Budget Review: FY 2013-14

June 09, 2013

- ✓ The Budget once again aims at achieving twin goal of 7.2% GDP growth and 7% inflation, which may be termed as ambitious on the background of recent macroeconomic performance and being in an election year.
- ✓ Deficit financing from banking sector makes an ever increasing outstanding debt from banking sector to be continued.
- ✓ Major incentives in Budget for FY 2012-13 for capital market are to be continued in FY 2013-14 with some added incentives. We believe that declared incentives will help primary market, open-end mutual funds and retail investors more directly than otherwise.
- ✓ Ceramic, Cement, Pharmaceutical and Energy sectors are expected to be positively affected while; ICT, Tobacco and Bank sector are expected to be negatively affected from the proposed budget. Effect on Textile sector is expected to be mixed due to impact of different policy changes.

Table 1: Budget at a Glance FY 2013-14

Particulars (Amounts in Billion BDT)	Budget 2011-12	Revised 2011-12	Budget 2012-13	Revised 2012-13	Budget 2013-14
Revenue	**1,183.9**	**1,148.9**	**1,396.7**	**1,396.7**	**1,674.6**
Tax Revenue	**957.9**	**962.9**	**1,168.2**	**1,168.2**	**1,412.2**
Non-Tax Revenue	226.0	186.0	228.5	228.5	262.4
Foreign Grants	49.4	44.6	60.4	52.8	66.7
Total Revenue and Foreign Grants	**1,233.2**	**1,193.5**	**1,457.1**	**1,449.5**	**1,741.3**
Non-Development Expenditure	1,029.0	1,009.9	1,116.8	1,114.3	1,363.8
Development Expenditure	506.4	456.5	601.4	538.6	673.3
others	100.4	145.8	199.3	240.4	187.8
Total Expenditure	**1,635.9**	**1,612.1**	**1,917.4**	**1,893.3**	**2,224.9**
Total Deficit (Including Grants)	**402.7**	**418.7**	**460.2**	**443.8**	**483.6**
(in % of GDP)	4.48%	4.58%	4.42%	4.28%	4.07%
Total Deficit (Excluding Grants)	**452.0**	**463.3**	**520.7**	**496.6**	**550.3**
(in % of GDP)	5.02%	5.06%	5.00%	4.78%	4.63%
Financing					
Net Foreign Borrowing	130.6	74.0	125.4	119.1	144.0
Foreign Borrowing	186.9	140.4	204.0	199.5	237.3
Amortization	(56.3)	(66.4)	(78.6)	(80.4)	(93.3)
Domestic Borrowing	272.1	344.7	334.8	324.7	339.6
Net Bank Borrowing	**189.6**	**291.2**	**230.0**	**285.0**	**259.9**
Net Non-Bank Borrowing	82.5	53.5	104.8	39.7	79.7
Net National Saving Schemes	60.0	35.0	74.0	19.7	49.7
Others	22.5	18.5	30.8	20.0	30.0
Total Financing	**402.7**	**418.7**	**460.2**	**443.8**	**483.6**
Net Bank Borrowing as % of Total Deficit	**47.08%**	**69.54%**	**49.97%**	**64.22%**	**53.75%**
GDP	**8,996.7**	**9,147.8**	**10,413.6**	**10,379.9**	**11,888.0**

Source: Budget FY 2013-14; Ministry of Finance (MOF).

The Budget once again aims at achieving twin goal of 7.2% GDP growth and 7% inflation, which may be termed as ambitious on the background of recent macroeconomic performance and having in an election year.

In FY 12-13p, terms of trade improved due to duel impact of import reduction and export surge. Strong remittance growth resulted into an appreciated BDT and a new equilibrium. Overall, external sector improved in the last fiscal, primarily on account of improved current account balance.

In total, inflation target seems approachable while election year impact and volatile business environment made the GDP growth target quite ambitious.

