

Budget 2020-21

Economy & Budget Highlights

Enterprise Risk Management : Albaraka Bank (Pakistan) Limited



Economic Review FY20

The provisional GDP growth rate for FY2020 is estimated at negative 0.38%, however, macroeconomic stabilization measures undertaken by the government over the past year resulted in significant reduction in Saving-Investment Gap which was mainly driven by reduction in trade deficit and increase in workers' remittances. It is also mentionable that fiscal deficit remained contained in first three quarters of FY2020.

The economy of Pakistan like other economies has a diverse structure with three main sectors

Source : Economic Survey FY20

- Agriculture
- Industry
- Services



Inflation 8.2%



(CAD) reduced by
73.1% to US\$ 2.8
bn (1.1 % of GDP)



fiscal deficit
reduced to 4.0%
of GDP during
July-March FY20



Real GDP
-0.4%



Interest rate
8%

Agriculture
Contribution in GDP

19%

Manufacturing and Mining
Contribution in GDP

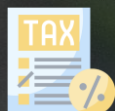
19%

Service
Contribution in GDP

62%

Fundamental weaknesses of Pakistan economy & its Consequences

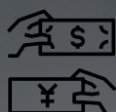
Weakness



Low Tax to
GDP Ratio



Poor savings
rate



Overvalued
exchange rate



Loose monetary
policy



Minimal export
growth with
negligible value
addition

Consequences



Difficult to
control twin
deficits



Fueled demand
and short-term
growth



Gradually eroded
macroeconomic
buffers



Increased
public debt



Depleted
international
reserves



Agriculture Sector

Crops



Wheat Production Increased in July-Mar 2.45% to 25mn Ton (1.7% of GDP)

Due to increase in cultivated area , healthy grain formation, better crop yield



Rice Production Increased in July-Mar 2.89% to 7.4mn Ton (0.6% of GDP)

Due to increase an area of crop, inputs on subsidized rates



Maize Production Increased in July-Mar 6.01% to 7.3mn ton (0.6% of GDP)

Due to increased in area , availability of seeds and better economic return



Other crops Production Increased in July-Mar 4.57% (2.23% of GDP)

Due to higher yield due to favorable weather condition prevalent at the time of sowing



Sugarcane Production declined in July-Mar -0.44% to 67mn ton (0.6% of GDP)

Due to decline in area cultivation with increase yield. Also unfavorable weather in 2020



Cotton Production declined in July-Mar -6.92% to 9.1mn Bales (0.8 % of GDP)

Due to Unfavorable Weather , Low water availability and pest attack



Fishing Production Increased by 0.60% (0.40% of GDP)

Six more processing plants are in pipeline and their cases for approval is under process with EU authorities



Forestry Increased by 2.29% (0.41% of GDP)

Billion Tree Afforestation Project (BTAP) implemented by Government of KP

2.67%

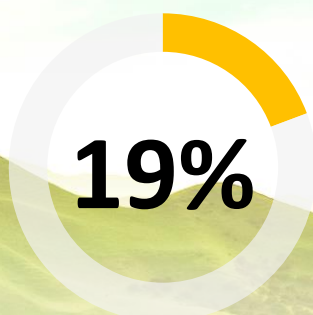


Growth in FY20

Contribution in Total Labor Force



Contribution in GDP



Manufacturing and Mining

Large Scale Manufacturing Declined by 5.4% in July –Mar FY20



Textile Sector Production

decreased by -2.57% July-Mar FY20

due to -2.96% decline in cotton yarn and -2.81% decline in cotton cloth as poor technology and scarcity of quality yarn is an Issue .



Food Beverages and Tobacco Production

reduced by -2.33% in Jul-Mar FY20. decline

in sugar and cigarettes (high FED and competition) production by -1.7 and -31.4 %, respectively. Whereas Cooking oil, vegetable ghee and wheat and gain climbed massively.



Automobile Production shrunk by -36.5%

July-Mar FY20 due to currency depreciation , policy rate hikes , increased in FED , ACD and tariff lines.



Electronics production plunged by -13.54%

in July-Mar FY20 due to lower demand for electric motor as subdued demand for the water extraction pumps.



Iron & Steel production decreased by -7.96%

July –Mar FY20 due to subdued construction activities , low automobile production, upward adjustment in electricity prices and PKR devaluation.



