



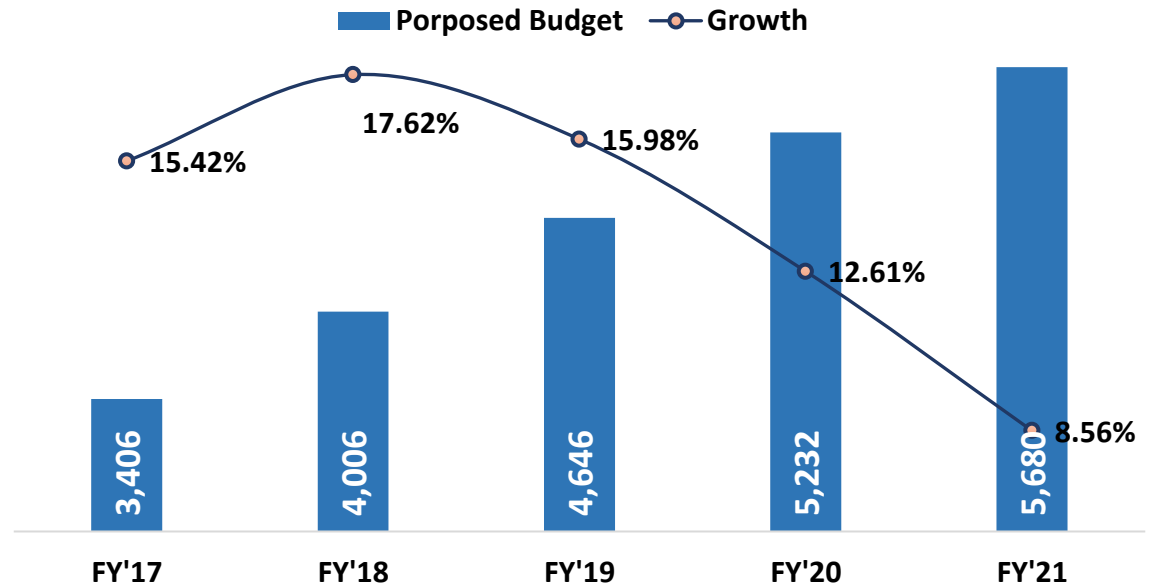
# Bangladesh Budget Insight: FY 21



<b>Total Budget</b>	<b>Revenue Target</b>
BDT 5,680 bn YoY Growth: 13.24%	BDT 3,780 bn YoY Growth: 8.60%
	<b>Budget Deficit</b>
	BDT 1,900 bn % of GDP: 6.00%

<b>8.20%</b> GDP Growth Target 	<b>5.40%</b> Inflation Target 
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### Proposed Budget (BDT bn) & Growth



\*Growth rates are calculated against revised budget FY'20 figures



## Budget Highlights

The COVID 19 pandemic has ravaged the whole world and pushed the world economy on the brink of a depression as economic activity has slowed down around the globe. Bangladesh has not been an exception. Keeping these facts in mind, Bangladesh government has declared the national budget for Fiscal Year (FY) 2020-21 with an expenditure estimate of BDT 5,680 bn (13.24% YoY growth) along with BDT1,900 bn budget deficit. However, implementation of the budget remains the biggest challenge for the government. Amidst the economic slowdown due to nation-wide semi form of lockdown and unexpected layoffs/ job losses, overall achievement of revenue collection target remains challenging.

Govt. has exhausted the banking source by borrowing heavily in last FY and further putting the onus of implementing COVID 19 stimulus packages. In this situation, the govt. has relied on the external sources to finance the declared budget. To alleviate the ongoing liquidity pressure and burden of stimulus package & high bank borrowing, the government has, however, allowed whitening black money without any question almost in every sector – from stocks, real estate to bank deposits effective from July 1, 2020.

The GDP growth target has been set at staggering 8.2% and the Inflation target is 5.4%. However, questions remains whether the GDP target is achievable, as the govt. allocation to ADP has remained almost unchanged from that of last FY. Achievement of the GDP target is also largely contingent on how the pandemic situation evolves and the speed of global recovery from the looming depression.

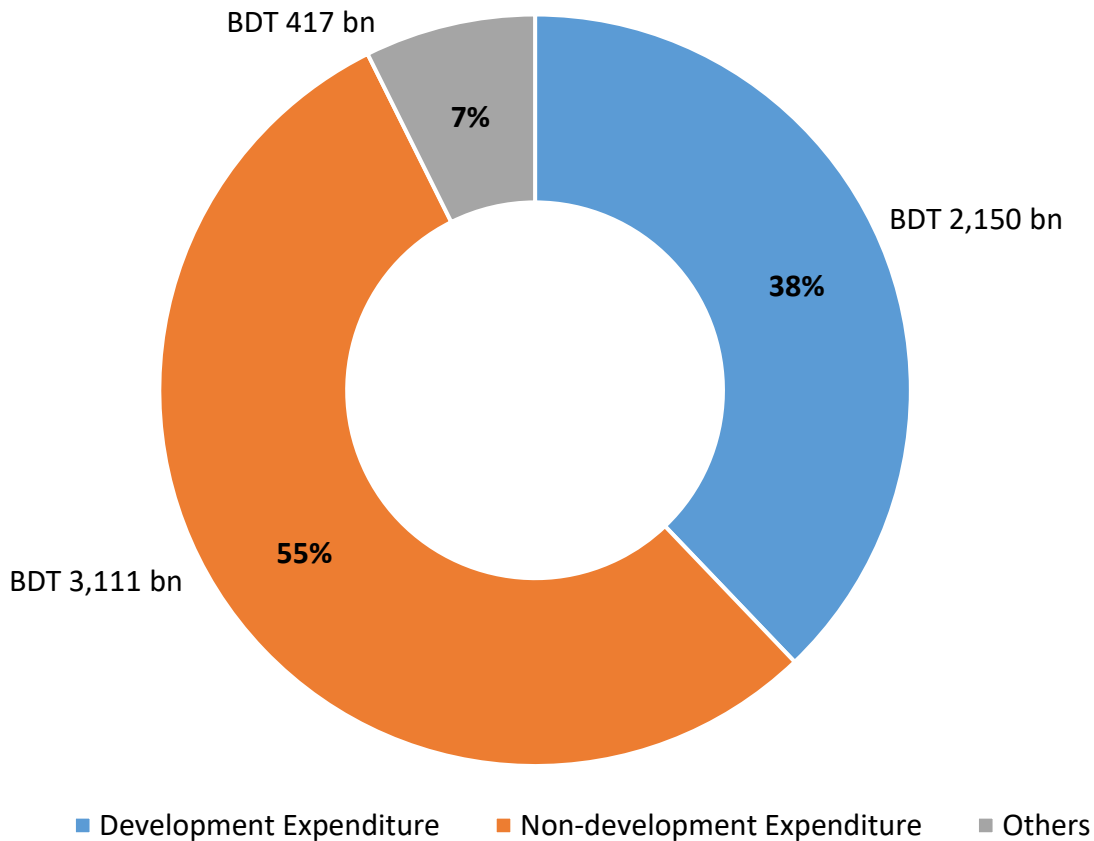
**Table-1: Budget Structure FY 2020-21 (BDT bn)**

