

Economic Update

Key highlight of PM PKR 300bn Relief Packages

- Petroleum prices reduced by PKR10/ltr.
- Electricity tariff reduced by PKR 5/Kwh
- Multiple tax incentives for IT start-ups
- Increased stipend under Ehsaas program
- Increased stipend for graduate internships
- Increased allocation of scholarship
- Subsidised loans from students & farmers
- Tax holiday for overseas on domestic JV

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Economy

Prime Minister Relief & Industrial Promotion Package

- Prime Minister announced various fiscal relief measures dubbed as “Relief Package” for the next four month till Jun-22. These incentives are aimed at masses; intended to lower the burden of increasing prices, which have been fueled by substantial rise in global energy prices in particularly oil prices. In addition earlier today PM further announced ‘Promotional Package for Industry’, targeted specifically to increase investment in industrial sector.
- Finance Minister clarified that the relief package would be financed through budgetary reallocation in the form of reduction in PSDP, unspent Covid-19 funds from IMF, Ehsaas Program Fund and dividends from state owned oil companies.
- The decision is welcoming, given the inflationary pressures rising international energy prices (oil prices crossed US\$ 100/bbl) are exerting globally and particularly for Pakistan. However, these relief packages comes at a fiscal cost attached to it.

PM announced relief package amid rising economic concerns

Later on Monday 28th February 2022, Prime Minister announced various fiscal relief measures dubbed as “Relief Package” for the next four month till Jun-22. These incentives are aimed at masses; intended to lower the burden of increasing prices, which have been fueled by substantial rise in global energy prices in particularly oil prices. In addition earlier today PM further announced ‘Promotional Package for Industry’, targeted specifically to increase investment in industrial sector.

Relief package to be financed through budgetary reallocation

Finance Minister clarified that the relief package would be financed through budgetary reallocation in the form of reduction in PSDP, unspent Covid-19 funds from IMF, Ehsaas Program Fund and dividends from state owned oil companies.

Exhibit: Total fiscal space required for relief package	
	PKRbn
Reduction in petroleum prices	128
Reduction in electricity tariff	136
Ehsaas and internship program	38
Total	303
% of GDP	0.5%

Tuesday, March 1, 2022

These will also be rolled over in the next budget. The Finance Minister further clarified that IMF is onboard with the relief package announced by Prime Minister. Furthermore, Minister of Energy stated that the subsidy provided will be fully funded and would thus have no impact on circular debt.

Exhibit: PM Relief and Industrial Promotion Packages	
Relief package	<p>Petroleum prices have been reduced by PKR 10/litre</p> <p>Electricity tariff has been lowered by PKR 5/kwh</p> <p>Monthly stipend under Ehsaas program has been raise to PKR 14,000 from PKR 12,000</p> <p>Graduate internship stipend will be PKR 30,000/month</p> <p>2.6 million Scholarships would be provided with allocation of Rs38 billion.</p> <p>PKR 407bn subsidized loans to be provide in next two years to youth, farmers and for low-cost housing</p>
IT Start-up	<p>Tax Exemption for IT startups and new ventures along with removal of CGT on startups</p> <p>Revival of sick units to entail tax benefits</p> <p>5 year tax holiday would be available for overseas investment in joint venture</p> <p>Tax and foreign exchange regulation exemption for IT companies and freelancers</p>
Industrial Package	<p>For Industrial promotion</p> <p>This starts with minimum investment size of PKR 50million. Investment can include new industrial units and expansion and BMR of existing units, leading to a 5% across the board payment of tax for all amounts invested. However the deadline to commence the operation is 30 June 2024. Having said that beneficiaries of previous amnesty schemes of 2018 and 2019 will not be eligible along with bank defaulters in the past 3years.</p>
	<p>For Revival of Sick Units</p> <p>For definition of sick units, companies that have continuous losses accumulated over the past 3years. For acquiring company, can adjust losses of the sick units against its income for up to 3 years and given the revival completion within 3years.</p>
	<p>For Foreign Investment in Industrial Sector</p> <p>In addition to PM announced special incentives for overseas Pakistanis. For eligibility definition of overseas here means non-resident of Pakistan for five years and resident Pakistani having declared foreign assets. As an incentives overseas investors can avail tax credit on the total amount of investment remitted upto 5 years. However, this investment needs to be in new industrial unit, and not in sick units. Moreover, project commencement deadline is set 30 June 2024.</p>

Petroleum prices slashed by PKR 10/litre

- MS and HSD prices have been reduced by PKR 10/litre each which will be applicable till Jun-22.