Coke and petroleum production contracted by -17.46%

In July-Mar FY0 due to shift in power generation away from furnace oil , higher end customer price and reduction in commercial activities

-2.6%
Growth in FY21



Contribution
in Total Labor Force

15%

Contribution in GDP

19%



SME (2.04% of GDP)

During July – Mar FY20 SME Facilitation 5,564 and Investment Facilitation PKR301.92mn



Mining and Quarrying -8.82% in July-Mar FY20 (2.51% of GDP)

due to interconnected and overlapping issues like poor regulatory framework, insufficient infrastructure at mines sites, outdated technology installed, semiskilled labor, low financial Support and lack of marketing.



Slaughtering increased by 48.9% in July-Mar FY20 (0.94% of GDP)

Services Sector

Transport, Storage and Communication sector registered a decline of -7.13% (12.31% of GDP)

due to continuous ban on Railways, Air transport and Road transport particularly public transport during the last two months. There was 45.74 percent decline in Railways and 6.49 percent decline in Air transport while Road Transport declined by 9.58 percent



The Housing Services has contributed positively at 4.02 % (6.98% of GDP)

The General Government Services has grown by 3.92 percent. It is mainly driven by the increase in salaries of Federal, Provincial, and District governments



Finance and insurance sector witnessed a slight increase of 0.79%. (3.6% of GDP)

Central banking has increased by 1.96 percent and scheduled banks by 0.22 percent and the insurance activities decreased by 2.59 percent.



Wholesale and Retail Trade sector declined by -3.42 %. (18.17% of GDP)

It is dependent on the output of agriculture, manufacturing, and imports. The decline in industry and imported products have pulled growth of this sector downwards overshadowing the positive contribution of agriculture.



Other private services (11.75% of GDP)

which is composed of various distinct activities such as computer related activities, education, health & social work, NGOs, etc. has contributed positively to 5.39 percent

-0.6%
Growth



Contribution in GDP

62%

Fiscal Deficit

The fiscal deficit has substantially reduced to 4.0% of GDP during July-March, FY2020 against 5.1% of GDP in the comparable period last year.

Likewise, a significant improvement is visible in primary balance, which posted a surplus of Rs 194 billion during July-March, FY2020 against the deficit of Rs 463 billion. Overall, the improvement in fiscal account is largely attributed to higher provincial surplus and sharp rise in non-tax revenues.

Total expenditures grew by 15.8 percent during July-March, FY2020 over the same period last year. Within total, current expenditure posted 16.9 percent growth in nine months of current fiscal on account of higher mark-up payments, grants for social spending and expenditures on social protection. Similarly, PSDP spending witnessed a significant rise both at federal and provincial levels. Overall PSDP expenditures grew by 24.9 percent during July-March, FY2020 over previous year.

Inflation

The government is making all out efforts to ensure smooth supply of essential items and is also committed to taking strict actions against anti-competitive practices. Economic Stimulus Package, Ehsas Emergency Relief Programme, Subsidies to USC and reduction in petroleum prices, etc., will provide multidimensional positive impacts to all segments of society especially poor families. All these measures helped in contracting the CPI to single digit which fell to 8.5 percent in April 2020.

Capital Market

The index kicked-off with 33,901.58 points on July 1st, and reached the year's peak of 43218.67 points on January 13th, 2020. After the COVID-19 outbreak, capital began flowing out of the Pakistan stock market and the index plunged to 27228.8 points and market capitalization closed at Rs 5380.17 billion on March 25th. However, the Government's stimulus package provided relief to investors as KSE-100 index gained 6877.84 points (↑25.25 percent) since March 25th and index closed at 34111.64 points on April 30th. Similarly, Market Capitalization increased by Rs 991.54 billion (↑18.4 percent) since March 25th and closed at Rs 6376.71 billion on April 30th.

Money and Credit

Broad money has increased to Rs 1,481.3 billion during 01 Jul-24 Apr, FY2020 showing a sharp expansion in the Net Foreign Assets (NFA) of the banking system which reached to Rs 893.7 billion. Credit to private sector contained to Rs 304.7 billion during 01 Jul-24 Apr, FY2020 as compared to the expansion of Rs 581 billion in the corresponding period due to slowdown in economic activities.

