percent from existing 3 percent.

Punjab

- Punjab has presented a Rs583.6 billion budget for 2010-11, 19 percent higher than the outlay of Rs489.8 billion in FY10.
- The size of the Annual Development Programme is proposed at Rs193.5 billion, against budgeted Rs175 billion in FY10, showing an increase of 10.3 percent.
- Infrastructure development is to receive Rs59 billion, social sector Rs68 billion, production sectors (agriculture, forestry, fisheries, livestock, industries, minerals) Rs7 billion.
- After meeting revenue expenditure, the budget shows a net surplus of Rs168 billion, which alongwith foreign project assistance (Rs12.6 billion), privatization proceeds (Rs12.0 billion) and federal grants (Rs0.67 billion) would finance development expenditure.
- Development expenditure has been categorised into; core development which has been allocated Rs182 billion and non-core development receives Rs11.5 billion.
- Of the development expenditure of Rs193.5 billion, social sectors have been allocated Rs68.2 billion, and infrastructure development receives Rs59.3 billion.
- Revenue expenditure is budgeted at Rs386.8 billion, where highest allocation (57%) has been made for general public services. Public order & safety receives Rs63 billion, economic affairs Rs44.9 billion and education Rs28.9 billion.
- The province would receive Rs435 billion from federal divisible pool and Rs91 billion would be generated through provincial tax revenue measures.
- Provincial non-tax revenue (including hydel electricity profit) would amount to Rs22.2 billion.
- The general revenue receipts for FY11 are higher by almost 32 percent over budget estimates for FY10, on account of increase in federal transfers under the new revenue sharing arrangements agreed under the 7th National Finance Commission Award.
- Existing taxes have been rationalised.
- Capital Value Tax (CVT) on immovable property has been reduced from 4 percent to 2 percent.
- An estimated Rs52 billion would be spent on the development of southern Punjab.
- A 50 percent adhoc increase announced in pay and pension and medical allowance for serving and retired government employees.
- Pro-poor subsidies have been allocated Rs21 billion from the revenue expenditure.

Khyber-Pakhtunkhwa

- The provincial government has presented a Rs294 billion budget for fiscal 2010-11.

Budget Highlights

Current Revenue Expenditure	Rs128.0 bn
Current Capital Expenditure	Rs 11.0 bn
Development Expenditure	Rs 69.3 bn
Capital Expenditure	Rs 86.0 bn
Total	Rs294.0 bn
Revenue Receipts	Rs198.6 bn
Federal Tax Assignment	Rs123.4 bn
Straight Transfer	Rs 9.4 bn
GST on Services	Rs 12.3 bn
Provincial Own Receipts	Rs 7.2 bn
Profit from Hydel Power Generation	Rs 6.0 bn
Arrears of Net Hydel Profit	Rs 25.0 bn
Grant for War on Terror	Rs 15.2 bn
Capital Receipts	Rs 0.4 bn
Foreign Project Assistance	Rs 9.3 bn
Total	Rs208.4 bn
Capital Receipts	Rs 86.0 bn
Total	Rs294.4 bn

- Investment is proposed in projects such as hydel power generation, mineral development and tourism.
- Nearly 60 percent of the current budget has been allocated to salary budget — a major head of expenditure, 8 percent for debt servicing, 2 percent for wheat subsidies.
- The provincial government has initiated a number of pro poor welfare schemes. These include among others: -
  - Setting up an Endowment fund of Rs2.0 billion.
  - Grant of interest free loans for income generating business activities.
  - The provincial government has restituted the Cooperative Bank.
  - Call centres to be set up so to provide employment opportunities.
- Realizing the role being played by the province in the war on terror, 1 percent of the net divisible pool has been earmarked for the province.
- Existing network of colleges is being strengthened with a focus on gender balance.
- Emphasis is on strengthening the health care service delivery system. Main focus is on improving the infrastructure, human capital development and effective monitoring.
- Given the prevailing law & order situation, allocation for police has increased manifold.

