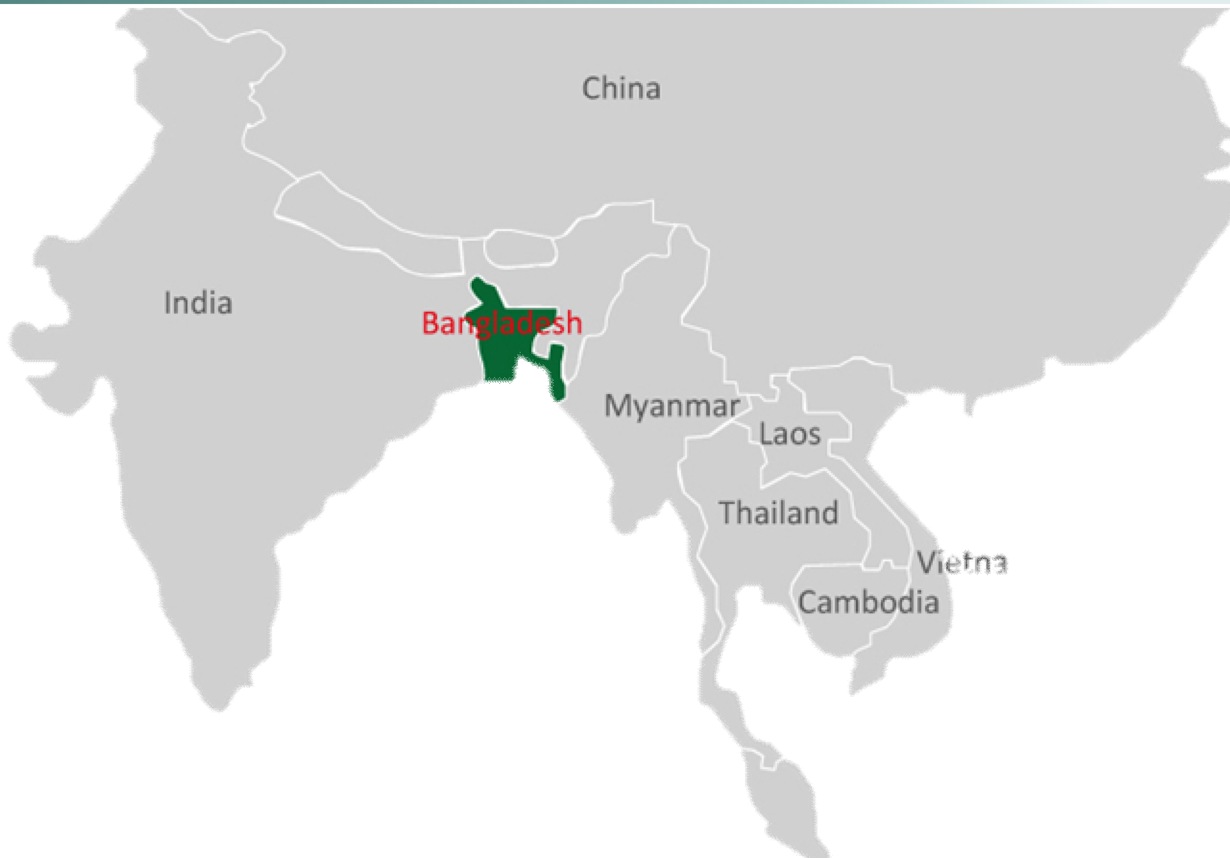
Bangladesh Budget Analysis FY19



Foreword

After completing the Millennium Development Goals (MDGs) with tremendous success, Bangladesh has stepped into the era of Sustainable Development Goals (SDGs). The Government has already identified the lead and associate ministries involved in achieving each SDG. Besides, Annual Performance Agreements of various ministries/divisions have been aligned with the SDGs.

Bangladesh achieved 7.65% GDP growth in FY18 (provisional) amidst a number of global uncertainties. The government has set GDP growth target at 7.8% for FY19; 40 bps higher than the 7.2% growth target of FY18. The economy of Bangladesh has been on a steadily improving trend over the past five years. Low inflation, record amount of forex reserve, robust external sector, are some of the commendable developments that the economy has been experiencing lately. Private sector credit, which suffered slowdown during 2013-14 period due to political turmoil, picked up again in 2015 and is currently growing at a healthy and growth supportive pace. Encouraged by the growing strengths of macro indicators in recent times the government plans to boost up the growth by enhanced public expenditures.

The Government of Bangladesh proposed the National Budget for FY19 on 7th June, 2018. The proposed budget size is BDT 4,645.73 billion which is 25.1% higher than compared to that of the FY18 revised budget and the largest of its history. Non-development expenditure is BDT 2,516.68 billion, which is 54.2% of the budget and development expenditure is BDT 1,796.69 billion, 38.7% of the budget.

The budget has revenue target of BDT 3,392.80 billion which is 30.8% higher than that of the FY18 revised budget. Attaining such high growth will be a great challenge for tax administration as it had never achieved such high growth. Side by side, capability of spending may be an issue as well, considering the gigantic size of the budget. Sector wise, notable allocations have gone to Education, Interest Payment, Human Resource, Power and energy, Transport & Communication, Agriculture, etc.

Projected deficit of the budget is BDT 1,252.93 billion which is 4.9% of GDP and 27.0% of the budget. Budget deficit in FY19 is 11.8% higher than the previous fiscal year. 56.8% of this deficit is expected to be financed through domestic sources, while the rest will be funded by external sources.

The number of VAT exempt products has been almost doubled. Special attention has been given to pharmaceutical industry and consumer electronic industry. Import duties on various cancer medicine related raw materials and another 97 APIs have been exempted whereas CD for 20 materials have been reduced. To encourage local refrigerator industry, CD on compressor materials has been reduced heavily. Also to promote local consumer electronics industry, import duties on various finished electronics goods have been proposed to increase. Other than these, highest tax rate proposed for RMG industry is 15.0% for any non public company without green building certification. If the company is publicly listed the tax rate is reduced by 2.5% to 12.5%. The lowest amount of tax will be paid by any RMG company with green building certificate which will be 12.0%. This is to encourage RMG industry to go green.

Budget Highlights (FY19)

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Table: Budget Overview FY19

	FY'19 (BDT bn)	Revised FY'18 (BDT bn)	Growth over FY'17 (Revised)
Budget Size	4645.73	3714.95	25.1%
Target Revenue	3392.80	2594.54	30.8%
Budget Deficit	1252.93	1120.41	11.8%
Bank Borrowing	420.29	199.17	111.0%
External Borrowing	540.67	460.24	17.5%

Source: Ministry of Finance & LBSL Research

Table: Summary of the Budget (BDT bn)

	FY'19	FY'18	FY'18 (Revised)	FY17 (Actual)
Revenue Earnings	**3,392.80**	**2,879.90**	**2,594.54**	**2,012.10**
NBR tax revenue	2,962.01	2,481.90	2,250.00	1,716.36
of which VAT	1,105.43	917.17	837.02	662.03
Non-NBR tax revenue	97.27	82.58	72.02	64.38
Non-tax revenue	333.52	315.42	272.52	231.36
Public Expenditure	**4,645.73**	**4,002.66**	**3,714.95**	**2,694.99**
Non-development expenditure	2,516.68	2,091.41	1,938.28	1,644.88
Development Expenditure	1,796.69	1,590.13	1,536.88	880.90
In which ADP	1,730.00	1,533.31	1,483.81	840.93
Other Expenditure	332.36	321.12	239.79	169.21
Budget Deficit	**1,252.93**	**1,122.76**	**1,120.41**	**682.89**
Financing				
Domestic Sources	712.26	603.52	660.17	559.85
Bank Borrowing	420.29	282.02	199.17	-83.79
Non-Bank Borrowing	291.97	321.50	461.00	643.64
External Sources	540.67	519.24	460.24	123.04