	FY'21	R. FY'20	Growth	FY'20
<b>Budget Size</b>	<b>5,680</b>	<b>5,016</b>	<b>13.24%</b>	<b>5,232</b>
% of GDP	17.9%	17.9%		18.1%
<b>Revenue Earnings (A):</b>	<b>3,780</b>	<b>3,481</b>	<b>8.6%</b>	<b>3,778</b>
NBR Tax Revenue	3,300	3,005	9.8%	3,256
Non-NBR Tax Revenue	150	126	19.4%	145
Non-Tax Revenue	330	350	-5.7%	377
<b>Public Expenditure (B):</b>	<b>5,680</b>	<b>5,016</b>	<b>13.2%</b>	<b>5,232</b>
Non-dev Expenditure	3,112	2,749	13.2%	2,779
Dev. Expenditure	2,150	2,023	6.3%	2,117
ADP	2,051	1,929	6.3%	2,027
Others	418	243	71.8%	336
<b>Budget Deficit (B-A):</b>	<b>1,900</b>	<b>1,535</b>	<b>23.8%</b>	<b>1,454</b>
<b>Financing:</b>				
Domestic Sources	1,100	973	13.0%	774
Bank Borrowing	850	824	3.1%	474
Non Bank	250	149	67.6%	300
Ext. Borrowing	800	562	42.5%	680

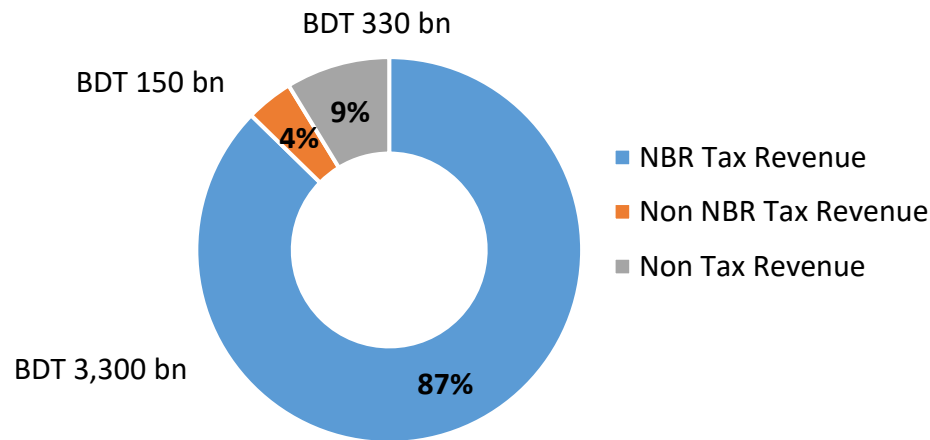
# Budget Allocation- Revenue Sources & Deficit Financing EBL Securities Limited



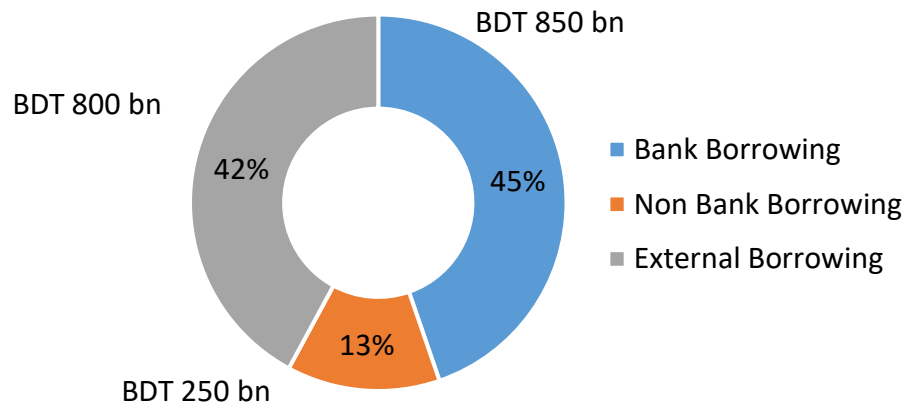
## Budget Allocation (BDT 5,680 bn)



## Revenue Sources (BDT 3,780 bn)



## Deficit Financing (BDT 1,900 bn)



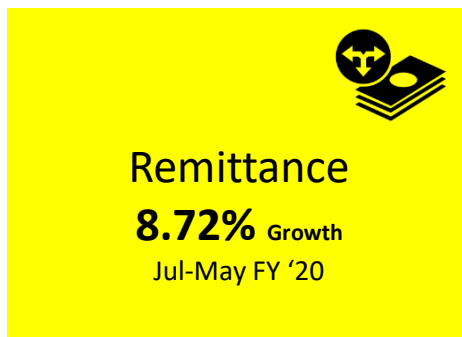


	2018-19	2019-20 P	2020-21 B
<b>GDP Growth Rate</b>	8.15%	5.20%	8.20%
<b>Average Inflation Rate</b>	5.50%	5.50%	5.40%
<b>Investment to GDP Ratio</b>	31.57%	20.80%	33.50%
<b>Public Investment to GDP Ratio</b>	8.03%	8.08%	8.10%
<b>Private Investment to GDP Ratio</b>	23.54%	12.72%	25.3%
<b>Per Capita Income (USD)</b>	1,909	2,079	2,326