Balochistan

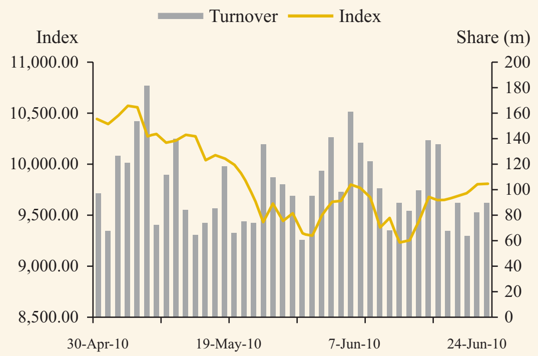
- The provincial budget for FY11 is proposed at Rs152 billion. Current expenditure is estimated at Rs83.44 billion, capital expenditure at Rs41.82 billion, while development budget is estimated at Rs26.0 billion.
- Total receipts are estimated at Rs144.91 billion.
- The budget deficit for the year is Rs7.1 billion.
- The estimated receipts of nearly Rs145 billion, include Rs115.52 billion of revenue receipts, Rs29.39 billion of capital receipts.
- Federal receipts estimated at Rs111.40 billion.
- Under the NFC Award 2009, the resources of the province have been enhanced from Rs30 billion to Rs83 billion.
- The Federal Government will provide arrears of gas development surcharge since 1954.
- The government has allocated approximately Rs10 billion to strengthen law enforcing agencies in the province.
- Basic pay of personnel of police, levies and Balochistan Constabulary raised by 100 percent.
- Adhoc relief allowance of 50 percent on basic pay given to all provincial government employees.
- Similarly, for grade 1 to 15 the medical allowance has been doubled, while for Grade 16 to 22, the medical allowance has been increased to 15 percent of their basic pay.
- To raise literacy rate, the provincial government gives priority in allocation of resources for uplift of the education sector. Rs1 billion has been allocated to develop facilities in educational institutions.
- Higher allocations have been made for the health sector.
- 15 percent increase in pension for the employee retired after the year 2001 and 20 percent increase in pension for employee retired before 2001 has been made.
- Similarly, for Grade 1 to 15 retired employees, an increase of 25 percent and Grade 16 to 22 retired employees, an increase of 20 percent medical allowance will be given.
- Minimum Monthly Pension limit has been increased from Rs2000 to Rs3000. Family pension ratio has been increased from 50 percent to 75 percent.
- Agriculture sector plays a key role in the provincial GDP. For FY11, 300,000 subsidized bulldozers hours have been dedicated to make nearly 18,000 hectares of land cultivable.
- The total outstanding debt stock of the Balochistan government stands Rs69.7 billion.

Market Analysis

Market Review – May To June 2010

The market during the period under review was under pressure and lackluster as reflected in the low turnover. Overall, the KSE-100 Index during May to June 25, 2010 shed 629 points or 6.0 percent to close at 9,798 on average daily turnover of 102.17m.

KSE-100 Index (May - June 2010)



The market was dominated by the bears for most of the month mainly on the back of pre-budget anxiety. The KSE-100 Index shed 1,101 points or 10.56 percent during May 2010 to close at 9,326 while the KSE-30 Index plunged by 1,246 points or 11.88 percent to 9,243.66. The average daily turnover during May was 100.68m shares compared to 194.32m shares during April. The net outflow of foreign funds according to SCRA figures during May (up to May 28) was US$20.71m while the fiscal year-to-date net inflow was US$500.07m.

May

The KSE-100 Index in the first 3 days of the month posted minor gains of 133 points to 10,561 on May 5. The drivers behind these gains were news reports of PSO possibly acquiring PRL, the GoP receiving Coalition Support Funds from the U.S. and slash in T-bill rates in the auction of May 5.

However, the market began to slump from May 6 to 14 and the activity became lackluster. There was profit taking by both local and foreign investors across the board. The Greek economic crisis may have had a negative spill over effect among foreign investors. Also, the April 2010 inflation figures persisted with its rising trend. The headline Consumer price index (CPI) increased to 13.26 percent on YoY basis in Apr'10, in comparison to 17.19 percent YoY during Apr'09. For the period 10MFY10, average CPI increased by 11.49 percent in comparison to 22.35 percent during the same period last year. There continued to be a fear about the FBR revenue shortfall during the current fiscal year, as this would lead to a higher fiscal deficit. From May 5 to 11, the KSE-100 Index shed 352 points to 10,208. For the remainder of the week, the Index experienced a mini-surge on the back of buying interest in selective heavyweight stocks to close at 10,271 on May 14.

The KSE-100 Index continued to slide during the third week of the month despite of the approval of the US$1.13bn tranche by the IMF under the Standby Agreement and drop in T-bill yields during the May 19 auction. Investor sentiments were negatively impacted by the re-occurrence of target killings in Karachi. On May 20, the KSE-100 Index closed below the 10,000 mark for the first time since March 22, 2010.

