BUDGET SNAPSHOT

BDT Billion	BFY22-23	RBFY21-22	BFY21-22	RBFY21-22 over BFY21-22	BFY22-23 over RBFY21-22
Expenditure	6,780.6	5,935.0	6,036.8	-1.7%	14.2%
Revenue	4,330.0	3,890.0	3,890.0	0.0%	11.3%
Deficit	2,450.6	2,045.0	2,146.8	-4.7%	19.8%
External	987.3	802.1	1,012.3	-20.8%	23.1%
Domestic	1,463.4	1,242.9	1,134.5	9.6%	17.7%
From Bank	1,063.3	872.9	764.5	14.2%	21.8%

As % of GDP	BFY22-23	RBFY21-22	BFY21-22	FY20-21A
Expenditure	15.2%	14.9%	17.1%	13.0%
ADP	5.5%	5.3%	6.4%	4.5%
Revenue	9.7%	9.8%	11.0%	9.3%
Tax	8.7%	8.7%	9.8%	7.6%
Deficit Financing	5.5%	5.1%	6.1%	3.7%
External Financing	2.2%	2.0%	2.9%	1.4%
Domestic	3.3%	3.1%	3.2%	2.3%
Bank	2.4%	2.2%	2.2%	0.9%

Source: Ministry of Finance & LR Global Research

The proposed national budget for FY22-23 is BDT 6,780.6 bn which is 14.2% higher compared to the revised budget of FY21-22. The core focus of the budget is on the balancing the economic growth and the management of inflationary pressure and currency instability. However, the priorities and actual allocation to education, agriculture, health seems asymmetrical which make the budget credibility poor about facilitating growth movements.

The expected revenue collection of BDT 4,330.0 bn will make up only 64% of total expenditure which suggest gradual declining capacity of fiscal revenue as it used to cover up around 74% of the total budget 10 years ago. The deficit amount is expected to be 2,450.6 bn (5.5% of GDP) which is still over the tolerance level of 5%. While External sources will cover 40.3% of the deficit, the Domestic borrowing of BDT 1,463.4 bn will cover the rest of 59.7% of the total deficit. The borrowing from banks will remain the major domestic financing source even after the continued depression in the banking sector.

Amid the global crisis and expected worldwide contraction of economies, the set budget is painted rosy. The budget is dedicated to combating inflation by increasing subsidies and social safety net schemes, improving Balance of Payments (BoP) conditions by discouraging imports through increased duties, and encouraging exports through reduced tax brackets for export-focused companies. The effective implementation of the budget might reduce the financing gap.

MACROECONOMIC TARGETS & IMPLICATIONS

Indicators	BFY21	RBFY20	BFY20	FY19A
GDP Growth Rate	7.5%	7.3%	8.2%	6.9%
Average Inflation Rate	5.6%	5.8%	5.3%	5.6%
Investment to GDP Ratio	31.5%	31.7%	33.1%	31.0%
Public Investment to GDP Ratio	6.7%	7.6%	8.1%	7.3%
Per Capita Income (USD)	3,007.0	2,824.0	2,462.0	2,591.0
Private investment to GDP Ratio	24.9%	24.8%	25.0%	24.1%
Tax to GDP Ratio	8.7%	8.7%	9.8%	7.6%

Source: Ministry of Finance

In the revised FY21-22 budget, the GDP growth is set at 7.25% for whereas the projection for FY22-23 is 7.5% which seems very optimistic considering multiple indications of economic instabilities. Even after higher inflation reported in the last few months, the average inflation rate target is reduced from 5.8% to 5.6% which will be challenging to maintain due to currency depreciation and imported inflation. The investment to GDP ratio is expected to slightly decline and as usual the higher contribution is expected from private investments in the economy. Overall, higher economic growth expectation does not seem practical considering unstable investment and export growth, and unclear inflation position. The only way out to make the growth expectation feasible is by boosting the internal productivity, however, getting such boost riding on a few development projects (i.e. Padma Bridge, Metro Rail) and cutting on allocations to education, agriculture, health made the situation concerning.

