HIGHLIGHTS OF 2012-13 BUDGET PROPOSALS

An LBSL Research Publication

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I. Budget highlights

Budget Overview (FY 2012-13)	
Budget Size (FY2012-13)	1917.4 Billion
Target Revenue	1396.7 Billion
Budget Deficit	520.68 Billion
Bank Borrowing	230 Billion
Foreign Borrowing	125.4 Billion

Targeted Economic Indicators (FY 2012-13)	
GDP Growth	7.2%
Inflation	7.5%

Comparison with the revised budget	
Growth in budget Size	19.25%
Growth in target revenue	21.57%
Growth in budget deficit	12.39%
Growth in bank borrowing	-21%
Growth in foreign borrowing	69.4%

Brief Summary of Budget	FY 2012-13	FY 2011-12	FY 2011-12
	Tk. In bn	**Tk. In bn**	**Tk. In bn**
		Revised	
Revenue Earnings	**1396.7**	**1148.85**	**1183.85**
NBR tax revenue	1122.59	923.7	918.7
Non-NBR tax revenue	45.65	39.2	39.15
Non-tax revenue	228.46	186	226
Public Expenditure	**1917.38**	**1612.1**	**1635.89**
Non-development expenditure	1367.38	1,201.3	1175.89
Annual Development Program	550	410.8	460
Budget deficit	**520.68**	**463.3**	**452.04**
Financing			
Domestic Sources	**334.84**	**344.7**	**272.08**
Bank Borrowing	230	291.2	189.57
Non-Bank borrowing	104.84	54	82.51
External Sources	**185.84**	**118.59**	**179.96**
Foreign borrowing	125.4	74	130.58
Foreign grant	60.44	45	49.38

- ✓ The National Parliament has proposed the budget for the fiscal year 2012-2013 on 7th June of, 2012 with a view to continuing monetary and fiscal policy strategies and ensuring macroeconomic stability.

- ✓ With a size of BDT 1.92 Trillion, largest in its history, the budget has gross revenue target of BDT 1396.7 Billion. This year the budget deficiency has been projected BDT 520.68 Billion which is 5% of GDP. Out of it 64% will be financed from domestic sources and 36% will be financed from external sources.

- ✓ In this budget, the Gross Domestic Product (GDP) is projected to grow at 7.2% and the Inflation in this fiscal is expected to touch at 7.5 %. The total ADP size is BDT 550 bn, which is 19.56% higher than that of previous year (According to original budget-2011-12). In the ADP, 25.5% allocated to human resource sector, 29.9% to agriculture sector, 17.3% power and energy sector and 14.8% to communication sector.

- ✓ The government has targeted its revenue earnings to be BDT 1396.7 billion, which is 21.53 higher than that of previous financial year (FY 2011-12) revised budget.

- ✓ On the expenditure side 24.2 percent allocation is for the social infrastructure sector with human resource sector (education, health, science and technology, and relevant other sectors) receiving 20.5 percent allocation. For physical infrastructure sector, 27.8 percent of total allocation has been proposed of which, overall agriculture and rural development sector will get 14.9 percent, Broad communication sector 7 percent and Power and energy sector 5 percent.

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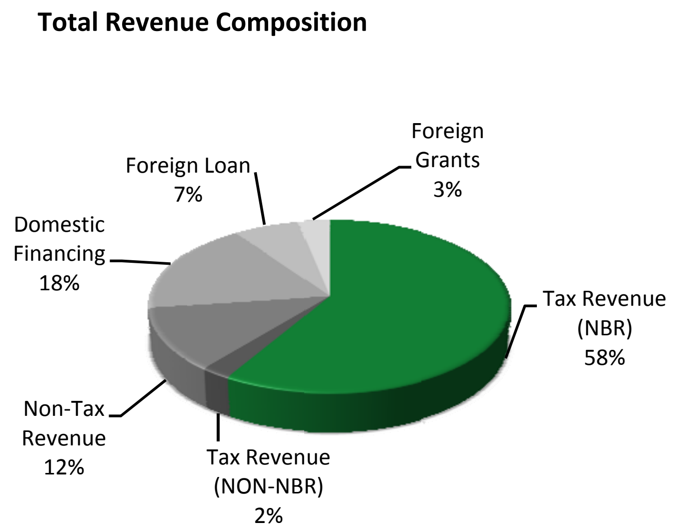
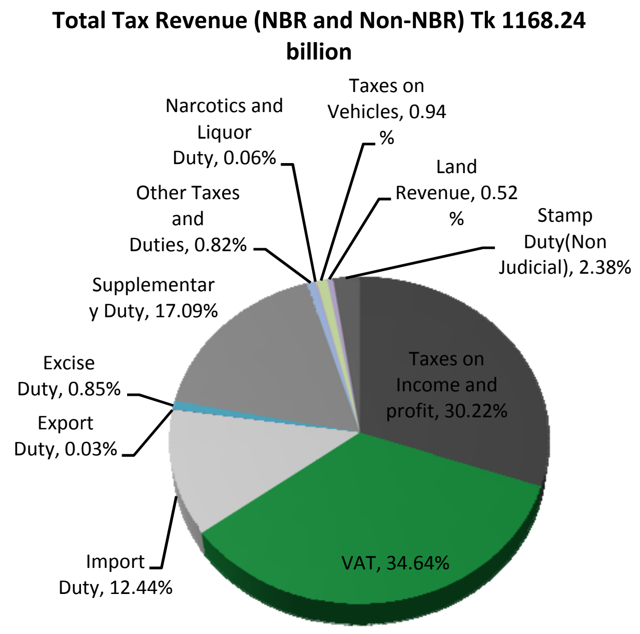
II. REVENUE ESTIMATES





