ROYAL CAPITAL

Research & Innovation Lab

BUDGET ANALYSIS FY2023-24

Assessing the implications for capital market

04 June 2023

Budget 2023-24: At a glance

BDT 7.62 trillion

Budget 2023-24 size

7.5%

Real GDP growth Target

6%

Inflation Target

BDT 5 trillion

Revenue targets

BDT 1.55 trillion

Domestic borrowing

BDT 4.36 trillion

Revenue Expenditure

BDT 2.63 trillion

Proposed ADP

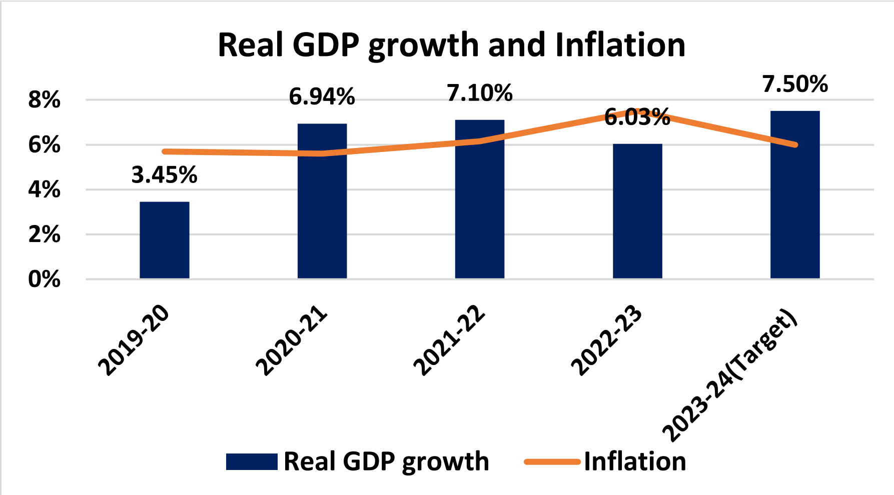
BDT 2.62 trillion

Budget deficit

Points to be noted

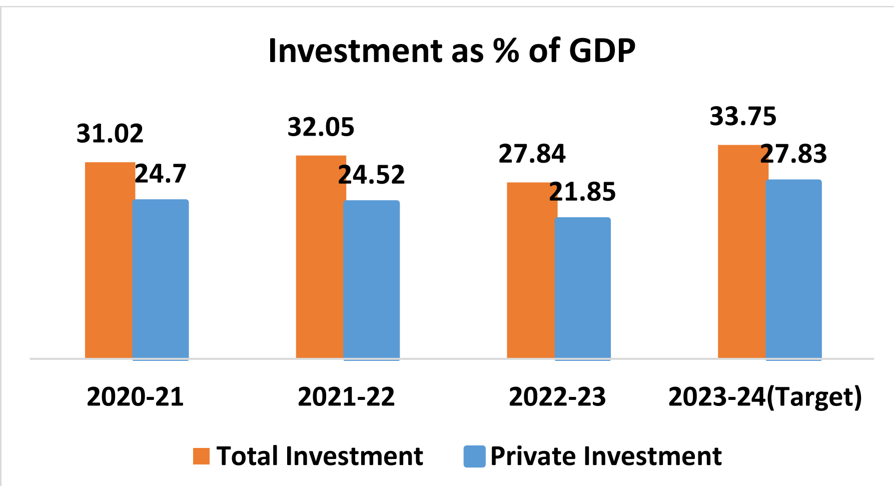
- 7.5% Real GDP growth target seems to challenging due to higher inflationary pressure;
- Keeping inflation rate to 6% is difficult;
- BDT 5 trillion revenue target is ambitious for the sluggish in economic activities and disposable income level;
- BDT 1.55 trillion domestic borrowing could limit private sector growth;
- ADP utilization could face setbacks due to the unpredictable global geopolitical crisis induced by Russia-Ukraine War;
- Budget deficit may exceed the estimated BDT 2.62 trillion due to lower revenue receipts.