GOVERNMENT EXPENDITURE

Use of Fund (% of Total)	BFY23	RBFY22	FY 21
Public Services	19.9%	18.7%	12.3%
Local Government	6.6%	7.2%	7.7%
Defense Services	5.9%	6.3%	7.7%
Public Order & Safety	4.6%	4.9%	5.3%
Education & Technology	14.7%	14.8%	15.6%
Health	5.4%	5.4%	4.7%
Social Security & Welfare	5.5%	6.0%	5.9%

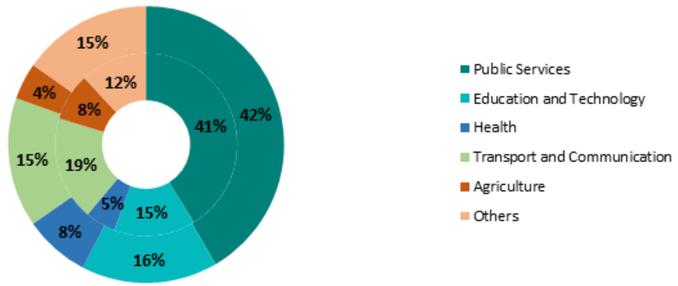
Use of Fund (% of Total)	BFY23	RBFY22	FY 21
Recreation, & Culture	0.8%	0.9%	0.9%
Energy & Power	3.8%	4.1%	5.0%
Agriculture	6.2%	5.9%	5.6%
Industrial & Economic Services	0.6%	0.7%	0.7%
Transport & Communication	12.0%	11.1%	10.9%
Interest	11.9%	12.0%	15.3%
Housing	1.0%	1.2%	1.4%

Source: Ministry of Finance & LR Global Research

This year, the approach used for allocating expenditure is not very different from previous budgets. In FY23, Public Services (19.9%) will still receive the largest pie in allocation as well as highest increase in allocation of 120bps. Majority of the sectoral allocations (as a percentage of total expenditure) have been reduced to accommodate this increase. Besides, the education to GDP ratio which dropped to 1.83% in this fiscal budget indicates the fabrication behind the numbers where more concentration demand without a doubt.

The public expenditure for FY23 is projected to grow by 14.2% but the revenue mobilization is measured to grow by 11.3%. While the budget allocation for health sector has increased around by 13% constituting less than 1% of the GDP which should be allocated more portion of the budget to recover from the aches of the covid-19 pandemic. Agriculture sector received the second priority in FY23 with 6.2% allocation of total budget along with increasing subsidy. Despite higher budget allocation in terms of absolute amount, the incremental budget allocation as a share of GDP in the education sector decreased to 1.8% in BFY23 from 1.9% in RBFY21.

INCREMENTAL EXPENDITURE

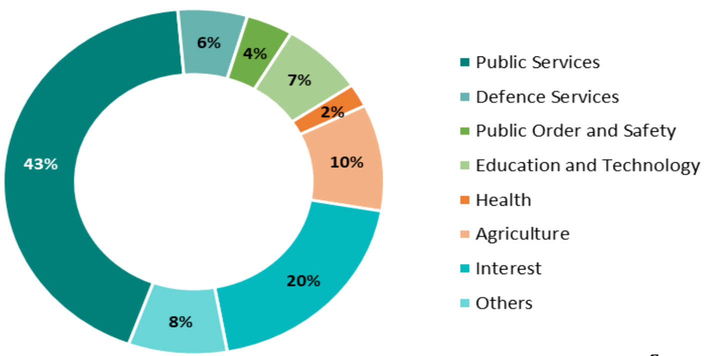


Source: LR Global Research

OPERATING EXPENDITURE

While the development expenditure is projected to grow faster than the operating expenditure. The composition for non-developmental expenditure has mostly concentrated to public service sector, agriculture, and interest payment. Public Services, agriculture, interest payment are the two segments with the highest expenditure and constitute a staggering 72.5% of the increment in non-development expenditure. It is seen in the BFY 23 that around 19.21% of total operating expenditure will be spent on debt servicing in FY23 (90.9% of the amount will be to service domestic debt)

