2024-25
PAKISTAN FEDERAL
BUDGET

INITIAL IMPRESSION

Initial Impression

Federal Budget FY 2024-25

Today the Federal Government unveiled the Budget for the next fiscal year (FY25), with a total budgeted expenditure of PKR 18,877 billion, marking a 25% increase compared to the revised outlay for FY24.

OUR ASSESSMENT:

The FY25 Budget balances cost-cutting measures with specific support initiatives. It includes both positive and negative measures for various sectors. The GDP growth target is set at 3.6%.

MACRO ECONOMIC PARAMETERS:

Expenditure: The government has allocated PKR 17,203 billion for current expenditure, primarily for mark-up payments, which are projected to be 18% higher year-on-year compared to FY24's revised estimates. The Defence Budget is set at PKR 2,122 billion, an increase of 14% year-on-year. Subsidies for various sectors will amount to PKR 1,363 billion, 27% higher than FY24's revised estimates. The total Federal PSDP is budgeted at PKR 1.5 trillion, representing an 80% increase from the revised FY24 estimate of PKR 834 billion.

Revenue: Net Federal Revenue receipts are projected at PKR 10.38 trillion (excluding the provincial share), reflecting a 53% YoY increase from the revised FY24 estimates. This growth is primarily driven by a 40% YoY rise in Tax Revenues, which are budgeted at PKR 12.97 trillion. Non-tax Revenue is anticipated to be PKR 4,845 billion, representing a 64% YoY increase.

GDP Growth: Next year's GDP growth target of 3.6 percent is achievable with continuing policy interventions in agriculture as well as recovery expected from industry and services sectors.

Fiscal Deficit: The fiscal deficit is projected to be PkR 7,283 billion, accounting for 5.9% of GDP, a notable improvement from the previous year's 7.4%. This reduction aligns with strengthened tax reforms and a broader tax base aimed at fiscal consolidation. The budget is designed to achieve a primary surplus of 2% of GDP or Rs 2.5 trillion, excluding the provincial surplus of 1% of GDP, adhering closely to IMF guidelines.

Inflation: The government aims to significantly lower the average CPI to 12% in FY25, a substantial reduction from the steep 23-24% experienced in FY24.

Table 1: Key Economic Targets

	FY24	FY25F
GDP growth	2.4%	3.6%
Fiscal Deficit to GDP	-7.4%	-5.9%
Primary Surplus to GDP	0.4%	2.0%
Tax to GDP	9.0%	10.0%
Inflation	~25%	12.0%
Nominal GDP (PkR bn)	106,045	124,150

Source: Budget Speech and KTrade Research

"...The FY25 Budget balances cost-cutting measures with specific support initiatives."

Table 2: Budget Snapshot

PKRbn	FY24B	FY24R	FY25B	YoY
Gross Revenue	12,378	12,199	17,815	46%
Net Revenue	6,979	6,772	10,377	53%
Tax Revenue				
Direct Taxes	4,255	3,721	5,512	48%
Indirect Taxes	5,160	5,531	7,458	35%
Non-tax Revenue	2,963	2,947	4,845	64%
Transfer to Provinces	5,399	5,427	7,438	37%
Total Expenditure	14,485	15,160	18,877	25%
Current Expenditure	13,344	14,232	17,203	21%
Mark up Payment	7,303	8,251	9,775	18%
Defence	1,804	1,854	2,122	14%
Grants and Transfers	1,409	1,482	1,777	20%
Subsidies	1,064	1,071	1,363	27%
Federal PSDP	1,150	834	1,500	80%
Fiscal Deficit	(6,906)	(7,849)	(7,283)	-7%

Source: Budget Speech and KTrade Research

"...This reduction aligns with strengthened tax reforms and a broader tax base aimed at fiscal consolidation."

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Table 3: Budget Outlay

RESOURCES	
Tax Revenue (FBR) - Federal Consolidated Fund	12,970
Non-Tax Revenue	4,845
e) Gross Revenue Receipts	17,815
b) Less Provincial Share	7,438
I. Net Revenue Receipts (a-b)	10,377
II. Non Bank Borrowing (NSSs & Others) - Public Account	2,662
III. Net External Receipts - Fed. Consolidated Fund	666
IV. Bank Borrowing (T-Bills, PIBs, Sukuk) - Fed. Consolidated Fund	5,142
V. Privatization Proceeds - Fed. Consolidated Fund	30
Total (II + III + IV + V)	8,500
TOTAL RESOURCES (I to V)	18,877

EXPENDITURE	
A Current	17,203
Interest Payments	9,775
Pension	1,014
Defence Affai rs & Services	2,122
Grants and Transfers to Provinces & Others	1,777
Subsidies	1,363
Running of Civil Govt.	839
Provision for Emergency and others	313
B. Development & Net Lending	1,674
Federal PSDP	1,400
Net Lending	274
TOTAL EXPENDITURE	18,877

Source: Budget Speech and KTrade Research

From a capital market perspective, the positive may be that the capital gains tax (CGT) on filers has remain unchanged at 15%, however previous benefit of holding a security for more than 5yrs would make the CGT exempt. Long term holder may be tempted to sell before implementation of the budget from 1st July-2024. A major concern was a potential increase in CGT; this was also evident from the market performance over the past few sessions where in seven sessions 3,288pts (4%) were lost . We feel that apart from a few sectors with lower weights in the index may feel the brunt, apart from which a neutral to positive outlook can be expected.