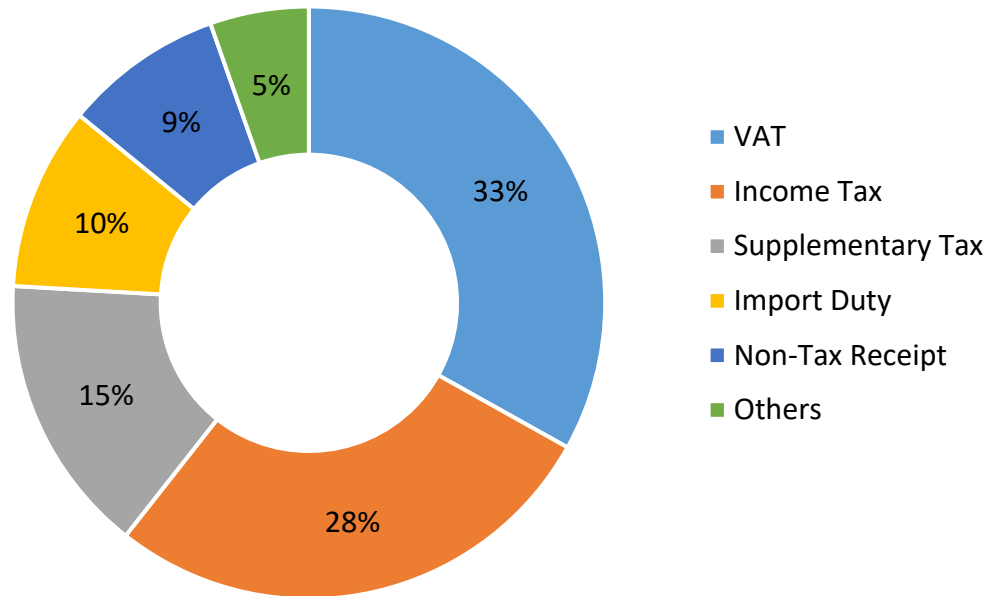
Achievement of an ambitious 8.2% GDP growth target from the slump of 5.2% in FY'20 remains skeptical in light of the distressed condition of several other macro economic indicators. According to several other estimates, namely from World Bank, IMF, CPD- GDP growth will be around from a range of 1% to 3.8%. Public investment to GDP ratio can remain consistent only if all the government's development projects continue in full swing without any interruption. However, to tackle the ongoing pandemic situation, implementation of such projects may become slower.

However, private investment to GDP ratio target also appears to be overestimated due to a very ambitious GDP growth target. Private sector credit growth has been slowing down for a longer period even before pandemic occurred and overall macro economy of the country has not shown any indication for that trend reversal in the next FY. As a result, total achieved Investment to GDP ratio may also fall short from the targeted Investment to GDP ratio.

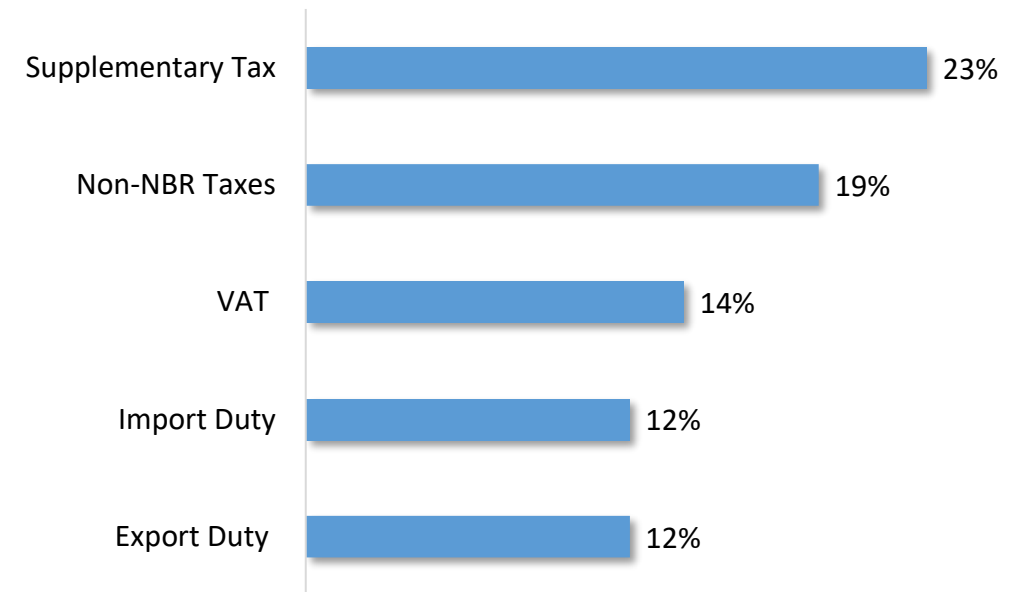
Average inflation rate can be expected to increase as probability of uptick in both food and non food inflation is higher in the post pandemic economy. An inflation target of 5.4% also appears to be an underestimated one considering the expected increase in the price of necessity goods going forward. The CAGR of Per Capita Income (USD) from 2016-17 to 2019-20 is 8.90% while an increase of 11.88% is expected in FY'21. Considering the expected remittance decrease, export drop, inflation increase and lower private sector credit growth, this ambitious target may also not be materialized.



