

# FEDERAL BUDGET FY25



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## Aiming parity amid ambitious targets

13 June 2024

- Largely positive for stock market.** The government targets lofty 3.6% GDP growth with 12% inflation. Despite a high FBR revenue target of PKR 12.9 TRN (up 40% Y/Y) and a primary surplus of 2.0% of GDP, the budget is less negative than expected. The focus is on increasing taxes for the real estate, retail, and export sectors, ending sales tax exemptions, and encouraging documentation.
- Ambitious revenue target.** Net federal receipts are proposed to rise to PKR 10.4 TRN (53% Y/Y). The government aims to increase FBR revenue to 10.4% of GDP from 8.7% in FY24R by ending preferential treatment for certain sectors and increasing salaried income tax. However, there is likelihood of missing the target and for mini-budgets. Non-tax revenue is also set to grow by 64% Y/Y, mainly due to a PKR 1.5 TRN increase in SBP profits and higher PDL (33% Y/Y).
- Striving for growth despite consolidation.** The government proposes a 21% Y/Y rise in current expenditure, with 50% contribution from debt servicing (up 19% Y/Y). To support growth, the PSDP is increased to PKR 1.4 TRN (up 112%).
- Limited impact on Inflation.** An increased minimum wage, tax on retail, and various tax exemptions are inflationary. However, there also appears to be some positive upside, such as lower PDL and no increase in tax on medicines, among other factors. Therefore, we expect inflation to average below 13% in FY25, in line with our earlier estimates.
- Sectoral impact.** The budget is negative for export and construction sectors but largely neutral for others.

PKR TRN	FY24B	FY24R	FY25B	Y/Y
Budget Outlay	14,484	15,160	18,877	25%
Net Receipts	6,979	6,772	10,377	53%
FBR Taxes	9,415	9,252	12,970	40%
Provinces share	(5,399)	(5,427)	(7,438)	37%
Non Tax Revenues	2,963	2,947	4,845	64%
Provincial Surplus	600	539	1,217	126%
Fiscal Deficit	(6,906)	(7,849)	(7,283)	-7%
<b>% of GDP</b>				
Fiscal Deficit	-6.5%	-7.4%	-5.9%	
Primary Deficit	0.4%	0.4%	2.0%	
FBR Tax	8.9%	8.7%	10.4%	
GDP	105,817	106,045	124,150	

Source: MoF, Optimus Research

## FBR taxes proposed at ambitious 10.4% of GDP

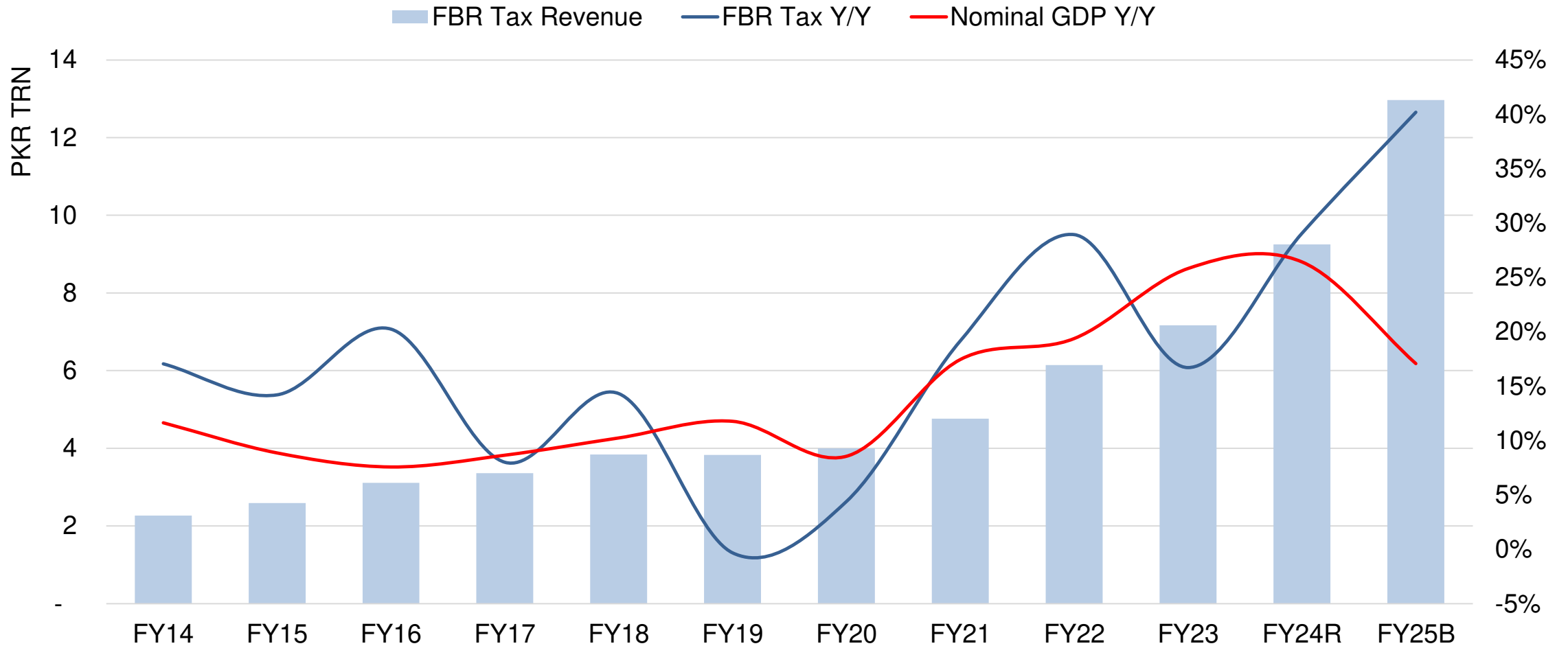
PKR BN	FY24		FY25		
	Budgeted	Revised	Budgeted	Y/Y	% of GDP
FBR Tax Revenues	9,415	9,252	12,970	40.2%	10.4%
Non Tax Revenues	2,963	2,947	4,845	64.4%	3.9%
<b>Gross Revenues Receipts</b>	<b>12,378</b>	<b>12,199</b>	<b>17,815</b>	<b>46.0%</b>	<b>14.3%</b>
Less: Provincial Transfers	(5,399)	(5,427)	(7,438)	37.1%	-6.0%
<b>Net Revenue Receipts</b>	<b>6,979</b>	<b>6,772</b>	<b>10,377</b>	<b>53.2%</b>	<b>8.4%</b>
<b>Current Expenditures</b>	<b>13,344</b>	<b>14,232</b>	<b>17,203</b>	<b>20.9%</b>	<b>13.9%</b>
<b>Development &amp; Net Lending</b>	<b>1,140</b>	<b>928</b>	<b>1,674</b>	<b>80.4%</b>	<b>1.3%</b>
Federal PSDP	950	659	1,400	112.4%	1.1%
Net Lending	190	269	274	1.9%	0.2%
<b>Total Expenditure</b>	<b>14,485</b>	<b>15,160</b>	<b>18,877</b>	<b>24.5%</b>	<b>15.2%</b>
<b>Federal Fiscal Deficit</b>	<b>(7,506)</b>	<b>(8,388)</b>	<b>(8,500)</b>	<b>1.3%</b>	<b>-6.8%</b>
Provincial Surplus	600	539	1,217	125.8%	1.0%
<b>Overall Fiscal Deficit</b>	<b>(6,906)</b>	<b>(7,849)</b>	<b>(7,283)</b>	<b>-7.2%</b>	<b>-5.9%</b>
<b>Primary Fiscal Deficit</b>	<b>397</b>	<b>402</b>	<b>2,492</b>	<b>519.9%</b>	<b>2.0%</b>
As % of GDP					
Federal Deficit	-7.1%	-7.9%	-6.8%		
Overall Deficit	-6.5%	-7.4%	-5.9%		
Primary Surplus	0.4%	0.4%	2.0%		
GDP	105,817	106,045	124,150		

