

Bangladesh National Budget Review

FY 2021-22

City Bank Capital



Budget Highlights

GDP Target

7.20% against Revised
6.10% in FY'21

Inflation Target

12-Month Average 5.3%

Budget Size

6.0 Trillion, 12.0% Higher
Than Revised Budget

Revenue Target

3.9 Trillion (64.4% of Total
Budget)

Budget Deficit

2.1 Trillion (35.6% of Total
Budget)



Executive Summary

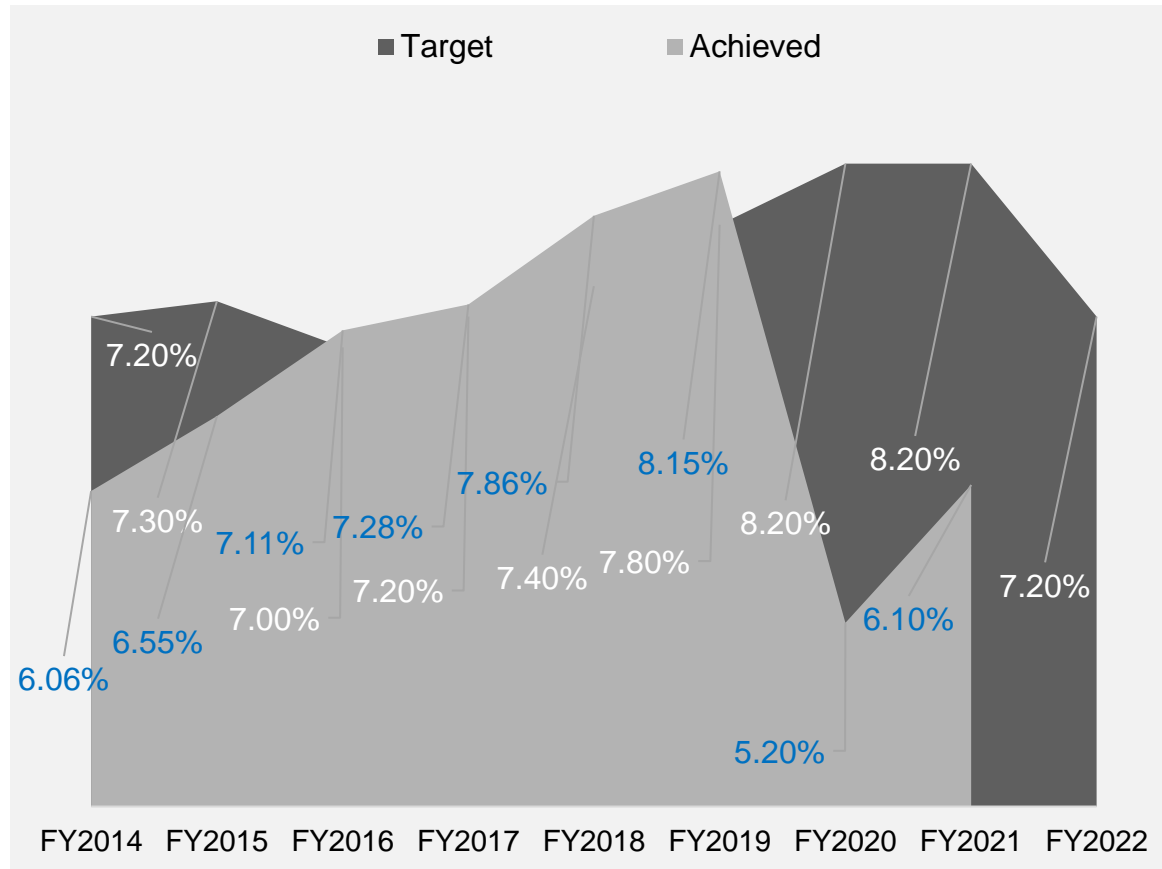
- Government declared BDT 6,036.8 billion budget for FY 2021-22 which is 12.% higher than revised budget and 17.5% of nominal GDP.
- BDT 3,288.4, 2,370.8 and 377.6 has been allocated for non development, development and other expenditure respectively.
- Total Revenue target is BDT 3,890.0 billion of which BDT 3,300 bn from NBR tax and rest of the amount from non NBR tax & non tax receipts.
- Proposed budget deficit is BDT 2,146.8 billion which is 14.5% higher than the revised budget and 6.2% of nominal GDP. Government proposed to collect BDT 1,012.3 billion and 1,134.5 billion from external and domestic sources respectively.
- GDP Growth target has been set at 7.20% riding on the expectation of COVID recovery in FY 2021-22. Inflation target is 5.3%
- Proposed to borrow BDT 764.5 billion from banking system to meet the budget deficit which is 35.6% of deficit budget and 12.7% of total budget. Proposed bank borrowing target is 4.1% lower than the revised budget.
- Proposed non-bank borrowing target is BDT 370.0 billion of which BDT 320.0 billion is expected to be sourced by selling national savings certificate against the revised target of BDT 303.0 billion.

Executive Summary (Continued)

- To improve the business environment corporate tax rate is lowered by 2.5% for both listed and Non-listed companies. Tax Rate for individuals are kept unchanged. However, business turnover tax for individual taxpayers is reduced to 0.25% from 0.50%.
- Depreciation allowance rate is reduced for tax purposes from 10% to 5% for ordinary buildings, and 20% to 10% for factory buildings. This will improve the profitability of the companies especially those having higher fixed assets.
- Tax exemption is given on the applicable capital gain tax at the time of transferring property to a trust or Special Purpose Vehicle, or transferring property by a trust or Special Purpose Vehicle, vice versa, with a view to popularizing and creating a strong market for Sukuk or Islamic bond. However, exemption of stamp duty and registration taxes could also be granted to promote this new financing product.
- Mandatory financial inclusion and imposing higher taxes on informal channel transaction will give boost to the transaction of Mobile Financial Services as well as their revenue. Moreover, the size of the formal economy will also expand through this measure. On the other hand, higher corporate taxes will reduce the profitability of Mobile Financial Services Companies significantly once they starts making profit.
- Automobile manufacturer who produce 3-wheeler and 4-wheeler will get 10 year's of Tax Exemption facility subject to certain conditions. Home & Kitchen Appliance Manufacturer will also get the same benefit.
- To promote local construction sector and reduce the price of construction materials, tax on raw material import for Cement Sector is reduced from existing 3% to 2%.

