REN # REP-004

REN # REP-400R

FEDERAL BUDGET FY23

A reflection of the political mess

Date: 13th June, 2022

A reflection of the political mess

Federal Budget FY23 aims to strike a balance between all stakeholders and has something for everyone - urban / rural vote bank, businesses, traders, capital markets and IMF. It ends up being a work-in-progress document and is likely to undergo several changes before approval from the parliament. Finance minister has already acknowledged IMF's discomfort with certain parts of the budget and aims to address these in the coming weeks. As such, we believe this might be an intentional strategy on part of the government as the toughest of adjustments being made after the budget announcement would reduce the loss of political capital for the government as the high attention phase of the budget week would have already passed.

- **Urban middleclass gets lower taxes on salaries:** Contrary to expectations of a sharp increase in taxes for the salaried class, Federal Budget FY23 entailed small reduction in taxes for salaried individuals with incomes up to PKR18.0mn a month, with an increase in taxation for higher slabs.
- **Rural population continues to remain untaxed:** The government has increased GST on fertilizer, partly offset by reduction in GST for tractors. BISP allocation has also been increased.
- **Business & industry get some incentives:** Initial depreciation allowance on plant and machinery has been increased to 100% for taxation purposes. Custom duty has been rationalized on several raw materials. But an additional poverty alleviation tax of 2.0% has been imposed on entities earning more than PKR 300mn a year. The government has substantially increased taxes for the banking sector.
- **Traders get an alternate tax regime linked with electricity consumption:** The government has introduced a new tax regime for retailers and whole sellers based on electricity consumption, involving no interaction with taxmen.
- **Stock market to rejoice:** Though stock market may open gap down due to knee jerk reaction as a result of substantial increase in taxation of the banking sector, we believe the medium-term impact of Federal budget FY23 on the stock market will be highly positive. The government has fulfilled the long-standing demand of rationalizing the taxation regime of Stock Markets with that of the Real Estate sector by some reduction in taxes for the former and substantial increase in taxes for the latter. Capital Gains Taxes (CGT) on stocks are now equal to that of open plots, while constructed houses and flats attract a lower CGT rate. The government has also introduced a 20% tax on deemed rental income to discourage investment in unproductive Real Estate. These positives will more than offset the negatives – scrapping of tax credits for investment in IPOs, mutual funds, and pension funds, an additional 2.0% income tax on large corporates and significant increase in taxation of banks.
- **Sector impact:** Budget FY23 is positive for Textile, Tractors, Chemical, Paper & Board. The budget is neutral to positive for Fertilizer, Technology, Pharma and Tobacco sector and neutral for Oil & Gas. Commercial Banks, Cements, Autos and Steel sector will be negatively impacted.

A reflection of the political mess (continued)

- **IMF would not be happy:** The headline numbers of Federal budget FY23 are in line with the IMF's recipe - reduction in fiscal deficit by 220bps to 4.9%, primary budget surplus target at 0.2% in FY23 against a deficit of 2.3% last year. However, a bottom-up analysis reveals several inconsistencies. While FBR tax collection target is conservative, we believe IMF may want a further increase in FBR target considering the non-tax revenue target is not achievable. On the expense side, there are upside risks to debt servicing cost whereas defense expenditure, pensions and general government expenditure is substantially underestimated. As such, we believe there could be more cuts to PSDP.
- **Macroeconomic targets are optimistic:** GoP is expecting FY23 GDP growth to slow down to 5.0%, from 6.0% in FY22. Considering fiscal consolidation, rising inflation and interest rates, we believe actual growth outturn may be substantially lower. GoP expects CPI inflation to average 11.5% in FY23 against 11.7% in FY22E, which seems unrealistic as actual FY23 inflation would likely approach 20%. With upside to inflation estimate and downside to GDP growth, we believe FY23 nominal GDP growth would still be higher than GoP estimates of 16.8%.

SECTION 1

FISCAL SUMMARY

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Fiscal Summary

PKR Billion (Year to June)	FY22				FY23		
	Budget	Revised	+/-	%GDP	Budget	+/-	%GDP
FBR Revenues	5,829	6,000	2.9%	9.0%	7,004	16.7%	9.0%
Non-Tax Revenue	**2,044**	**1,285**	**-37.1%**	**1.9%**	**1,960**	**52.5%**	**2.5%**
Petroleum Levy	610	135	-77.9%	0.2%	750	455.6%	1.0%
Other Taxes	160	35	-78.1%	0.1%	235	574.0%	0.3%
PSE dividends	90	70	-22.3%	0.1%	80	14.3%	0.1%
Pak Telecom Authority	45	100	120.1%	0.1%	50	-50.0%	0.1%
SBP Profits	650	474	-27.1%	0.7%	300	-36.7%	0.4%
Interest (Provinces/PSEs)	126	126	0.2%	0.2%	140	11.1%	0.2%
Defense receipts	20	20	-0.9%	0.0%	30	50.5%	0.0%
Oil/Gas Revenues	138	133	-3.3%	0.2%	154	15.8%	0.2%
Other non-tax	205	192	-6.4%	0.3%	221	14.8%	0.3%
Gross Revenue Receipts	**7,909**	**7,315**	**-7.5%**	**10.9%**	**9,004**	**23.1%**	**11.5%**
Less: Provincial Transfers	(3,412)	(3,512)	2.9%	-5.2%	(4,100)	16.7%	-5.2%
Net Revenue Receipts	**4,497**	**3,803**	**-15.4%**	**5.7%**	**4,904**	**28.9%**	**6.3%**
Current Expenditure	**7,523**	**8,516**	**13.2%**	**12.7%**	**8,694**	**2.1%**	**11.1%**
Debt Servicing	3,060	3,144	2.7%	4.7%	3,950	25.7%	5.1%
Defense	1,370	1,480	8.0%	2.2%	1,523	2.9%	1.9%
Subsidies (current)	682	1,515	122.1%	2.3%	699	-53.9%	0.9%
BISP	246	246	0.0%	0.4%	360	46.3%	0.5%
Others	2,166	2,131	-1.6%	3.2%	2,162	1.4%	2.8%
PSDP – Federal (Net)	**900**	**550**	**-38.9%**	**0.8%**	**727**	**32.2%**	**0.9%**
Gross PSDP	2,135	1,836	-14.0%	2.7%	2,159	17.6%	2.8%
Less: Provincial Share	(1,235)	(1,286)	4.1%	-1.9%	(1,432)	11.3%	-1.8%
Other Development Expenditure	**0**	**0**	**n.a.**	**0.0%**	**0**	**n.a.**	**0.0%**
Net Lending	**64**	**0**	**-100.0%**	**0.0%**	**81**	**n.a.**	**0.1%**
Total Expenditure	**8,487**	**9,066**	**6.8%**	**13.5%**	**9,502**	**4.8%**	**12.2%**

Fiscal Summary

PKR Billion (Year to June)	FY22				FY23		
	Budget	Revised	+/-	%GDP	Budget	+/-	%GDP
Federal Fiscal Deficit	**(3,990)**	**(5,263)**	**31.9%**	**-7.9%**	**(4,598)**	**-12.6%**	**-5.9%**
Provincial Cash Balance	570	570	0.0%	0.9%	800	40.4%	1.0%
Consolidated Fiscal Deficit (incl. grants)	**(3,420)**	**(4,693)**	**37.2%**	**-7.0%**	**(3,798)**	**-19.1%**	**-4.9%**
%GDP	-6%	-7%			-4.9%		
Primary Fiscal Deficit	**(360)**	**(1,549)**	**329.8%**	**-2.3%**	**152**	**-109.8%**	**0.2%**
%GDP		-2.3%			0.2%		
GDP (Market Price)	**53,867.0**	**66,950.0**	**24.3%**	**100.0%**	**78,197.0**	**16.8%**	**100.0%**

PKR Billion (Year to June)	FY22		FY23		
	Budget	%GDP	Budget	+/-	%GDP
Financing of Fiscal Deficit	**3,989**	**7.4%**	**4,598.0**	**15.3%**	**5.9%**
External Borrowing	1,246	2.3%	1,667.0	33.8%	2.1%
Domestic Bank Borrowing	2,417	4.5%	2,960.0	22.5%	3.8%
Domestic Non-bank borrowing	74	0.1%	(125.0)	-268.9%	-0.2%
Privatization	252	0.5%	96.0	-61.9%	0.1%

SECTION 2

VALUATION GUIDE

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AKSEER RESEARCH
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Akseer Universe Ratings Guide