Macro-economic highlights



GDP and inflation paradox

- Global geopolitical crisis put down the 2021-22 Real GDP Growth to 6.03% from 7.10% in FY2021-22;
- The target 7.50% Real GDP growth can be attained subject to the faster economic recovery.
- Inflation rate may materially deviate from 6%, due to exchange rate pressure & domestic price spiral.



Stagnant private investment

- Total investment including public and private investment as % of GDP slightly escalated to 27.84% in 2022-23 from 32.05% in 2021-22;
- Private investment figures for FY2023-24 seem overestimated, since faster economic activities are dictated by global geopolitical and economic headwinds. In case of any adverse scenario, private credit demand could go negative.

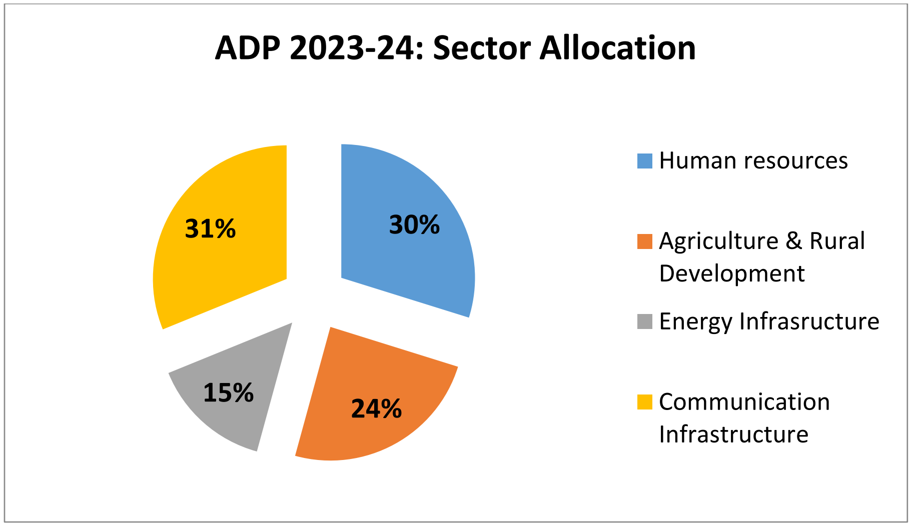
Proposed budget structure

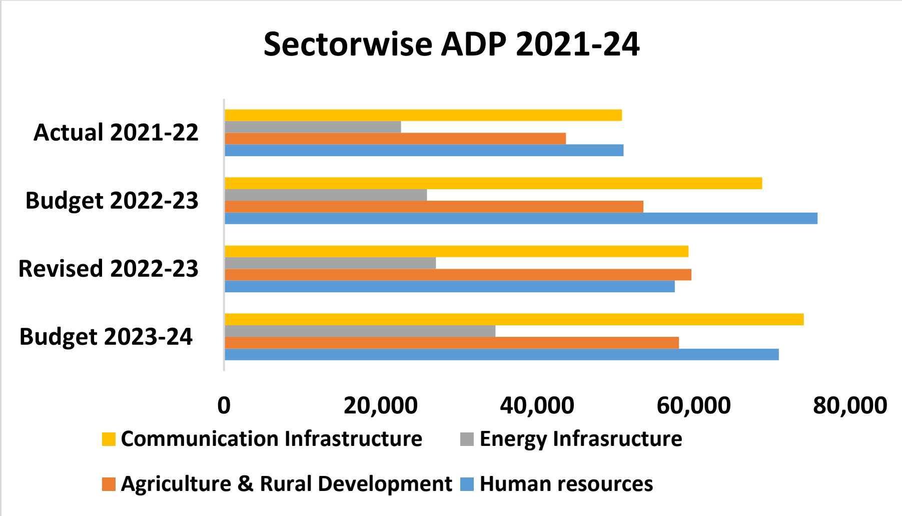
Proposed Budget Structure for FY 2023-24 (Tk. Crore)				
Sector	**Budget 2023-24**	**Revised 2022-23**	**Budget 2022-23**	**Actual 2021-22**
Total Tax Revenue	**500,000**	**4,33,000**	**4,33,000**	**3,34,642**
as % of GDP	10.0	9.8	9.7	8.4
Total Expenditure	**7,61,785**	**6,60,507**	**6,78,064**	**5,18,188**
as % of GDP	15.2	14.9	15.2	13.0
Non-Development Revenue Exp.	43,6247	390085	373,242	307,725
as % of GDP	8.7	8.8	8.4	7.7
Development Expenditure	**277,582**	**241,607**	**259,617**	**195,173**
as % of GDP	5.5	5.4	5.8	4.9
In which,				
Annual Development Program	2,63,000	2,27,566	246,066	18,6060
as % of GDP	5.3	5.1	5.5	4.7
Other Expenditure	47,956	28,815	45,205	15,290
as % of GDP	1.0	0.6	1.0	0.4
Budget Deficit	**-261,785**	**-2,27,507**	**-2,45,064**	**-1,83,546**
as % of GDP	(5.2)	(5.1)	(5.5)	(4.6)
Financing				
External sources (including grants)	106,390	87,082	987,29	67,343
as % of GDP	2.1	2.0	2.2	1.7
Domestic source	**155,395**	**140,425**	**146,335**	**115,216**
as % of GDP	3.1	3.1	3.3	2.9
In which, Banking source	132,395	115,425	106,334	75,533
as % of GDP	2.6	2.6	2.4	1.9
GDP	**50,06,782**	**44,39,273**	**44,49,959**	**39,71,716**

