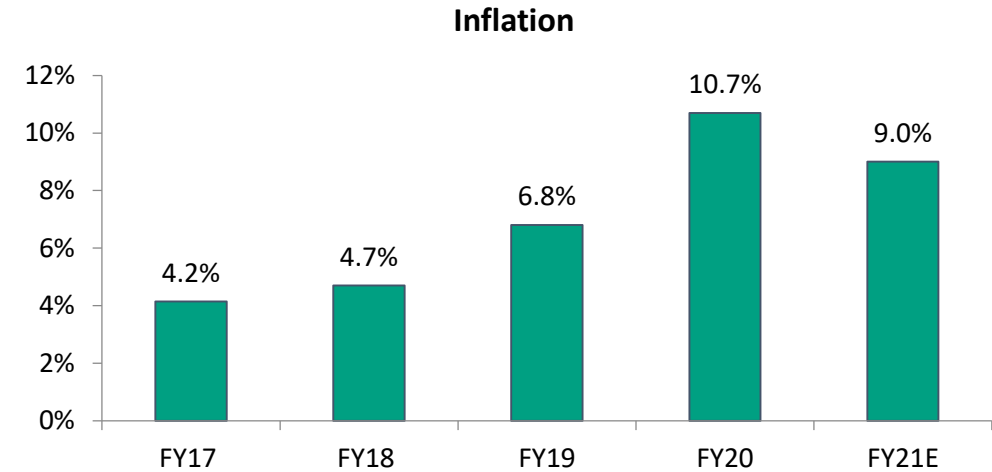
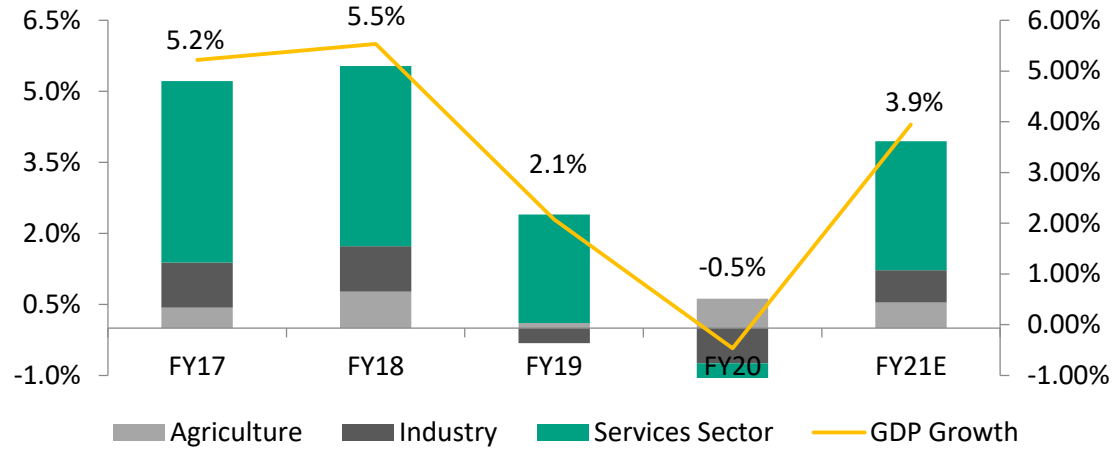
