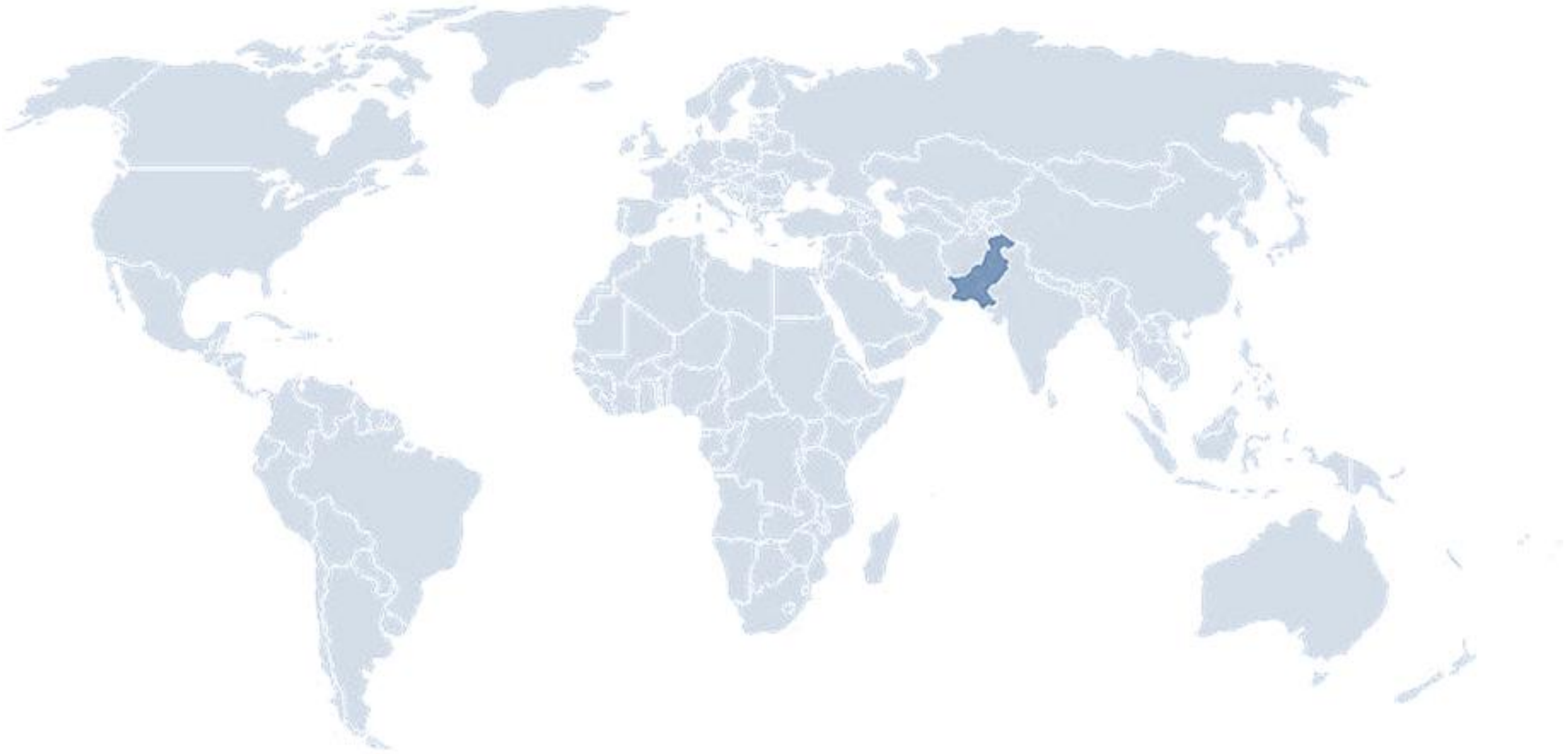

Fiscal year 2018-19
Budget

IGI Securities
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Monday, April 30, 2018