Table2: Major Macroeconomic Variables

Particulars	Budget 2010-11	Budget 2011-12	Budget 2012-13	Budget 2012-13P	Budget 2013-14	Mid Term
GDP (in Billion BDT)	7967	9,147	10413	10380	11,888	
GDP Growth	6.70%	6.20%	7.20%	6.00%	7.20%	8.00%
Inflation	8.80%	10.60%	7.90%	7.50%	7.00%	5.50%
Export Growth	41.50%	6.00%	10.14%	12.00%	15.00%	
Import Growth	41.80%	5.40%	-6.11%	3.00%	10.00%	
Remittance Growth	6.00%	10.20%	16.01%	16.00%	15.00%	
Foreign Exchange Reserve (Billion US $)	11.00	10.40		14.30	14.70	
* July-March, 2013						
**Reserve on May 2013.						
Source: Budget FY 2013-14, Ministry of Finance (MOF)						

Capital Market Implications

Recognizing importance of capital market in economic development, the budget has declared several incentives (Table 3) which is expected to ensure a well-functioning capital market, in future. We believe that declared incentives will help primary market, open-end mutual funds and retail investors more directly than otherwise.

Table 3: Capital Market Incentives

Capital Market Intensives to be continued with some additional incentives	Alongside earlier incentives for capital market, following additional incentives has been proposed in Budget 2013-14, ✓ Rescind existing provision of charging 3% tax on premium over face value of shares of a company. ✓ Repeal provision of charging 0.05% Tax at Source on total income from bond sale. ✓ 15% Tax Rebate on investment in Public Mutual Funds have been extended to Private Mutual Funds, as well. ✓ Tax exempted dividend income threshold has been raised to BDT 10,000 from BDT 5,000 ✓ Significant revisions in income tax rates for individuals will benefit individual retail investors, a. Tax exempted income threshold raised to BDT 220,000 b. Investment ceiling for tax rebate has been lifted to BDT 15 mn from earlier BDT 10 mn c. Investment ceiling for tax rebate as a % of total income has been increased to 30% from earlier 20% d. Percentage tax rebate on investment has been increased to 15% from 10%

Sectors – Positively Affected

1. **Industrial Machineries –** reduced import duty may boost industrial growth	✓ Customs duty (CD) reduced from 3% to 2% for capital goods import. ✓ CD also reduced for intermediate raw materials from 12% to 10%. ✓ **Lower duty is expected to reduce cost for industrial production and bolster growth**
2. **Textile Sector –** continuation of lower tax rate expected to be beneficial for the textile manufacturers	✓ Provision for 15% tax rate to be extended to June 30, 2015 from June 30, 2013. ✓ Withdrawal of 5% CD on Artificial Filament Tow (Raw Material of Acrylic Yarn) . **This is expected to be beneficial for Acrylic Yarn manufacturers like RNSPIN.**
3. **Pharmaceuticals Sector –** may continue its stable growing phase riding on favorable tax policy on capital machinery, essential items and continuation of tax holiday benefits	✓ Tax Holiday benefits announced in budget 2011-12 are extended to June 30, 2015 from earlier deadline of June 30, 2013. ✓ FEP/Teflon Tube raw materials of medical equipments will enjoy lower CD of 10% from earlier 25%.
4. **Ceramic sector –** Operating cost is expected to get reduced	✓ CD on Flint, Grinding Pebbles, Silex/lining/abrasive/polishing disc are to be reduced from 25% to 10%.
5. **Energy Sector –** LPG manufacturers are expected to be benefited	✓ CD on LPG Cylinder is increased to 10% from existing 3%. ✓ VAT exemption for local LPG cylinder manufacturer has been extended up to 30 June, 2017 from earlier 30 June 2013.
6. **Cement Sector –** may be beneficial due to increase in profit margin	✓ CD on intermediate raw materials (Fly Ash, Slag, and Limestone) is decreased to 10% from existing 12%.
7. **IRON, Steel & Engineering**	✓ Specific Duty will be increased to BDT 3,500 per MT from BDT 2,500 for imported billet. ✓ Alloy Steel imports will enjoy CD exemption, assisting growth in steel production. ✓ **Cost of imported billet will increase for steel manufacturers and would benefit companies who are less dependent or going to reduce dependency on imported billet.**
8. **Dairy**	✓ Tax Rate on Hatchery, Dairy firm and Dairy industry reduced to 3% from 5%. ✓ CD increased for imported powder milk from 5% to 10%. ✓ **The incentives may be beneficial for companies like RDFOOD.**

