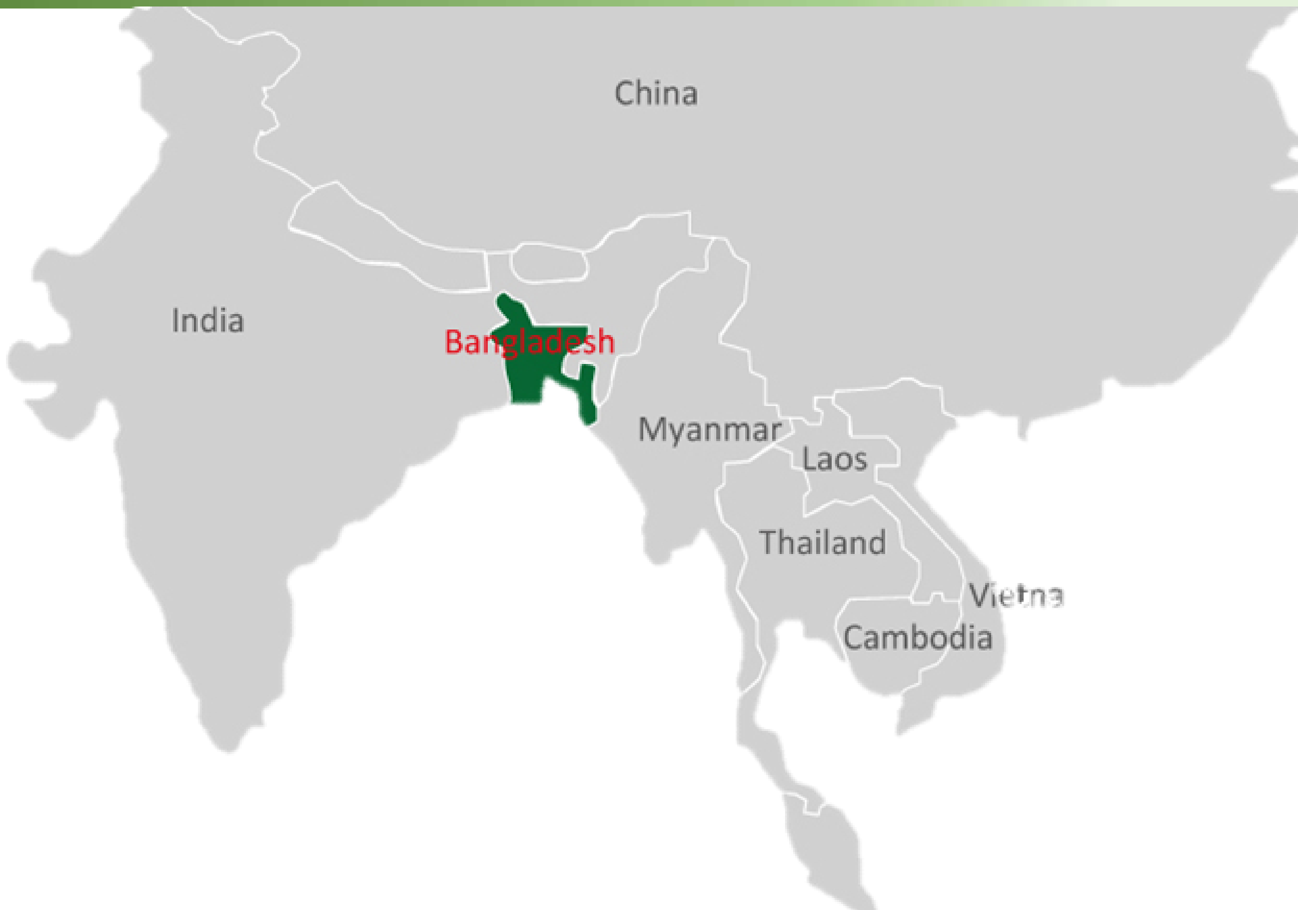
Bangladesh Budget Analysis FY 2019-20



Bangladesh on a Pathway to Prosperity

Foreword

Bangladesh is ranked fifth in the fastest growing economies and has achieved 8.13% GDP growth in FY19 (provisional). The government has set GDP growth target at 8.2% for FY20; 40 bps higher than the 7.8% growth target of FY19. In South Asia, Bangladesh is now the second fastest growing economy after India.

The Government of Bangladesh proposed the National Budget for FY20 on 13th June, 2019. The proposed budget size is BDT 5231.90 billion which is 18.22% higher than compared to that of the FY19 revised budget and the largest in its history. Non-development expenditure is BDT 2,779.34 billion which is 53.1% of the budget and development expenditure is BDT 2,116.83 billion, 40.5% of the budget.

The budget has revenue target of BDT 3778.10 billion which is 19.33% higher than that of the FY19 revised budget. Projected deficit of the budget is BDT 1453.80 billion which is 5.0% of GDP and 27.8% of the budget. Budget deficit in FY20 is 15.45% higher than the previous fiscal year. 53.2% of this deficit is expected to be financed through domestic sources, while the rest will be funded by external sources. Bank will be a major source of funds to finance the budget deficit. There is a plan to borrow BDT 473.64 billion or 32.58% of deficit from banking sector which was BDT 420.29 billion or 33.54% of deficit in the FY’19 revised budget.

Most of the allocations of the proposed budget expenditure was allocated to human resource which followed the last year’s allocation trend. The highest historical increase in expenditure allocation happened in PPP Subsidy & Liability sector. Net Lending and other expenditures were decreased by 47.34% in proposed FY20 budget. The mega projects have been undertaken mostly from the power sector and the communication infrastructure sector.

A small reform has been proposed by increasing the surcharge free limit of net wealth from 22.5 million to 30 million. The minimum amount of surcharge for individuals with net wealth in excess of BDT 30 million remains at last year’s level at 10%. A minimum surcharge of BDT 5,000 million with net wealth exceeding BDT 100 million is proposed. Also, 2.5% surcharge on the manufacturers of tobacco products remains unchanged. 5% rebate on total tax has been proposed if the taxpayer employs at least 10% of total work force from physically challenged people. Government has proposed significant tax benefits for Readymade Garments sector in order to recognize its vital contribution in generating employment. The rate is reduced by 0.5% for the companies without green building certification and by 2% for the company which has green building certification.

The budget speech FY20 included the announcement imposition of 15% tax on stock dividend. Dividend income from the listed companies shall be tax-free up to Tk. 50,000 for individual investors. Previously the amount was Tk. 25,000. Imposition of 15% additional tax on retained earnings and reserves as it exceeds 50% of the paid up capital of the company has been introduced.

Emphasis has been given to reform the banking and financial sector.