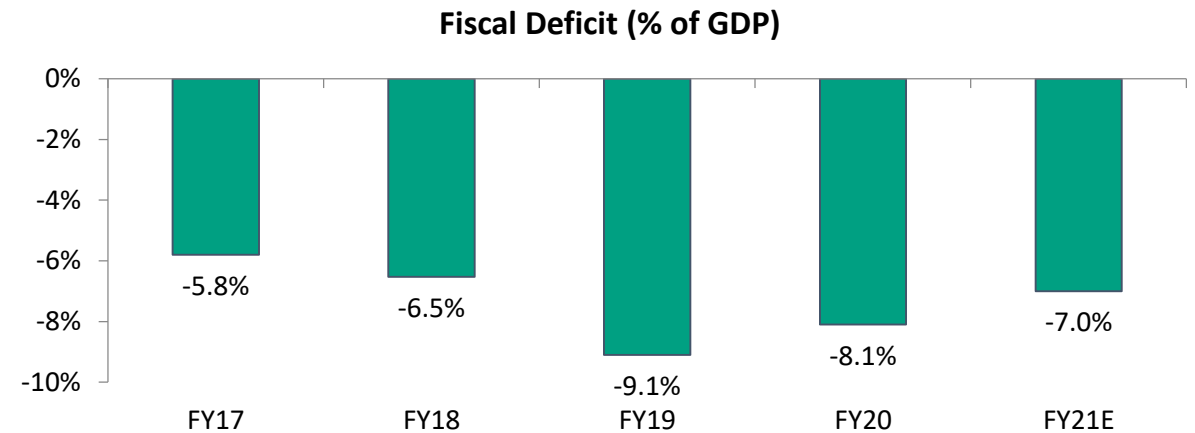
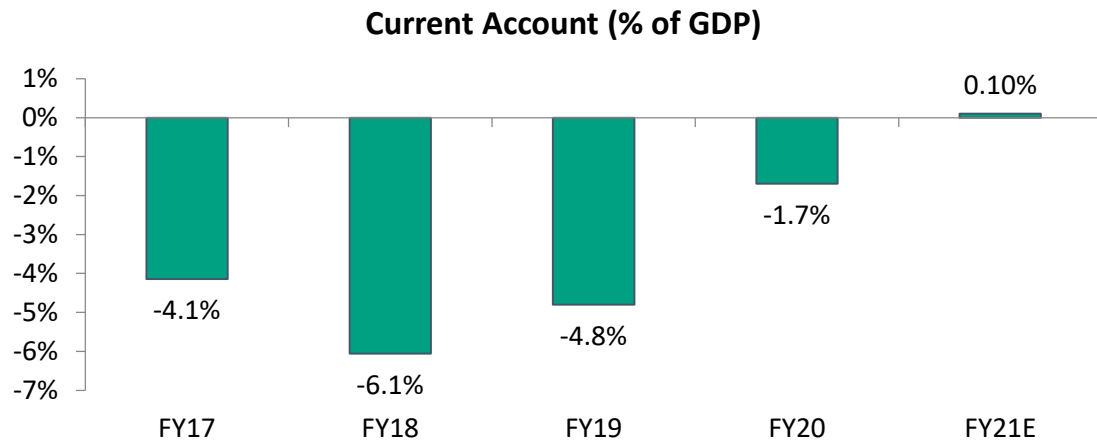