9. Others Sector – Float glass, Super shops and Leather industry is expected to be benefited.	✓ 60% Supplementary Duty (SD) on imported potato chips, which may be beneficial for local potato chips producers like **AMCL (PRAN).** ✓ SD on float glass import has been raised from 30% to 45%. In addition, duty on cobalt oxide used in the float glass industry is proposed to be charged to 5% from existing 12%. ✓ Exemption of 30% SD for VAT registered super shops may be beneficial for **ACI.** ✓ CD on some inputs of leather sector would be reduced from 12% to 5%, which is expected to be beneficial for leather goods manufacturing companies like **BATASHOE** and **APEXADELFT.**

Sectors – Negatively Affected

1. ICT Sector – Telecommunication operators may be affected due to higher corporate tax rate.	✓ To increase corporate tax rate for publicly traded mobile phone companies from 35% to 40%. **Higher corporate tax rate would reduce the net profit margin of the publicly traded mobile phone operators, like GP.**
2. Tobacco Industry may be affected by the increased tax rate	✓ **Raising corporate tax rate for publicly traded cigarette manufacturing company to 40% from 35% will affect profitability of BATBC, the sole listed tobacco products manufacturer.**
3. Textile Sector – local woven manufacturers may be under pressure	✓ SD reduced from 45% to 20% for imported woven fabrics, expected to put local woven manufacturers under pressure.
4. Banking Sector – like before it may face challenges from higher Govt. borrowing for deficit budget financing.	✓ Govt. aims to borrow BDT 259.9 bn from the banking system for the next fiscal year. ✓ The 13.01% YoY increase in govt. borrowing target may result in further **'Crowding Out'** effect. ✓ This will also create some pressure on liquidity in the banking system.

Research Team

RAJIB KUMAR DEY
Phone: +88 02 9571170 ext:105
Email: kumar@idlc.com

MD. SHIFUL ISLAM (NOBLE)
Phone: +88 02 9571170 ext:116
Email: shiful@idlc.com

SALIM AFZAL SHAWON
Phone: +88 02 9571170 ext:146
Email: salim@idlc.com

MD. ITRAT HOSSAIN
Phone: +88 02 9571170 ext:117
Email: itrat@idlc.com

MD. ARMAN CHY. NAYAN
Phone: +88 02 9571170 ext:114
Email: nayan@idlc.com

Branch Network Of IDLC Investments Limited

IDLC INVESTMENTS LTD.
Head Office
Eunoos Trade Centre (Level 21)
52-53 Dilkusha C/A, Dhaka 1000
Tel: +880 (2) 957 1170

MOTIJHEEL DMEx BRANCH
People Insurance Building (13th floor)
36 Dilkusha, Dhaka-1000
Tel: +880-(2) 9571842

DOHS MOHAKHALI BRANCH
House No. 109, Park Road
Block: A, New DOHS Mohakhali
Dhaka 1206
Tel: +880 (2) 8715081

GULSHAN BRANCH
Capita South Avenue Tower
(5th Floor), House No. 50
Unit: 502 , 7 Gulshan Avenue
Dhaka 1212
Tel: +880 (2)-988 3898, 988 9861

DHANMONDI BRANCH
House # 405/C (3rd & 4th Floor)
24/C Sk. Kamal Sarani (New)
Road # 27 (Old) 16, (New).
Dhanmondi R/A, Dhaka-1209
Tel: +880-2- 9102991-3

UTTARA BRANCH
Monsur Complex (4th floor)
Plot # 59/A, Road # 7
Sector # 4, Uttara, Dhaka 1230
Tel: + 880 (2) 8959392, 8959046

BANANI BRANCH
Caldwell Center (2nd floor),
Plot- 54, Road-11,
Block C, Banani, Dhaka 1213
Tel: +88-02-8826031, 8826048

CHITTAGONG BRANCH
Ayub Trade Centre (6th floor)
1269/B Sk. Mujib Road
Agrabad Commercial Area
Chittagong 4100
Tel: +880 (31) 251 4051-52

GAZIPUR BRANCH
Rahmat Tower (2nd Floor)
Holding No. 1034
Mouza: Outpara, Gazipur
Tel: +880-9263503, 9263505

SYLHET BRANCH
Casablanca (2nd Floor)
982 Dargah Gate, Sylhet 3100
Tel: +880 (821) 283 2461-3

KHATOONGONJ BRANCH
M.H No. 3/A
Ramjoy Mohajan Lane, (5th floor)
Khatoongonj, P.S. Kotwali
Chittagong 4100
Tel: +88-031- 2586491-3

Disclaimer