S. No	Symbol	Year End	Rating	Price	Target	Upside	EPS				DPS				PE				Div Yield				BVPS			
							2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023	2020	2021	2022	2023
1	EFERT	December	SELL	89	79	-12%	13.6	15.8	18.9	15.7	13.0	16.5	15.5	13.0	6.5	5.6	4.7	5.7	15%	19%	17.5%	15%	35.0	35.3	38.7	41.3
2	FFBL	December	BUY	21	31	48%	3.8	4.9	7.4	5.8	-	-	3.7	3.5	5.6	4.3	2.9	3.7	0%	0%	17.6%	16%	10.8	15.8	19.5	21.8
3	FFC	December	BUY	110	136	24%	16.4	17.2	21.7	19.5	11.2	14.5	17.3	15.5	6.7	6.4	5.1	5.6	10%	13%	15.7%	14%	33.4	37.3	41.8	45.7
4	FATIMA	December	HOLD	37	39	6%	6.3	8.8	12.8	9.9	2.5	3.5	8.3	6.5	5.8	4.2	2.9	3.7	7%	9%	22.4%	18%	41.5	47.7	57.1	58.7
5	OGDC	June	BUY	81	189	135%	23.5	21.3	37.0	30.9	6.8	6.9	9.0	11.0	3.4	3.8	2.2	2.6	8%	9%	11.2%	14%	165.2	178.9	207.0	226.9
6	PPL	June	BUY	69	180	160%	18.2	19.2	28.1	33.0	1.0	3.5	5.5	10.0	3.8	3.6	2.5	2.1	1%	5%	8.0%	14%	126.2	142.9	165.6	188.5
7	POL	June	BUY	406	524	29%	56.7	46.2	80.3	74.2	50.0	50.0	60.0	58.0	7.2	8.8	5.1	5.5	12%	12%	14.8%	14%	141.9	138.7	158.9	175.1
8	MARI	June	BUY	1,665	2,328	40%	227.3	236.1	316.8	421.2	6.6	141.0	149.0	210.0	7.3	7.1	5.3	4.0	0%	8%	8.9%	13%	698.3	866.1	1,018.9	1,233.2
9	HCAR	March	HOLD	176	190	8%	4.8	12.6	17.6	24.2	1.0	4.5	7.0	9.5	36.8	14.0	10.0	7.3	1%	3%	4.0%	5%	115.9	127.4	139.8	157.0
10	PSMC	December	SELL	189	170	-10%	(16.7)	32.6	(3.0)	11.0	-	6.5	-	2.2	(11.3)	5.8	(62.4)	17.2	0%	3%	0.0%	1%	295.2	326.0	316.4	327.4
11	INDU	June	HOLD	1,210	1,311	8%	64.7	163.2	267.1	215.5	30.0	103.5	134.0	108.0	18.7	7.4	4.5	5.6	2%	9%	11.1%	9%	523.8	613.3	716.6	824.1
12	HBL	December	BUY	95	125	31%	21.1	23.9	32.8	34.0	4.3	7.5	11.8	12.0	4.5	4.0	2.9	2.8	4%	8%	12.3%	13%	177.9	190.6	204.1	229.5
13	UBL	December	HOLD	126	144	14%	17.1	25.2	32.4	31.5	12.0	18.0	21.0	20.5	7.4	5.0	3.9	4.0	10%	14%	16.6%	16%	150.4	167.2	176.3	188.4
14	BAFL	December	BUY	32	40	23%	5.9	8.0	13.7	14.5	4.0	4.0	7.5	8.0	5.5	4.1	2.4	2.2	12%	12%	23.1%	25%	51.2	56.3	65.5	71.8
15	BAHL	December	BUY	63	78	24%	16.0	16.8	23.7	24.3	4.5	7.0	9.3	9.5	3.9	3.7	2.6	2.6	7%	11%	14.8%	15%	71.9	81.0	96.4	111.6
16	MCB	December	BUY	131	157	20%	24.5	26.0	32.3	32.5	20.0	19.0	24.0	26.0	5.3	5.0	4.1	4.0	15%	14%	18.3%	20%	160.4	147.2	153.6	158.9
17	MEBL	December	BUY	125	156	25%	13.6	17.4	28.2	30.7	5.2	5.6	10.8	13.8	9.2	7.2	4.4	4.1	4%	4%	8.6%	11%	42.5	53.2	70.6	86.6
18	ACPL	June	BUY	78	100	28%	8.0	8.0	11.3	10.5	3.5	4.0	2.0	2.0	9.7	9.7	6.9	7.4	4%	5%	2.6%	3%	120.4	125.2	133.0	141.5
19	CHCC	June	BUY	94	143	53%	(9.7)	16.5	17.7	25.5	-	2.3	-	-	(9.6)	5.7	5.3	3.7	0%	2%	0.0%	0%	51.7	69.9	86.8	112.5
20	DGKC	June	BUY	56	96	70%	(4.9)	8.3	8.4	11.8	-	1.0	-	-	(11.4)	6.8	6.7	4.8	0%	2%	0.0%	0%	152.1	167.7	167.4	181.7
21	FCCL	June	BUY	14	22	52%	(0.0)	2.5	3.4	3.1	-	-	-	-	(333.1)	5.7	4.2	4.6	0%	0%	0.0%	0%	14.4	16.9	20.3	23.4
22	KOHC	June	BUY	132	190	44%	(2.2)	17.4	28.5	29.6	-	-	-	-	(59.9)	7.6	4.6	4.5	0%	0%	0%	0%	93.2	110.6	139.3	168.6
23	MLCF	June	BUY	26	37	45%	(3.2)	3.5	4.3	4.8	-	-	-	-	(7.9)	7.4	5.9	5.4	0%	0%	0%	0%	28.1	32.1	35.6	40.4
24	PIOC	June	BUY	58	94	61%	(0.9)	8.7	10.1	12.8	-	-	-	-	(63.1)	6.7	5.8	4.5	0%	0%	0%	0%	45.9	54.9	65.1	77.9
25	NPL	June	BUY	17	40	137%	13.8	7.6	10.1	12.3	2.0	1.5	4.0	5.0	1.2	2.2	1.7	1.4	12%	9%	23.5%	29%	66.9	73.5	80.8	81.1
26	HUBC	June	BUY	66	136	106%	20.1	26.0	23.9	24.1	-	12.0	11.7	14.8	-	2.5	2.8	2.7	0%	18%	17.7%	22%	64.7	84.5	97.4	107.4
27	PSO	June	BUY	164	223	36%	(13.8)	62.1	188.2	44.7	-	15.0	15.0	13.0	(11.9)	2.6	0.9	3.7	0%	9%	9%	8%	240.8	298.2	471.3	503.0
28	APL	June	BUY	309	420	36%	10.1	49.4	163.4	63.6	9.0	27.0	46.0	35.0	30.5	6.3	1.9	4.9	3%	9%	15%	11%	185.3	228.3	345.6	374.3
29	HTL	June	BUY	39	63	61%	0.9	4.7	5.7	6.6	0.8	3.3	3.0	4.0	45.0	8.4	6.9	5.9	2%	8%	8%	10%	28.7	30.9	33.6	36.2
30	ISL	June	BUY	56	107	93%	1.1	17.2	14.3	15.5	-	10.0	6.0	7.0	49.0	3.2	3.9	3.6	0%	18%	11%	13%	26.4	40.6	48.9	57.4
31	ASL	June	BUY	12	21	82%	(0.8)	8.3	1.2	3.6	-	2.0	-	0.8	(14.6)	1.4	9.6	3.3	0%	17%	0%	6%	10.6	10.6	10.7	10.6
32	ICI	June	HOLD	740	805	9%	32.2	59.9	98.2	80.8	16.0	40.0	51.0	40.0	23.0	12.4	7.5	9.2	2%	5%	7%	5%	238.1	275.0	329.4	378.0
33	LUCK	June	BUY	467	890	90%	19.0	70.7	81.2	148.4	-	-	5.0	20.0	24.6	6.6	5.8	3.1	0%	0%	1%	4%	406.6	485.6	726.2	838.1
34	EPCL	December	HOLD	84	83	-1%	6.3	16.6	20.8	9.6	1.2	16.3	19.8	9.3	13.3	5.1	4.0	8.7	1%	19%	24%	11%	28.7	33.0	34.0	34.4

Source: Akseer Research, Company Financials, PSX

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SECTION 3

STOCK MARKET IMPACT

Impact on Stock Market

The federal budget FY23 had certain measures that may have significant consequences for the stock market, with the balance substantially tilted to the positive side.

- **Real estate's taxation brought at par with stock market:** Capital gains from unconstructed immovable property will now be subject to CGT up to 6 years with 15% in year 1 and 2.5% in year 6 (a decline of 2.5% annually). Advance tax on property purchase is also up from 1.0% to 2.0% (for filers) & 2.0% to 5.0% (for non filers). GoP has made similar changes to the capital gains regime for stocks. Capital gains on constructed property and flats will be subject to lower rates. Additionally, Government has imposed a 1% annual tax on fair market value of Real Estate (worth PKR 25mn and above) in the form of 20% tax on deemed rental income (assumed at 5% of fair market value of property). However, one property for one's own residence will be exempt.
- **Incentives for industrial undertakings:** Budget is also positive for the industrial undertakings as government is now allowing adjustment of initial depreciation at 100% in first year (previously 50%), resulting in lower tax liability. Additionally, advance tax collected at import stage from industrial undertaking will now be adjustable (previously no adjustment allowed) resulting in better management of working capital.

Key negatives for stock market:

- **End of tax credits:** Through abolition of section 62, 62A and 63, the government has ended the tax credit on Investment in Shares (IPOs, Mutual Funds), Health Insurance, Life Insurance and Contribution to Approved Pension Funds.
- **Higher taxes for banks and large taxpayers:** Banking sector will be negatively impacted due to 6% additional tax eroding the sectors earnings.
- **Poverty alleviation tax:** There is an additional 2% tax on individuals, AOPs and companies earning more than PKR 300mn.

Stock Market/ Sectors	Impact
PSX	Positive
Banks	Negative
Oil & Gas	Neutral
Cements	Negative
Fertilizer	Neutral to Positive
Textile	Positive
Autos – Passenger Vehicles	Negative
Autos – Tractors	Positive
Steel	Negative
Technology & Communication	Neutral to Positive
Chemical	Positive
Pharmaceutical	Neutral to Positive
Paper & Board	Positive
Tobacco	Neutral to Positive
Leather & Tanneries	Neutral

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CGT regime on stock market aligned with real estate

Tax on Capital Gains on disposal of Immovable Property

FY22		FY23			
			Rate of tax		
Amount of gain in PKR Mn (Up to)	Rate of tax	Holding period in years (Up to)	Open Plots	Constructed Property	Flats
5	3.5%	1	15.0%	15.0%	15.0%
10	7.5%	2	12.5%	10.0%	7.5%
15	10.0%	3	10.0%	7.5%	0.0%
Above 15	15.0%	4	7.5%	5.0%	0.0%
		5	5.0%	0.0%	0.0%
Holding Period	**% of Gain to be taxed**	6	2.5%	0.0%	0.0%
0-1 year	100%	Above 6	0.0%	0.0%	0.0%
1-2 years	75%				
2-3 years	50%				
3-4 years	25%				
More than 4 years	0%				

Capital Gain Tax (CGT) on disposal of securities

FY22		FY23	
Holding Period	Rate of Tax	Holding Period in Years (Up to)	Rate of Tax
0-12 months	12.50%	One-year	15%
12-24 months	12.50%	Two-years	12.50%
>24months acquired on or after 1st July, 2013	12.50%	Three-years	10%
> 24months acquired before 1st July, 2013	0%	Four-years	7.50%
Future commodity contracts entered into by members of Pakistan Mercantile Exchange	5%	Five-years	5%
		Six-years	2.50%
		Above six-years	0%

Sector Impact

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Banks | Negative for the Banks universe

Profitability of the banking sector will face the brunt of an increase in taxes as the corporate income tax rate for banks has been increased to 45% from 39% (35% corporate tax rate + 4% super tax) in the previous years. Tax on income attributable to investment in government securities has also been increased for banks with lower ADRs. In addition to this, almost all the banks have profits above PKR 300mn making them liable to pay the additional 2% poverty alleviation tax. This will take the effective tax rate of our banking universe to 47%-54% leading to an expected 11%-20% decline in earnings and 9%-15% decline in Price Targets. UBL and MCB will be most effected by the budgetary measures as their ADRs are less than 50%.