Budget Highlights (FY20)

Table: Budget Overview FY20

	FY'20 (BDT bn)	Revised FY'19 (BDT bn)	Growth over FY'19 (Revised)
Budget Size	5231.90	4425.41	18.22%
Target Revenue	3778.10	3166.13	19.33%
Budget Deficit	(1453.80)	(1259.29)	15.45%
Bank Borrowing	473.64	308.95	53.31%
External Borrowing	680.16	471.84	44.15%

Source: Ministry of Finance & LBSL Research

Table: Summary of the Budget (BDT bn)

	FY'20	FY'19 (Revised)	FY'19	FY18 (Actual)
Revenue Earnings	**3,778.10**	**3,166.13**	**3,392.80**	**2,165.55**
NBR tax revenue	3,256.00	2,800.00	2,962.01	1,871.03
Non-NBR tax revenue	145.00	96.00	97.27	72.23
Non-tax revenue	377.10	270.13	333.52	222.29
Public Expenditure	**5,231.90**	**4,425.41**	**4,645.73**	**3,218.62**
Non-development expenditure	2,779.34	2,477.47	2,516.68	1,788.79
Development Expenditure	2,116.83	1,734.49	1,796.69	1,221.54
In which ADP	2,027.21	1,670.00	1,730.00	1,195.38
Other Expenditure	335.73	213.45	332.36	208.29
Budget Deficit	**1,453.79**	**1,259.29**	**1,252.93**	**1,055.65**
Financing				
Domestic Sources	773.63	787.45	712.26	790.76
Bank Borrowing	473.64	308.95	420.29	117.31
Non-Bank Borrowing	299.99	478.50	291.97	673.45
External Sources	680.16	471.84	540.67	264.89

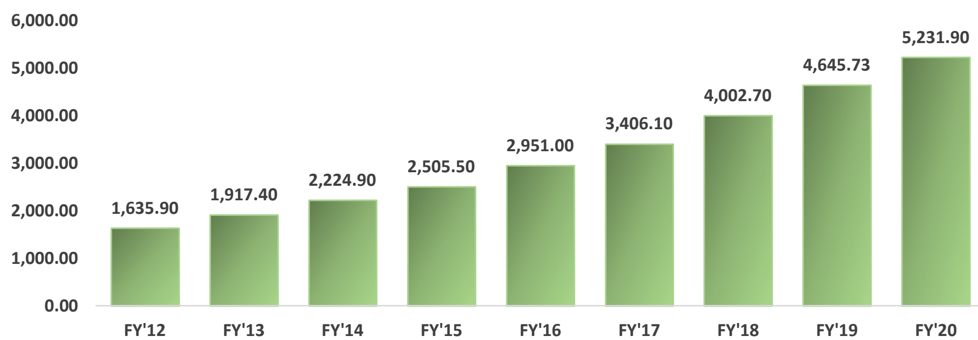
Source: Ministry of Finance & LBSL Research

- The National Budget of Bangladesh for the fiscal year 2019-20 (FY20) has been published on June 13, 2019. The government has set GDP growth target at 8.2% for FY20; 40 bps higher than the 7.8% growth target of FY19. Bangladesh's performance in achieving various goals and indicators of MDGs has been remarkable. We are fully committed to achieve similar success in implementing the SDGs. Meanwhile, 82 percent of SDGs has been incorporated in the 7th Five Year Plan, which is currently being implemented. For localization of SDGs, about 40 priority indicators have been approved for implementation at the district and upazila levels. In the priority list, targets, such as reducing the rate of poverty below 10 percent and extreme poverty below 3 percent by 2030 have been included.

- The budget size is BDT 5231.90 billion which is 18.22% higher than compared to that of the FY19 revised budget and the largest of its history. The proposed budget is 18.1% of GDP. The budget has revenue target of BDT 3778.10 billion which is 19.33% higher than that of the FY19 revised budget. Projected deficit of the budget is BDT 1453.80 billion which is 5% of GDP and 27.8% of the budget. Budget deficit in FY20 is 15.45% higher than the previous fiscal year.

- Non-development expenditure is BDT 2,779.34 billion which is 53.1% of the budget and development expenditure is BDT 2,116.83 billion, 40.5% of the budget. Sector-wise, notable allocations have gone to Education (10.26%) and Interest Payment (10.91%), Communication (11.76%).

Chart: Proposed Budget Size (BDT bn)



Source: Ministry of Finance & LBSL Research

Budget Highlights (FY20)

- The total ADP size in the Budget FY20 is BDT 2,027.21 billion which is 21.4% higher than that of FY19 revised budget. This ADP is 95.8% of the total development expenditure. In the ADP for FY20, 27.4% is allocated to Human Resource sector (Education, health and others), 21.5% to overall agricultural sector, 13.8% to energy sector, 26.0% to communication sector and the rest 11.3% is allocated to other sectors.
- The government scaled up its revenue generation target to BDT 3,778.10 billion, a rise of 19.33% from BDT 3166.13 billion of the FY19 revised budget. The targeted revenue is 13.1% of the GDP, lower than that in the previous fiscal year (13.4%). The key growth driver for collecting such a big amount of revenue will be Tax and VAT.
- This year's budget deficit is kept 5.0%, near to that of the previous year's budget deficit at 4.9% of the GDP. The total Budget deficit is estimated to be BDT 1453.80 billion. Out of which domestic source will finance 53.2% and external source will finance 46.8%. Out of domestic sources, Govt. will borrow BDT 473.64 billion from banking system, which is 12.7% higher than the FY19 targeted bank borrowing (53.3% up from the revised FY19 budget).