GDP Growth Target is 7.20%

Historical GDP Growth Target vs. Achievement



- GDP Growth target has been set at 7.20% riding on the expectation of COVID recovery in FY 2021-22. Moreover, invention of COVID vaccine, global recovery from pandemic, growth in export & import and record breaking remittance growth will help to achieve this target.
- However, outbreak of Indian variant and expectation of third wave of COVID-19 in Bangladesh can make it challenging to achieve 7.2% growth in GDP.
- According to forecast of ADB, GDP of Bangladesh may increase by 7.20% in FY 2021-22.
- In last 10 years, average GDP growth in Bangladesh was around 6.7%.
- In FY 2020-21, government initially set GDP target at 8.20% and it had to revised at 6.1% in the ongoing fiscal year.

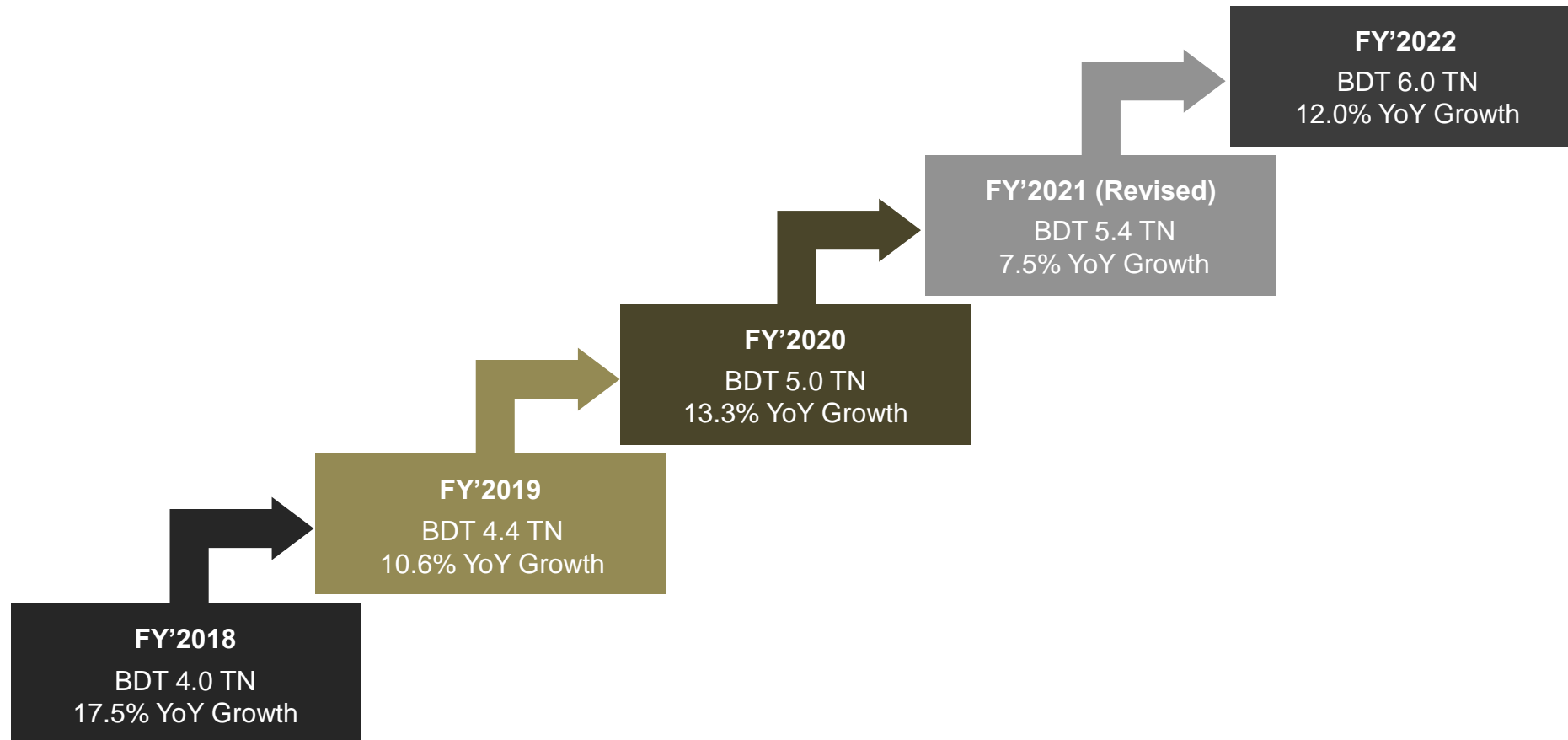
Budget Summary

Budget Summary

	Revised FY'2021	FY'2021-22	YoY Growth in %
Revenue	3,515.3	3,890.0	10.7%
NBR Tax	3,010.0	3,300	9.6%
Non-NBR Tax	150.0	160.0	6.7%
Non Tax Receipts	355.3	430.0	21.0%
Expenditure	5,389.8	6,036.8	12.0%
Non-Development expenditure	3,025.5	3,288.4	8.7%
Development expenditure	2,080.3	2,370.8	14.0%
Others	284.1	377.6	32.9%
Budget Deficit	1,874.5	2,146.8	14.5%
External Sources	724.0	1,012.3	39.8%
Domestic Sources	1,150.5	1,134.5	(1.4%)
<i>Bank Borrowing</i>	797.5	764.5	(4.1%)
<i>Non-bank Borrowing</i>	353.0	370.0	4.8%

- Government declared BDT 6.0 trillion budget for FY 2021-22 which is 12.0% higher than the revised budget of BDT 5.4 trillion in FY 2020-21.
- BDT 3.3 trillion has been allocated for Non-development expenditure, BDT 2.4 trillion for development expenditure and BDT 377.6 billion for other purpose.
- Revenue target is set at BDT 3.9 trillion which is 10.7% than revise budget of previous year and 64.4% of total.
- Out of total revenue, government targeted BDT 3,300 billion from NBR tax followed by BDT 160 billion and 430 billion from Non-NBR tax and Non tax receipts respectively.
- Proposed budget deficit (BDT 2.1 trillion) is 14.5% higher than the revised budget. Government proposed to collect BDT 1.0 trillion and 1.1 trillion from external and domestic sources respectively.