"…We feel that apart from a few sectors with lower weights in the index may feel the brunt apart from which a neutral to positive outlook can be expected."

The following are cursory views on a few sectors.

Banks: Banks will be unable to classify "substandard" or "doubtful" bad debts nor can they treat provisions for advances, off-balance sheet items, or other financial assets classified in stages 1, II, or III as expenses under any accounting standard, including IFRS 9

To explain in simple words, banks book two kinds of provision specific and general. Specific pertains to company while general is precautionary. Provisions are charged as expense and hence exempt from tax, and come back later as reversal in provisions. The new rule indicates that anything over the required provision amount according to prudential regulations will be taxed so banks who have over provided will have to pay normal tax rate on the additional amount.

OMCs: The increase in PDL limit by PKR 20/ltr if utilized can cause inflationary pressures but not as severe given the broader GST regime has remained largely unchanged.

Iron and Steel: Exemption of sales tax levy on steel and Iron sector is positive for the sector as a whole and will be essential in making development affordable across the country may it be public or private projects.

Textile and Technology: Textile and technology sector which are a major portion of exports will be under pressure given that now they will fall under the normal tax regime as opposed to 1% previously.

Table 4: Potential Impact on Sectors

Sector	Impact
Market	Positive
Banks	Neutral to Negative
Cement	Neutral
Fertilizer	Neutral
Power	Neutral
Autos	Neutral to Positive
Textile	Negative
Steel	Positive
Chemicals	Neutral
E&P and OMCs	Neutral
IT	Negative

Source: KTrade Research

RELIEF MEASURES:

- Exemption of Additional Customs Duty on raw materials of fluids and powders that are used in Hemodialyzers.
- Exemption of Customs duties on Bovine lipid extract surfactant
- Sales Tax for Steel and Iron Products are to be removed.
- Extension of the adjustment period for unutilized business losses from six to ten years for Pakistan International Airlines Corporation Limited (PIACL) to facilitate its privatization efforts.
- The current exemption from customs duties on imported hybrid vehicles and luxury electric vehicles will be abolished.
- Currently, a 1% final tax is levied on export proceeds. To promote tax fairness, it is proposed that export income be taxed at standard rates, with the 1% tax on export proceeds serving as a minimum tax.
- Proposed increase of 15% in pensions of retired employees.
- Suggested concessions regarding the importation of solar panels and their associated raw materials and equipment.

"…The current exemption from customs duties on imported hybrid vehicles and luxury electric vehicles will be abolished…"

REVENUE MEASURES:

- Sales tax exemption granted to ex-FATA/PATA regions will be gradually phased out. Income tax on FATA / PATA residents exempted for one more year, i.e FY25
- The tax structure for both non-salaried individuals and salaried personnel has been revised. For non-salaried earners, incomes exceeding Rs. 600,000 are taxed across five progressive brackets, with rates in the range of 15% to 45%. Salaried individuals, on the other hand, encounter a series of five tax bands starting at 5% and peaking at 35%, applicable to earnings beyond Rs. 600,000 annually.
- A new tax rate has been introduced for late filers who submit returns post-deadline to avoid non-filer rates. This rate is deemed to be higher than filers but lower than for non-filers.
- Capital gains on securities will be taxed at a flat 15% for filers. Non-filers face a variable rate from 15% to 45%. Additionally, capital gains from mutual funds and collective investment schemes will see an increased tax rate from 10% to 15%.
- Different categories of mobile phones will be taxed at 18%.
- Petroleum Developmental Levy on HSDO to increase from Rs. 60/litre to Rs. 80/litre.
- Cement federal excise duties being increased by Rs. 50/bag to Rs.150/bag.
- Final Tax Regime ends for exporters and will now be taxed under the Normal Tax Regime.
- Imposition of WHT on copper, coal, paper and plastic scrap products.
- The advance tax on vehicle registration will transition from being based on engine capacity to being determined by the vehicle's value.
- Proposed imposition of increased rates of import duties on steel and paper products.

"…Petroleum Developmental Levy on HSDO to increase from Rs. 60/litre to Rs. 80/litre…"

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Rating Definitions:

·Outperform >18.5% potential upside

·Neutral: 12.5% to 18.5% potential upside

·Underperform <12.5% potential upside