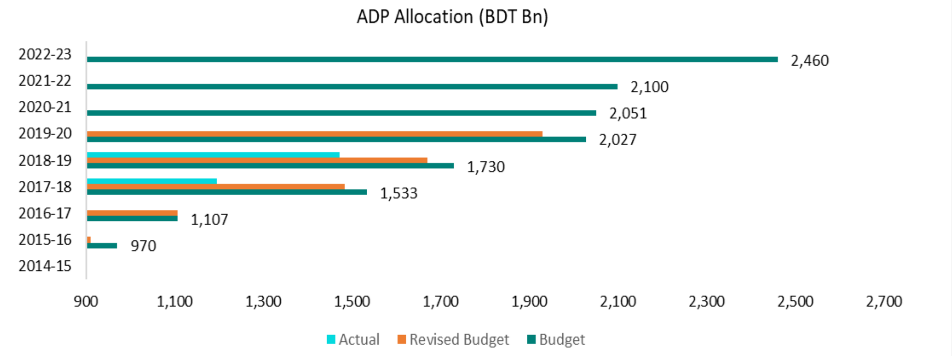
INCREMENTAL OPERATING EXPENDITURE



Source: LR Global Research

DEVELOPMENT EXPENDITURE

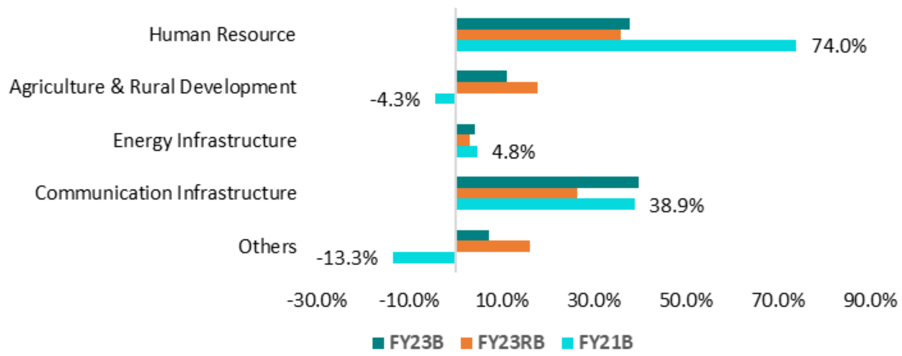
The government proposed a ADP of BDT 246,066 crore has proposed which is 9.2% higher than that of the ADP FY22 and 17.14% higher than the revised ADP of FY2022 . Highest 28.7% of total ADP is allocated to Transportation and communication sector and the top five sectors (Transportation and communication, power & fuel, education, housing and community facilities, and Health) account for 74.4%. While the Power & Fuel have received second largest 16% share of ADP, The Rooppur Nuclear Power plant will consume 34% of total Power & Fuel sector and 40 new projects are included in FY23.



Source: LR Global Research

In the ADP allocation, Human Resource and Communication Infrastructure seem to be the top focus as their allocational percentages have increased while that of other items have decreased. Human Resource alone will receive 77.5% of the incremental ADP expenditure and Agriculture and Rural Development will be increased by 11.1%. To fight the post covid challenges the incremental ADP allocation is emphasized .

INCREMENTAL ADP EXPENDITURE

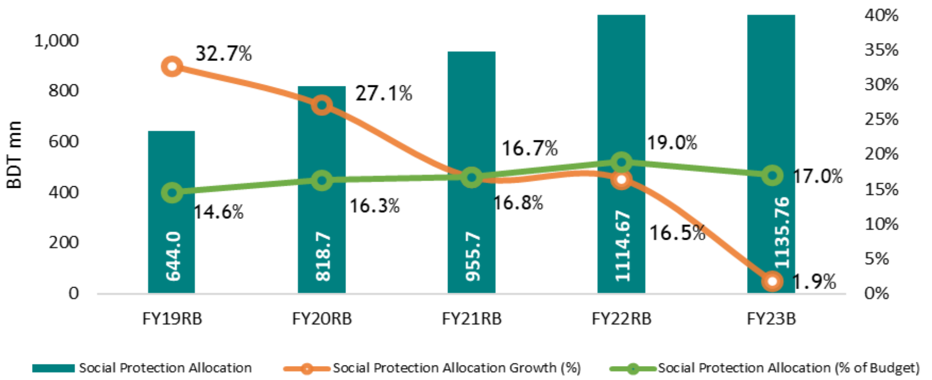


Source: LR Global Research

SOCIAL SECURITY & WELFARE

A total of BDT 1,135.7 bn has been allocated to social security (2.55% of GDP, 17% of the budget and 13% of total budget), which is a 1.9% increase versus RBFY22. Once again, despite concentrating much allocation on this sector when country is about to have serious concern for the lower end people due to global hike in commodity prices, the YoY allocation growth ticks historical bottom. Amid the inflationary pressure where the people whom are the worst victim of global pandemic hit mayn't receive sufficient aid which was much anticipated. Thus, given the allocation, it can be expressed that, instead of stressing on the other sector, govt. could focus on this sector more to alleviate the poverty by closing the widened gap between poor and rich section.