Historical Budget Growth in Bangladesh

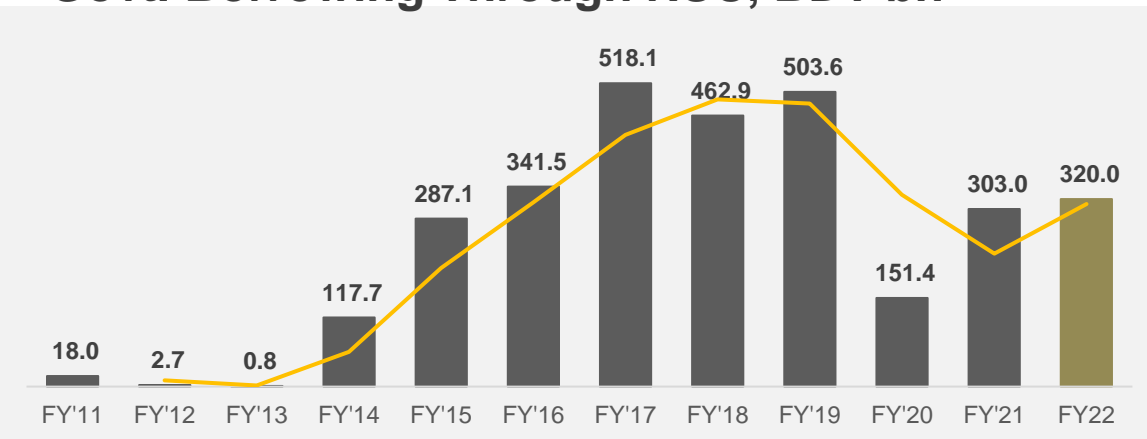


Bank Borrowing Target Slashed Slightly After Four Years

Govt. Bank Borrowing, BDT bn



Govt. Borrowing Through NSC, BDT bn



- Government targeted deficit budget of BDT 2.15 trillion which is 35.6% of total budget and 6.2% of nominal GDP.
- Government proposed to borrow BDT 764.5 billion from banking system to meet the budget deficit which is 35.6% of deficit budget and 12.7% of total budget. Proposed bank borrowing target is 4.1% lower than the revised budget.
- In FY 2020-21, bank borrowing target was BDT 849.8 billion and in current fiscal year it has been revised at BDT 797.5 billion due to the lower execution of ADP expenditure and higher sales in national savings certificate.
- Proposed non-bank borrowing target is BDT 370.0 billion of which BDT 320.0 billion is expected to be sourced by selling national savings certificate against the revised target of BDT 303.0 billion.
- Higher NSC rate compared to the deposit rate in commercial bank is expected to help to meet the targeted deficit financing from savings certificate.

Sectoral Allocation of Budget FY 2021-22

Power and Energy
BDT 174.8 bn (4.6% of Total Budget)

Ministry of Education
BDT 364.9 bn (6.0% of Total Budget)

Transport and Communication
BDT 694.7 bn (11.5% of Total Budget)

Ministry of Health and Family Welfare
BDT 259.1 bn (4.3% of Total Budget)

Agriculture and Rural Development
BDT 741.0 bn (12.3% of Total Budget)

Road Transport and Highways Division
BDT 329.4 bn (5.5% of Total Budget)

Interest Payments
BDT 685.9 bn (11.4% of Total Budget)

Ministry of Railways
BDT 175.4 bn (2.9% of Total Budget)

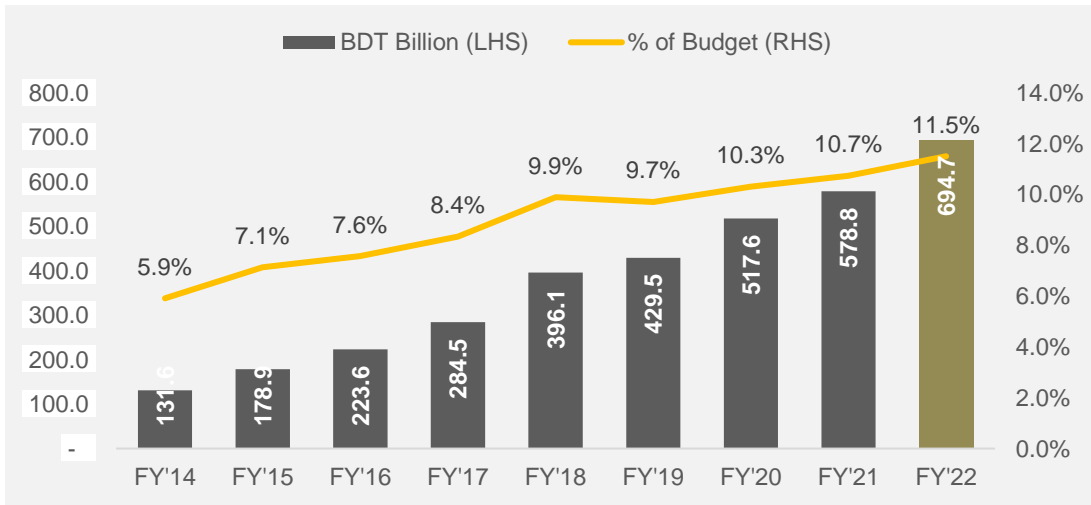
Food and Social Safety
BDT 146.6 bn (2.4% of Total Budget)

Others
BDT 2,639.8 bn (43.7% of Total Budget)

