
BUDGET FY2020-21 ANALYSIS
June 11, 2020

Yearly Notations

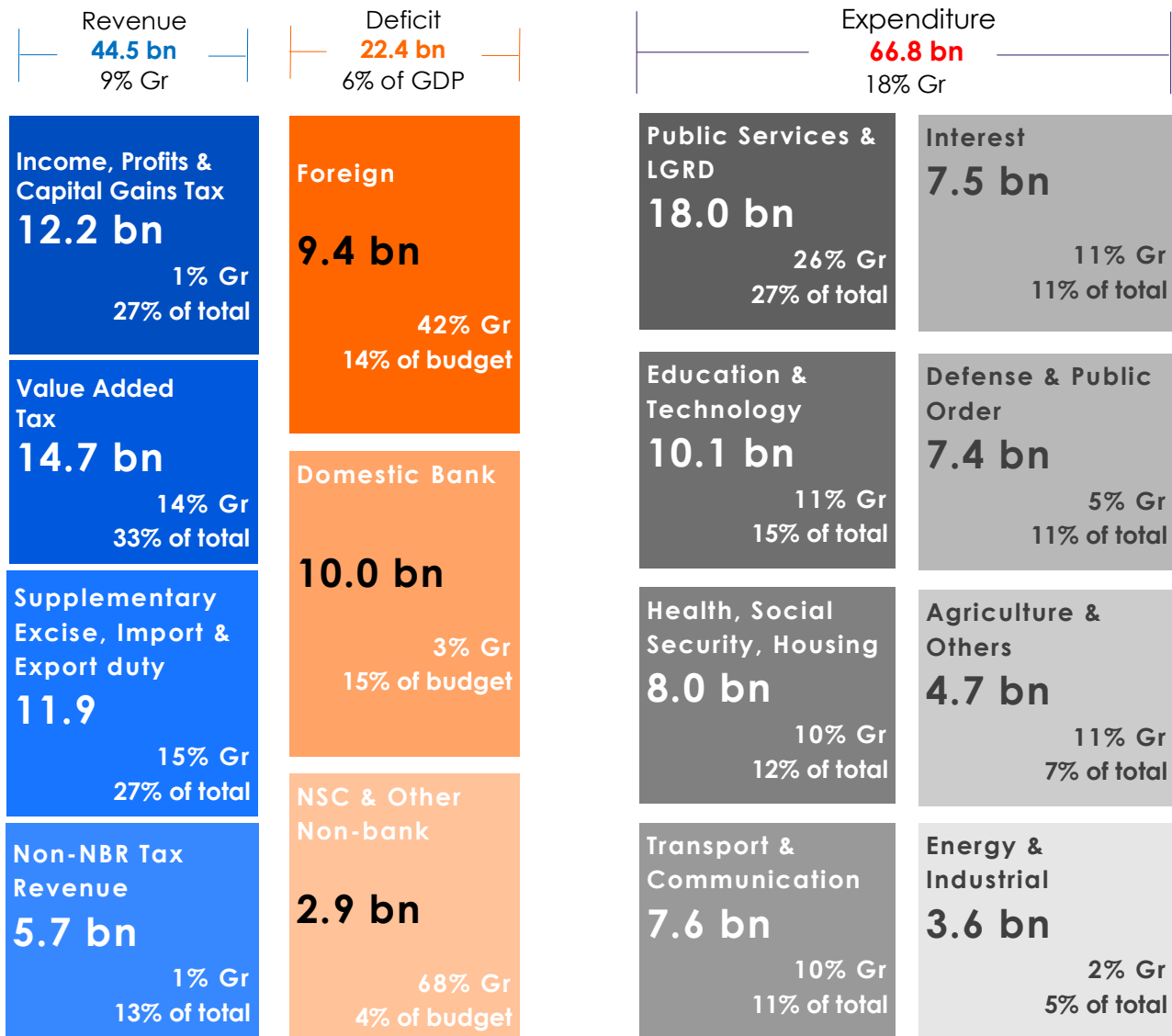
FY2019A – Actual
FY2020R – Revised
FY2021B – Budget