SOCIAL PROTECTION ALLOCATION



Source: LR Global Research

SUBSIDY

- Mammoth sized subsidies have been allocated for this fiscal year which amounts BDT 827.45 bn and further could go up to 15%-20% higher from the initial disclosed amount to provide adequate support towards agriculture and fuel & power sector. Total subsidy amount is 12.2% of the public expenditure and 1.9% of GDP. Besides, from the last fiscal year, the subsidies have gone higher by 23.8% as BDT 668.25 bn was allocated in the last year.
- In the overall subsidies, approximately 1/5th of the total amount is allocated for the agricultural sector to minimize the expenditure while importing the pesticides and fertilizers. Besides this massive sized subsidy will boost the power sector while making capacity payments and importing fuel & oil for the rental based power plats. However, after analyzing the recent scenario, it might be possible that the subsidy amount might face another round of stress as the country is heavily influenced by expensive oil & LNG based power plats and most of the time this amount will be used for the case of unutilized independent plants.

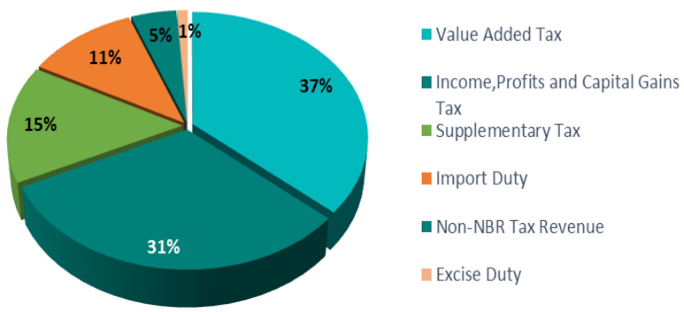
GOVERNMENT REVENUE STREAM

The BFY23 has set a revenue collection target of BDT 4,330 billion (64% of total expenditure) among which 3,700 collection goal) will be collected from NBR tax revenue and remaining 6,300 billion (14.5% of total revenue collection goal) will be collected from the other sources. Around 33% of total revenue is expected to come from (85.5% of total revenue AT while 28%, 25% and 15% of total revenue are from income tax, import duty & others and non-NBR tax collection.

The budget expenditure of FY23 is estimated to grow faster than the revenue mobilization as government has plan towards taking expansionary budgetary stance in order to support after pandemic economic recovery amid global instability caused by Russia-Ukraine war.

The government has proposed higher development expenditure compared to operating expenditure as well as higher ADP which caused the proposed budget to have wider deficit. Despite corporate income tax cuts, other tax imposition on profit and capital gains, sources tax and custom duty will increase the overall revenue of the government. Government has proposed to increase import duty and other taxes, indicating towards discouraging non-essential imports while promoting local production.

INCREMENTAL REVENUE



Source: LR Global Research

IMPACT ON CAPITAL MARKET

- The scope for whitening black money whitening provided in FY22 has not been extended to FY23.
- Listed companies will be able to enjoy 250 bps reduction in their corporate tax, i.e., 20% instead of the previous 22.5%, provided they have at least 10% free float shares in the market
- Companies that have less than 10% free float in the market will be subject to 25% corporate tax in place of the current 22.5%
- Capital gain from treasury bills and bonds, previously exempted from taxation, will be taxable from FY23.

Most of the demands placed were not considered in the proposed budget, including increasing the tax gap between listed and private companies. As the tax gap continues to remain the same, no new incentive has been provided to encourage more private companies to get themselves listed on the bourses. Listed companies will still be able to benefit from the tax cuts and exemptions offered to the various sectors. In addition, the tax imposed on government securities may have some negative impact on the demand for government securities.

IMPACT ON SECTORS

Automobile: Positive

- VAT exemption for motor cars & vehicles up-to 2500 CC manufacturing stage till June 2030.
- Local manufacturers will enjoy the benefits as the government impose 100% supplementary duty in case of 4 stroke and 250% supplementary duty in case of import of 2 strokes of motorcycle above 250CC combined with 20 years tax holiday for 2 and 4 wheelers if the manufacturing firms invest more than BDT 1000 million.
- The government proposed 5% VAT with exemption of supplementary duty on raw materials till June 30, 2025.

To brighten the brand " Made in Bangladesh ", the government continued to provide fiscal supports which will help to globalize the Bangladeshi flagship products. The govt moves will encourage local automobile manufacturer to procure more domestic production.

Consumer durables: Positive

- The govt has extended benefit of VAT exemption for the production of compressors of refrigerator & freezers to 30 June 2025 and extension of exemption facilities on imported and local purchase of raw material & equipment fill June 30, 2023.
- Government impose 5% VAT at manufacturing stage on refrigerators and freezers for the local companies which will adversely impact the production of the companies.
- Proposed to reduce custom duty to 10% from existing 25% on compressed manufacturing , to withdraw lift and skip hoists from capital machinery SRO, and impose 5% import duty at the import stage.