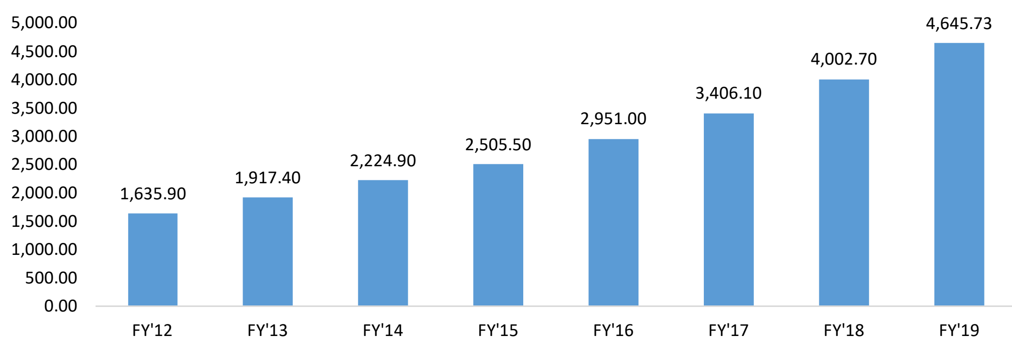
Source: Ministry of Finance & LBSL Research

- The National Budget of Bangladesh for the fiscal year 2018-19 (FY19) has been published on June 7, 2018. The government has set GDP growth target at 7.8% for FY19; 40 bps higher than the 7.4% growth target of FY18. Bangladesh achieved 7.28% GDP growth in FY18 (provisional) amidst a number of global uncertainties. After completing the Millennium Development Goals (MDGs) with tremendous success, Bangladesh has stepped into the era of Sustainable Development Goals (SDGs). The Government has already identified the lead and associate ministries involved in achieving each SDG. Besides, Annual Performance Agreements of various ministries/divisions have been aligned with the SDGs.

- The budget size is BDT 4645.73 billion which is 25.0% higher than compared to that of the FY18 revised budget and the largest of its history. The budget has revenue target of BDT 3392.80 billion which is 30.8% higher than that of the FY18 revised budget. Projected deficit of the budget is BDT 1252.93 billion which is 4.9% of GDP and 27.0% of the budget. Budget deficit in FY19 is 11.8% higher than the previous fiscal year. However, the government has estimated that revenue will grow at a much faster pace than public expenditure.

- Non-development expenditure is BDT 2516.68 billion which is 54.2% of the budget and development expenditure is BDT 1796.69 billion, 38.7% of the budget. Sector-wise, notable allocations have gone to Education & Technology (7.3%) and Interest Payment (15.1%).

Chart: Proposed Budget Size (BDT bn)



Source: Ministry of Finance & LBSL Research

Budget Highlights (FY19)

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- The total ADP size in the Budget FY19 is BDT 1730.00 billion which is 12.8% higher than that of FY18 revised budget. It is 96.3% of the total development expenditure. In the ADP for FY19, 26.9% is allocated to Human Resource sector (Education, health and others), 21.8% to overall agricultural sector, 14.3% to energy sector, 26.3% to communication sector and the rest 10.9% is allocated to other sectors.

- The government scaled up its revenue generation target to BDT 3392.80 billion, a rise of 30.8% from BDT 2594.54 billion of the FY18 revised budget. The targeted revenue is 13.4% of the GDP, higher than that in the previous fiscal year (13.0%). The key growth driver for collecting such a big amount of revenue will be uniform VAT.

- This year's budget deficit is kept 4.9%, near to that of the previous year's budget deficit at 5.0% of the GDP. The total Budget deficit is estimated to be BDT 1252.93 billion. Out of which domestic source will finance 56.8% and external source will finance 43.2%. Out of domestic sources, Govt. will borrow BDT 420.29 billion from banking system, which is 49.0% higher than the FY18 targeted bank borrowing (111.0% up from the revised FY18 budget).

Chart: ADP Composition of BDT 1730.00 bn

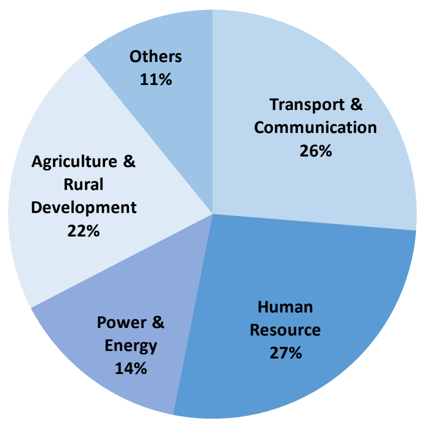


Chart: Revenue and Financing Sources

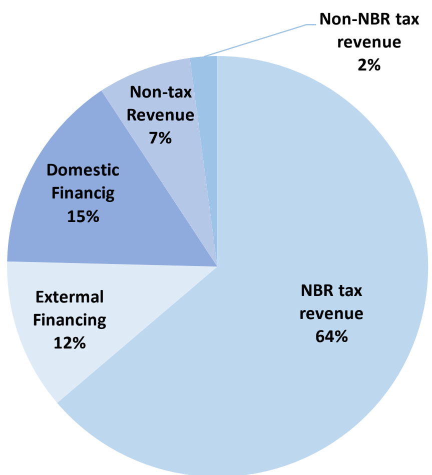
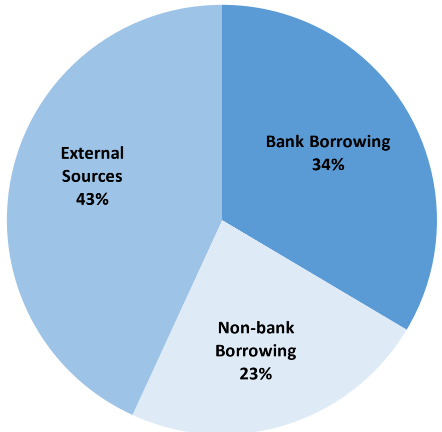


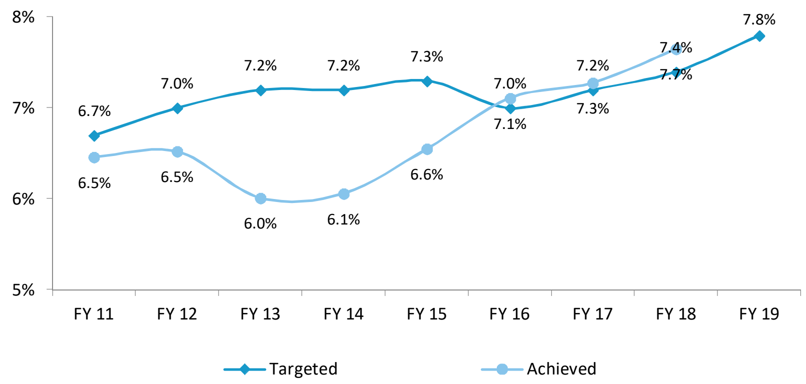
Chart: Budget Deficit (BDT 1252.93 bn) Financing