Executive Summary

- ◆ FY2020-21 budget size is USD 66bn, revenue target is USD 44bn and deficit is USD 22bn (6% of GDP). Annual Development Program (ADP) of USD 24bn is 36% of the budget.
- ◆ A USD 12bn (3.7% of GDP) stimulus package for the pandemic hit economy has already been declared. National Debt to GDP is only 34%, so we have room for leverage to prop up the economy. The Central Bank has already laid out liquidity support to the banking sector.
- ◆ The GDP growth rate is projected to be 8.2% for FY2020-21 with an assumption of faster recovery from COVID-19 induced downturn. Inflation is expected to be 5.4% during the period.
- ◆ Healthcare, Agriculture, Social Safety Net for the poor and Job Creation were given strategic priority. VAT exemption on COVID-19 medicines and PPE was also proposed. The 2% incentive on remittance will be continued in the next fiscal year.
- ◆ Attractive benefits for the RMG sector was proposed as it brings 82% of our export earnings and employs about 5 million workers. Next year will thoroughly test the sector's resilience.
- ◆ Whitening black money is now more relaxed than ever before. Paying 10% one-time tax on the wealth will allow investing the black money in Real Estate or Capital Market, and voila. Stock market investment will come with a 3-year lock-in caveat.
- ◆ Individual tax rates and slabs were lowered to help the middle class. However, some VAT hike on Telco, Private Transport and other services will hurt this section of people. Tax reduction for non-listed companies will provide them a little breathing space.

Overall, the budget tried to balance between stimulating the economy and maintaining the fiscal deficit. Growth is of course ambitious, but cushioning the people of the country, especially the bottom of the pyramid, is extremely important this year. Increased spending on healthcare to combat the pandemic is certainly welcome. Proper management of the allocated funds will make sure the good intention of the Government reaches the section of the country that needs it the most.

*** For more details on numbers and statistics of the national budget for FY2020-21, please refer to Appendix on page 9.*

BUDGET FY2020-21: THE FISCAL SKELETON
Figures in USD


<i>Figures in BDT billion</i>	2020-21 Budget	Change *	% of Total	% of GDP	2019-20 Revised	2018-19 Actual
Expenditure						
Non Development Expenditure	3,112	13.2%	54.8%	9.8%	2,749	2,178
Development Expenditure	2,150	6.3%	37.9%	6.8%	2,023	1,511
Other Expenditure	418	71.7%	7.4%	1.3%	243	228
Total Expenditure	5,680	13.2%	100.0%	17.9%	5,016	3,917
ADP	2,051	6.3%	36.1%	6.5%	1,929	1,473
Interest Payment	638	10.6%	11.2%	2.0%	577	495
Revenue						
NBR Tax	3,300	9.8%	58.1%	10.4%	3,005	2,186
Non-NBR Tax	150	19.4%	2.6%	0.5%	126	73
Non Tax Receipt	330	-5.7%	5.8%	1.0%	350	259
Total Revenue	3,780	8.6%	66.5%	11.9%	3,481	2,519
Deficit Financing						
External	800	42.5%	14.1%	2.5%	562	330
Domestic	1,100	13.0%	19.4%	3.5%	973	1,017
Bank	850	3.1%	15.0%	2.7%	824	295
Budget Deficit	1,900	23.8%	33.5%	6.0%	1,535	1,398
GDP (Estimated)	31,718	13.0%	5.6x	100.0%	28,057	25,362

*Change over FY2019-20Revised, Source: Ministry of Finance

CAPITAL MARKET

The budget of FY2020-21 has put forth two incentives to channel black money into the legal system. These incentives will allow individual taxpayers to disclose their undisclosed money & assets and make new investments during Jul'20-Jun'21 by paying tax at 10% rate on the investment and no authority, including the income tax authority, can raise any question in this regard. The incentives will allow the following disclosure/ investments:

- Disclose any type of undisclosed house property, cash, bank deposits, savings certificates, shares, bonds or any other securities
- Invest money in the capital market subject to satisfying certain conditions **including a lock-in period of three years**

These incentives will certainly influence taxpayers to channel their black money into the capital market which might work towards revitalizing the market. However, a lock-in period of three years may discourage investors without an appetite for long term investing.

BANKS & FINANCIAL INSTITUTIONS

Bank Borrowing Target: In the budget of the previous year, the government targeted to borrow USD 5.6bn from the banking sector, but then revised the target to USD 9.7bn. This year the government set the target at USD 10bn (2.7% of GDP). This high bank borrowing target indicates that the banks will follow a pattern of lending and investing similar to the previous year. The banks will increase their investments in government securities which will siphon fund away from private sector lending, the likely result of which will be further decline in private sector credit growth.