## Govt. Revenue Stream



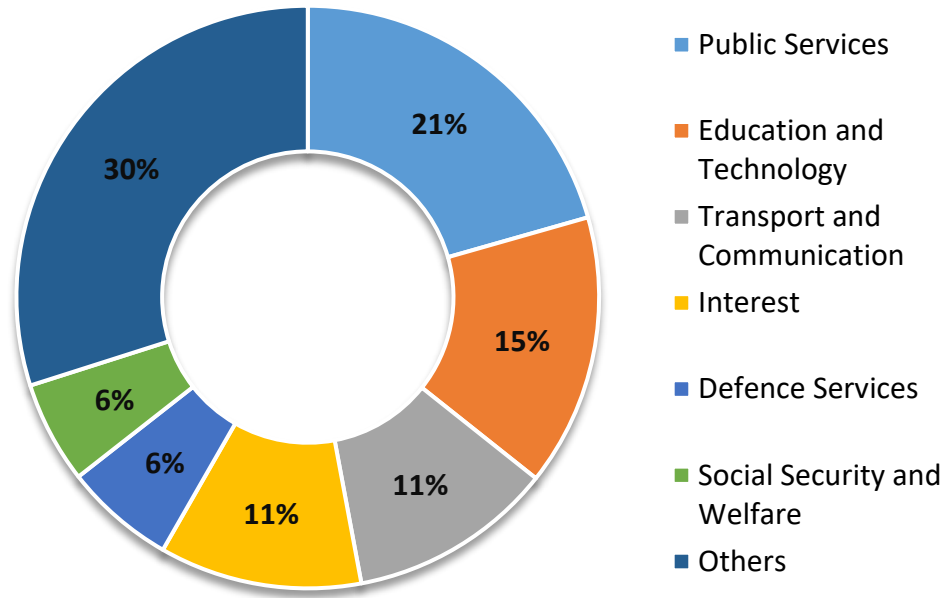
## Incremental Govt. Revenue Stream



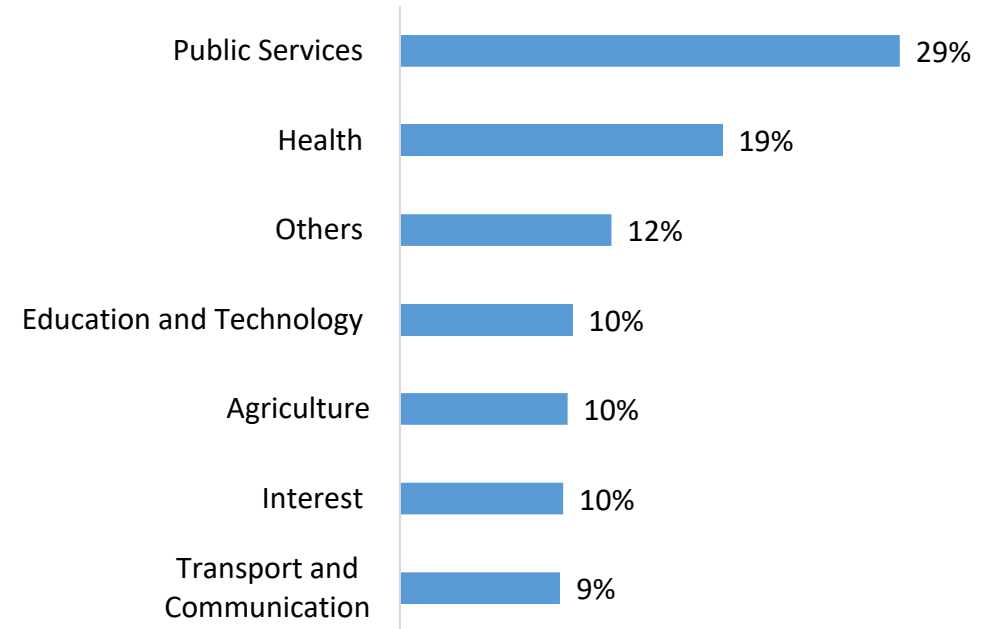
*During the first half of FY'20 NBR fell short of the target by Tk 315.08 billion due to sluggish economic activities. Considering the pandemic hit economic scenario the government is likely to miss its revised target in FY20 and FY21 as well and the budget failed to address looming challenges posed by COVID-19 pandemic on revenue collection. Hence, government might have to heavily depend on bank borrowing or external source of funding to fund the budget.*



## Sectoral Allocation



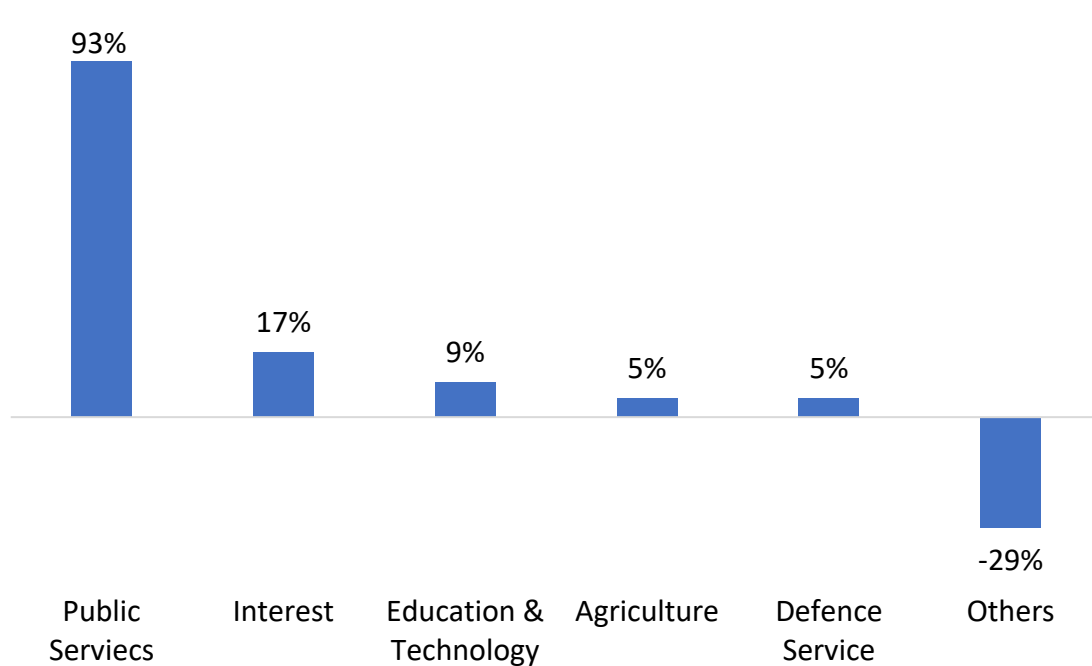
## Incremental Sectoral Allocation



*With this allocation, the share of health budget remains below one percent of the Gross Domestic Product -- only 0.92 percent, lowest compared to its peers in South Asia. The country's public spending on healthcare has been hovering around 1 percent of the GDP for many years, although the World Health Organization recommends it to be at least 5 percent. Public service sector has the highest incremental allocation in FY'21 because of the appointment of additional number of doctors and nurses to fight coronavirus pandemic. Rooppur Nuclear Power Plant and some other unrelated project's inclusion drove up the allocation in education and technology by 10% in FY'21. Additionally, In Budget FY'21 to confront the shocks of the Covid-19 the government has increased the allocation on Social Security and Welfare to cater roughly 9.7 million poor across the country.*

