

Budget 2022-23

A BALANCING ACT

CAL's view on the budget and
impact on listed entities

CAL's view on budget 2022-23E

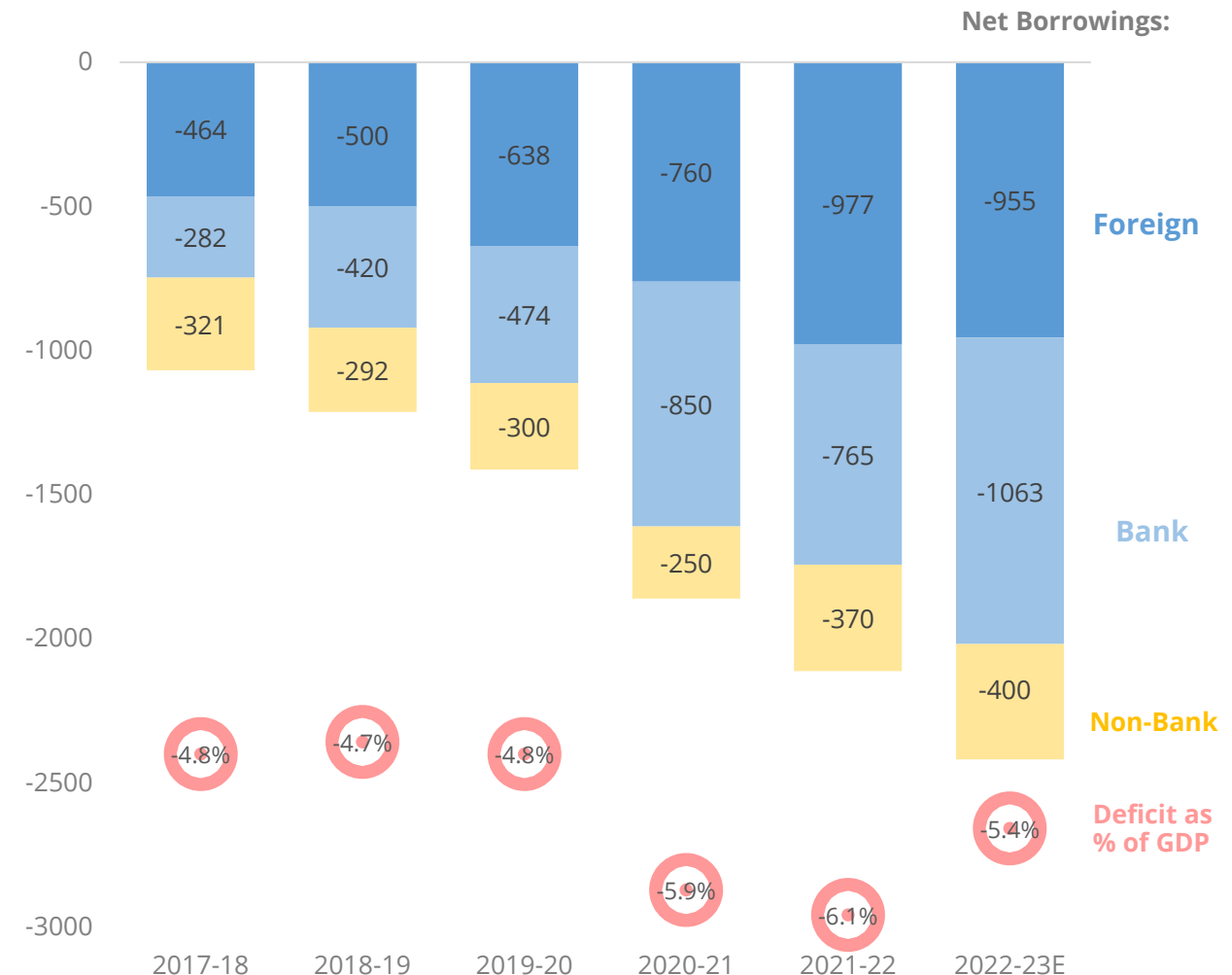
The 2023E budget is focused on balancing between growth and a myriad of macroeconomic challenges stemming from global inflation

The Govt of Bangladesh has unveiled its budget where inflation control and currency stability appear as the core concern while accelerating economic growth remains the key objective with a 7.5% GDP growth target. Increased subsidies for fuel, gas and fertilizer are ensured to keep the price level tolerable while expanding social safety net schemes are the key objective to address inflationary pressure. On the other hand, increased duty on import of non-essentials and a reduced tax bracket for the export-oriented companies remains the key priorities to ease the pressure on BOP.

The government intends to pursue a strategy where import-dependent and less important government expenditures will be reduced to maintain a stable foreign exchange reserve. Also, low-priority projects will be curtailed while enhancing the implementation of high and medium priority projects to stimulate economic growth.

- The budget deficit is expected to increase by 20% where 44% of the deficit will be financed through the Banking system.
- A 39% increase in bank borrowings over the last year's budget may result in a liquidity squeeze pushing up interest rates further.
- Moreover, expected depreciation in the currency arena may make foreign borrowing costlier, encouraging the government to continue to rely on the domestic borrowing sources.

Budget Deficit & Deficit Financing (BDT bn)



Taka comes from...

