



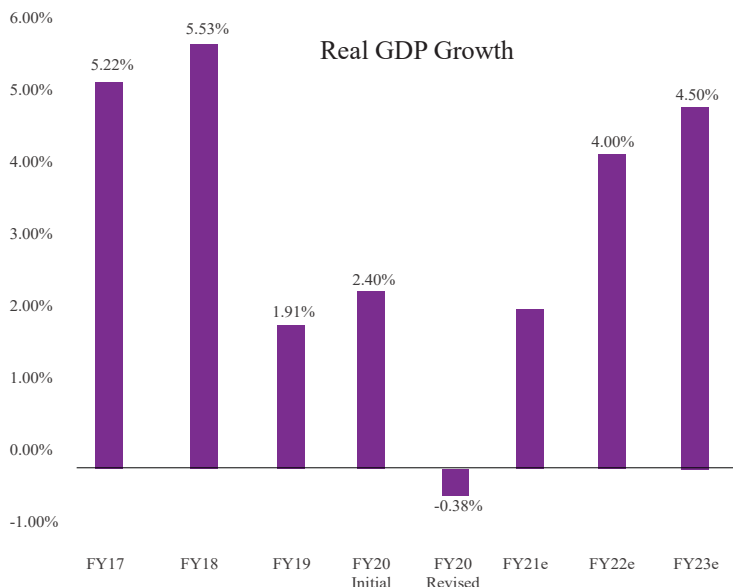
FEDERAL BUDGET 2020-21

Growth & Inflation projections

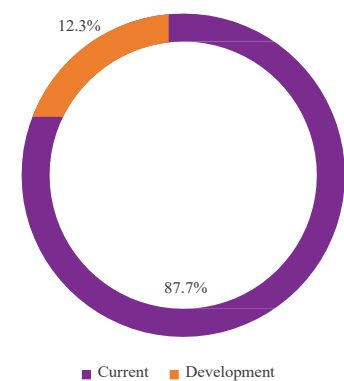
	FY20a	GoP FY21	IMF FY21
Real GDP	-0.4%	2.1%	2.0%
Inflation	11.0%	6.5%	8.0%

Revenue, Expenditure & Debt

		FY17 Actual	FY18 Actual	FY20 Initial	FY20 Revised	FY21 Budget	FY22 Budget	FY23 Budget
Macro indicators								
GDP	Rs. Bn	31,922	34,616	44,003	41,727	45,567	50,443	55,991
Debt to GDP	% of GDP	67.07%	72.09%	77.60%	86.80%	87.00%	84.20%	80.70%
Fiscal Deficit	% of GDP	-5.85%	-6.57%	-7.10%	-9.20%	-7.00%	-5.06%	-4.08%
Revenue								
Gross Revenue total	Rs. Bn	4,937	5,228	6,717	5,504	6,573		
Provincial share	Rs. Bn	1,966	2,217	3,255	2,402	2,874		
FBR revenue	Rs. Bn	3,361	3,842	5,555	3,908	4,963		
Non-tax revenue	Rs. Bn	902	630	894	1,296	1,109		
Privatization proceeds	Rs. Bn	-	2	150	150	100		
Expenditure								
Budget Outlay	Rs. Bn	6,801	7,488	8,238	8,135	7,231		
Current	Rs. Bn	5,198	5,854	7,288	7,376	6,345		
Mark-up payments	Rs. Bn	1,348	1,500	2,891	2,709	2,946		
PSDP	Rs. Bn	726	576	701	564	650		
Taxation								
Corporate Tax		31%	30%	29%	25%	29%		
Super tax (on banks)		4%	4%	4%	4%	4%		
Minimum turnover tax		1.00%	1.25%	1.50%	1.50%	1.50%		



Expenditures: FY21 Breakup





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Key measures introduced in FY20-21 Budget

- CNIC condition is proposed to be increased from Rs. 50,000 to 100,000 which is expected to facilitate ease of doing business
- Reduction in cost of raw material imports has been proposed through:
 - Exemption of Additional Customs Duty (ACD) on those tariff lines which are at 0% customs duty in tariff
 - Reduction in customs duty of 90 tariff lines from 11% & 3% to 0%
 - Reduction of custom duty on 40 raw materials of various industries
- Measures to reduce cost of business include:
 - Exemption of customs duties on imports for setting up new industries in FATA area extended to 2023
 - Enhancing concessions available to Special Economic Zones (SEZs)
- Increase in regulatory duty on import items which are also locally manufactured to protect local manufacturers
- Regulatory duty reduced on smuggling prone items in-order to encourage such items to be brought into tax net

Capital Markets (Neutral to Positive)

- Rate of advance tax on profit on debt is 10% where profit on debt is up to Rs. 500,000 and 15% where it exceeds Rs. 500,000. The bill proposes that the taxpayer has to submit a certificate to the bank that his profit on debt during the year will not exceed Rs. 500,000, if he wishes to be charged advance tax @ 10%.
- Dividend is taxed at 25% if received from a company not liable to pay tax. However, the withholding tax rate on distribution of such dividend is 15%. To remove anomaly, withholding tax rate on such dividends have been proposed at 25%
- Tax on return on investment in Sukuks received from a SPV is 25% while the withholding tax rate is 15%. To remove anomaly, withholding tax rates on such returns have been proposed at 25% for companies
- Applicability of existing rates on disposal of capital gain on securities has been extended for tax year 2021 and onwards

Real estate (Neutral to Positive)