The government proposed a series of regulatory supports for the local manufacturing companies that will drive positively the margin of the local consumer durable manufacturers .

Bank & NBFI: Negative

- The tax bracket has not changed for the financial companies and there is no scope for whitening black money FY2023 budget.
- The **investment income** of the banks, NBFIs & insurance companies will be adversely impacted as the new budget suggested 15% tax on the capital gain of the govt securities.
- The willful loan defaulter might feel pressure as the written off loan for all type of tax payers ,except individuals, will be considered as taxable income .
- Remittance transactions will enhance with govt increased cash incentives of 2.5% combined with less required earnings documents over USD 5000 of remittance. Most of the remittance receiving listed banks ISLAMIBANK, & Dutch Bangla Bank etc will be impacted positively.
- Withdrawal of tax on service charge of Mobile Financial Services (MFS) will impact the MFS wings of the banks positively while the increase of source tax on agent service will cause adverse impacts on the profitability of the relevant banks.

The increased financing of the fiscal deficit from the banking sector is likely to crowd out the private sector credit resulting less amount for the private loans. The banking sector may face a liquidity crisis intensified by rampant inflationary pressure and robust USD appreciation due to fed rate hike . The operating income of the financial companies will be adversely impacted and NPLs of the banks and NBFIs will increase as loan moratorium facilities end

Tannery: Positive

- Reduced corporate tax rate for non-RMG export associated companies is likely to positively impact the footwear companies like BATA, APEX and FORTUNE.
- Existing tax exemption facility for importing the raw ingredients used in the footwear industry has been extended .

Reduced corporate tax rate and tax exemption facility will encourage the growth of footwear industry as well as diversity the national export basket.

Food & Allied: Positive

- Regulatory duty on Carbon Di-Oxide has been reduced from 15% to 5% which will benefit the listed AMCL (Pran) due to carbonated beverage products & other food processing activities.
- Exemption of VAT on the Sugar & puffed rice at trading stage will improve the profitability margin for the companies like Olympic , BANGAS, BDTHAIFOOD, FUWANGFOOD & GHAIL.
- Reduction in import duty for wheat gluten from 15% to 25% along 5% slash on import duty as well for sugarcane molasses will boost the topline margin for companies like Indexagro, Amanfeed & NFML.

Tier	Price Increase	Existing SD	Proposed SD
Premium segment cigarette	5.19%	65%	No change
High segment cigarette	8.82%	65%	No change
Medium segment cigarette	3.17%	65%	No change
Low segment cigarette	2.56%	57%	No change
Non-filter Bidi	No change	30%	No change
Filter-Bidi	No change	40%	No change

Source: Ministry of Finance

The price increase in the tobacco sector, although not significant, will likely prove beneficial for the government's revenue stream. The price increase of cigarette sticks without any increase in supplementary duty is likely help BATBC improve its gross profit. But some consumers may downgrade to lower segments due to relatively higher increase in the upper segments.

Energy: Positive

- Extending 5% existing VAT for LPG manufacturing companies for one more year.
- Till 2030 companies like BSC & MJLBD will enjoy tax exemption on the income in foreign exchange in terms of carrying Bangladeshi flags on their ocean going vessels.

Pharmaceuticals: Positive

- Active Pharmaceutical Ingredients (API) manufacturers will be exempted from VAT at local manufacturing stage. VAT and supplementary duty for raw material import and local procurement will also be fully waived. These facilities will be applicable till the end of 2025.
- The VAT exemption for manufacturing and trading of coronavirus related products has been withdrawn.

The tax exemptions related to APIs are likely to prove favorable for pharma companies that are producing or intend to produce APIs such as SQURPHARMA and BXPHARMA. This will also ensure that the supply of these products remain stable while reducing dependency on imports of APIs and consumers are easily able to access pharma products at affordable costs. BEXIMCO will be negatively impacted by the withdrawal of the VAT exemption.

Textile: Positive

- Reduced tax rates enjoyed by the textile (15%) has been extended till June 30, 2025.
- 1% Export incentive will be continued in FY23.

Demand contraction of textile/RMG products has resulted in significant loss among companies operating in the sector amid pandemic. Within the proposed policy measures, profitability will rise among RMG companies which are supplying goods between manufacturing units through subcontract under bonded facility. Besides, reduction in VAT and export incentive will offer some relief to this sector. Manufacturing costs of products produce from synthetic yarn will decrease.