Government to relax tax for corporates

On the revenue front, direct tax and VAT which accounts for 58% of total revenue collection have been targeted to contribute 67% of the incremental revenue collection compared to last year's revised budget.

Government opted to broaden the tax net base by including a provision to present proof of tax return filing as a mandatory requirement to receive certain benefits.

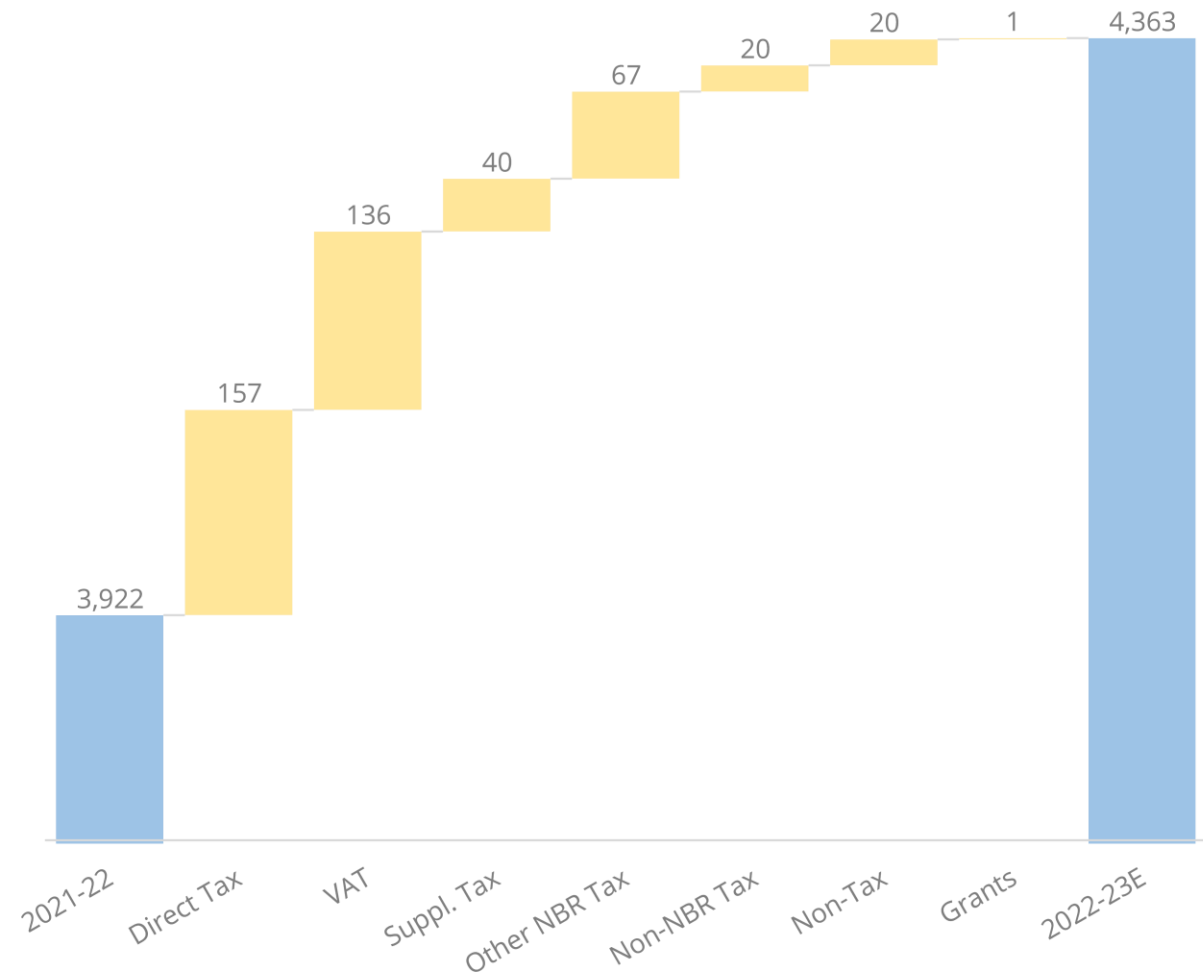
We believe revenue collection targets from direct tax sources might become difficult to achieve given a 2.5% reduction in corporate tax on a conditional basis for both listed and non-listed companies.

Global business uncertainties stemming from heightened commodity price geopolitical uncertainties and global policy rate hikes pose a major threat to achieving the revenue target. Historically, revenue collection has stood around 80% of the target.

Proposed sources for the revenue of the Government

- Excise duty to increase by BDT 10,000 to BDT 50,000 for bank account balances above BDT 50 Mn at any time of the year
- A price increase on cigarettes: Premium 5%, High 9%, Medium 3%, and Low 3%.
- Source tax on bank interest for company taxpayers to 20% from 10%
- Source tax on export proceeds increased to 1% from that of 0.5%
- Withdrawal of existing 5% VAT exemption at the trading stage of mobile phone sets; and imposition of 15% VAT on laptop computer imports
- 15% capital gain tax will now be applicable for government securities
- Imposition of 5% VAT at the local manufacturing stage on refrigerators and freezers

Incremental Government Revenue and Grants (BDT bn) 2023E



Taka goes to...

Enhanced operating expenditure and optimism in investment spending targets.