Under the IMF's Extended Fund Facility (EFF) program, the government had committed not to borrow from the SBP to finance its deficit and most of the demand has been met by scheduled banks.

For budgetary support, government has borrowed Rs 1,023.91 billion during 01 Jul-24 Apr, FY2020 against the borrowing of Rs 990.87 billion last year.

Trade and Payments

- Exports during July-April, 2019-20 remained \$ 19.7 billion compared to \$ 20.1 billion during July-March, 2018-19, posting a decline of 2.4 percent.
- A sharp decline in REER due to market based exchange rate
- The government's initiative to provide cheaper electricity
- to the textile sector have enhanced the competitiveness of the Pakistani products in the global market.
- The total imports during July-April FY2020 declined to \$ 36.1 billion as compared to \$ 40.3 billion same period last year, thus registered a decline of 16.9 percent.
- During Jul-April FY2020, remittances increased to \$ 18.8 billion as compared to \$ 17.8 billion during same period last year, with a growth of 5.5 percent. During July-March
- FY2020, current account deficit (CAD) reduced by 73.1 percent to US\$ 2.8 billion (1.1 percent of GDP) against US\$ 10.3 billion last year (3.7 percent of GDP). The significant reduction in CAD reflected mainly the impact of macroeconomic stabilization measures taken by the government.

Budget At A Glance

Receipts in PKR Billion		Expenditure in PKR Billion	
Tax Revenue	5,464	Current	6,345
FBR Taxes	4,963	Interest Payments	2,946
Other Taxes	501	Pension	470
Non-Tax Revenue	1109	Defence Affairs & Services	1,289
Gross Revenue Receipt	6573	Grants and Transfers	905
Less Provincial Share	2874	Subsidies	209
Net Revenue Receipts	3700	Running of Civil Govt	476
Capital Receipts (Non-Bank)	1395	Provision for Pay & Pension	-
		Provision for Contingencies	50
External Receipts (net)	810	Development	792
Estimated Provincial Surplus	242	Federal PSDP	650
Bank Borrowing	889	Net Lending	72
Privatization Proceeds	100	Other Dev. Expenditure	70
Total Resource	7,136	Total Expenditure	7,136