Key Measures

- Corporate tax rate of the banking sector has been increased from 39% to 45%.
- 2% poverty alleviation tax will be charged on the profit of individuals and corporations including banks having income of more than PKR 300mn.
- Increase in the taxable income attributable to investment in the Federal Government securities for banks with adverse ADR ratio.

Oil and Gas | Neutral for the Oil universe

2% poverty alleviation tax on oil companies will not have significant impact on the profitability. Currently, government can collect maximum PDL at PKR 30/liter. In order to attain PKR 750bn target through PDL, government needs to increase it to PKR 52/liter. We believe the PDL will only be increased (currently PKR 0/liter) beyond PKR30/liter if the international oil prices come down going forward.

Key Measures

- The target for petroleum levy has been set at PKR 750bn for the next year.
- 2% poverty alleviation tax will be charged on the profit of individuals and corporations having income of more than PKR 300mn.

Sector Impact

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Cement | Negative for the Cement universe

Cement sector will likely witness lower demand coming from the public sector, resulting from lower PSD allocation, which, through second round effects, will also slowdown private sector consumptions. Reduction of import duty on coal from 2% to 1% and sales tax exemption on local coal will provide some relief.

Key Measures

- PSDP is reduced from PKR 900bn to PKR 727bn. Naya Pakistan Subsidies have also been decreased from PKR 33bn last year to PKR 1.0bn this year.
- Import duty on coal reduced to 1% from 2% previously. Sales tax has been exempted on locally produced coal, where it was previously higher of PKR 425 per metric tones or 17% ad valorem.
- Sales tax has been reduced from 16% to 15% on construction services excluding projects under PKR 50mn, government civil works, international tender, and 10,000 sq ft. residential developments.

Fertilizer | Neutral to Positive for the Fertilizer universe

The increase in sales tax on fertilizer would improve the liquidity of the fertilizer manufacturers as delta between input and output sales tax would reduce. With the domestic urea at steep discount from international Urea, fertilizer companies can easily pass on any incremental cost impact to the end users, as farmer economics are strong due to high commodity prices. The abolishment of customs duty on seeds and agricultural machinery would improve the agroeconomics in country.

Key Measures

- Increase in sales tax on fertilizer from 2% to 10%.
- Increase in sales tax on gas supplied to fertilizer sector from 5% to 10%. Increase in sales tax on phosphoric acid from 5% to 10%.
- PKR 15bn allocated for subsidy on fertilizer plants for LNG supplies (FY22: PKR 25bn).
- Exemption of custom duty on import of agricultural machinery and seeds.

Sector Impact

Textiles	Positive	for the Textile universe

The government has committed to pay all refund claims of textile exporters, which will substantially improve their liquidity. Rationalization of import duty on synthetic yarn will result in reduced cost of raw material and improve Pakistan's textile sector's competitiveness in blended fabric / garment market. Reduced CD and ACD on dyes will have a positive impact on gross margins of textile manufacturers.

Key Measures

- Rationalization of duties on import of synthetic yarn.
- Pending DLTL of PKR 40.5bn will be immediately released to manufacturers.
- Reduction in CD and ACD on 10 tariff lines pertaining to direct and reactive dyes.

Autos – Passenger Vehicles	Negative	for INDU, HCAR, SAZEW, LUCK

Imposition of higher advance tax and capital value tax will further dent the automobile demand in the high value segment. Amid higher interest rate environment and SBP reducing the tenor of auto financing, auto sector demand is expected to contract by 30%.

Key Measures

- Capital value tax of 2% imposed on the motor vehicles whose value exceeds PKR 5mn.
- Increase in advance tax on cars above 1600cc. New taxes are as below

Advance tax on sale of New Cars	Old Taxes		New Taxes	
	Filer	Non-filer	Filer	Non-filer
1601cc – 1800cc	75,000	225,000	150,000	225,000
1801cc to 2000cc	100,000	300,000	200,000	300,000
2001cc to 2500cc	150,000	450,000	300,000	450,000
for 2501cc to 3000cc	200,000	600,000	400,000	600,000
Above 3000cc	250,000	675,000	500,000	675,000

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Sector Impact

Steel | Negative | for the Steel universe

Reduction in the PSDP funds and resulting slow down in construction activities will hamper the demand for steel. Reduced rate of 0.25% tax on gross amount received by steel distributors, retailers is positive for the sector as it will encourage documentation and tax compliance amongst steel distributors and retailers.

Key Measures

- A 19.2% decline in the allocation of PSDP funds, from PKR 900bn to PKR 727bn.
- Dealers, Distributors, wholesalers and retailers of steel that are in active taxpayer list will now be subject to reduced advance tax of 0.25% of revenues.

Technology & Communication | Neutral to Positive | for HUMNL

While the government has ended exemption of IT exports from income tax, the rate of tax imposed at 0.25% of exports proceeds is at a substantial discount to that applicable on exports of other services (1%). Hence the impact on bottom-line would be negligible. Furthermore, the tax would be collected by the bank at the time of realization of export proceeds, which will likely keep IT firms from interaction with taxmen. Increase in FED on telecom services from 16% to 19.5% will increase end user prices. Additionally, local entertainment industry has been encouraged through 5-year tax holidays on new cinema openings and advance tax on imports of cinematographic equipment is abolished.

Key Measures

- The government has ended exemption from income tax for the export proceeds of IT services or IT enabled services available under section 65(f). IT firms registered with the Pakistan Software Export Board, will now be subject to a tax of 0.25% of export revenues.
- Rate of FED is enhanced on telecommunication services from 16% to 19.5%.
- 5 year income tax holiday for new cinema halls.
- Abolishment of sales tax on Import of machinery for film and drama making.

Sector Impact

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Chemical | Positive

for BIFO

Potassium chlorate is used in manufacturing explosives and cutting down potassium chlorate taxes will be beneficial for BIFO.

Key Measures

- The sales tax on potassium chlorate has been reduced from 90/bag to 60/bag.

Pharmaceutical | Neutral to Positive

for the Pharma universe

The reduction in custom duty will help reduce the cost of production for the pharmaceutical companies.

Key Measures

- Custom duty on more than 30 APIs has been abolished.

Other Sector

Positive for Paper & Board, Negative for Tobacco

Increase in RD will increase cost of import and resultantly protect local paperboard industry.

Key Measures

- 10% RD has been levied on import of other paper, paperboard, cellulose wadding and webs of cellulose fibers.
- FED increased on tobacco.

Per 1000 Cigarettes	Old FED	New FED	Impact/ Cigarette
Price < PKR 5,960	1,650	1,850	0.2
Price > PKR 5,960	5,200	5,600	0.4

SECTION 4

ANALYTICAL REVIEW OF THE BUDGET

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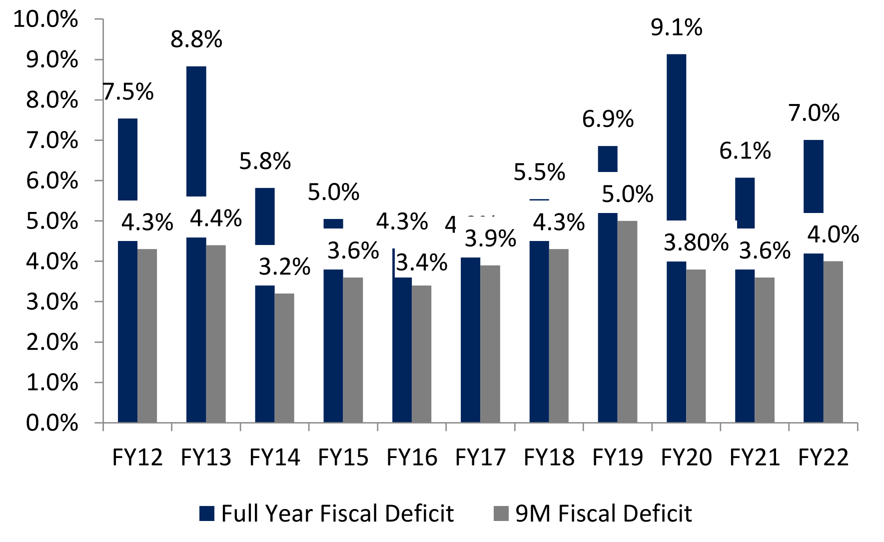
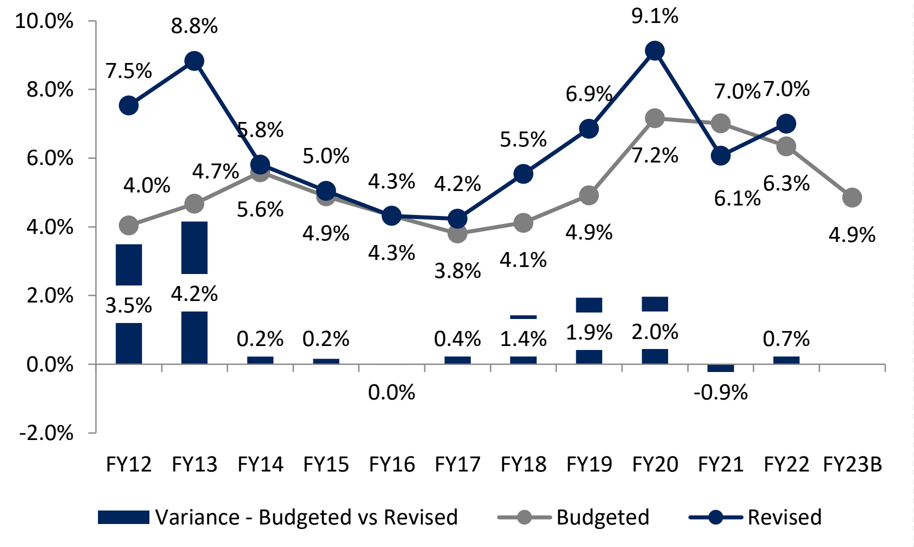
Aiming for fiscal consolidation

- The government is aiming for fiscal consolidation as the fiscal deficit is budgeted at 4.9% of GDP in FY23 against a revised estimate of 7.1% in FY22.
- Primary budget surplus is targeted at 0.2% in FY23 against a deficit of 2.3% in FY22E.
- GoP is expecting FY23 GDP growth to slow down to 5.0%, from 6.0% in FY22. Considering fiscal consolidation and rising inflation and interest rates, we believe actual growth outturn may be substantially lower.
- GoP expects CPI inflation to average 11.5% in FY23 against 11.7% in FY22E, which is another unrealistic target as actually inflation would likely approach 20%.
- With upside to inflation estimate and downside to GDP growth, we believe FY23 nominal GDP growth would still be higher than GoP estimates of 16.8%.