- ✓ From the summary table it is evident that, the government has elevated its revenue generation target to BDT 1396.7 billion, a rise from BDT 1148.85 billion of the FY11-12 revised budget. It has been increased by 21.53% from the previous financial year revised budget.

- ✓ In FY 2011-12 original budget, the target for revenue mobilization was Tk. 1183.95 billion (13.2 percent of GDP). In the revised budget, revenue target has been scaled up to Tk. 1148.85 billion (12.6 percent of GDP). Therefore, this year's 21.57% increase target seems to be reasonable and again the estimated 13.4% revenue to GDP ratio is still very low. Our Tax-GDP ratio (around 10.8 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 520.68 billion is expected which is 5% of the GDP. Out of which domestic source will finance 64% and external source will finance 36%. Out of domestic source, Govt. will borrow BDT 230 billion from the banking system, which is a 21.33% jump from the FY11-12 targeted bank borrowing (but 21% lower than the revised budget) and 104.84 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 affect the growth prospect of the economy.

- ✓ Government will have to mobilize around BDT 185.84 billion from external sources, which is around 57% higher than that of the revised target of FY11-12. Last year the target had to be revised downward by 34% as the foreign assistance was below expectation. So this year it will be challenging.

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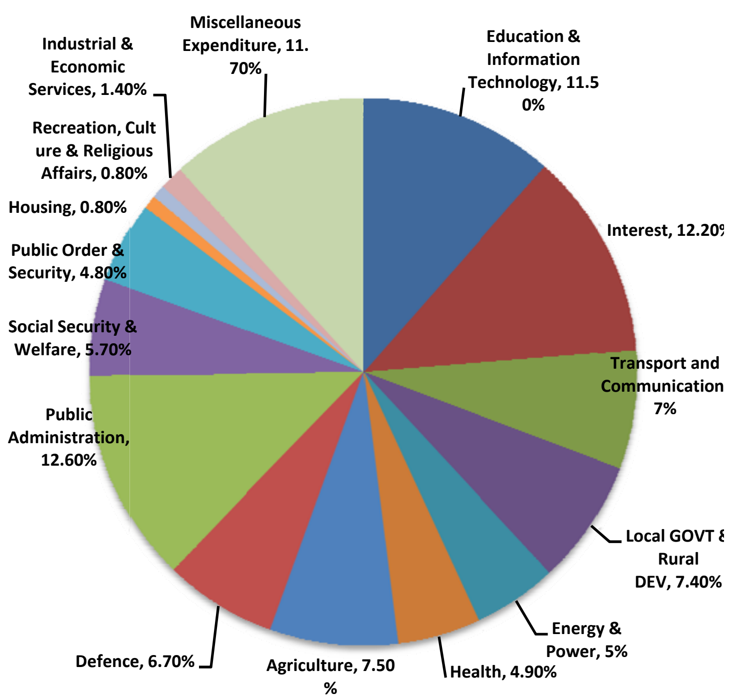
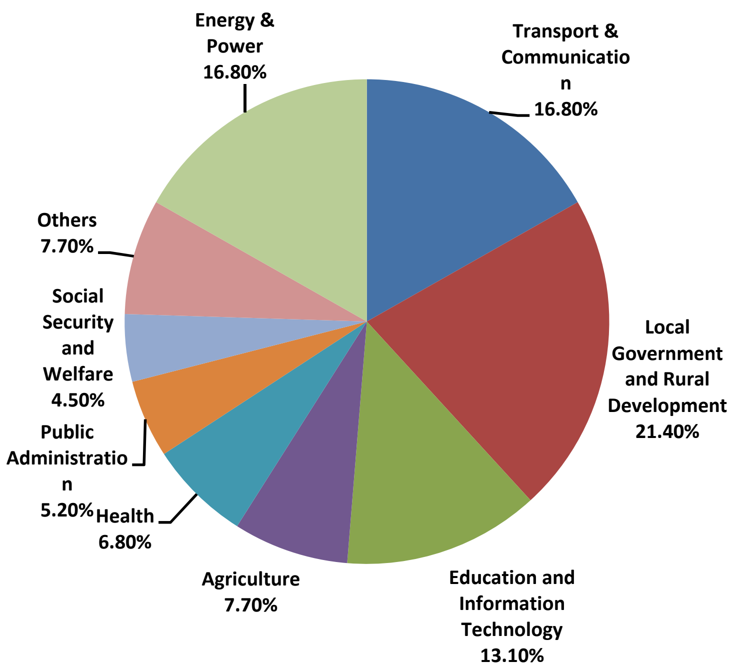
III. Expenditure Estimates