Measures Taken due to Covid-19: The central bank has taken a few steps to help the banks in managing liquidity and increasing lending capacity. Moreover, a few steps have been taken in favor of the clients of the banks which have a negative impact on the banking sector. A few key measures are:

- 75bps reduction in repo rate (from 6.0% to 5.25%) and 150 bps reduction in CRR (from 5.5% to 4% biweekly and from 5% to 3.5% daily). The reduced CRR has increased banks' lending capacity by BDT 186 billion.
- Advance to deposit ratio (ADR) of commercial banks has been increased from 85% to 87% and ADR of Shariah-compliant banks has been increased from 90% to 92%.
- No bank or NBFI loan could be downgraded to defaulted one during Jan-Jun'20 if borrowers fail to repay installment. This has provided temporary relief for the banks in terms of maintaining provisions but after the duration ends, unprepared banks will be bombarded with a huge amount of required provision charges.
- Interest cannot be charged during Apr-May'20 for on the loans/investments disbursed before 31st March 2020. The interest amount will be considered as blocked amount cannot be charged until further announcement. The central bank calculated that more than USD 1.9bn in interest amount was blocked by banks in these months, of which USD 235.3 Mn will be rebated by the government.
- Approx. USD 9.7bn government stimulus packages will need to be distributed through banks. The credit risk of the whole amount is on the banking sector which is a substantial risk considering the overall economic situation of the country.

BANKS & FINANCIAL INSTITUTIONS (CONTINUED)

Strengthening of Bond Market: In order to make the bond market attractive to the investors the government has taken two steps:

Measures	Existing Provision	Proposed Provision
Source Tax Deduction	Upfront deduction on interest & discount on bonds	Deduction at the time of payment of interest & discount on bonds
Withholding Tax	On the value of the bond transactions	On the commission fixed by the Securities and Exchange Commission (SEC)

Source: Ministry of Finance

These measures were taken with hopes that these will increase transactions of bonds in the capital market and facilitate the flourishing of a strong bond market in the country. If these measures manage to achieve the goal of a vibrant bond market, it will have both positive and negative effects on the FI industry. The bond market will provide an alternate source of funding for customers who will be unable to or unwilling to get a loan from the banks and NBFIs. It will facilitate in achieving a better distribution of risk in the financial market as a more diversified financial system would mitigate its vulnerability to systemic risk. However, the FIs will lose interest income from the customers who will opt for issuing bonds in the capital market rather than seeking out loan from FIs.

Excise Duty on Bank Balance: The budget of FY2020-21 has increased excise duty on bank balance. All the banks operating in Bangladesh are bound to deduct Excise Duty from each of the customer accounts (savings, current, loan or other accounts) held with the bank. The proposed changes are mentioned below:

Highest Balance (Credit/Debit in BDT)	Current Excise Duty in BDT	Proposed Excised Duty in BDT
0 – 100,000	NIL	NIL
100,001 – 500,000	150	150
500,001 – 1,000,000	500	500
1,000,001 – 10,000,000	2,500	3,000
10,000,001 – 50,000,000	12,000	15,000
50,000,001 and above	25,000	40,000

Source: Ministry of Finance

The increased excise duty comprises of less than 0.05% of the balance. Moreover, the excise duty has been increased for higher balance slabs which is mostly maintained by corporate clients, and those clients need to maintain the balance to run their day to day operation. Therefore, the increased excise duty will most likely have no significant impact on the balance maintained in banks by the customers.

REAL ESTATE

To allow people to whiten their black money as well as to increase the money flow in the economy, the government proposed two different methods. One of which is an investment in land, building, flat, and apartment by paying a particular tax. Therefore, if finally approved, more people will be interested in real estate next year. Construction material sector will also enjoy the likely positive impact of real estate high demand.

TOBACCO

The government proposed to fix the price of the low segment for every 10 sticks of cigarette at BDT 39.0 and above while fixing the supplementary duty rate at 57.0%. The government also proposed to keep the existing price of the medium segment for every 10 sticks of cigarette at BDT 63.0 and keep the supplementary duty rate of 65.0% unchanged. At the same time, the government proposed to increase the price of the high segment for every 10 sticks of cigarette at BDT 97.0 and BDT 128.0 and keep the supplementary duty rate to the existing 65.0%.

Table: Existing and proposed price slabs and supplementary duty structure

	Existing price per 10 sticks	Proposed price per 10 sticks	% Change	Existing SD	Proposed SD	SD Change (bps)
Premium	123.0	128.0	4.1%	65%	65%	unchanged
High	93.0	97.0	4.3%	65%	65%	unchanged
Medium	63.0	63.0	0.0%	65%	65%	unchanged
Low	37.0	39.0	5.4%	55%	57%	200

Source: Ministry of Finance

Sustainable presence of illicit product, large and well-segmented market with highly regulated environment, increasing competition and consumer price consciousness are combinedly making the tobacco business competitive in Bangladesh day by day. The customers of the low segment cigarette are relatively more sensitive to the price change. Proposed 5% increase in the low segment may encourage many smokers switching to the cheaper brands, including illicit products & bidi. As per the budget proposal, Premium and High segments will also face a 4% price hike. Therefore, the factory-made cigarette manufacturers, including **BATBC**, are very likely to experience decline in their sales volume. However, the price hike of the higher-margin Premium and High segment cigarettes with unchanged supplementary duty (SD) may result in margin expansion and can offset the negative impact of increased price & SD of the low segment, provided the sales volume remains protected.