Chart: ADP Composition of BDT 1730.00 bn

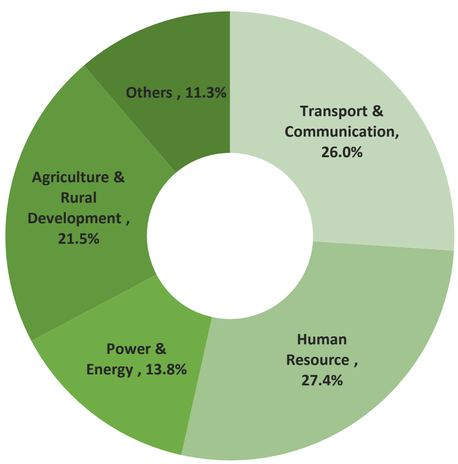


Chart: Revenue and Financing Sources

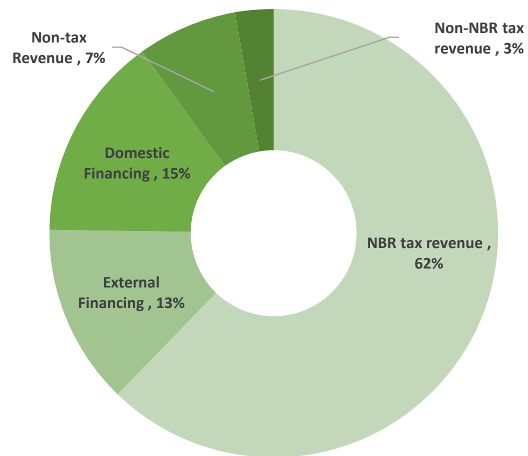
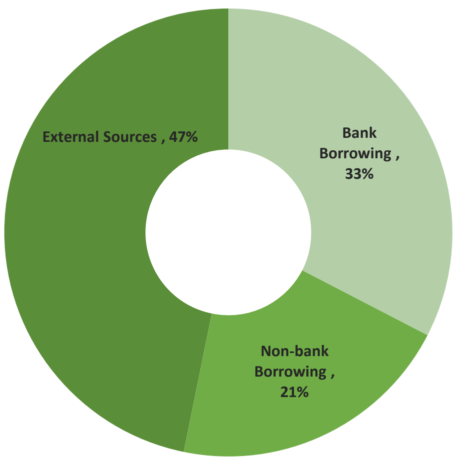


Chart: Budget Deficit (BDT 1,453.79 bn) Financing



Source: Ministry of Finance & LBSL Research

Targeted Economic Indicators

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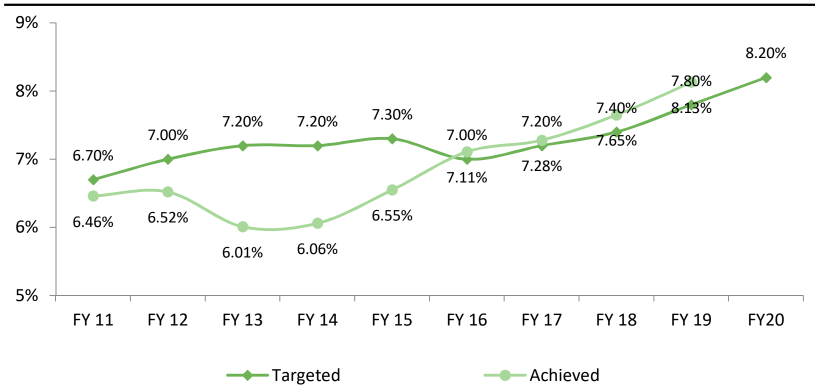
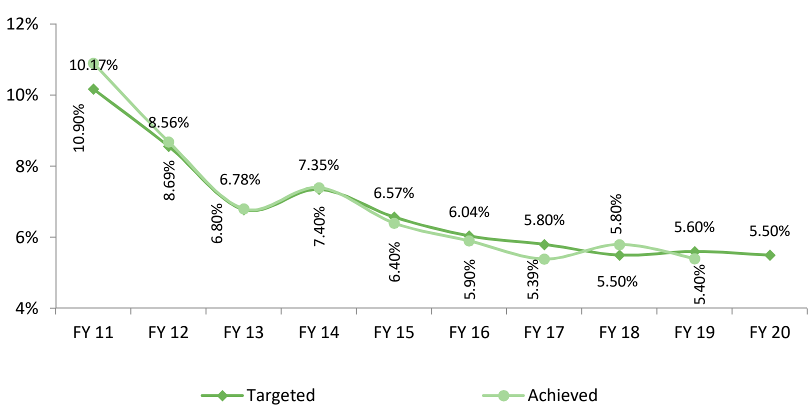
Chart: GDP Growth Comparison



Source: Ministry of Finance & LBSL Research

Chart: Inflation Comparison



Source: Ministry of Finance & LBSL Research

GDP

Government has set GDP growth target at 8.2% for FY20, 40 bps higher than the 7.8% growth target of FY19. 8.13% GDP growth was achieved in FY19 (provisional) which was 7.86% in the previous year. As of April 2019, private sector credit growth stood at 12.07% which is below the target of 16.50%. The government is showing commitment in developing the skillsets of the population. Also, increased accessibility to the internet has fostered numerous ventures to emerge and flourish which present further growth prospect for the economy in future. The growth target was based on strong domestic demand. Emphasize will be given on increased domestic demand through consumption and investment, and increased external demand by enhancing exports. To accelerate GDP Growth, enhanced growth in the industrial sector is also required. This objective will be achieved by establishing Economic Zones across the country.

Inflation

For FY20, inflation target is 5.50%. Inflation target in FY19 was 5.60%. Objective for the FY20 will be to enhance the competitiveness in all our business sectors, including agriculture, industry, commerce, exports, real estate, and services sectors. Actual Inflation in March’19 was 5.4%. Food inflation was the primary reason behind the inflation widening in March’19. Non-food inflation, on the other hand, declined to 5.29% in March’19, what was 5.51 per cent in the previous month of February’19. Higher price of rice and vegetables has increased Food Inflation. Whereas, decline in non-food inflation reflects a weakening of demand. Considering the fact that inflation has not been rising much since April’18, a 5.5% inflation target may somehow be achievable.

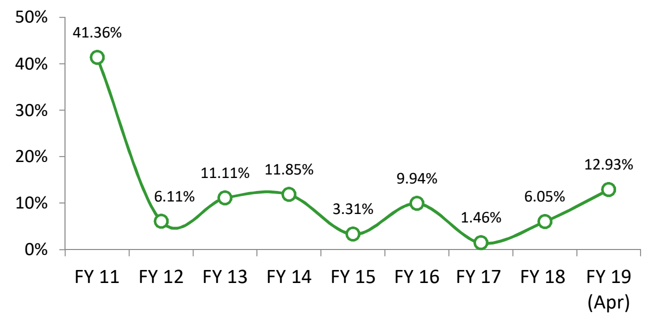
Table: Targeted Economic Indicators

	FY 20	FY 19	FY 18
GDP Growth	8.20%	7.80%	7.40%
Inflation	5.50%	5.60%	5.50%

Source: Ministry of Finance & LBSL Research

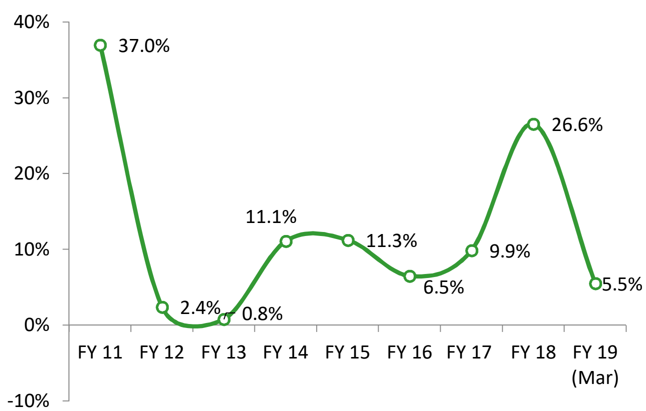
Targeted Economic Indicators

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 specific export target for FY20. Export growth of 2.69% was achieved up to April'19 compared to the same period in the previous year. Total export value amounted USD 30.34 billion which was USD 29.54 billion at the same time last year. However, all types of support will be provided for those products with that have high export potential. ICT, leather, medicine, furniture, jewellery, especially jems and stone cutting, could be important sectors. Export incentive has been proposed for the pharmaceuticals and textile industry. The Pharmaceutical sector is expected to be a major export growth driver besides the textile and RMG industry in coming years.

