Research & Innovation Lab

BUDGET ANALYSIS FY2024-25

Assessing the implications for capital market

06 June 2024

Budget 2024-25: At a glance

BDT 7.97 trillion
Budget 2024-25 size

6.75%
Real GDP growth Target

6.5%
Inflation Target

BDT 5.45 trillion
Revenue targets

BDT 1.60 trillion
Domestic borrowing

BDT 4.70 trillion
Revenue Expenditure

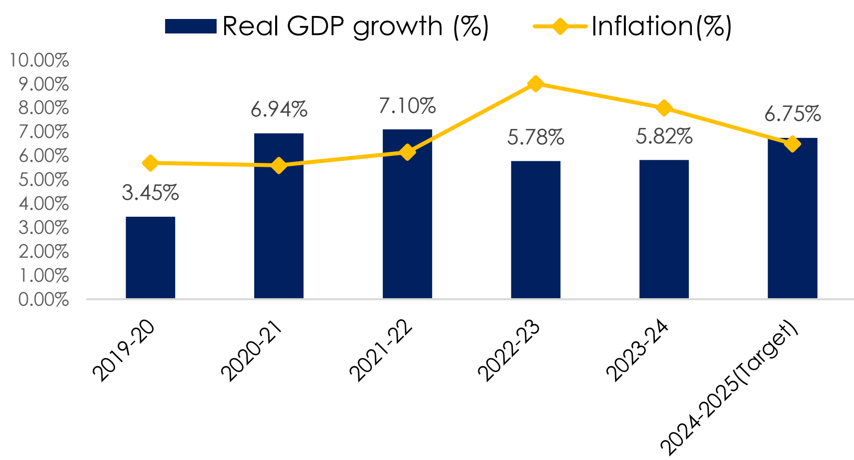
BDT 2.65 trillion
Proposed ADP

BDT 2.56 trillion
Budget deficit

Points to be noted

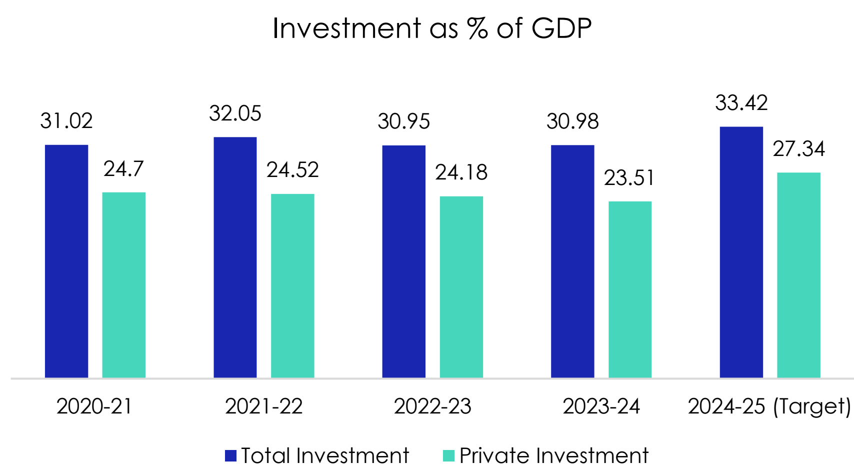
- 6.75% Real GDP growth target seems to challenging due to higher inflationary pressure;
- Keeping inflation rate to 6.5% is difficult;
- BDT 5.45 trillion revenue target is ambitious for the sluggish in economic activities and disposable income level;
- BDT 1.60 trillion domestic borrowing could limit private sector growth;
- ADP utilization could face setbacks due to the unpredictable macro-economic instability;
- Budget deficit may exceed the estimated BDT 2.56 trillion due to lower revenue receipts.

Macro-economic highlights



GDP and inflation paradox

- Global geopolitical crisis put down the 2022-23 Real GDP Growth to 5.78% from 7.10% in FY2021-22 whereas improved slightly in FY24 by 5.82%.
- The target 6.75% Real GDP growth can be attained subject to the faster economic recovery.
- Inflation rate may materially deviate from 6.5%, due to exchange rate pressure & domestic price spiral.



