

Budget 2021-22

Pakistan Federal Budget

Pakistan Budget 2021-22: A Balancing Act Between Growth and Fiscal Consolidation

- Federal Government presented the budget for the year FY22 on 11th-Jun-21, starting its discourse by evaluating the impact of Covid19 pandemic on the country's economy and inherited challenging fiscal and external position.
- The total outlay of budget for the year 2022 is earmarked at PKR 8.5trn, roughly +19% higher than last year budget outlay of PKR 7.1trn.
- The government has set a fiscal deficit target of PKR 3.42trn or 6.3% of GDP lower by 750bps from last year deficit of 7.1%.
- From a market standpoint we expect budget 2021-22 will be well received by market participants. We think overall budget to be **"market-positive"**.
- **Neutral:** For sectors like Banks, Oil & gas and Power budget 2022 holds neutral implications. Whereas; **Positive:** For Automobile Assemblers, Fertiliser, Construction, Consumer, Pharmaceutical and Chemicals introduced measures are positive.

A balancing act between growth and fiscal consolidation

Federal Government presented the budget for the year FY22 on 11th-Jun-21, starting its discourse by evaluating the impact of Covid19 pandemic on the country's economy and inherited challenging fiscal and external position.

Nevertheless, the consolidated federal and provinces budget deficit for FY22 is projected at PKR 3.42trn or 6.3% of the gdp, which is roughly more or less equal to outgoing 2021 year deficit size of PKR 3.38trn or 7.1% of the gdp.

In an established manner, the government also rolled out growth, inflation, and debt projections. Starting from growth, the government is targeting a +4.8% growth in FY22 from a growth of +3.9% FY21 and is expected to reach its historic average level of 6.0% in the next 2-years. Moreover, the government foresees a single digit inflation in FY22 at 8.2% and expects it to remain close to 7.0% by 2024.

Moving on, the FY22 budget is more or less a government's continued efforts of achieving fiscal consolidation while simultaneously maintaining a sustainable growth path. The overall budget focus has been on facilitating and repairing Covid19 affected economy, by a way of uplifting low/middle-income group, as a result, there has been limited or no new taxes introduced. Moreover, adhering to IMF EFF program protocol the government has withdrawn multiple tax exemptions while also aligning similar magnitude of tax relief measures.

Departing from yesteryear, this time around government has increased its development budget significantly. Overall federal PSDP has been increased by +40% to PKR 900bn, with an increasing focus on housing projects. As a result

Analyst

IGI Research

research@igi.com.pk

Tel: (+92-21) 111-234-234 Ext.: 810

of higher development and other fiscal support packages, construction stands out amongst the rest, which in turn would have in principle have a spill-over effect on other secondary industries in country. This is closely followed by agricultural sector and rural area development projects.

Key Budgetary Highlights

- The **total outlay of budget** for the year 2022 is earmarked at **PKR 8.5trn**, roughly +19% higher than last year budget outlay of PKR 7.1trn.
- The government has set a **fiscal deficit target of PKR 3.42trn** or 6.3% of GDP lower by 750bps from last year deficit of 7.1%.
- With interest payment for the year targeted to reach PKR 3.0trn, the **primary deficit comes at PKR 360bn or 0.7% of gdp** for 2022.
- **GDP growth target is estimated at 4.8%** as against 3.9% in FY21.
- **The Inflation target has been set at 8.2 %** for FY22 and gross debt is expected to decline to 82% of gdp from 88% and 83% 2020 and 2021 respectively.
- **FBR tax target has been set PKR 5.8trn** up by +17.5% from last year budgeted amount, of PKR 4.96trn. However for 2021, government missed the FBR tax collection target by PKR 273bn or 6%.
- **Current expenditure** is budgeted at **PKR 7.5trn** up by +19% y/y.
- The size of Federal Public Sector Development Programme (**PSDP**) is targeted at **PKR 900bn** up from PKR 650bn last year budgeted amount. However in actual total PSDP deployed fell short by PKR 20bn or 3%.
- **Subsidies worth PKR 682bn** have been granted for FY22, compared to PKR 209bn for previous year almost up by 3.3x. Majority of increase is down to payments planned for IPPs worth PKR 136bn and PHPL PKR 118bn.

Budget Deficit

Fiscal deficit targeted drop to 6.3% of GDP

The consolidated deficit of federal and provincial government stands at 7.1% of gdp or PKR 3.6trn (primary deficit of PKR 0.5trn) as of FY21, whereas, government projects fiscal deficit of PKR 3.4trn or 6.3% of gdp (primary deficit of PKR 0.4trn) in FY22.