Macroeconomic Indicators	FY20	FY21	FY22P	FY23B
Inflation	10.7%	8.9%	11.7%	11.5%
Fiscal Deficit	7.1%	6.1%	7.1%	4.9%
Tax to GDP	9.3%	9.4%	9.0%	9.0%
GDP	-0.9%	5.7%	6.0%	5.0%

Sector-wise GDP growth	FY19	FY20	FY21R	FY22P
Agriculture	0.9%	3.9%	3.5%	4.4%
Manufacturing	4.52%	-7.8%	10.5%	9.8%
Commodity Producing Sector	0.6%	-0.6%	5.4%	5.7%
Services	5.0%	-1.2%	6.0%	6.2%





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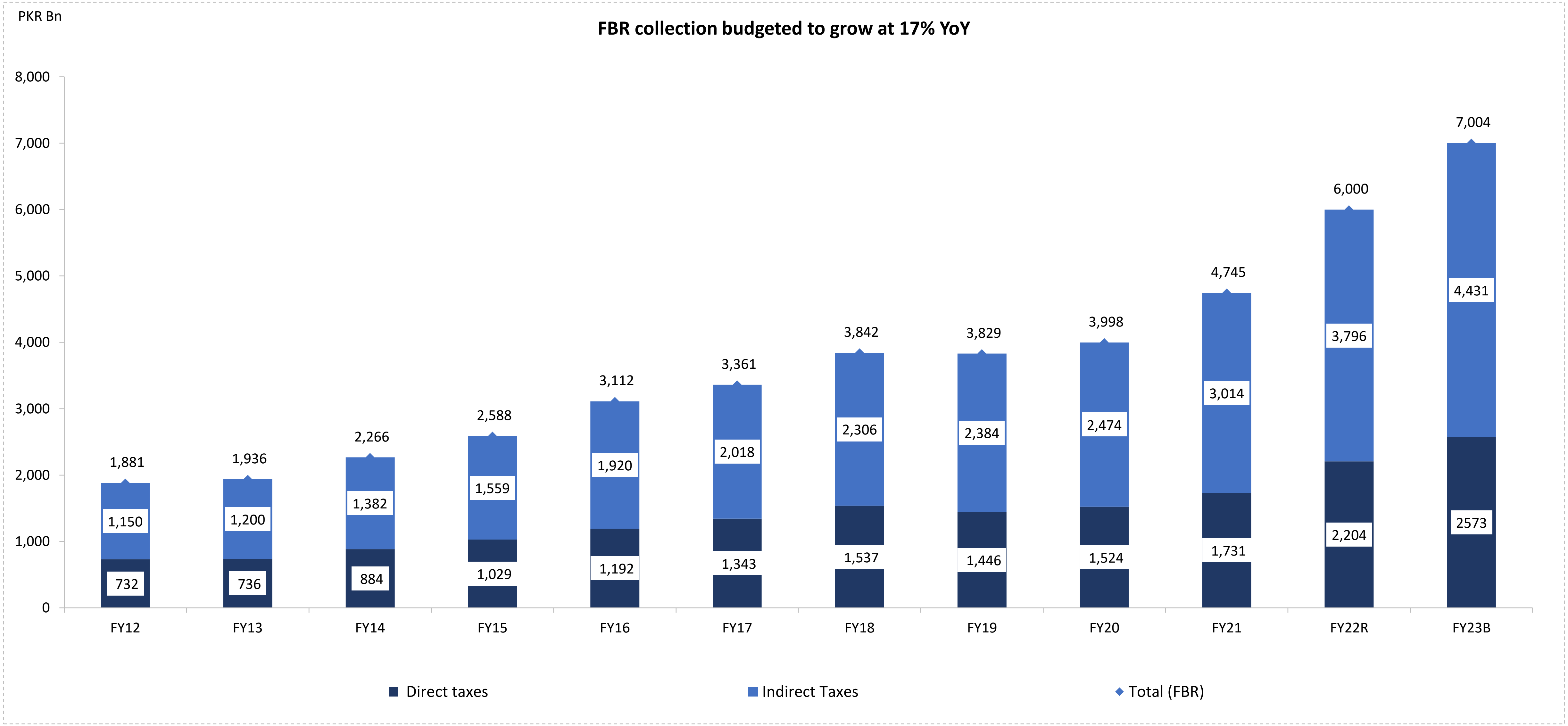
Realistic FBR revenue collection targets

- GoP has budgeted FBR tax collection to grow 16.7% YoY in FY23 and reach PKR 7,004bn. In absolute terms, the government is targeting an increase of PKR 1,004bn. Both direct and indirect taxes are estimated to grow 16.73%.
- Considering that the nominal GDP growth is forecasted at a similar 16.8%, and the government plans to take policy and administrative/enforcement measures worth PKR355bn, the FBR tax revenue collection target seems very achievable.
- Excluding policy and administrative/enforcement measures, GoP is expected a 10.8% growth in FBR revenues which seems conservative.

FBR Taxes (PKR bn)	FY22R	FY23B	+/-
FBR Tax (1+2)	**6,000**	**7,004**	**16.73%**
1. Direct Taxes	**2,204**	**2,573**	**16.74%**
Income Tax	2,191	2,558	**16.74%**
2. Indirect Taxes	**3,796**	**4,431**	**16.73%**
Customs Duties	817	953	**16.65%**
Sales Tax	2,635	3,076	**16.74%**
Federal Excise	344	402	**16.86%**
Non tax Revenue	**FY22R**	**FY23B**	**+/-**
Non tax Revenue	**1,316**	**2,000**	**51.97%**
SBP Profits	474	300	**-36.70**
Interest(Provinces/PSE)	126	140	**11.05%**
Oil & Gas Revenues	133	154	**15.79%**
Petroleum Levy	135	750	**455.56%**
Natural Gas Development Surcharge	30	40	**33.33%**
GIDC	25	200	**700%**
Other Non-tax	393	416	**5.85%**

	FY22E Collection	FY23 target	Tax Measures	FY23 target net of Measures	YoY growth excluding measures
Direct Tax	2,204	2,573	95	2,478	12.4%
Sales Tax	2,635	3,076	286	2,790	5.9%
FED	344	402	43	359	4.4%
Custom Duty	817	953	(69)	1,022	25.1%
FBR Taxes	**6,000**	**7,004**	**355**	**6,649**	**10.8%**

Breakup of FBR tax revenues



52% increase in non-tax revenue driven by higher PDL and GIDC collection is unrealistic

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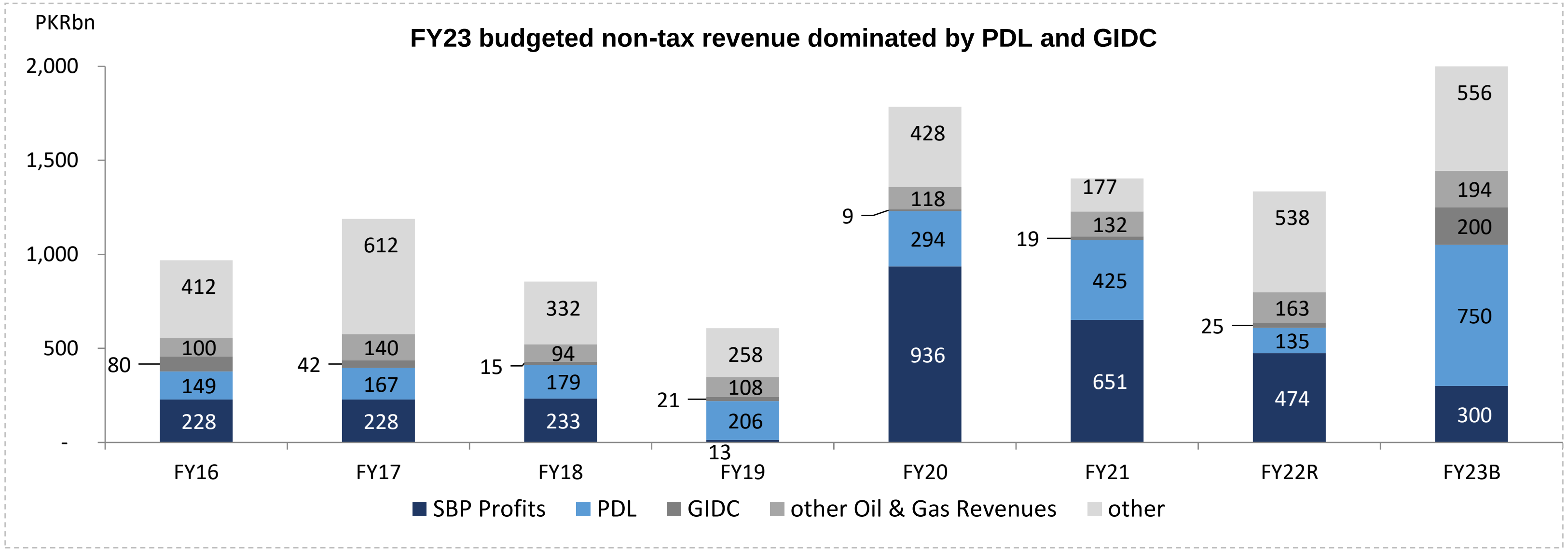
- Non-tax revenues are targeted to grow 52% during FY23 as compared to the revised FY22 estimates.
- Petroleum levy target is set at an ambitious PKR 750bn, against a revised estimate of PKR 135bn for FY22.
- Using FY23 sales of 14.3mn liters (-10% YoY), achieving PKR 750bn in PDL collection will require GoP to increase PDL to PKR52/liters. For keeping PDL at a maximum PKR30/ liters, FY23 volumes would need to rise 57% YoY to 25mn liters. Both would require a decline in oil prices.
- GIDC collections target at PKR 200bn against revised FY22 estimated collection of PKR 25bn, is even more unrealistic.
- However, an upside is a possible out of court settlement with fertilizer companies considering the recent changes in alternate dispute resolution mechanism.



