HIGHLIGHTS OF 2011-12 BUDGET PROPOSALS

An LBSL Research Publication

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BANGLADESH

June 16, 2011

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I. Budget Highlights

Brief Summary of Budget	FY 2011-12	FY 2010-11	FY 2011 Revised
	Tk. In billion	Tk. In billion	Tk. In billion
Revenue Earnings	**1183.85**	**928.47**	**951.87**
NBR tax revenue	918.70	725.90	756.00
Non-NBR tax revenue	39.15	34.52	34.52
Non-tax revenue	226.00	168.05	161.35
Public Expenditure	**1635.89**	**1321.70**	**1300.11**
Non-development expenditure	1175.89	936.70	941.31
Annual Development Program	460.00	385.00	358.80
Budget deficit	**452.04**	**393.23**	**348.24**
Financing			
Domestic Sources	**272.08**	**236.80**	**248.17**
Bank Borrowing	189.57	156.8	183.79
Non-Bank borrowing	82.51	80	64.38
External Sources	**179.96**	**156.43**	**100.07**
Foreign borrowing	130.58	108.3	57.83
Foreign grant	49.38	48.1	42.24

- ✓ The National Parliament has proposed the budget for the fiscal year 2011-2012 on 9th June of, 2011 with the broad objectives of maintaining the macroeconomic stability and propelling the growth.

- ✓ In this budget the Gross Domestic Product (GDP) is projected to grow at 7% and the Inflation in this fiscal is expected to touch at 7.5 %. Completion of addition of 2157 megawatt of electricity by this year since present government's commencement, implementation of various big projects undertaken by the Government supported by biggest ever ADP and private sector will pave the way to big investments leading to the achievement of growth at the desired level. But economic expansion and inflation control seems to be difficult to achieve at the same time.

- ✓ With a size of BDT 1.63 Trillion, largest in its history, the budget has gross revenue target of BDT 1183 Billion. This year the budget deficiency has been projected BDT 452 Billion which is 5% of GDP. Out of it 60% will be financed from domestic sources and 40% will be financed from external sources.

- ✓ On the expenditure side 30.4 percent allocation is for the social infrastructure sector with human resource sector (education, health, science and technology, and relevant other sectors) receiving 20.9 percent allocation. For physical infrastructure sector 29.2 percent of total allocation has been proposed of which, overall agriculture and rural development sector will get 15.2 percent. Broad communication sector 6.5 percent and. Power and energy sector 5.1 percent.

