

# **FEDERAL BUDGET 2009-2010**

Presentation by  
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at the

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# The Status

## Selected Economic Indicators

		<b>FY07</b>	<b>FY08</b>	<b>FY09</b>
<b><i>Growth rate (percent)</i></b>				
LSM	Jul-Mar	9.1	5.0	-7.7
Exports (fob)	Jul-Apr	2.9	9.9	-3.0
Imports (cif)	Jul-Apr	8.9	28.3	-9.8
Tax revenue (FBR)	Jul-Apr	20.0	16.3	17.7
CPI (12 month MA)	Apr	7.8	9.8	22.0
Private sector credit	Jul-Apr	13.0	15.0	1.7
Money supply (M2)	Jul-Apr	11.8	8.4	1.9
<b><i>billion US Dollars</i></b>				
Total liquid reserves <sup>1</sup>	end-April	13.7	12.4	11.2
Home remittances	Jul-Apr	4.5	5.3	6.4
Net foreign investment	Jul-Apr	5.9	3.9	2.2
<b><i>percent of GDP<sup>2</sup></i></b>				
Fiscal deficit	Jul-Mar	3.1	4.7	3.1
Trade deficit	Jul-Mar	5.3	6.6	5.7
Current a/c deficit	Jul-Mar	4.3	5.7	4.6

**The positive side is Agricultural Growth of +4%**

## **STATE OF THE PEOPLE AND THE COUNTRY**



**How long we will remain like this ?  
Growing poverty of people and the country.  
This is not sustainable. Our existence will be questionable.**

## EMPTY HANDS – THE FUTURE



**These hands will not always have begging bowls.  
Guns can [will] be there.. if deprivation continues.  
They need to be given books.**

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**SUFFOCATION – DESIRE FOR A ‘CHANGE’, THOUGH  
IRRATIONAL**

اب یوئے گل نہ پاڑ صبا مانگتے ہیں لوگ  
وہ جس ہے کہ کو کی دعا مانگتے ہیں لوگ  
غالب



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## PAKISTAN – Question of Economic survival

- **Trade Deficit** [Rs 18 Billion estimated for 2009-10 ] [Deficit since 1947 US\$ 275 Billion]
- **Current Account Deficit** [US\$ 8 to 9 Billion 2009-10 ]
- **Growing Unemployment** [Retrenchment; Around 5 million skilled unemployed.. Unskilled ? ]
- **Growing Poverty** – [Food ... Clothing .... Shelter .... Medicines ....?]
- **Downturn in Manufacturing Sector** [No facilitation;]
- **Continuous under utilisation / mis-utilisation of Public Sector Development Programme** [DSDP] [Islamabad versus Provinces]
- **Lack of harmony between provinces and Federation on delivery of Services to Common man** [No conclusion on NFC and other fundamental economic questions very big Islamabad]

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## The Ground reality

- Classical economic theories have failed throughout the world; We are still ashamed of thinking about out of box solution;
- ‘Common man’ is not interested in jargons and figures; Disinterested masses;
- A new economic world is emerging where we (Pakistanis) are being bracketed with countries like Afghanistan etc. [We cannot and will not allow this];
- This requires a revisit to the fundamental basis of creation of this state and its existence. “Economic well being” of the Muslim majority provinces of the sub-continent’ is the only basis.