Est. PDL per Liter at 10% YoY Decline in Volumes

Industry Volumes (Tons)	FY22E	FY23E
HSD	7,448	6,703
MS	8,446	7,601
Kerosene	51	46
Industry Sales (Mn Liters)	**15,945**	**14,351**
PDL Target (PKR mn)		750,000
Expected Levy PKR per liter		**52**

Est. Volumes at PKR PDL per Liter

Industry Volumes (Tons)	FY22E	FY23E
HSD	7,448	11,678
MS	8,446	13,242
Kerosene	51	80
Industry Sales (Mn Liters)	**15,945**	**25,000**
PDL Target (PKR mn)		750,000
Expected Levy PKR per liter		**30**

Proposed changes in ADR

- In order to facilitate the taxpayers and address their grievances, government has modified the Alternative Dispute Resolution (ADR) mechanism.
- The aggrieved tax payer having tax liability of PKR 100mn and above or the admissibility of refund, can opt to resolve the dispute via the ADR.
- The aggrieved taxpayer, through an application, can now opt to get the disputed matter resolved out of court provided no criminal proceedings have been initiated.
- In the past it was the decision of the Board to decide whether an ADRC should be formed to deal with a disputed matter. Now this hurdle has been removed from the process.
- After the application, the board will constitute a committee, comprising of 3 members, 1 member is nominated by the tax payer while the second will be the officer of FBR. The third member will be nominated via mutual consent, hence allowing two out of three members of the ADRC from the consent of the taxpayer.
- For the first time, the aggrieved taxpayer will have, representation in the committee constituted by the board to resolve the dispute.

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Tax expenditures totaled PKR 1.48tn in FY22

- GoP shared detailed tax expenditures (credits) in Finance Bill 2022, due to various tax credits, waivers and exemptions totaling PKR 1.48tn in FY22. However, bulk of these tax expenditures remain in place.

- Income tax expenditures
  - 27% of total tax expenditure comes from income tax which results in tax loss of PKR 399.6 bn.

- Sales tax expenditures
  - Sales tax expenditures aggregate 49.9% of total, where exemption under 6th schedule and reduced rates under 8th schedule contributes 44.6% of total sales tax expenditures.

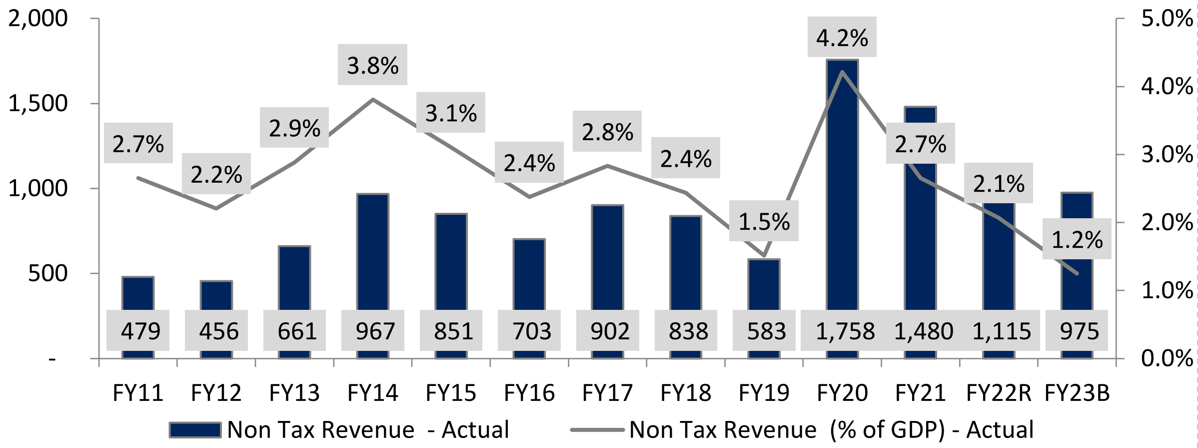
- Custom duty expenditures
  - Custom duty expenditure has a 23.1% share mainly on account of 5th schedule of exemptions and concessions and can generate additional PKR 168bn if removed.

Tax Expenditure Estimates	PKR mn	% of total
Income Tax	**399,662**	**27.0%**
Allowances	10,625	0.7%
Tax Credits	65,465	4.4%
Exemptions from Total Income	232,852	15.7%
Reduction in Tax Rates	195	0.0%
Reduction in Tax Liability	3,285	0.2%
Exemptions from Specific Provisions	61,076	4.1%
Others / Miscellaneous	26,164	1.8%
Sales Tax	**739,767**	**49.9%**
Zero Rating under 5th Schedule to Sales Tax Act 2990	33,422	2.3%
Exemption under 6th Schedule	466,702	31.5%
Reduced Rates under 8th Schedule	193,722	13.1%
Sales Tax on Cellular Mobile Phones under 9th Schedule	45,919	3.1%
Customs Duty	**342,890**	**23.1%**
Chapter 99 Exemptions	15,963	1.1%
FTA & PTA Exemptions	46,105	3.1%
5th Schedule Exemptions & Concession	168,754	11.4%
General Concessions: Automobile, E&Ps, CPEC, etc	60,987	4.1%
Export Related Exemptions	51,081	3.4%
Total	**1,482,319**	

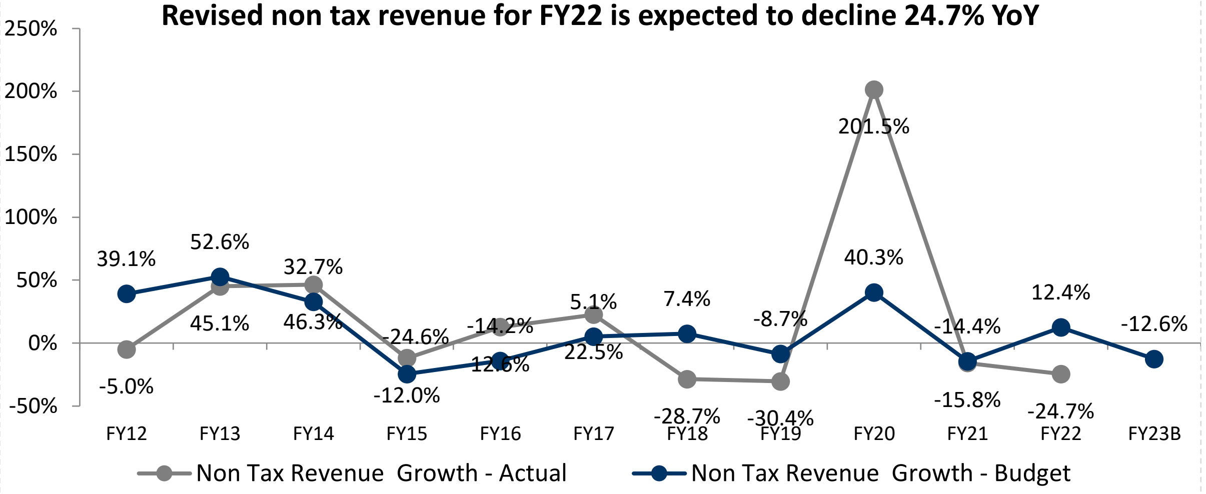
Source: Budget Document FY23, MoF, Akseer Research

Key charts

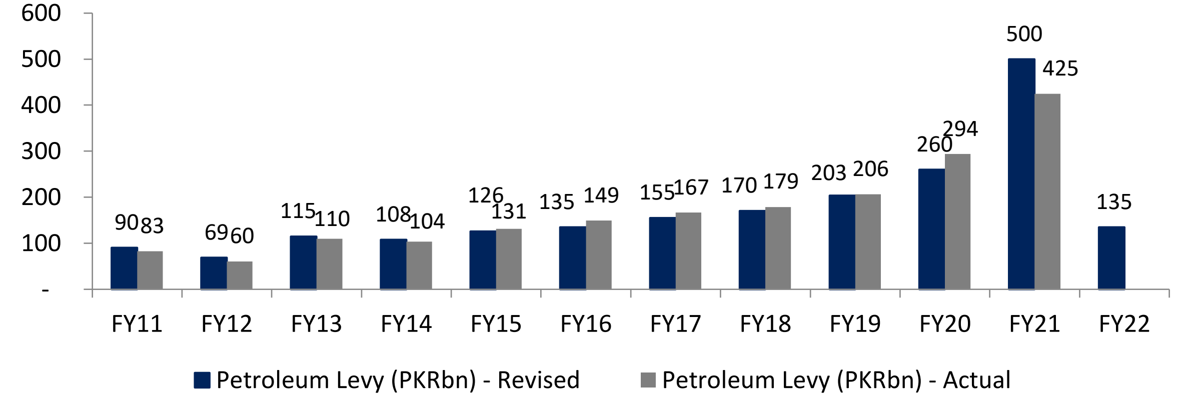
Non tax revenue target set at 1.2% of GDP, -12.6% YoY