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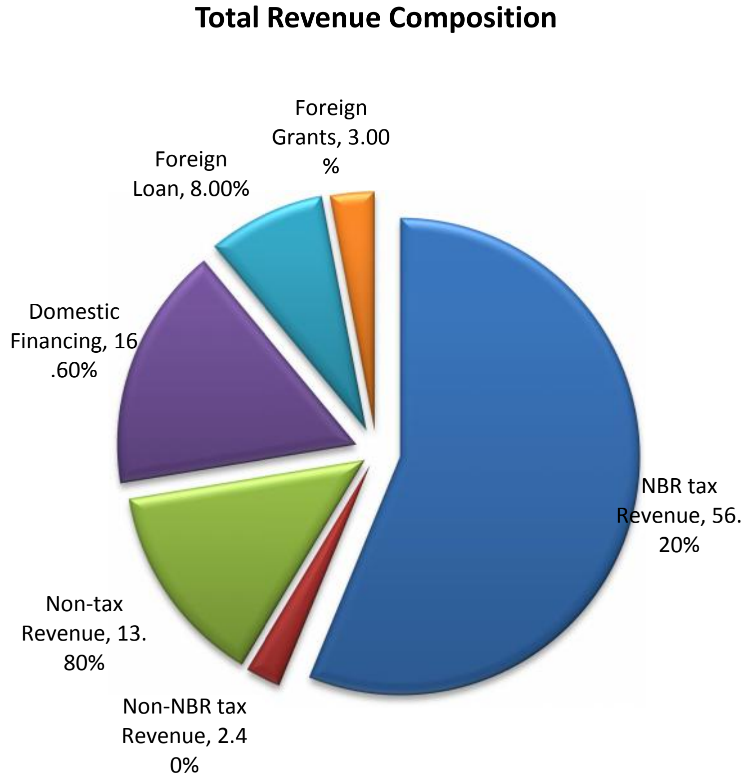
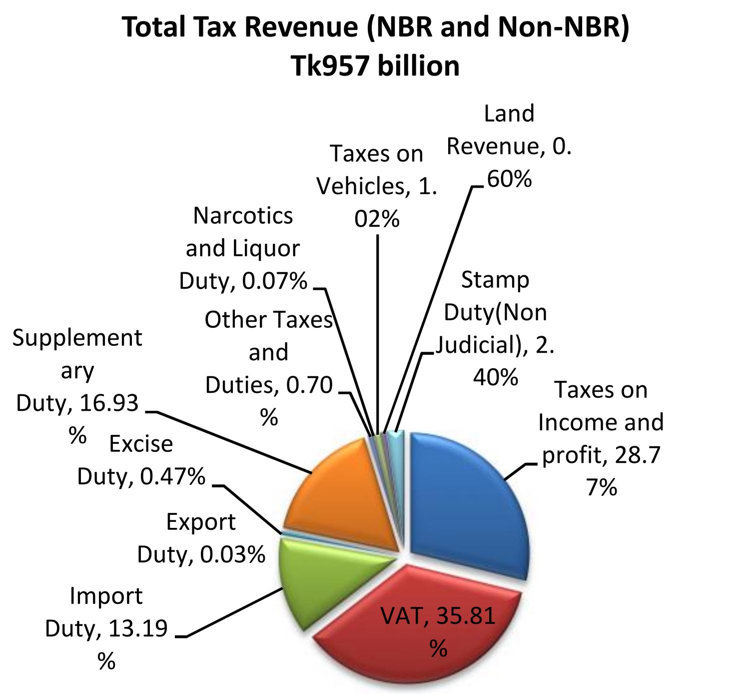
II. Revenue Estimates





- ✓ From the summary table it is evident that, the government has elevated its revenue generation target to BDT 1183 billion, a rise from BDT 951 billion of the FY10 revised budget. It has been increased by 24% from the previous financial year revised budget.
- ✓ In FY 2010-11 original budget, the target for revenue mobilization was Tk. 928.47 billion (11.9 percent of GDP). Over the first nine months of the fiscal, overall revenue growth was 22.7 percent against the estimate of 17%. This is why in the revised budget revenue target has been scaled up to Tk. 951.87 billion (12 percent of GDP). So this year's 24% increase target seems to be reasonable and again the estimated 13.2% revenue to GDP ratio is still very low. Our Tax-GDP ratio (9.3 percent) still lags behind many developing countries. Government has been trying to raise this by bringing reforms in NBR. In fact, the National Board of Revenue (NBR) has undertaken extensive actions particularly in two areas, policy/legal reforms and tax administration. The target is to raise Tax-GDP ratio to 13 percent by 2016.
- ✓ To alleviate the mismatch in income and expenditure, a large deficit of BDT 452 billion is expected which is 5% of the GDP. Out of which domestic source will finance 60% and external source will finance 40%. Out of domestic source Govt. will borrow BDT 187 billion from the banking system, which is a 21% jump from the FY10 bank borrowing and 82 million will come from non banking source.
- ✓ Government's higher borrowing target from local sources and high bank rate could squeeze the credit flow to the private sector. If that happens, it will adversely impact the growth performance of the economy.
- ✓ Government will have to mobilize around BDT 80 billion more foreign assistance than that of the revised target of FY10 which is around 80% higher. Last year the target had to be revised downward by 50% as the foreign assistance was below expectation. So this year it will be challenging.

