

National Budget Review: FY 2016-17

June 02, 2016

- ✓ The budget aims to achieve 7.2% GDP growth. In addition, inflation is targeted to reduce further from existing level of 6.0% (April, 2016) to 5.8%.
- ✓ Overall, the budget remains neutral for capital market.
- ✓ Composite & Readymade Garments and Engineering sectors are expected to be benefited; while Telecom and Tobacco are expected to be negatively affected from the proposed budget.

Capital Market Implications

The budget has been declared with an intention to facilitate growth and development as well as ensuring equity. Recognizing importance of capital market in economic development, the budget has declared incentive exclusive to capital market (Table 1), and some other incentives that are supposed to help certain sectors (table 2), and in turn energize broad economy and capital market. However, there are also sectors that would face harder competition and/or cost pressure (Table 3).

Table 1: Capital Market Incentive

Capital Market Incentive	Waiver of margin loan and interest is proposed to be treated tax exempt, as long as the benefit is no more than BDT 1.0 million.
---------------------------------	--

Table 2: Sectors/Industry wise positive impacts

1. Bank	<ul style="list-style-type: none"> ✓ Government of Bangladesh (GOB) targets to borrow BDT 389.4 bn from banking system during 2016-17 ✓ Tax rate remained unchanged to 40.0% for publicly traded banks
2. Textile	<ul style="list-style-type: none"> ✓ Corporate tax has been reduced to 20.0% from 35.0% (non-listed) and 25.0% (listed) for RMG manufacturers. Turnover tax remained unchanged at 0.6%. Expected to benefit composite and RMG producers like FEKDIL, TOSRIFA etc. ✓ VAT is withdrawn from dyeing, printing, finishing and calendaring of grey fabrics
3. Pharmaceuticals & Chemicals	<ul style="list-style-type: none"> ✓ SD of 30.0% on imported stability/Humidity chamber is withdrawn ✓ CD of 25.0% on special type laboratory refrigerator is reduced to 1.0%
4. Tobacco	<ul style="list-style-type: none"> ✓ Corporate income tax for Cigarette, bidi, zarda, chewing tobacco, gul or any other tobacco products manufacturers has been increased from 25.0-35.0% to 45.0%. Higher tax on low end substitute products will create level playing field for BATBC.
5. Engineering	<ul style="list-style-type: none"> ✓ 45% SD imposed on bars and rods, hot-rolled, cold-rolled of iron or non-alloy steel. Benefits BSRM, GPHISPAT and other steel manufactures. ✓ Imposed RD of 20.0% and VAT of 15.0% from the existing SD of BDT 7,000.0 on per MT imported billet. These will offer protection for the domestic billet producers, like BSRM and GPHISPAT from international competition.

	<ul style="list-style-type: none"> ✓ Concessions of duty and taxes on pre-fabricated building material extended for all export oriented sectors. Benefits BBS. ✓ CD on Fly ash reduced from 10% to 5%. Cuts cost for cement companies. ✓ SD on motor cycle parts assembling reduced to 20% from existing 45%. May benefit ATLASBANG and SINGERBD.
--	---

Table 3: Sectors/Industry wise negative impacts

1. ICT	<ul style="list-style-type: none"> ✓ Increased SD on the services provided through SIM and RUIM card of mobile phone from 3.0% to 5.0%. This will directly increase the cost of end users consequently negatively impact the average minute per user (AMPU), possibly hindering top line growth. ✓ Minimum tax for Mobile phone operators has been increased from 0.3% to 0.6%. However, final tax for GP is much higher than that. But this will increase the tax burden for companies who are yet to scale up their operation.
2. Tobacco	<ul style="list-style-type: none"> ✓ Minimum tax rates for cigarette, bidi, zarda, chewing tobacco, gul, and other smokeless tobaccos producers has increased from 0.3% to 1.0%. ✓ SD increased for all slabs of cigarettes.
3. Construction	<ul style="list-style-type: none"> ✓ 20% RD imposed on alloy steel in ingots or other primary forms and semi-finished products. Would increase cost of business for APOLOISPAT and SALAMCRST
4. Energy	<ul style="list-style-type: none"> ✓ CD on LPG cylinder of plastic and glass fiber import is reduced from 25.0% to 10.0% which will increase competition for MJLBD.
5. Food & Allied	<ul style="list-style-type: none"> ✓ CD increased for corn flour, wheat starch, corn starch, potato starch from existing 10% for all of them to 25% for corn flour and 15% for the others. Would slightly increase cost for OLYMPIC.
6. Textile	<ul style="list-style-type: none"> ✓ Increased CD from 3.0% to 5.0% on chemicals and other inputs or raw materials importable by the textile sector
7. Others	<ul style="list-style-type: none"> ✓ Minimum tax has been increased from 0.3% to 0.6% of turnover for other manufacturing companies.

IDLC Investments Limited
D R Tower (4th Floor)
65/2/2 Bir Protik Gazi Golam Dostogir Road
Purana Paltan, Dhaka- 1000

Telephone: 16409, +8809609994352
Fax: +880-2-957117

www.idlc.com

Disclaimer: This Document has been prepared and issued by IDLC Investments Limited on the basis of the public information available in the market, internally developed data and other sources believed to be reliable. Whilst all reasonable care has been taken to ensure that the facts & information stated in the Document are accurate as on the date mentioned herein. Neither IDLC Investments Limited nor any of its director, shareholder, member of the management or employee represents or warrants expressly or impliedly that the information or data of the sources used in the Document are genuine, accurate, complete, authentic and correct. Moreover none of the director, shareholder, member of the management or employee in any way be responsible about the genuineness, accuracy, completeness, authenticity and correctness of the contents of the sources that are publicly available to prepare the Document. It does not solicit any action based on the materials contained herein and should not be construed as an offer or solicitation to buy sell or subscribe to any security. If any person takes any action relying on this Document, shall be responsible solely by himself/herself/themselves for the consequences thereof and any claim or demand for such consequences shall be rejected by IDLC Investments Limited or by any court of law.