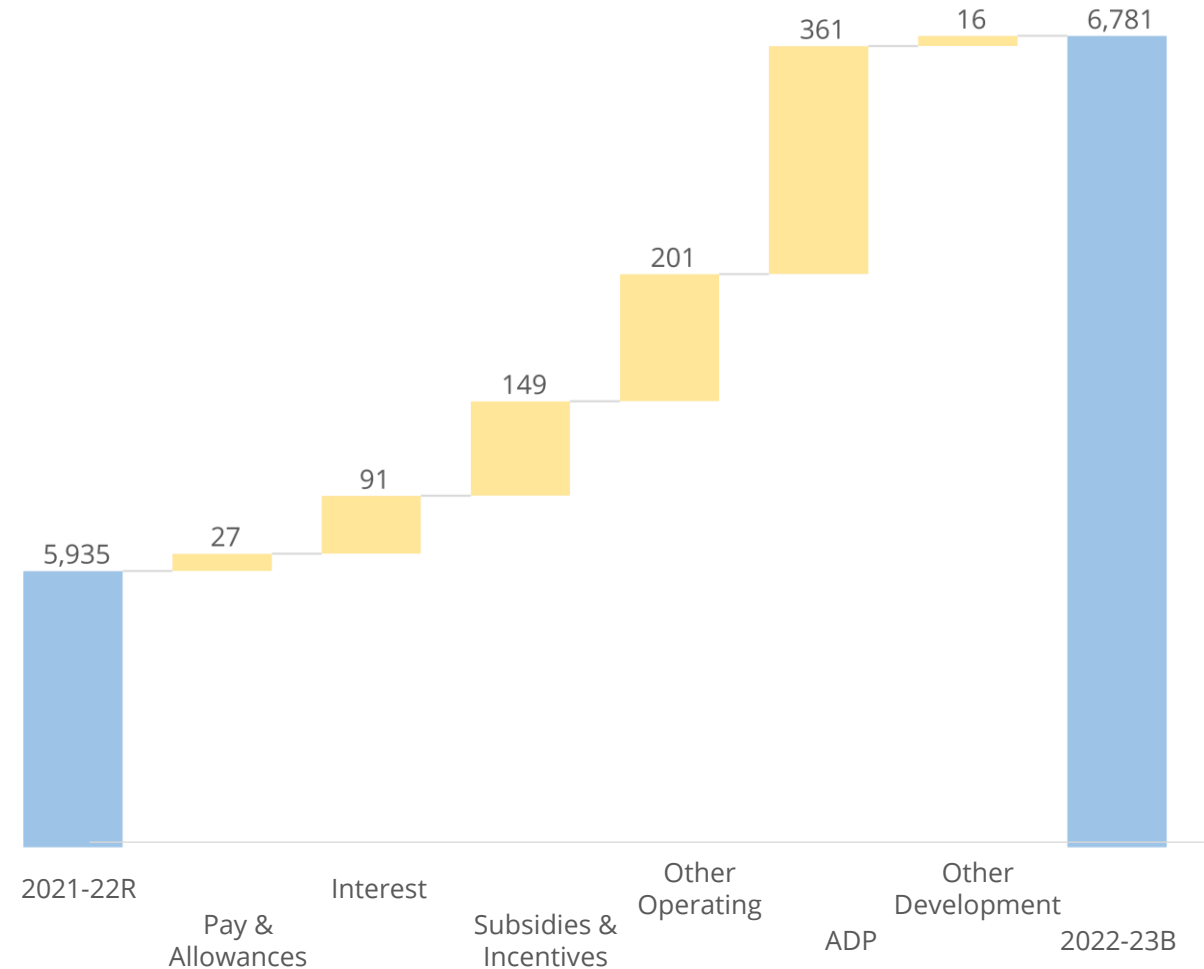
Total expenditure in the proposed budget is estimated at BDT 6.8 Tn which would be a 14.2% growth over the last year's revised budget.

The total allocation for pay & allowances, interest, and subsidies is close to 76% of the revenue which is likely to be revised upwards given the global headwinds. Considering the price outlook of the essential commodities like oil, gas, and fertilizer in the international market, the estimated subsidy spending is likely to be higher than the government's target, which may pose a major challenge for the implementation of the proposed budget in the next fiscal year. This incremental allocation for higher subsidy spending may leave reduced fiscal space for targeted public investment.

Allocation for ADP has been estimated at BDT 2.5 Tn which is 17% higher than the last year's revised budget. ADP Allocation will be led by 29.4% in the Human resources sector, followed by 26.4% in the communication sector, 21.7% in the agriculture sector, 12.1% in the power and energy sector and 10.4% in other sectors.

Three major categories of government activities: social infrastructure, physical infrastructure, and general services are allocated BDT 1,834.2 bn, 2,008.6 bn and 1,532.08 bn which is 27.05%, 29.62% and 22.59% of the total allocation respectively.

Incremental Government Expenditure (BDT bn) 2023E



Post budget outlook on the economy amid global headwinds

Growth to remain resilient

Although CAL expects GDP growth to remain resilient, Bangladesh's economy faces a myriad of headwinds as global inflationary pressure spills over onto domestic fronts pushing growth slightly lower than GoB's growth target of 7.5%. Mounting inflationary pressure is also likely to weigh on discretionary spending and, therefore, private consumption in the economy.