Budget 2020-21



2.1%

Real GDP Growth
In FY21



6.5%

Inflation in FY21



PKR7.3 Trillion

Total Outlay of Budget



PKR3.19

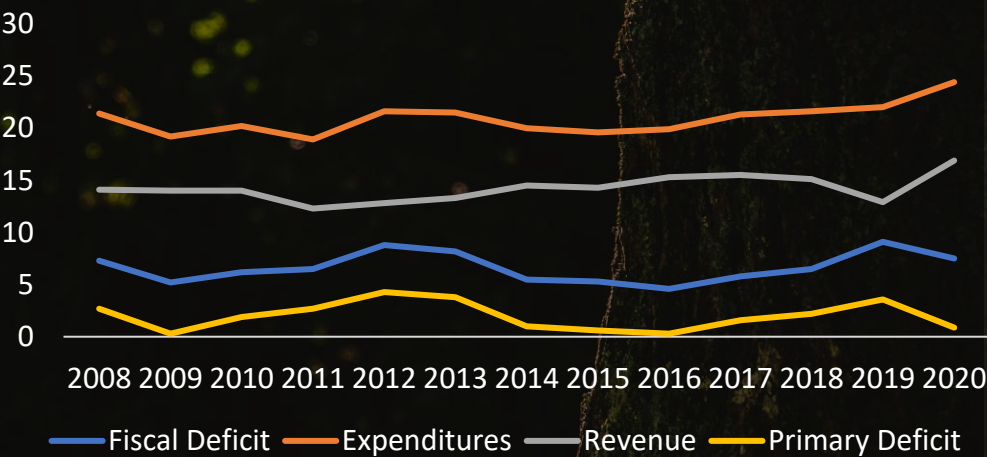
Trillion Budget Deficit
7% of GDP



PKR4.96

Trillion FBR Revenue
10.9% of GDP

Fiscal Indicators as % of GDP



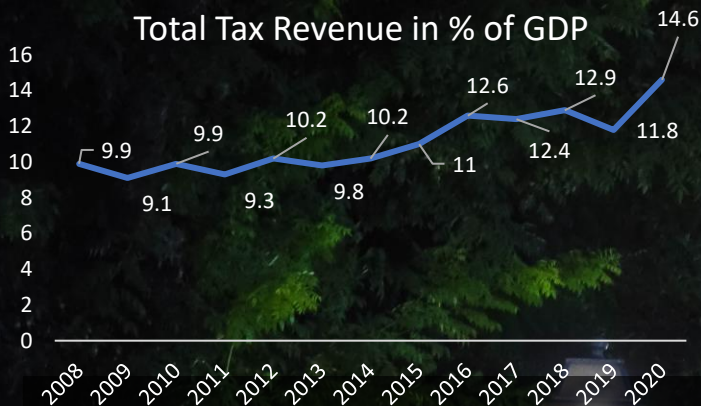
Financing of Deficit

- Net External Financing
- Domestic Financing



Source : FBR , Ministry of Finance

Total Tax Revenue in % of GDP



Total Tax Revenue

PKR 5,464 Billion

Direct Tax (37% of Total Tax)

- Income Tax
- Worker Welfare Fund
- Capital Value Tax

PKR 2,043 Billion

Income Tax % of Direct Tax

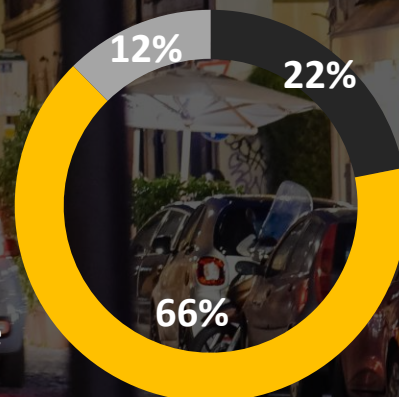
99.7%

Indirect Taxes (53% of Total Tax)

PKR2,920 Billion

Indirect Taxes

- Customs Duties
- Sales Tax
- Federal Excise

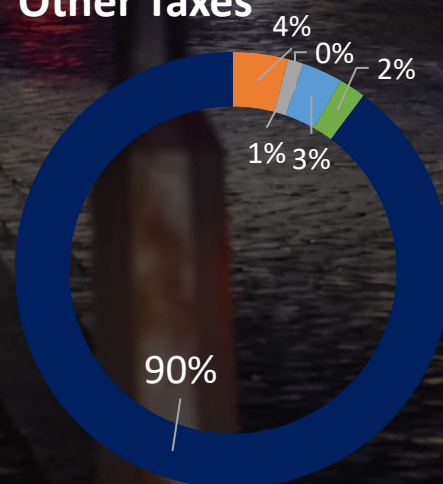


Other Taxes (9% of Total Tax)

PKR501 Billion

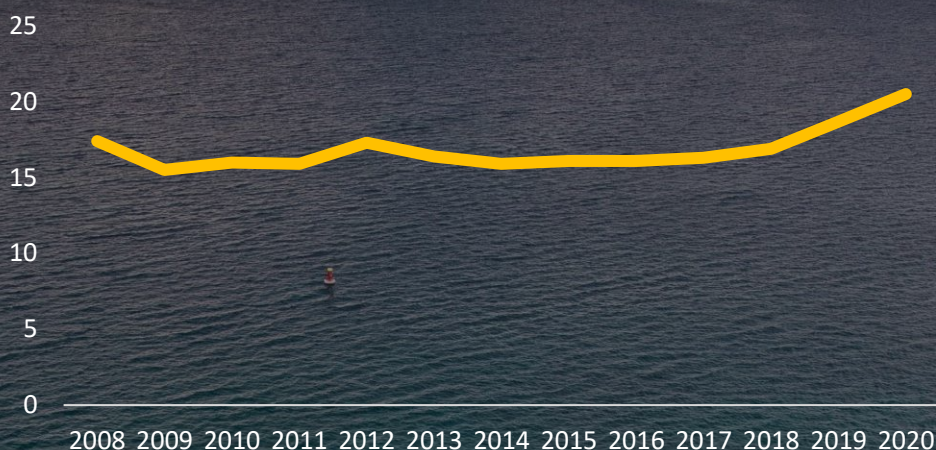
Other Taxes

- Other Taxes
- Other taxes (ICT)
- Mobile Handset Levy
- Airport Tax
- GIDC
- NGDS
- Petroleum Levy