Total Expenditure Compostion



- ✓ In the budget of FY 2012-13, the total expenditure has been estimated at Tk. 1917.38 billion. This is 18.1% of GDP and 19% higher than the revised allocation for FY 2011-12.
- ✓ Of them, Public Administration has got the highest preference (12.6%). Besides interest Payment also got 12.20% and Education & Information Technology got 11.50% respectively.
- ✓ Total development expenditure of this budget FY 2012-13 is BDT 564.39 billion, of which ADP is BDT 550 billion. It has been increased by 20% from the budget 2011-12 and 35% higher than revised budget. It is the ever biggest ADP in our history. The allocation of 16.80% (BDT 94.98 billion in power sector and 16.80 %(BDT94.74 billion) on Transport & Communication signals government's 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. ADP had to be cut down by BDT 50 billion.

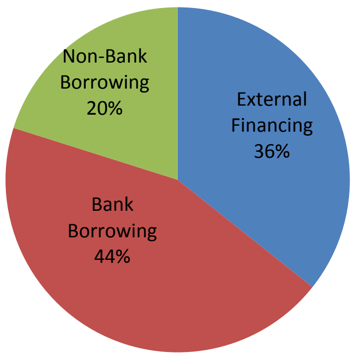
Development Budget (BDT 564.39 billion)



IV. Budget Deficit Estimates

Description	2012-13		2011-12 revised	
	BDT billion	% of GDP	BDT billion	% of GDP
Revenue Collection	1396.7	13.4	1148.85	12.6
Total Expenditure	1917.38	18.4	1612.13	17.6
Budget Deficit	520.68	5	463.28	5.1
External Financing	185.84	1.8	118.59	1.3
Foreign Grants	60.44	0.6	44.60	0.5
Foreign Loan-Net	125.40	1.2	73.99	0.8
Domestic Borrowing	334.84	3.2	344.69	3.8
Bank Borrowing	230.00	2.2	291.15	3.2
Non-Bank Borrowing	104.84	1	53.54	0.6

Budget Deficit Fiancing



- ✓ Budget deficit has been estimated to be BDT 520.68 billion (5% of GDP) in comparison to BDT 463.28 billion (5.10%) revised target for 2011-12.
- ✓ Out of this deficit BDT 185.84 billion will be financed from external sources. In 2011-12 target for borrowing from external sector was BDT 179.96 billion but revised target was BDT 118.59 billion. So the borrowing target is 57% higher.
- ✓ Domestic borrowing target is BDT 334.84 billion. Out of this BDT 230 billion will be raised from banking sector which was BDT 291.15 billion in the revised budget for 2011-12. So the target is to reduce bank borrowing by BDT 61.15 billion. Non-bank borrowing target is BDT 104.84 billion which was BDT 53.54 billion in the revised budget for 2012-13.

V. Implication of Budget Proposals on Listed Entities

Banks and NBFIs

Income tax rate of merchant banks have been reduced from 42.5% to 37.5%. It will affect the bottom line of the merchant banks positively. Alongside, if any company transfers 20% of its paid up capital through initial public offering (IPO) to capital market, it will enjoy 10% tax rebate on its payable tax in the relevant year. This will attract new companies as this tax rebate can be thought as a reduction in floatation cost. So this will improve their revenue from issue management activities.

Telecommunication:

The proposed 2 percent tax at source on mobile phone bills will increase the costs of companies in this sector. If companies can pass through this cost to subscribers in terms of rising call rate, people would reduce their spending on mobile phone bills. However, in any way its going to affect the profitability of the company.

Real Estate:

Government proposed 3-5% tax to be deducted at source for sale of land by developers. This measure can lead to a hike in land price that developers will try to pass through to end users.