Exhibit: Pakistan Comparative Budgetary Position							%age of gdp		
PKRbn	FY21B	FY21R	FY22B	Abs. Chg	Chg. %		FY21B	FY21R	FY22B
Federal budgetary position									
Revenue	3,700	3,691	4,497	806	21.8%		8.1%	7.7%	8.3%
External	810	1,323	1,246	(77)	-5.8%		1.8%	2.8%	2.3%
Non-bank borrowing	1,395	1,415	1,241	(174)	-12.3%		3.1%	3.0%	2.3%
Bank Borrowing	890	649	681	32	4.9%		2.0%	1.4%	1.3%
Provincial Surplus	242	242	570	328	135.5%		0.5%	0.5%	1.1%
Privatisation Proceeds	100	0	252	252	n.a.		0.2%	0.0%	0.5%
Total Resources	7,137	7,321	8,487	1,166	15.9%		15.7%	15.3%	15.8%
Current	6,343	6,561	7,523	962	14.7%		13.9%	13.8%	14.0%
Development	794	760	964	204	26.9%		1.7%	1.6%	1.8%
Total Expenditure	7,137	7,321	8,487	1,166	15.9%		15.7%	15.3%	15.8%
Consolidated Fiscal Balance									
Consolidated Fiscal Balance	-3,195	-3,387	-3,420	(33)	1.0%		-7.0%	-7.1%	-6.3%
Primary Balance	-249	-537	-360	176	-32.9%		-0.5%	-1.1%	-0.7%
- Federal	-3,437	-3,629	-3,990	(361)	9.9%		-7.5%	-7.6%	-7.4%
- Provincial Surplus	242	242	570	328	135.5%		0.5%	0.5%	1.1%
GDP (PKRbn)	45,567	47,709	53,867	6,158	12.9%		100.0%	100.0%	100.0%

Additional spending and Revenues forgone amid Covid19, (%age of gdp)

U.S.A	25.5%
U.K	16.2%
Italy	8.5%
Spain	7.6%
China	4.8%
India	3.3%
Saudi Arabia	2.2%
Turkey	1.9%
Bangladesh	1.4%
Vietnam	1.4%
Pakistan	1.8%
--Emrgy Response	0.3%
--Citizen Relief	0.6%
--Buss. Support	0.9%

Source: PES 2020-21

Economic Recovery and Withdrawal of Tax Exemptions to Propel Revenue Growth

Keeping up with the tradition, the government rolled out an ambitious revenue target of PKR 7.9trn. Of the total revenue target, tax revenue is estimated at 5.8trn which is up by +24%y/y over revised tax collection covering roughly 75% of the total collection. But more importantly government authorities despite the advent of Covid19 managed to achieve its target revenue only missing by a 3% with major slippage seen under income tax – historically budgeted versus actual shortfall is roughly ~12% on average.

Exhibit: Pakistan Comparative Revenue Position						%age of gdp		
PKRbn	FY21B	FY21R	FY22B	Abs. Chg	Chg. %	FY21B	FY21R	FY22B
Revenues								
Tax Revenues	4,963	4,691	5,829	1,138	24.3%	10.9%	9.8%	10.8%
a) FBR	4,963	4,691	5,829	1,138	24.3%	10.9%	9.8%	10.8%
- Direct taxes	2,043	1,789	2,182	393	22.0%	4.5%	3.7%	4.1%
- Indirect taxes	2,920	2,902	3,647	745	25.7%	6.4%	6.1%	6.8%
Non-Tax Revenues	1,610	1,704	2,080	376	22.0%	3.5%	3.6%	3.9%
Gross Revenue	6,573	6,395	7,909	1,514	23.7%	14.4%	13.4%	14.7%
Provincial Share	2,874	2,704	3,412	708	26.2%	6.3%	5.7%	6.3%
Net Revenue	3,700	3,691	4,497	806	21.8%	8.1%	7.7%	8.3%

Development Squeeze Finally In the Rear Mirror

Current expenditure

With a total outlay of PKR 8.5trn (up by 16%) the government has assigned PKR 7.5trn (up by 15%) for the use of current expenditure and PKR 0.96trn (up by 27%) for development expenditure.

- Subsidy has been increased by 59% to PKR 682bn consisting of PKR 254bn most related to power sector payments.
- Defense expenses are up by 6% (2.5% of the gdp) to PKR 1.4trn, while civil administrative expense are down by 2% to PKR0.48trn.
- Debt servicing is estimated at PKR 3.0trn, up by 7% with domestic debt servicing making up nearly ~90% of total debt servicing cost is projected at PKR 2.7trn up +6%.
- The Government has allocated PKR 36bn under the housing segment.
- For Covid19 emergency government allocated PKR 100bn.

Development expenditure

Departing from yesteryear, this time around government has increased its development budget significantly. Tax exemption, standardise tax measures are some of the relief measures to increase ease of doing business. Industrial production and in particularly construction and allied sector has been a focal area followed by agricultural and rural development via multiple of housing and financing subsidies.

- Public Sector Development Projects (PSDP) size has been revised upwards to PKR 2.1trn or 4.0% of the gdp, up by +64%. Break-up wise federal PSDP stands at PKR 900bn (up +43%) while provincial is targeted at PKR 1.2trn (up 83%).