From May 20 to the end of the month, market sentiments remained in the doldrums due to anxiety over the upcoming Federal budget on June 5 and the political situation. In addition, the lack of consensus between the federal government and the provinces regarding the implementation Value-added tax added to the despair, as it could jeopardize further assistance by the IMF and other international lending agencies in the case of non-implementation and have negative consequences on the economy going forward.

June

The market was mixed during this period. At the beginning of June, the Index began to bounce back slightly before the presentation of the federal budget 2010-11 on June 5.

Most of the activity was concentrated in selective Index stocks such as the oil sectors due to the rising international crude oil prices.

The market's immediate reaction to the budget was positive as the KSE-100 Index surged by 154 points on June 7 to close at 9,791. The budget was vague regarding the modalities of the capital gains tax (CGT), but most of the listed sectors did not many adverse taxation measures, which was seen as positive by most investors. However, the exuberance was short-lived due to advance tax requirements regarding the CGT, this led to a steady decline in the Index over the next 3 days as the KSE-100 Index shed over 400 points to 9,379 on June 10. The following week saw the KSE-100 Index stage a modest recovery on the back of optimism that the GoP and the FBR would look into the concerns of the investors regarding the CGT and quick implementation of margin financing. The KSE-100 Index gained 265 points from June 10 to 18 to close at 9,645. The following week, the market received foreign support to gain addition 153 points from June 18 to 25.

Regional valuation

The Pakistan market PE at 6.21x is trading at a 49 percent discount to the regional average of 12.33x. Based on dividend yield, Thailand is the most attractive at 8.73 percent followed by Pakistan at 6.51 percent while the regional average is 2.87 percent.

Looking ahead

In the FY11 federal budget on June 5, the Finance Minister delayed the implementation of VAT to October 1, 2010 due to a lack of consensus between the federal and provincial governments. This delay may put at risk the next IMF tranche that is expected in August. The sixth tranche could be pushed back to November, which could adversely impact the forex reserve position. The balance of payments situation could be vulnerable to spikes in international commodity prices leading to pressure on the Pak Rupee and domestic inflation, as the forex reserves have been improving mostly because of IMF disbursements and remittances.

The SBP is expected that announce the next Monetary Policy Statement at the end of July and the possibility of hike in the policy rate can not be completely ruled out depending on the degree of inflationary pressure in the economy. However, the most likely outcome would be keeping the rate unchanged at 12.50 percent and that any hike may come in September's policy statement.

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

Book/Report Reviews

Bringing Finance to Pakistan's Poor
Access to Finance for Small Enterprises and the Underserved
Tatiana Nenova, Cecile Thioro Niang with Anjum Ahmad
The World Bank - 2009

In Pakistan access to finance is quite low, though it is now expanding quickly in certain financial sectors, (microfinance, remittances). Of the total population, 14 percent have access to formal finance, while in Bangladesh 38 percent has access to the formal financial system, 48 percent in India and 59 percent in Sri Lanka.

The average Pakistani household remains outside the formal financial system (including savings, credit, insurance and remittances). Large numbers meet their needs through borrowings from family and friends, from money lenders, shopkeepers, etc.

There are factors explaining the poor access of the population to financial services in Pakistan. The socioeconomic conditions, basic education and financial literacy are some such factors. Lack of information on available financial services, combined with high levels of poverty, low literacy rates and gender bias, results in low levels of financial inclusion.

The report focuses on the underserved population groups and enterprises, those with informal access to finance or with no such access altogether. It describes the state of financial service provision to underserved segments of the market in Pakistan, particularly those with low incomes and small enterprises and identifies ways to improve investment and create inclusive markets that meet the needs of underserved people and enterprises.

One of the chapters discusses the access of SMEs to finance. Private banks are the leading lenders in the SME finance market. Most loans to SMEs go to finance working capital. A major portion (71%) of SME borrowing is spent on working capital, followed by trade financing and long term/fixed investment. The Government of Pakistan and the State Bank of Pakistan (SBP) have launched a number of initiatives to support the growth of SME lending.

Worker remittances have increased substantially in recent years, driven by increasing efforts of SBP to bring remittance flows into the formal net. Currently more than 70 percent of the flows come through formal channels, against about 15 percent some ten years ago.

A major joint initiative of the government, State Bank of Pakistan, the private sector, community and donors seeks to expand access of finance to the underserved. There is a need to cater to the requirements of large numbers of lower income groups. Microfinance initiative is one such step. The last chapter in the Report states, 'A concrete way to make progress in expanding access to the underserved is to form public-private working groups on microfinance, small enterprise finance, and remittances. This would enable a dialogue between the government and private companies (banks, MFIs, exchange companies, money transfer organizations, as well as telecoms and other market participants where relevant) to tackle key challenges in the sector.'