Key Takeaways

- Estimated total expenditure for FY2023-24 is set to be 15.2% more than that of Revised budget FY2022-23.
- Larger expenditure increases (by Tk. 1013 billion) relative to revenue increases (by Tk. 670 billion) is a major reason why budget deficit is set to be increased by 15% or Tk. 343 billion between the respective years.
- There is Tk. 354 billion additional ADP in FY2023-24 compared to the previous year, which may be challenging to implement due to the uncertain global geopolitical crisis.
- Financing from banking channel is set to increase by 15% is FY2023-24, which may dictate the private sector credit growth to some extent;
- External financing, mainly from development agencies/governments set to grow by 22%.

Annual Development Programme (ADP)- Sector Allocation





Key remarks

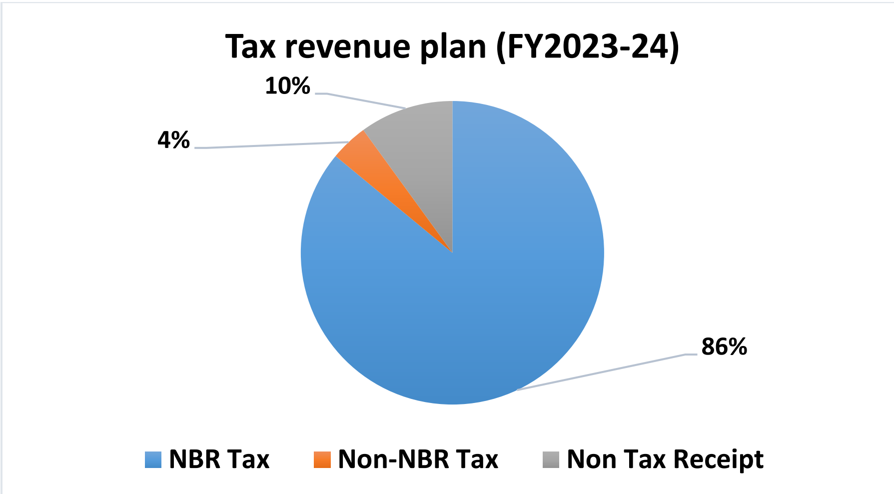
- Bangladesh's ADP has grown by 1.75 times in past seven years (from Tk. 1,496 billion in FY2018-19 to Tk. 2,630 billion in FY2023-24). ADP expansion supports progresses in critical projects nationwide, mainly in the form of construction of roads, bridges, highways, flyovers, and government mega-projects such as Padma Bridge, Metro Rail, Ruppur Nuclear Power Plant etc.