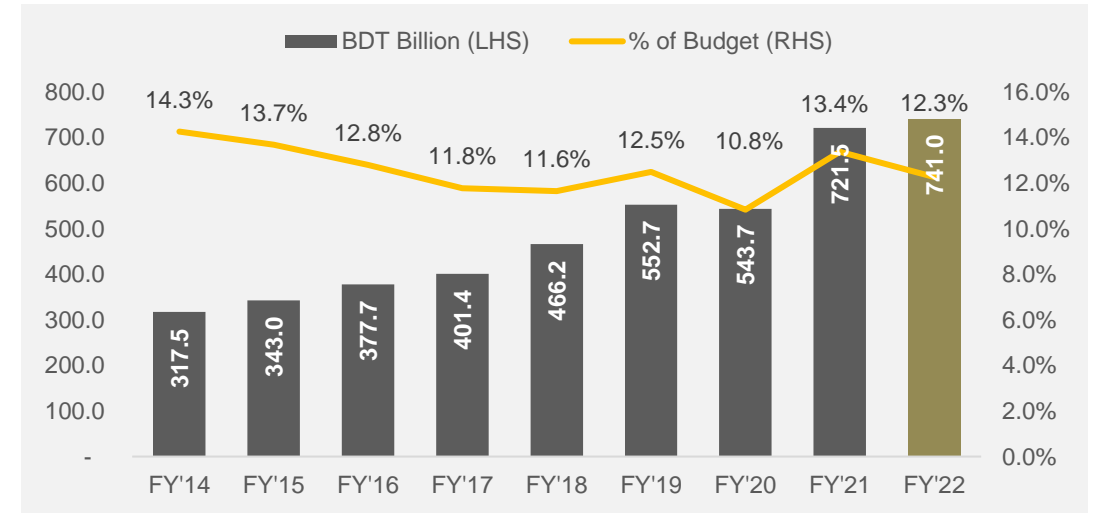


Allocation in Transportation & Communication Increased By 20.0%

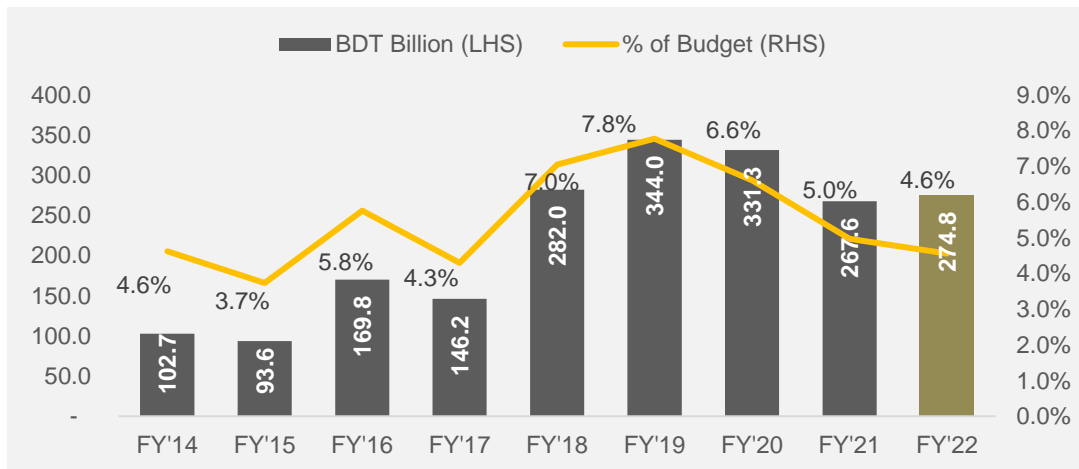
Allocation in Transportation & Communication, BDT bn



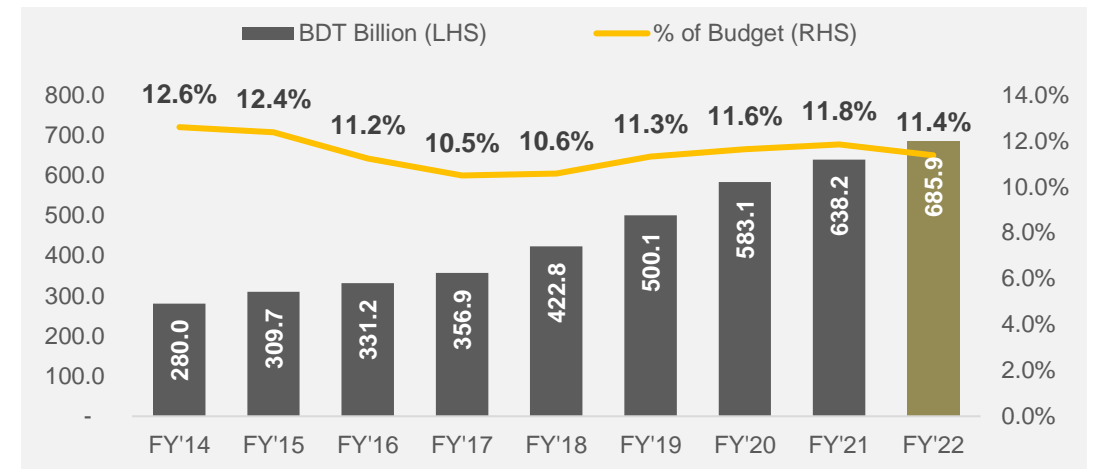
Allocation in Agriculture Sector, BDT bn