Exhibit: Pakistan Comparative Expenditure Position						%age of gdp		
PKRbn	FY21B	FY21R	FY22B	Abs. Chg	Chg. %	FY21B	FY21R	FY22B
Expenditure								
Current Expenditure	6,343	6,561	7,523	962	14.7%	13.9%	13.8%	14.0%
- Debt Servicing cost	2,946	2,851	3,060	209	7.3%	6.5%	6.0%	5.7%
- Defense	1,286	1,295	1,370	75	5.8%	2.8%	2.7%	2.5%
- Grants and Transfers	905	932	1,168	235	25.2%	2.0%	2.0%	2.2%
- Subsidies	209	430	682	252	58.6%	0.5%	0.9%	1.3%
- Civil Govt. admin	477	488	479	(9)	-1.8%	1.0%	1.0%	0.9%
- Education	83	88	92	4	4.4%	0.2%	0.2%	0.2%
- Social & Health	256	299	284	(15)	-5.1%	0.6%	0.6%	0.5%
- Other	180	178	389	211	118.5%	0.4%	0.4%	0.7%
Development	794	760	964	204	26.9%	1.7%	1.6%	1.8%
a) PSDP	1,324	1,304	2,135	831	63.7%	2.9%	2.7%	4.0%
- Federal	650	630	900	270	42.9%	1.4%	1.3%	1.7%
- Provincial	674	674	1,235	561	83.2%	1.5%	1.4%	2.3%
- Other Development	144	130	64	(66)	-50.9%	0.3%	0.3%	0.1%
Total Expenditure	7,137	7,321	8,487	1,166	15.9%	15.7%	15.3%	15.8%

Financing of deficit has been sourced primarily through domestic sources.

Banks will contribute nearly PKR 681bn significantly down by PKR 890bn earmarked in FY21 budget, while government will raise PKR 1.5trn through non-banking and privatisation proceeds combined.

Exhibit: Pakistan Comparative Budgetary Position						%age of gdp		
PKRbn	FY21B	FY21R	FY22B	Abs. Chg	Chg. %	FY21B	FY21R	FY22B
Budget financing								
External	810	1,323	1,246	(77)	-5.8%	1.8%	2.8%	2.3%
Non-bank borrowing (incl. NSS)	1,395	1,415	1,241	(174)	-12.3%	3.1%	3.0%	2.3%
Bank Borrowing	890	649	681	32	4.9%	2.0%	1.4%	1.3%
Privatisation Proceeds	100	0	252	252	n.a.	0.2%	0.0%	0.5%
Total Financing	3,195	3,387	3,420	33	1.0%	7.0%	7.1%	6.3%

Pakistan budgetary position

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PKRbn	FY21B	FY21R	FY22B	Abs. Chg	Chg. %	%age of gdp		
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Revenues								
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a) FBR	4,963	4,691	5,829	1,138	24.3%	10.9%	9.8%	10.8%
- Direct taxes	2,043	1,789	2,182	393	22.0%	4.5%	3.7%	4.1%
--Income Tax	2,033	1,780	2,172	392	22.0%	4.5%	3.7%	4.0%
- Indirect taxes	2,920	2,902	3,647	745	25.7%	6.4%	6.1%	6.8%
--Customs Duties	640	700	785	85	12.1%	1.4%	1.5%	1.5%
--Sales Tax	1,919	1,927	2,506	579	30.0%	4.2%	4.0%	4.7%
--Federal Excise	361	275	365	90	32.7%	0.8%	0.6%	0.7%
Non-Tax Revenues	1,610	1,704	2,080	376	22.0%	3.5%	3.6%	3.9%
- SBP Profits	620	700	650	(50)	-7.1%	1.4%	1.5%	1.2%
- Petroleum Levy	450	500	610	110	22.0%	1.0%	1.0%	1.1%
- GIDC	15	25	130	105	420.0%	0.0%	0.1%	0.2%
Gross Revenue	6,573	6,395	7,909	1,514	23.7%	14.4%	13.4%	14.7%
Provincial Share	2,874	2,704	3,412	708	26.2%	6.3%	5.7%	6.3%
--Punjab	1,439	1,323	1,691	368	27.9%	3.2%	2.8%	3.1%
--Sindh	742	680	1,691	1,011	148.5%	1.6%	1.4%	3.1%
--Khyber Pakhtunkhwa	478	443	559	116	26.1%	1.0%	0.9%	1.0%
--Balochistan	265	258	313	56	21.6%	0.6%	0.5%	0.6%
Net Revenue	3,700	3,691	4,497	806	21.8%	8.1%	7.7%	8.3%
Expenditure								
Current Expenditure	6,343	6,561	7,523	962	14.7%	13.9%	13.8%	14.0%
- Debt Servicing cost	2,946	2,851	3,060	209	7.3%	6.5%	6.0%	5.7%
--on Domestic Debt	2,631	2,611	2,757	146	5.6%	5.8%	5.5%	5.1%
--on Foreign Debt	315	240	303	63	26.3%	0.7%	0.5%	0.6%
- Defense	1,286	1,295	1,370	75	5.8%	2.8%	2.7%	2.5%
- Grants and Transfers	905	932	1,168	235	25.2%	2.0%	2.0%	2.2%
- Subsidies	209	430	682	252	58.6%	0.5%	0.9%	1.3%
--IPP's & PHPL	0	46	254	208	452.2%	0.0%	0.1%	0.5%
-- WAPDA/PEPCO (ex. PHPL and IPP's)	124	304	257	(47)	-15.6%	0.3%	0.6%	0.5%
- Civil Govt. admin	477	488	479	(9)	-1.8%	1.0%	1.0%	0.9%
- Education	83	88	92	4	4.4%	0.2%	0.2%	0.2%
- Social & Health	256	299	284	(15)	-5.1%	0.6%	0.6%	0.5%
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Fiscal balance								
- Federal	-3,437	-3,629	-3,990	(361)	9.9%	-7.5%	-7.6%	-7.4%
- Provincial Surplus	242	242	570	328	135.5%	0.5%	0.5%	1.1%
Fiscal Balance	-3,195	-3,387	-3,420	(33)	1.0%	-7.0%	-7.1%	-6.3%
Primary Balance	-249	-537	-360	176	-32.9%	-0.5%	-1.1%	-0.7%
GDP (PKRbn)	45,567	47,709	53,867	6,158	12.9%	100.0%	100.0%	100.0%
Financing								
External	810	1,323	1,246	(77)	-5.8%	1.8%	2.8%	2.3%
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Total Financing	3,195	3,387	3,420	33	1.0%	7.0%	7.1%	6.3%