Do we know the problem ? Yes / No

**SOLUTION IS VERY SIMPLE : ‘ECONOMICS’ NOT THE  
RELIGION AND SECURITY STATE AS SUBJECT**

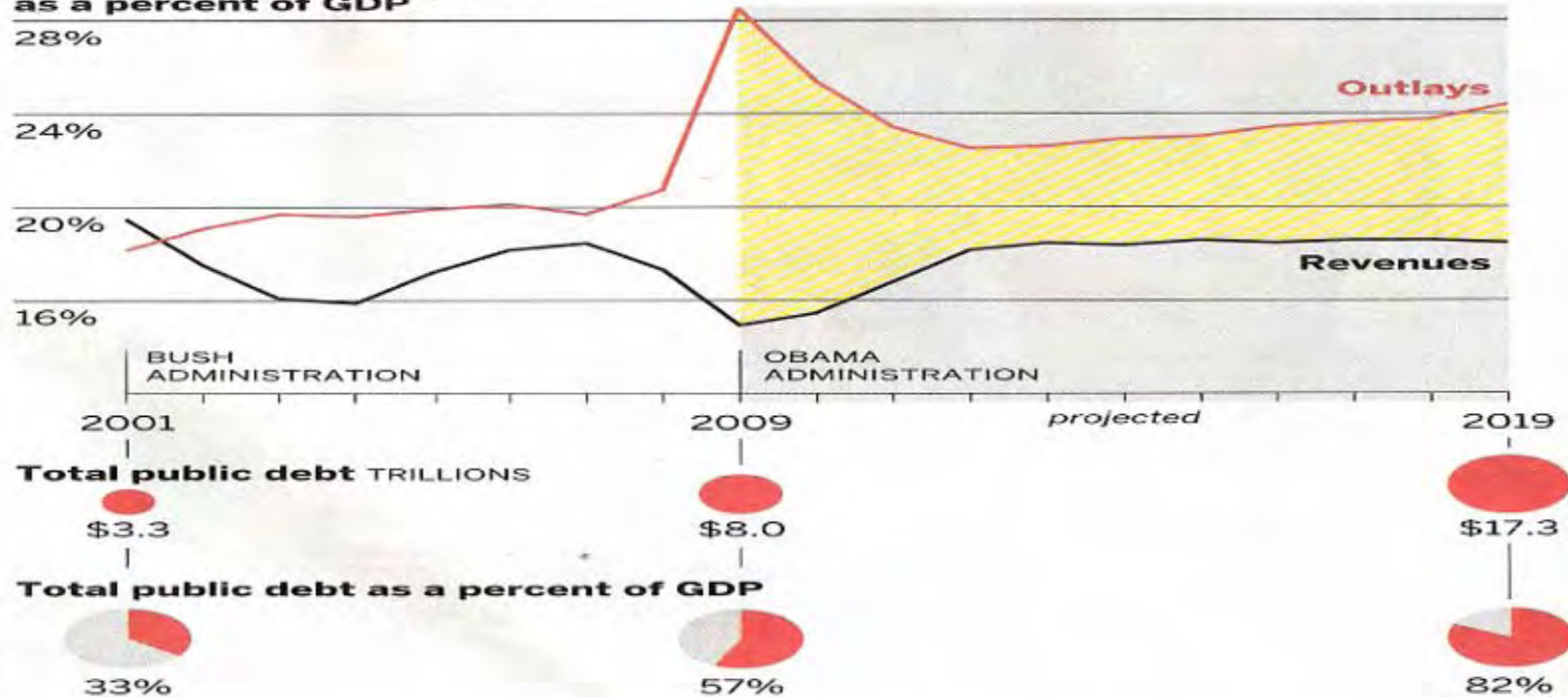
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# Look at US Budget Deficit

## THE GAP THAT NEVER CLOSES

The stimulus-driven bulge in federal deficits eventually narrows but keeps going, leading to a crushing burden of debt.

U.S. outlays and revenues as a percent of GDP



**THEY ARE PLANNING FOR 2019. WE DO NOT SEE BEYOND SIX MONTHS**

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## DO WE REALISE THE PROBLEM ?

**Meer Taqi Meer Said:**

چارہ گری بیماریء دل کی رسمِ شہرِ حسن نہیں  
ورنہ دلبرِ ناداں بھی اس درد کا چارا جانے ہے

**But as a nation is it our priority to solve economic issues? It is not in Muslim psyche. However, we do not have much choices.**

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## Sovereignty, Disparity and Economic Stability

جو شخص کمائے گا وہی کھائے گا ناصر  
اوروں کو کوئی اپنی کمائی نہیں دے گا

Sovereignty of a nation depends on economics

Foreigners will not support us without a cause  
[No free lunch]

Within the country, disparity cannot exist for long.

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## Budget with a Human Face

1. What does **'Human Face'** means?
  2. **'Intervention'** in classical economic theory for:
    - a) **Sustaining employment and creating atmosphere for growth (Indirect intervention; DFI, RTC, Export Fund etc ).**
    - b) **Providing direct support to needy people. (Direct Intervention; BISP; Bread; clothing, ration shop; utility stores etc )**
  3. The **'Dimension'** of the budget is towards that goal, however, the unanswered question is whether we have the:
    - a) **The Political will**
    - b) **Resources [How far we can stretch Budget Deficit]**
    - c) **Capability and capacity of the government**
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## Disconnect, People, Parliament and Government