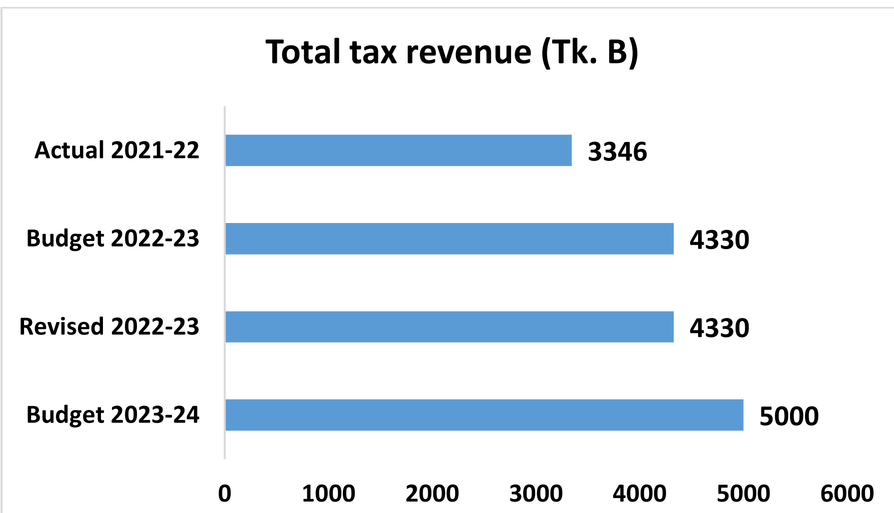
- Among the broad sectors, human resources got the top priority, which is reflected by the highest figure of ADP between FY2021-24.

- The proposed ADP 2023-24 reckoned the highest priority in the agriculture and rural development.

- Communication infrastructure sector got the second priority in the context of ADP which is observable as per the chart- Sector wise ADP 2021-24.