Pakistan Economic Forecast

Exhibit: Pakistan Economic Targets budget 2021-22								
		2016a	2017a	2018a	2019a	2020a	2021P	2022f
Gross Domestic Product								
GDP	USDbn	279	305	314	280	262	296	329
GDP (Constant)	PKRtn	11.1	11.7	12.3	12.6	12.5	13.0	13.7
GDP (MP)	PKRtn	29.1	31.9	34.6	38.1	41.6	47.7	54.0
Agriculture	PKRtn	2.2	2.3	2.3	2.4	2.4	2.5	2.6
Industries	PKRtn	2.3	2.4	2.5	2.5	2.4	2.5	2.7
Commodity Producing Sector	PKRtn	4.5	4.7	4.9	4.9	4.8	5.0	5.2
Services	PKRtn	6.6	7.0	7.5	7.7	7.7	8.0	8.4
Growth Rate								
Real GDP	%	4.6	5.2	5.5	2.1	(0.5)	3.9	4.8
Nominal GDP	%	5.9	9.8	8.4	10.0	9.1	14.8	13.2
Agriculture	%	0.2	2.2	4.0	0.6	3.3	2.8	3.5
Industries	%	5.7	4.6	4.6	(1.6)	(3.8)	3.6	6.7
Commodity Producing Sector	%	2.9	3.4	4.3	(0.5)	(0.3)	3.2	5.1
Services	%	5.7	6.5	6.3	3.8	(0.6)	4.4	4.7
%age Share of GDP								
Agriculture	%	19.8	19.3	19.0	18.7	19.4	19.2	18.9
Industries	%	20.9	20.8	20.6	19.9	19.2	19.1	19.5
CPS	%	40.7	40.0	39.6	38.6	38.6	38.3	38.4
Services	%	59.3	60.0	60.4	61.4	61.4	61.7	61.6
Prices and Monetary								
CPI	%		4.8	4.7	6.8	10.8	9.0	8.2
External Sector								
C/a Bal.	USDbn	(5.0)	(12.3)	(19.2)	(13.4)	(3.0)	0.8	(2.3)
Exports	USDbn	22.0	22.0	24.8	24.3	22.5	22.6	26.8
Imports	USDbn	41.1	48.0	55.7	51.9	42.4	50.3	55.3
Trade Bal.	USDbn	(19.1)	(26.0)	(30.9)	(27.6)	(19.9)	(27.7)	(28.5)
Remittances	USDbn	19.9	19.4	19.9	21.7	23.1	26.7	31.3
C/a Bal. / GDP	%	(1.8)	(4.0)	(6.1)	(4.8)	(1.1)	0.3	(0.7)
Trade Bal. / GDP	%	(6.9)	(8.5)	(9.8)	(9.9)	(7.6)	(9.4)	(8.7)
Exports + Remit. Gr.	%	(2.2)	(1.3)	8.0	2.9	(0.8)	8.1	17.7
Fiscal (%age of GDP)								
Tax Revenue	%	12.6	12.4	12.9	11.7	11.4	9.8	10.8
Non-tax revenue	%	2.7	3.0	2.2	1.1	3.7	3.6	3.9
Current Expenditure	%	16.1	16.3	16.9	18.7	20.5	13.8	14.0
PSDP	%	4.5	5.3	4.7	3.2	2.9	2.7	4.0
Primary Balance	%	(0.3)	(1.6)	(2.2)	(3.6)	(1.8)	(1.1)	(0.7)
Fiscal Balance	%	(4.6)	(5.8)	(6.5)	(9.0)	(8.1)	(7.1)	(6.3)
Debt (%age of GDP)								
Gross Public Debt	%	67.7	67.1	72.1	85.9	87.6	83.1	81.8

Source: IGI Research, PBS, SBP, Ministry of Finance, IMF

Budget to Be 'Market-Positive'

From a market standpoint we expect budget 2021-22 will be well received by market participants. Reduced capital gains tax and withholding tax exemption on margin financing, along with 100% claimable input tax adjustments especially for listed companies are some of the market specific measures.