Increase in price of bidi: In order to reduce the prevalence of bidi smoking which is considered more harmful than factory-made cigarettes, the price of both filtered and non-filtered bidi has been increased. Such initiative may encourage some bidi smokers to move to legally manufactured low-segment cigarettes while some will shift to illicit products available at a lower price.

Handmade Non-filter Bidi				
	Existing Price	Proposed Price	% Change	SD
25 sticks	14.0	18.0	29%	30% (unchanged)
12 sticks	6.7	9.0	34%	
8 sticks	4.5	6.0	34%	

Source: Ministry of Finance

Handmade Filter Bidi				
	Existing Price	Proposed Price	% Change	SD
20 Sticks	17.0	19.0	12%	40%
10 Sticks	8.5	10.0	18%	(unchanged)

Source: Ministry of Finance

PHARMACEUTICALS

To fight the COVID-19 pandemic, the government has proposed to exempt VAT on all COVID-19 drugs at the import, manufacturing, and trading stages. Therefore, local pharma companies who have already launched the generic version of COVID-19 drugs such as **Bxpharma, Beacon Pharma, Eskayef (SK-F) Pharma, Incepta Pharma,** and the other companies who are on the way to manufacture these drugs such as **Square Pharma, Delta Pharma, Veritas Pharma, Ziska Pharma,** and Healthcare Pharma will be benefitted from this decision. Alongside this, the proposal to maintain existing zero percent import duty on life-saving drugs will help all the local pharma companies to hold their current price levels. Furthermore, the government has proposed to exempt all import duties and taxes on the raw materials of hand sanitizers, and thus local hand sanitizer manufacturers like **ACI** and **Reckitt Benckiser** will be in advantageous positions.

TEXTILE AND RMG

The budget FY 2020-21 has proposed to keep on providing all kinds of benefits, including cash incentives, to the readymade garments (RMG) industry. Additional 1.0% export incentive that is offered to all categories of RMG exports from FY2019-20 will remain continued. Also, the budget has proposed a reduction of withholding tax rate from 1.0% to 0.5% on export proceeds to extend overall support to the export sector, including RMG. In response to the proposal received from RMG sector, the government has proposed to reduce the existing duty rate on the import of certain products (such as RFID Tag, Industrial Racking System, Cutting Table, etc.) to promote export-oriented garments and textile industries.

It is to be noted, the tax rate for readymade garments is 12.0%. The rate is 10.0% if there is a green building certification. Besides, for the textile sector, the tax rate is 15.0%. These sectors are enjoying reduced rates of taxes for a long period of time. This advantage will expire by 30 June of this year. The budget FY2020-21 has proposed to continue this particular tax advantage for the next two years.

To encourage local textile industries, the budget has proposed to impose fixed VAT at the rate of BDT 6.0 per kg from the existing 5.0% ad valorem VAT on Polyester, Rayon and all other synthetic yarn, and at the rate of BDT 3.0 per kg from the existing BDT 4.0 per kg on all kinds of Cotton Yarn.

CONSUMER DURABLES

Local consumer durable industry requires ~2.5 million compressors each year to manufacture and repair refrigerators and air conditioners. The proposal to continue the existing concessionary duty benefit on the import of compressor raw materials and to reduce customs duty (CD) on two new raw materials will help the sole local compressor manufacturer **Walton** to further strengthen its position in the industry. The government has also proposed to extend the tenure of current VAT exemption for the local mobile manufacturers and 5% VAT rate for the local mobile assemblers given a minimum level of local value addition. It will benefit brands like Walton, Samsung, Symphony, etc.

Compressor Components	Existing Duty	Proposed Duty
Lubricating/cutting oil /anti-rust preparations containing petroleum or bituminous mineral oils	CD-10%	CD-1%
Artificial Graphite	CD-10%	CD-1%

Source: Ministry of Finance

BISCUIT & CONFECTIONARY

The government has proposed to bring down the rate of tax deduction at source (TDS) at the stage of local supply of essential commodities, such as rice, atta, potato, garlic, onion, etc. from existing 5.0% to 2.0% irrespective of the base price. **Olympic** being the manufacturer of biscuits and bakery items, procures raw materials like wheat, oil, sugar, etc. locally. Decreased TDS may reduce the raw material procurement cost of the company.