Interest rates to remain high

In the budget for FY2022-23, the government has focused on decreasing high-interest non-bank borrowing and increasing borrowing from the banking sector. High bank borrowing will push up T-bill and T-bond rates as well as mop-up significant liquidity from the banking sector. At the prevailing lending rate cap of 9%, banks are likely to invest in risk-free government Bills and bonds due to low provisioning and less operating cost requirements. Rising prices and mounting pressure on the exchange rates are likely to push the central bank to revisit the prevailing interest rate cap.

Inflation to remain elevated

Inflation remains elevated at 6.29% in April 2022 against the government's target of 5.5% for FY2022-23. However, CAL estimates headline inflation to reach around 8% in the next fiscal year. A further adjustment in the energy and gas prices is likely to feed through to higher inflation.

Exchange rate to remain under pressure

The strengthening of the dollar, the rising gap between export and import, fluctuating remittance inflows, and rising foreign debt servicing have mounted pressure on the exchange rate. As a result, the currency has depreciated by 8.9% YTD. With commodity prices increasing globally, import bills are expected to remain high, CAL expects the taka to further depreciate under the current inflation dynamics and interest rate structure. However, fiscal benefits proposed in the budget to the export-oriented sectors and depreciation in currency may provide a boost to exports, thus relieving some pressure in the latter half of the fiscal year.

Tax Highlights

In the proposed budget for FY2022-23, except for Tobacco, Telecom, Banks, and Financial institutions, 250bps in tax has been cut across different segments. For Publicly listed companies whose free float is equal to or more than 10%, the proposed tax rate is 20%. The proposed tax rate for companies that will fail to meet the condition is 22.5% (**BERGERPL**). For non-public companies, on condition of business transactions through banking channels, the tax rate has been cut to 27.5% from 30%. In case of failure to meet the condition, the applied tax rate will be 30%. A similar condition is applicable to avail tax cut for a one-person company.

To consolidate the export basket further, a 12% tax rate for all other general industries (**FORTUNE, GEMINISEA**) exporting goods and services and 10% for all other green industries have been proposed.

Reduction in turnover tax for startups to 0.1% from 0.6% while allowing companies to set off and carry forward losses over a period of 9 years.

Reduction in rate of tax at the source on the supply of raw materials for manufacturers from 7% to 4%.

Amount allocated for Workers' Profit Participation Fund (WPPF) by corporates is now brought under taxation

New provision in the Income Tax Ordinance 1984, has been proposed so that money earned and assets acquired abroad can be mainstreamed into the economy. The proposed rate is 15% for immovable property not repatriated to Bangladesh, 10% for movable property not repatriated to Bangladesh, and 7% for cash and cash equivalents repatriated to Bangladesh.

Description	Existing FY 2021-22	Proposed FY 2022-23	*Applicable tax rate if fails to meet the condition
Publicly traded company- free float equal to or above 10%	22.5%	20.0%	22.5%
Publicly traded company -less than 10% free float	22.5%	22.5%	25.0%
Non-publicly traded company	30.0%	27.5%	30.0%
One person company	25.0%	22.5%	25.0%
Publicly traded bank, insurance and FI	37.5%	37.5%	*
Non-publicly traded bank, insurance and FI	40.0%	40.0%	*
Merchant bank	37.5%	37.5%	*
All sorts of tobacco manufacturing company including cigarette, bidi, chewing tobacco, gul etc.	45% + 2.5% (surcharge)	45% + 2.5% (surcharge)	*
Publicly traded mobile operator company	40.0%	40.0%	*
Non-publicly traded mobile operator company	45.0%	45.0%	*
Association of persons	30.0%	27.5%	30.0%
Artificial juridical person and other taxable entities	30.0%	27.5%	30.0%
Private university, medical, dental and engineering college or private college solely dedicated to imparting education on ICT	15.0%	15.0%	*