Import

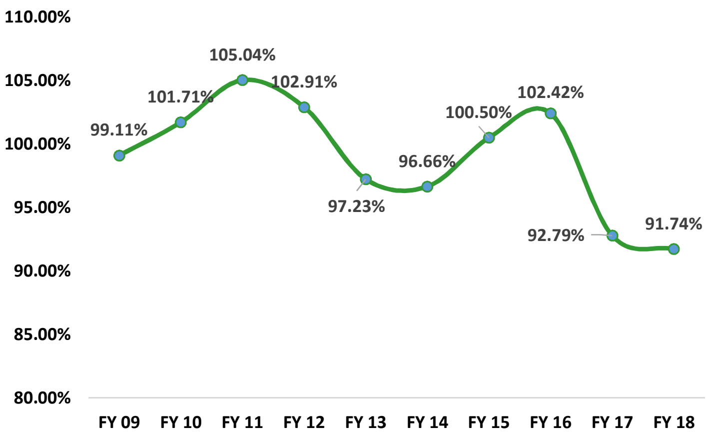
There was no specific target provided in the FY20 budget for import either. Import growth of 1.06% was achieved up to Mar'19 compared to the same period in the previous year. Import payment was USD 4.89 billion in March 2019 compared to USD 4.84 billion at the same time last year. Growth of imports was 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. Import duties on raw materials and parts for manufacture of lifts and compressors have been reduced to 1%. Import duties for raw materials for agricultural feed manufacturing has been reduced to 1%. Duty on cancer medicines and industrial gases (Oxygen, Nitrogen, Argon and CO_2) has been reduced. Import duty on motorcycle tyre and tube increased.

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 18.41% to USD 15.03 billion in the first 11 months of fiscal 2018-19 which was USD 13.56 billion at the same time in the previous year. To mitigate the burden of increased expenses in sending foreign remittances and to encourage bringing in foreign remittance through legal channels, an incentive at the rate of 2% on money remitted by expatriate Bangladeshi will be provided from this financial year. For this purpose, BDT 30.60 billion is proposed to allocate in this year. This will significantly increase the remittance flow through legal channels and discourage the 'hundi' business. The expatriate Bangladeshi workers and their families often face financial losses and risks due to accidents and various other cause as there are no insurance facilities available to them. Preparations have been taken to bring the expatriate workers under the insurance scheme, which will be implemented shortly.

Revenue Estimates & Financing Sources

Chart: Collection of Actual Revenue over Targeted Revenue



Source: Ministry of Finance & LBSL Research

Revenue Estimates and Financing Sources

The budget for the FY20 has revenue target of BDT 3,778.10 billion, the government targets 19.3% growth in FY20 compared to FY19 revised budget. Projected deficit is BDT 1453.8 billion. Actual Revenue Collection over the Targeted Revenue by NBR was 91.74% in FY18 whereas the average collection rate is 99.01% from FY09 – FY18. In most of the cases actual collection was below the target and it is expected to continue in FY20.

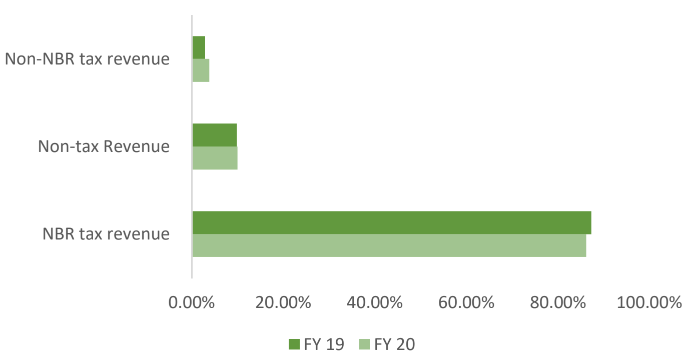
NBR Tax Revenue

The budget for the FY20 has targeted BDT 3,256 billion revenue from NBR tax which is 86.18% of the targeted revenue. This is 1.12% lower than that of FY19 revised budget. In the revised budget of FY19, this target was BDT 2962.01 billion which was 87.3% of total revenue.

Non NBR Tax Revenue & Non Tax Revenue

There is target for BDT 145 billion or 3.84% of total revenue to collect from Non-NBR tax. Revenue from non-tax sources is estimated to be BDT 377.10 billion or 9.98% of total revenue, which was BDT 333.52 billion or 9.83% of total revenue in the FY19 revised 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: FY20 revenue and financing sources

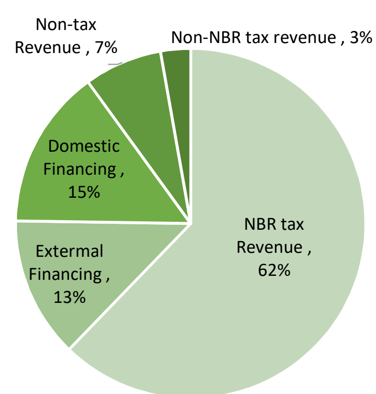
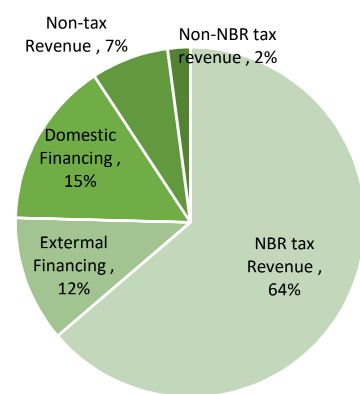
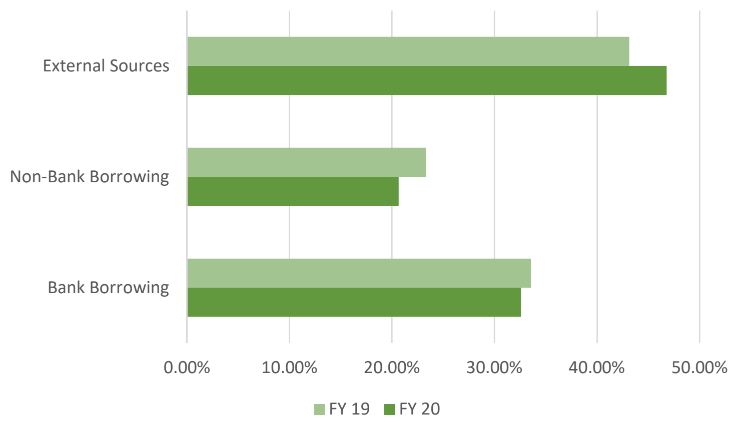