COSMETICS

Supplementary Duty (SD) on locally manufactured cosmetics will increase from existing 5.0% to 10.0%. **Marico Bangladesh** is focusing on cosmetic items to diversify its product portfolios. Although the segment is still very small, additional charges may apply on the company due to 5.0% increase in supplementary duty.

FOOTWEAR

The government with a focus to diversify export has proposed to reduce the duty rate of three raw materials imported by this industry, including Polyvinyl Chloride which is one of the key raw materials of Bata Shoe Bangladesh. The effective proposed duty rate will reduce the raw material consumption cost of the company.

CONSTRUCTION MATERIAL SECTOR

To support the local steel industry, the budget proposed to impose a fixed source tax rate of 0.5% on M.S. scrap supply, previously which was up to 5.0%. On the other hand, the proposal to reduce the import duty of refractory cement and to increase the regulatory duty of some of the raw materials will have a mixed impact on local steel manufacturers like **GPH Ispat Ltd., Ratanpur Steel Re-Rolling Mills Limited, S. S. Steel**, etc.

In addition, the government also proposed to increase CD from 5.0% to 10.0% on prepared additives for cement. Resultantly, local cement manufacturers may face challenges to some extent.

TELECOMMUNICATION

Supplementary Duty: In the budget of the previous year, the SD on the services provided through mobile phone SIM/RIM card was increased from 5% to 10%. In the new budget of FY 2020-21, the SD has further been increased from 10% to 15%. The increase of SD will raise the tariff of the services provided by the telecom companies which will affect the usage of the services by the customers. However, as telecom usage can be regarded as an essential facility, the reduced usage will most likely be temporary.

Local Manufacturing/Assembling of Mobile Phones: Local manufacturers currently enjoy VAT exemption on the manufacturing of mobile phone sets, and the current VAT rate for mobile phone set assembling is 5%. These facilities have been extended for another year. Therefore, new customers in the low income group can purchase a mobile phone at a cheaper price which will help the telecom players in increasing their subscriber base.

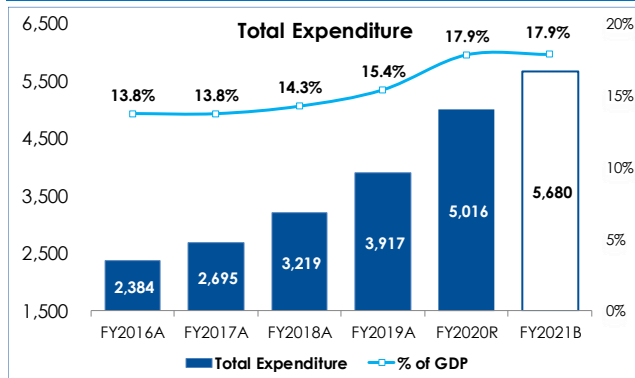
ENGINEERING

The government proposed VAT exemption on agricultural tractor tire & tube and also proposed concessionary CD rate for some other agricultural vehicle equipment. All companies involved in manufacturing and selling agricultural vehicle including **ACI** and **IFAD Autos** will be benefitted from VAT exemption and reduced CD rate.

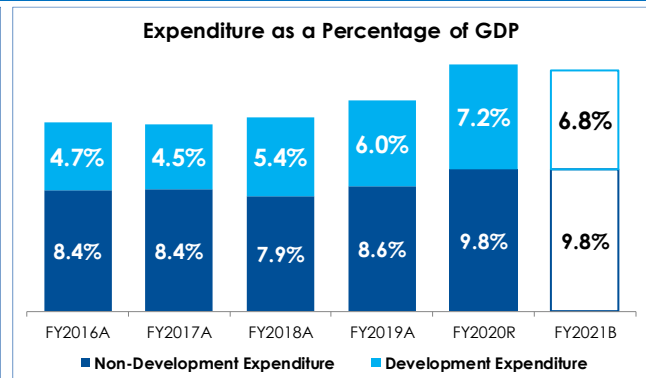
Reduction of Customs Duty on Agricultural Machinery

Description	CD Rate Existing	Proposed CD Rate
Roller Chain used on Agricultural Machinery	10.0%	1.0%
Ball Bearings Used on Agricultural Machinery	10.0%	1.0%
M.S Sheet (1mm-3mm)	10.0%	1.0%
Gear Boxes and parts thereof	10.0%	1.0%
Steering	10.0%	1.0%
Tire used on agricultural Machinery	5.0%	1.0%
Tube used on agricultural Machinery	5.0%	1.0%
Wheel Parts (Rim) used on agricultural Machinery	10.0%	1.0%
Blower for grain dryer	10.0%	1.0%
Coated Electrodes of base metal	10.0%	1.0%

