



**ABL Funds**

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# BUDGET

2024-2025

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# Salient Features of Budget FY25

- The Govt. presented the budget with a targeted total outlay of PKR ~18.9 Tn, marking a 25% increase from the previous year's outlay of PKR ~15 Tn. We consider this a significant step, likely serving as a precursor to the new IMF program. The successful parliamentary approval of this budget is poised to act as a pivotal catalyst for the economy and the market.
- Within the budget framework, the Federal Board of Revenue (FBR) has set an ambitious tax revenue target of PKR 12.97 Tn, representing a 40% increase from the estimated collection of PKR ~9.3 Tn in FY24. This exceeds the FY24 estimated growth rate of 29% and the average growth rate of 20% over the last five years.
- Incorporating the Petroleum Development Levy (PDL) into tax revenues, the FBR tax-to-GDP ratio for FY25 is projected to rise to 11.5% from 9.62% in FY24. Over the past five years, this ratio has remained at 9.7% of GDP. It's noteworthy that PDL was previously categorized as tax revenue until FY20.

# Salient Features of Budget FY25

- Non-tax revenues target is PKR ~4.8 Tn (up 64% YoY), with the main increase expected from SBP Profits (up PKR 1.5 Tn).
- Development budget, increased to PKR 1.4 Tn (112% YoY) mainly in water resource, food, education and IT to support some growth in FY25.
- It is anticipated that, despite the proposed measures, the Govt. may encounter a shortfall of PKR 300-500 Bn in tax revenue. This shortfall could potentially be mitigated through adjustments such as imposing additional taxes or reducing expenditures, particularly in areas like development spending and subsidies.
- Regarding economic indicators, the Govt. has set targets of ~**3.6%** GDP growth, ~**12.0%** inflation, and a fiscal deficit of ~**6.9%** of GDP (excluding provincial surplus). While our GDP growth expectations align with the Govt's targets, we forecast inflation and the fiscal deficit to reach ~**13.5%** and ~**7.2%**, respectively.

# Salient Features of Budget FY25

## ➤ Key Tax Measures:

The Govt. has introduced several tax measures;

- ❑ Increase in the PDL limit by PKR 20/liter.
  
- ❑ Adjustments in tax percentages for salaried and non-salaried individuals within existing tax slabs.
  
- ❑ Elimination of various sales tax exemptions (pharmaceuticals, tractors, poultry).
  
- ❑ Changes in the tax regime for goods exporters.
  
- ❑ Tax rates for non-filers in wholesaling, distribution, and retail chains have been raised, among others.

# Salient Features of Budget FY25

## ➤ Key Relief Measures:

The Govt. has implemented following relief measures;

- ❑ 15% increase in pensions for federal employees.
- ❑ 15-20% increase in salaries for federal employees.
- ❑ Sales tax on Iron and Steel scrap has been abolished, along with customs duties on parts used in the manufacturing of lithium batteries.
- ❑ Exemptions on the import of raw materials used in solar panels, inverters, and batteries.
- ❑ Increase in Minimum wage to PKR 37,000 from PKR 32,000.