* Condition not applicable

LISTED EQUITIES

Impact on CAL's coverage universe

Tobacco

Engineering

Textile

Banks & Financial Institutions

Pharmaceuticals

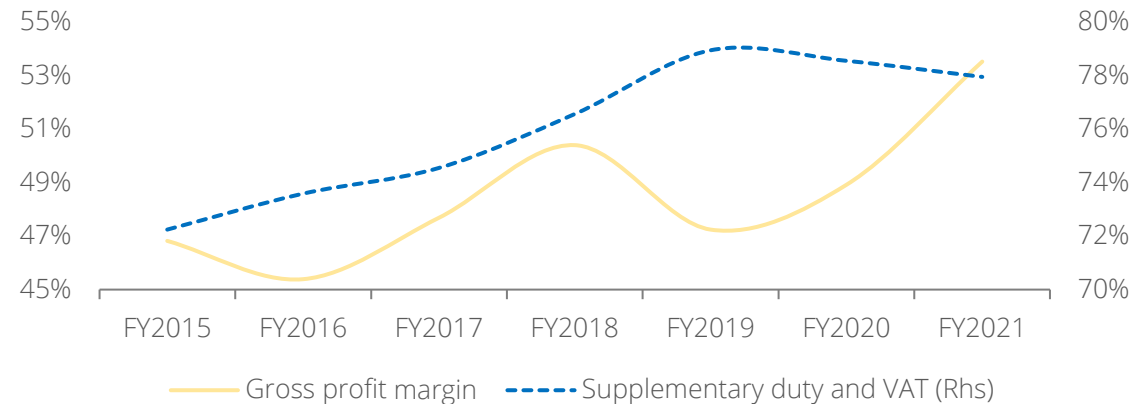
Others

Tobacco

BATBC: Positive Impact

In the proposed budget for FY2022-23, the Price of 10-stick premium segment cigarettes has been increased to BDT 142, High segment cigarettes to BDT 111, and Medium segment to 65, implying an average price increase of 6% in the top 3 segments with no change in Supplementary duty (SD). Considering the top 3 segments contribute 25% of total volume sales, a 6% price increase is likely to bring revenue and gross margin expansion to BATBC.

In the low segment, the price has increased by 3% to BDT 40 per 10 stick. for BATBC, the low segment contributes 75% of total volume sales. Lower supplementary duty in the lower segment along with a price increase could translate to a higher gross margin. However, compared to the Top-3 segment consumers, lower segment cigarette consumers might shift to other cheaper alternatives offsetting some of the margin benefits as there has been no price change proposed for Homemade Filter and Non-Filter Bidi.



Proposed Changes in Tobacco Tariffs & SD					
Cigarette	Existing price per 10 stick	Proposed price per 10 stick	Change (%)	Existing SD	Proposed SD
Premium	135	142	5%	65%	65%
High	102	111	9%	65%	65%
Medium	63	65	3%	65%	65%
Low	39	40	3%	57%	57%
Homemade Filter Bidi					
	Existing price	Proposed price	Change (%)	Existing SD	Proposed SD
20 stick	19	19	0%	40%	40%
10 stick	10	10	0%	40%	40%
Homemade Non Filter Bidi					
	Existing price	Proposed price	Change (%)	Existing SD	Proposed SD
25 Stick	18	18	0%	30%	40%
12 Stick	9	9	0%	30%	40%
8 Stick	6	6	0%	30%	40%

Engineering

PROPOSAL	COMPANY	IMPACT
Withdrawal of full exemption and imposition of 5 percent VAT at the local manufacturing stage on refrigerators and freezers.	WALTON, SINGERBD	Negative: Refrigerator sale contributes 92% of WALTON's sales and 40% of SINGERBD. The imposition of VAT might be difficult to pass on to consumers.
Extension of existing VAT exemption facility for production of compressors of refrigerators and freezers till June 30, 2025 and continuation of existing exemption facilities on imported and local purchase of raw material and equipment till June 30, 2023	WALTON, SINGERBD	Positive
VAT exemption at the local manufacturing stage and VAT (including Advance Tax) and Supplementary Duty exemption on import and local purchase of raw materials and parts to manufacture motor cars , motor vehicles up to 2500 CC and Power tiller are proposed till 30 June 2030	ACI, RUNNERAUTO	Positive: VAT exemption likely to improve the profitability of ACI as ACI motors is one of the most profitable concerns. Similar dynamics applicable for RUNNERAUTO.
5% VAT will be applicable at the manufacturing stage of three-wheeler and VAT (including Advance Tax) and Supplementary Duty shall be exempted on import of raw materials and parts thereof till June 30, 2025	RUNNERAUTO	Negative: Three-wheelers contribute 20% of Runner's revenue, considering three-wheeler consumer demography, 5% VAT is likely to have an adverse effect on sales.

Engineering

PROPOSAL	COMPANY	IMPACT
VAT exemption on supply of locally procured scrap in the foundry industry	BSRMLTD, BSRMSTEEL, GPHISPAT	Positive
Proposed to lower VAT at the trading stage for M.S. products at BDT 200 per Metric Ton instead of BDT 500 per Metric Ton	BSRMLTD, BSRMSTEEL, GPHISPAT	Positive
5% of import duty reduction of Bars & Rods of alloy steel used as a raw material for Electrode Manufacturing and Wire Drawing Industry	LINDEBD,OIMEX	Positive

Pharmaceuticals

PROPOSAL	COMPANY	IMPACT
Active Pharmaceuticals Ingredients (API) manufacturers to get VAT exemption at the local manufacturing stage and VAT (including Advance Tax) and Supplementary Duty exemption on import and local purchase of raw materials are proposed till December 31, 2025	ACTIVEFINE, ACME LAB, SQRPHARMA, BXP HARMA	Positive
Existing tax holiday has been extended to the imports of required raw materials used for the production of medical kits to strengthen the health sector and protect the pharmaceutical industry	JMISMDL, JHRML, BEXIMCO	Positive
SD on shaving, beautification, Air freshener, toiletries, disinfectant, and depilatory items increased by 10% to 20%	RECKITBEN, MARICO, ACI, KOHINOOR	Negative
Continuation of the existing concessional facilities for the import of raw materials required for the production of medicines and medical supplies	BXP HARMA, SQUAREPHARMA, RENATA, ACME, ACI	Positive

