

Day Break

Tuesday, 18 September 2018

Strategy

Exhibit: Country's Fiscal Deficit as %age of GDP

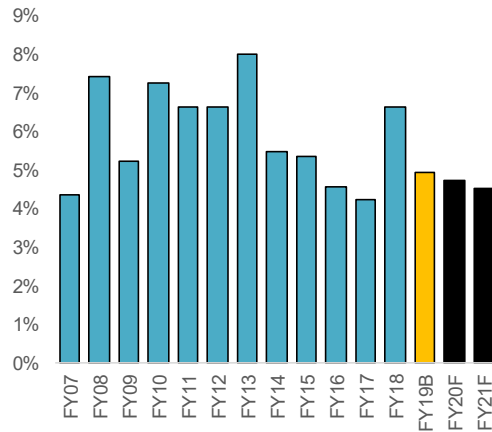
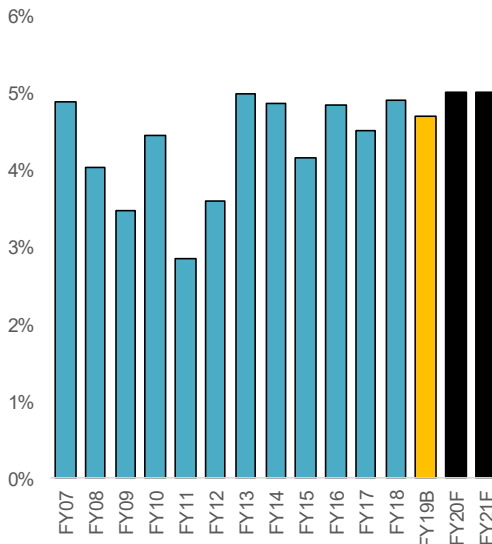


Exhibit: Country's Development Budget as %age of GDP



Source: Bloomberg, PSX, MoF, IGI Research

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Budget 2018-19

New Budgetary Measures to Address Previous Government Fiscal Shortcomings

- The much anticipated finance bill amendments for the ongoing year 2018-19 dubbed “mini-budget 2018-19” was presented to parliament today by the newly elected PTI led government finance minister Asad Umar.
- The budgetary measures taken today echo government continuing effort to benefit the underprivileged segment of the country. Government hopes to bag in PKR 185bn through these new budgetary amendments.
- We see positive impact on autos, textiles and construction, while muted impact on banks, OMCs and other sectors.

New government replaces previous government budget

The much anticipated finance bill amendments for the ongoing year 2018-19 dubbed “mini-budget 2018-19” was presented to parliament today by the newly elected PTI led government finance minister Asad Umar.

The finance minister started his discourse by evaluating outgoing government fiscal management performance citing total budget deficit for FY18 at 6.6% of the GDP or PKR ~2.3trn compared to previous government understated fiscal deficit of PKR ~1.9trn. Nevertheless, the budgetary measures taken today echo government continuing effort to benefit the underprivileged segment of the country. Government hopes to bag in PKR 185bn (or 0.5% of the GDP) through these new budgetary amendments.

Construction and automobile stands out major winner

We see construction activity picking pace owing largely to negating concerns over public development projects cut downs and government aiming to carry on with its cheap housing projects. Further assuring comments by finance minister on construction of dams and other road network will bode well for the sector in general. For Fertilizer changes in gas prices will be countered through increase in subsidy benefiting country's agronomics. Other sectors such as commercial bank, textiles and OMC will remain relatively unaffected through such changes. Lastly and most importantly we see automobile to benefit from removal of sale/purchase of new vehicle by non-tax filers.

Outlook

In short we see budget to be have a positive impact on the market. However, it does lack concrete steps to address country's ailing tax revenues.

Exhibit:

Consolidated Federal Budget Snapshot

PKRbn	FY17	FY18	FY19B
Total Revenues	2,616	2,676	3,070
Total Expenditure	4,219	4,857	5,246
Fiscal Balance	(1,603)	(2,180)	(2,176)
Provincial Surplus	290	274	286
Consolidated Fiscal Balance	(1,313)	(1,907)	(1,890)
Fiscal Deficit	-4.1%	-5.5%	-4.9%
GDP (PKRbn)	31,862	34,396	38,388