# Budget Outlay

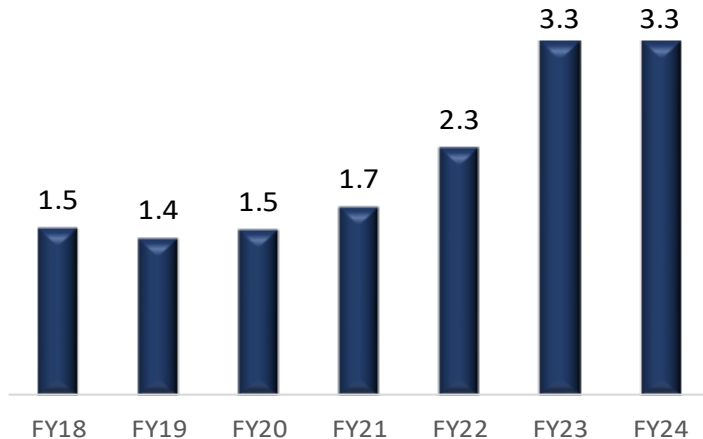
	FY24	FY25	YoY
<b><u>Revenue</u></b>			
Direct Tax	3,721	5,512	48%
Indirect Tax	5,531	7,458	35%
<b>Tax Revenue</b>	<b>9,252</b>	<b>12,970</b>	<b>40%</b>
Receipts - Civil Administration	1,016	2,556	152%
Petroleum Levy	960	1,281	33%
Others	972	1,009	4%
<b>Non-Tax Revenue</b>	<b>2,948</b>	<b>4,845</b>	<b>64%</b>
<b>Total Revenue</b>	<b>12,200</b>	<b>17,815</b>	<b>46%</b>
Transfer to Provinces	5,426	7,438	37%
<b>Net Revenue</b>	<b>6,773</b>	<b>10,377</b>	<b>53%</b>
<b><u>Expenditure</u></b>			
Mark up - Domestic	7,211	8,736	21%
Mark up - Foreign	1,040	1,039	0%
Defence	1,854	2,122	14%
Pension	821	1,014	24%
Subsidies	1,071	1,363	27%
Others	2,235	2,929	31%
<b>Current Expenditure</b>	<b>14,232</b>	<b>17,203</b>	<b>21%</b>
PSDP	659	1,400	112%
Others	270	274	-101%
<b>Development Expenditure</b>	<b>929</b>	<b>1,674</b>	<b>80%</b>
<b>Total Expenditure</b>	<b>15,161</b>	<b>18,877</b>	<b>25%</b>
<b><u>Budget Surplus/(Deficit)</u></b>	<b>-8,388</b>	<b>-8,500</b>	<b>1%</b>



# Revenue (FY25)

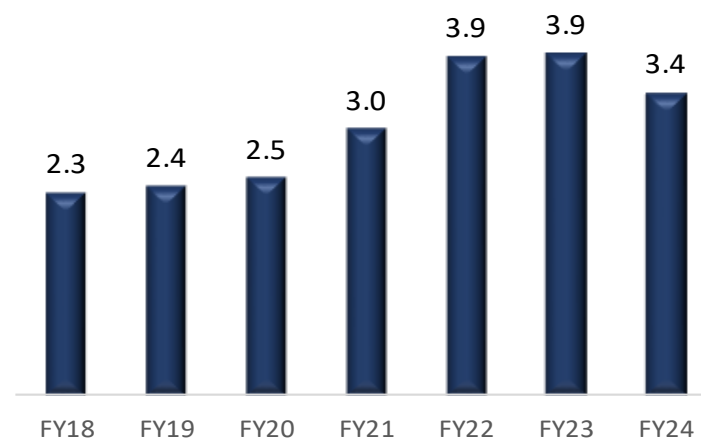
- Revenue: PKR 17.8 Tn
- Non-Tax Revenue: PKR 4.8 Tn
- Direct Tax: PKR 5.5 Tn (up 48% YoY)
- Indirect Tax: PKR 7.5 Tn (up 35% YoY)