Chart: FY19 revenue and financing sources



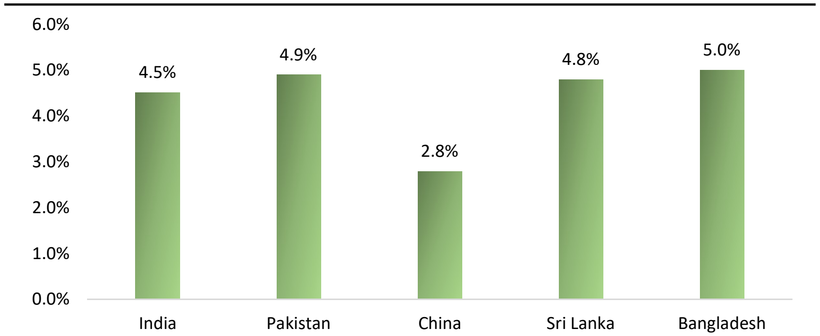
Revenue Estimates & Financing Sources

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 FY20 projects deficit of BDT 1,453.8 billion which is 5% of GDP and 27.79% of the total proposed expenditure. Deficit to GDP ratio kept at 5% in FY20 same as FY19 revised budget. Deficit has increased by 0.1% from the initial budget of FY19. Considering that Bangladesh's deficit is not that high, financing the deficit is challenging but possible. Of this total deficit, 32.58% or BDT 473.64 billion is expected to be financed from the banking system which is 11.33% higher than the deficit financing target through bank borrowing proposed in the previous year's revised budget.

Foreign Financing

Total budget deficit's 46.78% or BDT 680.16 billion will be financed through external sources which was BDT 540.67 billion or 43.15% in the FY19 revised budget. The growth in targeted foreign financing is 25.8% as compared to FY19 revised budget.

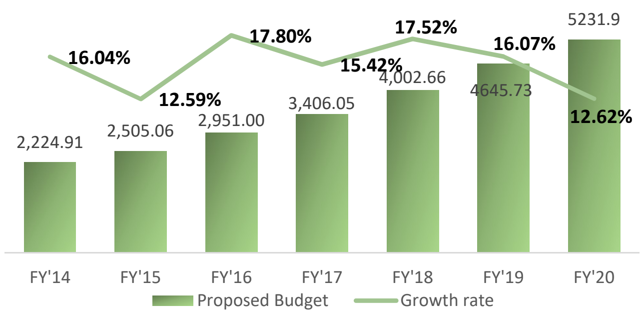
Bank & Non-Bank Borrowing

Bank will be a major source of funds to finance the budget deficit. There is a plan to borrow BDT 473.64 billion or 32.58% of deficit from banking sector which was BDT 420.29 billion or 33.54% of deficit in the FY'19 revised budget. If the government really starts financing such a large amount of budget deficit from the banking system, then it may increase liquidity crisis and impact adversely in the banking sector.

Financing through non-bank borrowing has been set at BDT 300 billion which is 2.67% lower than the revised budget of FY19 and 20.64% of total deficit. Financing from the non-bank sector is mostly by the National Savings Certificate, which is already very large in size in recent years. It may impact negatively in the long run.

Expenditure Composition

Chart: Budget YoY Analysis



Source: Ministry of Finance & LBSL Research

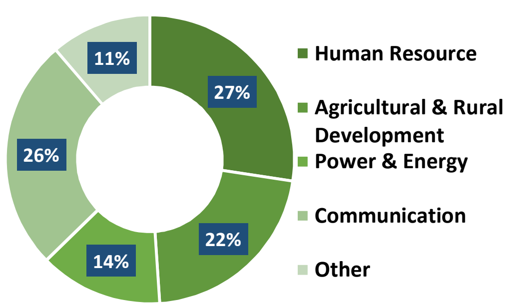
- For the FY2019-20, the size of the budget is estimated to be BDT. 5,231.90 billion which is 12.62% higher than the proposed budget of FY2018-19 amounted BDT 4,645.73 billion.
- This budget is 18.1 percent of GDP which was 18.3 percent in the previous budget. The proposed Non-development expenditure is 9.6 percent and Development expenditure is 7.3 percent of GDP.
- In this proposed budget 38.75 percent of this total budget is allocated for ADP expenditure and the rest is allocated for Operating and other segment.
- Total proposed budget of this year is 18.22 percent higher than the previous year's revised budget amounted 4425.41

- Human resource, General service, Agricultural sectors are the top three sectors got allocation of most of the expenditure respectively 24.67 percent, 23.63 percent and 12.66 percent
- The 53.12 percent of the total proposed Expenditure is allocated to Non-development sector and 40.46 percent is to Development sector. The rest 6.42 percent is allocated to other sectors.

Table: Total Expenditure Composition

Sector wise Allocation	Share in total Expenditure FY20	Proposed Budget FY20 (in BDT billion)	Revised Budget FY 19 (in BDT billion)	YoY Change in FY20 over FY19	Rank of YoY Percentile Change
Human Resource	24.67%	1290.56	1097.76	17.56%	3
General Services	23.63%	1236.41	1076.13	14.89%	5
Agriculture and Rural Developmen	12.66%	662.34	596.77	10.99%	6
Communication Infrastructure	11.73%	613.6	463.48	32.39%	2
Interest payment	10.91%	570.7	487.45	17.08%	4
PPP Subsidy and Liability	6.35%	332.02	192.14	72.80%	1
Power and Energy	5.36%	280.51	265.03	5.84%	7
Food and safety	2.75%	143.73	137.48	4.55%	9
Other sectors of communicaiton infrustructure	1.71%	89.58	85.53	4.74%	8
Net Lending and Other Expenditure	0.24%	12.45	23.64	-47.34%	10
Total Expenditure	100%	5231.9	4425.41	18.22%	