The drop in retail prices would be funded through reduction in Petroleum Development Levy (PDL). To note, PDL on MS and HSD stood at PKR 17.92/litre and PKR 13.3/litre respectively applicable from 16-Feb-22 till

28-Feb-22. However, PDL on MS has been reduced to PKR 1.81/litre from 01-Mar-22 and will be applicable till 30-Jun-22. As for HSD, PDL won't be charged while Price Differential Claim (PDC) would also be removed.

Based on our estimates, we estimate a loss of revenue to the tune of PKR 128bn from Mar-22 to Jun-22 on account of lower PDL collection.

If Government were to charge even higher PDL in the remaining months to meet PDL target of PKR 330 then the back of the envelope calculations suggests an estimated loss of revenue would be PKR 198bn.

Exhibit: Impact of loss due to reduction in PDL							
in PKRbn / mn Litres							
Month	MS			HSD			Total
	Qty	PDL/ltr	Total PDL	Qty	PDL/ltr	Total PDL	
Jul-21	1,098	3.67	4	861	1.90	2	6
Aug-21	1,001	4.17	4	801	2.85	2	6
Sep-21	1,094	3.64	4	845	5.14	4	8
Oct-21	1,041	4.75	5	1,000	5.14	5	10
Nov-21	946	9.62	9	971	9.14	9	18
Dec-21	953	13.62	13	737	13.14	10	23
Jan-22	1,012	17.62	18	885	17.13	15	33
Feb-22	1,073	15.92	17	964	11.30	11	28
			74			58	132
Mar-22	1,032	16.11	17	885	15.39	14	30
Apr-22	1,053	16.11	17	973	15.39	15	32
May-22	1,074	16.11	17	1,070	15.39	16	34
Jun-22	1,096	16.11	18	963	15.39	15	32
			69			60	128
Difference to meet target of PKR 330bn							198
Estimated loss of revenue							128

Source: IGI Research, OCAC

Electricity tariff to be reduced by PKR 5/Kwh

- The announced reduction of PKR 5kwh, in our view, would be applicable on residential and commercial consumers.

Based on 8% growth in FY22 from FY21 consumption of 130,223Gwh with 52% weightage of domestic and commercial consumer, we expect total subsidy to amount to PKR 133bn on account of lower electricity rate.

Although we await further clarity on the application of this reduced rate, in our view, this might be adjusted against the Fuel Cost Adjustment (FCA) for each month.

Exhibit: Impact of electricity prices	
	Consumption (Gwh)
FY21	130,223
FY22E	140,400
8MFY22	80,619
Feb-22	8,673
9MFY22E	89,291
Expected Difference	51,109
% of domestic & commercial	54%
Impact (PKRbn)	136

Dividend from oil companies

Finance Minister stated that partial funding would be done through dividend from oil companies. Although details are not available yet, the resolution of gas circular debt through one time dividend to be declared by OGDC and PPL (as budgeted for in Federal Budget 2022) may materialize before in FY22. As total fiscal requirement for the relief package stands ~PKR 300bn, it could be financed through one time dividend which would also be utilized to clear the circular debt.

Total receivables of OGDC and PPL from Sui companies stood at PKR 285bn and PKR 297bn respectively as at Dec-21. If OGDC and PPL announce cash dividend in total to cover these receivables (which would be adjusted on Sui companies' books) would result in PKR 66/share and PKR 109/share in cash dividend from OGDC and PPL. From government's perspective this would be utilized to clear OGDC and PPL receivables from Sui companies, while minority shareholders are likely to benefit in terms of this bumper cash payout.

Outlook

The decision is welcoming, given the inflationary pressures rising international energy prices (oil prices crossed US\$ 100/bbl) are exerting globally and particularly for Pakistan. However, these relief packages comes at a fiscal cost attached to it. However, the finance minister has asserted that the PKR 300bn relief package is well funded, but carries an opportunity cost. Finance minister has also mentioned that International Monetary Fund (IMF) was taken on aboard in making these relief decisions.

From market point of view, news of relief package has been received well, whereby market is up ~1% (+426points). Key beneficiary of the relief package include IT sector. Moreover dividend from oil companies will benefit minority shareholders of OGDC & PPL.

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Day Break

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