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Summary

Budget

- Government of Pakistan released its 2018-19 budget projections, on Friday 27th April, 2018. However, it did not make up for particularly pleasant reading by the opposition.
- The government missed on its FY18 fiscal deficit target by a good PKR 430bn or 1.24% of the GDP to 5.5%. Major slippages came from higher than budgeted debt servicing cost and lower than collected tax revenue, off by nearly PKR 183bn. To make up for the losses, government slashed overall development budget by PKR 278bn.
- Starting from key macro-economic assumptions, GDP growth is all set to average above 6.0% by 2020 and inflation target is set at 6.0% till 2021. On fiscal side, government has targets to consolidate deficit in years ahead whereby 2021 fiscal deficit is projected at 4.5% of the GDP.
- Upcoming year budget 2018-19, is no short of ambitions either. For a starting point, government now aims to narrow down country's fiscal deficit to 4.9% of the GDP or at PKR 1.89tn.
- The revenue target for 2018-19 (PKR 3.1tn) +~15% higher than 2017-18, which in our view is rather optimistic given the reduction in tax rates for both corporates and individuals. Given how revenue collection has fared in the past couple of years, actual revenues for 2018-19 are likely to reach about ~90-92% of the budgeted targets. This would mean that the 2018-19 fiscal deficit target of PKR 1.89tn is in fact already ~8-10% off the mark.
- This requires a cut in overall expenditures. For that matter, development budget has kept tight in order to make way for rising debt servicing and defense cost, both of which are expected to take up ~90% of the total revenues in FY19B compared to ~94% in FY18. Moreover, in 2017-18 actual PSDP disbursement was roughly 73% of budgeted amount.
- Unless investment growth accelerates, which in case of reduce development budget seems hard to come by, we see attaining 2018-19 GDP growth estimates will be rather challenging.

Equity Market

- From market perspective we expect investors to receive Budget 2018-19 rather well. On corporate earnings reduction in corporate tax rate by 1% annually to 25% by 2023, tax waiver on bonus shares, relaxation on undistributed profits and continuation of tax credit on capital investments are all going to be market positive. However, continuation of super-tax which will negate reduced corporate tax benefit in 2019, keeping earnings growth rather tepid in short-term, but in the longer run reduced tax rate will be earning accretive.
- As expected from a populist budget, sectors most likely to benefit from the budget 2018-19 include fertilizer, textiles and consumers, given higher tax relief measures across these sectors. For textile, special export packages in coming years and clearing of sales tax refunds within stipulated time will be rather positive.
- For Cements and Steel, increased FED on cements in short term will likely overshadow higher demand outlook and reduction in custom duty on coal. For Steel, increase in sales tax on electricity consumption will be negative. For automobile assemblers, restriction on non-filer for purchase of imported and locally manufactured new vehicle will act as a demand dampener, while reduced custom duties on rubber will be positive for local tire industry. Removal of subsidy and reduction in sales tax will have similar positive impacts for fertilizer. For oil & gas sector we expect neutral impact. However, for commercial banks no relief was given on corporate tax, while continuation of super tax will restrict earning growth in medium term.