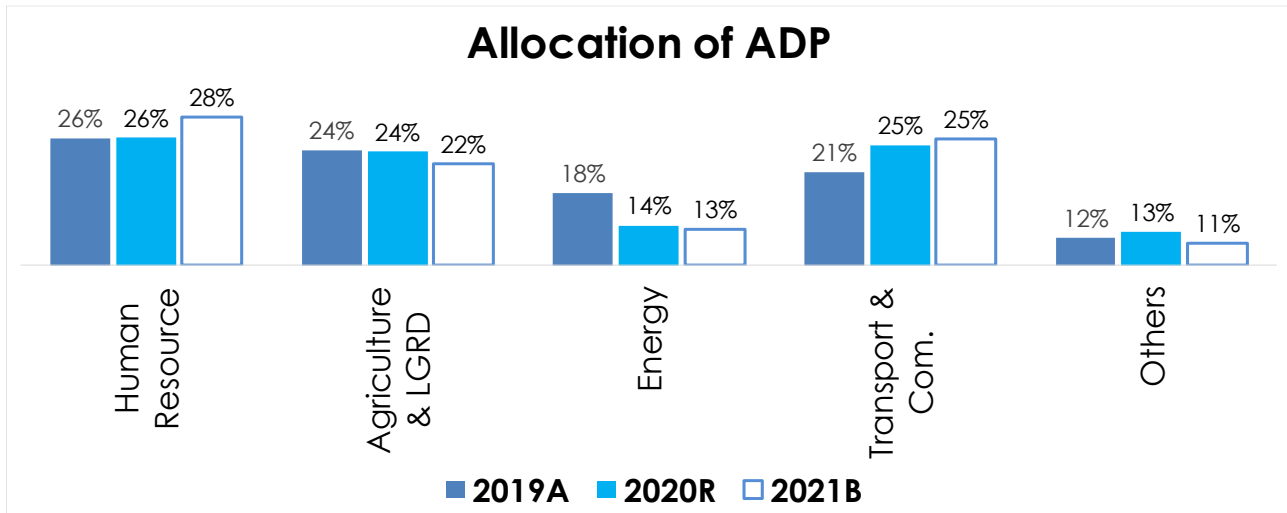
Source: Ministry of Finance

APPENDICES
GOVERNMENT EXPENDITURES


Source: Ministry of Finance



Source: Ministry of Finance

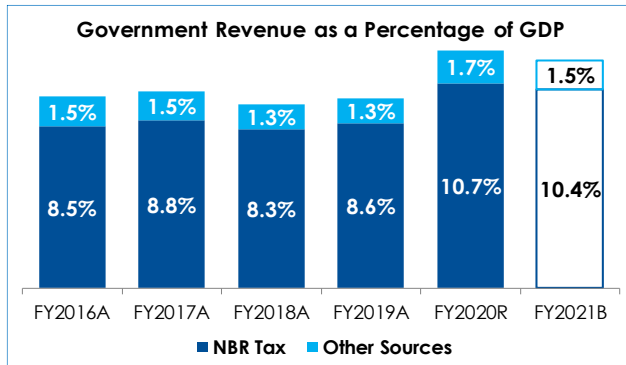
ALLOCATION of ADP


Figures in BDT billion	2020-21 Budget	Change *	% of Total	2019-20 Revised	2018-19 Actual
Human Resource	584	18%	28%	494	376
Agriculture & LGRD	452	-1%	22%	457	351
Energy	266	2%	13%	260	265
Transport & Com.	522	10%	25%	474	307
Others	227	-7%	11%	243	174
Total	2,051	6%	100%	1,929	1,473

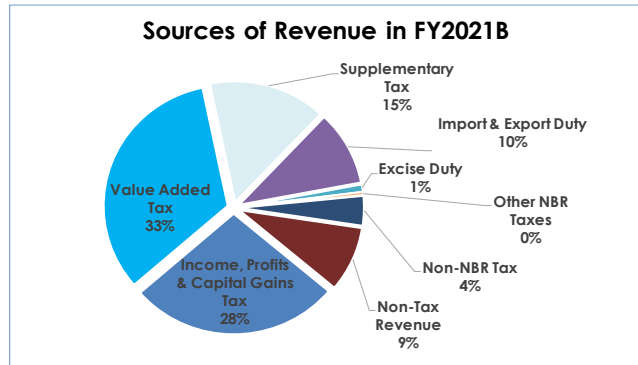
*Change over FY2019-20 Revised, Source: Ministry of Finance