Financing the budget

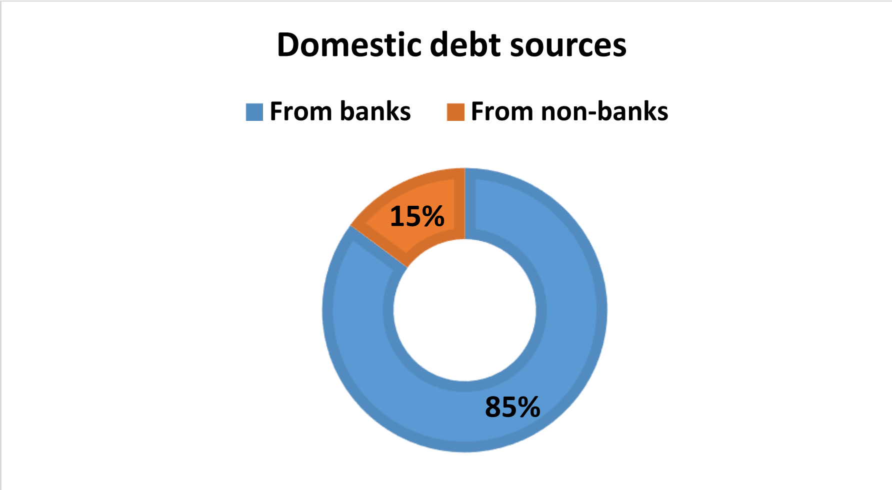


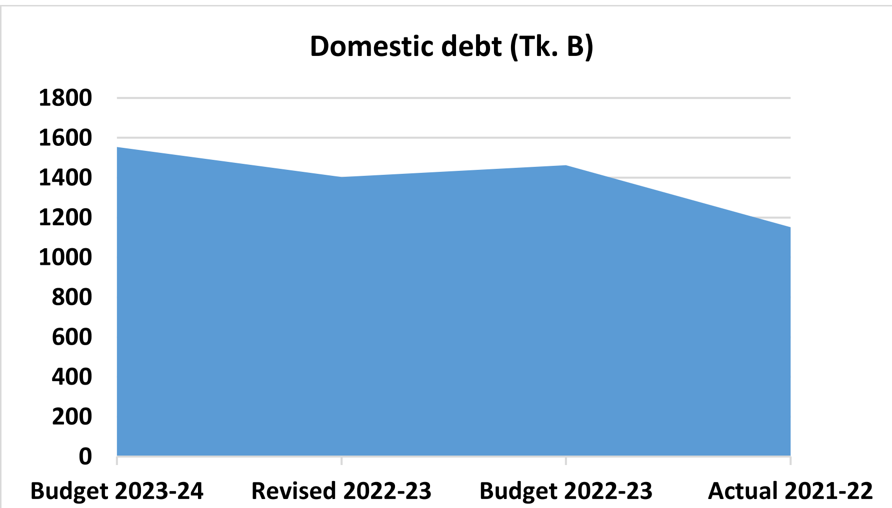


Tax revenue for FY2023-24

- Total tax revenue target for FY2023-24 is Tk. 5,000 billion which is 15% higher than the revised budget of 2022-23; the figure looks ambitious due to the slower private sector growth.
- About 56% of the budget 2023-24 will be financed by NBR tax revenue, which is challenging due to lack of taxpayers and tax-culture.
- It's likely to have some pressure over MAC population for imposition of higher direct and indirect taxes as they are facing the dilemma of disposable income with steep rise of inflation.
- The government has tried to accommodate the tax planning as per the phenomenon and requirements set by the International Monetary Fund (IMF)
- Non-tax revenue target for FY2023-24 is estimated to increase by Tk. 50 billion compared to the revised budget of 2022-23.

Domestic borrowing FY2023-24





Domestic borrowing for FY2023-24

- About 85% (Tk. 1323 billion) of the domestic debt will be sourced from the banking sector, which is 15% or Tk. 170 billion higher than the revised budget 2022-23 figure. This will somewhat slower down the private sector credit growth.

- Borrowings from non-banking sources is proposed to be Tk. 230 billion for FY2023-24, which is 8% lower than the revised budget of 2022-23. The Non-banking source mainly includes the National Savings Certificate which covers the majority amount of the total non-banking revenue source.

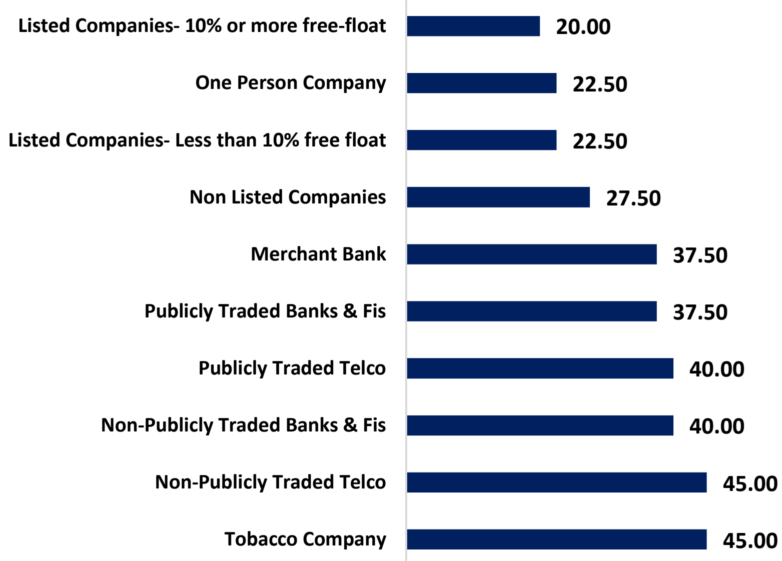
- In FY2023-24, the government fixed a borrowing target of 18 thousand crores Tk through the sale of savings bonds. This amount represents a decrease of 17 thousand crore taka or 48.57% compared to the borrowing in the previous fiscal year.

- Overall domestic debt to rise by Tk. 150 billion or 11% in compared to the revised budget of 2022-23.

Tax changes (FY2023-24)

Personal Income Tax Rates	
Total income	Tax rate (%)
(A) On first Tk. 3,50,000/-	Nil
(B) On next Tk. 1,00,000/-	5
(C) On next Tk. 3,00,000/-	10
(D) On next Tk. 4,00,000/-	15
(E) On next Tk. 5,00,000/-	20
(F) On the balance of total income	25

Proposed tax rates (%) for FY2022-23



Proposed income tax for FY2022-23

- The proposed tax-free income limit for the individual taxpayers is changed to Tk. 3.5 lac to give relief to people in the lower-income bracket, in an effort to allow low-income people face the ongoing inflationary crisis better.