Current Expenditures PKR6.34 Billion

Current Expenditures in % of GDP



Mark up Payment
PKR2,946 Billion



Defense Affairs
and Services
PKR1,289 Billion



Grants & Transfer
PKR905 Billion



Pension
PKR470 Billion

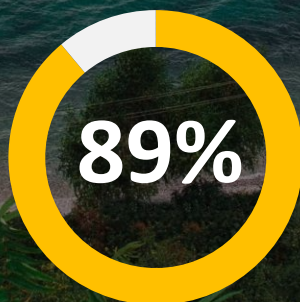


Subsidies
PKR290 Billion

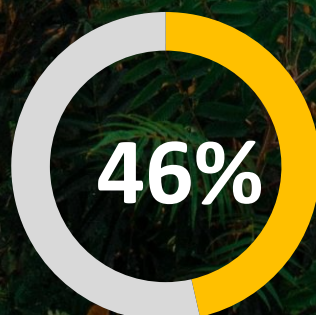


Provision for
Contingencies
PKR 50 Billion

Current Expenditure % of Total
Expenditure



Interest Payment % of Current
Expenditure



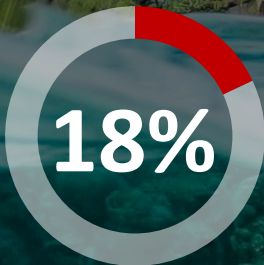
Running of Civil
Government
PKR476 Billion

Public Sector Development Programme FY21



PKR 1,324 Billion
(2.9% of GDP)

Decreased in PSDP

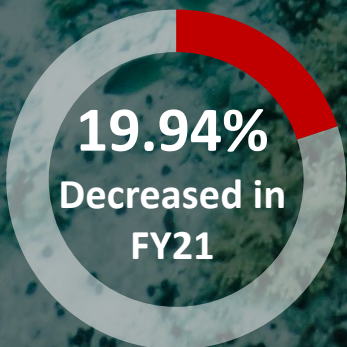


PKR 70 billion
allocated for COVID-19

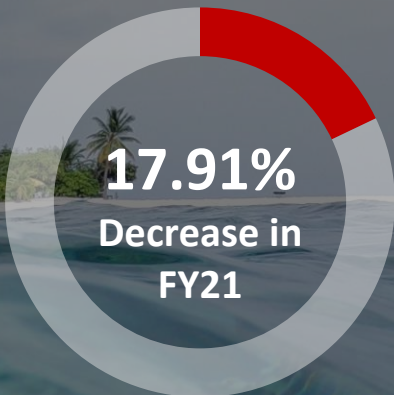


PKR 3 Billion
allocated for
Earthquake Rehabilitation And
Reconstruction Authority