Revised non tax revenue for FY22 is expected to decline 24.7% YoY



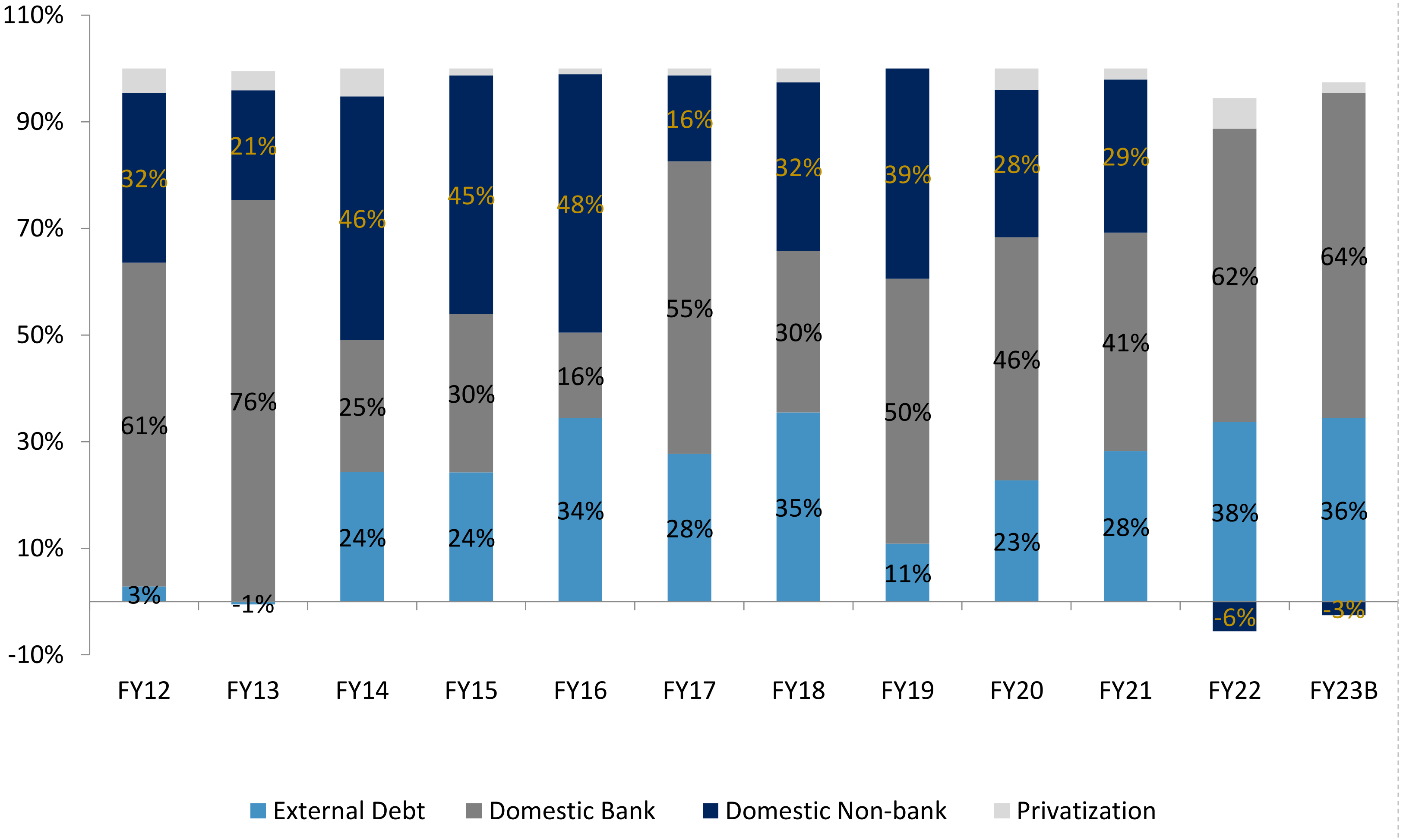
Petroleum levy is one of the few revenue heads that has historically met targets except FY22



Government continues to rely on domestic banks for budgetary funding

- The budget deficit for FY23 is expected to reach a new high of PKR 4,598bn, which will be funded primarily from domestic sources.
- Domestic borrowings, including banks and non-banks, are expected to fund 61% of the deficit in FY22, as compared to 56% in the preceding year.
- Government plans to fund 64% of the deficit from the domestic banks which depicts an increase of 22.5% YoY.
- The reliance on external borrowing is expected to decline marginally compared to last year (from 38% in FY22 to 36% in FY23).
- Proceeds from privatization are budgeted to decline 62% YoY from PKR 252bn in FY22 to PKR 96bn for FY23. However, the government has failed to receive any proceeds from privatization over the last few years.

Share of domestic financing continue to increase in FY23



Current expenditure targets are optimistic

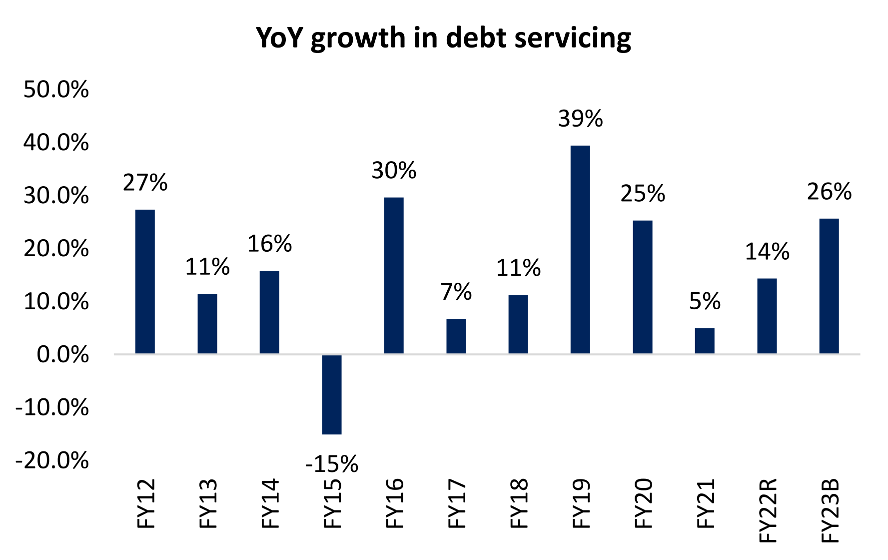
- GoP is budgeting a 4.8% increase in total budget outlay to PKR 9.5 trillion. This will bring down total budget outlay from 13.5% of GDP in FY22 to 12.2% in FY23.
- The government is budgeting a 32% increase in federal PSDP from FY22 revised estimates, which reflect a cut of 39% from FY22 budgeted estimates. FY23 budgeted PSDP would still be 19% lower than FY22 budgeted PSDP
- The government is budgeting a 2.0% increase in current expenditure, mainly due to a 54% reduction in subsidies. Net of subsidies, the current expenditure is expected to rise 14%, driven by 46% increase in BISP and 24% increase in debt servicing.

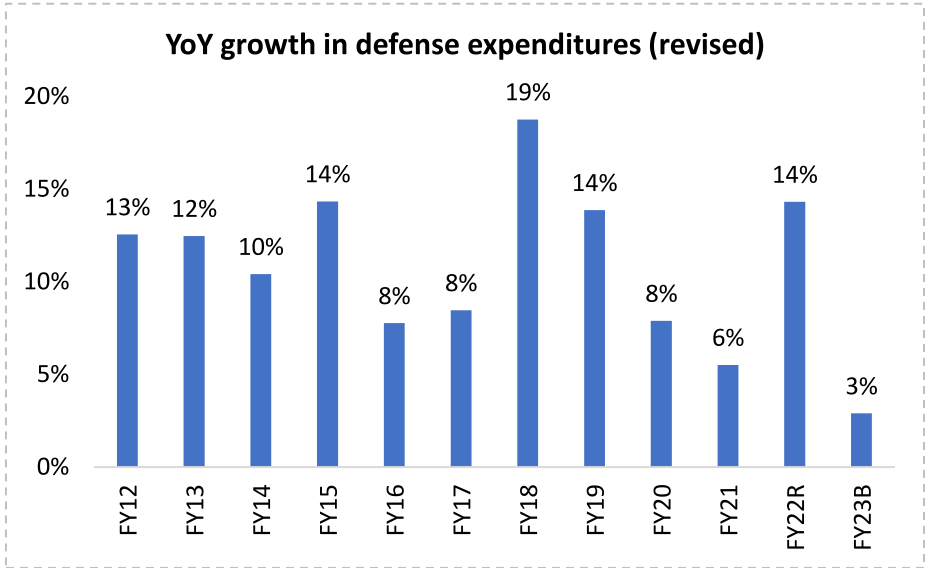
PKR Bn	FY22B	FY22R	% of GDP	FY23B	% of GDP	YoY Change %
Current Expenditure	7,523	8,516	10.9%	8,694	13.0%	2%
Debt	2,757	2,770	3.5%	3,439	5.1%	24%
Defense	1,370	1,480	1.9%	1,523	2.3%	3%
Subsidies	682	1,515	1.9%	699	1.0%	-54%
Pension	480	525	0.7%	530	0.8%	1%
Grants & Transfers Ex BISP	922	844	1.1%	882	1.3%	4%
BISP	246	246	0.3%	360	0.5%	46%
Running of Civil Govt	479	530	0.7%	550	0.8%	4%
Other	588	605	0.8%	711	1.1%	17%
Development	900	550	0.7%	727	1.1%	32%
Net Lending	64	0	0.0%	81	0.1%	N/A
Total Expenditure	8,487	**9,066**	**11.6%**	**9,502**	**14.2%**	5%
Current Expenditure Excl. Subsidies	**6,841**	**7,001**	**9.0%**	**7,995**	**10.2%**	**14%**
Current Expenditure Excl. Subsidies & BISP	**6,595**	**6,755**	**8.6%**	**7,635**	**9.8%**	**13%**