Direct Tax - PKR Tn



FY24 - 9months

Indirect Tax - PKR Tn

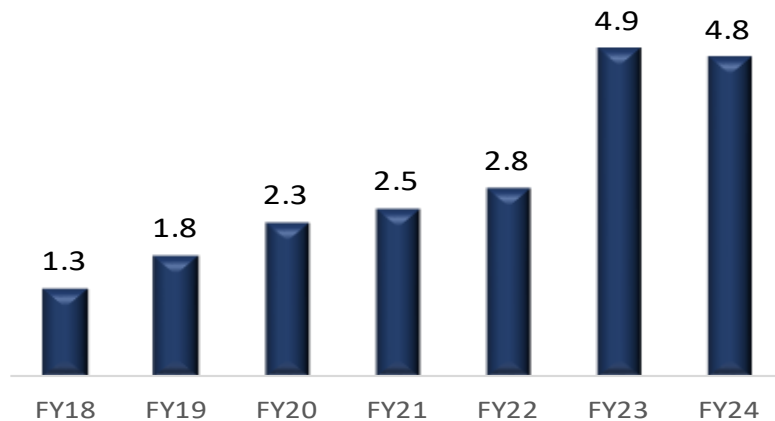


FY24 - 9months

# Expenditure (FY25)

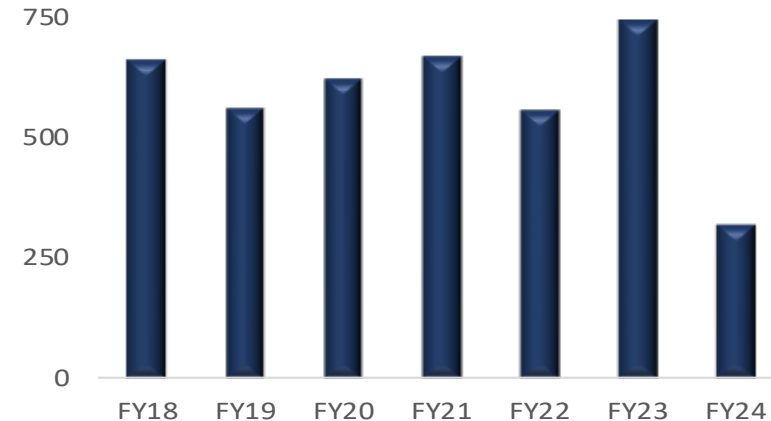
- Mark-up (Domestic): PKR 8.7 Tn
- Mark-up (Foreign): PKR 1.0 Tn
- Defense: PKR 2.1 Tn
- Pension: PKR 1.0 Tn
- Subsidy: PKR 1.4 Tn

**Mark-up (Domestic) - PKR Tn**



FY24 - 9months

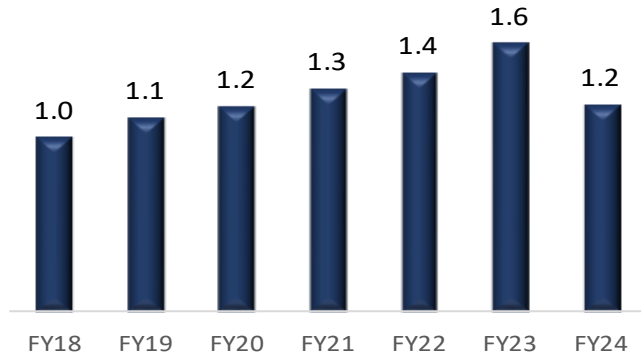
**PSDP - PKR bn**



FY24 - 9months

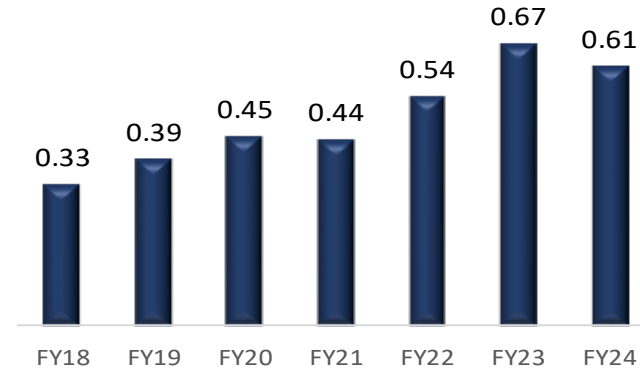
# Budget Outlay (cont.)