Stagnant private investment

- Total investment including public and private investment as % of GDP escalated to 33.42% in 2024-25 from 30.98% in 2023-24;
- Private investment figures for FY2024-25 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.

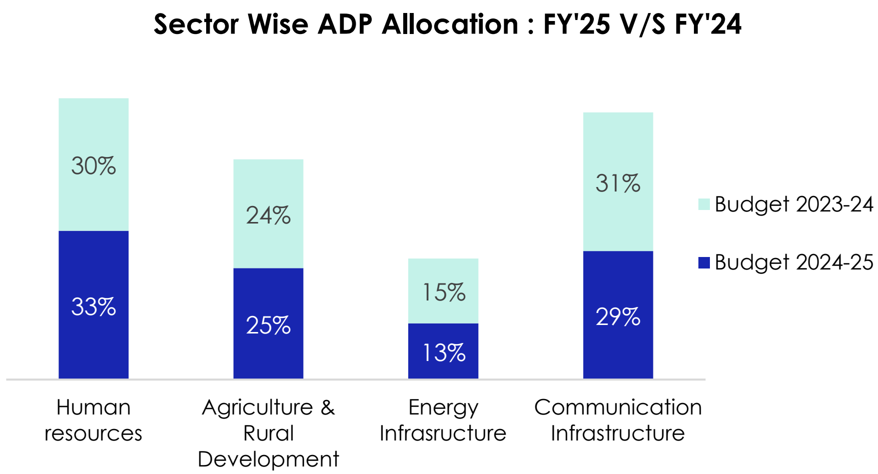
Proposed budget structure

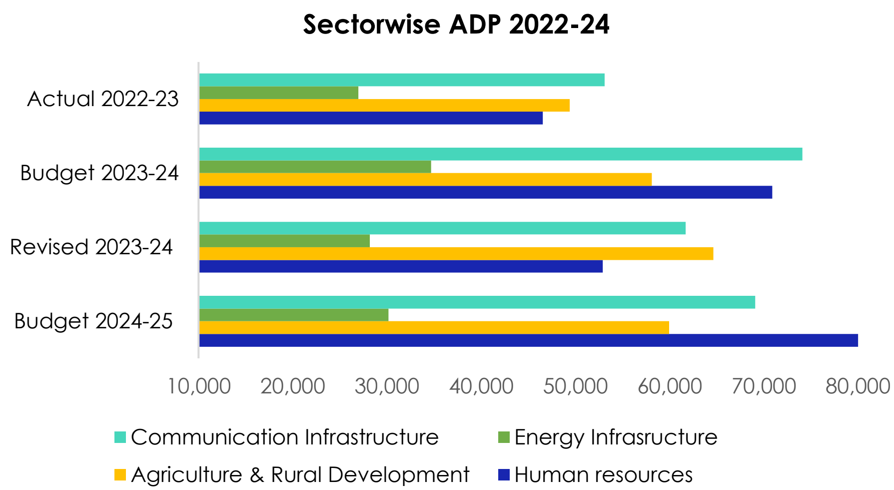
Proposed Budget Structure for FY 2024-25 (Tk. Crore)				
Sector	Budget 2024-25	Revised 2023-24	Budget 2023-24	Actual 2022-23
Total Tax Revenue	**5,41,000**	**4,78,000**	**5,00,000**	**3,66,658**
as % of GDP	9.7	9.5	10	8.3
Total Expenditure	**7,97,000**	**7,14,418**	**7,61,785**	**5,73,857**
as % of GDP	14.2	14.2	15.2	12.9
Non-Development Revenue Exp.	4,68.983	4,34,057	4,36,247	3,57,098
as % of GDP	8.4	8.6	8.7	8.0
Development Expenditure	**2,81453**	**2,60,007**	**2,77,582**	**2,05,158**
as % of GDP	5.0	5.2	5.5	4.6
In which,				
Annual Development Program	2,65,000	2,45,000	2,63,000	1,91,927
as % of GDP	4.7	4.9	5.3	4.3
Other Expenditure	46,564	20,354	47,956	11,601
as % of GDP	0.8	0.4	1.0	0.3
Budget Deficit	**-2,56,000**	**-2,36,417**	**-2,61,785**	**-2,07,199**
as % of GDP	(4.6)	(4.7)	(5.2)	(4.7)
Financing				
External source (including grants)	95,100	79,793	1,06,390	81,908
as % of GDP	1.7	1.6	2.1	1.8
Domestic source	**155,395**	**140,425**	**146,335**	**115,216**
as % of GDP	2.9	3.1	3.1	2.8
In which, Banking source	1,37,500	1,55,935	1,32,395	1,18,025
as % of GDP	2.5	3.1	2.6	2.7
GDP	**55,97,414**	**50,48,027**	**50,06,782**	**44,39,273**