Allocation in Energy & Power Allocation, BDT bn

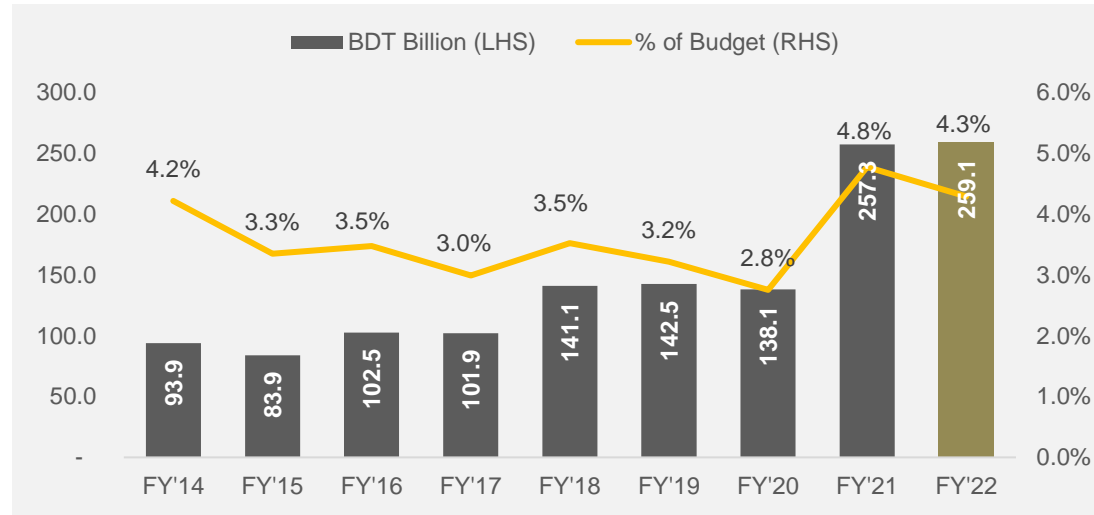


Allocation in Interest Payments, BDT bn

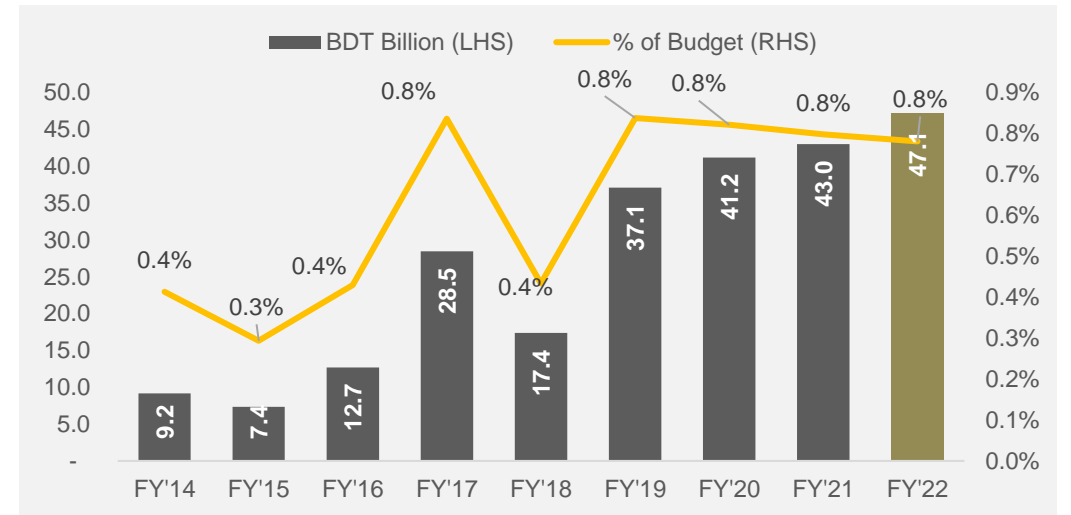


Health Sector Allocation is Disregarded in COVID Pandemic

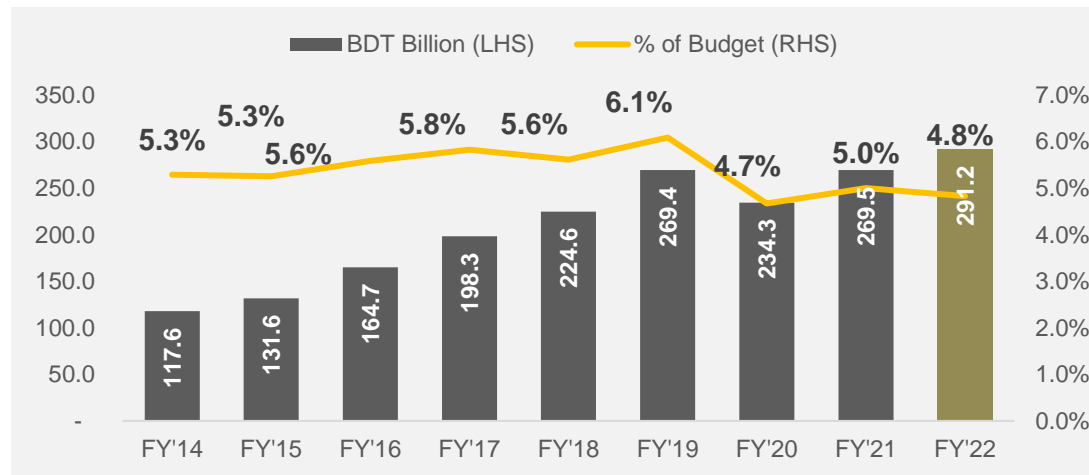
Allocation in Health Sector, BDT bn



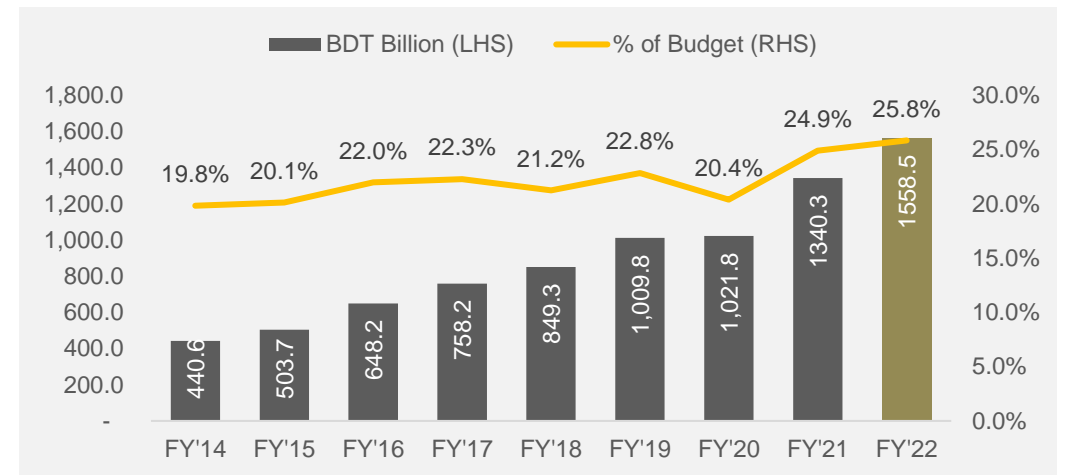
Allocation in Ministry of Food, BDT bn



Allocation in Public Order and Safety, BDT bn

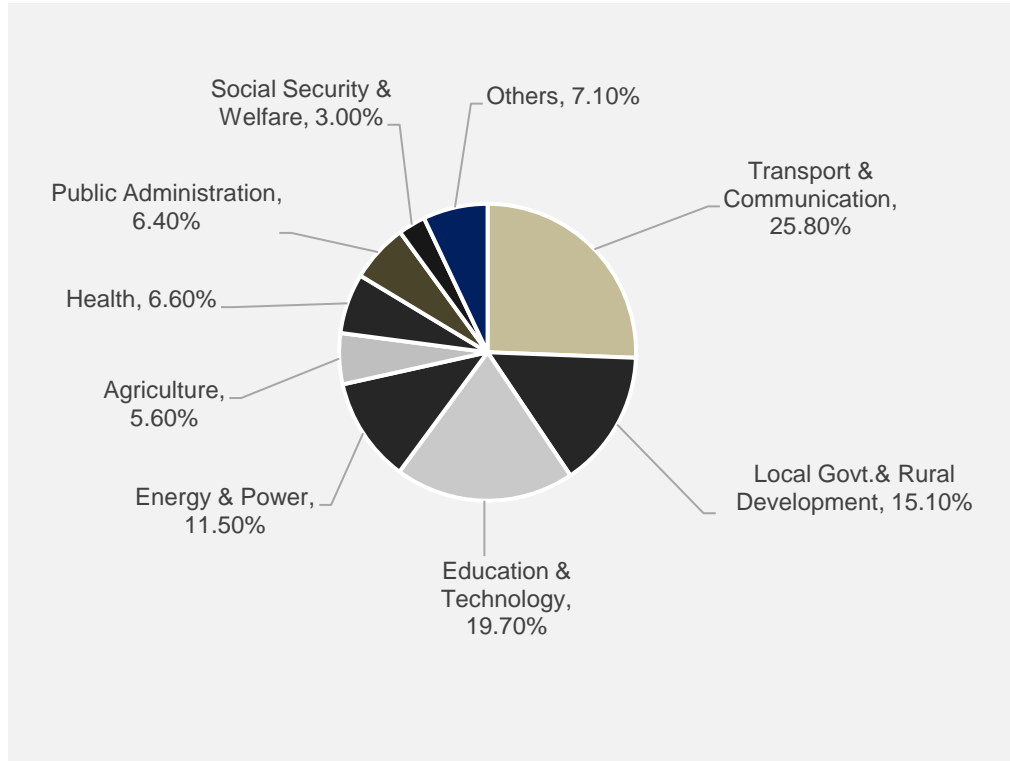


Allocation in Human Development, BDT bn

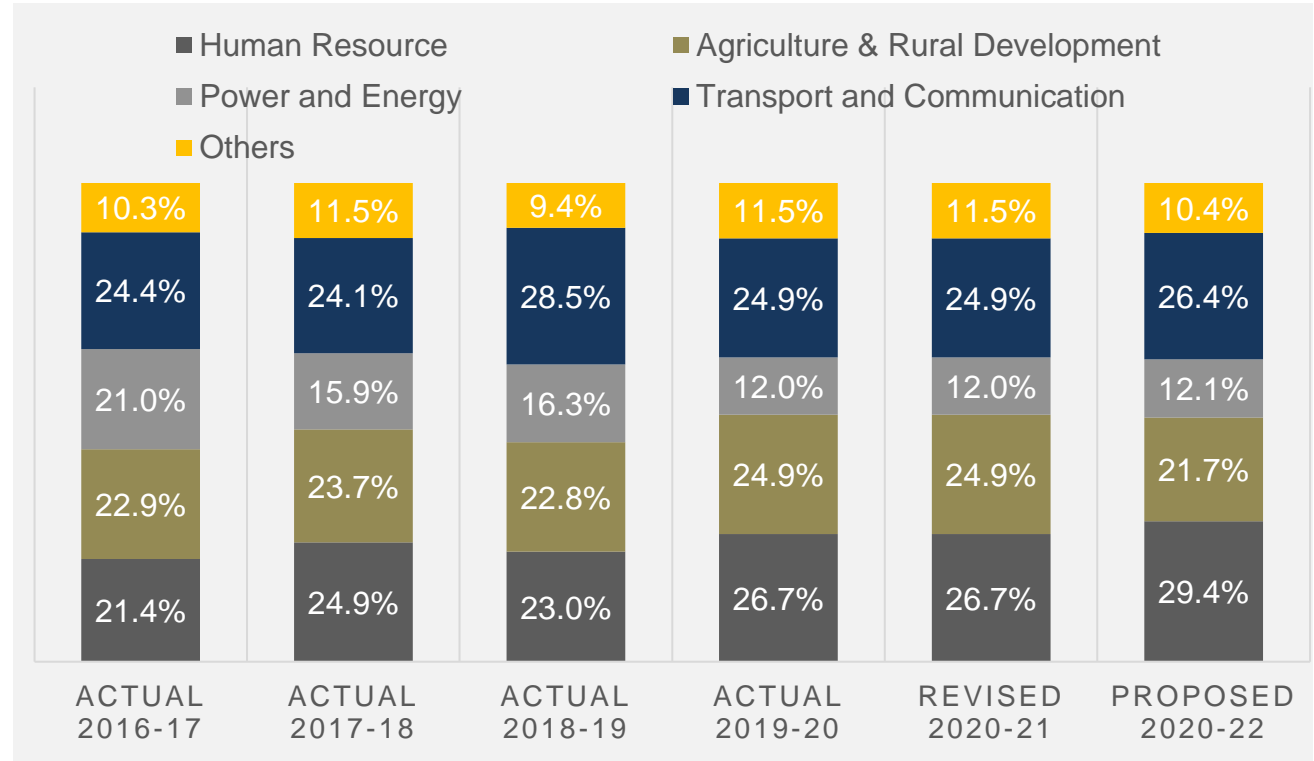


Allocation For ADP and Development Expenditure

Sectoral Allocation For Development Budget FY2021-22, BDT 2,370 bn



Sectoral Allocation For Annual Development Program, BDT 2,253 bn



Corporate Tax for Listed & Non-Listed Companies Reduced

Corporate Tax Rate	Publicly Traded		Non-Publicly Traded	
	Existing	Proposed	Existing	Proposed
Company other than Specified	25%	22.5%	32.50%	30.0%
Bank, Insurance and Financial Institution (Except Merchant Bank)	37.5%	37.5%	40.0%	40.0%
Cigarette Manufacturer:	45.0%	45.0%	45.0%	45.0%
Mobile Operators	40.0%	40.0%	45.0%	45.0%
Mobile Financial Services (MFS)	32.5%	37.5%	32.5%	40.0%

Corporate Tax Rate	Existing	Proposed
Merchant Bank	37.5%	37.5%
Dividend Income	20%	20%
Minimum Turnover Tax	0.50%	0.25%

- Government proposed to reduce the corporate tax rate for listed companies from 25% to 22.5%.
- Corporate tax rate for Non-listed companies reduced further in this budget to 30%. Last year, tax rate for Non-listed companies reduced from 35% to 32.5%.
- Gap between the tax rate of listed and Non-listed companies is kept the same at 7.5%.
- Corporate tax rates for Banks, Fis, Insurance, Tobacco and Telecom are kept unchanged.
- The existing tax rate of 32.5% for companies applicable as one-person companies (OPCs) was slashed down to 25% as well.
- A 5.0% corporate tax will be waived if any company recruits 100 members of the transgender community.
- The budget also proposed to reduce the tax burden for the industrial entrepreneurs of Bangladesh by decreasing Advance Tax (AT) from 4.0% to 3.0% for import of raw materials for industries.