Source: MoF, Optimus Research

PKR BN	FY25B
<b>Net Funding</b>	<b>8,500</b>
Non Bank Borrowing (NSS & Others)	2,662
Net External Receipts	666
Bank Borrowings	5,142

# BUDGET REVIEW

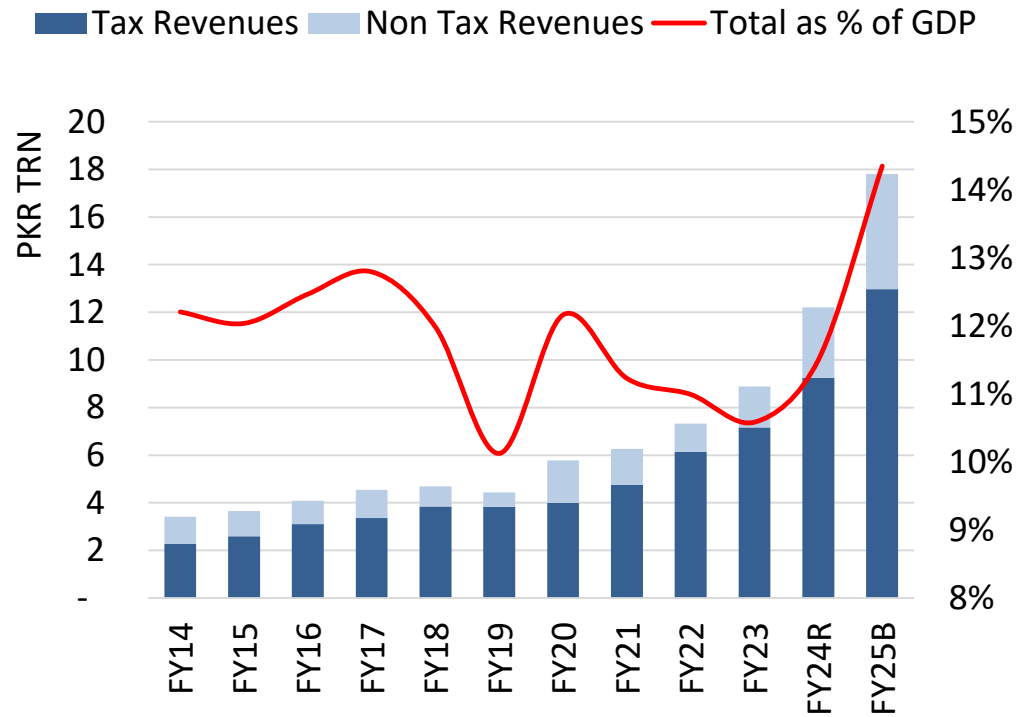
# Sharp rise budgeted in FBR tax amid slowdown in nominal GDP growth