Source: Ministry of Finance & LBSL Research

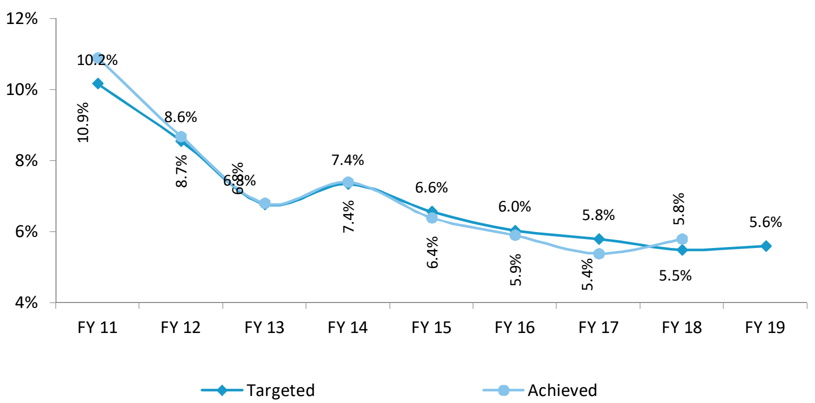
Targeted Economic Indicators

Chart: GDP Growth Comparison



Source: Ministry of Finance & LBSL Research

Chart: Inflation Comparison



Source: Ministry of Finance & LBSL Research

GDP

Government has set GDP growth target at 7.8% for FY19, 40 bps higher than the 7.4% growth target of FY18. 7.65 percent GDP growth was achieved in FY18 (provisional) which was 7.28 percent in the previous year. As of April, 2018, private sector credit growth stood at 17.7% which exceeded the target of 16.8%. The government is showing increasing commitment in developing the skillsets of the population which is one among the many factors that contributed to achieve the growth. Also, increased accessibility to the internet has fostered numerous ventures to emerge and flourish which present further growth prospect for the economy in future. Also, no major political violence occurred prior to and following the much talked-about arrest of the BNP Chairperson. All these bolstered overall economic activities in the country in FY 18. However, attaining 7.8% GDP growth trajectory in FY19 will be a tough task given the year being an election year.

Inflation

For FY18, inflation target is 5.6%. Inflation target in FY17 was 5.5% and government was not successful in attaining that. Actual Inflation in April'17 was 5.47% and it rose up to 5.63% in April'18. Much of this heightened inflation can be linked to the increased global commodity prices. According to the World Bank forecast, crude oil prices may reach US$65 per barrel in 2018 which was US$53 per barrel in 2017 on average. Also, agricultural and metal products' prices are projected to increase in the global markets by 2% and 9% respectively in 2018. This will create upward pressure on domestic production costs. Domestic interest rate on loans have gone up by 14 bps from 9.56% to 9.70% and is expected to go up more due to government's increased bank borrowing target in FY19 which will aid in lowering domestic inflation. Considering all these factors, a 5.6% inflation target may somehow be achievable.

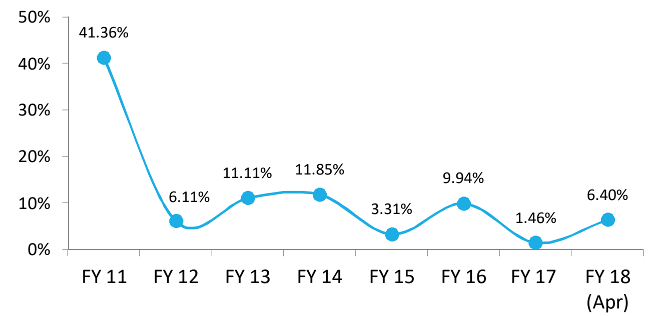
Table: Targeted Economic Indicators

	FY 19	FY 18	FY 17
GDP Growth	7.80%	7.40%	7.20%
Inflation	5.60%	5.50%	5.80%

Source: Ministry of Finance & LBSL Research

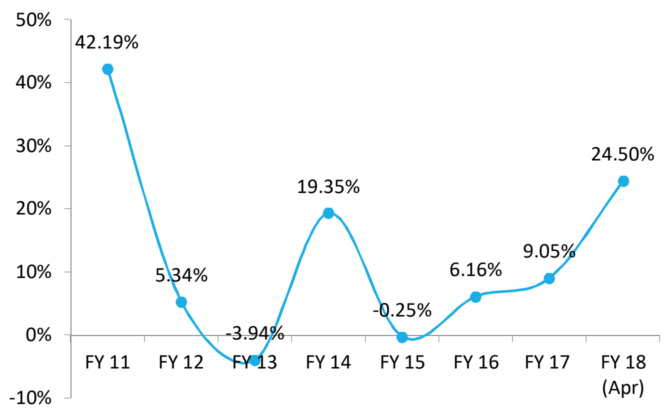
Targeted Economic Indicators

Chart: Export Growth



Source: Ministry of Finance & LBSL Research

Chart: Import Growth



Source: Ministry of Finance & LBSL Research

Export

The budget speech did not have any export target for FY19. Export growth of 6.40% was achieved up to April'18 compared to the same period in the previous year. Total export value amounted USD 30.4 billion which was USD 28.6 billion at the same time last year. The Pharmaceutical sector is expected to be a major export growth driver besides the textile and RMG industry in coming years. Also, upward trend in global growth which is expected to be 3.9% from current 3.8% will aid in the improvement of exports in FY19.

Import

There was no specific target provided in the FY18 budget for import either. Import growth of 24.50% was achieved up to Aril'18 compared to the same period in the previous year. Import payment was USD 43.6 billion in April 2018 compared to USD 36.4 billion at the same time last year. Growth of imports was mainly triggered by the existing momentum of domestic demand due to various mega projects. Also, BDT depreciated against USD which has created upward pressure on the nominal amount of import payments.

Remittance

Remittance inflow in Bangladesh significantly depends on variables like the GDP of domestic and host country of the migrant workers, exchange rate, petroleum price, and skill of labour. Remittance, which is the largest source of foreign exchange for Bangladesh after export receipts, grew by 17.5 percent to USD 12.1 billion in the first 10 months of fiscal 2017-18 which was USD 10.3 billion at the same time in the previous year. Although the previous year saw a slow trend in remittance earnings by Bangladeshi workers due to a number of factors including weaker economic activity in the Middle East, devaluation of foreign currencies like GBP, Euro, Malaysian Ringgit, Singapore Dollar to USD around July 2016 due to BREXIT, and sluggish growth in the US economy, remittance inflow picked up since the start of FY18 and continued the trend throughout. Forecast of rising crude oil prices creates expectation that the Middle Eastern economy will see a further boost in growth in the coming year. In FY19 budget, modernising Madrasa education has gained importance because this can play a great catalytic role in gaining more employment opportunities in Arab countries. Also, this will empower the migrant workers with necessary skills needed to perform their duties also this will increase their potential to earn higher salaries.

Revenue Estimates & Financing Sources

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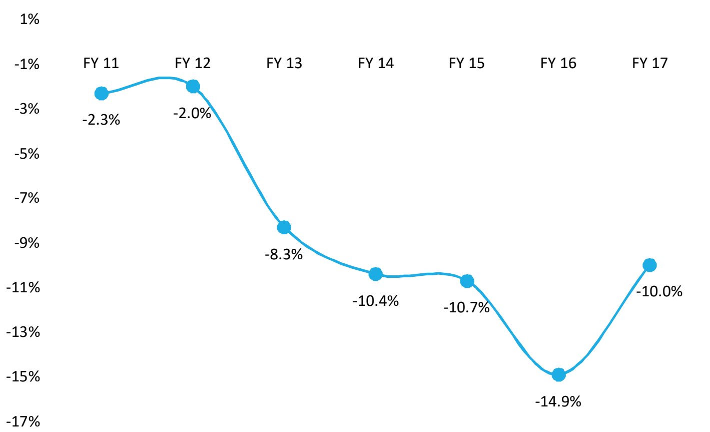
Chart: Deviation of actual revenue from targeted revenue



Source: Ministry of Finance & LBSL Research

Revenue Estimates and Financing Sources

The budget for the FY19 has revenue target of BDT 3392.80 billion, the government targets 30.8% growth in FY19 compared to FY18 revised budget. The incremental revenue will be grossly shared by income tax (34.5%) and VAT (37.3%) whereas the incremental revenue in FY18 (revised) was shared by income tax (34.7%) and VAT (37.2%). Projected deficit is BDT 1252.93 billion. Historically, the government has never achieved its revenue target and the dispersion is rising in last three budgets. The average deviation of actual revenue from target revenue for the last five fiscal years (FY12-FY17) stands at –8.4%. Only in FY'12 the target revenue was achieved.