We think overall budget to be “**Market-Positive**”.

On corporate earnings there has been no change in corporate, or super tax. While reduction in turnover tax and reduction or removal of custom duties, federal excise duty and regulatory duties on import of raw materials will benefit selected companies.

Positive

Stock Market

Budgetary Measures	Comments	Impact
Capital Gain Tax	Capital Gain tax on disposal of securities reduced by 2.5% to 12.5% (filer)	Positive
Removal of WHT	Removal of withholding tax collected from members by a stock exchange registered in Pakistan	Positive
	Removal of withholding tax on collected by NCCPL on Margin Financing	Positive
Adjustable input tax	Exclusion of high regulated companies such as Public listed from the purview of section 8B under sales tax act dealing with adjustable input tax. Aforementioned companies will now able to claim input tax adjustment up to 100% from previously 90% in the same year.	Positive
SEZs and STZs, exempted from minimum tax	Extension in exemption of minimum tax on enterprises operating under Special Economic Zones (SEZ)s and Special Technology Zones (STZ)s	Positive

Positive

Corporate Earnings

Budgetary Measures	Comments	Impact
Minimum Turnover tax	Reduction in Minimum Turnover Tax from 1.5% to 1.25%, unless specified	Positive
Corporate tax rate	No change in the corporate tax rate	Neutral

Sector-Wise Budgetary Impacts

- Neutral: For sectors like Banks, Oil & gas and Power budget 2022 holds neutral implications.

whereas;

- Positive: For Automobile Assemblers, Fertiliser, Construction, Consumer, Pharmaceutical and Chemicals introduced measures are positive.

Positive

Cements

Budgetary Measures	Comments	Impact
Development budget	PSDP allocation of PKR 2.1trn (federal PKR 900bn up by +40%), up by over 30% compared to last year. Of this PKR 100bn has been set for dams' construction. Moreover, government has earmarked PKR 739bn under Karachi Transformation Plan (KTP).	Positive
Low-income housing schemes and subsidies	Multiple housing schemes. Government has earmarked roughly PKR 33bn under low cost housing schemes as well as cheaper financing. - PKR 2.0mn financing for low income households at concessionary rates, PKR 3.0mn subsidy for low-income households and PKR 0.5mn interest free loans for house loans for low income.	Positive

Positive

Steel

Budgetary Measures	Comments	Impact
Custom duty	Reductions and exemptions from customs duties are proposed on raw materials of flat rolled products, High-Rolling Coil (HRC) and stainless steel.	Positive
Development budget	PSDP allocation of PKR 2.1trn (federal PKR 900bn up by +40%), up by over 30% compared to last year. Of this PKR 100bn has been set for dams' construction. Moreover, government has earmarked PKR 739bn under Karachi Transformation Plan (KTP).	Positive

Positive

Pharmaceuticals

Budgetary Measures	Comments	Impact
Exemption of ADC & CD	Exemption of Custom duties and Additional Custom duties on more than 350 Active Pharmaceutical Ingredients (API)s	Positive
	Exemption of Custom duties and Additional Custom duties on 06 life-saving drugs	Positive
Plant & Machinery	Plant and machinery import at concessionary rate of 5%	Positive
Covid19 Budget	Allocation of PKR 100bn for Covid and related expenditures	Positive
	Extension in exemption from CD on import of Covid19 related items for further six months	Positive
	USD 1.1bn for procurement of Covid19 importing vaccine	Neutral
Health Budget	Sehat card facility for 4-6mn families	Positive

Positive

Telecommunication & IT

Budgetary Measures	Comments	Impact
Federal Excise Duty (FED)	Federal Excise Duty (FED) reduced from 17% to 16%	Positive
	Cabinet has rejected imposition of Federal Excise Duty (FED) on mobile usage with calls lasting above 3minutes, PKR 0.1/sms and PKR 5/GB of Internet usage.	Neutral
Fixed Tax	Fixed tax on sim cards withdrawn	Positive
Change in definition	Telecommunication services included in definition of industrial undertaking	Neutral
WHT	Reduced rate of 3% withholding tax on telecommunication services	
Cloud computing & storage	Broadening of scope of IT services by inclusion of cloud computing and data storage services	Neutral
SEZs and STZs, exemptions	Extension in exemption of minimum tax on enterprises operating under Special Economic Zones (SEZ)s and Special Technology Zones (STZ)s	Positive
	Tax exemption on raw material /inputs import by enterprises under special technology zone enterprise.	Positive

Positive

Fertiliser

Budgetary Measures	Comments	Impact
Development budget	Allocation of PKR 12bn under Agricultural Emergency Program for development, enhancement and import substitution	Positive
Dealers & Distributors	Advance tax reduced by 0.25% from 0.75% for Dealers or distributors of fertilizer whose name appear on ATL.	Positive