Key Takeaways

- Estimated total expenditure for FY2024-25 is set to be 11.6% more than that of Revised budget FY2023-24.
- Larger expenditure increases (by Tk. 826 billion) relative to revenue increases (by Tk. 630 billion) is a major reason why budget deficit is set to be increased by 8.3% or Tk. 196 billion between the respective years.
- There is Tk. 200 billion additional ADP in FY2024-25 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 drop by 12% is FY2024-25, which may increase the loanable funds for private sector subject to double-digit deposit mobilization by the FIs;
- External financing, mainly from development agencies/governments set to grow by 19%.

Annual Development Program (ADP)- Sector Allocation

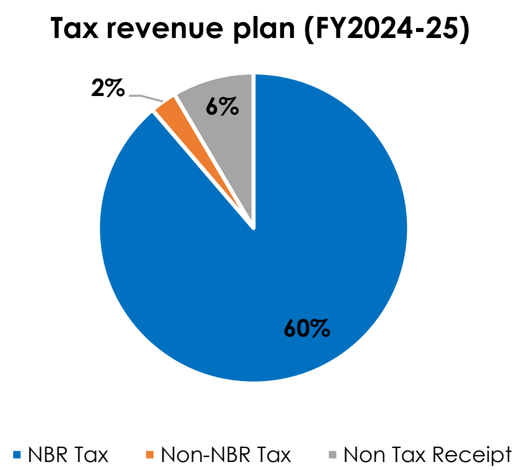


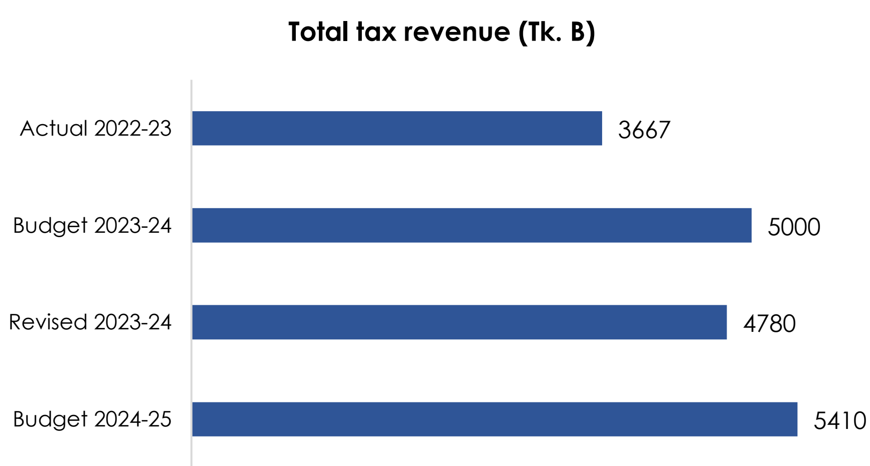


Key remarks

- Bangladesh's ADP has grown by 1.62 times in past seven years (from Tk. 1,473 billion in FY2018-19 to Tk. 2,392 billion in FY2024-25). 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 since FY2022.
- The proposed ADP 2024-25 reckoned the highest priority in the Human resources.
- Communication infrastructure sector got the second priority in the context of ADP which is observable as per the chart- Sector wise ADP 2022-24.

