



BUDGET FY16

SNAPSHOT & IMPACT ON MICROFINANCE PROVIDERS

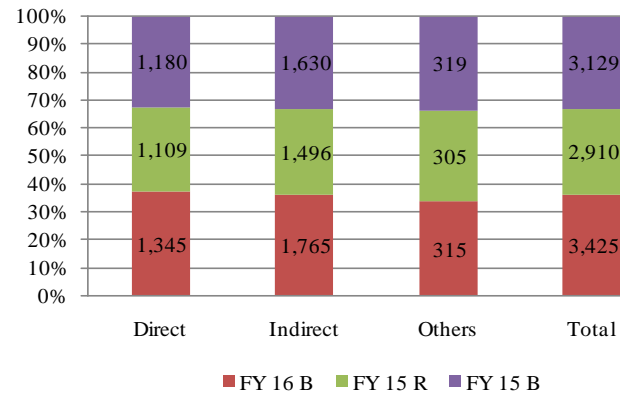
June 2015

Key Highlights:

- ✚ The Budget for FY16 projects a total outlay of PKR 4,451 bln, up 5% from revised estimates of outgoing fiscal year.
- ✚ The Budget focuses on fiscal consolidation and creating an enabling environment to provide impetus for growth.
- ✚ The fiscal deficit improved (FY15: -5%, FY14: -5.8%). The government aims to reduce it to 4.3% in FY16 through improvement in tax collection (Additional Tax Revenue: PKR 238 bln) and rationalization of subsidies (Subsidy Reduction: PKR 106 bln).
- ✚ Infrastructure development, especially energy and highways remain government's priority.
- ✚ Policy rate (SBP Discount: 7%) is at 42 years low. The low interest environment will reduce cost of funding for MFPs.
- ✚ Focus on documenting the economy. Cost for non-filers set to rise on multiple fronts especially on banking transactions.
- ✚ Government strengthening its social net for the poor by allocating additional funds for BISP, Insurance schemes and direct loans.
- ✚ Other salient areas of the budget included:
 - ✓ GDP grew at 4.2% in FY15 and is projected to grow at 5.5% for FY16 and 7% by FY17.
 - ✓ Debt to GDP ratio to be brought down to less than 60% in 3 years (FY15: 63%) and Investment to GDP ratio to increase to 20% in medium term.
 - ✓ Inflation remained at 4.6% during FY 15 and government intends to curtail it in single digits in medium term.
 - ✓ National PSDP allocation of PKR 1,514 bln (+27% YoY) with Federal component of PKR 700 bln (+29% YoY).
 - ✓ Credit Guarantee and insurance schemes for agriculture sector.
 - ✓ One time levy of 4% for banking companies and 3% for others having income greater than PKR 500mln.

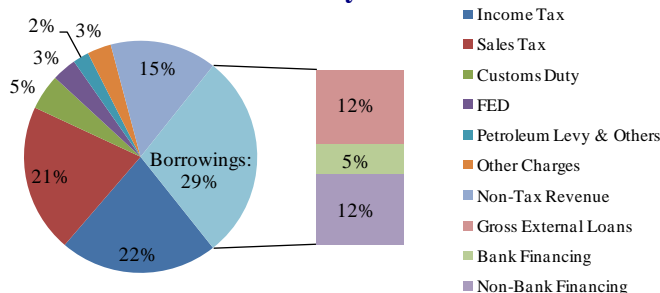
Budget Snapshot- FY16				PKR bln
Inflows	FY 16 (B)	FY 15 (R)	FY 15 (B)	
i Gross Revenue	4,313	3,952	3,945	
ii Provincial Share	(1,849)	(1,574)	(1,720)	
1 Net Revenue Receipts (i+ii)	2,463	2,378	2,225	
2 Net Capital Receipts	606	603	691	
3 Estimated Provincial Surplus	297	142	289	
4 External Receipts	752	693	671	
5 Privatization Proceeds	50	18	198	
6 Bank Borrowings	283	402	228	
Total Inflows	4,451	4,235	4,302	
Outflows				
i Current	3,482	3,481	3,463	
ii Development	969	754	838	
of which Federal PSDP	700	542	525	
7 Overall Expenditure (i+ii)	4,451	4,235	4,302	
(B): Budgeted , (R):Revised				

Tax Revenues

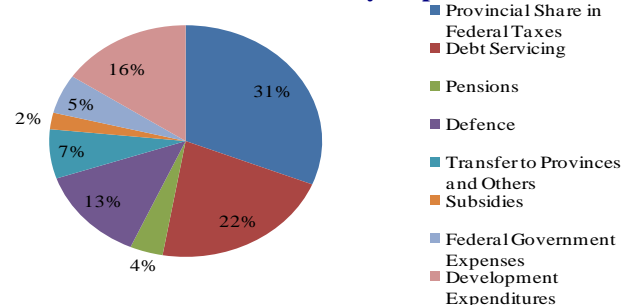


Budgetary Allocation

Where the Money comes from?



