

Federal Budget FY23

INITIAL IMPRESSIONS

The Federal Government earlier today announced the Budget for the next fiscal year FY23, with a total budgeted outlay of PKR 9,502bn (up 12% compared to the revised outlay of FY22).

OUR TAKE:

The FY23 Budget has come in line with the market's expectations. The Budget proposes positive measures for many sectors – including Construction, Agriculture, Pharmaceuticals, Textile and IT. The GDP growth target is set at 5.0%. Notably, the government has imposed new taxation of 2% on all persons including companies and AOP's with income more than PKR 300mn and 3% new tax on banks. In non-tax revenue segment, the notable increase comes in PDL that is improved to PKR 750bn from PKR 135bn implying maximum PDL of PKR 30/liter on both HSD and MS.

The document's initial impressions suggest that the federal government's focus is on sustainable growth. It tried to balance austerity measures with targeted relief. Meanwhile, the austerity measures focused on enhancing the country's tax collected are targeted toward the high-income segment.

MACRO HIGHLIGHTS:

Expenditure: The government has allocated PKR 8,694bn for current expenditure (predominantly mark-up payments which are expected to be 29% YoY higher from FY22 target), and is 26% YoY compared to FY22 revised estimates. Defence Budget is targeted at PKR 1,523bn (+3% YoY). Subsidies to different sectors would be PKR 699bn, 54% YoY lower than FY22's revised estimate of PKR 1,515bn. Federal PSDP is budgeted at PKR 727bn coupled with net lending of PKR 81bn. This is 32% YoY higher than the FY22 revised estimate of PKR 550bn.

Revenue: Total Federal Revenue receipts are expected at PKR 4,904bn (less provincial share) – a jump of 9% YoY from FY22 revised estimates, contributed primarily by a 17% YoY jump in FBR taxes which are budgeted at PKR 7,004bn. Non-tax Revenue is envisaged at PKR 2,000bn which is 52% higher YoY. Within this, PDL is set at PKR 750bn that implies maximum PDL of PKR 30/liter on both HSD and MS.

GDP growth: Government has set GDP growth target at 5.0% for FY23. The government has set an Export target of USD 35bn (vs USD 31.3bn in FY22), Import target of USD 70bn and Remittance Target of USD 33.2bn (vs. 31.2bn in FY22). Moreover, Inflation is set at 11.5% for FY23.

Fiscal Deficit: The fiscal deficit is budgeted at PKR 3,798bn, which forms 4.9% of GDP as compared to 6.3% in previous year. The primary balance is envisaged at +0.2% (vs -0.7% in FY22). The Tax to GDP target has increased to 9.2% (8.6% the year prior).

Table 1: Key Economic Targets

	FY22E	FY23F
GDP growth	6.0%	5.0%
Fiscal Balance	-6.3%	-4.9%
Primary Balance	-0.7%	0.2%
Tax to GDP	9.2%	8.6%
Inflation	11.5%	11.5%
Nominal GDP (PKR bn)	53,867	78,197

Source: Budget Speech

Table 2: Budget Snapshot

(PKR bn)	FY22B	FY22R	FY23B	YoY
Net Revenue	4,497	4,497	4,904	9%
Tax Revenue	5,829	6,000	7,004	17%
FBR Taxes	5,829	6,000	7,004	17%
Direct Taxes	2,182	2,204	2,573	17%
Indirect Taxes	3,647	3,796	4,431	17%
Non-tax Revenue	2,080	1,315	2,000	52%
Petroleum Levy	610	135	750	456%
Provincial Share	3,412	3,512	4,100	17%
Total Expenditure	8,487	8,487	9,502	12%
Current Expenditure	7,523	8,516	8,694	2%
Mark up Payment	3,060	3,143	3,950	26%
Defence	1,370	1,480	1,523	3%
Grants and Transfers	1,168	1,090	1,242	14%
Subsidies	682	1,515	699	-54%
Federal PSDP	900	550	727	32%
Budget Deficit	3,420	3,420	3,798	11%

Source: Budget Speech

Awards and Recognitions



Best CEO and most committed to best Governance Standards & Social Causes



Top 10 trade idea generators with best overall idea performance
In North America #2
In Asia #1



Best Equity Research Analyst
2021



Runners Up in Finance Category
2021

RELIEF MEASURES:

- The basic threshold for taxable income has been increased from PKR 10 million to 1.2 million. Furthermore the threshold for AOP and individuals engaged in business has been increased from PKR 400,000 - 600,000.
- The capital gain on sale of immovable property has been increased to 15% if sold within one year. This rate will become zero over the period of six years, a deduction of 2.5% each year.
- Withholding tax on filers and non-filers on acquisition of property has been increased to 2 and 5% respectively.
- Sales tax on charitable hospitals above 50 beds on acquisition of goods including electricity.
- Income from Behood Certificate which has been subject to final tax at the rate of 10% has been reduced to 5% for pensioners.
- Increase in initial depreciation to 100% from 50%

REVENUE MEASURES:

- Tax on all persons including companies and AOP's where the income exceeds PKR 300 million are now subject to an additional tax at the rate of 2%.
- A fixed tax regime on small retailers has been announced which will be collected along with electricity bills. The amount of tax shall be PKR 3,000 - 10,000.
- Payments from Credit Card, Debit Card or prepaid Card shall be subject to a collection of tax at the rate of 1% and 2% for filer and non-filers respectively.
- Tax on all persons including companies and AOP's where the income exceeds PKR 300mn would be subject to an additional tax at the rate of 2%.

SECTOR HIGHLIGHTS:

Table 3: Sector developments		
Sector	Proposal	Impact
Auto	Imposition of advance tax on vehicles with engine capacity more than 1600cc Advance tax to increase to 2% on electric vehicles	Negative
Banks	Imposition of super tax of 3% would take the tax to 42% from 39%	Negative
Cement/Steel	PkR 100bn allocated for Dams Federal PSDP earmarked at PkR 800bn	Positive
Film Industry	Tax holiday of 5 years Tax rebate for 5 year to new cinemas, production houses and film museums Exemption of 8% WHT to cinemas and producers	Positive
IT and Telecom	PkR 17bn earmarked to promote IT exports	Positive
Pharma	Exemption of duties on more than 30 items on APIs	Positive
Textile	Release of DLTL claims of PkR 40.5bn	Positive

Important disclosures

Disclaimer: This publication/communication or any portion hereof may not be reprinted, sold or redistributed without the written consent of KTrade Securities Limited. KTrade Securities Limited has produced this report for private circulation to professional and institutional clients only. The information, opinions and estimates herein are not directed at, or intended for distribution to or use by, any person or entity in any jurisdiction where doing so would be contrary to law or regulation or which would subject KTrade Securities Limited to any additional registration or licensing requirement within such jurisdiction. The information and statistical data herein have been obtained from sources we believe to be reliable and complied by our research department in good faith. Such information has not been independently verified and we make no representation or warranty as to its accuracy, completeness or correctness. Any opinions or estimates herein reflect the judgment of KTrade Securities Limited at the date of this publication/ communication and are subject to change at any time without notice. This report is not a solicitation or any offer to buy or sell any of the securities mentioned herein. It is for information purposes only and is not intended to provide professional, investment or any other type of advice or recommendation and does not take into account the particular investment objectives, financial situation or needs of individual recipients. Before acting on any information in this publication/communication, you should consider whether it is suitable for your particular circumstances and, if appropriate, seek professional advice. Neither KTrade Securities Limited nor any of its affiliates or any other person connected with the company accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained therein. Subject to any applicable laws and regulations, KTrade Securities Limited, its affiliates or group companies or individuals connected with KTrade Securities Limited may have used the information contained herein before publication and may have positions in, may from time to time purchase or sell or have a material interest in any of the securities mentioned or related securities or may currently or in future have or have had a relationship with, or may provide or have provided investment banking, capital markets and/or other services to, the entities referred to herein, their advisors and/or any other connected parties. KTrade Securities Limited (the company) or persons connected with it may from time to time have an investment banking or other relationship, including but not limited to, the participation or investment in commercial banking transaction (including loans) with some or all of the issuers mentioned therein, either for their own account or the account of their customers. Persons connected with the company may provide corporate finance and other services to the issuer of the securities mentioned herein, including the issuance of options on securities mentioned herein or any related investment and may make a purchase and/or sale of the securities or any related investment from time to time in the open market or otherwise, in each case either as principal or agent. This document is being distributed in the United State solely to "major institutional investors" as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each U.S. person that receives this document by its acceptance hereof represents and agrees that it: is a "major institutional investor", as so defined; and understands the whole document. Any such person wishing to follow-up any of the information should do so by contacting a registered representative of KTrade Securities Limited. The securities discussed in this report may not be eligible for sale in some states in the U.S. or in some countries. Any recipient, other than a U.S. recipient that wishes further information should contact the company. This report may not be reproduced, distributed or published, in whole or in part, by any recipient hereof for any purpose.

Analyst certification: The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Foundation Securities and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Rating Definitions

- Outperform >18.5% potential upside
- Neutral: 12.5% to 18.5% potential upside
- Underperform <12.5% potential upside