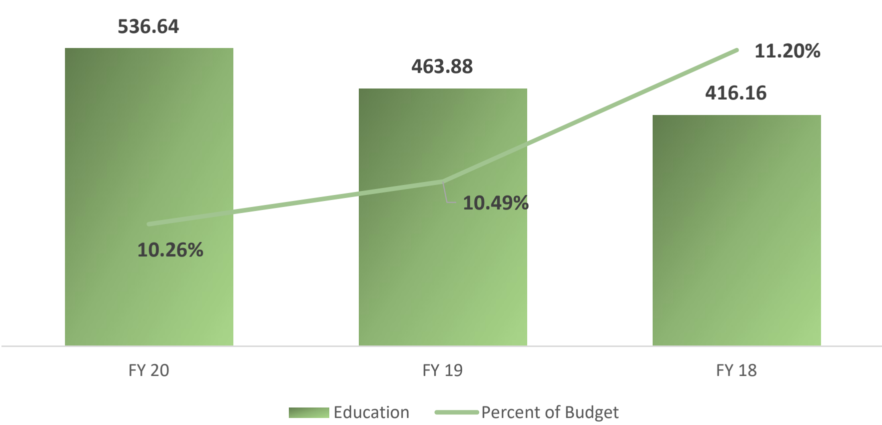
Chart: ADP Composition of BDT 2027.21bn



Source: Ministry of Finance & LBSL Research

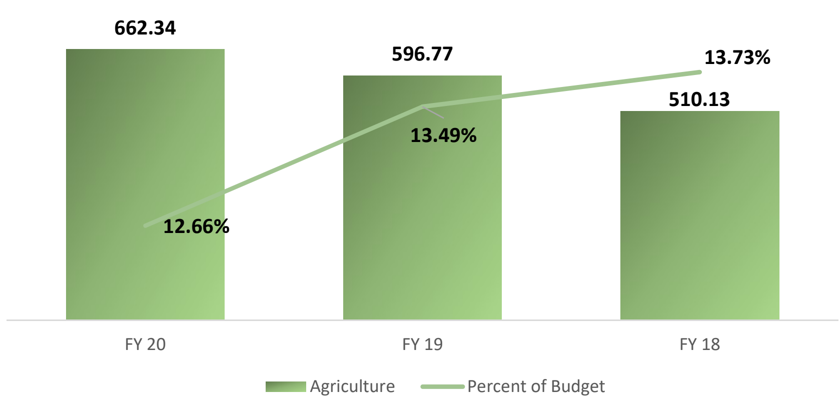
Expenditure Composition

Chart: Education Allocation (BDT bn)



Source: Ministry of Finance & LBSL Research

Chart: Agriculture & Rural Development (BDT bn)



Source: Ministry of Finance & LBSL Research

Education

The Fourth Primary Education Development Project (PEDP-4) is being carried out with a goal to build a fully literate Bangladesh, and expand digital primary education through the extensive use of ICT. A total of Tk. 240.40 billion for the primary education sector has been allocated which is 17.15% higher than FY19. A total of Tk. 296.24 billion for the secondary and higher education sector has been allocated which is 14.5% higher than FY19. Tk. 90.00 billion has been allocated in FY20 for development projects in the secondary and higher education sector, which is 54% higher than that in FY19.

Secondary Education Development Programme will be implemented to prioritize on Science, Technology, Engineering and Mathematics education service. Technical and vocational institutions are being established in 100 upazilas at a cost of Tk. 2, 281.69 crore in the preliminary phase with 4 divisional polytechnics for women. Emphasis has been given to develop skilled teaching staff with necessary trainings and incentives. MPO (Monthly Pay Order) enlistment in the Ministry of Education has been resumed..

Agriculture and rural development

Agriculture and rural development comprises the second highest allocation of ADP. A 20 percent cash incentive for exports of agricultural products is being provided in addition to general investment made for agricultural development, and a 20 percent rebate on electricity bills is provided for the electricity use in irrigation pumps. Climate resilient technology is being used to innovate tolerant crop variants. Popularizing organic pest management activities and mechanization of farming is being reinforced. The sales price of fertilizer remained unchanged in the domestic market. A new food and nutrition policy is being formulated to ensure food safety as well.

A target for construction of 5,500 km new roads and 30,500 meter bridge/culvert, maintenance of 13,000 km pucca road and 3,700 meter bridge/culvert, development of 190 growth center/markets, construction/expansion of 64 Upazila Complex building and 130 cyclone shelter along with different development activities have been taken under rural development for FY20.

Mega Projects - Power Sector

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Table: Progress of Mega Infrastructure Projects – Power Plants

Project Name	Project period	Project Cost (BDT bn)
Matarbari 2* 600 megawatts Ultra super critical coal fired power project	2014-2023	365.9
Rooppur Nuclear Power Plant Project	2015-2024	1143.36
Rampal Coal Based Power Project	2015-2017	168.00
1320 megawatts Maitree Super Critical Thermal Power Plant	2009-2021	160.00

Source: Different newspapers & LBSL Research

Tk. 28,051 crore has been allocated for the Power Division and the Energy and Mineral Resources Division in FY2019-20 which shows a YoY growth of 5.84%.

- At present, the electricity generation capacity is 21169 MW, which is targeted to be 24000MW by 2021.
- The total transmission line and distribution line has been increased to reach the target of 100% electricity coverage for all upazilas by 2020
- 10% of the total electricity has been targeted to generate from renewable sources by 2020. Solar system panels are to be installed in educational institutes. “Net metering guideline” has been prepared for using solar home system.

Mega Projects – Communication Infrastructure

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Table: Progress of Mega Infrastructure Projects – Communication

Project Name	Project period	Project Cost (BDT bn)
Padma Multipurpose Bridge Project	2009-2020	301.93
Padma Bridge Rail Link	2016- 2024	392.58*
Dhaka Mass Rapid Transit Development Project	2012- 2024	219.85
Dohajari-Cox's Bazar rail line	2010 – 2022	180.34
Dhaka Elevated Expressway	2011-2020	142.28
Karnaphuli riverbed Tunnel	2017-2021	98.8
Payra Sea Port	2015 – 2020	33.51

**Revised*

Source: Different newspapers & LBSL Research

- The communication infrastructure is comprising 26% of ADP which is the second highest.
- Special emphasis has been given on the railway communication. A 44.8% YoY growth has been noted in the allocated budget.
- The Bridge division has an allocation that is 34.95% higher than FY 19.
- The handling capacity of Chattogram port is to be enhanced to 3 mn TEU in FY20.