Source: MoF, Optimus Research

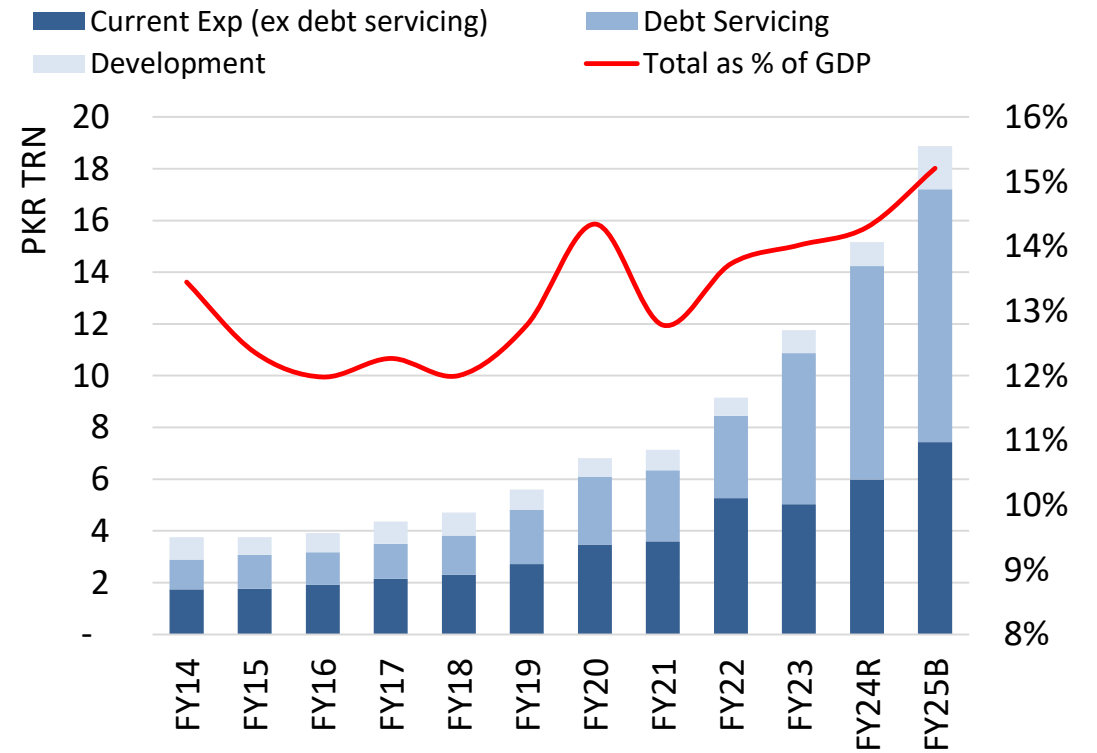
# Ambitious target to take gross federal revenues to 14.3% of GDP

Chart 2: FBR gross revenue receipts



Source: MoF, Optimus Research

Chart 3: Total Federal Expenditures



Source: MoF, Optimus Research

## Income tax target expected to fall short of 48% increase

- **FBR revenues are targeted at PKR 13.0 TRN.** The budget is understood to be largely based on IMF guidelines, with a push to increase the tax-to-GDP ratio. The government has attempted to expand the tax base by targeting the export, retail, and real estate sectors and ending preferential treatments.
- **Income tax is prosed to increase by whopping 48% Y/Y.** We expect a shortfall of around PKR 500 BN, after adjusting for nominal GDP growth and estimated revenue collection from new tax measures. This may lead to new budgetary measures to achieve the broad tax collection targets set with the IMF. The sales tax target is about 36% Y/Y, however, this might narrowly be achieved, assuming improving economic activity and the removal of broad sales tax exemptions proposed.
- **SBP profits will uplift non-tax revenues.** The rise in the non tax revenue target is also extraordinary at 64% Y/Y. However, this jump is almost entirely due to increased SBP profits of PKR 2.5 TRN, while the next highest increase is from PDL at 30% Y/Y, as the government has proposed to increase PDL by PKR 20 per liter on MS and HSD.

PKR BN	FY24B	FY24R	FY25B
<b>FBR Taxes</b>	<b>9,415</b>	<b>9,252</b>	<b>12,970</b>
<b>Direct taxes</b>	<b>4,255</b>	<b>3,721</b>	<b>5,512</b>
Income Taxes	4,204	3,682	5,454
Capital Value Tax	1	11	16
WWF	16	11	17
WPPF	35	17	26
<b>Indirect Taxes</b>	<b>5,160</b>	<b>5,531</b>	<b>7,458</b>
Custom Duties	1,211	1,324	1,591
Sales Tax	3,411	3,607	4,919
Federal Excise	538	600	948
<b>Non Tax Revenues Receipts</b>	<b>2,963</b>	<b>2,948</b>	<b>4,845</b>
Levies & Fees	29	21	25
Income from Property & Enterprise	398	518	477
Dividends	121	93	135
Reciepts from Civil admin & others	1,168	1,016	2,556
SBP Profits	1,113	972	2,500
Miscellaneous Receipts	1,367	1,394	1,788
Petroleum Levy	869	960	1,281

Source: MoF, Optimus Research

## Debt servicing budgeted at 57% of current expenditure for FY25

- Current expenditures are budgeted at PKR 17.2 TRN, reflecting a 21% Y/Y increase of about PKR 3.0 TRN.
- Debt servicing, amounting to PKR 9.8 TRN, constitutes the majority of the budgeted increase at 51% of total expenditure.
- Rest of the increase are almost equally budgeted at around 10% of total increase to Defence, Grants and Subsidies.
- The pension and running of civil government account for only 6% and 3% of the total current expenditure rise.