Textile

PROPOSAL	COMPANY	IMPACT
Reduction of VAT on yarn made from Man Made Fiber (MMF) and others from BDT 6 per kg to BDT 3 per kg	MATINSPINN, ENVOYTEX	Positive: Around 50% of the revenue of MATINSPINN is contributed by MMF segment. A reduction of VAT to bring margin improvement.
Prevailing tax rate for the textile sector at 15% extended until June 30, 2025.	Respective Textile companies	Positive
Exemption of Advance Tax on imported raw materials of polypropylene staple fiber and keeping the existing exemption facility at the manufacturing stage	PTL, MHSML, NEWLINE	Positive

Miscellaneous

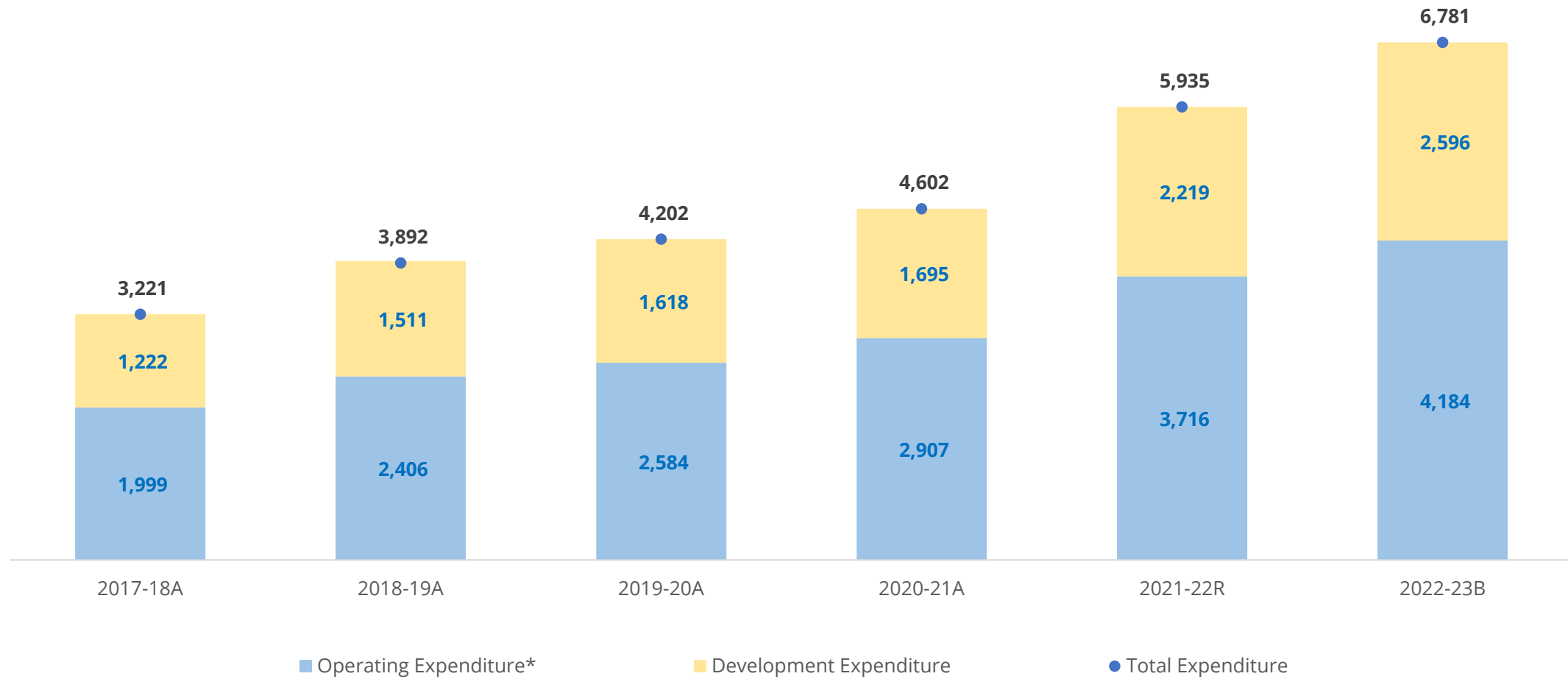
PROPOSAL	COMPANY	IMPACT
VAT exemption at the trading stage for sugar and Wheat	OLYMPIC, LOVELLO, GHAIL	Positive
10% reduction of customs duty on wheat gluten, 5% customs duty reduction on sugarcane molasses, and continuation of zero tariffs for poultry, livestock, and fisheries industry	INDEXAGRO, AMENFEED, NFML	Positive: The contribution of wheat gluten and sugarcane molasses in COGS are low, thus benefits are expected to be limited.
Propose to give advance tax exemption on import of machinery and equipment by registered poultry farms	INDEXAGRO, AMENFEED, NFML	Positive
Expanded the existing concessional facilities for certain raw materials used in the production of pesticides	ACMEPL, ACIFORMULATION	Positive