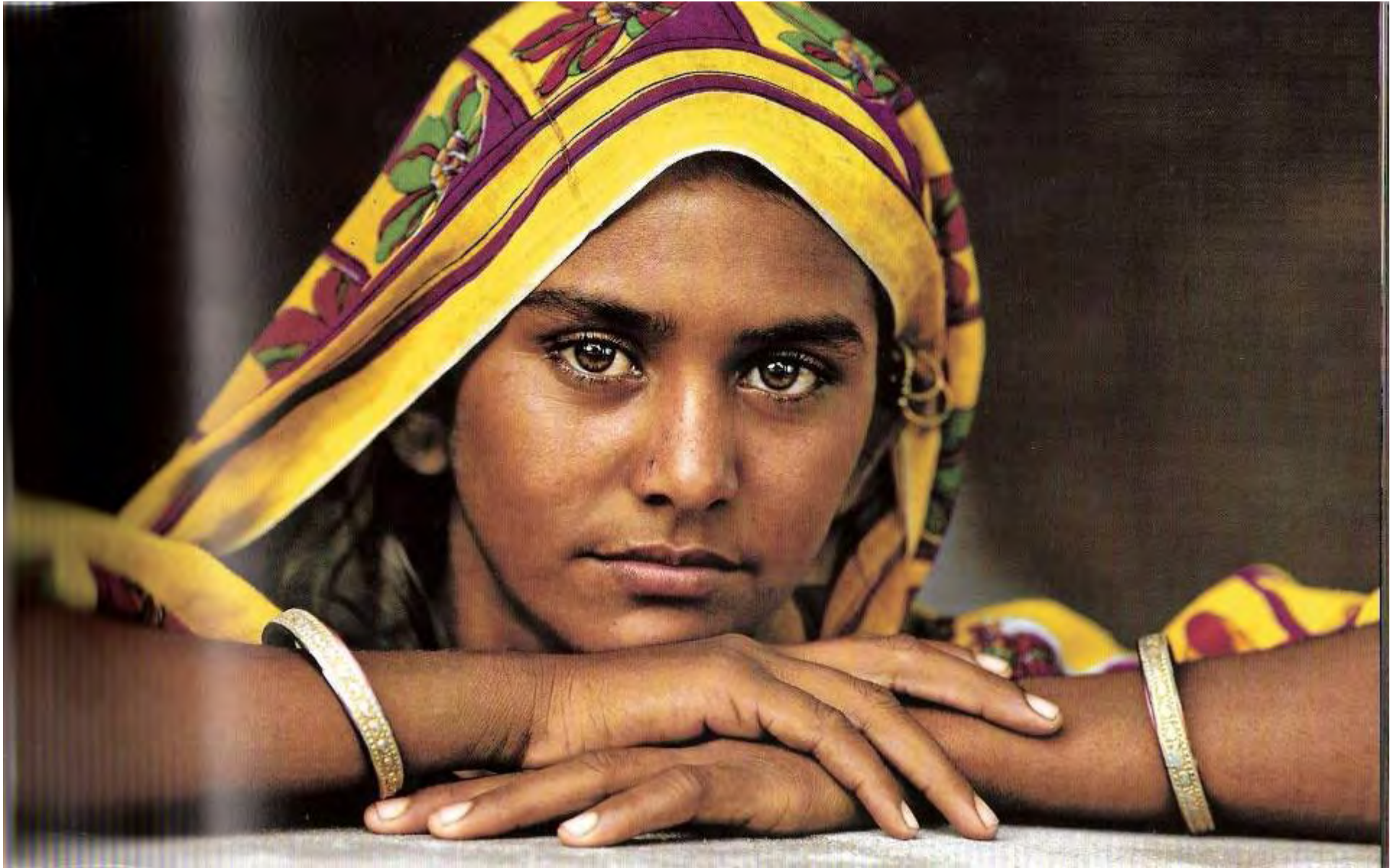
If decisions are to be made by others then:

فصلے سارے اسی کے ہیں ہماری بابت  
اختیار اپنا بس اتنا کہ خبر میں رہنا

پروین شاکر

It is not true only for lenders;

there is a disconnect between parliament, people  
and Economics.