Budget Overview

Budget 2018-19

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BRP 009

In PKRbn	FY17	FY18B	FY18	FY19B	Comments
Revenue					
Tax Revenues	**3,825**	**4,330**	**4,147**	**4,889**	
a) FBR	3,521	4,013	3,935	4,435	*- Federal revenue collection targeted to increase by +13%, bulk of which or 60% will be from indirect taxes.*
Direct taxes	1,379	1,595	1,563	1,735	*- Growth in direct taxes has been lowered owing to reduction in corporate and individual taxes.*
- Income Tax	1,364	1,578	1,540	1,710	*- Both corporate and individual tax rate have been reduced.*
Indirect taxes	2,142	2,418	2,372	2,700	
- Sales Tax	1,445	1,605	1,547	1,700	*- Reduction in fertilizer sales tax will have minimal impact.*
- CD and FED	697	813	825	1,000	*- Custom duty on multiple items have been reduced.*
b) Other Taxes	304	317	212	454	*- PDL (PKR 300bn) and GIDC (PKR 100bn) makes up for largest share, PDL is expected to go up by a max. of PKR 30/ltr.*
Non-Tax Revenues	**912**	**980**	**845**	**772**	
Gross Revenue	**4,737**	**5,310**	**4,992**	**5,661**	*- Gross revenues are budgeted to show +13.4% growth. In 2018, lower sales tax collection impacted budget estimates.*
Provincial Share	2,121	2,384	2,316	2,590	
Net Revenue Receipt	**2,616**	**2,926**	**2,676**	**3,070**	
Expenditure					
Current Expenditure	**3,905**	**3,764**	**4,298**	**4,780**	*- Current expenditure is targeted to grow by +11%. Last year government overshot its target by +14%.*
- Debt Servicing	1,361	1,363	1,526	1,620	*- Govt. missed on debt servicing expense by ~12%, In 2018-19, mark-up on foreign debt has been set at PKR 230bn.*
- Defence	841	920	999	1,100	*- Defense cost is budgeted to go up by 10%, roughly equivalent to total development expense.*
- Subsidies	169	139	148	175	*- +18% growth is budgeted under subsidy with Inter-DISCO tariff differential taking up the largest chunk.*
WAPDA/PEPCO	103	103	82	134	
- Tariff Differential	91	65	58	105	
KESC	15	16	33	15	
- Civil Govt. admin	399	377	402	463	
- Other	925	782	1,051	1,167	*- PKR 601bn has been earmarked for foreign loans repayment, up by +41%YoY.*
Development	**936**	**1,340**	**1,063**	**1,152**	
a) PSDP	1,539	2,113	1,550	1,650	
- Power	134	61	85	36	
- National Highway Authority	210	320	326	210	*- More has been allocated under CPEC projects.*
- Federal	715	1,001	750	800	*- An amount of PKR 230bn will be further added to federal PSDP through corporation/authorities, including which total PSDP will*
- Provincial	824	1,112	800	850	*be PKR 1.03tn for federal and including provincial amount of PKR 850bn will take total PSDP layout to PKR 1.8tn, up +21%YoY.*
b) Other Development	128	152	153	180	
c) Granst&Loans to Provinces	94	187	160	172	
Total Outlay	**4,841**	**5,104**	**5,361**	**5,932**	*- Total outlay is up by +13% or 15% of the total GDP in 2018-19 (compared to 16% last year).*
Less: Repayments	622	351	504	686	*- Around PKR 601bn are repayments for long-term foreign loans.*
Total Expenditure	**4,219**	**4,753**	**4,857**	**5,246**	