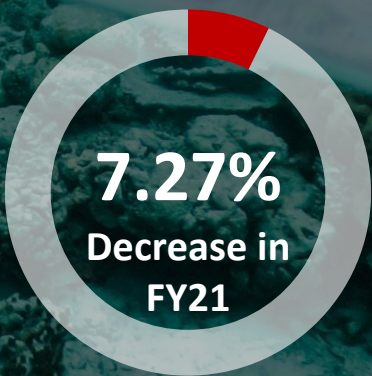
Corporation PSDP



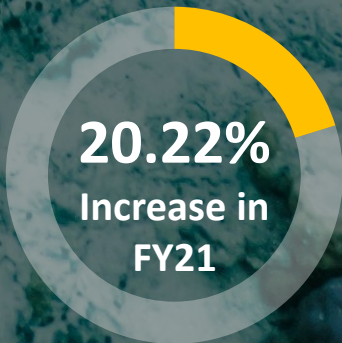
National PSDP



Federal PSDP



Federal Ministries/ Divisions



Income Tax

- Taxability of capital gains arising on disposal of immovable property revamped, depending upon the holding period.
- Further, rate of tax on such gains also proposed to be reduced by 50%
- Tax credit on donation given to an associate is proposed to be reduced.
- Deductibility of interest / profit on debt paid to foreign affiliates is proposed to be restricted to 15% of taxable
- income before depreciation, amortization and foreign profit on debt.
- Permanent establishment of non-residents will also now be subject to minimum tax under section 113 of the Ordinance. Currently, minimum tax is only applicable on resident companies and AoPs.
- Rates of collection of tax at import stage from capital goods, raw material and finished goods proposed to be revamped by inserting a new Twelfth Schedule to the Ordinance. Rate of tax proposed to be reduced to 1% and 2% on capital goods and raw material imported by an industrial undertaking, respectively.
- It is proposed that for all categories of taxpayers, tax paid at import stage will be a minimum tax except for industrial undertaking paying tax at the rate of 1% or 2% in respect of goods for its own use.
- The rate of deduction of tax on account of supply of goods made from outside Pakistan under a cohesive business transaction is proposed to be reduced to 1.4% as against the current rate of 2.1%.
- Toll manufacturing proposed to be treated as sale of goods for the purposes of deduction of tax under section 153.

Following provisions relating to collection / deduction of tax at source are proposed to be omitted –

- 148A – Tax on local purchase of cooking oil or vegetable ghee by certain persons
- 235B – Tax on steel melters and composite units
- 236D – Advance tax on functions and gatherings
- 236F – Advance tax on cable operators and other electronic media
- 236J – Advance tax on dealers, commission agents and arhatis etc.
- 236R – Collection of advance tax on education related expenses remitted abroad
- 236U – Advance tax on insurance premium
- 236X – Advance tax on tobacco

Income Tax

- Where the sukuk holder is a company , the rate of tax to be deducted under Section 150A on account of return on investment in Sukuk is proposed to be increased from 15% to 25%.
- Withholding tax rate on dividend is proposed to be synchronized with the charging rate.

Sales Tax

- Value of electricity supplied by WAPDA and IPPs is streamlined with effect from 01 July 2019.
- Sales tax on supply of used vehicle is applicable only on value addition to the used vehicles purchased locally
- Scope of sales tax withholding extended on acquisition of services.
- FBR is empowered to impose restrictions on wastage of materials vis-à-vis claim of input tax relating thereto
- The restriction on claim of input tax has been extended to services where supplies were made to un- registered persons without mentioning of NTN or CNIC.
- Where a transactional value is less than PKR 100,000 a retailer is not required to mention CNIC or NTN of an unregistered person.
- Zero rate on supplies of raw materials, components and goods for further manufacturing in the Gwadar Free Zones and exports thereof is proposed to be re-introduced effective from 01 June 2020.
- Zero rate on supplies of locally manufactured plant and machinery to the manufacturers located in Gwadar Free Zone is proposed to be re-introduced effective from 01 June 2020.
- Exemption on import of goods for exclusive use within the Gwadar Free Zone or for making exports therefrom is proposed to be re-introduced effective from 01 June 2020.
- Supplies made from retail outlets which are integrated with the FBR's computerized system will now be subject to reduce rate of 12% instead of 14%.
- Import or local supplies of smart phones value not exceeding USD 30 is subject to fixed sales tax rate of PKR 200.
- Raw materials and intermediary goods imported by a manufacturer for in-house consumption are not subject to value addition tax of 3% at import stage

Sectoral Impact of Budget



Cement

Positive Impact

- In the wake of worsening affect of COVID-19 and reduction in production of cement, it has been proposed to reduce FED on cement from Rs. 2 per kg to Rs. 1.75 per kg
- Addition Customer Duties (ACD) on coal import reduced by 2% to 3%.
- Withholding tax on raw material purchase by construction companies will be exempted.
- Reduction in Holding Period and Tax Rates for Capital Gain on Immoveable Property
- Subsidies for "Naya Housing Authority" set at PKR 30bn, along with 988.60mn for restoration of infrastructure
- An increase in the CNIC limit from PKR50,000 to PKR100,000



Food Processing and Beverages

Neutral to Positive

- Special food supplements for children with genetic birth problems are proposed to be exempted from all duties and import taxes to reduce their cost
- The supplementary foods for children and expecting mothers are now being manufactured in Pakistan under the World Food Programme, the government has also proposed exemption of customs duties on raw materials used in the manufacture of these supplementary foods.
- Exemption from 2% ACD on import of edible oils and oil seeds under PM's COVID19 Relief Package has been extended.
- Exemption of Customs duties on inputs of Ready to use Supplementary Foods (RUSF).
- Reduction in regulatory duty on smuggling prone items to bring these items under legal imports
- Exemption of custom duties on import of raw material by beverage can manufacturers.
- Levy of FED on caffeinated energy drinks @ 25%;