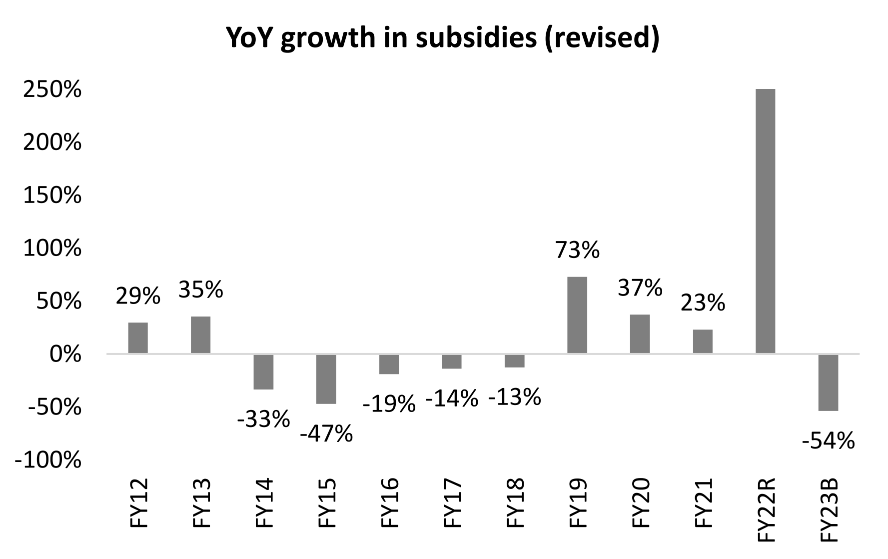
Current expenditure targets are optimistic

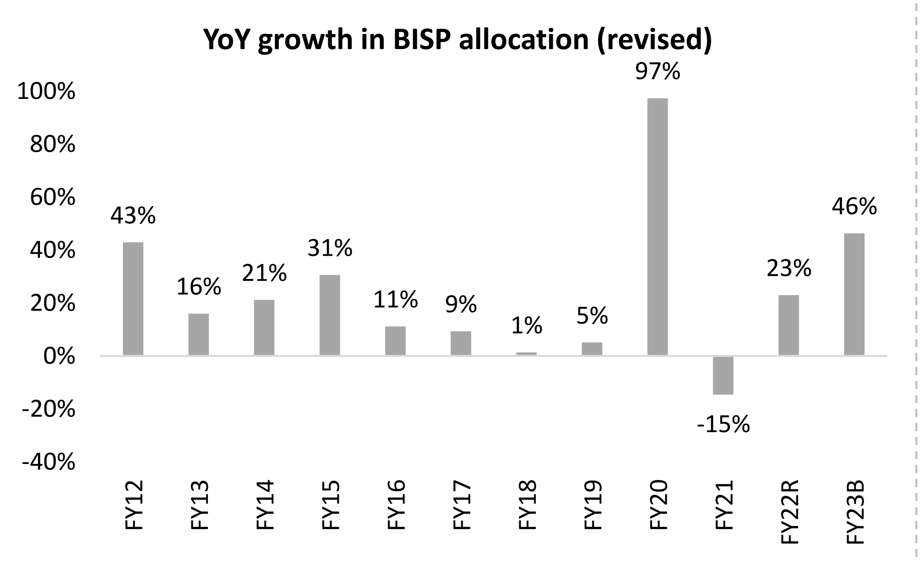
Most Current expenditure targets seem unrealistic

- Despite a budgeted 24% growth, debt servicing target face a slippage risk in our opinion
- The government has budgeted only a 3.0% growth in defense expenditure, which is unlikely to be met
- Pension payments are forecasted to grow 1% despite a 5.0% increased in pensions for FY23
- Grants & Transfers ex BISP are forecasted to grow by a mere 4.0% YoY
- Despite announcing a 15% increase in salaries, the government has budgeted a mere 4.0% increase in cost of running civil government









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PSDP allocation up 23.3% YoY at PKR 2,263bn

- In Budget FY23, National Development Program's outlay has been set at PKR 2,263bn.
- The Federal PSDP is budgeted at PKR 727bn (or 32% of total outlay) in FY23.
- Among the Federal Ministries, the highest share has been allocated to Water Resources and Cabinet Division of 12.4% and 8.8%, respectively.
- Allocation to Water Resources Division and Cabinet divisions has been reduced by 4.1%, and 2.8%.
- For PPP projects, PKR 73bn has been allocated in FY23.

PSDP Allocation (PKR bn)	FY22 R	FY23	YoY (%)	Absolute Change	% share in Fed PSDP	
Federal Ministries					FY22	FY23
Water Resources Division	90.6	99.6	9.9%	9.0	16.5%	12.4%
Finance Division	45.8	1.7	-96.4%	-44.1	8.3%	0.2%
Kashmir Affairs & Gilgit Baltistan Division	45.9	0.0	NA	-45.9	8.3%	0.0%
Cabinet Division	64.0	70.1	9.5%	6.1	11.6%	8.8%
Higher Education Commission	26.3	44.2	67.8%	17.8	4.8%	5.5%
Railways Division	17.8	32.6	83.2%	14.8	3.2%	4.1%
Pakistan Atomic Energy Commission	18.9	26.0	37.5%	7.1	3.4%	3.2%
Interior Division	12.0	9.1	-24.5%	-3.0	2.2%	1.1%
National Health Services, Regulations & Coordination Division	12.6	12.7	0.4%	0.1	2.3%	1.6%
National Food Security & Research Division	8.4	10.1	20.2%	1.7	1.5%	1.3%
Housing & Works Division	14.3	14.0	-2.4%	-0.3	2.6%	1.7%
Information Technology & Telecom Division	4.4	6.3	44.2%	1.9	0.8%	0.8%
Other	48.3	238.7	394.1%	190.4	8.8%	29.8%
	409.3	**565.0**	**38.0%**	**155.6**	**74.4%**	**70.6%**
Corporations:						
National Highway Authority	86.7	118.4	36.6%	31.7	15.8%	14.8%
NTDC / PEPCO	46.5	43.1	-7.3%	-3.4	8.5%	5.4%
	133.2	**161.5**	**21.3%**	**28.3**	**24.2%**	**20.2%**
COVID Responsive and Other Natural Calamities Program	0.0	0.0	NA	0.0	0.0%	0.0%
ERRA	7.4	0.5	-93.3%	-6.9	1.3%	0.1%
VGF for PPP Projects	0.0	73.0	NA	73.0	0.0%	9.1%
SDGs Supplementary Funds	0.0	0.0	NA	0.0	0.0%	0.0%
Total Federal PSDP	**550.0**	**727.0**	**32.2%**	**177.0**		
Total (Federal PSDP + VGF)	**550.0**	**800.0**	**45.5%**	**250.0**	**100.0%**	**100.0%**
Total Provinces PSDP	**1,286.0**	**1,463.0**	**13.8%**	**177.0**		
Total National PSDP	**1,836.0**	**2,263.0**	**23.3%**	**427.0**		

Source: Economic Survey FY21, Budget Document, MoF, Akseer Research

A steep decline budgeted in subsidies

- In budget FY23, government has budgeted a 54% decline in subsidies, the FY23 budgeted subsidies are in line with FY22 budget.
- Revised FY22 subsidies are likely to end up at more than 2.2x budgeted due to significantly higher spending in WAPDA/PEPCO (+94%), IPPs (219%) and petroleum subsidies (18.8x) as the government delayed the pass on of the impact of higher international fuel prices.
- Unbudgeted PKR 80bn pertaining to PM's relief package announced in later part of FY22 also contributed to higher subsidies in FY22.
- In Budget FY23, Government has reduced IPPs subsidy by 59% whereas petroleum subsidy has been reduced by 81%.

(PKR bn)	FY22B	FY22R	% Change	FY23B	% Change
Subsidy to WAPDA/PEPCO	**511.0**	**989.0**	**94%**	**490.0**	**-50%**
IPPs	136.0	434.0	219%	180.0	-59%
PHPL	118.0	118.0	0%	35.0	-70%
TDS (PM Package)	0.0	80.0	N/A	0.0	-100%
Advance Subsidy 1 (Coal Plants Released)	0.0	50.0	N/A	0.0	-100%
Advance Subsidy 2 (To be Released)	0.0	50.0	N/A	0.0	-100%
Subsidy to KESC	**85.0**	**83.0**	**-2%**	**80.0**	**-4%**
Subsidy to Petroleum	**20.0**	**377.0**	**1785%**	**71.0**	**-81%**
PASSCO	**7.0**	**7.0**	**0%**	**7.0**	**0%**
Utility Store Corporation	**6.0**	**21.0**	**250%**	**17.0**	**-19%**
Others	**53.0**	**38.0**	**-28%**	**34.0**	**-11%**
Total Subsidies	**682.0**	**1515.0**	**122%**	**699.0**	**-54%**