Federal Budget FY22 Catalyzing Growth

V Shaped GDP Growth Recovery – Growth in all Segments of the Economy



Expected Current Account Surplus on the back on policy tools; Fiscal Deficit remained in control despite Covid-19 expenditures



- The government has shown its clear focus on growth as it is targeting a GDP Growth of 4.8%,
- The government expects the agriculture, industrial and Services sector to grow by 3.5%, 6.5% and 4.7% respectively.
- To achieve the GDP growth target of 4.8%, the government has extended stimulus measures in place since the onset of Covid-19.
- The government has reduced taxes and duties of key inputs for Agriculture to boost output. Import duties on machinery and industrial raw materials has been reduced to stimulate the industrial sector.
- PSDP allocation has been massively increased to spur greater construction activity and lift investment to GDP.
- We feel that the taxation target are aggressive and we may see some slippages on the fiscal side.

	FY21P	FY22E
GDP Growth	3.9%	4.8%
Inflation	9.0%	8.0%
Current Account Balance	0.1%	-0.7%
Fiscal Account Balance	-7.0%	-6.3%

- Total announced outlay of the FY22 budget was PKR 8,487 Bn, compared to PKR 7,223 Bn in the previous year—depicting a increase of 18% YoY.

Revenue collection targets

- FBR tax revenue is projected to be PKR 5,829 Bn in FY22, compared to the estimated 4,691 Bn in FY21—an increase of 24%.
- Sales Tax is projected to grow by 30% PKR 2,506 Bn in FY22. The government is expecting higher economic growth, tapping of additional segments and curtailment in smuggling to help increase Tax Collection.
- Non-Tax revenue is projected to increase by 22% to PKR 2,080 Bn on the back increase in Petroleum Levy and collection of GIDC.

Expenditure targets

- Current Expenditure is budgeted at PKR 7,523 Bn, 15% higher than the previous year's estimated expenditure.
- FY22 Mark-up payments are targeted at PKR 3,060 Bn, higher by 7% YoY.
- Defense expenditures are kept at PKR 1,373 Bn, showing an increase of 6% YoY.
- The Amount of Subsidies has been budgeted at PKR 682 Bn compared to PKR 430 Bn last year indicating the government would defer increasing of power tariff.
- Federal PSDP is kept at PKR 900 Bn, compared to PKR 630 Bn last year showing a massive growth of 43%.

Overall the budget deficit for FY22 is expected to clock in at PKR 3,420 Bn (6.3% of GDP). Primary Deficit is estimated at PKR 360 Bn (0.7% of GDP).

PKR Bn	FY21			FY22		
	Budget	Revised	Revised as % of GDP	Budget	% of GDP	YoY Change
GDP (Market Price)	45,567	47,709	100%	53,867	100%	13%
FBR Revenue	4,963	4,691	9.8%	5,829	10.8%	24%
Direct Taxes	2,043	1,789	3.7%	2,182	4.1%	22%
Indirect Taxes	2,920	2,902	6.1%	3,647	6.8%	26%
Custom Duties	640	700	1.5%	785	1.5%	12%
Sales Tax	1,919	1,927	4.0%	2,506	4.7%	30%
Federal Exercise Duty	361	275	0.6%	356	0.7%	29%
Non-Tax Revenue	1,610	1,704	3.6%	2,080	3.9%	22%
PSE Dividends	61	40	0.1%	90	0.2%	124%
SBP Profit	620	700	1.5%	650	1.2%	-7%
Petroleum Levy	450	500	1.0%	610	1.1%	22%
GIDC	15	25	0.1%	130	0.2%	420%
Gross Revenue Receipts	6,573	6,395	13.4%	7,909	14.7%	24%
Less: Provincial Transfer	2,874	2,704	5.7%	3,412	6.3%	26%
Net Revenue Receipts	3,699	3,691	7.7%	4,497	8.3%	22%

PKR Bn	FY21			FY22		
	Budget	Revised	Revised as % of GDP	Budget	% of GDP	YoY Change
Current Expenditure	6,349	6,561	13.8%	7,523	14.0%	15%
Debt Servicing	2,946	2,851	6.0%	3,060	5.7%	7%
Defense	1,293	1,299	2.7%	1,373	2.5%	6%
Pension	470	470	1.0%	480	0.9%	2%
Subsidies	209	430	0.9%	682	1.3%	59%
Development Expenditure	720	662	1.4%	964	1.8%	46%
Federal PSDP	650	630	1.3%	900	1.7%	43%
Net Lending	70	32	0.1%	64	0.1%	100%
Total Expenditure	7,069	7,223	15.1%	8,487	15.8%	18%
Federal Budget Deficit	-3,370	-3,532		-3,990		
Provincial Surplus	242	242		570		
Overall Fiscal Deficit	-3,128	-3,290		-3,420		
Overall Fiscal Deficit (% of GDP)	-6.9%	-6.9%		-6.3%		