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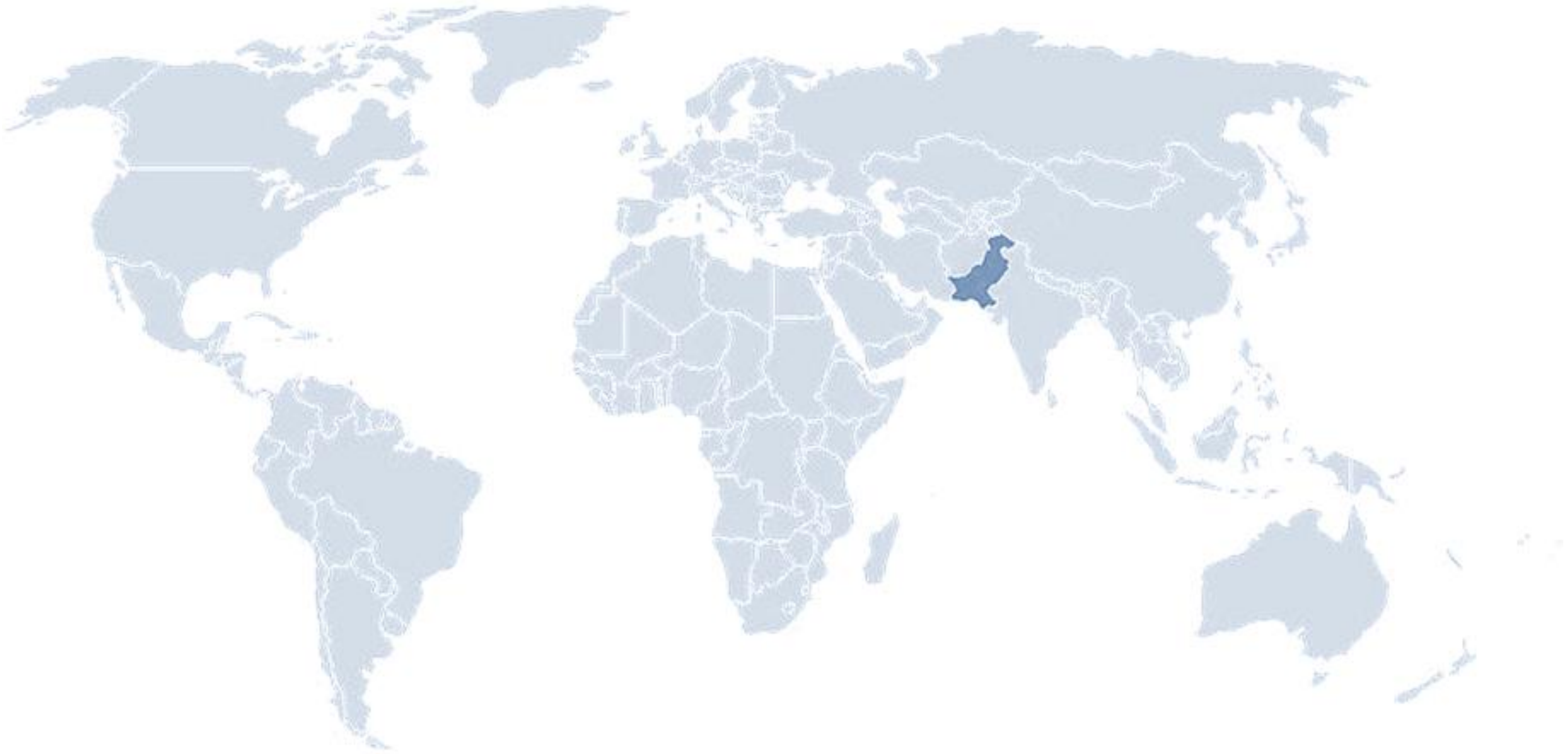
In PKRbn	FY17	FY18B	FY18	FY19B	Comments
Financing					
External	**374**	**511**	**708**	**342**	*- Govt. expects roughly USD 2-3bn to be raised trough external financing. Most of which will be through Islamic Development Bank (PKR 117bn), Sukuk (PKR 234bn) and Commercial banks (PKR 351bn).*
Gross External Loans	996	838	1,230	1,118	
Less Repayments	623	326	522	776	
ST Loan	116	40	94	174	
LT Loan	507	287	428	602	
Domestic	**976**	**968**	**1,198**	**1,548**	*- Financing will remain skewed towards domestic source with banks plugging in nearly 66% of the total financing requirements.*
a) Bank	741	390	586	1,015	
b) Non-banking	235	578	612	533	
- Public Debt	52	315	543	406	
- PIB	110	115	(4)	100	*- Both PIBs and T-bill target have been set low at PKR 300bn, compared to last year PKR 403bn just under T-bills.*
- Treasury Bills	35	45	403	200	
- Ijarah Sukuk	0	60	60	11	
- Public Accounts	165	213	69	127	*- Government expects to raise roughly PKR 129bn through National Saving Scheme (NSS).*
Privatisation Proceeds	**18**	**50**	**-**	**-**	*- No privatization proceeds in FY19 budgeted, however proceeds from MARI up to an amount of PKR ~30bn can be expected.*
Fiscal Balance					
Federal	(1,603)	(1,827)	(2,180)	(2,176)	*Fiscal deficit is expected to be lower by PKR 16bn or at 4.9% of the GDP compared to last year revised deficit of 5.5%. Last year government missed its deficit target by a good PKR 423bn. Like fiscal deficit, government has also set an ambitious target for GDP growth at 6.5% and inflation at 6.0%. Unless investment growth accelerates, which in case of reduce development budget seems hard to come by, we see attaining 2018-19 GDP growth estimates will be rather challenging.*
Provincial Surplus	290	347	274	286	
Consolidated	**(1,313)**	**(1,480)**	**(1,907)**	**(1,890)**	
Fiscal Deficit	-4.1%	-4.1%	-5.5%	-4.9%	
GDP (PKRbn)	31,862	35,919	34,396	38,388	