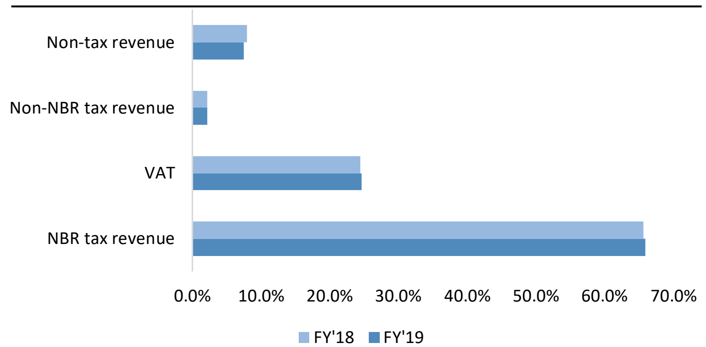
NBR Tax Revenue

The budget for the FY19 has targeted BDT 2962.01 billion revenue from NBR tax which is 87.3% of the target revenue. This is 0.7% higher than that of FY18 revised budget. In the revised budget of FY18, this target was BDT 2250.00 billion which was 86.7% of total revenue.

Non NBR Tax Revenue & Non Tax Revenue

There is target for BDT 97.27 billion or 2.9% of total revenue to collect from Non-NBR tax. Revenue from non-tax sources is estimated to be BDT 333.52 billion or 9.8% of total revenue which was BDT 315.42 billion or 9.3% of total revenue in the FY18 initial budget. In order to achieve these targets, automation in tax collection is set in to reduce complication in tax collection and significant administrative reform has been done.

Chart: Revenue Target of NBR Among Sources



Source: Ministry of Finance & LBSL Research

Chart: FY19 revenue and financing sources

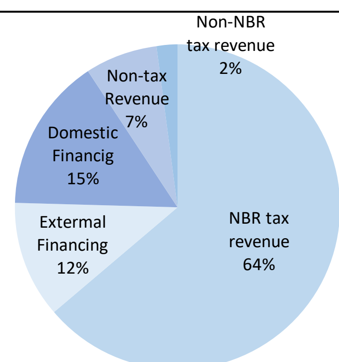
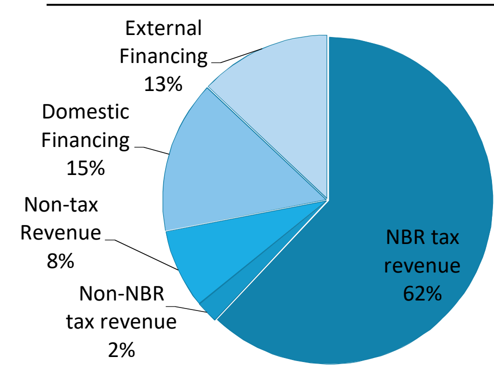
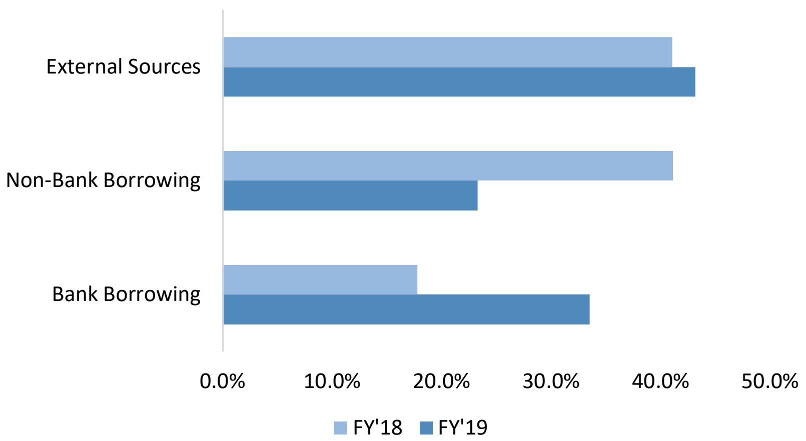


Chart: FY19 revenue and financing sources



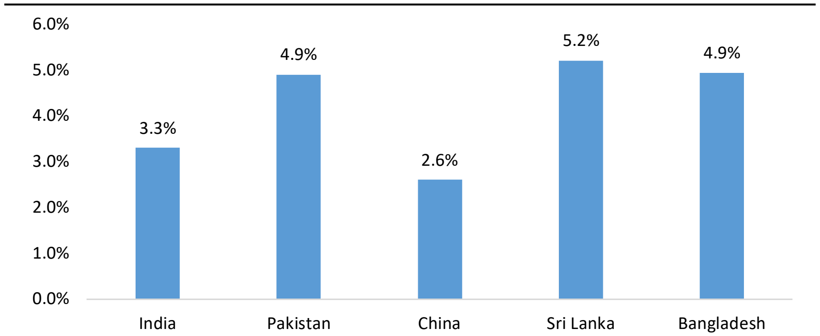
Revenue Estimates & Financing Sources

Chart: Deficit Financing Sources as % of Total Deficit



Source: Ministry of Finance & LBSL Research

Chart: Budget deficit as % of GDP



Source: Reuters, Deloitte, Live mint

Deficit Financing

The proposed budget for FY19 projects deficit of BDT 1,252.93 billion which is 4.9% of GDP and 27.0% of the total proposed expenditure. Deficit to GDP ratio kept near at 5% in FY18 same as FY'18 but budget deficit has increased by 11.8% from the revised budget of FY'18. Considering that Bangladesh's deficit is not that high, financing the deficit is challenging but possible. Of this total deficit, 33.5% or BDT 420.29 billion is expected to be financed from the banking system which is 88.7% higher than the deficit financing target through bank borrowing proposed in the previous year's budget. Anticipated gross foreign aid of USD 4.05 billion in FY19.

Foreign Financing

Total budget deficit's 43.2% or BDT 540.67 billion will be financed through external sources which was BDT 460.24 billion or 41.1% in the FY18 revised budget. The growth in targeted foreign financing is 5.1% as compared to FY18 revised budget.

Bank & Non-Bank Borrowing

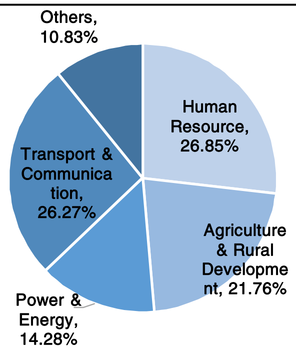
Bank will be a major source of funds to finance the budget deficit. There is a plan to borrow BDT 420.29 billion or 33.5% of deficit from banking sector which was BDT 199.17 billion or 17.8% of deficit in the FY'18 revised budget. If the government really starts financing a large amount of budget deficit from the banking system again, then it will improve the domestic credit scenario, decrease excess liquidity in the banking system, and balance the overall market interest rates. Financing through non-bank borrowing has been set at BDT 291.97 billion which is 88.7% higher than the revised budget of FY'18 and 23.3% of total deficit.