**We all are waiting ? for an unknown future.**

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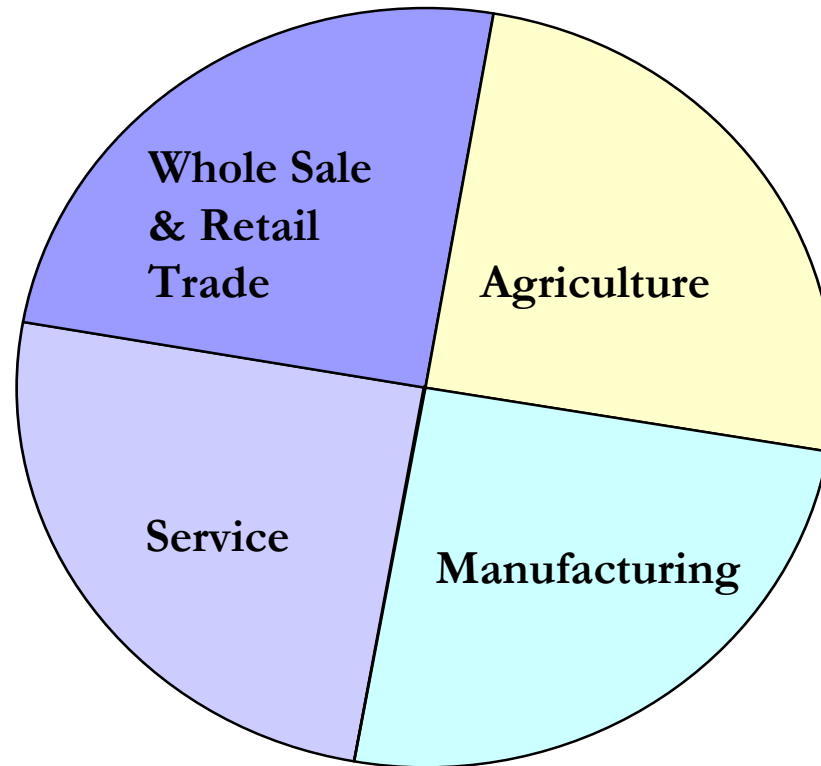


**This country is beautiful. Its real beauty is yet to  
Be known.**

## Theme of Budget for Indirect Taxation

- **Consistency of regime for Sales Tax.** This is positive ? However, at the same time this is the reflection of complete failure to tab **‘Whole Sale & Retail Trade’** within Sales Tax Net. This is a very serious issue. We will not be able to resolve the primary problem of documentation of economy and improving tax to GDP ratio if this important aspect is not properly tackled. No resolve or solution in the budget;
- **Extension of VAT for ‘Services’.** In principle a step in right direction.
- **Curbing Imports;** budget shows a softer approach. We need strict policy for balancing the trade deficit. It is not the desire it is a compulsion whether we like it or not
- **Survival of Domestic Industrial Sector.** Future world will be based on domestic market stabilization. Start thinking in ‘Rupee’ terms. Dollarisation of Economy.
- **Import Substitution.** No concrete step.

## SECTORAL IMBALANCE (INDIRECT TAXES)



- Taxes are substantially borne by the 'Manufacturing Sector'
- Services sector is now being brought in VAT.
- The untouched sector is 'Whole Sale & Retail Trade'. This leads to incentive for trade sector [continuation of Dubai Model]

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# SURVIVAL OR GROWTH

**Present status of our industry is:**

وہ دل نواز ہے لیکن نظر شناس نہیں  
میرا علاج مرے چارہ گر کے پاس نہیں  
گزر رہے ہیں عجب مرحلوں سے دیدہ و دل  
سحر کی آس تو ہے زندگی کی آس نہیں

**At this time the issue is not growth.**

**It is question and Faith and trust for survival.**

**This is now a social issue If we do not handle it properly there  
will be a chaos.**

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## **ILLEGAL CONNECTIONS**



**Our Economic life is like this ? we don't know where to go. All illegal connections will have to be Removed. Illegal connections are:**

- (1) exchange abuse;**
- (2) under invoicing;**
- (3) Afghan Transit Trade;**
- (4) incentives for trade; and**
- (5) whitening of untaxed money.**

# Extension of VAT on Services - Is it the fundamental change ?

## ***DUTY ON SERVICES***

The scope of FED on services has been enlarged. Four new services have been subjected to FED as specified in the Table 'A' below. Furthermore, for services referred to in Table 'B' below, the rates of duty have been revised. FED on these services has been levied under the VAT mode meaning thereby that FED shall be adjustable against sales tax or FED payable, subject to the conditions as laid down by the FBR, if any. In case of services provided by the banking companies and non-banking financial institutions, FED was earlier payable on non-funded services only. Now such duty shall be payable on all services except 'mark-up on advances'. These aspects have been further explained below in the comments on FED Rules. These changes are effective from July 1, 2009.