Positive

Automobile assemblers

Budgetary Measures	Comments	Impact
Sales Tax	Sales tax reduced to 12.5% from 17.0% on vehicles with engine capacity up to 850cc.	Positive
FED	FED of 2.5% removed on vehicles with engine capacity up to 850cc.	Positive
Electric Vehicles (EV)	Exemption of import duties on CKD kit for EV along with 1% reduction in sales tax on EV supplied by local manufacturers	Positive
Tax 'On' Money introduced	Introduction of tax on "on" money on vehicles, if vehicle is disposed without registration, which may discourage on-money charged on cars.	Neutral
Farm Tractors/ Machinery	PKR 200,000 interest free loans to farmers for purchase of Tractor and machinery	Positive

Neutral

Oil & Gas Exploration/Marketing & Refineries

Budgetary Measures	Comments	Impact
Tax exemption on upgradation and BMR	Exemption from tax on income of deep conversion new refineries and BMR projects of existing refineries for 10yrs. Refineries can now avail tax exemption for capacity of up to 100,000bopd including conversion of existing capacity to deep conversion.	Positive
Separate account requirement	Clause to maintain separate account for income arising from additional capacity has been removed.	Neutral
Minimum Turnover tax	Turnover tax on OMCs has been maintained at 0.75%	Neutral
	Turnover tax on refineries has been reduced to 0.5% from 1.5%.	Positive

Petroleum Levy	Petroleum Levy has been proposed to be enhanced from PKR 450bn (revised PKR 500bn for FY21) to PKR 610bn. Increase in petroleum levy would not impact profitability for OMCs as it is a pass over charge, however higher quantum of levy in retail prices is likely to impact demand once oil prices increase substantially.	Neutral
Zero rating	Zero rating withdrawn on import of machinery used by petroleum and gas sector.	Neutral
WHT	Reduced rate of withholding tax of 3% on oilfield services	Neutral
Sales Tax	Sales tax on LNG has been proposed to be increased to 17% from 10% currently.	Neutral to Negative
Customs duty	10% customs duty imposed on Motor Spirit (MS) and High Speed Diesel (HSD).	Positive

Neutral

Power

Budgetary Measures	Comments	Impact
Subsidy	Subsidy to WAPDA/PEPCO has been proposed to be increased to PKR 511bn for FY22 compared to PKR 124bn budgeted for FY21 (revised PKR 350bn). Subsidy to KESC reduced to PKR 85bn for FY22 compared to PKR 15.5bn budgeted in FY21. Additional subsidy of PKR 136bn and PKR 118bn has been proposed for IPPs and PHPL along with increase of PKR 73bn in Inter-Disco Tariff Differential. Increase in subsidy likely indicates that the Government does not intend on increasing the tariff.	Neutral
Tax Exemption on coal mining projects	Tax exemption withdrawn for profits and gains derived by a taxpayer on any coal mining project in Sindh	Neutral to Negative
Profit on debt	Withdrawal of tax exempt on profit on debt derived by Hub Power Company Limited (HUBC) on project operations	Neutral

Neutral

Commercial Banks

Budgetary Measures	Comments	Impact
Banking Transactions	WHT collected on banking cash withdrawals, instruments and transaction removed for person not appearing on ATL	Neutral
WHT on remittances abroad	WHT abolished on amount collected from persons remitting abroad through credit or debit or prepaid cards.	Positive

Other sectors

Sector	Budgetary Measures	Comments	Impact
Cable & Electrical Goods	Exemption of ACD	Exemption of Additional Custom Duty (ACD) on import of raw materials for cables / optical fiber manufacturers.	Positive (PCAL)
	Development Projects	PKR 118bn has been allocated for improving electricity transmission projects	Positive (PAEL, SIEM, PCAL)
	Electronic goods	Reduction/exemption of CD/ACD on inputs for electronic manufacturing industry	Positive (PAEL, WAVES)
Food & Consumer	Reduction/exemption of CD and ACD	Reduction/exemption of CD and ACD on inputs for poultry industry	Positive
		Reduction/exemption on inputs/raw materials of food processing industry	Positive
	Sales tax	Sales tax on sale of sugar to specific industries is exempt from sales tax which includes pharmaceutical, beverage and confectionery.	Positive (NESTLE, FFL, FCEPL)
		Withdrawal of sales tax on imported unbranded fruit juices, flavored milk, yoghurt, butter, cheese, ghee, cream etc.	Positive (NESTLE, FFL, FCEPL, NATF)
		Sales tax imposed on imported soya bean seed.	Negative (UNITY)