PKR BN	FY24B	FY24R	FY25B
<b>Current Expenditures</b>	<b>13,344</b>	<b>14,232</b>	<b>17,203</b>
<b>Markup Payments</b>	<b>7,303</b>	<b>8,251</b>	<b>9,775</b>
Markup on Domestic Debt	6,430	7,211	8,736
Markup on Foreign Debt	872	1,040	1,039
<b>Pensions</b>	<b>801</b>	<b>821</b>	<b>1,014</b>
Military	563	583	662
Civil	228	228	220
Federal Pension Fund	10	10	10
Increase in Pension	-		122
<b>Defence Affairs and Services</b>	<b>1,804</b>	<b>1,854</b>	<b>2,122</b>
Grants and Transfers	1,409	1,482	1,777
Subsidies	1,064	1,071	1,363
Running of Civil Govt	714	753	839
Provision of Emergency Fund	250	-	313

Source: MoF, Optimus Research



## Revenues measures - Budget FY25

- Income tax on cigarettes distributors is increased to 2.5% from 1%.
- FED on acetate tow at Rs.44,000 is imposed.
- FED on nicotine pouches at Rs.1,200 per kg is imposed.
- FED on e-liquids is being increased.
- FED at Rs.15 per kg on supply of sugar to manufacturers is being imposed.
- FED on cement is being enhanced from Rs.2 per kg to Rs.3 per kg.
- FED on commercial properties and first sale of residential properties at 5% is being imposed.
- Rate of FED on filter rod enhanced from Rs.1,500 per kg to Rs.80,000 per kg.
- RD on flat rolled products of iron and non-alloy steel will be increased / levied.
- Exemption of RD on import of ground nuts and margarine will be withdrew.
- Concessions in CD on import of fresh & dry fruits and import of Hybrid Vehicles will be withdrew.
- Concession granted in CDs on import of Electric vehicles having value above US\$ 50,000 will be reduced by.
- CD on Import of Containers for Aerosol Products increased.
- Mobile phones (value < \$500) to be taxed at standard rate. For value > \$500 it will remain chargeable at existing rate of 25%.
- Enhancement in reduced rate of sales tax from 15% to 18% on supplies made by the POS retailers dealing in leather and textile products.
- Rate of default surcharge increased to KIBOR plus 3% from 12%.
- Exports will be taxed at standard rates, with one percent of export proceeds treated as the minimal tax.
- Advance tax rate on profit on debt for non-filers is increased from 30% to 35%.

## Continued...

- Advance tax will be collected from all sectors of the economy comprising all distributors, wholesalers, dealers, & retailers. Non-filers (dealers, distributors, wholesalers) is increased from 0.2% to 2% and for non-filers (retailers) from 1% to 2.5%.
- Salaried Income Slab modified: Above Rs.600,000 tax-free annual income, 05 slabs have been introduced which will generate PKR 75bn additional.
- Vehicle registration tax will be deducted based on vehicle value rather than Engine capacity. Tax on vehicles having engine capacity of more than 2000cc is also being increased.
- Income Tax, advance Tax and Withholding tax rates are categorized into Filers, non-filers and late filers and for properties worth upto 50mn, 50-100mn and above 100mn.
- CGT on immovable property will be independent of holding period with filers paying a flat 15% tax on gains from the disposal of property acquired on or after July 1, 2024 while non-filers will face progressive tax rates, with a minimum tax rate of 15%.
- CGT rate on securities is made independent of holding period. For filers its 15% while for non-filers it is 15% to 45%.
- CGT on mutual funds and collective investment plans is increased from 10% to 15%.

## Relief measures - Budget FY25

- Exemption of ACD on raw materials of Fluids and Powders for use in Hemodialyzers.
- Exemption of customs duties on Bovine lipid extract surfactant.
- Withdrawal of RD on import of Sliver cans and Lollipop sticks.
- Incentives for manufacturing of Solar Panels and Allied Equipment.
- Iron and steel scrap to be exempted from levy of sales tax.
- Rationalization of customs duty on import of parts of submersible pumps.
- Rationalization of customs duties on import of Wheat, Sugar, HSD, LNG.
- Zero-rating of petroleum products is being converted into exemption.
- Extension in scope of exemptions on import of machinery and equipment for farming and processing of Fish/Shrimp and Seafood.
- Levy of Additional Customs Duty on localized auto parts to incentivize local manufacturing sector.
- Dividend rate is increased from 15% to 25% for mutual funds that earn 50pc or more of their income from profit on debt.
- Price threshold for local manufactured cigarettes increased from Rs. 9,000 to Rs.12,500.
- FED exemption provided to diplomats and diplomatic mission.
- Sales tax exemption extended for NMDs (FATA/PATA) until June 2025.
- Income and Withholding Tax exemption extended for FATA/PATA residents for 1 year until Jun-25.