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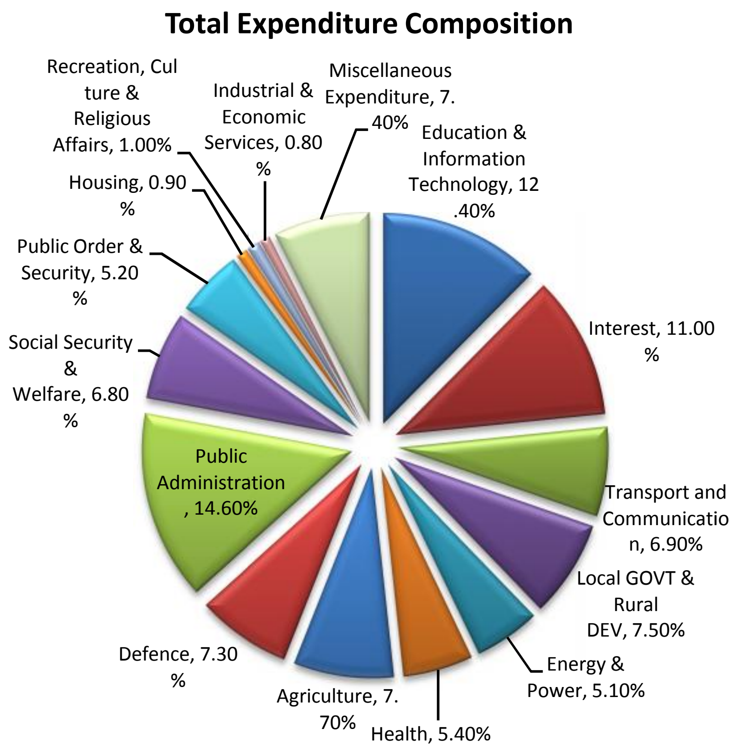
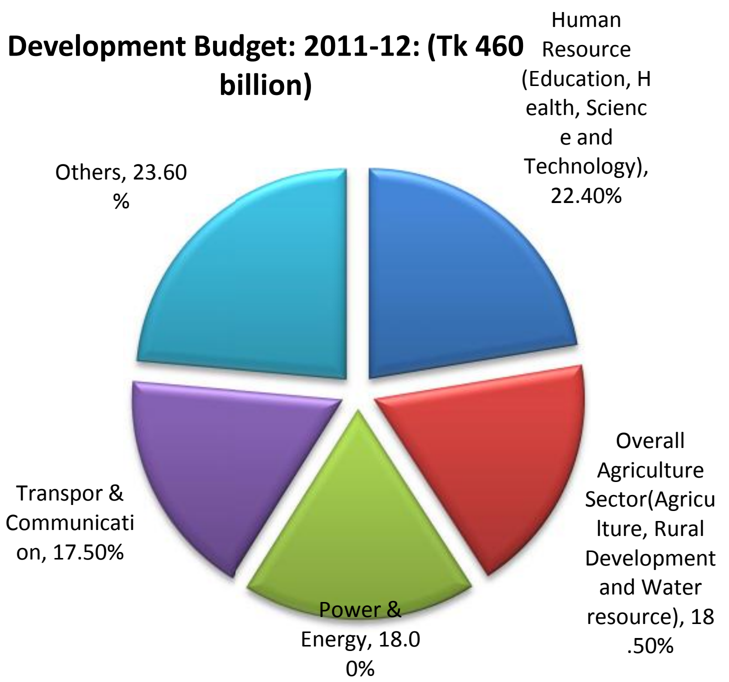
III. Expenditure Estimates





- ✓ In the budget of FY 2011-12, the total expenditure has been estimated at Tk. 1635.89 billion. This is 18.2% of GDP and 25% higher than the revised allocation for FY 2010- 11.
- ✓ Of them, Public Administration has got the highest preference 14.6%. Besides these Education & Information Technology also got 12.40% & Agriculture got 7.7%.
- ✓ Total development expenditure of this budget FY 2011-2012 is Tk. 460 billion. It has been increased by 20% from the budget 2010-11 and 28% higher than revised budget. It is the ever biggest ADP in our history. The allocation of Tk82.86 billion in power sector and Tk.80.54 billion in communication sector signals governments' intention of infrastructural development.
- ✓ But such big a program will be tough to implement as we observed a very poor ADP implementation rate last year.