APPENDICES

REVENUE COLLECTION



Source: Ministry of Finance



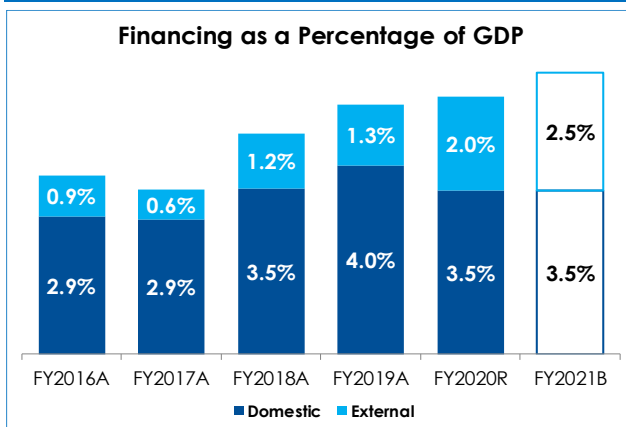
Source: Ministry of Finance

SOURCES OF TAX

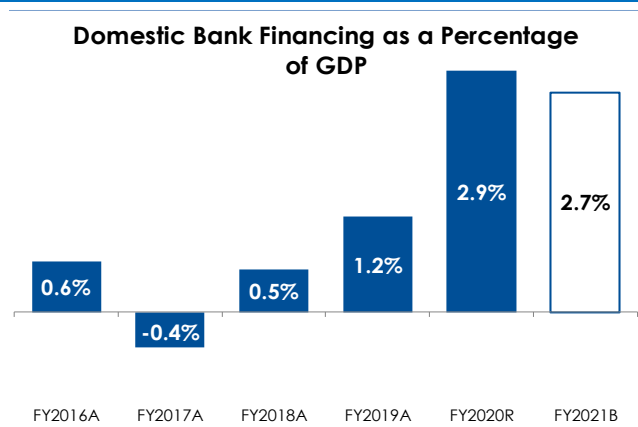
Figures in BDT billion	2020-21 Budget	Change *	% of Total	2019-20 Revised
Income, Profits & Capital Gains Tax	1,039.5	1%	27%	1028.9
Value Added Tax	1,251.6	14%	33%	1098.5
Supplementary Tax	578.2	23%	15%	471.4
Import & Export Duty	378.6	12%	10%	337.3
Excise Duty	36.9	-31%	1%	53.5
Other NBR Taxes	15.3	-1%	0%	15.5
Non-NBR Tax	150.0	19%	4%	125.7
Non-Tax Revenue	330.0	-6%	9%	350.0
Total	3,780.0	9%	100%	3480.7