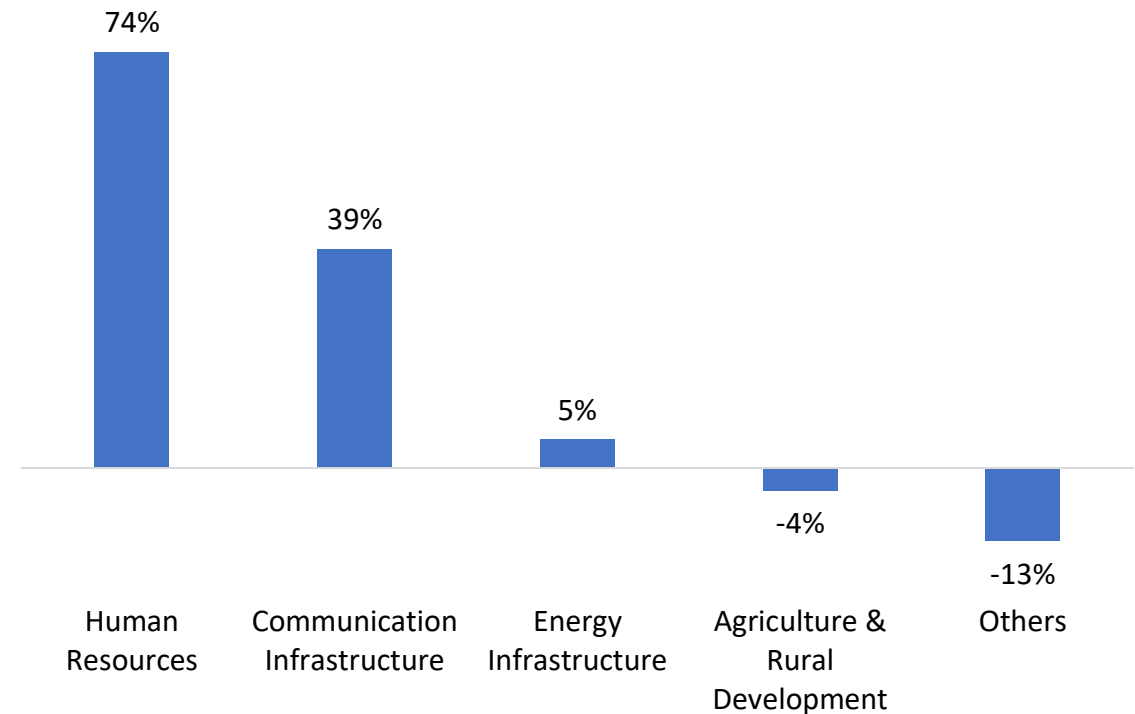


## Incremental OPEX Expenditure



*Govt. has significantly increased Public service expenditure (mostly finance division and Election Commission Secretariat) in the proposed budget, while Interest payment and Education & Technology sector expenditure budget has also been increased.*

## Incremental ADP Allocation



*Health and employment creation have been given higher priority in declared ADP. Human resources sectors (education, health and related other) witnessed 74% increase in allocation, while communication infrastructure sector allocation has also been increased by 39%.*



## Individual Taxation

Income Range (BDT)	Applicable Rate
0 – 300,000	Nil
On Next 1,00,000	5%
On Next 3,00,000	10%
On Next 4,00,000	15%
On Next 5,00,000	20%
On the Balance of Total Income	25%

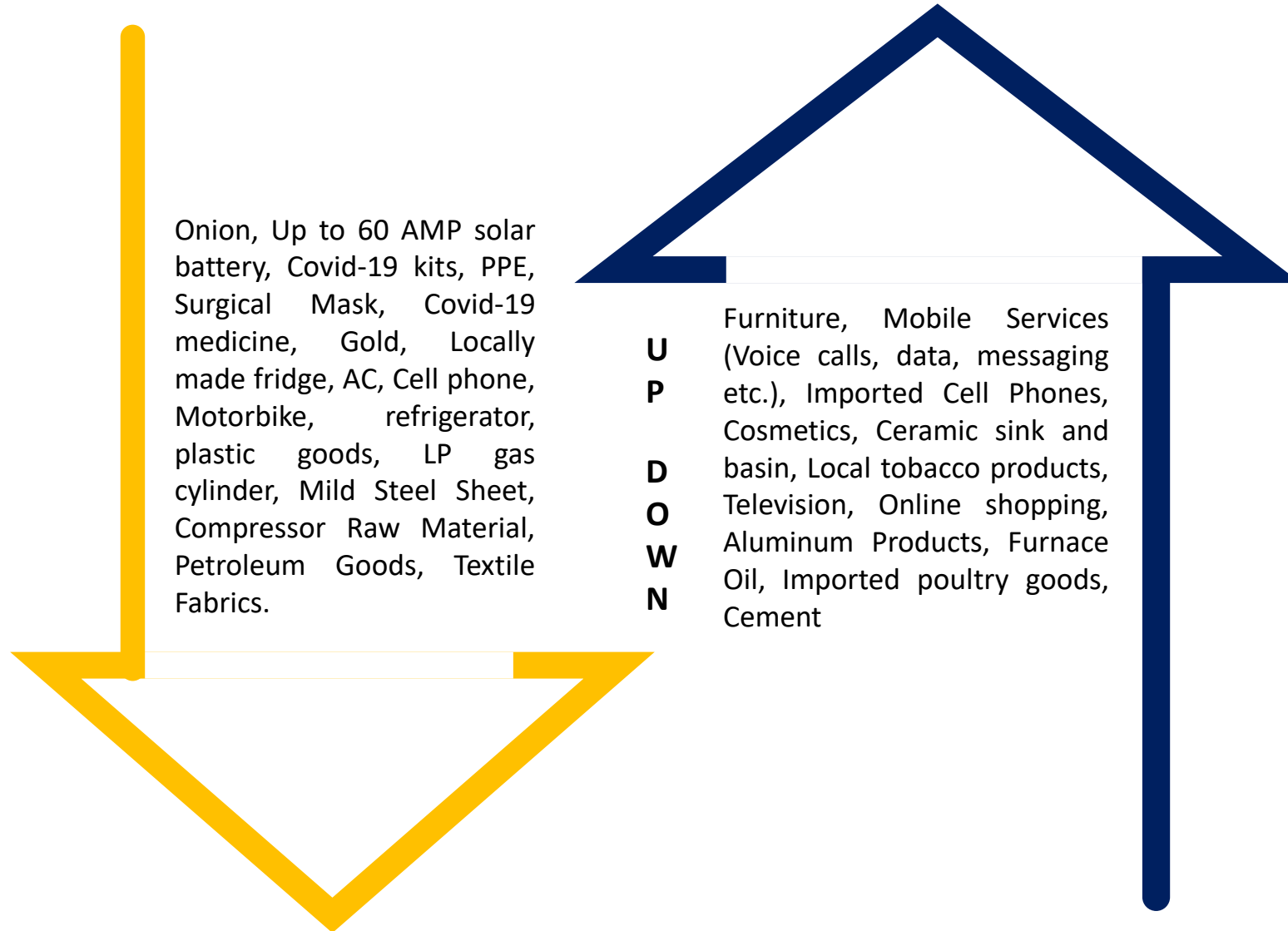
As a part of relieving people from tax burden due to pandemic this year, in proposed budget people from both lower and higher income group slabs will get 5% lower applicable tax rate. Previous tax slabs were: First BDT 2.5 lac nil, next BDT 4 lac 10%, next BDT 5 lac 15%, next BDT 6 lac 20%, next BDT 30 lac 25%, and any amount above this by 30%.