Expenditure Composition

Table: Total Expenditure Composition

Sector	Share in total expenditure FY19 (%)	Share in total expenditure FY18 (%)	Change in FY19 over FY18(R)		
			BDT billion	% Change	Rank of % Change
Human Resource	24.4%	26.1%	160.87	16.6%	7
Food and safety	3.0%	2.9%	32.15	30.3%	4
Agriculture and Rural Developmen	12.7%	13.7%	79.15	15.5%	8
Power and Energy	5.4%	6.5%	6.61	2.7%	9
Communication Infrastructure	11.4%	12.2%	78.73	17.4%	6
Other sectors of communicaiton infrustructure	1.5%	1.5%	13.44	23.5%	5
General Services	25.3%	22.5%	340.86	40.8%	2
Interest payment	11.1%	10.2%	134.20	35.4%	3
PPP Subsidy and Liability	4.8%	2.4%	132.17	147.1%	1
Net Lending and Other Expenditur	0.5%	1.9%	-47.40	-65.6%	10
Total Expenditure	100.0%	100.0%	930.78		

Chart: ADP Composition BDT 1,730.00 bn



Source: Ministry of Finance & LBSL Research

- In the proposed budget for FY19, total expenditure has been estimated at BDT 4,645.73 billion. This is 18.3% of GDP and 25.1% higher than that of the revised budget for FY17.
- In the proposed budget, 27.34% of total outlay has been allocated to social infrastructure, 30.99% to physical infrastructure, and 25.30% to general services.
- Sector-wise, Interest, Education & Technology, Subsidies and Incentives, Public Administration, and Public Order and Safety have got preference having 18.0%, 13.8%, 10.7%, 11.75 and 8.0% allocated respectively. PPP Subsidy and Liability got the highest growth in allocation, a 147.1% increase in allocation.
- The allocation for non-development expenditure has been set at BDT 2,915.73 billion which is 11.5% of GDP. For development expenditure, it has been estimated at BDT 1,730.00 billion and it is 7.1% of GDP.
- Size of proposed ADP allocation is BDT 1,730.00 billion which is an increase of 17% from budget for FY18. In ADP Human Resource got the highest priority (26.85% allocation).Transport & Communication, Agriculture and Rural Development, and Power and Energy got 26.27%, 21.76%, and 14.28% of the ADP allocation respectively.

Allocation to mega projects and progress

Table: Progress of Mega Infrastructure Projects

Project Name	Project period	Project Cost (BDT bn)
Materbari 2* 600 megawatts Ultra super critical coal fired power project	01/07/2014-30/06/2023	336.00
Padma Bridge Rail Link	01/01/2016- 30/06/2020	349.89
Padma Multipurpose Bridge Construction	01/01/2009- 31/12/2018	301.93
Dhaka Mass Rapid Transit Development Project	01/07/2012- 30/06/2024	220.00
Chattogram-Dohajari to Ramu-Coxes Bazar and Ramu-Gundum Railway Construction Project	01/07/2010- 30/06/2022	61.91
Ruppur Nuclear Power Plant Project (FirstPhase)	01/03/2013- 30/06/2018	840.00
Rampal Coal Based Power Project	01/01/2015- 30/06/2017	168.00
Construction of Payra Sea port (First Phase)	01/07/2015- 30/06/2018	11.28
Sonadia Deep Sea port	Initiating level	1176.00
Maheshkhali LNG Terminal	01/07/2018 - 30/05/2018	840.00

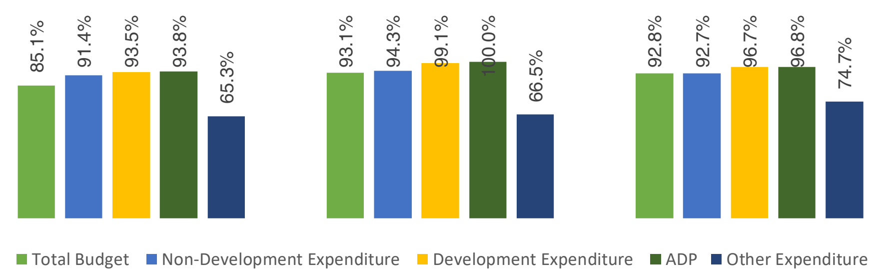
Source: Different newspapers & LBSL Research

Fast Track Projects

- No allocation has been made for large infrastructure projects in the budget speech of FY 19. However, government has allocated BDT 306.14 billion to large high infrastructure and fast-track projects in its FY18 budget, which is 19.9% of total ADP of FY2018 .
- Among all the projects, Padma Multipurpose Bridge Construction project progressed most with 54% completed till June FY2018. The Cost of this project further increased by BDT 14 billion and reached to BDT 301.93 billion by June FY'2018.
- The government has allocated BDT 91.14 billion for bridge division in FY2019 that is 32.28% higher than FY 2018.

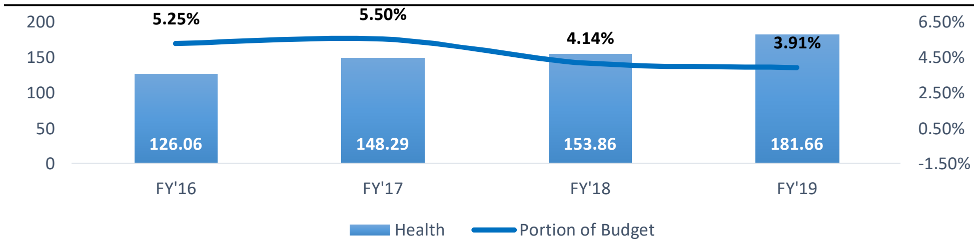
Expenditure Composition

Chart: Revised Expenditure/ Proposed Expenditure



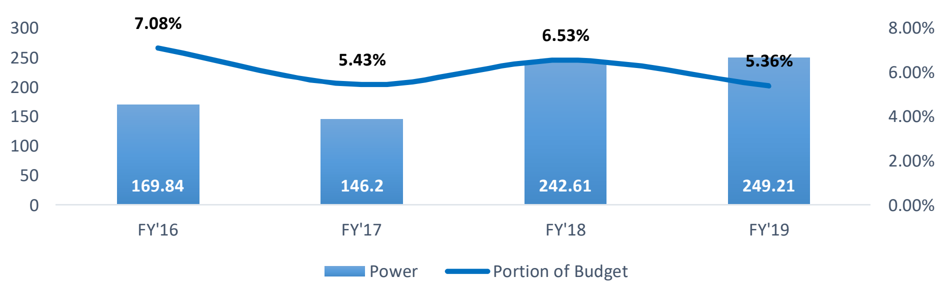
Source: Ministry of Finance & LBSL Research

Chart: Health Allocation (BDT bn)



Source: Ministry of Finance & LBSL Research

Chart: Energy and Power Allocation (BDT bn)



Source: Ministry of Finance & LBSL Research

Historically, the government revised down the expenditure on an average to 93.0% of what it proposed in the budget. The government usually sticks to the initial allocation for non-development segment in revised budget and utilized almost full allocation in the last few years. During FY17 to FY18, the average revised non-development expenditure budget was 93.48% of what government actually proposed in the budget. In revised budget FY18, it came down to 92.68% of proposed allocation. On the other hand, the government always expended less than what it proposed for development expenditure segment. In the last two years, the average development expenditure and average ADP expenditure was 97.8% and 98.39% respectively of what government actually proposed in the budget. However it is to be noted that in the FY 2017, government utilized full allocation for ADP.