Defence - PKR Tn



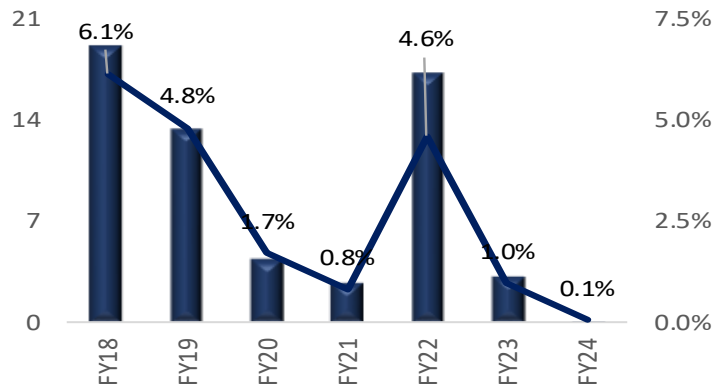
FY24 - 9months

Pension - PKR Bn



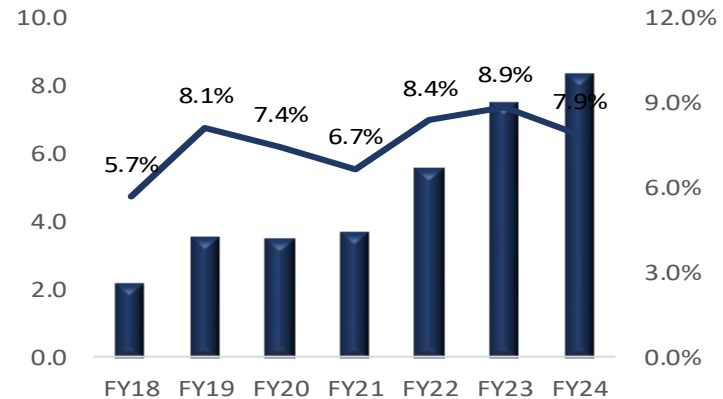
FY24 - 9months

Current Account Deficit - USD bn | % GDP



FY24 - Till 30-Apr-24

Budget Deficit - PKR Tn | % GDP

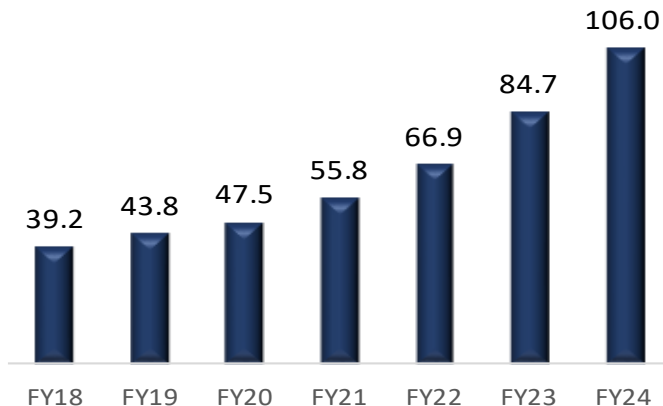


FY24 - Till 30-Apr-24

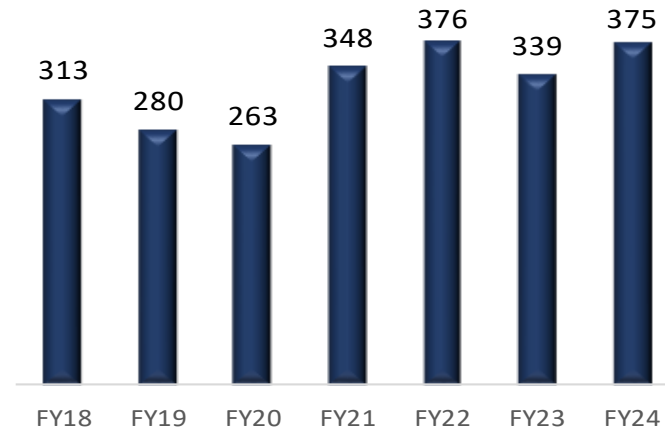
# Gross Domestic Product (GDP)

- During FY24, Pakistan's GDP increased by 2.38 %, with strong growth in agriculture sector which expanded by 6.25 % compared to 2.27 % growth in last year. While both the industrial and services sectors grew by 1.21 %.
- GDP target for FY25 is set to be 3.6%.
- The per capita income rose to USD 1,680, from USD 1,551 in previous year, driven by the improved economic activity and a stable exchange rate.
- The investment-to-GDP ratio for FY24 remained 13.14 %, a decrease from 14.13 % in FY23.