## Custom duty proposed changes – FY25B

	Particulars	PCT Code	Current	Proposed	Comment / Condition
1	Machinery, equipment, capital goods, and materials for setting up, modernization, replacement or expansion for hatcheries, farms, feed mills and seafood processing units of fish and shrimp sector.	various	0%	0%,3%, 5%	
2	Cereal Flours other than of wheat or meslin	1102.9000	NA	11%	Rice Flour Added in this PCT code
3	HSD/RLNG	2710.1931, 2711.1100	10%, 5%	0%	Fuel prices expected to go down
4	Parts for PV Modules	various	NA	NA	If imported by the local registered assemblers / manufacturers of PV Modules.
5	Check (non return) valves	8481.3000	16%	16%	Tyre tubes added in the PCT Code
6	Parts for PV Modules	various	NA	NA	If imported by the local registered assemblers / manufacturers.
7	Raw materials for the manufacture of PV Modules	various	0-5%	0%	If imported by the local registered assemblers / manufacturers.
8	Parts of Solar Inverters	various	0-4%	0%	If imported by the local registered assemblers / manufacturers.

## Continued...

	Particulars	PCT Code	Current	Proposed	Comment / Condition
9	Parts of Lithium Batteries	various	0% to 10%	0%	If imported by the local registered assemblers / manufacturers.
10	Electric Vehicles 4-wheelers	8703.8090	25%	25%	Vehicles of value exceeding US\$ 50,000 excluded from this PCT Code. Likely higher tax will be imposed, in our view
11	Bare Metal Clad Printed Circuit Board (MCPCB)	8534.0000	0%	11%	
12	Stuffed Metal Clad Printed Circuit Board (MCPCB)	8539.9090	NA	0%	New addition.
13	Bovine Lipid Extract Surfactant	3004.3900	NA	0%	API for rescue treatment of Neonatal Respiratory Distress Syndrome. New addition.
14	For aerosol products	7311.0040	11%	16%	
15	Spectacles, goggles, corrective, protectives (sunglasses)	9004.9000	0%	11%	
16	Medical herbs, if imported temporarily into Pakistan from Afghanistan with a view to subsequent exportation	9932	0%	NA	Being omitted.

Source: MoF, Optimus Research

## Continued...

	Particulars	PCT Code	Current	Proposed	Comment / Condition
17	Balloons	9018.3970	0%	20%	
18	Photovoltaic power cable having single conductor of kind used for solar	8544.6020	NA	20%	New addition.
19	Evacuated tubes for the collection and transport of blood	9018.3981, 9018.3982, 9018.3989	NA	20%	New addition (Glass, PET and others).

Source: MoF, Optimus Research

## Rate of tax for salaried individual

Taxable Income		Proposed Tax rate
1	Where taxable income does not exceed Rs. 600,000/-	0%
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	5% of the amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,200,000	Rs. 30,000 + 15% of the amount exceeding Rs. 1,200,000
4	Where taxable income exceeds Rs. 2,200,000 but does not exceed Rs. 3,200,000	Rs. 180,000 + 25% of the amount exceeding Rs. 2,200,000
5	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 4,100,000	Rs. 430,000 + 30% of the amount exceeding Rs. 3,200,000
6	Where taxable income exceeds Rs. 4,100,000	Rs. 700,000 + 35% of the amount exceeding Rs. 4,100,000

Taxable Income		Existing Tax rate
1	Where taxable income does not exceed Rs. 600,000	0%
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	5% of the amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 2,200,000	Rs. 30,000 + 15% of the amount exceeding Rs. 1,200,000
4	Where taxable income exceeds Rs. 2,200,000 but does not exceed Rs. 3,200,000	Rs. 180,000 + 25% of the amount exceeding Rs. 2,200,000
5	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 4,100,000	Rs. 430,000 + 30% of the amount exceeding Rs. 3,200,000
6	Where taxable income exceeds Rs. 4,100,000	Rs. 700,000 + 35% of the amount exceeding Rs. 4,100,000

## Rate of tax for business individuals & AOPs

Taxable Income		Proposed Tax rate
1	Where taxable income does not exceed Rs. 600,000/-	0%
2	Where taxable income exceeds Rs. 600,000 but does not exceed Rs. 1,200,000	15% of the amount exceeding Rs. 600,000
3	Where taxable income exceeds Rs. 1,200,000 but does not exceed Rs. 1,600,000	Rs. 90,000 + 20% of the amount exceeding Rs. 1,200,000
4	Where taxable income exceeds Rs. 1,600,000 but does not exceed Rs. 3,200,000	Rs. 170,000 + 30% of the amount exceeding Rs. 1,600,000
5	Where taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 5,600,000	Rs. 650,000 + 40% of the amount exceeding Rs. 3,200,000
6	Where taxable income exceeds Rs. 5,600,000	Rs. 1,610,000 + 45% of the amount exceeding Rs. 5,600,000