Global Monitoring Report 2010
The MDGs after the Crisis
The World Bank

This year's Global Monitoring Report examines the impact of the recession on poverty and human development outcomes in developing countries. While the world economy recovers from the crisis its impact is expected to last. The report highlights lessons from the crisis and presents forecasts about poverty and other key indicators.

The impact of the crisis on poverty will be long lasting. It will leave an additional 64 million people in extreme poverty by the end of 2010, and the impact on other MDGs may also be considerable. Developing countries must maintain good policies and the effectiveness of safety nets should be enhanced.

Pakistan Economy – Key Economic Indicators

	Unit	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10P (July-March)
Output and Prices									
GNP Size (MP)	Rs.bn	5027	5765	6634	7773	8831	10452	13084	15239
GDP Size (FC)	Rs.bn	4534	5250	6123	7158	8235	9921	12082	13843
Income Per Capita	$	579	669	733	836	921	1038	1018	1095
Real Growth	(%)								
GNP		7.9	6.4	8.7	5.6	6.7	3.7	1.7	5.4
GDP		4.7	7.5	9.0	5.8	6.8	3.7	1.2	4.1
Agriculture		4.1	2.4	6.5	6.3	4.1	1.0	4.0	2.0
Manufacturing		6.9	14.0	15.5	8.7	8.3	4.8	-3.7	5.2
Services Sector		5.2	5.8	8.5	6.5	7.0	6.0	1.6	4.6
Prices	(%)								
Consumer Price Inflation		3.1	4.6	9.3	7.9	7.8	12.0	20.8	13.3*
Wholesale Price Inflation		5.6	7.9	6.8	10.1	6.9	16.4	18.2	22.0
Food Inflation		2.8	6.0	12.5	6.9	10.3	17.6	23.7	14.5*
Non Food Inflation		3.3	3.6	7.1	8.6	6.0	7.9	18.4	12.2*
Core Inflation†		-	3.8	7.2	7.5	5.9	8.4	17.6	10.6*
GDP Deflator		4.4	7.7	7.0	10.5	7.7	16.2	20.3	10.1*
Gold Tezabi (Karachi)	Rs./10 grams	6378	7328	8216	10317	12619	16695	22195	30555
Motor Gasoline Premium	Rs/Ltr	33.08	33.69	40.74	55.12	56.00	57.83	67.68	66.49
Kerosene oil	Rs/Ltr	22.48	24.95	29.11	36.19	39.09	43.44	66.79	71.45
Wheat Flour	Rs/Kg	10.14	11.71	13.28	13.06	13.64	18.07	25.64	29.05
Savings and Investment	% GDP								
National Savings		20.8	17.9	17.5	18.2	17.4	13.6	13.3	13.8
Domestic Savings		17.6	15.7	15.4	16.3	15.6	11.6	10.6	9.9
Gross Fixed Investment		15.3	15.0	17.5	20.5	20.9	20.4	17.4	15.0
Public		4.0	4.0	4.3	4.8	5.6	5.4	4.6	4.3
Private		11.3	10.9	13.1	15.7	15.4	15.0	12.7	10.7
Public Finance									
Revenue Receipts (Fed & Prov)	% GDP	14.8	14.1	13.8	14.1	15.0	14.6	14.5	14.7
Tax Revenue	% GDP	11.4	10.8	10.1	10.5	10.3	10.3	9.5	10.9
Total Expenditure	% GDP	18.5	16.9	17.2	18.4	20.8	22.2	19.9	19.6
Fiscal Deficit	% GDP	3.7	2.3	3.3	4.3	4.4	7.6	5.3	4.9
FBR Tax Collection (Fed & Prov)	Rs.bn	555.8	611.0	659.4	803.7	889.7	1050.7	1312.2	1593.5
Direct Taxes	% share	28.4	28.0	28.0	27.9	38.0	37.2	34.3	35.5
Indirect Taxes	% share	71.6	72.0	72.0	72.1	62.0	62.8	65.7	64.5
Internal Debt Outstanding	Rs.bn	1894.5	2027.5	2177.6	2336.8	2610.2	3274.5	3859.9	4490.6
Funded Debt	% Internal Debt	52.0	54.9	59.9	62.3	64.0	68.8	67.1	68.6
Un-Funded Debt	% Internal Debt	48.0	45.1	40.1	37.7	36.0	31.2	32.9	31.4
Monetary Sector									
Growth of Monetary Assets M2	%	18.0	19.6	19.1	15.1	19.3	15.3	9.6	6.0
Currency in Circulation	Rs.bn	994.6	578.1	665.9	740.4	840.2	982.3	1152.2	1277.2