IV. Implication of Budget Proposals on Listed Entities

Power and Energy:

Starting from the assumption of office by the present Government to March 2011, 1,403 MW of electricity has been added to the national grid. Within 2011, a total of 2194 MW electricity would be added to the national grid from on-going power sector projects. This sector received a total allocation of (5.1% of the total budget) of Tk. 83.11b which is 15% higher than the last year's allocation. Out of the total amount allocated for power and energy, Tk.8286.5 crore is allocated under the ADP and the remainingTk.24.5crore is meant for non-development expenditure for FY 2011-12.

Special focus is given to make LPG easily available and popular. Some new proposals are placed regarding import duty and supplementary duty so that LP gas cylinder can be produced locally and its raw materials are available at economic price. Duty reduction for LP gas cylinder raw materials were- Submerge welding flux for LPG duty rate was 5% and it has been reduced to 3%; Flat-rolled products of iron or non-alloy steel duty was 12% and it has been reduced to 3%; Safety or relief valve inner diameter not exceeding 1 inch for LPG duty rate was 5% and it has been reduced to 3%. Amendment of capital machinery SRO was- Containers for compressed or liquefied gas had a duty rate of 5% and it has been reduced to 3%.

Real Estate:

The source tax rates for registration of commercial flat or building have been raised drastically, as much as 7 to 10 folds. So the cost of commercial buildings will be higher and it may slow the demand.

Area	For residential buildings (Tk. Per square meter)		For commercial buildings (Tk. Per square metre)	
	Existing rate	Proposed rate	Existing rate	Proposed rate
Gulshan, Banani, Baridhara, Motijheel and Dilkusha of Dhaka	2000	2000	2000	20000
Dhanmandi, Lalmatia, Uttara, Bashundhara, DOHS, Mahakhali, Dhaka Cantonment of Dhaka. Khulshi, Agrabad, Nasirabad of Chittagong	2000	1800	2000	15000
Others	800	800	800	5000

Telecommunication

VAT on SIM cards is reduced to Tk. 600 form Tk. 800. This reduced VAT will reduce the amount of subsidy the mobile operators provide. On the other side tariff is fixed on SIM cards based on their capacity- .55$ and .65$ for 32K and 64K respectively.

Banks and NBFIs

Corporate tax rate for Banks and Non-bank Financial Institutions remains constant of this year which is 42.5%. There is no change regarding tax and VAT system in this sector. But the tax deductible at source for brokerage commission of stock brokers listed with Stock Exchange is raised from 0.05% to 0.10%. It will hamper profitability of brokerage operation if they can't pass this cost through to customers.

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IV. Implication of Budget Proposals on Listed Entities

Food & Allied:

Corporate income tax rate for cigarette companies has been raised to 42.5% from the current rates of 27.5% (for the companies enrolled in the stock market) and 37.5% (for companies not enrolled in the stock market). Supplementary duty on cigarettes is raised to 36, 55, 58 and 60 in different segments from 33, 53, 56, and 58 respectively. This raised tax level will hamper the growth of the listed tobacco company.

Supplementary duty on chewing tobacco is raised by 10 percent and fixing to 30 percent an increase of supplementary duty on energy drink by 10 percent and an imposition of 10 percent supplementary duty on float glass are also proposed.

Engineering:

To facilitate the growth motor cycle manufacturing sector, it has been proposed to increase supplementary duty from the existing 30 percent to 45 percent on the import of completely built motor cycles (CBU condition). To support exists assembling industries in our country, it has been proposed to withdraw 5 percent regulatory duty on CKD motor cycle imports along with continuing 30 percent supplementary duty.

Specific duty on vessels and other floating structures for breaking up is increased from BDT 1,000.00 per LDT to BDT 1,500.00 per LDT. It will increase the cost of raw material for steel.