*Change over FY2019-20 Revised, Source: Ministry of Finance

FINANCING THE DEFICIT



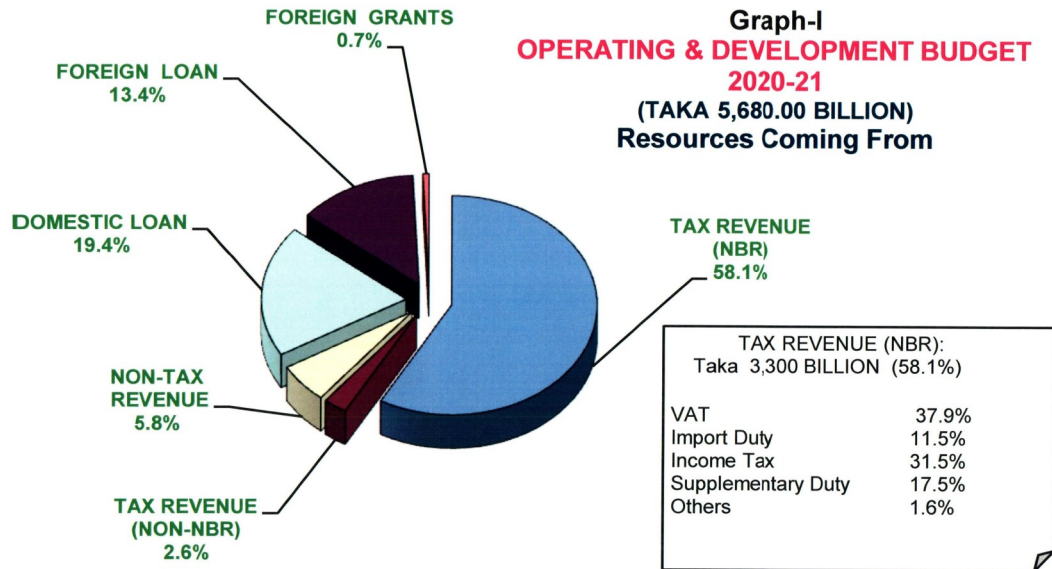
Source: Ministry of Finance



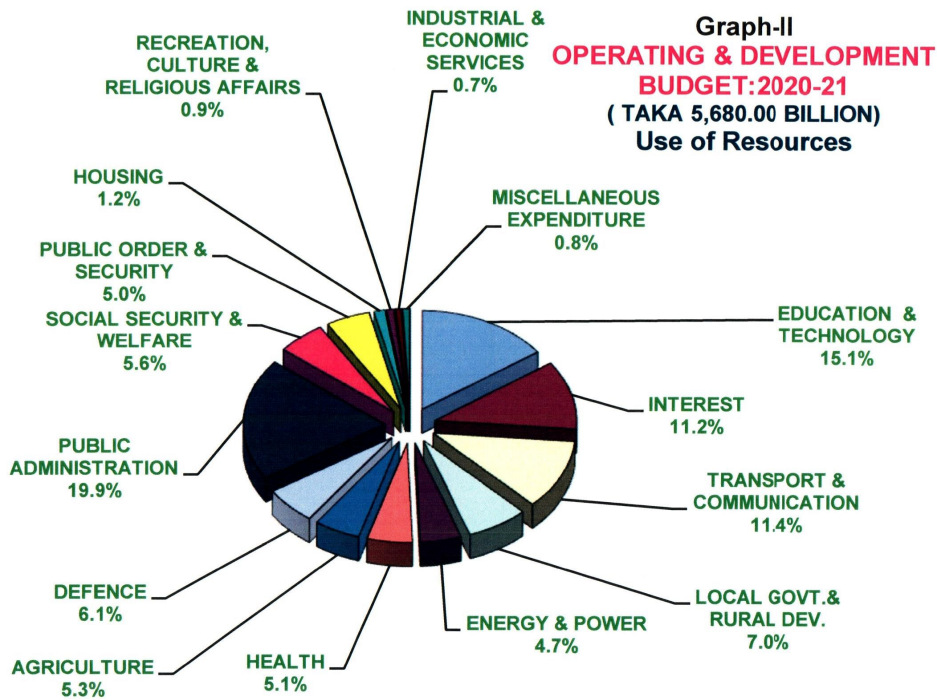
Source: Ministry of Finance

APPENDICES

OPERATING & DEVELOPMENT BUDGET



Source: Ministry of Finance



Sector-wise Resource Distribution (Including Subsidies & Incentives and Pension)

Source: Ministry of Finance

APPENDICES
TAX RATES FOR INDIVIDUALS

CURRENT		PROPOSED	
Tax Exemption Threshold	in BDT	Tax Exemption Threshold	in BDT
General Taxpayers	250,000.0	General Taxpayers	300,000.0
Women & Senior Citizen (65 years+)	300,000.0	Women & Senior Citizen (65 years+)	350,000.0
Person with Disability	400,000.0	Person with Disability	400,000.0
War-wounded Freedom Fighters	425,000.0	War-wounded Freedom Fighters	425,000.0
General Tax Rate	Tax Rate	General Tax Rate	Tax Rate
On First, Tax Exemption Threshold (General/ Women & Seniors)	Nil	On First, BDT 300,000.0	Nil
On Next, BDT 400,000.0	10.0%	On Next, BDT 100,000.0	5.0%
On Next, BDT 500,000.0	15.0%	On Next, BDT 300,000.0	10.0%
On Next, BDT 600,000.0	20.0%	On Next, BDT 400,000.0	15.0%
On Next, BDT 30,00,000.0	25.0%	On Next, BDT 500,000.0	20.0%
On the Balance of Total Income	30.0%	On the Balance of Total Income	25.0%
Special Tax Rate		Special Tax Rate	
Income of Non-Resident	30.0%	Income of Non-Resident	30.0%
Tobacco Products Manufacturers	45.0%	Tobacco Products Manufacturers	45.0%
Income of Co-operative Society	15.0%	Income of Co-operative Society	15.0%

Source: Ministry of Finance

CORPORATE TAX RATES

DESCRIPTIONS	CURRENT	PROPOSED
Publicly Traded Company	25.0%	Unchanged
Non-listed Companies	35.0%	32.5%
Publicly Traded RMG	12.0%	Unchanged
RMG (Green Factory)	10.0%	
Non-listed RMG	15.0%	
Listed Financial Institutions	37.5%	
Newly Established Financial Institutions in 2013	37.5%	
Non-listed Financial Institutions	40.0%	
Merchant Banks	37.5%	
Cigarette & Other Tobacco Products	45.0%	
Listed Telecom Operators	40.0%	
Non-Listed Telecom Operators	45.0%	
Dividend Income	20.0%	

Source: Ministry of Finance

IMPORTANT DISCLOSURES

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