Tax for Individuals

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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 30 mn	Nil
Exceeding BDT 30 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 from previous year.
- The FY20 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 increasing the surcharge-free limit of net wealth from 22.5mn to 30 mn.
- The minimum amount of surcharge for individuals with net wealth in excess of BDT 30 mn remains at last year's level at 10%. 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.
- 5% rebate on the total tax of a tax payer if the taxpayer employs at least 10 percent of total work force from physically challenged people.
- Imposition of 5% additional tax on a medical service provider who fails to ensure special accessibility for physically challenged persons was introduced last year. This year, it will extend its scope by imposing the application of this provision on schools, colleges, universities and NGOs. However, this provision will come into force from the assessment year 2020-21 for schools, colleges, universities and NGOs.

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 (Approved by govt. in 2013,excluding Merchant Bank)	37.5%	37.5%
Non-publicly Traded Bank, Insurance and NBFI (excluding Merchant Bank)	40.0%	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)	12.0%
Textile companies	15.0%
Companies with Green Building Certification (Public or non public)	10.0%

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 all criteria remains unchanged. 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. The rate is reduced by 0.5% for the companies without green building certificate. Also the rate is reduced by 2% for the company which has green building certification.

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

- Government is strict with the existing six slabs of custom duty (0%, 1%, 5%, 10%, 15%, and 25%), 12 (twelve) slabs of Supplementary Duty (10%, 20%, 30%, 45%, 60%, 100%, 150%, 200%, 250%, 300%, 350%, and 500%)
- 10 percent supplementary duty on issuance or renewal of all kinds of vehicles registration, route permit, fitness certificates, ownership certificate etc. except for passenger buses, trucks, lorries, three wheeler, ambulances and school buses may be imposed.
- SD on chartered aircrafts and helicopters: From 20% to 25%
- Imposition of 5 percent supplementary duty on ice-cream
- To increase the supplementary duty from 5 percent to 10 percent of the services provided through mobile phone SIM / RIM card.
- Imposing SD on tobacco on following criteria- low segment 55%, medium and premium segment 65%, filtered and non-filtered biri respectively 35% and 40% , 50% on Zarda and Gul .
- 25% custom duty and 25% regulatory duty on rice import will remain unchanged
- 0% import duty will remain unchanged for importing essential goods like lentils, wheat, onion, edible oil, fertilizer, seed, raw cotton and raw materials for some industries. Existing 0% rate will also remain same for importing life savings drugs and medical equipment.

Value Added Tax

- The VAT registration threshold has been increased to Tk. 3 crore from Tk. 80 lakh.
- The existing price declaration system before the supply of goods will be abolished. The taxpayers will pay VAT on the basis of fair market price.
- Exempt the small and marginal traders with an annual turnover up to Tk. 50 lakh to keep them out of the VAT net.
- Encourage the small and medium sector (SMEs) by giving opportunity to pay turnover tax at 4 percent rate in the case of annual turnover from Tk. 50 lakh to Tk. 3 crore.
- Three schedules in existing VAT law is revised.
- Along with the standard VAT rate of 15 percent, there will be reduced rates of 5 percent , 7.5 percent and 10 percent for specific goods and services
- The VAT rate has been fixed at 5 percent for the local traders.
- The rate of VAT at the trading stage of pharmaceutical and petroleum products shall be 2.4 percent and 2 percent respectively.

Exemption	Imposed
• Production and supply of bread, hand-made biscuits and hand-made cakes up to the value of Tk. 150 per kg • local supply of agricultural machineries such as Power ripper, Power tiller operated seeder, Combined harvester, Low lift pump, Rotary tiller etc. • Rent of a business showroom run by women entrepreneurs • Suppliers and electricity in Bangladesh Hi-Tech Park • Natural gas, suppliers and electricity in the case of investment in Bangladesh Economic Zone (BEZA) • Public Private Partnership (PPP) projects on the procurement of services from construction firm, consultancy and supervisory firm and legal advisor • Rooppur nuclear power plant project on the procurement of services from freight forwarders, clearing and forwarding agencies, insurance companies, suppliers and banking services	• Plastic and aluminum items, soybean oil, palm oil, sunflower oil, mustard oil etc. • Astrologists, marriage media services and on supply of entertainment programmes, serials, drama, telefilms etc. to be broadcasted in the television channels and online media like YouTube and Facebook. • Impose VAT at the import stage on telecom equipment

Industry Implication (Budget FY'20)

Bank Industry

Changes in Tax/VAT/Duty structure

- Corporate tax structure of the banking system has been unchanged. 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:
  - There was no exit route for the loan recipient if he/she fails to repay the bank loan. This time around, an exit for the loan recipient have been arranged through effective insolvency and bankruptcy laws.
  - Increasing capital (authorized and paid up) of banks gradually.
  - Bank Company Act will be amended so that bank management, all components of revenue management (VAT, Customs and Income Tax) can function as usual, without facing any conflict with other laws.
  - Bank Company Act will be amended so that amalgamation, merger and absorption of banks can be legally processed, if required.
  - Stern measures will be taken against the willful defaulters of bank loans.
  - Working to bring down the interest rates of bank loans to single digits with a view to making industries and businesses more competitive.
  - Necessary amendments will be brought to the Bank Company Act to modernize the functions of holding companies and subsidiary companies.

Tobacco Industry

Segment	Proposed Price	Proposed Price in Previous Budget	Supplementary Duty
Low Segment	37 (per 10 sticks)	32 (per 10 sticks)	55%
Medium Segment	63 (per 10 sticks)	48 (per 10 sticks)	65%
High Segment	93 (per 10 sticks)	75 (per 10 sticks)	65%
Premium Segment	123 (per 10 sticks)	101 (per 10 sticks)	65%
Non-filter Bidi	14 (per 25 sticks)	12.5 (per 25 sticks)	35%
Filter Bidi	17 (per 20 sticks)	15 (per 20 sticks)	40%
Zarda	30 (per 10 grams)	25 (per 10 grams)	50%
Gul	15 (per 10 grams)	25 (per 10 grams)	50%

- Existing 10% export duty on unmanufactured tobacco is proposed to withdraw.

Implication

- Overall cigarette consumption is likely to reduce even at a little rate due to price rise. There is a possibility of segment shifting of consumers because of the changed price gap.
- Export duty withdrawal may encourage raw tobacco exports.

- Related Listed Company: BATBC

Pharmaceuticals Industry

LankaBangla SECURITIES

- A cash incentive at the rate of 20% is being provided to encourage exports from the producers of pharmaceutical raw materials and laboratory reagents in the proposed budget.
- Exemptions of duties of 43 pharmaceutical raw materials including that of cancer medicines, have been proposed.
- Regulatory duty has been proposed to decrease from 20% to 10% on import of liquid Oxygen, Nitrogen, Argon and Carbon Dioxide for making these lifesaving gases available to the poor patients at low cost.
- Construction of a Active Pharmaceutical Ingredient Industrial Park is underway at Gazaria in Munshiganj.