Textile & RMG:

A rise of Supplementary Duty on imported fabric and readymade garments (20% to 45%) is proposed. It is likely to make domestic textiles more competitive. Other than this there was no other incentive for this sector. On the other hand rise of tax deduction at source for all export proceeds from 0.40% or 0.50% to 1.5% will take away some of their proceeds.

Import duty of 5% on cotton waste is withdrawn and a rate of 25% is imposed on export of the same. The intention here clearly is to discourage export of cotton waste and meet local demand.

Pharmaceuticals:

A number of tax deduction on raw material and capital machinery for pharmaceutical sectors have been proposed. A reduction of tax on sandwich panel with cold room facility imported by pharmaceuticals industry is proposed from 12% to 3%. The tax rate on specific raw materials like, cisplatin, oxaliplatin, carboplatin, metamizol sodium, preifilled glas, perifilled plastic syringes, needles shield is reduced from 12% to 5%. These duty facilities will help the pharmaceuticals manufacturers' in terms of cost reduction.

JUTE

Ten percent, 20 percent and 15 percent cash incentives will be provided by the government from the public exchequer respectively to support export of jute, agro-processed stuff and leather goods.

The government also formulated Compulsory Use of Jute for Packaging Commodities Act, 2010 and decided to take over the liability of Bangladesh Jute Mills Corporation's (BJMC) all past debts and obligations of Tk. 2396 crore.

Tannery

The government will install a central effluent treatment plant, central water supply plant and a dumping yard where the country's all tannery factories, including those of at Hajaribagh in the capital, will be shifted.

V. Implication of Budget Proposals on Capital Market

Proposed budget has nothing much positive to say about capital market. Aspects related to capital market are:

- ✓ Continuation of the existing tax exemption benefits to investors even if their income is above the threshold limit.
- ✓ The tax exemption benefit on gain from share trading for foreign individuals is lifted. They have to pay tax like foreign institutional investors. This may discourage foreign individual investors.
- ✓ Investors will not be required to produce TIN
- ✓ Investment in Treasury bond will be accepted without any question subject to payment of tax at the rate of 10 percent.
- ✓ Rise in the rate of tax deductible at source for brokerage commission of stock brokers listed with Stock Exchange has been proposed from 0.05% to 0.10%. It will increase transaction cost of investors if brokerage firms pass the cost through to customers; it will reduce profitability of brokerage operation if they don't pass it.
- ✓ Tax deduction rate for different savings instruments are proposed to be reduced from existing 10 per cent to 5 per cent. It will encourage investment in saving instruments which fell last year after imposition of 10% tax on them.
- ✓ Government's higher borrowing target from local sources and high bank rate could squeeze the credit flow to the capital market.

LBSL's Observation

The proposed BDT 1.63 trillion national budgets for 2012 fiscal year aimed at propelling higher economic growth is not ambitious in the context of size and development need of Bangladesh. Though the proposed budget has repeated the most of its previous polices, major challenge lies in revenue collection and implementation of ADP. The total expenditure target has been set to BDT 1635.89 billion or 25.8 percent higher than previous year revised budget. 22 percent higher revenue target set for the fiscal year 2011 had created consensus doubt of mobilizing this huge amount of internal resource but dismissing all uncertainties government could successfully achieve its target and actual revenue growth was 25.41 percent in FY 2010-11. Revenue target of BDT 1183.85 billion for the coming fiscal year which is also 24.37 percent higher than that of the revised budget for FY 2010-11 is expected to be quite achievable by creating a more transparent and accessible tax payment system and bringing more eligible tax payers under the current tax net.