		Sales tax imposed on imported cereals and milling industry products such as wheat and meslin flour	Negative
		Sales tax imposed on imported edible oil and vegetable ghee	Negative
		Normalization (increase) of sales tax on various unbranded food products (cheese, yogurt, milk etc.)	Positive
	FED	FED on juices is withdrawn.	Positive (NESTLE, FFL)
	Regulatory Duty	RD on import of cocoa paste, butter and powder being industrial input good has been reduced	Positive
Textiles & footwear	Reduction/exemption of CD and ACD	Reduction / exemption of CD, ACD & RD on import of goods falling under 589 PCT codes to incentivize the textile industry	Positive
		Reduction of duties on raw materials of footwear industry	Positive
	WHT	Rationalization of withholding tax regime for exporters	Positive
	Sales tax	Sales tax on potassium chlorate increased by PKR 10/kg in addition to 17%	Negative
		Sales tax on raw cotton and ginned cotton increased to 17%	Negative
	Duty Drawback	PKR 20bn allocated for duty drawback which will improve cash flows for textile sector	Positive
	Import Duty	Duty free import of machinery will continue for textile industry	Positive
		Duty relaxation on imports of raw materials	Positive (SRVI, SGFL)
Chemical	Reduction/exemption of CD and ACD	Reduction/exemption of CD and ACD on raw materials of paint industry	Positive
Paper and Board	Reduction/exemption of CD and ACD	Reduction of CD & ACD on uncoated paper and paperboard for printing and graphic arts industry	Positive
		Reduction in CD and exemption of ACD on waste paper for packaging industry	Positive
		Reduction / exemption of CD & ACD on raw material for manufacturer of aseptic plastic packaging.	Positive
Tobacco	Electronic Cigarette	Electronically heated tobacco products are also proposed to be brought into the tax net.	Neutral
Sugar	Income tax exemption	Exemption from tax for bagasse fired power generating units and reduced rate of tax on dividend income from such projects	Positive
	Sales tax	Sales tax on sugar is proposed to be levied	Neutral
LNG Operators	Tax Exemptions	Withdrawal of tax exemptions and concessions which have been earlier transposed in to tax credit regime including LNG terminal owners and operators and Modarbas.	Negative (Engro)
Aircrafts/ ships	Zero rating status withdrawn	Zero rating status for companies involved in services of ships and aircrafts has been withdrawn	Negative (PIAA & PNSC)
	WHT removed	Withholding tax removed for domestic/international air travel	Positive (PIAA)
LNG Operators	Tax Exemptions	Domestic electricity consumption would now be taxed apply at the rate of 7.5% if the monthly bill exceeds PKR 25,000.	Negative (Engro)

Exhibit: Key salient features of Budget 2021-22

Revenue Measures:

- The sale of goods through online market place is proposed to be brought into the sales tax net by deeming the online market place as supplier in respect of third party sales through their platform.
- For specified goods, it is proposed that it may be made mandatory for manufacturers of such goods to obtain brand license for each separate brand or SKU.
- Section 56C provides for prize scheme to promote tax culture. To ensure that the said incentive is not misused, a new sub-section is proposed to be inserted to provide for randomize "mystery shopping".
- Sixth Schedule is proposed to be streamlined and exemptions other than relating to basic food items, health and education are proposed to be withdrawn.
- Eighth Schedule is proposed to be streamlined and reduced rates other than relating to basic food items, health and education are proposed to be brought into standard regime.
- Reclaimed lead and used lead batteries is an unorganized sector. Therefore, entire amount of sales tax in respect of sales of such goods is proposed to be withheld at source under Eleventh Schedule.

Exemptions:

- from federal excise duty 4-wheelers granted vide Tax Laws (Amendment) Ordinance, 2021 is proposed to be incorporated in the Federal Excise Act.
- to auto disable syringes granted vide Tax Laws (Second Amendment) Ordinance, 2021 is proposed to be incorporated in the Sixth Schedule.

Reductions/Exemptions:

- of CD & ACD on goods falling under more than 100 PCT codes relating to Tourism industry.
- of CD & ACD on inputs for poultry industry.
- of CD & ACD on raw materials / inputs of furniture, coating, boiler manufacturing industry, bobbins and cops manufacturing industry etc.
- of CD & ACD on raw materials for Chemical and Artificial Leather Industry
- of CD & ACD on Vaccines for veterinary medicines and feed additives to incentivize the dairy sector.
- of CD and ACD on raw materials and intermediary goods and point of sale machines falling under 328 tariff lines as a consequent of tariff rationalization.
- of CD, ACD & RD on import of goods falling under 589 PCT codes to incentivize the textile industry.

Other:

- The minimum annual threshold of turnover from all supplies for cottage industry is proposed to be increased from Rs. 3 million to Rs. 10 million.
- Public limited companies are proposed to be excluded from the purview of section 8B.
- Rationalization of tariff structure on auto sector
- Tax of 7.5% will be applicable on domestic electricity consumption exceeding monthly bill PKR 25,000 for non-ATL

Export Facilitation Measures:

- To ease of doing business, a new Uniform Export Facilitation Scheme is being proposed. The existing schemes shall be phased out in next two years.
- Bond to Bond Transfer of goods through WeBOC without prior approval of the Collector is being proposed to be allowed.
- Reduction of RD on export of molasses, skin and hides to boost positive image of the country with our important trading partners across the world.
- Automated Issuance of Refunds: To claim refunds, taxpayer is required to file refund application and provide documents for physical verification. To facilitate taxpayers, centralized automated refund system is being proposed where there will be no

requirement for application and verification. The system based verified refunds would be issued directly into the bank accounts of taxpayers without any face-to-face contact.

Ease of doing business:

-- For promoting ease of doing business, the concept of Common Identifier Number is proposed to be introduced.