Tax free income threshold has increased after 5 years to provide some reliefs to taxpayers. Mainly, inflation and downfall in income instigated the increase of minimum threshold for tax free income.

## Corporate Taxation

Type of Organization	Existing Rates	Proposed Rates
 Publicly Traded Company	25.0%	25.0%
 Non-Publicly Traded Company	35.0%	32.5%

Corporate tax rate has been reduced by 2.5% for Non-Publicly Traded Companies. Other corporate tax rates have been kept unchanged. Bank and financial institutions have long been demanding for reducing corporate tax to 32 percent from existing 37.5 percent. The demand became acute after virus attack as banks are burdened with implementing stimulus package. Moreover, interest rate cap eroded profitability of banks drastically. But, their demand has not been met as the government is also under pressure of collecting financing amid falling economy.

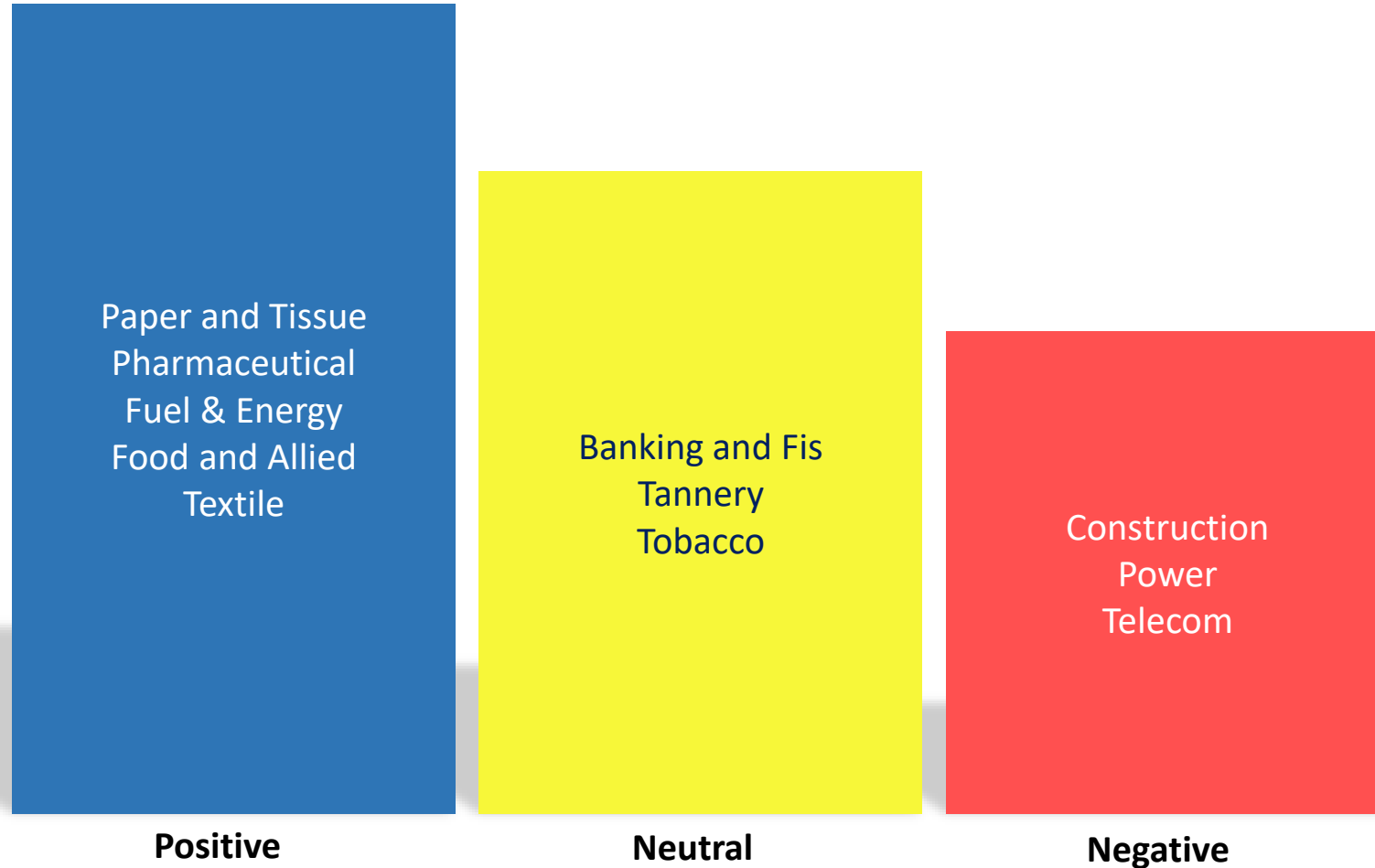




### Policy Measures:

1. Investment of undisclosed money in the capital market by paying ten percent (10%) on such investment, subject to lock-in period of three years. *(If such sum invested is withdrawn from the capital market within three years from the day of such investment, such sum shall be deemed to be income of the assessee for that income year classifiable under the head "Income from other sources". )*
2. Provision of 5% TDS at the time of payment of interest and discount on bonds instead of the existing provision of deduction of source tax 5% upfront on interest and discount on bonds.
3. Proposal to introduce withholding tax deduction on the commission fixed by the BSEC, instead of the present provision of deducting withholding tax on the value of bond transactions.
4. Mandatory provision of declaration of cash dividend instead of stock dividend on at least 50 percent of dividend earnings will remain unchanged.
5. Tax-free the dividend income in the stock market of upto Tk. 50,000 will remain unchanged.
6. Reduction of tax gap between listed and non-listed securities (other than financial institutions, telecom and tobacco) to 7.5% instead of existing 10%.