### ***TABLE A – Duty Imposed***

Duty on the following services has been imposed:

<b><i>Description of services</i></b>	<b><i>Heading / sub-heading No.</i></b>	<b><i>Rate of duty</i></b>
Advertisements in newspapers and periodicals, and on hoarding boards, pole, signs, sign boards and shop boards	9802.4000 and 9802.9000	16 per cent of the charges
Short Message Service (SMS)	9812.1710	Rs 0.20 per SMS in addition to 19 per cent of the charges
Services provided or rendered by stockbrokers	9819.1000	16 per cent of the charges
Services provided or rendered by port and terminal operators in relation to imports excluding stevedoring services	9819.9090	16 per cent of the charges

## TABLE B - Duty Revised

Duty on the following services has been revised:

<i>Description of services</i>	<i>Heading / sub-heading No.</i>	<i>Revised duty</i>
Telecommunication services	98.12 (all sub-headings)	19 per cent of the charges (previously 21 per cent)
Services provided or rendered in respect of insurance to a policy holder by an insurer, including a re-insurer (in case where direct insurance service has been provided)	9813.1100, 9813.1200, 9813.1300 and 9813.1400	16 per cent of the gross premium paid (previously 10 per cent)
Services provided by banking companies or non-banking financial companies	98.13	16 per cent of the charges (previously 10 per cent)

**VAT modes necessarily require issues of an ‘invoice’. Mechanism for the issue of ‘invoice’ to be laid down.**

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## Untouched Subjects

- **Under invoicing** [Can our industry survive in this environment; Do we know what it is ?]
- **Abuse of Exchange Regulation** [Do we want another Khanani & Kalia scandal ?]
- **Afghanistan Transit Trade** [Are we serious ?]
- **Cascading Study for Duty Structure** [Industry requires medium to long term strategy]

There seems to be lack of **“Home Work”** whilst aligning the fiscal policy with Trade Policy and the overall Economic Policy.

Is everything overruled by **‘Security Policy’**,

**India & Afghanistan are our neighbors not enemies.**

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## CARBON TAX

- This appears to be substitution of **Petroleum Development Surcharge (PDS)**. In effect it is not.
- PDS was the differential of cost and ultimate price for the consumers.
- It appears that 'CARBON TAX' will be a fixed amount. Theoretically Carbon Tax represents a charge for the use of petroleum products.
- There appears to be a rationale that CARBON TAX reduce consumption of petroleum.
- This is principally incorrect as bulk of the demand for petroleum is fixed. This is an additional cost which should be removed.

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## CAPITAL VALUE TAX

- Income from real estate sector is proposed to be tabbed through the substantial increase [from 2 to 4<sup>0</sup>%] of Capital Value Tax on purchase of property.
- It has been stated that this is a temporary measure till the time provinces agree to levy 'Provincial Capital Gain Tax'.
- The real issue is the 'Valuation' of property; and tax on '**income**' rather than '**receipts**'.
- The concept of 'Pre-emptive right' for valuation, similar to India, will have to be introduced.
- There should be an exemption for properties having price less than 2.5 million.

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# IMMEDIATE STEPS REQUIRED (SOLUTIONS)

- Concentrate on **'Domestic Economy'**.
- Curtail unnecessary imports; **Protective Wall against "Local Industry"**.
- **Review of exchange regulations**; Think in 'Rupee' terms. US\$ is not our currency.
- Saving POL, **Carbon Tax is not the answer.**
- **Change in paradigm for banking sector**; Insolvency law and Resolution Trust Corporation.
- **Differentiation between Industrial finance and normal commercial banking.**
- CVT on property to be converted into **'Capital Gain Tax'** by provinces.
- **Devolution of expenses** on Irrigation, health, education should be provinces.
- Allocation of around Rs 200 billion for **"Industrial Survival Fund"**. Amount to be taken out of PSDP.
- **Tax on Export Income** to be abolished; But documentation.
- Tax on 'Bonus' for IDPs to be reduced to 5%.

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**The Ultimate answer is education specially for Girls.**



**A move towards greener pastures and that for BOTH genders.**

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## IS THERE ANY OTHER CHOICE ?

آنکھ جو کچھ دیکھتی ہے لب پہ آسکتا نہیں  
محو حیرت ہوں کہ دنیا کیا سے کیا ہو جائے گی

اقبال

یہ آب و خاک و باد کا جہاں بہت حسین ہے  
اگر کوئی بہشت ہے تو بس یہی زمین ہے

سردار جعفری

This is the only place for us and our future generations.

We cannot afford to destroy it.

Thank you

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