Pharmaceuticals:

Total tax burden of machineries for pharmaceutical industries [Air Handling Unit (AHU), Heating, Ventilation and Air Conditioning (HVAC)] has been reduced to 3% from 152%, followed by streptokinase (38% to 0%), Insulin pen (29% to 0%) and 46 essential items (38%-59% to 29%) respectively. Apparently, these incentives will reduce the cost of expansion in particular business segment of pharmaceutical industry.

Incentives for pharmaceutical industry	FY 2011-12	FY 2012-13
	Total tax burden including AIT and ATV (In %)	Total tax burden including AIT and ATV (In %)
Air Handling Unit(AHU), Heating, Ventilation and Air and Conditioning (HVAC)	152	3
Streptokinase	38	0
Insulin pen	29	0
46 essential item of pharmaceutical industry	38 to 59	29

V. Implication of Budget Proposals on Listed Entities

Food & Allied:

Supplementary duty on cigarettes is raised to 39, 56, 59 and 61% in different segments from 36, 55, 58, and 60 % respectively. Moreover, enhancing the existing value slabs of cigarettes by 10 percent has also been proposed. These steps will hit the bottom-line of the listed tobacco company.

Ceramic:

The prevailing 15 percent supplementary duty on domestically produced ceramic products such as bathtub, washbasin, and commode is proposed to be fully withdrawn to protect the domestic industry. This will help listed companies in this sector to operate more profitably.

Ceramic industry:	2011-12				2012-13			
	Import Duty %	Supplementary Duty %	VAT %	Total Tax burden %	Import Duty %	Supplementary Duty %	VAT %	Total Tax burden %
Flint/grinding pebbles	25	20	15	90	25	0	15	59
Silex/lining/abrasive/polishing disc,	25	60	15	152	25	0	15	59
Alumina ball	12	0	15	38	3	0	0	3
Supplementary duty of tiles and crockery have been increased in order to protect the ceramic and glass industry	25	45	15	128	25	60	15	152

Here, we can observe that supplementary duty on raw material import is reduced and finished goods import is increased. This will help domestic producers.

Engineering:

Supplementary duty for motor vehicles with cylinder capacity of up to 1000 cc has been increased to 45% from 30%. Therefore, price of motor vehicles will rise in coming days. Previously up to 1000 cc the duty was 30% and from 1000-1500 cc duty was 45%. Now up to 1500 cc duty is 45%.

Description of Vehicle		Supplementary Duty %
Up to	1500 c.c.	45
1,501 c.c.to	1,800 c.c.	100
1,801 c.c.to	2,000 c.c.	150
2,001 c.c.to	2,750c.c.	250
2,751 c.c.to	4,000c.c.	350
4,001 c.c. or more		500

Textile & RMG:

Government proposed 1.20 per cent tax at source on all types of export for the coming FY. Apparel makers are now paying 0.60 per cent tax at source in the current FY (2011-2012). This increased tax rate may hurt our growing RMG industry to some extent.

Shipbuilding:

The government may reduce the tax burden, including advance income tax and advance trade VAT, on the shipbuilders from the existing 38 % to 5 % in the next fiscal year. Import duty on Transmission shaft, Propeller and Anchor has been reduced to 5% from 12% and VAT on Transmission shaft, Propeller and Anchor has been eliminated which was 15% in the previous budget. So, this is expected that shipbuilding industry will be benefited by the government proposal of reducing tax to 5 percent.

VI. Implication of Budget Proposals on Capital Market

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

- Income tax rate of merchant banks has been reduced from 42.5 to 37.5 percent.
- If any company transfers 20 percent of it's paid up capital through Initial Public Offering (IPO) to capital market, it will enjoy 10 percent tax rebate on its payable tax in the relevant year. It will reduce the effective floatation cost of the issuing company. So more companies will be encouraged to raise capital from the capital market.
- Dividend income amounting to BDT 5000 will be exempted from tax.
- Finance Minister declared to introduce demutualization program in the stock exchanges by the next fiscal year. It will bring transparency in the functions of the stock exchanges and the market system
- Finance Minister declared to take up initiative to establish a special court for the disposal of capital market related cases.
- Government's higher borrowing target from local sources BDT 334 billion (BDT 230 billion from banking system) and high interest rate could squeeze the fund flow to the capital market. On the other hand borrowing target from external source is BDT 185.84 billion is very optimistic. Last year target for borrowing from external sector was BDT 179.96 billion but revised target was BDT 118.59 billion. In that case 57% higher foreign borrowing target may not be achieved. Then the pressure will be on domestic banking sector and actual borrowing may go well beyond BDT 230 billion.
- The growth target of 7.20% is very encouraging. However, whether it can be achieved remains a concern, as last year's target could not be achieved. Government will try to reduce inflation from 9.15% to 7.5%. So achieving high growth along with inflation reduction will be very difficult.