Health

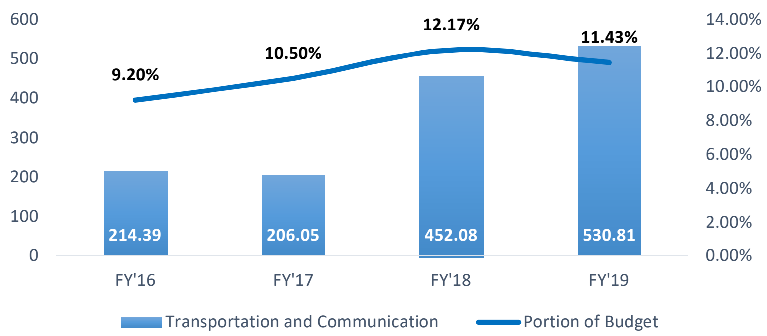
To make healthcare readily available to mass people in rural areas 13,500 community clinics have been set-up. Health segment has got higher allocation in FY19 budget amounting BDT 181.66 billion which is BDT 153.86 billion in revised FY18 budget, having a growth rate of 18.07% (YoY) in this budget. A somewhat stable trend is observed in the allocation for this segment in proportion to total expenditure steadily for the last two budgets.

Energy & Power

Allocation for Energy & Power sector decreased in FY19 budget. The government has decreased its allocation by 117 bps from 6.53% in revised FY18 to 5.36% in FY19. The amount available for Energy and Power sector is BDT 249.21 billion which was BDT 242.61 billion in FY18 revised budget, a staggering increase of 2.72% (YoY). In previous budget, the government lowered the budget allocated for energy and power to implement more power plant projects along with transmission and distribution networks. This sector comprises 5.36% of the total development expenditure budget for FY19.

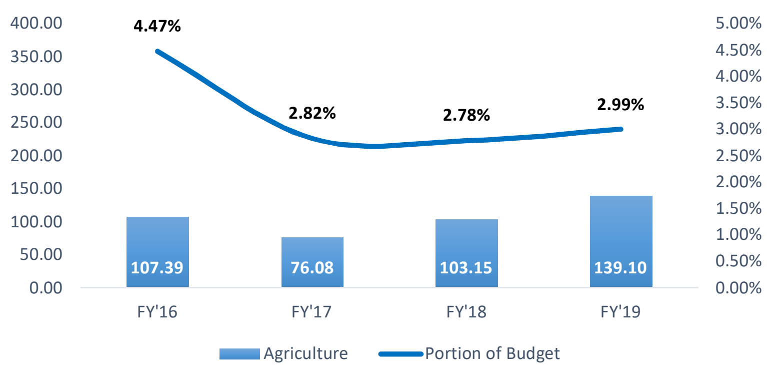
Expenditure Composition

Chart: Transportation and Communication Allocation (BDT bn)



Source: Ministry of Finance & LBSL Research

Chart: Agriculture Allocation (BDT bn)



Source: Ministry of Finance & LBSL Research

Transportation & Communication

Allocation for transportation and communication sector has experienced slight downward trend in revised budget of FY18. But it still remained the most preferred segment in development budget having 11.43% of allocation in FY19 proposed budget. The allocation for this sector is BDT 530.81 billion as compared to BDT 452.08 billion of revised FY18 budget, having a growth rate of 17.42% (YoY). One of the major reasons for this higher allocation is that, the government has undertaken some major projects to improve the transportation system of the country.

Agriculture and Rural Development

Agriculture and rural development budget allocation had been consistently increasing since FY12 but declined in FY 17 and remain balanced till now. In FY19, it got BDT 139.10 billion as compared to BDT 103.15 billion in FY18 revised budget, declined by 34.85% (YoY). The allocated amount for the sector is 8.04% of total ADP and 2.99% of total budget.

Tax for Individuals

Table: Minimum Income for Individual Tax Payer	
Types of Tax Payer	**Threshold of Taxable Income**
General Tax Payer	BDT 250,000
Women & Senior Citizens above 65 years	BDT 300,000
Persons with Disabilities	BDT 400,000
Gazetted war-wounded freedom fighters	BDT 425,000

Source: Ministry of Finance & LBSL Research

Table: Tax Rate for other than companies	
For individuals	**Tax Rate**
On first BDT 0.25 mn of Total Income	Nil
On next BDT 0.40 mn of Total Income	10.0%
On next BDT 0.50 mn of Total Income	15.0%
On next BDT 0.60 mn of Total Income	20.0%
On next BDT 3.00 mn of Total Income	25.0%
On the balance of Total Income	30.0%
For others	**Tax Rate**
Tobacco product manufacturer	45.0%
Income of non-resident	30.0%
Income of co-operative society	15.0%

Source: Ministry of Finance & LBSL Research

Table: Surcharge Rate on Individual's Net Worth	
Amount of net wealth	**Rate of Surcharge**
Up to BDT 22.5 mn	Nil
Exceeding BDT 22.5 mn, but less than BDT 50 mn or Ownership of 2 motor cars or Ownership of housing property having an aggregate area of 8,000 sq. ft in a city corporation	10.0%
Exceeding BDT 50 mn, but less than BDT 100 mn	15.0%
Exceeding BDT 100 mn, but less than BDT 150 mn	20.0%
Exceeding BDT 150 mn, but less than BDT 200 mn	25.0%
Exceeding BDT 200.0 mn	30.0%

Source: Ministry of Finance & LBSL Research

- There is no change in tax exemption threshold except that the threshold for a parent or a guardian of a person with disability will be higher by BDT 50,000 for each of such child or dependent.
- The FY19 proposed budget suggests no change in the existing tax rates for the individual tax payers.
- The minimum tax payment for tax payers is BDT 5,000 for Dhaka North, Dhaka South, and Chittagong City Corporations; BDT 4,000 for other city corporations, and BDT 3,000 for the rest of the country which also has not been changed.
- The minimum tax rate for individuals is 10.0% on BDT 0.40 mn of total income exceeding the minimum tax exemption thresholds and The maximum tax rate for individuals is 30.0% on total income surpassing BDT 4.75 mn. Both of this remains unchanged from the previous fiscal year.
- A small reform has been proposed by imposing surcharge of 10% on individuals who own 2 motor cars or house property with an aggregate area of 8,000 sq. ft. in a city corporation.
- The minimum amount of surcharge for individuals with net wealth in excess of BDT 22.5 mn remains at last year's level of BDT 3,000. A minimum surcharge BDT 5,000 mn with net wealth exceeding BDT 100 mn is proposed. Also, 2.5% surcharge on the manufacturers of tobacco products remains unchanged.
- Tax incentives proposed for social welfare for next years are tax exemption on the income from operation of a day care home and income from operation of a educational and training institute which runs exclusively for persons with disability. Also, medical service providers will face additional 5% tax if they fail to ensure special accessibility features. This will come in effect from 1st July 2019.

Corporate Tax Rate

Table: Tax Rate for other than companies		
Company Category	Existing	**Proposed**
Publicly Traded Company	**25.0%**	**25.0%**
Non-publicly Traded Company	**35.0%**	**35.0%**
Publicly Traded Bank, Insurance and NBFI (excluding Merchant Bank)	40.0%	37.5%
Non-publicly Traded Bank, Insurance and NBFI (excluding Merchant Bank)	42.5%	40.0%
Merchant Bank	37.5%	37.5%
Tobacco Good Manufacturers:		
Cigarette Manufacturers (Public or non-public)	45.0%	45.0%
Other Tobacco Product Manufacturers	45.0%	45.0%
Mobile Phone Operators		
Publicly Traded	40.0%	40.0%
Non-Publicly Traded	45.0%	45.0%
Dividend Income	20.0%	20.0%

Source: Ministry of Finance & LBSL Research

Table: Readymade Garment Industry	
Readymade Garment Industry	**Proposed**
Companies without Green Building Certification (Public)	12.5%
Companies without Green Building Certification (Non Public)	15.0%
Companies with Green Building Certification (Public or non public)	12.0%