**GDP - PKR Tn**



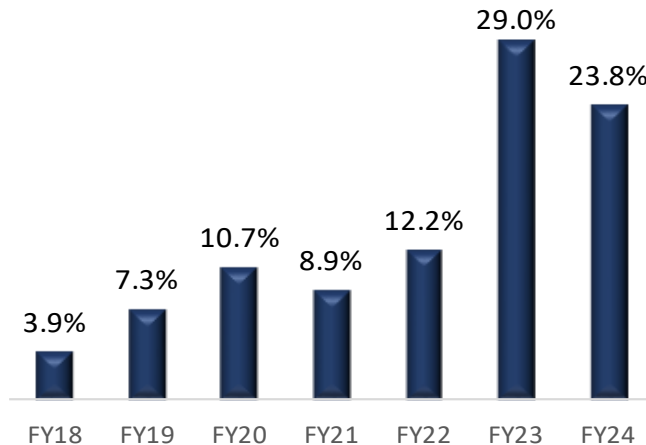
**GDP - USD Bn**



# Inflation & Policy Rate

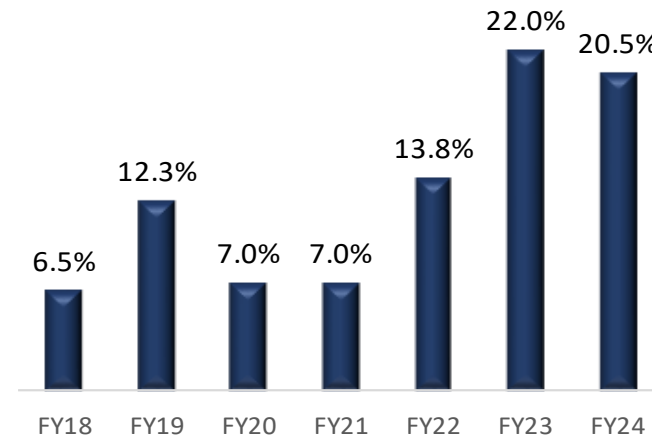
- Global inflation is expected to drop to 5.9% during FY24 from 6.8% in FY23.
- In response to inflationary pressures, major central banks have implemented restrictive policy measures by raising interest rates.
- During FY25, global inflation is projected to decrease further to ~4.5%
- The State Bank of Pakistan also adopted tight monetary policy stance to bring inflation to moderate levels. Next year CPI target ranges between 12-13%.

**Inflation - %**



FY24 - Till 31-May-24

**Policy Rate - %**



FY24 - Till 10-Jun-24

# Impact on Capital Markets

Sector	Proposals	Impact
Capital Markets	<p>Rate of dividend derived from a mutual fund which earns 50% or more of its income from profit on debt be enhanced from 15% to 25%.</p> <p>CGT on sale of securities of 15% applicable for filers irrespective of holding period for securities acquired after 01-Jul-2024. This stability in CGT treatment is seen as positive for the market.</p> <p>Capital gains from mutual funds and collective investment schemes is also enhanced from 10% to 15%.</p> <p>Rates of Income tax on salaried class have been increased with changes in threshold for each slab. For non-salaried/AOPs, rate of tax has been increased and thresholds have also been revised with maximum tax rate of 45%.</p>	<b>Neutral to Positive</b>
REITs	<p>FED of 5% proposed on purchase of immovable property.</p> <p>Advance tax on sale, purchase, and transfer of immovable property proposed.</p>	<b>Neutral to Negative</b>