- There were a number of positive developments with regards to the overall stock market in the Budget for FY22, which are listed below:
 - Reduction in Capital Gains Tax from 15.0% to 12.5% with a view to further reduce rates in the future,
 - Removal of Withholding Tax on NCCPL Margin Financing,
 - Removal of Withholding Tax collected from members of PSX,
 - Reduction in Turnover Tax from 1.50% to 1.25%,
 - Reduction/exemption of CDs, RDs and ACDs on import of:
 - Raw materials for the textile sector,
 - HRC for flat-steel manufacturers,
 - More than 350 APIs for the Pharmaceutical sector,
 - Raw materials for the Footwear industry, Cables and Optical Fiber manufacturers, Paint industry, and other 328 tariff lines.
- There were no changes in Corporate Tax Rate (maintained at 29%), and Tax/Super Tax for Banks (maintained at 35%/4%, respectively).
- Moreover, market participants were expecting some relief measures pertaining to the construction sector, in the form of reduction in FED on cement bags (currently PKR 75/bag) and removal of RD on import of scrap for long-steel manufacturers (currently 5%). However, there were no such proposals in the Budget.
- However, positive developments for the construction sector were extension of amnesty scheme for another year, along with 43% increase in PSDP from PKR 630bn to PKR 900bn.
- There is no mention of tax on inter-corporate group dividends, however, it is likely to be reinstated when finalizing the budget document

Sector Impacts

Sector	Impact	Key Measures
Banks	Positive	<ul style="list-style-type: none"> Collection of WHT on cash withdrawal and other banking transactions ended.
E&Ps	Neutral	<ul style="list-style-type: none"> Zero-rating withdrawn from crude oil, parts/components of zero-rated plant, import of plant and machinery by Petroleum and Gas sector and supply repair and maintenance of ship. Withholding tax abolished on extraction of minerals.
Chemicals	Neutral	<ul style="list-style-type: none"> Duty on Potassium hydroxide (Caustic Potash) reduced to 0% from 3%. CD on Master batches reduced to 16% from 20%. CD on PSF declined to 10% from 11%. CD on Acetic Acid decreased to 0% from 3%. CD on petroleum resins decline d to 11% from 16%. Reduction / Exemption of CD & ACD on raw materials for paint, chemical and artificial leather industry.

Sector	Impact	Key Measures
Cements	Positive	<ul style="list-style-type: none"> ▪ Highest ever total PSDP allocation of PKR2,135bn has been set against PKR1,324bn last year. Federal PSDP is allocated 43% higher to PKR900bn. ▪ Allocation of Rs33bn subsidy for Naya Pakistan Housing Scheme. ▪ PKR100bn has been allocated for the construction of Dasu, Diamir Bhasha, Mohmand and Neelum Jhelum dam. ▪ Allocation of PKR37bn for Industrial Support Package to ensure continuation of cheap electricity to the industry. ▪ Amnesty on real estate extended for 1 year.
Steels	Positive	<ul style="list-style-type: none"> ▪ Federal PSDP allocation of PKR 900bn against revised FY21 estimate of PKR 650bn ▪ Allocation for different projects and dams ▪ Custom Duty on import of HRC to be removed from 5% at present. ▪ Reduction in minimum tax on dealers and distributors of the steel sector from 1.50% to 1.25%.
Fertilizers	Positive	<ul style="list-style-type: none"> ▪ Non-tax revenue from GIDC has been budgeted at PKR130bn vs. PKR25bn in FY21R. ▪ Advance tax on sale to dealers to be reduced to 0.25% from 0.7% for those who appear on Active Tax Payers List. ▪ Farmer to be provided interest free loans up to PKR150K. ▪ Allocation of Rs12bn for agriculture development.