Income Tax remain unchanged, Third gender brought under tax base

Tax-free Income Threshold	Existing	Proposed
General Taxpayers	BDT 3,00,000	BDT 3,00,000
Women & Senior Citizen (65+)	BDT 3,50,000	BDT 3,50,000
Physically Challenged	BDT 4,00,000	BDT 4,00,000
War-wounded gazetted freedom fighters	BDT 4,25,000	BDT 4,25,000
Third Gender	Nil	BDT 3,50,000

Tax Slab on Income	Existing	Proposed
On first Tk. 3,00,000	Nil	Nil
On next Tk. 1,00,000	10%	5%
On next Tk. 3,00,000	15%	10%
On next Tk. 4,00,000	20%	15%
On next Tk. 5,00,000	25%	20%
On the balance of total income	30%	25%

- Tax free income threshold for individual taxpayers has been kept unchanged.
- The existing tax rate for individual taxpayers will also be applicable for the taxpayers of third gender with a view to achieving social inclusion of the third gender.
- Tax-free ceiling for this community is fixed at BDT 350,000.
- In addition to that if any company employ 10% of its employee or above 100 employees from the third gender, the company will get tax rebate of 5% of its tax payable or 75% of the salary paid to those employee whichever is lower.
- The object of the inclusion of the third gender into the tax base is to bring them into the formal economy and improve the productivity of our manufacturing sectors.
- Tax on Capital Gain and Dividend Income are unchanged.

Capital Market to remain Vibrant on the Corporate Tax Rate Cut

- In the budget FY2021-22, there is no specific changes is made for the capital market. However, corporate tax rate cut of 2.5% will have immense positive impact on all the companies except Banks, FIs, Insurance, Tobacco and Telecom sectors.
- Earnings of the listed companies will grow by approximate BDT 300 cr from the corporate tax cut which is likely to increase the market capitalization by around BDT 5,000 cr.
- In previous Budget, Undisclosed money were allowed to invest in the capital market by paying 10% tax which are to be invested within June 30, 2021. Since, latest budget has no mention in this regard, uncurbed investment of undisclosed money in the capital market will not continue.
- The tax rate on capital gain and dividend income remain unchanged.
- Almost all listed companies will be benefitted from the reduction of depreciation rate of ordinary building (10% to 5%) and factory building (from 20% to 10%).

Sukuk to get immense popularity for Capital Gain Tax Exemption

The government has decided to provide policy support in building a strong bond market as an alternative to banks for sourcing long term finance to entrepreneurs. As a part of this policy, the government proposed tax exemption on the applicable capital gain tax at the time of transferring property to a trust or Special Purpose Vehicle, or transferring property by a trust or Special Purpose Vehicle, vice versa, with a view to popularizing and creating a strong market for Sukuk or Islamic bond.

If endorsed by this august House, this will facilitate collecting long-term capital and reduce bank dependency. This will also add impetus to the economic activities by developing bond market, which, in turn, is expected to have a positive impact on development and growth of infrastructure and capital-intensive industries in Bangladesh

Beximco Limited being the first corporate to issue SUKUK in the country is going to float BDT 3,000 cr Sukuk Bond to expand its Solar Power and Textile Business. The company will get benefit from the capital gain tax exemption at the time of asset transfer to the SPV initially and from the SPV at the end of the project financing tenor. This policy will also ease the asset transfer process.

- Corporate tax rate for Banks and Financial sector will remain unchanged.
- However, Government proposed few incentives for Small and Medium Enterprise (SME) which will benefit SME focused Banks (**BRACBANK**) and Financial Institutions (**IDLC**).
- Up to 70 Lac of business turnover of the women entrepreneurs will be kept outside the purview of taxation.
- Import of capital machinery to SMEs irrespective of commercial or industrial will get 1% tax exemption.
- These incentives will benefit both the SME entrepreneurs and the SME focused financial institutions.

MFS Transaction to get boost but to pay higher Taxes

Finance Minister proposed to include Mobile Financial Services as a means of payment along with bank transfer where making payment through bank transfer is mandatory provision.

The budget also proposed to make payment through crossed cheque or bank transfer or mobile financial services (MFS) if the amount exceeds BDT 50,000. If any company does not receive payment through formal channel it will have to pay 50% higher taxes than the applicable rate.

Corporate tax for Publicly traded Mobile Financial Services (MFS) company is raised to 37.5% from 32.5%. For Non-publicly traded company the corporate tax will be 40.0% from existing 32.5%

Impact

Mandatory financial inclusion and imposing higher taxes on informal channel transaction will give boost to the transaction of Mobile Financial Services as well as their revenue. Moreover, the size of the formal economy will also expand through this measure.

On the other hand, higher corporate taxes will reduce the profitability of Mobile Financial Services Companies significantly once they are making profits. Currently, largest MFS companies Like Bkash, Rocket are in losses. So there is no immediate effect on these companies from the tax rate changes.

Telecommunication Sector

- There is no direct changes for the Telecommunication Sector in the proposed Budget. Corporate Tax rate of 40% (Listed) and 45% (Non-Listed) are kept same as previous. Turnover tax for telecom sector is also kept unchanged at 2%.
- Depreciation rate of ordinary building is proposed to reduce to 5% from existing 10% and of factory building is proposed to reduced to 10% from existing 20%. If any company changes its account base tax system to make parallel to the tax base, the company will have significant positive impact on the margins.
- For Instances, Listed Telecom Company- Grameen Phone and Robi Axiata charged BDT 212 mn and BDT 95 mn according to their latest yearly financials. Half of this cost could be saved if they keep alignment with the tax base structure which ultimately, increase their profitability margin.
- Finance Minister also proposed to extend the existing VAT exemption facility on manufacturing and assembling of mobile phone for two more years. This will encourage local mobile phone manufactures to expand their business and provide low-cost mobile phones to the users which will in long run increase the mobile phone users.
- Tariff on import of feature Phones have been increased from 10% to 25%.

Minimum Price of Premium & Higher Segment is Re-fixed

Table: Proposed Price & SD of Tobacco Products

Segment	Existing Price (10 Sticks), BDT	Proposed Price (10 Sticks), BDT	Existing Supplementary Duty (SD)	Proposed SD
Lower Slab	39	39	57%	57%
Medium Slab	63	63	65%	65%
Higher Slab	97	102	65%	65%
Premium Slab	128	135	65%	65%

Table: Proposed Price of Filter & Non- Filter Homemade Bidi

Segment	Existing Price BDT	Proposed Price, BDT	Existing Supplementary Duty (SD)	Proposed SD
20-Sticks (Filter)	19	19	40%	40%
10-Sticks (Filter)	10	10	40%	40%
25-Sticks	18	18	30%	30%
12-Sticks	9	9	30%	30%
8-Sticks	9	6	30%	30%

- No change is made in the corporate Tax Rate (45%) and Surcharge (2.5%) for the tobacco industries.
- Government proposed to increase the minimum price of premium segment for every 10 sticks of Cigarette at BDT 135.0 and higher segment at BDT 102.0. Supplementary duty for all segments are kept unchanged.
- Since tobacco products are comparatively price-inelastic, increasing price would not reduce the consumption and revenue of the tobacco manufacturer (Like- **BATBC**). Moreover, consumer in the premium and higher segment have their own brand preference and they will hardly move to other brands.
- No price changes is made for the lower segment.