Relief Measures

- Special regime for export of services at par with export of goods to be taxed @ 1% under final tax regime.
- Elimination of block taxation of property income and shift to normal tax regime.
- Reduction of block taxation on capital gain on disposal of immovable properties if gain exceeds Rs. 20 million.
- Reduction in block taxation on interest income, if it exceeds Rs. 5 million.
- Withdrawal of personal income tax exemptions
- Allowance of provincial WWF and WPPF as a deductible allowance while calculating income.
- Adjustment of business loss against property income.
- Inclusion of live animals, raw hides and unpackaged meat in definition of agriculture produce.
- Tax exemptions and concessions for Roshan digital accounts and implementation of electric vehicles and mobile phone policy implemented vide Tax Laws (Amendment) Ordinance, 2021 dated 11.02.2021 made part of bill

WHT Withdrawn:

- Collection of tax on cash withdrawal.
- Collection of tax on banking instruments.
- Collection of tax on certain petroleum products.
- Collection of tax on domestic air travel.
- Collection of tax on international air travel.
- Collection of tax on extraction of minerals.
- Collection of tax from members by a stock exchange registered in Pakistan
- Collection of tax on marginal financing by NCCPL
- Collection of tax from CNG stations.
- Collection of tax on banking transactions other than through cash.
- Collection of tax on payment of royalty to residents.
- Collection of tax from persons remitting amounts abroad through credit or debit or prepaid cards.

WHT Merged:

- Deduction of tax on return on investment in Sukuks. --- TO ---Proposed to be merged in section 151 for residents and in section 152 for non-residents which deal with such payments.
- Deduction of tax on payments for foreign produced commercials. --- TO ---To be merged with section 152 which deals with payments to non-residents.
- Collection of tax on dividend in specie. --- TO ---To be merged with section 150 which deals with dividend.

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IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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Contact Details

Research Team

Saad Khan	Head of Research	Tel: (+92-21) 111-234-234 Ext: 810	saad.khan@igi.com.pk
Abdullah Farhan	Senior Analyst	Tel: (+92-21) 111-234-234 Ext: 912	abdullah.farhan@igi.com.pk
Shumail Rauf	Research Analyst	Tel: (+92-21) 111-234-234 Ext: 957	shumail.rauf@igi.com.pk
Areesha Ishrat	Trainee Analyst	Tel: (+92-21) 111-234-234 Ext: 810	areesha.ishrat@igi.com.pk
Bharat Kishore	Database Officer	Tel: (+92-21) 111-234-234 Ext: 974	bharat.kishore@igi.com.pk

Equity Sales

Faisal Jawed Khan	Head of Equities	Tel: (+92-21) 35301779	faisal.jawed@igi.com.pk
Zaeem Haider Khan	Regional Head (North)	Tel: (+92-42) 38303559-68	zaeem.haider@igi.com.pk
Muhammad Naveed	Regional Manager (Islamabad & Upper North)	Tel: (+92-51) 2604861-62	muhammad.naveed@igi.com.pk
Syeda Mahrukh Hameed	Branch Manager (Lahore)	Tel: (+92-42) 38303564	mahrukh.hameed@igi.com.pk
Irfan Ali	Equity Sales (Faisalabad)	Tel: (+92-41) 2540843-45	irfan.ali@igi.com.pk
Zaid Farook	Branch Manager (Stock Exchange) Karachi	Tel: (+92-21) 32462651-52	zaid.farook@igi.com.pk
Asif Saleem	Equity Sales (RY Khan)	Tel: (+92-68) 5871652-56	asif.saleem@igi.com.pk
Mehtab Ali	Equity Sales (Multan)	Tel: (+92-61) 4512003	mehtab.ali@igi.com.pk

IGI Finex Securities Limited

Trading Rights Entitlement Certificate (TREC) Holder of
Pakistan Stock Exchange Limited |
Corporate member of Pakistan Mercantile Exchange Limited

Head Office

Suite No 701-713, 7th Floor, The Forum, G-20,
Khayaban-e-Jami Block-09, Clifton, Karachi-75600
UAN: (+92-21) 111-444-001 | (+92-21) 111-234-234
Fax: (+92-21) 35309169, 35301780
Website: www.igisecurities.com.pk

Stock Exchange Office

Room # 134, 3rd Floor, Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (+92-21) 32429613-4, 32462651-2
Fax: (+92-21) 32429607

Lahore Office Shop # G-009, Ground Floor, Packages Mall Tel: (+92-42) 38303560-69 Fax: (+92-42) 38303559	Islamabad Office Mezzanine Floor, Office 5, 6 & 7, Kashmir Plaza, Block- B, Jinnah Avenue, Blue Area Tel: (+92-51) 2604861-2, 2604864, 2273439 Fax: (+92-51) 2273861
Faisalabad Office Room #: 515-516, 5th Floor, State Life Building, 2- Liaqat Road Tel: (+92-41) 2540843-45 Fax: (+92-41) 2540815	Rahim Yar Khan Office Plot # 12, Basement of Khalid Market, Model Town, Town Hall Road Tel: (+92-68) 5871652-3 Fax: (+92-68) 5871651
Multan Office Mezzanine Floor, Abdali Tower, Abdali Road Tel: (92-61) 4512003, 4571183	

IGI Finex Securities Limited

Research Analyst(s)

Research Identity Number: BRP009

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