The Annual Development Programme (ADP) is projected to increase 28.21 percent from previous fiscal year's revised budget. The ADP size was set 35 percent higher in the fiscal year 2011 but frustratingly revised growth was only 21 percent. Obstacles like complicated tendering process, lack of managerial know how, delay in fund release stood between dream and reality. But the implementation rate comparatively improved to 93.2 percent in the last fiscal year. Statistics shows that ADP implementation rate in the fiscal year 2006-07, 2007-08, 2008-09 and 2009-10 was 81 percent, 82 percent and 86 percent respectively. Quantitative and qualitative improvement of ADP implementation rate will be more challenging for the government in this fiscal year.

The Inflation rate in this fiscal is expected to be tamed at 7.5 % nevertheless food inflation has already skyrocketed at double digit level. Point to Point inflation and inflation twelve month average basis settled to 10.67 percent and 8.54 percent respectively till April 2011. Apart from incessant increase in international food price, recent hike of the petroleum price in local market will also fuel the food and non food CPI. Taka would face more depreciating pressure due to widening trade imbalance for mounting import bills and slow growth of remittance inflow for Middle East crisis and less than expected GDP growth of the World economy projected by the World Bank. Weakening taka against USD would make the imported food and non food items costly in the local market exacerbating inflationary pressure.

Commendable new idea like Private-public partnership saw little light in the FY 2009-10. To make the government bond market popular and channel the fund flow through Bangladesh Infrastructure Finance Fund Limited, government has given the scope of whitening black money by investing in Treasury bond and BFIFFL also subject to payment of tax at the rate of 10 percent. Government borrowing from baking system to finance the budget deficit created woe to liquidity crisis in the banking system. Government borrowing target from banking system was set to BDT 15680 crores in FY11 but government actually borrowed BDT 18379 crores from banking system which was 17 percent higher than the set target borrowing level. Government borrowing from non banking sources fell short of 24 percent of target due to huge slump of saving certificates demand for the imposition of 10 percent tax on its interest rate. Government domestic borrowing from non banking sources also reduced as people were reluctant to investing in saving certificates while stocks were generating extraordinary return without tax in 2010. To overcome this situation tax deduction rate for different savings instruments are proposed to reduce from existing 10 per cent to 5 per cent in fiscal year. Government is speculating this recipe would allure the people to buy those instruments. But uncertainty is here. Banking sector has been suffering from chronic liquidity crisis since last January. Expensive money market and repeatedly tightening monetary policy of Bangladesh Bank have already compelled many banks to offer more than 15 percent deposit rate. Though stocks have been showing constant downward trend, under this juncture we have to see how saving certificate with highest 11.03 percent rate of return would induce people to commit their savings. It will be wonderful if the black money holder comes forward to disclose their hard earned black money to make a vibrant bond market and help magnanimously finance budget deficit.

The lack of Infrastructure justifies priority allocation for infrastructure developments in the proposed budget. The decision to spend 83.11 billion in power sector development, 15 percent higher allocation, will improve the power crisis which is considered the main barrier to investment and growth. On the other hand rise of tax deduction at source for all export proceeds from 0.40 percent or 0.50 percent to 1.5 percent will create a good avenue of revenue. But newly growing export oriented firms could have been given more time to consolidate their position.

The proposed budget virtually carries no sweeteners for stock markets. Exemption to investors to produce TIN for maintaining Beneficiary Owner account is just like assuaging a panicked baby with a cheap toy after making him terrified. While brokerage industry has been suffering from drastic slide in brokerage revenue, surprisingly rise in the rate of tax deductible at source for brokerage commission of stock brokers listed with Stock Exchange has been proposed from 0.05 percent to 0.10 percent. This higher tax rate will ultimately be passed through as higher brokerage commission to investors which will make them more apathetic for stock transaction. Foreign individual investors will now be taxed like foreign individual investors for their portfolio investment. This will squeeze foreign individual portfolio investment. Also higher dependency of government on bank borrowing to finance the resource gap may tighten the ongoing liquidity crisis in the stock market.

We are optimistic about achieving the 7 percent GDP target in the current fiscal if the raging inflation can be tamed. Budgetary proposals will be implemented efficiently to accelerate the growth of physical capital, quality of human capital and the development of technology; three crucial catalysts of sustainable economic growth.

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