Sector	Impact	Key Measures
Autos	Positive	<ul style="list-style-type: none"> ▪ Reduction in regulatory and custom duty on CKD units below 850cc. ▪ Reduction of sales tax from 17% to 12.5% on locally assembled cars with engine capacity less than 850cc. ▪ Removal of 2.5% FED on locally assembled small cars up to 850cc engine capacity. ▪ Exemption granted on import of CKD kits for electric vehicles. ▪ Sales tax reduced from 17.0% to 1.0% on electric cars. ▪ Introduction of tax on premium charged on new vehicles. ▪ Interest free loan of PKR 200,000 for the purchase of Tractors and Machinery. ▪ Reduction of turnover tax from 1.50% to 1.25%. ▪ Motorcycle dealers turnover tax increased from 0.3% to 0.5%.
Information Technologies	Positive	<ul style="list-style-type: none"> ▪ Zero-rating status granted to IT sector ▪ Sales-tax exempted on import of plant, machinery, raw material by special technological zone and inclusion of cloud computing and data storage services. ▪ The rate of FED on telecommunication is proposed to be reduced from 17% to 16%. ▪ Imposition of Sales Tax on E-Commerce Sales. ▪ Import of capital goods and dividend income from investment in STZE to be exempted from tax. ▪ Increase in RD on import of mobile phones. ▪ Removal of ACD on import of raw material used for cables/optical fibers

Sector	Impact	Key Measures
Pharmaceuticals	Positive	<ul style="list-style-type: none"> Allocation of PKR100bn for COVID related expenditures. Exemption of CD and ACD on import of more than 350 APIs. Import of plant, machinery and equipment subject to concessionary rate of 5%. Removal of CD & ACD on 6 life saving drugs and raw material of auto-disable syringes. Sehat card facility for 4-6mn families. Distributors of pharmaceutical products turnover tax reduced from 0.75% to 0.25%.
OGMCs and Refineries	Positive	<ul style="list-style-type: none"> Exemption from tax on income of deep conversion new refineries and BMR projects of existing refineries for 10 years. Reduction in turnover tax on refineries from 0.75% to 0.50% and no change in OMCs/Gas companies turnover tax.
Textiles	Neutral to Positive	<ul style="list-style-type: none"> Removal of 5% RD and 5% CD on import of polyester yarn. Tariff structure has been reduced and rationalized on cotton, polyester and man-made fiber value chain. Increase of minimum wage rate from Rs17.5k to Rs20k/month. Electronic processing and issuance of refunds to the tax payers. Rs2bn for enhancing productivity of key crops, including cotton.

Sector	Impact	Key Measures
Power	Neutral	<ul style="list-style-type: none"> Subsidy amount for power increased to PKR 596bn compared to 139bn disbursed in FY21, indicating towards no hike in power tariff in FY22. Reduction of threshold of monthly electricity bill for withholding tax on electricity consumption from Rs75,000 to Rs25,000. The 7.5% will be applied on or above Rs25,000. Allocation of Rs266bn amount for IPPs as part of 2nd installment.
Consumers	Neutral to Positive	<ul style="list-style-type: none"> Normalization of sales tax from ~10% to 17% on flavored milk, yogurt, cheese, butter, and cream. Removal of FED on fruit juices. Reduction/exemption of CD and ACD on inputs for poultry industry. Reduction/exemption of CD/ACD on inputs for electronic manufacturing industry. Reduction / exemption on inputs / raw materials of food processing industry. Reduction of RD on import of cocoa paste, butter and powder being industrial input goods.
Miscellaneous	Neutral to Positive	<ul style="list-style-type: none"> Electronically heated tobacco products are also proposed to be brought into the tax net. Reduction / Exemption of CD & ACD on raw materials for Chemical and Artificial Leather Industry. Reduction of RD on export of skin and hides. Inclusion of live animals, raw hides and unpackaged meat in definition of agriculture produce. CD & ACD on vaccines for veterinary medicines and feed additives to be reduced/exempted. For printing and graphic industry, CD & ACD to be decreased on uncoated paper and paperboard. Raw material for aseptic plastic packaging to witness exemption/reduction of CD & ACD. CD on cardboard to be reduced to 16% from 20%. Capital gain tax (CGT) on immovable property under section 37 shall be 5%

Thank You!