Miscellaneous

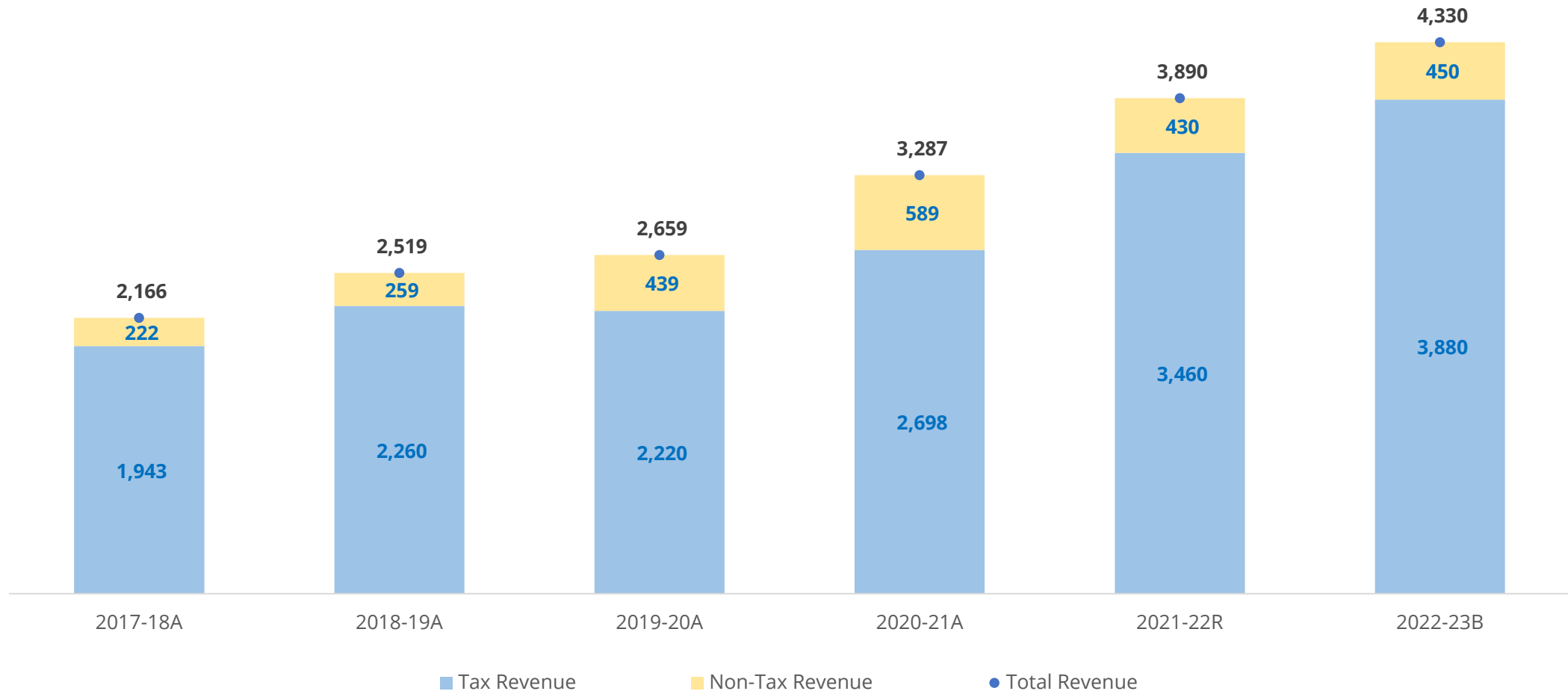
PROPOSAL	COMPANY	IMPACT
<p>Keeping service charge of mobile financial services out of tax and deduction at source invoice issued by the Mobile Financial Service (MFS) provider to be considered as VAT invoice in case of payment of electricity bill</p>	<p>BRACBANK (BKASH)</p>	<p>Positive</p>
<p>GoB proposed a gradual introduction of four types of social insurance in the country. These are Unemployment Insurance, Maternity Insurance, Sickness Insurance, and Employment Injury Insurance.</p>	<p>Companies in General Insurance sector</p>	<p>Positive</p>
<p>Proposal to exempt taxation on the income earned in foreign exchange by ocean-going vessels carrying the Bangladeshi flag until 2030.</p>	<p>BSC</p>	<p>Positive</p>