	FY17	FY18B	FY18	FY19B	FY20F	FY21F
Government Long term Economic targets						
GDP growth %	5.3	6.0	5.8	6.5	7.0	7.0
Inflation %	4.5	6.0	4.5	6.0	6.0	6.0
Fiscal Account (%age of GDP)						
Total Revenue	16.2	17.2	16.0	16.3	16.4	16.5
Tax Revenue	13.1	13.7	13.2	13.9	14.1	14.3
Non Tax Revenue	3.1	3.5	2.8	2.4	2.3	2.2
Total Expenditure	20.4	21.3	21.5	21.2	21.1	21.0
Current	15.9	15.0	16.6	16.5	16.1	16.0
Development	4.5	6.3	4.9	4.7	5.0	5.0
Fiscal Balance	(4.2)	(4.1)	(5.5)	(4.9)	(4.7)	(4.5)
Total Public Debt (gross)	64.8	61.4	70.1	68.0	65.2	62.1
GDP PKRbn	**31,862**	**35,919**	**34,396**	**38,388**	**43,458**	**49,452**



Equity Market Overview

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Neutral | Equity Market

Budgetary Measures	Comments	Impact
Corporate perspective		
Reduction in Corporate tax rate	Corporate tax rate for companies will be reduced by 1% each year from current 29% to 25% by 2023. However, for banks there is no change in corporate tax.	Positive
Punitive tax rate on undistributed profits reduced to 5% from 7.5%. Distribution percentage also reduced to 20% from existing 40%. Bonus issues omitted as an eligible distribution option for 5A.	Earlier under income tax ordinance (5A) - undistributed profits, companies other than a scheduled bank or a modaraba, that derives profit for a tax year but does not distribute at least 40% of its after tax profits within 6 months through cash or bonus shares were imposed a 7.5% tax rate. This has been changed. Under the proposed finance bill not only has the government reduced the distribution percentage to 20% but has also omitted bonus shares as an eligible distribution option for the application of this particular provision. Non-compliance of which will result in a punitive tax rate of 5%. Although distribution rate has been reduce to 20% which is positive for companies undergoing expansions, but omitting bonus shares as an eligible distribution option for this particular provision will pose cash management issues.	Neutral
WHT on bonus shares removed	The government has withdrawn withholding tax on issuance of bonus shares (previously 5%). This will encourage companies to pay bonus.	Positive
Tax credit under section 65B/ D & E extended till Jun2021	Tax credit for newly established industrial undertakings and investments.	Positive
Continuation of Super Tax	Super tax will be charged on all companies at 3% and 4% for banks. However, it will be lowered annually by 1% to 0% till 2021.	Negative
Limiting unabsorbed depreciation to 50% of profits	Unabsorbed depreciation losses can be carried forward indefinitely however it has been limited to 50% of the business income for tax year except where the taxable income does not exceed PKR 10mn. This will largely impact leasing companies and companies having significant capital investments	Negative
Other tax measures for stock market		
Commission earned by brokers will now be adjustable.	Last year budget made advance tax of 0.02% on stock exchange members as a part of final tax regime (FTR). However, this advance tax will now be treated as adjustable. This will provide some relief to overall stock exchange members.	Positive
WHT on REIT reduce to 7.5%	Rate of withholding tax rate on dividend payment by REIT will be reduced from 12.5% to 7.5%	
WHT on mutual funds reduced	Exemption given to mutual funds on withholding tax on bonus shares. This could benefit income and money market funds, given lower CGT compared to dividend tax rate.	Positive
Tax credit limit enhanced	The tax credit limit on investment in shares/sukkuks has been increased to PKR 2.0mn from PKR 1.5mn.	Positive

Sector Overview

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Positive

Fertilizers

Budgetary Measures	Comments	Impact
Sales tax on fertilizer products to be reduced by 3% to 2%	This will improve retention prices of all fertilizer products. For urea in particular, this will result in sales tax reduction of ~PKR 42/bag while ~PKR (40-119/bag) on all other fertilizer products.	Positive
Removal of cash subsidy on urea (PKR 100/bag)	Cash flows will improve as outstanding receivables on subsidy will decrease. Moreover, manufacturers will pass-over the impact of ~PKR 58/bag (net after sales tax reduction).	Positive
Sales tax on feed gas to be reduced from 10% to 5%	The reduction in input tax on feed gas will be PKR 26/bag according to our estimates. However with sales tax on urea decreased by PKR 42/bag this will increase existing input and output tax adjustment, thereby impacting cash flows (increase in refundable).	Negative
Tax exemption proposed on LNG imported as feed by the manufacturers	Given the current crude oil prices, LNG based fertilizer plants have higher cost of gas, which in turn will restrict overall production, hence we do not see significant supply glut situation arising.	Neutral
Change in tax collected from commercial importers at the import stage to minimum tax instead of final tax	DAP commercial importers will now fall under minimum tax regime instead of final tax regime.	Negative
Enhancement of agriculture tax credit from PKR 1.0tn to PKR 1.1 tn. In addition, sales tax on agriculture machinery to be reduced from 7% to 5%	This will improve buying prospects (agriculture machinery and fertilizers) of the farmers.	Positive
Continuation of super tax accompanied by a decrease of 1% each year	Profitability of the manufacturers will be impacted but in the long-term will cushion up with tax reduction of 1% each year.	Negative
Decrease in corporate tax by 1% each year	This will be beneficial for the sectors' earnings going forward.	Positive

Positive

Consumers & Pharmaceuticals

Budgetary Measures	Comments	Impact
Federal excise duty and health levy of PKR 10/kg on locally produced cigarettes is proposed to be enhanced	Cigarette manufacturers will pass over the impact	Neutral
Custom duty on import feed for livestock and growth promoters for poultry sector to be reduced from 10% to 5%	This will have positive impact for meat processors	Positive
Animal feed for dairy farm to be exempted from sales tax	Beneficial for dairy producers and end-consumers	Positive
Reduction in custom duty from 20% to 18% and 16% on Multi-ply /Aluminum foil and ethylene film used by Liquid Food Packaging industry	This will reduce the packaging cost for all packaged liquid producers such as EFOODS, NESTLE and FFL	Positive
Increase of custom duty on soya bean oil from PKR 9,050/MT & PKR 10,200/MT to PKR 12,000/MT and PKR 13,200/MT respectively	Beneficial for local oil seed producers such as UNITY	Positive
Exemptions given on custom duty on anti-cancer medicine	Positive for pharmaceutical	Positive