	Existing	Proposed
VAT on Synthetic yarn	BDT 6 per kg	BDT 3 per kg
Source tax on export proceeds	0.5%	1%

Source: Ministry of Finance

Construction: Mixed

	Existing	Proposed
Import duty on Hot-Rolled stainless steel	10%	5%
Import duty on HR coil, zinc, and raw materials	10%	15%
CD for M.S bars and rods	10%	5%
Source tax on supply of raw materials to manufacturers	7%	4%
CD on China Clay & Ball Clay	15%	5%

Source: Ministry of Finance

VAT for the M.S products at the trading stage has been reduced to BDT 200 per MT from BDT 500 per MT . In addition to that, import duty has been proposed to increase 15% from 10% on electrodes to demotivate importing which leads high turnover growth opportunity for company like LINDEBD. Due to the reduction of Customs Duty, the lower manufacturing cost will boost up the profit margin for the local sanitary ware and tiles manufacturers. However, even though advance tax has been exempted on polypropylene staple fiber for this fiscal year but the withdrawal policy of existing vat exemption on concrete ready mix has little impact on the profitability margin for the cement manufacturing companies.

Telecommunication: Negative

- Existing VAT exemption of mobile phone manufacturing facilities and 5% VAT on mobile phone assembling has been carried forward to FY21
- Supplementary duty on mobile phone services increased from 10% to 15%.

Even though ~53% of the revenue generated from mobile phone services in the telecom sector already goes to the government exchequer and MNOs such as Robi and Banglalink are grappling to make profits, the sector's taxation has been raised yet again. MNOs may be left with no choice but to pass on the new costs to customers. If this provision is not reconsidered, the momentum of the smartphone penetration in the country may slightly taper off.

Personal Income Tax

The personal tax slab has not been revised amid the inflationary macro scenario of the country as govt. has to widen the revenue stream to finance the development projects more by not depending on the local and foreign debt financing to balance the deficit.

Existing		Proposed	
Income Range (in BDT)	Applicable Tax rate	Income Range (in BDT)	Applicable Tax rate
0 to 300,000	Nil	0 to 300,000	Nil
On next 100,000	5%	On next 100,000	5%
On next 300,000	10%	On next 300,000	10%
On next 400,000	15%	On next 400,000	15%
On next 500,000	20%	On next 500,000	20%
On the balance of total income	25%	On the balance of total income	25%

Tax-free income threshold (in BDT)	Existing	Proposed	Change
Male	300,000	300,000	Unchanged
Female , third gender and taxpayers aged above 65	350,000	350,000	Unchanged

Minimum –Maximum Tax Rate	Existing	Proposed	Change
Min. Tax Rate	5%	5%	Unchanged
Max. Tax Rate	25%	25%	Unchanged

Corporate Tax

To encourage more corporations get listed in the capital market, govt. has reduced the tax rate for 2.5% from the last fiscal year. Along with that, to increase the overall the public participation, imposing the unchanged 22.5% tax rate from the previous year for the companies with less than 10% free float is expected to provide some hope indeed for the capital market. Besides, special tax rate has been also applicable for the green industries which was priorly allotted for the green focused RMG industries. However, the unchanged tax rate for Banks , Insurances & FIs didn't meet the hope as it was much anticipated for them to improve their bottom line margin.

Corporate Taxation	Existing	Proposed	Change
Publicly traded companies	22.5%	20.0%	Decreased 2.5%
Publicly traded companies less than 10% free floats	22.5%	22.5%	Unchanged
Non-publicly traded companies	30.0%	27.5%	Decreased 2.5%
One person company	25.0%	22.5%	Decreased 2.5%
Association of persons	30.0%	27.5%	Decreased 2.5%
Special Cases			
Cigarette manufacturers			
All types of tobacco manufacturing companies	45.0% + 2.5% (Surcharge)	45.0% + 2.5% (Surcharge)	Unchanged
Telecommunication Companies			
Publicly traded	40.0%	40.0%	Unchanged
Non-publicly traded	45.0%	45.0%	Unchanged
Banks, Fis and Insurances			
Publicly traded	37.5%	37.5%	Unchanged
Non-publicly traded	40.0%	40.0%	Unchanged
Merchant Bank	37.5%	37.5%	Unchanged
Export oriented industries (Including RMG)			
Industries with green factories	10.0%	10.0%	Unchanged
Industries without green factories	12.0%	12.0%	Unchanged