Appendix

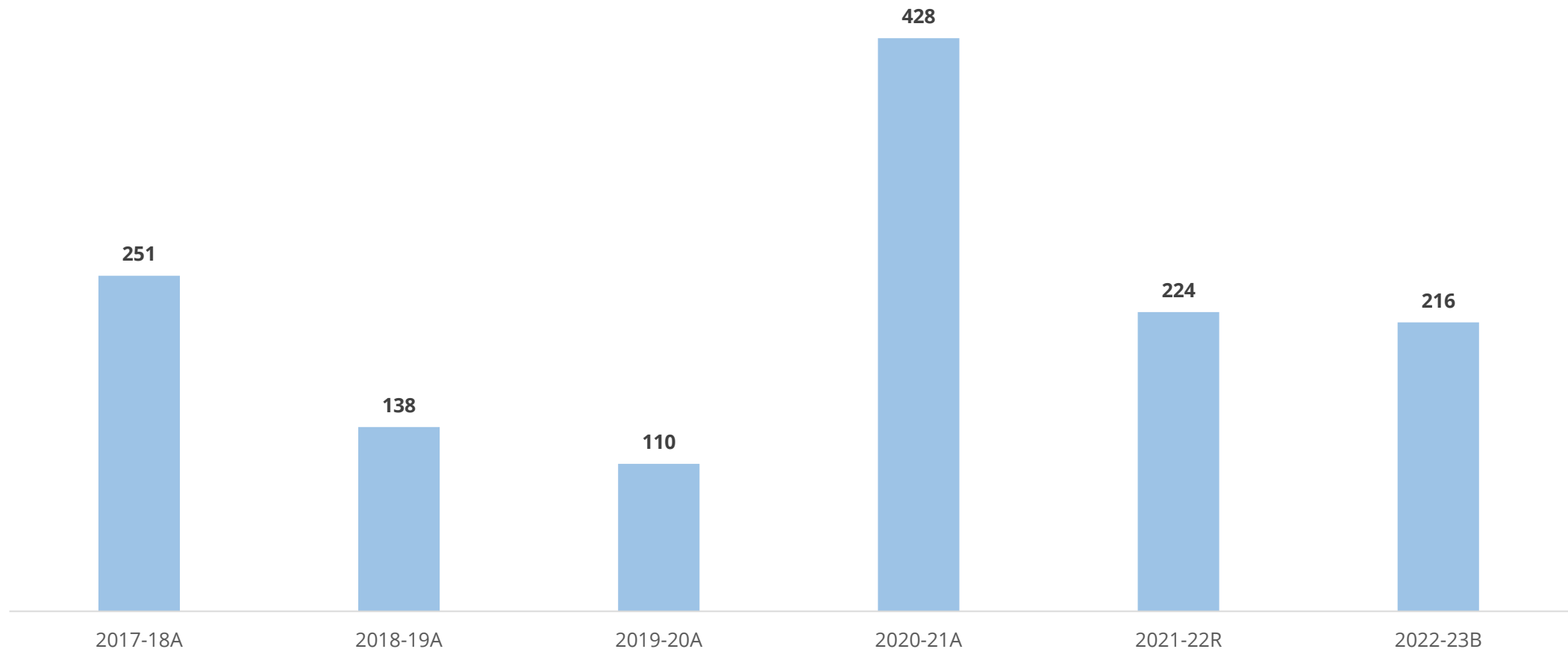
Government Expenditure (BDT Bn)



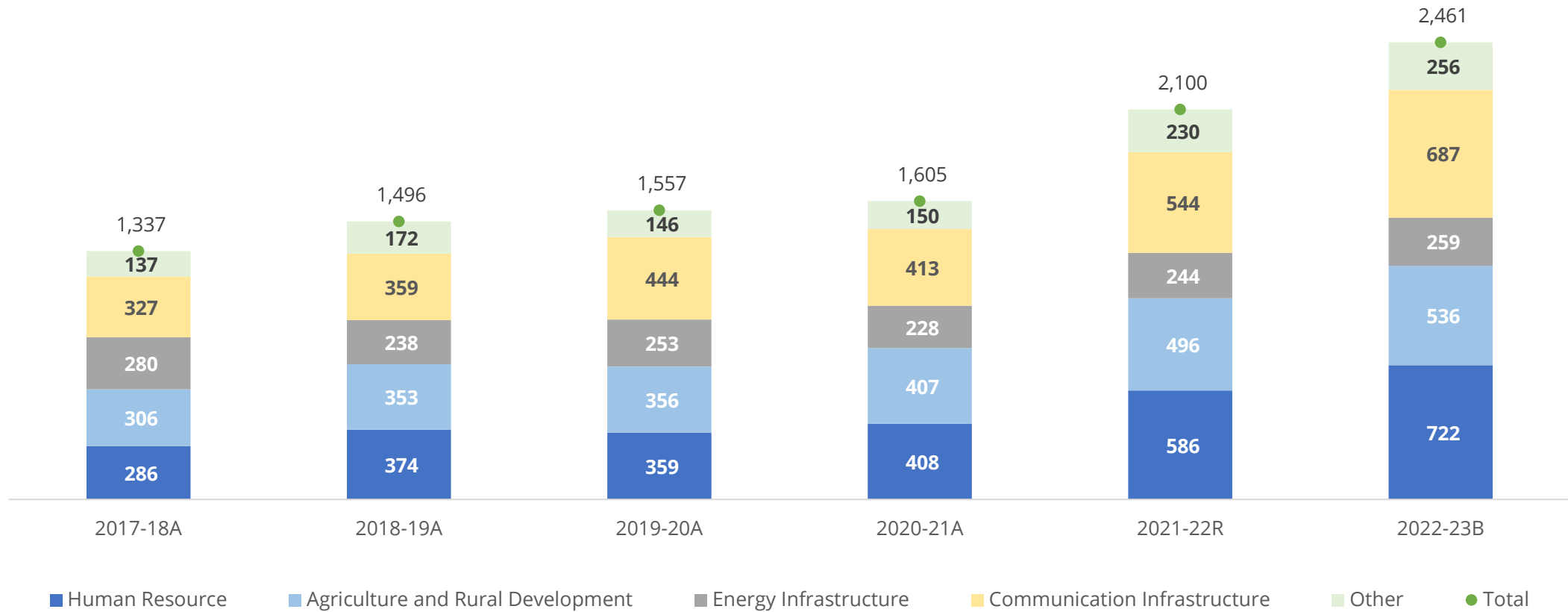
Government Revenue Collection (BDT Bn)



Fiscal Primary Balance (BDT Bn)



ADP Sectoral Allocation (BDT Bn)



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