Budget Review: FY 2014-15

June 05, 2014

- ✓ The budget aims at achieving 7.3% GDP growth. In addition, inflation was targeted to reduce further from existing level of 7.4%
- ✓ No major change in capital market related policy level
- ✓ Textile, Pharmaceutical, Bank, Engineering, Ceramics and Energy sector are expected to be benefited while; ICT and Tobacco are expected to be negatively affected from the proposed budget.

Capital Market Implications

Recognizing importance of capital market in economic development, the budget has declared several incentives (Table 3) which are expected to ensure a well-functioning capital market, in future. We believe that declared incentives, added with the existing ones, will contribute for capital market development.

Table 3: Capital Market Incentives

Capital Market Incentives to be continued with some additional incentives	Alongside earlier incentives for capital market, following additional incentives have been proposed in Budget 2014-15, ✓ Tax exempted dividend income threshold has been raised to BDT 15,000 from BDT 10,000 ✓ Tax Exemption facilities for 5 years for demutualised stock exchanges in graduated rate

Sectors/Industry – Positively Affected

1. All Sectors –	✓ Extension of existing tax holiday facilities from June 2015 to June 2019 ✓ Accelerated Depreciation Facilities reinstated as an alternative to Tax holiday for new investors ✓ On cash incentive, Tax Reduction at source has been reduced from 5% to 3% ✓ Raw materials of Paper, Glass, Ceramics, Rubber, Furniture, Paint, Electrical & Plastic industries will have lower customs duty, from existing 10% and 25% to 5% and 10%, respectively
2. Bank	✓ Government of Bangladesh (GOB) targets for borrowing BDT 312.21 bn from banking system in 2014-15 ✓ Trading Business Income: I. For local LC > BDT 5 Lakh, Deduction Rate at source reduced from 5% to 3% II. Not to deduct at source for consumer staples including rice, onion, dal, turmeric, chili, maize, flour, salt, edible oil, sugar III. On deemed commissions, tax rate reduced from 5% to 3% ✓ As GOB borrowing continues significantly, treasury market may continue its vibrant tone ✓ Reduced taxes in LC may bolster trade business, which will positively affect non funded income of banks

3. **Textile**	✓ Exemption of duty in import of building materials to increase safety in Factories ✓ Duty chargeable to a few raw materials used in the textile sector is proposed to be reduced from 10% to 5% ✓ This may improve margins of respective companies in the textile sector ✓ Reduction of Duty in import of Flex Fiber from 10% to 5% and in Artificial Staple Fiber from 5% to 3% may benefit **SAIHAMTEX** ✓ Reduction of SD from 60% to 40% would facilitate garments factories, may benefit **DSHGARME**, **GENNEXT** etc.
4. **Pharmaceuticals**	✓ 40 Anticancer raw materials will have full exemption on customs duty, which may be advantageous for **BEACONPHAR** ✓ 40 basic raw materials will have lower supplementary duty, which may have positive effect in cashflows of pharmaceuticals companies ✓ Erythromycin ethyl succinate, Erythromycin stearate and Azithromycin will have higher import tax rates, which may provide competitive advantage to **ACTIVEFINE** ✓ Certain food imports for poultry & livestock will have tax exemption, which may benefit **RENATA**, having its subsidiary in poultry business ✓ Soap, Detergent will have lower supplementary duties from 20% to 15% ✓ Lower duties on soap & detergents may facilitate local manufacturers like **KEYACOSMET**
5. **Energy**	✓ Import duty on LPG cylinders to raise from 5% to 25% which may be beneficial for local LPG cylinder manufacturers
6. **Engineering**	✓ Exemption on billet manufacturing raw materials such as sponge iron and reduced iron ✓ Import tax rate for Billet & Ingot raised to BDT 5,000/MT from BDT 3,500/MT ✓ Bar & Rods will have higher import tax rate, at 25%, from existing 10% ✓ This may be beneficial for steel companies with backward linkage facilities, like **BSRM**
7. **Food & Allied**	✓ Fish & Shrimp products will have lower Supplementary Duties from present 20% to 10%-15% ✓ Sweet Biscuits, Waffles, Wafers, toasted products, Potato Chips, Fruit Juices, Sauces, Ice Cream will have lower supplementary duty ✓ Local exporting companies may benefit from such reductions
8. **Other**	✓ Custom duties of 10% and 25% on raw materials of ceramics, glass and paints are being proposed to be re-fixed at 5% and 10%, respectively ✓ This may improve margins of ceramic, glass and paint producing companies ✓ Reduction of SD on certain raw materials from 20% to 15% may facilitate tannery industry. **APEXFOOT**, **APEXTANNRY** and **BATASHOE** may benefit from it

Sectors/Industry – Negatively Affected

1. All Sectors	✓ 1% percent 'Environment Protection Surcharge' or 'Green Tax' on ad-valorem basis will be charged on all kinds of products manufactured in Bangladesh by the industries which pollute the environment
2. ICT	✓ BDT 100 as replacement SIM tax for each piece which may affect telecommunication companies like **GP**
3. Tobacco	✓ Tax incidence has been upward revised from existing one ✓ 1% percent 'Health Development Surcharge' on all imported and domestically produced tobacco products ✓ These may affect tobacco companies like **BATBC**
4. Other	✓ Land Development & Building Construction sectors will have higher VAT, at 3%, from existing 1.5% & 2% respectively. This may affect companies like **EHL** and **BDBUILDING**