Taxable Income		Existing Tax rate
1	Where the taxable income does not exceed Rs. 600,000	0%
2	Where the taxable income exceeds Rs. 600,000 but does not exceed Rs. 800,000	7.5% of the amount exceeding Rs 600,000
3	Where the taxable income exceeds Rs. 800,000 but does not exceed Rs. 1,200,000	15% of the amount exceeding Rs 800,000
4	Where the taxable income exceeds Rs.1,200,000 but does not exceed Rs. 1,600,000	20% of the amount exceeding Rs 1,200,000
5	Where the taxable income exceeds Rs. 1,600,000 but does not exceed Rs. 2,400,000	20% of the amount exceeding Rs 1,600,000
6	Where the taxable income exceeds Rs. 2,400,000 but does not exceed Rs. 3,000,000	25% of the amount exceeding Rs 2,400,000
7	Where the taxable income exceeds Rs. 3,000,000 but does not exceed Rs. 3,200,000	30% of the amount exceeding Rs 3,000,000
8	Where the taxable income exceeds Rs. 3,200,000 but does not exceed Rs. 4,000,000	30% of the amount exceeding Rs 3,200,000
9	Where the taxable income exceeds Rs. 4,000,000 but does not exceed Rs. 5,600,000	35% of the amount exceeding Rs 4,000,000
10	Where the taxable income exceeds Rs. 5,600,000	35% of the amount exceeding Rs 5,600,000



# Advance tax on sale or transfer of immovable property

## Tax rate under section 236C

Existing rate stands at 3% of gross amount of the consideration received

Amount	Proposed Tax rates		
	For Active tax payers	Persons appearing in ATL who filed returns after due date	Persons not appearing in ATL
1 Where the gross amount of the consideration received does not exceed Rs. 50 million	3%	6%	10% of the gross amount of consideration received
2 Where the gross amount of the consideration received exceeds Rs. 50 million but does not exceed Rs 100 million	3.5%	7%	
3 Where the gross amount of the consideration received exceeds Rs. 100 million	4%	8%	

Source: MoF, Optimus Research

# Advance tax on purchase of immovable property

## Tax rate under section 236K

existing rate stands at 3% of gross amount of the fair market value

Amount	Proposed Tax rate		
	For Active tax payers	Persons appearing in ATL who filed returns after due date	Persons not appearing in ATL
1 Where the fair market value does not exceed Rs. 50 million	3%	6%	12%
2 Where the fair market value exceeds Rs. 50 million but does not exceed Rs 100 million	3.5%	7%	16%
3 Where the fair market value exceeds Rs. 100 million	4%	8%	20%

Source: MoF, Optimus Research

## Capital gains on disposal of securities

Holding Period	Rate of Tax	
	On securities acquired btw July-22 & Jun-24	Securities acquired from July-24
1 < 1 year	15%	
2 Between 1 to 2 years	12.5%	
3 Between 2 to 3 years	10%	
4 Between 3 to 4 years	7.5%	15%
5 Between 4 to 5 years	5.0%	
6 Between 5 to 6 years	2.5%	
7 > 6 years	0%	
8 Future commodity contracts	5%	5%

\*12.5% CGT on securities acquired on between Jul-13 & Jun-22

\*0% CGT on securities acquired before Jul-13

Source: MoF, Optimus Research

# Capital Gains on Mutual Funds/Collective Investment Scheme/REIT

Category	Existing Rate	Proposed Rate
Individual & Association of persons	10% for stock funds	15% for stock funds
	10% for other funds	15% for other funds
Company	10% for stock funds	15% for stock funds
	25% for other funds	25% for other funds

\*In case of a stock fund if dividend receipts of the fund are less than capital gains, the rate of tax deduction shall be 20%

Source: MoF, Optimus Research

## Advance Tax on Purchase of Motor Car and Jeep

	Engine Capacity	Existing Rate	Proposed Tax (Ad valorem)
1	Upto 850 cc	PKR 10,000	0.50%
2	851 cc to 1000 cc	PKR 20,000	1%
3	1001 cc to 1300 cc	PKR 25,000	1.50%
4	1301 cc to 1600 cc	PKR 50,000	2%
5	1601 cc to 1800 cc	PKR 150,000	3%
6	1801 cc to 2000 cc	PKR 200,000	5%
7	2001 cc to 2500 cc	6% ad valorem	7%
8	2501 cc to 3000 cc	8% ad valorem	9%
9	Above 3000 cc	10% ad valorem	12%

Source: MoF, Optimus Research

## Cellular Mobile Phones in CKD/CBU form

Proposed				
	Description	Sales tax on CBUs	Sales tax on import of CKD/SKD	Sales tax on supply of locally manufactured CBU mobile phones in addition to tax under 3rd column
1	< USD 500	18% ad valorem	18% ad valorem	18% ad valorem
2	> USD 500	25% ad valorem	18% ad valorem	18% ad valorem
Current				
	Description	Sales tax on CBUs	Sales tax on import of CKD/SKD	Sales tax on supply of locally manufactured CBU mobile phones in addition to tax under 3rd column
1	< USD 30 (excluding smart phones)	PKR 130		
2	< USD 30 (smart phones)	PKR 200		
3	> USD 30 but < USD 100	PKR 200	PKR 10	
4	> USD 100 but not > USD 200	PKR 1,680		PKR 10
5	> USD 200 but not > USD 350	18% ad valorem	PKR 1,700	
6	> USD 350 but not > USD 500	18% ad valorem	PKR 5,400	
7	> USD 500	25% ad valorem	PKR 9,270	