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, SILCOPHL, SILVAPHL and SQURPHARMA.

FMCG & Feed Industry

LankaBangla SECURITIES

- VAT exemption is proposed on the production and supply of bread, hand-made biscuits and hand-made cakes up to the value of Tk. 150 per kg which was Tk. 100 per kg before.
- 5 percent supplementary duty is proposed on ice-cream.
- VAT is proposed to impose on the products such as soybean oil, palm oil, sunflower oil, mustard oil etc.
- CD on Milk Powder import is proposed to increase to 10% from 5%.
- Existing specific duty is proposed to increase from Tk. 2000/MT to Tk. 3000/MT on import of raw sugar.
- For refined sugar the specific duty will be increased from Tk. 4,500/MT to Tk. 6,000/MT. Regulatory duty will be 30% instead of 20% for both refined and raw sugar import.
- Regulatory duty is proposed to increase on Maize (corn) starch, Manioc (Cassava) starch import.
- Export duty of rice bran is proposed to increase from 10% to 25% to discourage exports.
- In 2018-19, Food grain production had the highest growth (6.4%) in near past.

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 constraint on rice bran export.

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

Consumer Electronics Industry

- Some essential raw materials of lift, refrigerator, compressor, air conditioner, electric motor are proposed to import at a concessionary rate.
    - All duty-taxes have been exempted on Cold-Rolled stainless steel, Rubber belt, Hydraulic brake fluids and similar liquids with <70% petroleum oil for lift except 5% customs duty.
    - All duty-taxes have been exempted on Conveyor belts, textile materials, Rubber pad with <70% petroleum oil for lift except 1% customs duty.
    - All duty-taxes have been exempted on Silica sand, Quartz grit, Bentonite Petroleum base anti rust oil Compressor oil for Compressor except 1% customs duty.
    - All duty-taxes have been exempted on Resin coated sand / core sand, Carburizer, pitch coke, Petroleum base lubricating oil, Petroleum base leak test oil for lift except 1% customs duty.
- The duty of lightning arrester is proposed to reduce from 10% to 5%.

Implication

- Compressor manufacturer will enjoy better margin or offer reduced price to increase demand of local compressor and refrigerator equipment. This will be carried forward to refrigerator assembly related companies as well.
- Retail price of lift is likely to reduce which may increase in sales.
- Import duties on above mentioned electronics will encourage companies to sell locally produced equipment than importing from abroad.

Related Listed Company: SINGEBD, BDLAMPS.

Automobile Industry

Particulars	Existing Rate (%)	Proposed Rate(%)
Air filter	CD-25	CD-15
Brakes	CD-25	CD-15
Tyre of rim size of 16 inch	RD-3%	RD-5%
Tyre of a kind used on motorcycles	RD-3%	RD-5%
Other Inner tubes	RD-0%	RD-5%

Implication

- Motorcycle manufacturing has been encouraged greatly though only one of the manufacturers are listed. However, three listed companies are assembling motorcycles locally who will be benefited highly by the reductions in the import duties for raw materials of motorcycles and also because of the increasing public demand of two wheeler.

Related Companies: ATLASBANG, AFTABAUTO, IFADAUTO, MJLBD, RUNNERAUTO, BDAUTOCA.

Other Industry

Insurance

Change

- In order to save the farmers from the financial loss caused by natural calamities, a pilot project for 'crop insurance' will be introduced.
- Insurance for 'loss of profit' will also be introduced.
- Existing group insurance system for government employees will be reformed and converted into an integrated insurance system for bringing all government employees under the insurance coverage.

Implication

- The change and introduction of insurance policy system will increase overall Insurance coverage

Related Companies: Leading Insurance companies

RMG Industry

Change

- Provision of reduced rate of taxes for these sectors will continue. Hence, no significant change will take place. The tax rate for readymade garments is 12%. The rate is 10% if there is green building certification. Besides, for textile sector tax rate is 15%.

Implication

RMG sector companies will continue enjoying the current tax exemptions.

Related Companies: Textile and RMG

Other Industry

Telecommunication

Change
- For the services provided through mobile phone SIM / RIM card, supplementary duty will increase from 5 percent to 10 percent.

Implication
- Imposing supplementary duty on mobile operator services will hinder the mission of creating the country into a digital one.

Related Companies: GP

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. Customs duty of imported smart phones will increase from 10% to 25%.
- Customs duty of feature phone will remain unchanged as it is used by relatively poor people

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

Real Estate Industry

Change
- Steps will be taken to bring down stamp duty and registration fees at a reasonable level

Implication
- Reduction of stamp duty and registration fees will facilitate the expansion of the real estate sector on the one hand, and augment the revenue collection on the other.

Related Companies: EHL

Capital Market Implications

Imposition of 15 percent tax on stock dividend

Dividend income from the listed companies shall be tax-free up to Tk. 50,000 for individual investors

Double taxation on dividend from listed companies will also be removed.

Imposition of 15 percent additional tax on so much of retained earnings and reserves as it exceeds 50 percent of the paid up capital of the company.

Scope for merger/amalgamation between solvent and sick companies

- The budget speech FY20 included the announcement imposition of 15 percent tax on stock dividend
- Dividend income from the listed companies shall be tax-free upto Tk. 50,000 for individual investors. Previously the amount was Tk. 25000.
- Apart from this, double taxation on dividend from listed companies will also be removed.
- Imposition of 15 percent additional tax on so much of retained earnings and reserves as it exceeds 50 percent of the paid up capital of the company.
- Scope for Merger/amalgamation between solvent and sick companies will be created.

Implications:

- 15% tax will be imposed on stock dividend which was tax-free in the past. This will allow the stock holders of the companies to enjoy their well deserved return as companies will be more likely to give cash dividend instead of stock dividend.
- Increasing tax-free dividend income will encourage more participation from investors. Doubling the tax exemption will attract investors to the market that will eventually ensure sustainable development of the capital market. It will also ease the crunch of liquidity crisis.
- Double taxation usually encourages companies to reinvest rather than paying out dividend. Therefore, removal of double taxation will encourage companies to pay out more dividend, which in turn will attract more investment into the capital market.
- Imposing 15% tax on retained earnings and reserves as it exceeds 50% of the paid up capital of the company will also encourage the companies to pay out dividend which will also have a similar impact on the capital market investment.
- Scope for merger or amalgamation between solvent and sick companies will increase the depth and sustainability of the capital market in the long run.

Source: Ministry of Finance & LBSL Research

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