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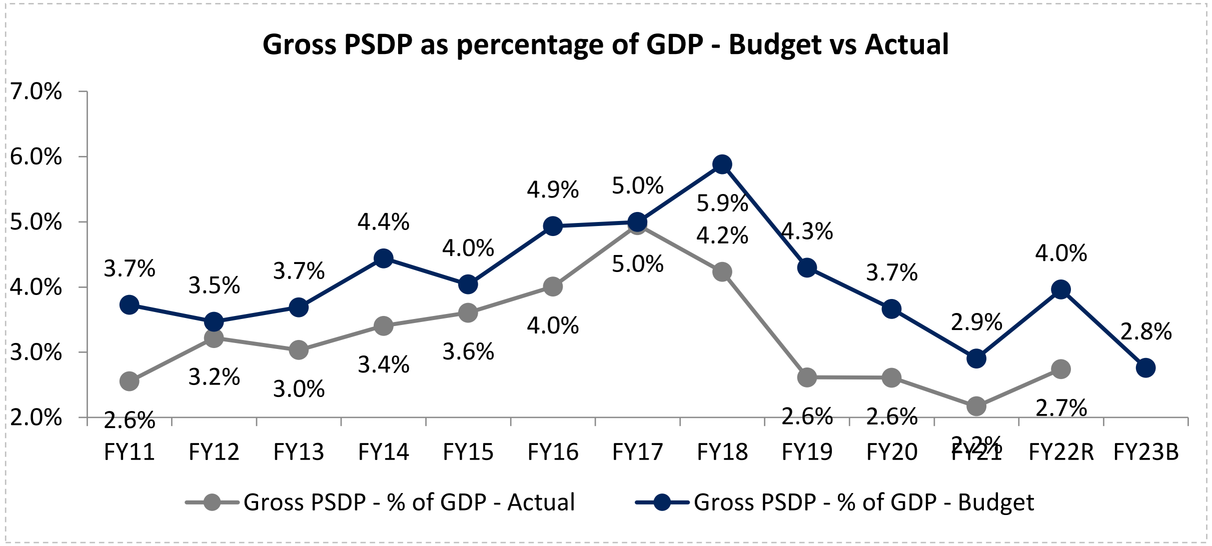
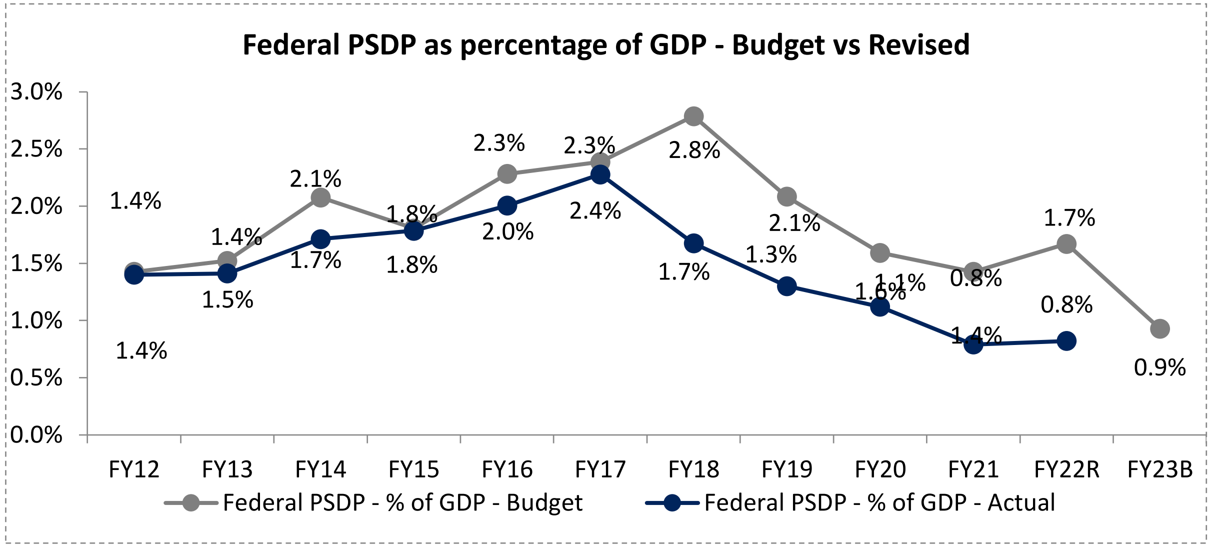
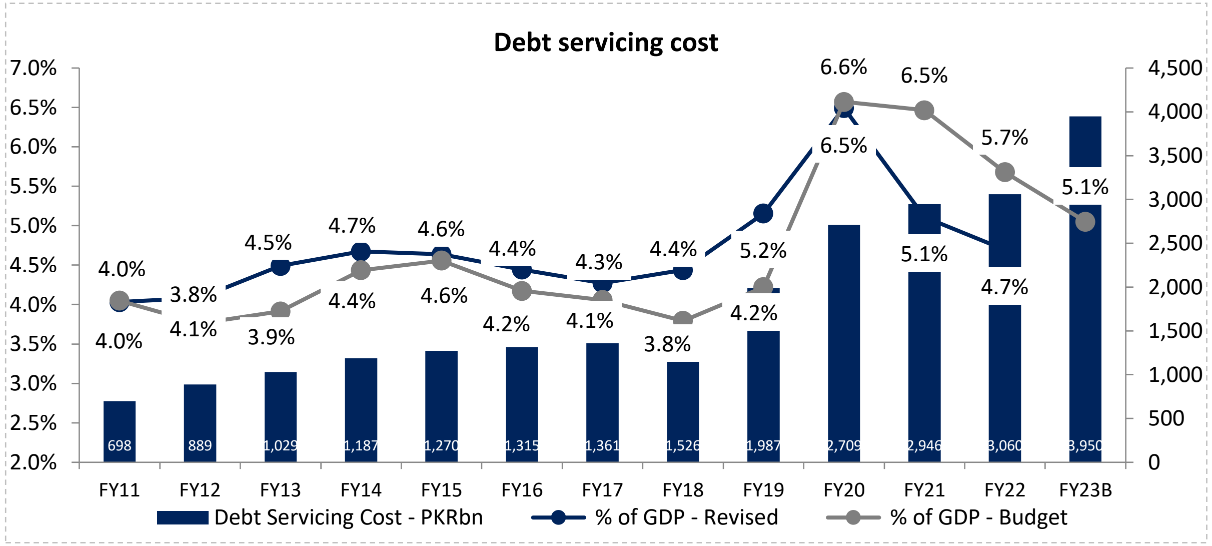
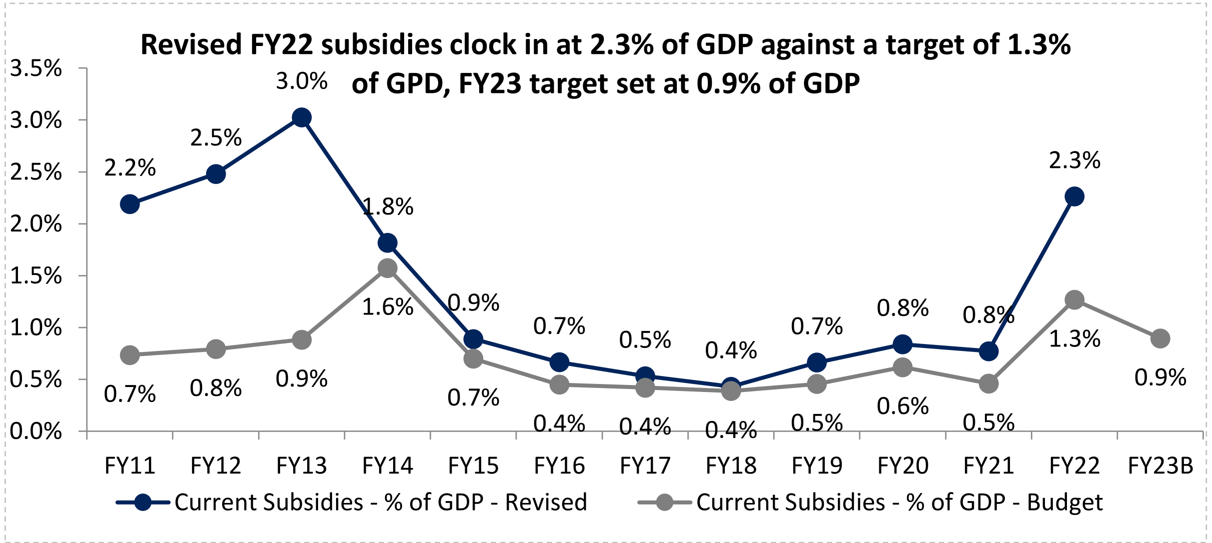
Key charts









Taxes have been reduced for salaried individuals, increased for business individuals and AOPs

REN # REP-004

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Tax rate for individual chargeable under the head "salary"			
FY22		FY23	
Income in PKR (Up to)	Tax Rate	Income in PKR (Up to)	Tax Rate
600,000	-	600,000	-
1,200,000	5% of the amount above PKR 600,000	1,200,000	PKR 100
1,800,000	PKR 30,000 plus amount above PKR 1,200,000	2,400,000	7% of amount above PKR 1,200,000
2,500,000	PKR 90,000 plus 15% above PKR 1,800,000	3,600,000	PKR 84,000 plus 12.5% of amount above PKR 2,400,000
3,500,000	PKR 195,000 plus 17.5% amount above PKR 2,500,000	6,000,000	PKR 234,000 plus 17.5% of the amount above PKR 3,600,000
5,000,000	PKR 370,000 plus 20% of amount PKR above 3,500,000	12,000,000	PKR 654,000 plus 22.5% of the amount above PKR 6,000,000
8,000,000	PKR 670,000 plus 22.5% on amount above PKR 5,000,000	Above 12,000,000	PKR 2,004,000 plus 32.5% of the amount above PKR 12,000,000.
12,000,000	PKR 1,345,000 plus 25% of amount above PKR 8,000,000		
30,000,000	PKR 2,345,000 plus 27.5% of amount above PKR 12,000,000		
30,000,000	PKR 7,295,000 plus 30% of the amount above PKR 30,000,000		
75,000,000	PKR 13,295,000 plus 32.5% of amount above PKR 50,000,000		
Above 75,000,000	PKR 21,420,000 plus 35% of amount above PKR 75,000,000		

The rates of tax imposed on income of every individual and association of persons			
FY22		FY23	
Income in PKR (Up to)	Tax Rate	Income in PKR (Up to)	Tax Rate
400,000	-	600,000	-
600,000	5% of the amount above PKR 400,000	800,000	5% on amount above PKR 600,000
1,200,000	PKR 10,000 plus 10% of amount exceeding above PKR 600,000	1,200,000	PKR 10,000 plus 12.5% of the amount exceeding PKR 800,000
2,400,000	PKR 70,000 plus 15% of amount exceeding PKR 1,200,000	2,400,000	PKR 60,000 plus 17.5% of the amount above PKR 1,200,000
3,000,000	PKR 250,000 plus 20% of amount above PKR 2,400,000	3,000,000	PKR 270000 plus 22.5% of the amount above PKR 2,400,000
4,000,000	PKR 370,000 plus 25% above PKR 3,000,000	4,000,000	PKR 405,000 plus 27.5% of the amount above PKR 3,000,000
6,000,000	PKR 620,000 plus 30% of amount above PKR 4,000,000	6,000,000	PKR 680,000 plus 32.5% of the amount above PKR 4,000,000
Above 6,000,000	PKR 1,220,000 plus 35% of amount above 6000000	Above 6,000,000	PKR 1,330,000 plus 35% of the amount above PKR 6,000,000

SECTION 5

CONTACT DETAILS & DISCLAIMER

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Disclaimer

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Rating	Expected Total Return
Buy	Greater than or equal to +15%
Hold	Between -5% and +15%
Sell	Less than or equal to -5%

Ratings are updated to account for any development impacting the economy/sector/company, changes in analysts’ assumptions or a combination of these factors.

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