*Investment opportunity of undisclosed money will assist in increasing long term liquidity and fund flow in market, a demand-side policy measure. However, reduced tax-gap along with compulsory dividend payout clause will discourage companies to become listed in the market.*





## Textile Sector (Positive):

### Policy Measures:

1. Imposition of fixed VAT at the rate of BDT 6 per kg from the existing 5 percent ad valorem VAT on Polyester, Rayon and all other Synthetic Yarn and at the rate of BDT 3 per kg from the existing BDT 4 per kg on all kinds of Cotton Yarn.
2. Reduction of Custom Duty from 25% to 15% for RFID TAG Imported by Industrial IRC Holder VAT Compliant 100% Export Oriented Textile Industry.
3. Reduction of Custom Duty from 25% to 15% for Industrial Racking System Imported by Industrial IRC Holder VAT Compliant 100% Export Oriented Garments Industry.
4. Continuation of additional 1 percent export incentive.
5. Extension of the deadline by two years of special tax of 10% for RMG factories with green building certification and 12% for RMG factories without such certification.
6. Reduction of withholding tax to 0.5% from 1% through amendment of income tax ordinance. However, this is an increase from currently applicable withholding tax of 0.25% which was imposed through an SRO in October, 2019.
7. Proposal of VAT exemption for locally manufactured Personal Protective Equipment (PPE) and Surgical Mask (including face mask) to protect health workers.

*In the primary textile industry, cost of raw material and cost of manufacturing would decrease as a result of amendment of the VAT imposition mechanism and reduction of custom duty. Continuation of export incentive, special tax rate and reduction of withholding tax would give much needed relief to RMG manufacturers in the current troubled time. Companies manufacturing PPE and surgical mask would also benefit from VAT exemption on PPE and surgical mask. Benefited companies will be all the companies listed under Textile sector.*



## Fuel & Energy Sector (Positive):

### Policy Measures:

1. Concessionary tax benefits on several new raw materials and rationalize existing tax benefits for LPG Cylinder and Auto Tank Industry.
2. Exemption of import duty in excess of 3% on Imported machineries, parts, conversion kits, Cylinders for CNG refueling and setting up CNG filling stations.
3. Proposal to reduce the existing customs duty rate on the import of base oil, the main raw material of the lube-blending industry.

*Cost of producing LPG Cylinders, Setting up CNG stations, CNG conversion cost will decline. Import cost of base OIL will also drop. So, profitability margin of such companies will improve. MJLBD, NAVANACNG, INTRACO, EASTRNLUB will be benefitted.*

## Paper and Tissue Sector (Positive)

### Policy Measures:

1. Reduced CD on import of washing and cleaning agent from 25% to 15% which are used in paper mills
2. Decreased CD on the import of raw material, Textile backed sheet/ Non-woven air through bonded for the production of sanitary napkin and diaper

*As per the proposed policy, reduced CD on the import of washing and cleaning agent which are used in paper mills will decrease their production costs thus improve gross margin. Besides decreased CD on raw materials used for the production of sanitary napkin and diaper will reduce their production costs as well. Among the listed companies BPML, HAKKANIPUL and KPPL will be benefitted for the proposed budgetary changes.*





## Pharmaceutical Sector (Moderate to Positive)

### Policy Measures:

1. VAT exemptions on Test kits of Covid-19, locally manufactured Personal Protective Equipment (PPE) and Surgical Mask and COVID-19 medicines.
2. Besides, some materials used for cancer, hyper tension and blood pressure medicines are exempted from VAT

*COVID-19 is a global crisis and its vaccines are yet to be introduced. To combat with the crisis its essential to lower the costs of medicines, test kits and PPE and in current budget proposed VAT exemption will help to lower the costs of them. Besides, like previous budgets, VAT exemptions are continued in import of cancer medicines and this list also included some materials used in the drug production of hyper tension and blood pressure. Among the listed companies BEACONPHAR has specialization in cancer drug production. Whereas pharma companies like ACME LAB, BXPHARMA, SQRPHARMA etc. all have generic drugs for hyper tension and blood pressure thus will be benefitted for such VAT exemptions. .*

## Food & Allied Sector (Moderate to Positive)

### Policy Measures:

1. Reduction of CD on agricultural machinery and its spare parts to 1% from 5-10%. Such items are roller chain, ball bearings, m.s sheet (1mm-3mm), gear boxes and parts, steering, tire used, tube, wheel parts, blower for grain dryer and coated electrodes of base metal.
2. Products of poultry/dairy/fisheries on which CD has been reduced to 0% from existing 5-10% are soybean oil cake and soya protein concentrate and SD has been increased to 15-20% on fresh or chilled and frozen cuts offal of fowls to protect domestic industry.
3. Proposed CD rate on onions Wrapped/canned upto 2.5 kg or onions in bulk to 5% from existing 0%.

*Reduction of CD (custom duty) on agricultural machinery and its spare parts will modernize the agriculture sector, which will in turn comply with the government's aim to increase food production. Then, Import price of raw material to produce poultry/dairy/fisheries feed will decrease due to decrease in CD (custom duty). Proposed increase of SD (standard duty) on fresh or frozen cuts offal are aimed at protecting domestic industry. Cost of imported spices will increase due to increase in CD (custom duty).*

## Banking and Financial Institution Sector (Moderate to Negative)

### Policy Measures:

1. Increased Excise Duty on Bank Balance (BDT 3,000 from BDT 2,500 for Balance between BDT 10 lac to BDT 1 crore, BDT 15,000 from BDT 12,000 for balance within the range of BDT 1 crore to BDT 5 crore and BDT 40,000 from BDT 25,000 for balance above BDT 5 crore).
2. As a part of reforming the Bank and FI sector, the task of amending 10 existing laws, and drafting 6 new laws are in the process. Besides, 2 dedicated branches were setup for speedy disposals of cases related to financial and revenue sectors.
3. Central database for large credit (CDLC) has been established for close monitoring of large loans and strengthening the monitoring system of banks and FIs. Besides, policy drafting on Financial Stability Map and guideline on Stress Testing to consider systematic risk are in progress.