# IMPACT ON KEY SECTORS

## Commercial Banks – Neutral

Measure	Impact	Severity	Comment
Clarification added for super tax applicable for tax year 2023	<b>Neutral</b>	<b>Low</b>	No impact, in our view.
Provisions added for updated in IFRS 9 implementations	<b>Neutral</b>	<b>Low</b>	The provision was already allowed for use as expenses only on advances categorized as loss; only provisions for IFRS 9 have been introduced, where only provisions on loss under Stage 3 are allowed. So, this has no material impact, in our view.

Source: MoF, Optimus Research



## Automobile & Auto Parts – Neutral to Positive

Measure	Impact	Severity	Comment
Locally Manufactured HEV vehicles removed from 8 <sup>th</sup> Schedule of Sales Tax Act	<b>Negative</b>	<b>High</b>	HEVs currently have a sales tax of 8.5% and 12.75% for 1800 cc and 1800-2500cc vehicles. The proposed sales tax will be 25% (if the vehicles either have a value > Rs.4MN or engine capacity > 1400 cc). This may impact the price of HEV models of Haval, Toyota Cross, & Honda HRV.
Advance tax on the registration of vehicles to be charged as a % of vehicle's value	<b>Negative</b>	<b>Medium</b>	The change in advance tax collection on vehicle registration from a fixed flat fee to a % basis, ranging from 0.5%-12% for different vehicle slabs, will increase the overall price of vehicles for end-consumers.
Shift of Tractors from Sales Tax Act 6 <sup>th</sup> Schedule to 8 <sup>th</sup> Schedule	<b>Negative</b>	<b>Medium</b>	Tractors are currently exempted from sales tax, but under the FY25 budget proposal, a sales tax of 10% would be levied as per the 8 <sup>th</sup> Schedule.
Removal of subsidized duties on import of EVs with value exceeding USD 50,000	<b>Positive</b>	<b>Low</b>	EVs currently have a subsidized custom duty of 25%. However, the subsidized rate is withdrawn for vehicles exceeding a value of \$50,000. This would encourage affluent consumers to purchase vehicles from the local domestic industry.
Change in taxation regime of exports to minimum tax	<b>Negative</b>	<b>Low</b>	Sazgar export three-wheelers and some players, including MTL, also export tractors. The change in tax regime from FTR to MTR will increase the tax burden for companies engaged in auto exports.
Withdrawal of custom duties exemptions on CBU imports of HEV vehicles	<b>Positive</b>	<b>High</b>	The withdrawal on custom duties for HEV vehicles will improve the demand for locally manufactured HEV vehicles, especially for SAZEW & INDU.

Source: MoF, Optimus Research

## OGMCs – Neutral to Negative

Measure	Impact	Severity	Comment
Target increased for Petroleum levy	<b>Negative</b>	<b>Medium</b>	<ol style="list-style-type: none"> <li>1. PL target is increased to PKR 1,281 BN for FY25, with max limit for MS/HSD/LDO/HOBC/SKO set at PKR 80/80/75/75/50 LTR. This would result in some increase in fuel prices in the country.</li> <li>2. PL on LPG (produced/extracted locally) is also proposed to be increased to PKR 30,000/MT from current PKR 4,669/MT.</li> </ol>
POL products to be moved to Sixth Schedule of Sales Tax Act	<b>Negative</b>	<b>Low</b>	MS/HSD/SKO/LDO to be moved from zero rated to exempted products. Resulting in inability of companies to get their input taxes adjusted.
0% custom duty proposed on HSD & RLNG	<b>Positive</b>	<b>Medium</b>	Custom duty proposed at 0% from current 10/5% on HSD & RLNG. Expected to lead to a probable decrease in cost of said products.

Source: MoF, Optimus Research

## Cement and Steel – Neutral

Measure	Impact	Severity	Comment
PSDP Allocation	Neutral	Medium	Federal PSDP estimated at PKR 1.4 TRN would uplift the construction activity, but it is probable that the final PSDP disbursement in FY25 will fall well short of the target, like in the previous years.
Normal income tax on export income	Negative	High	Negative on ISL and Mughal with export mix contributing to bottom line.
Hike in FED on cements from PKR 2/kg to PKR 3/kg	Neutral	Medium	This would have be passed on in cement prices (impact ~ PKR 60/bag).
Increase / levy of RD on flat rolled products of iron and non-alloy steel	Neutral	Low	Clarification of duty structure is awaited.
Iron and steel scrap to be exempted from levy of sales tax	Positive	Medium	To eliminate fake invoices to adjust input and output tax.
Exemption of FATA PATA region be phased out	Positive	High	Phased withdrawal of sales tax exemption granted to ex-FATA/PATA (6/12% imposed for FY25/26), but extension of Income Tax exemption for one more year i.e. up to 30th June 2025.