Where the money is spent?



Impact on Microfinance

The following budgetary measures are considered for having Positive, Neutral or Negative impact on Microfinance Service Providers (MFPs):

Positives:

- **Proposal:** Health Insurance Scheme (HIS) shall be provided to persons meeting poverty score for hospitalization. An amount of PKR 9.0 bln is allocated for this purpose.
Impact: The coverage of health under this scheme protects microfinance lenders against possible losses and expenses due to health problems of the clients.
- **Proposal:** Government allocating PKR 1.0 bln for Credit Guarantee Scheme (CGS) for small & marginalized farmers, PKR 500 mln for Crop Loan Insurance Scheme for farmers holding upto 25acres of land, and PKR 100 mln for Livestock Insurance.
Impact: These insurance and guarantee schemes will reduce cost of financing for borrowers and also protect microfinance providers against potential losses.
- **Proposal:** Interest free Loans for Solar Tube Wells (IFLSTW) for first 30,000 farmers against deposit of 100,000/- for farmers having up to 12.5 acres of land. Exemption from sales tax and custom duty at import stage for certain items of Solar Panels.
Impact: This will act as a supplement enabling small growers to utilize loans from MFPs in crop cultivation and other inputs hence reducing the risk. MFPs providing alternate energy solutions can offer their products at lower prices.
- **Proposal:** Relief to small taxpayers; Salaried taxpayers earning taxable income from 400,000 to 500,000 are proposed to be taxed at 2% (FY15: 5%) and non-salaried taxpayers earning income taxable income from 400,000 to 500,000 are proposed to be taxed at 7% (FY15: 10%).
Impact: Employees & borrowers of MFPs earning up to PKR 500,000 will have more income with reduced tax rate.

Neutrals:

- **Proposal:** Allocations for Benazir Income Support Program (BISP) to increase by 11% (FY16: PKR 102 bln; FY15: PKR 92 bln). BISP outreach to expand to 5.0 mln families from existing 4.1 mln families.
Impact: These funds are not routed through MFPs. Although this may be viewed as an increase in competition, BISP is a disposable income meant for basic necessities. Hence, it is not likely to impact MFPs and may reduce the risk of micro loans being used for consumptive purposes.
- **Proposal:** Additional WHT on cash withdrawal of 0.6%, and interest and dividend income increased to 17.5 for non-filers.
Impact: This provision will have the same impact on commercial banks and microfinance banks alike, as it relates to all depositors who do not file their tax returns. Hence, there will not be any competitive disadvantage. However, this may have a direct impact on MFPs that 'do not file' their tax returns.

Negatives:

- **Proposal:** Tax rate for all kinds of banking income from all sources is charged at 35%.
Impact: This will result in additional tax on income from other sources and will adversely impact profitability of MFPs that have investment portfolio or alternate income sources.

- **Proposal:** Minimum wage rate enhanced from PKR 12,000 /- to PKR 13,000/-
Impact: All employees of MFBs and MFIs earning below PKR 13,000 will now be paid more impacting the institutions' bottom-line. On the other side, borrower's disposable income will go up, in turn, enhancing their ability to repay loans.
- **Proposal:** Adjustable advance income tax deduction at the rate of 0.6% of the amount of transaction on all banking instruments will be made for Non-filers.
Impact: Those MFPs (mainly MFBs) that are involved in deposit taking will be impacted from this change since majority of the depositors in Pakistan are non-filers. It will have a major impact on branchless banking transactions as well. The government is considering a threshold of PKR 50,000 for this. If approved, it will lessen the impact. Additionally, MFBs will have to integrate this information into database although this will have the same impact on commercial banks.
- **Proposal:** Capital Gains Tax (CGT) on sale of equity and debt securities has been increased to 15% (previous 12.5%) for holding period less than 12 months, 12.5% (previous 10%) for more than 12 but less than 24 months and 7.5% (previous 0%) for more than 24 months.
Impact: MFPs that have an investment portfolio will have to pay additional tax on sale of securities, in turn, dampening their profitability.
- **Proposal:** More Funds Allocated to Agriculture Credit in order to enhance agricultural activities. Total disbursement under these schemes will be PKR 1.0 bln.
Impact: Direct competition of MFPs, especially in rural areas.
- **Proposal:** Allocation for PM Youth Loan Program increased by 185% (FY16: PKR 20 bln. FY15: PKR 7.0 bln) and interest rate reduced to 6% from 8% on these loans.
Impact: These funds are not routed through MFPs and will be in direct competition.
- **Proposal:** Budgeted allocation of funds to Pakistan Poverty Alleviation Fund (PPAF) reduced by 46% (FY16: PKR 4.3 bln; FY15: PKR 7.9 bln).
Impact: This will reduce the funding available to MFPs from PPAF which may result in higher competition amongst MFPs for funds.