*For the reformation and central database initiatives, good governance and asset quality in the banks and FIs may improve. Single-digit lending rate (implemented from April'20) has already made it less attractive to keep bank deposits. However increasing costs of keeping deposits in banks in the form of increased excise duty will make it costlier for depositors to keep bank deposits.*

## Tannery Sector (Moderate to Negative):

### Policy Measures:

1. Reduction in Custom Duty from 25% to 15% for import of Textile Fabrics Laminated with Polyvinyl Chloride Imported by Industrial IRC Holder VAT Compliant Footwear Manufacturing Industry and Textile Fabrics Laminated with Polyurethane (Artificial Leather) Imported by Industrial IRC Holder VAT Compliant Footwear Manufacturing Industry.
2. Reduction in Supplementary Duty from 20% to 0% for import of Printed Knitted or Crocheted Fabrics Imported by Industrial IRC Holder VAT Compliant Footwear Manufacturing Industry.
3. Proposal to increase the existing duty rate on industrial salt (sodium sulfate/ disodium sulfate).

*Manufacturing cost of footwear manufactured with the above mentioned raw materials will decrease. Benefitted listed companies will be: BATASHOE, APEXFOOT, FORTUNE and LEGACYFOOT. Duty rate increase on industrial salt would increase the manufacturing cost of APEXTANRY as industrial salt is used to preserve rawhides.*

## Tobacco Sector (Moderate to Negative)

### Policy Measures:

1. Re-Fixation of tariff structure with minor increase in retail prices of low, high and premium segment.
2. Increase of Supplementary duty by 200 basis point on Low segment cigarettes.
3. Increase in the prices of Filter and Non-Filter biri, Jarda, Gul.
4. 1% minimum tax for the manufacturer of cigarette, bidi, chewing tobacco, smokeless tobacco or any other tobacco products.

*Due to low price elasticity volume sales of the cigarette wont be affected due to price hike. However, increase in supplementary duty of low segment will have negative impact on earnings to cigarette manufacturing companies as Low segment contributes 60% of the industry volume sales. BATBC is the listed company in this sector which will be negatively affected due to these measures.*

Proposed Changes in Tobacco Tariffs & SD						
Cigarette	Price (10 Sticks)			Supplementary Duty		
Segment	Exiting	Proposed	Change	Existing	Proposed	Change (bp)
Low	BDT 37	BDT 39	+5.4%	55%	57%	+2%
Medium	BDT 63	BDT 63	+0.0%	65%	65%	0%
High	BDT 93	BDT 97	+4.3%	65%	65%	0%
Premium	BDT 123	BDT 128	+4.1%	65%	65%	0%
Bidi	Price			Supplementary Duty		
Segment	Exiting	Proposed	Change	Existing	Proposed	Change
Non-filter bidi (25 Sticks)	BDT 14	BDT 18		30%	30%	0%
Non-filter bidi (12 Sticks)	BDT 6.72	BDT 09		30%	30%	0%
Non-filter bidi (8 Sticks)	BDT 4.48	BDT 06		30%	30%	0%
Filter bidi (20 Sticks)	BDT 17	BDT 19		40%	40%	0%
Filter bidi (10 Sticks)	BDT 8.5	BDT 10		40%	40%	0%



## Engineering Sector (Moderate to Negative):

### Policy Measures:

1. Reduction of duty on lubricating/cutting oil /anti-rust preparations containing petroleum or bituminous mineral oils from 10% to 1%.
2. Reduction of duty on Artificial Graphite from 10% to 1%.
3. Expansion of the existing concessionary duty benefit on the import of raw materials by the refrigerator and air conditioner compressor manufacturing industry.
4. Increase in the VAT on the showroom stage of furniture from the existing 5% to 7.5%.

*Reduction of duty on compressor raw materials would reduce the cost of manufacturing for local manufacturers of compressor. Expansion of the existing concessionary duty would also help the refrigerator and air conditioner compressor manufacturer to maintain current manufacturing cost level. Benefitted listed companies of both these policy measures will be- SINGERBD and WALTONHIL. VAT increase on the showroom stage of furniture would negatively impact SINGERBD as it would increase its distribution cost.*

## Power Sector (Negative)

### Policy Measures:

1. Proposal to withdraw the duty exemption benefit on the import of furnace oil to discourage the installation of furnace oil-based power plants.
2. Reducing Source Tax on wheeling charge - for base price up to BDT 2.5mn (2% proposed vs existing 4%) and for base price above BDT 2.5mn (3% proposed vs existing 5%)

*Cost of power generation by furnace oil-based power plants will increase and government will reduce power generation from such plants. Companies having HFO based powerplants like: KPCL, BARAKAPOWER, DOREENPWR, UPGDCL, CONFIDCEM, PTL, SUMITPOWER will be negatively affected. Net revenue of POWERGRID will increase as lower Source Tax will be deducted from Gross Revenue resulting from wheeling charge.*



## Construction Sector (Negative)

### Policy Measures:

1. **Steel Industry:** Tax deducted at source on supply of locally sourced M.S. scrap has been reduced to 0.5 percent from 5 percent. Regulatory duty of three raw materials (Ferro-Manganese, Ferro-Silicon, Ferro-Silico-Manganese) has been increased to 15 percent from 10 percent.
2. **Ceramic Industry:** Supplementary duty at the rate of 10 percent has been proposed on Ceramic Sink, Basin, etc. at the manufacturing stage.
3. **Cement Industry:** Customs duty has been increased to 15 percent from 10 percent for prepared additives for cements, mortars or concretes

*Increased RD (Regulatory duty) for steel industry and CD (Customs duty) for cement industry may push production cost and hurt the already beleaguered industries. The increased Supplementary duty at manufacturing stage of Ceramic Sink, and Basin shall increase production cost for ceramic manufacturers as well. The proposed budget may create added concern for construction sector companies as the govt. has not given any road map about mega project implementation. Work on major projects have experienced a massive setback after government announced a shutdown at the end of March this year to combat the coronavirus crisis.*

## Telecom Sector (Negative)

### Policy Measures:


1. Proposal to increase supplementary duty from 10 percent to 15 percent on the services provided through mobile phone SIM/RIM card.
2. Extension of VAT exemption facility on manufacturing of mobile phone sets and only 5% VAT rate on mobile phone set assembling for another year


*Cost of mobile phone based services will increase and average minutes per user might decline due to increase cost of voice calls while OTT calls will increase. Resultantly, mobile phone operators might experience de-growth in voice call. GP will be adversely affected due to the measures*

## Contact us

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