P Provisional   ** April '10 over April '09*   *† non-food non-energy*

	Unit	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10P (July-March)
Credit to Private Sector	Rs.bn	949	1274	1712	2114	2480	2890	2907	3054
Credit to Public Sector	Rs.bn	599	657	747	834	927	1509	2034	2206
Borrowings for Budgetary Support	Rs.bn	511	575	641	708	810	1365	1681	1920
Resident Foreign Currency Deposits	Rs.bn	126	146	180	196	207	263	280	330
M2/GDP	%	43.1	44.9	45.1	45.0	46.6	44.7	39.2	37.0
Capital Market (KSE)									
Total Turnover of Shares	Bn	53.1	97.0	88.3	104.7	68.8	56.9	17.1	33.7
Market Capitalisation	$ bn	746	1403	2068	2801	4019	3778	2143	2890
Listed Companies at KSE	Nos	702	668	659	658	658	652	651	650
Banking Sector									
Scheduled Banks Deposits*	Rs.bn	1964	2393	2832	3202	3854	4217	4787	4774
Scheduled Banks Advances*	Rs.bn	1108	1574	1990	2389	2688	3183	3248	3170
Non-Performing Loans All Banks*	Rs.bn	211	200	177	173	218	359	432	457
Lending and Deposit Rates	weighted average								
Deposits	% pa	1.61	0.95	1.37	1.96	2.60	4.13	4.44	n a
Advances	% pa	9.40	7.28	8.81	10.91	11.55	12.49	14.25	n a
Open Market Operation	weighted average								
SBP 3-Day Repo	% pa	7.50	7.50	9.00	9.00	9.50	12.00	14.00	12.50
Treasury Bills Yield - 6 Months	% pa	1.66	2.08	7.96	8.49	8.90	11.47	12.00	12.33
KIBOR - 6 Months	% pa	2.15	2.69	8.46	9.36	9.77	13.94	13.06	12.30
Pakistan Investment Bonds - 5 yrs	% pa	4.16	5.27	7.50	9.65	9.53	10.80	12.40	12.60
Interbank Call Rates	%	4.23	2.70	6.10	8.80	8.90	9.90	13.20	12.20
SBP Export Finance Rate	%	2.00	1.50	6.50	7.50	6.50	6.50	6.50	8.00
External Sector									
Exports	$ bn	11.16	12.31	14.40	16.45	16.98	19.05	17.68	15.88†
Imports	$ bn	12.22	15.59	20.60	28.58	30.54	39.96	34.82	28.12†
Balance of Trade	$ bn	-1.06	-3.28	-6.20	-12.13	-13.56	-20.90	-17.14	-12.24
Current Account Balance	$ bn	3.16	1.31	-1.75	-5.65	-7.40	-14.30	-9.40	-2.90
Workers' Remittances	$ mn	4237	3872	4168	4600	5494	6451	7811	7307
Foreign Private Investment	$ mn	820	922	1677	3872	6960	5429	3209	2344
Direct	$ mn	798	950	1525	3521	5140	5410	3720	1773
Portfolio	$ mn	22	-28	153	351	1820	19	-511	571
Debts									
External Debt and Liabilities	$ bn	35.5	35.3	35.4	37.2	40.3	46.2	52.0	53.9
Domestic Debt	Rs.bn	1894	2027	2178	2337	2610	3275	3860	4491
Internal Debt as % of GDP	%	38.9	35.9	33.5	30.7	30.1	32.0	30.3	30.6
National Saving Schemes (net inv)	Rs.bn	143.2	10.6	(39.4)	8.8	71.3	89.5	267.2	169.4
Gold & Foreign Exchange Reserves	$ mn	11472	13155	13338	14354	18890	13436	13771	16043
Gold	$ mn	725	831	917	1268	1344	1926	1935	2309
Liquid Fx Reserves	$ mn	10747	12324	12421	13086	17546	11510	12036	13734
Exchange Rate (Average for year)	Rs/US$	58.4995	57.5745	59.3576	59.8566	60.6342	62.5465	78.4983	83.5628

** Its on calendar year basis* † *July-April FY10*

Source: Pakistan Economic Survey 2009-10, Finance Division, GoP