- Corporate tax rates are remained unchanged. In the last budget, the corporate tax rate for publicly traded (with a consideration of 10% or more free-float) and non-traded companies was slashed by 2.5%. The tax rate for publicly traded companies (10% or more free-float) and banks & FIs remained 20% and 37.50% respectively which was 22.50% and 37.50% in the FY2021-22. This move had enhanced profitability and cash flows of the companies. It could be treated as a capital market incentive as the earnings of listed companies and other fundamental factors heavily influence the stock market outlook and performance.

- One person company tax rate had been reduced to 22.50% from 25% which might encourage business and entrepreneurship around the country.

Capital market incentives

No Such Incentives is observed!!!

Budgetary measures for different sectors and stock market implications

Target sector	Proposed measures	Stock market implications
SME Sector	- Credit Guarantee Scheme to be allocated Tk. 20 B - Initiatives taken for cashless transactions	Listed companies that fall in the definitions of SME could be benefited.
Export-oriented RMG	Existing 7.5% VAT has been exempted on the sale of waste cotton, fabric waste, and man-made fiber fabric waste.	The related RMG companies' COGS may reduce and profitability may improve.
Local-Electronics Manufacturers	- VAT exemption facility for refrigerator producers extended up to June 2024 - Customs Duty for Lift increased to 15% from 5% - VAT exemption for Microwave Woven and Washing Machine extended up to 2025	Listed local manufacturers of electronic goods such as Walton may face lower costs due to the exemption of VAT.
Paper	- CD on thermal coating is fixed to be reduced to 15% from the existing 25% - VAT on terephthalic acid used in packaging has been reduced from 15% to 5%	Increased profitability is likely
Cement	Specific duty of BDT 700 has been imposed for cement clinker imports instead of BDT 500	Adverse impact on profitability and cash flows

Target sector	Proposed measures	Stock market implications
Ceramics	- Custom duty on China Clays and Ball Clays imported by tiles and sanitary manufacturing industry have been proposed to reduce to 5% from existing 15%	Profitability will enhance
Pharmaceuticals & Healthcare Sector	- Active Pharmaceuticals Ingredients (API) producers 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 - Inclusion of importing raw materials for producing cancer drugs and 100 other items	Listed companies in the Pharma and Chemical sector such as Square, Beximco, Beacon, and Active Fine are likely to see cheaper imports and higher sales, possibly resulting in a higher profitability.
Tobacco Industry	- Cigarette price of all segment has been raised while supplementary duty left unchanged except low segment. SD for low segment has been increased by 1% to 58% from existing 58%. Price of premium, high, medium and low segment is raised by 5.6%, 1.8%, 3.1% and 12.5% respectively	A small incremental increase of cigarette prices will lead to higher gross profit of the companies like BATBC.
IT Sector	- Imposition of 25% CD and 15% VAT for software imports - Imposition of 5% VAT for inhouse software dev. - Extension of VAT exemption facility for Tonner, Cartridges, laptops and computer accessories	The local computer producers will be clearly benefited.

Concluding Remarks

- The 7.5% GDP growth target is achievable subject to a massive recovery of economic activities, private sector credit and investment and the effective strategies to combat global geopolitical and economic headwinds.
- Tk. 7.62 trillion budget size is 12% higher than the previous year; implementation remains a big challenge.
- Tk. 5 trillion revenue targets is challenging due to absence of good tax-culture.
- The borrowing from banking sources to spike by 15% which will dictate the excess liquidity to the private sector ultimately.
- No direct capital market incentive is observed.
- Most of the proposed tax, VAT and duty rescheduling may benefit local industries; some listed companies in different sectors in the stock market will be able to boost financial and business performance.

The report is based on assessment conducted by the Research and Innovation Lab (RIL) at Royal Capital Limited. Budget data in this report are mainly sourced from: https://mof.portal.gov.bd/ (Accessed 5 June 2023). RIL will not bear any responsibility for any changes in the original budget data and estimates made after the mentioned access date. This report is available at: www.royalcapitalbd.com

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