# Sectoral Impacts

Sector	Proposals	Impact
<b>Fertilizer</b>	<ul style="list-style-type: none"> <li>• The government has proposed raising the GST on DAP from 5% to 18%, awaiting clarity from manufacturers. This adjustment is anticipated to lead to a significant price hike of PKR1,330 per bag of DAP, which will likely be passed on to consumers.</li> <li>• Conversely, Urea remains exempt from GST, contrary to expectations for a potential change in taxation</li> <li>• The subsidy allocated to LNG-based fertilizer sector players, such as FATIMA and AGL, is reduced to PKR3 bn in FY25.</li> </ul>	<b>Neutral to Positive</b>
<b>Autos</b>	<ul style="list-style-type: none"> <li>• Levy of Additional Customs Duty on localized auto parts to incentivize local manufacturing sector. Likely to be positive for THALL and LOADS.</li> <li>• Withdrawal of custom duties exemptions on CBU imports of hybrid and withdrawal of concession on import of EVs.</li> </ul>	<b>Positive</b>

# Sectoral Impacts

Sector	Proposals	Impact
<b>Banks</b>	<ul style="list-style-type: none"><li>• All provisions under Prudential Regulations and IFRS 9, except 'loss category' will not be allowed as an expense.</li><li>• The sector will witness a higher effective tax rate, given the 39% + 10% tax (Corporate + Super Tax) will be applicable on PBT plus provision expenses.</li></ul>	<b>Negative</b>
<b>Textile</b>	<ul style="list-style-type: none"><li>• Sales tax increased from 15% to 18% on sales by Tier-1 retailers dealing in leather and textile products</li><li>• Government has abolished the fixed tax regime (1%) for exporters and now they are subject to normal tax.</li><li>• Increase in Export Refinance Scheme Limit.</li></ul>	<b>Negative</b>



# Sectoral Impacts

Sector	Proposals	Impact
<b>IT &amp; Telecom</b>	<ul style="list-style-type: none"><li>• Allocation of PKR ~8 bn for IT park in Karachi and PKR ~11 bn for Tech park development project in Islamabad.</li><li>• Tax regime remained the same.</li><li>• Tax on mobile phones on the basis of import value per set.</li></ul>	<b>Positive</b>
<b>Power</b>	<ul style="list-style-type: none"><li>• The government has proposed a subsidy for Energy sector at PKR 1.2 Tn, up 103% YoY, to restrict the circular debt at its current levels.</li><li>• The government has allocated PKR 253 bn for development of energy sector, which includes installation of asset performance management system on distribution transformers, development of 1,200 MW coal power plant at Jamshoro, and upgradation of NTDC systems, Moreover, the government plans to privatize 9 DISCOs and GENCOs</li></ul>	<b>Positive</b>

# Sectoral Impacts

Sector	Proposals	Impact
<b>Steel</b>	<ul style="list-style-type: none"><li>• The government has proposed a phased discontinuation of sales tax exemptions for the FATA/PATA region, with a 6% sales tax in FY25 and 12% in FY26 on electricity consumed by manufacturers in these areas.</li><li>• The FATA/PATA region has a capacity of approximately 1 million tons and accounts for 20% of the demand in the North. The removal of exemptions is expected to significantly benefit listed steel manufacturers.</li></ul>	<b>Positive</b>
<b>Oil &amp; Gas Marketing Companies</b>	<ul style="list-style-type: none"><li>• Increase in cap on Petroleum Development Levy (PDL) on different POL products. Upper limit for MS/HSD/Light Diesel/Kerosene increased to PKR 80/80/75/50 per liter.</li><li>• Custom duty proposed at 0% from current 11% on HSD and RLNG.</li></ul>	<b>Neutral to Negative</b>



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