Source: Ministry of Finance & LBSL Research

- In the upcoming budget the focus will continued to be on tax compliance rather than increased tax rates to boost revenues. In compliance with such objectives, proposed tax rate for banking sector(except for merchant banks) has been reduced by 2.5%. Tax rate for Publicly traded and Non publicly traded Bank, Insurance and NBFI will be 37.5% and 40.0% respectively.
- Government has proposed significant tax benefits for Readymade Garments sector in order to recognize its vital contribution in generating employment and to the economy. Highest tax rate proposed for RMG industry is 15.0% for any non public company without green building certification. If the company is publicly listed the tax rate is reduced by 2.5% to 12.5%. The lowest amount of tax will be paid by any RMG company with green building certificate which will be 12.0%

Excise (ED), Customs (CD), Regulatory (RD), & Supplementary Duty (SD)

- SD on cigarette and bidi paper is proposed to increase from 20% to 25%. CD on tobacco exports has been proposed to withdraw which was previously set at 25%.
- Exemption and concessionary rate of duties of some pharmaceutical raw materials including that of cancer medicines, raw materials of Active Pharmaceuticals Ingredients (API) have been proposed.
- CD on refrigerant, printed steel sheet (0.3 mm), copper tube, capacitor, terminal & electrical apparatus is proposed to reduce to 5% and CD on wielding wire, spring and gasket to 15%. Import duties on finished mobile battery charger, UPS/IPS, voltage stabilizer is proposed to increase to 15%, CD on automatic circuit breakers to 10%, and SD on lamp holders to 20%. On the other hand, import duties on raw materials such as carbon rod and formed core is proposed to reduce at different rates.
- Reduction of SD on importation of 1600-1800 cc hybrid motor cars to 20% from 45% is proposed. This rate will also be applicable for the electric motor cars. RD on double cabin pick up is proposed to reduce from 25% to 10%. SD on leaf spring, which is a widely used raw material in transport sector, is proposed to decrease to 10%.
- Exemption of import duties is proposed for textile raw materials i.e. flax fiber and flax tow.
- RD on import of Ferro Alloy is proposed to reduce from 15% to 10%, and reduction of specific CD on import of Sponge Iron from BDT 1,000/MT to BDT 800/MT.

Value Added Tax

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- Currently 9 truncated VAT rates are applicable. It is proposed to be reduced down to 5 rates this year; these are 2%, 4.5%, 5%, 7% and 10%.
- VAT is proposed to be exempted on import of Erythropoietin, a medication for cancer and kidney diseases.
- VAT is proposed to be exempted on cheap bakery items priced below BDT 100 per kg. Also VAT exemption is proposed on hand made cakes (except party cakes) priced below BDT 150 per kg.
- Bases of VAT on the sale of flats based on sizes has been reduced to 2 bases. 2% VAT is proposed to impose on sale of flats below 1600 sq ft. and 4.5% on flats above 1600 sq ft. Also 2% VAT on resale of any flats regardless of size is proposed to impose.
- 5% VAT is proposed to be imposed on selling furniture from existing 4%, and 7% VAT is proposed to be imposed on manufacturing of furniture from existing 6%.
- 5% advance trade VAT is proposed for import and trading stages instead of existing 4%.

Industry Implication (Budget FY’19)

Bank Industry

Changes in Tax/VAT/Duty structure

- • Corporate tax structure of the banking system has been reduced by 2.5%. The proposed tax rate for banks is 37.5%.

Other

- Alongside the application of existing rules, important directives have been issued together with some relevant actions. The following directives were mentioned in the speech:
  - Changing the rate of interest/profit on deposits and loans can be done only once in a month which should be mandatorily published in Bank's own website;
  - Limiting the weighted average of interest rate spread between loans and deposits to 5 per cent;
  - Limiting the loan application fee to Tk. 200 for Cottage, Micro, Small and Medium Entrepreneurs (CMSME) and not applying any charge for adjustment on maturity of loans;
  - Launching specialized software for monitoring large loan default;
  - Issuing guidelines for fair agent banking;
  - Limiting the balance amount at maximum Tk. 3 lakh in a single person's mobile account in the case of Mobile Financial System (MFS);
  - Providing different loan facilities at a low interest rate with easy terms under various refinancing schemes;
  - Establishing Customer Service Centre in Bangladesh Bank for disposal of complaints about banking services;
  - Monitoring large loans and strengthening the monitoring arrangements of banks and financial institutions by putting in place Central Database for Large Credit (CDLC).
  - In many cases, same land and property are used as collateral for getting bank loans. For preventing these fraudulent practices, a database containing information on collaterals used against all types of loans will be maintained in Financial Institutions Division. The system will be effective from next year so that any person or institution can verify this information.

Tobacco Industry

- Prices of some tobacco products are proposed to be fixed. Low segment cigarette is proposed to be fixed at BDT 32 per 10 sticks and medium segment cigarette is proposed to be fixed at BDT 48 per 10 sticks. High segment cigarette is proposed to be fixed at BDT 75 and BDT 101 per 10 sticks. Price of handmade bidi without filter is proposed to increase at BDT 15 per 20 sticks from BDT 12, whereas increase to BDT 7.50 per 10 sticks from BDT 6. Price of Zarda, and Gul is proposed to be fixed at BDT 25 per 10 grams.
- SD on cigarette and bidi paper is proposed to increase from 20% to 25%.
- CD on tobacco exports is proposed to withdraw which is currently 25%.

Implication

- Manufacturer of this industry will be affected by these changes. Raw material cost will increase as higher Supplementary Duty is proposed on paper of cigarette and bidi. However, increasing price fix may reduce the negative impact on margin due to raw material cost increase. But such increasing price may have an adverse affect on demand. For the exporters, reduction in Custom Duty will save expenses and improve margin.
- **Related Listed Company**: British American Tobacco Bangladesh Company Limited

Pharmaceuticals Industry

- Exemption and concessionary rate of duties of some pharmaceutical raw materials including that of cancer medicines, raw materials of Active Pharmaceuticals Ingredients (API) have been proposed.
- Among general raw materials of pharmaceuticals industry, CD for 12 materials have been reduced from existing 10% to 5%, and 25% to 15% for 8 materials.
- Import duties on 2 raw materials (Lenvatinib Mesylate and Palbociclib) for cancer related medicine has been proposed to be exempted.
- CD on 97 API materials is proposed to be exempted in this budget.
- VAT is proposed to be exempted on import of Erythropoietin, a medication for cancer and kidney diseases.

Implication

The above changes will save raw material expenses for the pharmaceutical industry. This will have direct positive impact on margin.

Related Companies: ACI, ACMELAB, ACTIVEFINE, AMBEEPHA, BEACONPHAR, BXPHARMA, CENTRALPHL, GHCL, GLAXOSMITH, IBNSINA, PHARMAID, RECKITTBEN, RENATA, SALVOCHEM, SQURPHARMA

FMCG & Feed Industry

- CD is proposed to remove completely from soya-bean oil cakes and flours used in poultry feed and reduce RD to 5%.
- CD on packaged processed food products is proposed to increase to 25% to promote local food processing industry which are currently lies at 10% (except cereal grains which is now at 5.15%).
- Import duty on Filled milk Powder is proposed to reduce to 10% when purchased in bulk quantities.
- 25% export duty is proposed to impose on re-melted lead export to demote lead exportation.
- VAT is proposed to be exempted on cheap bakery items priced below BDT 100 per kg. Also VAT exemption is proposed on hand made cakes (except party cakes) priced below BDT 150 per kg.
- 5% VAT is proposed to be imposed on selling furniture from existing 4%, and 7% VAT is proposed to be imposed on manufacturing of furniture from existing 6%.