Investment in Health Sector will become lucrative amid pandemic

Government proposed to offer tax exemption, subject to certain conditions, to general hospitals with a minimum of 250 bed capacity and having child and infant care, women and mother care, oncology, wellbeing and preventive medicine units, and also to specialized hospitals with a minimum of 200 bed capacity for ten years. These hospitals are to be established in districts other than Dhaka, Narayanganj, Gazipur and Chittagong.

Government also decided to extend the waiver of all tariffs on the import of raw materials for hand sanitizers, masks and PPE production which will benefit local hand sanitizer manufacturers like **Reckitt Benckiser**, **ACI Limited** and PPE manufacturer like **Beximco Limited**.

In addition, the government recommended the continuation of the existing concessionary rate for medical product raw material import which may have a positive impact on local medical product manufacturers like JMI Syringes. In FY 202122 budget, the government proposed duty and tax reduction on API ingredients, and we believe it may slightly impact local API manufacturers like **Active Fine Chemical Limited**, **Square Pharma**, **Beximco Pharma**..

Local Automobile Industry to get Tax Exemption for 10 Years

Companies engaged in the production of three and four wheelers in Bangladesh will get tax exemption for 10 years, subject to certain condition. There is also kept provision to extend this facility for another 10 years if companies fulfill certain conditions.

Government also extended the existing VAT exemption facility for manufacturing of motor car and motor vehicle for five more years;

Impact

Local Automobile Industry will expand massively and companies in this sector will generate higher profitability. This will also promote “Made in Bangladesh” brand in the home and abroad.

Revenue contribution from 3-wheeler and 4-wheeler segment of IFADAUTOS, AFTABAUTO, RUNNERAUTO and EPGL are 100%, 50%, 56% and 14% respectively. This policy is expected to increase the EPS of IFADAUTOS by 33%, RUNNERAUTO by 20% and EPGL by 8% if they can capitalize this benefits.

AFTABAUTO, IFADAUTO and EPGL have the manufacturing or assembling plant in the country. So, they will be benefitted directly form this tax exemption. However, RUNNERAUTO will also get benefits once their 3-wheeler plant comes into operation.

Home and Kitchen Appliances to get Tax Exemption for 10 Years

Companies engaged in production of certain home and kitchen appliances as well as light engineering products will get tax exemption for ten years.

Government extended the existing VAT exemption facility for manufacturing of refrigerator, freezer and its compressor for one more year; VAT exemption at production level in manufacturing of washing machine, microwave oven and electric oven, blender, juicer, pressure cooker etc.

It also reduced in Advance Tax (AT) from 4% to 3% for import of raw materials

Impact

Walton, being the largest manufacturer of Refrigerator will get VAT exemption for another more year. They also have home and kitchen appliance segments which will get tax exemption for 10 years. In addition, as they have to import major raw materials from abroad, reduction in AT will improve their cash flow position.

On the other hand, Half of the products of SINGER Bangladesh Limited is produced locally, so they will also enjoy the tax exemption.

Construction sector to flourish amid reduced import duty and TDS

Government proposed to reduce the rate of tax on import of raw materials related to cement production from 3 percent to 2 percent which will positively impact the listed Cement Manufacturers that collect their raw materials from abroad like- HEIDELBERGCEM, CONFIDCEM, MICEMENT, PREMIERCEM. On the other hand, LHBL will also be slightly benefitted as they also import raw materials partially from outside.

Tax deduction at source on supply of cement, iron and iron products is reduced from 3 percent to 2 percent. This will help construction industries to flourish and also enable them to make a positive contribution to the infrastructural development of the country.

Import duty on import of Steel is reduced from BDT 1,500 per tonne to BDT 500 per tonne. This policy will reduce the price of steel products and increase the demand from the consumers.

Advance Tax (AT) on raw materials of iron and scrap vessel are proposed to be exempted. This policy is expected to benefit the listed steel manufacturers likely BSRMLTD (Bloomberg: BASR BD), GPHISPAT (Bloomberg: GPH BD) etc.

Reduction in raw materials import tax will reduce the cost of production by BDT 650 cr for the Cement manufacturers altogether. In addition, construction sector will also get benefits from corporate tax rate cut, reduced depreciation charges.

Fuel & Power: 5% VAT rate for LPG Cylinder likely to Continue

Extension of existing 5 percent VAT rate for manufacturing of LPG cylinder for another year. Listed Cylinder manufacturer like MJLBD & EPGL will get the benefit of reduced VAT.

To support the local lubricating industry, the import duty on the additive, one of the raw materials for the lube blending, has been proposed to be reduced from the existing 10.0% to 5.0%. MJLBD being engaged in blending and marketing of lubricants is expected to get benefit.

Other Sectors

RMG

The export incentive of 1% is expected to continue in FY 2021-22. As such, all the listed companies engaged in RMG are expected to be benefitted.

FMCG

The Government has proposed to increase the Custom Duty (CD) of Liquid Paraffin from 10% to 15%, which is required to produce Value Added Hair Oil (VAHO) which contributes 24% of the revenue of **MARICO Bangladesh**.

Footwear

Import Duty of two raw materials used in footwear industry is proposed to be reduced from existing 25% to 15%. Listed footwear manufacturer like **BATASHOE, FORTUNE & APEXFOOT** may get benefits from this reduction.

Poultry & Feed

Duty and taxes on the feed ingredients used in poultry, dairy and fish is proposed to be reduced. Such reduction is expected to benefit **INDEXAGRO, AMANFEED, NFML**

Cables

Tariff on import of plastic framework and coated calcium carbonate has been reduced to from the existing 25% to 5%. This policy is expected to benefit **BBSCABLES**.

LED Light

The tariff on import of parts of LED Light is proposed to be reduced from the existing 25% to 0%. We expect this policy to benefit **BDLAMPS**.

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Data Source: Ministry of Finance

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