

Faysal AssetManagement

BUDGET SYNOPSIS

June 2013














Budget Synopsis

- The newly elected PML N government is likely to announce budget for FY14 on June 12, 2013 by newly appointed Finance Minister Ishaq Dar
- The budget is expected to introduce key structural reform – recommended by the IMF under Standby Agreement in 2008
- Policy makers would strategize the annual plan so as to turn the consumption driven economy into a growth oriented economy
- The budget will focus towards resolution of power crisis, higher development expenditure to improve infrastructure, reduction in subsidies including power sector subsidies
- The government is set to increase taxation revenue by targeting a tax to GDP ratio of 10% by introducing reforms in key taxation avenues

Sector-wise Impact

| Sector | Key Budget Measures | Impact |
|--------|--|--------|
| Energy | Target of PKR 132 billion as petroleum levy is likely to be set for FY14 | → |
| Power | Expected injection of PKR500 billion to eradicate current stock of circular debt will provide much needed liquidity to the energy chain coupled with improved profitability. The government also plans to subsequently increase power tariff so further build up can be curtailed. | ↗ |
| | Budget will also reveal FY14 dividend expectation from PSO (DPS: PKR 9) that has been marred with circular debt. Dividend target for OGDC and PPL are expected to be targetted at PKR 11.50 and PKR 13 respectively | ↗ |
| | Power subsidy to set at PKR 290 billion in budget for 2013-14 against PKR 400 billion estimated to be released in FY13. | → |
| | Deemed duty for refineries will remain intact at 7.5% on High Speed Diesel | → |
| | Gas Tariff Rationalization across commercial industrial chain | ↗ |
| | Country's oil production expected to increase by 5 per cent, while gas production is expected to increase by 4 per cent | → |
| Steel | 5% customs duty and PKR 2,500 per ton specific duty on ships imported for dismantling | ↗ |
| Cement | Public Sector Development Programme (PSDP) targeted at Rs 450 billion for the upcoming financial year 2013-14 that would be 25 percent higher than the allocation of the outgoing fiscal year 2012-13. | ↗ |
| | Proposed increase in tax on exports bodes ill for cement manufacturers that account for 90% of cement demand in South Africa | ↘ |

Sector-wise Impact

| Sector | Key Budget Measures | Impact |
|------------|---|---|
| Cement | Imposition of FED would increase cement bag prices bearing a pass down effect on consumers largely |  |
| | Removal of GIDC (cess) bodes well as it can reduce costs up to PKR 50/ton |  |
| Fertilizer | Increase in GST would inflate urea prices and the proposed hike in import duty by 1% stands detrimental to earnings |  |
| | Gas Tariff Rationalization would hammer down on most fertilizer manufacturers where Fatima would remain unscathed |  |
| | Removal of GIDC (cess) bodes well yet a likely raise in tariff to follow |  |
| Tobacco | Tobacco taxation incidence increase by 13.5% in federal excise duty (FED) on the premium brand segments and 15% FED increase in the value brand segment |  |
| Auto | Imposition of 5% WHT on cars purchase and 50% cut in import duty on hybrid vehicles proposed |  |
| | Resumption of PML (N) famed Nation-wide Taxi scheme to bode well for car manufacturers of 800cc segment |  |
| Banks | Withdrawal withholding tax at the rate of 0.2% to be increased to 0.3%; Taxation on mutual fund investments to be taxed at 35% already in place |  |
| Textiles | Proposed increase in tax on exports bodes ill |  |
| Consumer | Proposed tax on beverage companies, where GST/FED to be imposed on capacity instead of production. |  |

Economic Targets

| Economic Indicators | Key Measures/Targets | Targets set in Last Budget |
|---------------------|---|--|
| GDP | Real GDP Target = 4.4% (Nominal GDP at 12.8%) | Real GDP Target at 4.3% (Nominal GDP at 13.8%) |
| Agriculture | Agri. Growth Target = 3.8% - Important crops 3% - Other crops 4.5% - Cotton ginning 6.1% - Livestock 3.9% - Fishing and forestry 2% | Growth Target = 4.1% |
| Service | Services Growth Target = 4.6% - Transport, storage and communication 3.5% - Wholesale & Retail trade 4% - Finance & insurance 6% | Growth Target = 4.6% |
| Manufacturing | Manu. Growth Target = 4.8% - Mining & quarrying 6% - Manufacturing 4.5% - LSM 4% - Slaughtering 3.6% - Small & Household Manu. 8.2% | Growth Target = 4.4% |
| Inflation | Inflation target = 8% | Target = 9.5% |
| Revenues | Total Revenue (tax and non-tax) = PKR 2.833 trillion | Target = PKR 3.233 trillion |
| Tax Target | FBR's target = PKR 2.675 trillion | Target = PKR 2.50 trillion |
| Expenditure | Total Outlay = PKR 3.4 trillion | Growth Target = PKR 3,203 billion |
| Interest Payment | Government will allocate PKR 1.149 trillion for the payment of interest | Expected = PKR 926 billion |
| Subsidies | Subsidies Target = PKR 364 billion | Target = PKR 208 billion |
| PSDP | Target = PKR 475 billion (Federal) | Federal = PKR 300 billion |
| NFC Awards | Transfer Target = PKR 1.628 trillion to the provinces | |

Economic Targets

| Economic Indicators | Key Measures/Targets | Targets set in Last Budget |
|---------------------|------------------------------------|------------------------------------|
| Deficit | Fiscal Deficit = PKR 1.62 trillion | Growth Target = PKR 1.105 trillion |
| Current Account | Deficit = USD 2.9 billion | Deficit Target = USD 2.1 billion |
| Exports | Target = USD 26.1 billion | Currently = USD 25.3 billion |
| Imports | Target = USD 42.6 billion | Currently = USD 40.3 billion |
| Remittance | Target = USD 15.5 billion | Currently = USD 14.4 billion |
| Reserves | Reserves = USD5.2 billion | Currently = USD 8 billion |
| Tax to GDP Ratio | Target = 10% | Currently = 9.4 % |
| Investment/GDP | Target = 13.6% | Currently = 12.6% |
| Consumption/GDP | Target = 93.4% | Currently = 94.5% |
| Debt Level | Target = USD 57.5 billion | Currently = USD 60.4 billion |
| National Saving | Target = 14% | Target = 11.2% |

Taxation Measures

| Taxes | Key Measures/Targets |
|-------------------------------------|---|
| Across the Board | Sales Tax = 17% (1% increase from Current levels) |
| Electricity (Indus. & Commercial) | GST increase to 20% from current levels (Currently = GST 16%) |
| Sugar | Sales Tax = 17% (Currently =8%) |
| Custom Duty | 1% to 74% increase on 280 (plus) items |
| Property Income Tax | New slabs of 12.5% & 15% |
| Income Tax for Individuals | AOPs 35%, Salaried Individuals (25% on Annual income of > PKR 2.5mn, 17.5% on Annual Income of PKR 1.5mn to 2.5mn) |
| Income Tax for Corporates | Companies have to pay minimum 30% of profit earned in cash dividends. Companies failing to disburse payouts would be penalised with 3% Higher than normal rate of 35% |
| WHT for Elec. Consumer of 1000units | 10% WHT on electricity consumers using 1,000 units. |
| WHT on Exports | 1.5% on Corporates and 2% for Non Corporates (Currently 1% on both) |
| WHT on Commercial Imports | 6% on Corporates and 6.5% for Non Corporates (Currently 5% on both) |
| WHT on new cars | 5% on purchase of new cars |
| WHT on Cash Withdrawal | 0.3% for Corporates and 0.4% on Non Corporates |

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Thank You