- Extension of exemption on profit from sale of Immovable Property for Development REITs till 30th June 2021 if sold with the object of development and construction of residential buildings
- Holding period for taxation of capital gains on disposal of immovable property is being restricted to 4 years from 8 years
- Tax rates for capital gain on immovable property is being reduced to facilitate liquidity

Impact on Listed Sectors

Cements (Neutral to Positive)

- Federal PSDP: Budgeted amount of Rs650bn will bode well for construction sector
- Government has announced a subsidy of Rs 30 bn for Naya Pakistan Housing Scheme that can facilitate demand
- Reduction in FED by Rs12.5/bag (currently Rs100/bag). If passed on to end consumers, cements prices would be reduced by Rs. 15/bag. However, if players decide to retain this benefit it would increase their retention prices and profits
- Concession to co-developers of Special Economic Zones (SEZs) would improve the construction industry and uplift cement demand
- Relaxation in CNIC condition from Rs 50,000 to Rs 100,000 would increase demand from the informal sector

Steel (Neutral to Positive)

- Reduction in regulatory duty from 12.5% and 17.5% to 6% and 11%, on HRC. This will have no impact due to implication of SRO565 where customs duty is charged at 5% on HRC import for manufacturing purposes
- PSDP settled at Rs. 650 bn which is an increase of 15% from revised FY20 amount of Rs. 564 bn
- Removal of WHT on steel melters and composite unit would have cash-flow implication
- Govt has announced a subsidy of Rs. 30 bn for Naya Pakistan Housing Scheme that can boost demand for steel and construction material

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Fertilizers (Neutral)

- Rs 10 bn relief for SME and agriculture (locust control)

Banks (Neutral)

- Super-tax of 4% has been extended for another year for banks
- Ijarah sukuk bonds budgeted at Rs. 450 bn (up by 97% from FY20 actual numbers) would bode well for Islamic Banks as it will provide an investment avenue to them

Oil Marketing Companies (OMCs) (Neutral to Positive)

- Petroleum Development Levy (PDL) has been budgeted at Rs450bn for FY21 from revised Rs260bn for FY20. If the government enhances the PDL on motor spirit & HSD, it would increase POL prices, and lead to inventory gains for the companies
- Subsidy for WAPDA is proposed to be reduced from Rs200bn to Rs124bn in FY21.

Textiles (Positive)

- Reduction in output sales tax on integrated retailers from 14% to 12%. This would be positive for companies with retail store operations

Autos (Neutral to Positive)

- Levy of FED @ 7.5% in case of locally manufactured double cabin (4x4) pick-up vehicles and @ 25% in the case of imported ones. Applies to INDU for Hilux, (13% of total INDUs unit sales for 11MFY20) and GHNI for D-Max (12% of total unit sales for FY19)
- Removal of advance tax does on motor vehicles having engine capacity up to 200cc. This would benefit rickshaw and motorcycle manufacturers
- Reduction in RD on HRC. This would reduce the raw material cost for tractor manufacturers

FMCGs (Neutral to Positive)

- Exemption from 2% ACD on import of edible oil and oils seeds has been extended; the decline in cost is likely to be passed on to end consumers and would not have any bottom-line impact on the respective companies.
- Levy of FED on caffeinated energy drinks at 25%
- Exemption of custom duties on import of raw material by beverage can manufacturers

Paper and Board (Neutral to Positive)

- Budget has proposed reduction in customs duty and exemption from ACD on import of raw material by food packaging industry which may bode well for the respective companies

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	Existing CD	Proposed CD	Existing CD	Proposed CD
Kraft paper	16 %	15%	4%	0%
Multi-ply (Clay coated paper and paper board)	20%	15%	7%	0%
Aluminum foil	20%	15%	7%	0%

Pharma (Neutral to Positive)

- Exemption of custom duty on import of raw material by manufacturer of syringes and saline infusion sets
- Exemption of duties & taxes on import of dietetic foods for children with inherited metabolic disorders
- Rs70bn allocated for Covid Responsive and other Natural Calamities Program
- Exemption of all duties & taxes on import of Diagnostic Kits for Cancer and Coronavirus
- Exemption of customs duties on import of life saving drug Meglumine Antimonite for treatment of leishmaniasis
- Govt has extended the granted exemption to health-related items and equipment through SRO 237(I)/2020 for another three months which was going to expire on 19-6-2020

Chemicals (Neutral to Positive)

- Soap manufacturing industry incentivized by reducing ACD on Palm Stearin (current ACD 2%)

E&P (Neutral)

- Dividend expectations from E&P companies:

Company	Dividends					
	Per sh	FY19 in Rs. Mn	Per sh	9MFY20 in Rs. Mn	Per sh	FY21 Budget in Rs. Mn
OGDC	11.0	40,216	4.25	15,538	10.25	30,000
PPL	2.0	3,061	-	-	2.72	5,000

Power (Neutral)

- Allocation for subsidy to WAPDA & KEL has been decreased from Rs. 160.5bn in FY20 to Rs. 149.5 bn

Tobacco (Negative)

- Increase in the rate of FED on cigars, cheroots, and cigarillos and cigarettes from 65% to 100% of retail price; increase in the rate of FED on filter rods from Rs 0.75 to Rs 1 per filter rod.
- Levy of FED on e-liquids of electric cigarettes @ Rs 10 per ml.

Telecom (Neutral)

- Exemption of custom duties and regulatory duty on import of machinery, equipment and other project related items for setting up of internet cable landing stations
- Ninth Schedule is proposed to be amended in line with mobile manufacturing Policy approved by the ECC of the Cabinet

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