Implication:

- Value bakery item producer may experience higher demand due to lower price as a result of VAT exemption.
- Raw material cost of feed industry will reduce due to decreased RD and CD, which will result in improved margin.
- Export duty on re-melted lead will discourage battery producers to export lead.
- Furniture seller may face reduced demand due to price increase as a result of higher VAT.

Related Companies: OLYMPIC, AMCL(PRAN), QSMDRYCELL, AMANFEED, NFML, SINGERBD.

Consumer Electronics Industry

- CD on refrigerant, printed steel sheet (0.3 mm), copper tube, capacitor, terminal & electrical apparatus is proposed to reduce to 5% and CD on wielding wire, spring and gasket to 15%.
- Import duties on finished mobile battery charger, UPS/IPS, voltage stabilizer is proposed to increase to 15%, CD on automatic circuit breakers to 10%, and SD on lamp holders to 20%. On the other hand, import duties on raw materials such as carbon rod and formed core is proposed to reduce at different rates.
- 10% SD is proposed to be imposed on energy inefficient filament lamps.

Implication

- Compressor manufacturer will enjoy better margin or offer reduced price to increase demand of local compressor and refrigerator equipment. This will carried forward to refrigerator assembly related companies as well.
- Import duties on above mentioned electronics will encourage companies to sell locally produced equipements than importing from abroad.
- SD on energy inefficient lamps will drive demand of energy efficient lamps since the price will seem more attractive comparing to the energy inefficient lamps.

Related Listed Company: SINGEBD, BDLAMPS.

Automobile Industry

Change

- In order to encourage a growing industry of motorcycle manufacturing and assembly a number of duty benefits has been proposed in the last budget which will be continued this year with some alterations. Also, VAT exemption has been proposed for motorcycle manufacturer.

- Import duty has been proposed to be reduced to 5.0% for Mold release preparation, Adhesives, EDM fluid, Polyamade, GF nylon, Phenolic resin, Butyl and Chloroprene rubber. Import duty has been completely removed from Angles, Shapes and Sections (Welded/Non welded).

- Reduction on customs duty on Leaf-springs from 20.0% to 10.0% is proposed. Regulatory duty on double cabin pick up is proposed to reduce from 25.0% to 10.0%. Customs duty on paraffin wax and phenolic resin has been reduced to 10.0% and 5.0% respectively.

- Reduction of supplementary duty on importation of 1600-1800 cc hybrid motor cars to 20.0% from 45.0% is proposed. This rate will also be applicable for the electric motor cars.

- Customs duty for hydraulic brake fluids and other prepared liquids for hydraulic transmission, not containing less than 70.0% by weight of petroleum oils or oils obtained from bituminous minerals has been increased to 15.0%. Also, customs duty on finished brake linings has been increased to 15%.

Implication

- This budget has again focused on encouraging the import of Hybrid Cars in order to promote environmental awareness.
- Motorcycle manufacturing has been encouraged greatly though none of the manufacturers are listed. However, two listed companies are assembling motorcycles locally who will be benefited highly by the reductions in the import duties for raw materials of motorcycles.

Related Companies: ACI, ATLASBANG, AFTABAUTO, IFADAUTO, MJLBD

Other Industry

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ICT

Change

- Customs duty on database and productivity software's has been proposed to be reduced to 5% from existing Customs Duty of 25%. Also VAT of 15% has been removed.

Implication

- These software will become cheaper encouraging individuals and companies to use original copies of them, hence encouraging growth in software business.

Related Companies: AAMRATECH, DAFODILCOM,

Cellular Phone

Change

- To promote local mobile phone production, VAT and surcharge exemption is proposed on mobile manufacturing whereas 2.0% surcharge is proposed to impose on import of mobile handset.

- Import duties on a number of raw materials of cellular phone manufacturing and assembly has been proposed to be reduced to 1.0%.

Implication

- Local manufacturing and assembly will be encouraged. Currently only one listed company is manufacturing it's own brand of cellular phone.

Related Companies: ACI

Other Industry

Chemicals & Plastic

Change

- Majority of cosmetic and beauty products have an existing 10.0% supplementary duty which is proposed to be applied on all cosmetic and beauty products.

- Supplementary duty on toiletries, perfumes (except attar), body sprays and similar items (except aromatic vapor) proposed to increase from 10% to 15%.

- Customs duty on filler master batch and color master batch has been increased to 15%.

Implication

- Local manufacturer of toiletries and beauty products will benefit as prices of imported product will increase.

- Costing of plastics products are expected to increase as master batches are essential raw materials for a lot of plastic products.

Related Companies: ACI, KEYACOSMET, MARICO, AZIZPIPES, BENGLAWTL

Ceramics

Change

- Supplementary duty on bathtubs, zacuji and shower trays is proposed to increase from 20% to 30%.

Implication

- Government is encouraging local manufacturers by increasing supplementary duty on imported products.

Related Companies: RAKCERAMICS

Other Industry

Real Estate Industry

Change

- Bases of VAT on the sale of flats based on sizes has been reduced to 2 bases. 2% VAT is proposed to impose on sale of flats below 1600 sq ft. and 4.5% on flats above 1600 sq ft. Also 2% VAT on resale of any flats regardless of size is proposed to impose.

Implication

- Flat prices will go up affecting the demand of the industry. Though the companies will not be directly affected due to the increase on VAT but impact of demand is likely to impact.

Related Companies: EHL

RMG Industry

Change

- Highest tax rate proposed for RMG industry is 15.0% for any non public company without green building certification. If the company is publicly listed the tax rate is reduced by 2.5% to 12.5%. The lowest amount of tax will be paid by any RMG company with green building certificate which will be 12.0%. Also, exemption of import duties is proposed for textile raw materials i.e. flax fiber and flax tow.

Implication

- Government has been encouraging RMG industry as it has been a significant contributor to the economy. Reduced rate of corporate tax will help the existing companies to grow and will encourage entrepreneurs to invest in the industry. Moreover, government is encouraging environmental awareness. More companies will be interested in building green factories or convert the existing ones into green ones.

Related Sector: Textile and RMG

Other Industry

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Steel Industry

Change

- Regulatory duty on import of Ferro Alloy is proposed to reduce from 15% to 10%, and reduction of specific customs duty on import of Sponge Iron from BDT 1,000/MT to BDT 800/MT.

Implication

- Proposed decrease in import duties on raw materials of steel production will impact on the margins of the specific industry positively.

Related Companies: BSRMSTEEL, GPHISPAT, RSRMSTEEL

Capital Market Implications

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Launching of Floating Rate Treasury Bond (BFIU)

Introduction of Shariah-based securities

Create the database of Savings Certificate

Source: Ministry of Finance & LBSL Research

- The budget speech FY19 included the announcement of launching a new floating rate savings instrument. The guidelines and directives have been issued for launching Floating Rate Treasury Bond (BFIU).
- It may be noted that in the banking sector, though the share of Islamic banking is around 20 per cent, up until no Shariah-based securities have been introduced. Currently, the government is contemplating about the introduction of Shariah-based securities.
- Apart from this, steps have been taken to create the database of Savings Certificate buyers and connect it with the NID database.

Implications:

- Compared to fixed rate bonds, floating rate saving instruments tend to be more popular when interest rates are expected to rise. Therefore, introduction of BFIU may have a potential to drive some investments away from the capital market.
- Introduction of Shariah-based securities will encourage more participation from investors who opt for religious values in making investment decisions in the capital market.
- Connecting Savings Certificate database with NID database will bring more discipline in the management of savings certificate after completion of this program.
- No large change has been brought to capital market tax regulations in the budget for FY19 although tax implications in other areas of the economy will certainly have profound impacts on performance of several listed companies.
- Tax rate deduction of banks will boost investor sentiment about banks as they will be left with higher after tax profits available for distributing to their shareholders.

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