Source: MoF, Optimus Research

## Power Generation & Distribution – Neutral to Positive

Measure	Impact	Severity	Comments
Additional subsidy of PKR 120 BN	<b>Positive</b>	<b>Medium</b>	Might be utilized to clear CD stock payments of IPPs, which might improve dividends.
PKR 1.19 TRN Power Subsidies allocated	<b>Neutral</b>	<b>Low</b>	PKR 215 BN as TSG for GPPs in FY24 (PKR 262 BN in FY24) and PKR 174 BN for KE Tariff differential claim (PKR 228 BN in FY24).
PKR 48 BN allocated for Pakistan energy revolving account	<b>Neutral</b>	<b>Medium</b>	To ease working capital constraints of CPEC IPPs.
TDS arrears for K-Electric	<b>Positive</b>	<b>Medium</b>	PKR 88 BN for KE tariff differential Arrears (PKR 70 BN in FY24).

Source: MoF, Optimus Research

## Fertilizer – Neutral

Measure	Impact	Severity	Comment
5% GST on DAP will be applied to the retail price instead of ad valorem.	<b>Neutral</b>	<b>Low</b>	The slight increase in GST amount will be passed on to the consumers
Subsidy of Imported Urea increased by PKR 4,000 MN	<b>Neutral</b>	<b>Low</b>	Govt. will ensure an adequate supply of Urea in the country
GIDC collection target stable at PKR 2,500 MN	<b>Neutral</b>	<b>Low</b>	Fertilizer companies have obtained a stay order against the repayment of GIDC
Imposition of 10% GST on Tractors	<b>Negative</b>	<b>Medium</b>	Will negatively impact agriculture productivity
Mark-up subsidy & Risk sharing scheme for Farm Mechanization/Kissan package targeted at PKR 5,000 BN	<b>Positive</b>	<b>Low</b>	Will assist farmers in adopting mechanization and boosting agricultural productivity.

Source: MoF, Optimus Research

## Textile – Negative

Measure	Impact	Severity	Comment
Including exporters in the normal tax regime	<b>Negative</b>	<b>High</b>	This will raise the effective tax rate for export-oriented companies, negatively impacting their net income.
Increasing GST on supplies made by the POS retailers dealing in leather and textile products by 3% to 18%	<b>Negative</b>	<b>Medium</b>	This increase will inversely impact the demand of mentioned goods.
Increasing Export refinance scheme Limit to PKR 13.8 BN	<b>Positive</b>	<b>Medium</b>	Will help improve sectors exports by catering to their working capital requirements at subsidized rates.

Source: MoF, Optimus Research

## Chemical - Neutral

Measure	Impact	Severity	Comment
Including exporters in the normal tax regime	<b>Negative</b>	<b>Low</b>	This will raise the effective tax rate for export-oriented companies, negatively impacting their net income.
Continuation of RD on import of Chloroparafins liquid	<b>Neutral</b>	<b>Low</b>	No material change is expected

Source: MoF, Optimus Research

# Optimus Capital Management Team

Management		Designation	Contact No.	Email
Asif Ali Qureshi		Chairman / CEO	+ 92 (21) 35296923	<a href="mailto:asif.qureshi@optimus.pk">asif.qureshi@optimus.pk</a>

Research	Coverage Sector(s)	Designation	Contact No.	Email
Maaz Azam	Economy and Banks	Head of Research	+ 92 (21) 3529 6888 ext 2302	<a href="mailto:maaz.azam@optimus.pk">maaz.azam@optimus.pk</a>
Areeba Nasir	Fertilizer and Chemical	Research Analyst	+ 92 (21) 3529 6888 ext 2305	<a href="mailto:areeba.nasir@optimus.pk">areeba.nasir@optimus.pk</a>
Fabeeha Ali Khan	E&Ps and OMCs	Research Analyst	+ 92 (21) 3529 6888 ext 2304	<a href="mailto:fabeeha.ali@optimus.pk">fabeeha.ali@optimus.pk</a>
Zayan Babar	Power & Steel	Research Analyst	+ 92 (21) 3529 6888 ext 2303	<a href="mailto:zayan.babar@optimus.pk">zayan.babar@optimus.pk</a>
Hamdan Ahmed	Autos	Research Analyst	+ 92 (21) 3529 6888 ext 2306	<a href="mailto:hamdan.ahmed@optimus.pk">hamdan.ahmed@optimus.pk</a>
Shahid Manshah		Database Officer	+ 92 (21) 3529 6888 ext 2311	<a href="mailto:shahid.manshah@optimus.pk">shahid.manshah@optimus.pk</a>

Equity Sales		Designation	Contact No.	Email
Yasin Iqbal Kodvavi		Head of Equity Sales	+ 92 (21) 3529 6888 ext 2201	<a href="mailto:yasin.iqbal@optimus.pk">yasin.iqbal@optimus.pk</a>
Adnan Khan		VP Sales	+ 92 (21) 3529 6888 ext 2205	<a href="mailto:adnan.khan@optimus.pk">adnan.khan@optimus.pk</a>
Bilal-ul-Haq		AVP Equity Sales	+ 92 (21) 3529 6888 ext 2203	<a href="mailto:bilal.haq@optimus.pk">bilal.haq@optimus.pk</a>
Sarfaraz Khan		Equity Trader	+ 92 (21) 3529 6888 ext 2204	<a href="mailto:sarfaraz.khan@optimus.pk">sarfaraz.khan@optimus.pk</a>



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