Steel

Positive Impact

- Reduction in regulatory duty from 12.5% and 17.5% to 6% and 11%, respectively on Hot Rolled Coils (HRC) of Iron and steel falling under PCT codes 7208 and 7225& 7226, respectively.
- Reduction of custom duty and exemption of additional custom duty and regulatory duty on import of raw materials by manufacturers of Wire rod.
- The government also proposed the deletion Tax on steel melters and composite units

Fertilizer

Positive Impact



- Fertilizer plant subsidy (Engro , Fatima) of Rs6bn

Sectoral Impact of Budget



Packaging

Positive Impact

- Reduction in Custom duty and exemption from Additional custom duty on import of raw material by food packaging industry.
- Reducing custom duty of Tin plates, sheets and strip, of a thickness exceeding 0.2 mm to 3%.



Restaurants

Positive Impact

- The government has proposed to reduce the minimum tax for the hotel and restaurant from 1.5% to 0.5% for six months (April to September 2020) in the wake of COVID-19.



Tobacco

Negative Impact

- Increase in the rate of FED on cigars, cheroots , and cigarillos and cigarettes from 65% to 100% of retail price; increase in the rate of FED on filter rods from Rs 0.75 to Rs 1 per filter rod.
- Levy of FED on e-liquids of electric cigarettes @ Rs 10 per ml.
- The government also proposed to eliminate Advance tax on tobacco.



Telecom

Positive Impact

- Exemption of custom duties and regulatory duty on import of machinery, equipment and other project related items for setting up of internet cable landing stations.
- Removal Advance tax on cable operators and other electronic media



Banks

Neutral

- Withholding tax on foreign remittance is being removed to promote remittances through official channels.
- Government to borrow Rs889bn from banks to finance the deficit for FY21
- Super Tax has been extended for another year
- Banks to pay a uniform rate of 15% on profit on debt.
- However, tax shall be deducted @ of 10% if the recipient of profit furnishes a certificate to the pair of profit that his income from profit on debt during the year is up to rupees 500,000.

Oil & Gas Marketing

Negative

- Petroleum Development Levy (PDL) has been budgeted at Rs450bn for FY21 from revised Rs260bn for FY20.

Sectoral Impact of Budget



Chemicals

Positive Impact

- The government has remove additional customs duty on Paraxylene and ethylene.
- Exemption of custom duties on import of raw materials by manufacturers of Butyl Acetate.

Paraxylene, also called p-xylene, is a chemical essential to the process of manufacturing PET plastic bottles and polyester fiber

Ethylene is used as refrigerant, especially in LNG liquefaction plants ,for medical purpose , in production of car glass , in food and beverage ripening of fruit and etc



Medical Equipment & Drug

Positive Impact

- Exemption from customs duties on import of 61 COVID19 related items, which was due to expire on 20th June has been extended due to the continuation of pandemic
- Exemption of custom duty on import of raw material by manufacturer of syringes and saline infusion sets.
- Exemption of all duties & taxes on import of Diagnostic Kits for Cancer and Corona Virus.
- Exemption of Customs duties on import of life saving drug Meglumine Antimonite for treatment of leishmaniasis
- The bill proposes to impose tax at the rate of 4% on import of finished pharmaceutical products not manufactured in Pakistan as certified by Drug Regulatory Authority of Pakistan



Textile

Positive Impact

- Exemption of customs duties on import of raw material by manufacturers of buttons.
- Reduction in custom duty on import of raw material by manufacturers of interlining/buckram.



Automobile

Negative

- Levy of FED @ 7.5% ad valorem in case of locally manufactured double cabin (4x4) pick-up vehicles and @ 25% in the case of imported ones.
- Excluding Vehicles Up to 200cc from the Ambit of Advance Tax

Soap



Positive Impact

- Incentivizing soap manufacturing industry by reducing rate of Additional customs duty on Palm Stearin.

Power



Negative Impact

- Subsidy to WAPDA /PEPCO has been reduce to PKR124 billion from PKR201 billion