Positive

Exports and Textiles

Budgetary Measures	Comments	Impact
Reduced mark-up rates shall continue to be available as per SBP policy under Long Term Finance Facility and Export Refinance Facility respectively.	This will promote export refinancing scheme in the long run with reduced markup rates which will improve profitability	Positive
Move towards zero rating of import materials for export sector will significantly reduce creation of new refund claims.	This will improve liquidity constraints for textile exporters as refund on input tax will decrease gradually thus leading to lower reliance on borrowings and improved operational efficiencies	Positive
Refund claims currently pending will be cleared in a phased manner over the next 12 months starting 1st July 2018. After 1st July 2018 all new refund claims will be paid as per the time stipulated in law and regulations on monthly basis and there will be no delay	This will improve cash flow position of the overall sector, leading to lower reliance on borrowing	Positive
The government will announce a new export package with focus on value added exports and non-traditional markets.	This will incentivize textile manufacturers to increase their footprint in the international market	Positive
Continuation of super tax accompanied by a decrease of 1% each year	This will have a negative impact on earnings in the forthcoming year but in the long run will increase profitability of the sector	Negative
Decrease in corporate tax by 1% each year	This will increase overall sectors earnings with the passage of time	Positive
Custom duty on Acetic Acid has been reduced to 16% from 20% and acrylic or mod acrylic which is 11% is proposed to be withdrawn	This will be beneficial for textile dying industry.	Positive

Neutral | Power

Budgetary Measures	Comments	Impact
Subsidies to WAPDA and KEL have been increased to PKR 150bn.	The allocation of subsidies to power sector has been increased to meet the rising T&D losses and rationalize tariff. The amount is also utilized to contain accumulation of circular debt.	Neutral-Positive
Corporate tax rate will be reduced by 1% each year from current 30% to 25% in FY23. Super tax at the rate of 3% to be continued for tax year 2018 and reduce by 1% each year thereon leading to 0% in FY21.	As IPPs are exempt from corporate tax and super tax, the application of reduced corporate tax and super tax is only applicable on KAPCO, whereby the Company's earnings are expected to come down by 1% in FY19 and thereon increase by 1%/2% in FY20/21.	Neutral
Cumulative amount of PKR 138bn has been allocated for power sector which include projects such as Dasu hydropower project, Neelum Jhelum Hydropower project and Tarbela fourth extension hydro power project.	The allocation of funds for development of Hydro Power Projects will streamline timely completion of these projects and lead to reduced reliance on expensive fuels for power generation.	Neutral

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Neutral | Cements

Budgetary Measures	Comments	Impact
Increase in Federal PSDP to PKR 1.03tn from PKR 750tn (revised) in FY18	Higher government spending in infrastructure would increase demand of cement.	Positive
Income derived from bonds issued by Pakistan Mortgage Refinance Company, exempt from tax	This will encourage to avail house mortgage schemes which will be impetus for construction demand.	Positive
FED to be increased from existing PKR 1.25/ton to PKR 1.50/ton, up by 20%YoY	With increase in FED rate, retention prices of cement manufacturers will decline by PKR 15/bag (inclusive of sales tax impact). Given expansions to come online by FY19 onwards, we believe the manufacturers would pass its impact to the end consumer at least for FY19. However, once expansions begin to come online (post FY19), price determination ability of the manufacturers may become limited, thus leading to fall in cement prices eventually.	Neutral to negative
Extension of section 65B, 65D & 65E of the Income Tax Ordinance till FY21	All cement and steel players pursuing BMR (balancing, modernization and replacement) or expansion of its plant and machinery will benefit from the extension of 65B through 10% tax credit on the amount of plant and machinery installed by them. Currently each company incurs average BMR expenditure of around PKR 200-1000mn each year (apart from expansions). Assuming this is to continue, considerable tax savings are expected to continue for the next two years encouraging players to modernize their equipment's cheaply. Further, cement players such as KOHC, LUCK, PIOC, CHCC, POWER and possibly FCCL (if it proceeds for expansion) whose expansion plants are expected to come online post FY19 will now come under the blanket of this massive expansion benefit. Additionally 65D and 65E will encourage investors to setup new industrial undertakings through issuance of fresh equity by providing tax credits for the next 5 years	Positive
Reduction of customs duty on coal to 3% from existing 5%	Will slightly reduce cost by PKR 1/bag.	Positive to neutral
Gradual reduction of Corporate Tax Rate from 30% to 25% over a period of 5 years	Reduction in tax rate would enhance profit after tax for all companies in construction sector.	Positive
Super Tax at the rate of 3% to be continued for FY18 and removal planned in phases over the next 2 years	We estimate reduction in sector earnings in 4QFY18 due to extension of super tax in the current tax year. However this will be phased out in the next two years.	Negative