Source: MoF & IGI Research

Sector	Budgetary Measures	Comments	Impact
Construction (Cements and Steel)	<ul style="list-style-type: none"> CPEC funding remains unchanged Dam Construction funds allocation remains unchanged at PKR 23bn Federal PSDP amount enhanced to PKR 725bn from last years' spending of 660bn Housing schemes have been allocated PKR 4.5bn 	<ul style="list-style-type: none"> Concerns over demand of cement have been brushed off. Prioritization of CPEC along with enhancement of Federal PSDP allocations in comparison to last years' disbursement reiterates the incumbent Government's pro development stance. Allocations for low cost housing schemes for the underprivileged goes with the government's stance of People-Pro stance and further supports sector outlook 	Neutral to Positive
Fertiliser and Agricultural	<ul style="list-style-type: none"> PKR 6-7 billion subsidy allotted to farmers on urea for the upcoming Rabi season To curb urea shortfall, import of 100,000 ton has been approved 	<ul style="list-style-type: none"> This will enhance local demand and benefit local manufacturers 	Neutral
Automobile Assemblers	<ul style="list-style-type: none"> Ban on sale/purchase non-filers lifted for asset valued above PKR 4mn Custom duty on imported vehicles having engine size >=1800cc is increased to 20% from 10% 	<ul style="list-style-type: none"> Positive for entire auto sector as demand will revert back to growth trajectory This will have a mixed effect, as sales of imported CBUs will be affected. But, on the flip side this will shift demand to the local cars produced, benefiting OEMs such as HCAR and INDU in particular 	Positive
Commercial Banks	<ul style="list-style-type: none"> With Holding Tax (WHT) on banking transaction raised for non-filer to 0.6% from previous 0.4% 	<ul style="list-style-type: none"> We do not expect a major implication of this on banking transaction growth 	Neutral
Textiles	<ul style="list-style-type: none"> Regulatory Duty (RD) on purchased goods used as raw materials for export purposes will now be exempted Subsidy of PKR 44bn in shape of reduce rates for RLNG based textile plants in Punjab 	<ul style="list-style-type: none"> This is estimated to create PKR 5bn relief for the sector and make export prices more competitive to region This again will allow for competitive export prices 	Positive
OMC	<ul style="list-style-type: none"> Petroleum Development Levy (PDL) collection amount reduced by PKR 100bn to PKR 200bn 	<ul style="list-style-type: none"> Previous government had introduced maximum price for PDL at PKR 30/ltr. However, since the budget announcement in May-18 PDL has been charged at PKR 10/ltr. Hence, we do not see a major demand impact 	Neutral
Tobacco	<ul style="list-style-type: none"> FED increased on Tobacco 	<ul style="list-style-type: none"> Changes incorporate for both manufactured and un-manufactured tobaccos 	Negative

Other tax revenue measures

- Duty to be increased on expensive mobile phones
- Tax by Parliamentarians now to be paid for accommodation and other benefits
- Modern technology will be used to curb down tax evasion. In this matter FBR is expected to generate PKR 92bn in revenues

Other relief measures

- 85% of EOBI registered members fall in the minimum pensioner's category; 10% raise to be given for all
- Previously, a scheme was launched in KPK called Sehat Insaf Card for the lower income group; it has been decided to introduce this to the capital territory of Islamabad and FATA. This will also be introduced in the Punjab budget by the government whereby each family will receive PKR 540,000 for medical

Exhibit

Additional progressive slabs have been introduced which aim to collect higher taxes from high income groups. (amount in PKR)

Progressive Income Slabs	Current Proposed Tax	Existing Tax
less than 400k	nil	nil
400k-800k	PKR 1,000	PKR 1,000
800k-1,200k	PKR 2,000	PKR 2,000
12.mn-2.4mn	5% on amount > PKR 1.2mn	5% on amount > PKR 1.2mn
2.4mn-3.0mn	15% on amount > PKR 2.4mn & PKR 60k	10% on amount > PKR 2.4mn & PKR 60k
3.0mn-4.0mn	20% on amount > PKR 3.0mn & PKR 150k	10% on amount > PKR 2.4mn & PKR 60k
4.0mn-5.0mn	25% on amount > PKR 4.0mn & PKR 350k	10% on amount > PKR 2.4mn & PKR 60k
above 5.0mn	29% on amount > PKR 5.0mn & PKR 600k	15% on amount > PKR 4.8mn & PKR 300k

Source: Supplementary Finance Bill 2018-19, IGI Research, * Previous slab ranged from PKR 1,200,000 to PKR 4,800,000

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