Neutral

Oil and Gas – Exploration, Refining and Marketing

Budgetary Measures	Comments	Impact
The Petroleum Development Levy (PDL) on petroleum product has been proposed up to a maximum of PKR 30/liter for MS, HSD, Kerosene, LDO and HOBC, while PKR 20,000/Mton for LPG. Rate of PDL on MS and HSD PKR 10/ltr and PKR 8/ltr respectively. The proposed budget amount of PDL is PKR 300bn against PKR 170bn last year.	This allows GoP to increase the PDL up to a maximum of PKR 30/ltr in the situation when oil prices decline. This may result in inflated prices when international oil prices are declining which may hamper the demand to a certain extent.	Neutral-Negative
Sales tax on import and supplies of furnace oil has been reduced to 17% from 20%.	This will have no impact on profitability of OMCs, however this will reduce the amount of refund claims that accumulated on OMCs part due to difference in input and output sales tax rate. It will also reduce the cost of power generation on FO for IPPs which in turn would slightly improve recoveries from power sector especially for PSO.	Neutral
Tax on dealer margin of HSD will now be collected on the ex-depot price at the rate of 0.5% for filers and 1% from a non-filer, which was previously charged on commissions or discounts given to dealers at the rate of 12% for filers and 17.5% for non-filers	This will be slightly positive for OMCs as it is a step forward made by the GoP to deregulate HSD. It will eventually allow OMCs to increase their margins in line with MS, which is currently at PKR 2.41/ltr, while MS margins have been increased in line with CPI to PKR 2.55/ltr.	Neutral-Positive
Waiver of value addition tax at 3% and reduction in sales tax from 17% to 12% on import of LNG	For OMCs this will not have any impact on profitability however reduced cost to customers will allow for slow down in accumulation of circular debt on LNG and improve recoveries leading to better cash flows. This is likely to benefit PSO, SSGC and SNGP.	Neutral-Positive

Neutral

Oil and Gas – Exploration, Refining and Marketing

Budgetary Measures	Comments	Impact
Corporate tax rate has been proposed to be reduced by 1% each year from current 30% to 25% in FY23. Super tax at the rate of 3% to be continued for tax year 2018 and reduced by 1% each year thereon leading to 0% in FY21.	Reduction in corporate tax to 25% by FY23 and application of super tax with gradual phase out by FY21 is likely to reduce EPS for PSO,APL, HASCOL and SHEL by 1.6%/1.4%/1.4%/1.5% in FY19, however increase EPS by 1%-8% from FY20 to FY23.	Positive
Super tax at the rate of 3% to be continued for tax year 2018 and reduce by 1% each year thereon leading to 0% in FY21. However for E&Ps, super tax is only applicable on other income such as dividend and mark-up on bank deposit/TFCs and does not apply to profits from exploration activities.	For OMCs, super tax is expected to shred of 1%-3% of earnings during 2018-2020. However, this is only applicable on Oil & Gas marketing companies, whereas for Oil & Gas exploration companies the impact of super tax will have minimal impact as it is only applicable on other income such as dividend and mark-up on TFCs / bank deposits, apart from exploration. OGDC/PPL earnings are expected to come down by 0.3%/0.2%/0.2%/0.0% in FY19 owing to applicability of super tax on other income.	Negative
Tax emption proposed for twenty years for setting up deep conversion refineries between the periods 1 July 2018 to 30 June 2023 with a minimum capacity of 100,000bpd. This exemption is also extended to existing refineries that opt for increasing their capacity by 100,000bpd falling under the deep conversion category.	Existing refineries do not have a deep conversion plant which further processes residual fuel (FO) in to high margin products such as MS and HSD. For existing refineries to avail tax holiday, expansion of nearly USD 1bn may be required which may not be as easy, as most of them have recently undergone upgradation and expansion. However, as the period extends till FY23, existing refineries under the regulation issued my MPNR in 2013 are required to transfer 50% or above profit after tax in to special reserve account, which would allow them time to build up reserve over the next 3-4 years to undergo expansion of 100,000bopd deep conversion refinery. Also refineries may demand release of additional 1.5% deemed duty applicable since 2016 which would be a positive factor in terms of financing of expansion. Existing refineries would have to maintain separate accounts for income arising from additional production from expansion in to deep conversion refinery.	Neutral

Neutral

Automobile Assemblers and Autoparts manufacturers

Budgetary Measures	Comments	Impact
Non-filers will not be able to purchase new motor vehicles manufactured (assembled) in Pakistan or imported	This is likely to encourage used vehicle both in local and import market. This in turn will hamper new vehicle demand, thereby potentially impacting sales of major local automobile assemblers.	Negative
For electric vehicles, custom duty will be reduced to 25%, previously 50%, with exemption given on regulatory duty. In addition, custom duty on import of CKD kits will also reduce from 50% to 10%.	Currently domestic market for electric cars seems to be non-existent.	Neutral
Custom duty on Carbon Black (rubber grade) will be reduced from 20% to 16%	This will be beneficial for tire manufacturers in reducing raw material costs	Positive
Increase in custom duty on rickshaw tyres from 11% to 20% 20%	Demand for local manufacturing tyres will increase with customers shifting their purchases to local tyres	Positive
Continuation of Super tax accompanied by a decrease of 1% each year	Profitability of the manufacturers will be impacted but in the long-term will cushion up with tax reduction of 1% each year	Negative
Decrease in corporate tax by 1% each year	This will be beneficial for the sectors' earnings going forward.	Positive

Negative

Commercial Banks

Budgetary Measures	Comments	Impact
Super-tax to be abolished in a staggered manner until FY22	Super-tax will be applied at the rate of 4% in FY18, but will be reduce by 1% annually from next year, turning to 0% in FY22.	Negative
Reduction in withholding tax on banking transactions from 0.6% to 0.4%	This will be neutral for banks as the volume of banking transactions might increase but the impact may not be significant.	Neutral
Corporate tax unchanged	Corporate tax on non-banking companies is to be reduced in a staggered manner from current 30% to 25% until 2013. However, this rule does not extend to the banking companies, that is, the banking companies will continue to pay corporate tax at 35%.	Neutral
The government has budgeted borrowing from Bank at PKR 1.0tn	Given the budgeted fiscal deficit, the government is expected to borrow PKR 1tn from the banks, giving ample opportunity to expand investments.	Positive
Provisions for advances and off balance sheet items of foreign branches, can only be provided against their foreign income	Under this amendment each foreign branch will be treated as a separate entity. Henceforth, banks having foreign branches will be unable to adjust foreign losses against their resident income. This could potentially be negative for banks having foreign operations.	Neutral - Negative
Exemption of FED on commission paid by SBP	FED will be exempted on commissions paid by SBP to banks handling treasury operations for SBP.	Neutral - Positive

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Negative | Steel

Budgetary Measures	Comments	Impact
Increase in sales tax on steel sector to PKR 13/unit of electricity as compared to PKR 10.5/unit, up by +24%YoY	Given heavy electricity usage, this could potentially lead to margin contraction for steel manufacturers.	Negative

Positive | Miscellaneous

Budgetary Measures	Comments	Impact
Custom duty will be withdrawn on catalysts used by PTA industry	This will turn out to be positive for polymer manufacturers, which includes EPCL.	Positive
Rate of withholding tax on dividend payment by REIT will be reduced from 12.5% to 7.5%	This will have positive impact for real estate investment sector.	Positive
Regulatory duty on optical fiber cables reduced to 10% from 20% with custom duty on various input materials to stand at 5%	This will have positive impact for telecommunication sector, particularly PTCL.	Positive
Proposal to reduce custom duty on silicon electrical steel sheets from current 10% to 5% which is used for transformer manufacturing	Beneficial for transformer manufacturers such as PEL.	Positive

Other Key Measures

- Custom duty on import feed for livestock and growth promoters for poultry sector to be reduce from 10% to 5%
- Regulatory duty of 10% is being proposed for CKD/SKD kits of specified Home Appliance and regulatory duty of PKR 1.75/set on CKD/SKD kits of mobile phone
- Increase in custom duty by 5% on aluminum auto parts scrap has been proposed
- Continuation of duty free import and sales tax exemption of combined harvesters has been put forward
- It is being proposed that 3% custom duty on import of the micro feeder equipment be withdrawn in order to ensure appropriate quantities of micronutrients present in the flour
- Custom duty on eyesight glasses to be reduced to 3% and sales tax on hearing aid to be made 0%
- For film & drama industry reduction in custom duty/ sales tax production equipment to 5% is proposed in addition to 5- year rebate of 50% income tax to companies investing in film projects. Moreover, 50% tax rebate is proposed to income derived by foreign film makers from films made in Pakistan.
- Dollar account holders in Pakistan who have purchased US dollar through undeclared money can regularize them on payment of 2%. Individuals can declare foreign undeclared assets at 3% and undeclared assets at 5%.
- To promote stationery sector and reduce prices of stationery items it is proposed to restore stationary items under zero-rating
- Withdrawal of custom duty on import of tanned hides (including wet blue)
- To encourage fish farming, sales tax of 10% on fish feed has been removed. Moreover, exemption is granted for preparation of fans and animal feed of dairy farms
- Import of solar panels were exempted from the condition of local manufacturing till 30th June 2018, extended till 30th June 2019
- Removal of 3% custom duty on import of bulls. Moreover import of fans for corporate dairy farmers allowed at concessionary rate of 3%
- Custom duty on coils of aluminum alloys for the manufacture of beverage cans to be reduced to 8% from 16%
- Regulatory duty of 5% to be imposed on medium density fiber while custom duty to be reduced from 16% to 11%
- Concessionary import of vintage or classic cars and jeeps at fix duty/ taxes of USD 5,000

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