Financing the budget

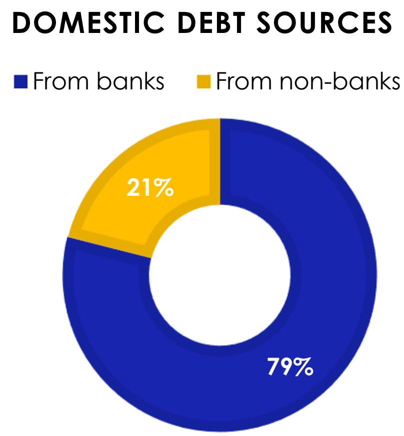


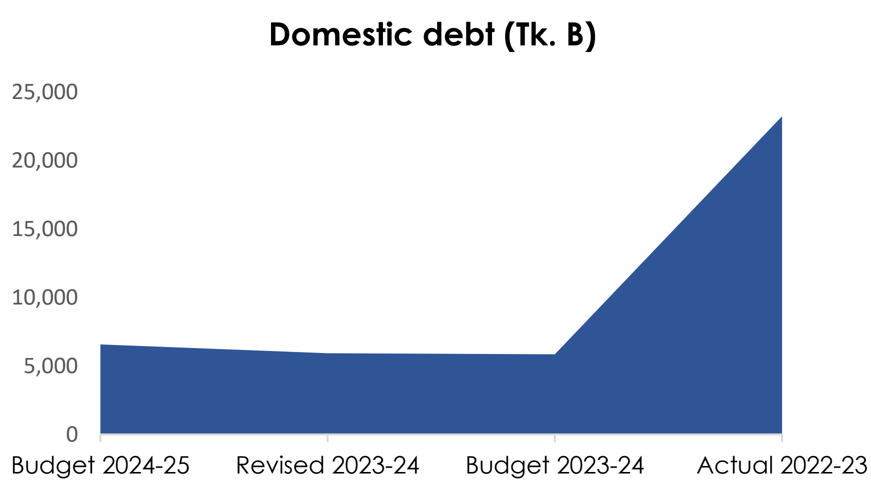


Tax revenue for FY2024-25

- Total tax revenue target for FY2024-25 is Tk. 5,410 billion which is 13.1% higher than the revised budget of 2023-24; the figure looks ambitious due to the slower private sector growth.
- About 60% of the budget 2024-25 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 FY2024-25 is estimated to decrease by Tk. 30 billion compared to the revised budget of 2023-24.

Domestic borrowing FY2024-25





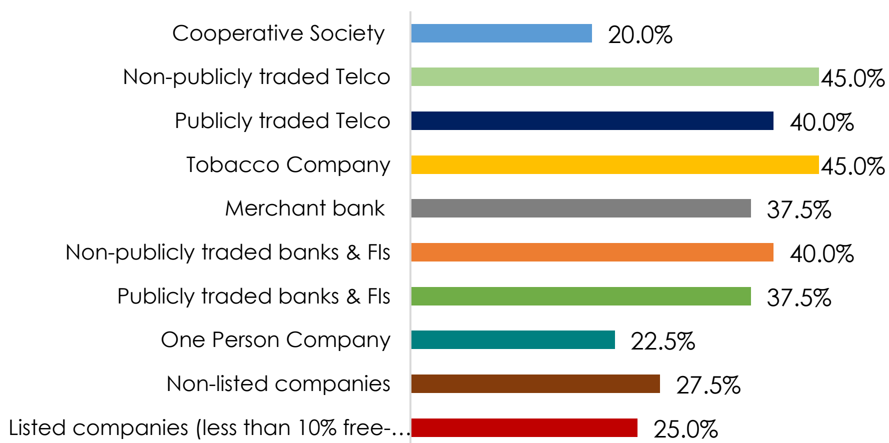
Domestic borrowing for FY2024-25

- About 79% (Tk. 5,184 billion) of the domestic debt will be sourced from the banking sector, which is 14% or Tk. 628 billion higher than the revised budget 2023-24 figure. This will somewhat slower down the private sector credit growth.
- Borrowings from non-banking sources is proposed to be Tk. 234 billion for FY2024-25, which is 0.4% lower than the revised budget of 2023-24. The Non-banking source mainly includes the National Savings Certificate which covers the majority amount of the total non-banking revenue source.
- In FY2024-25, 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. 42.7 billion or 2.7% compared to the revised budget of 2023-24.

Tax changes (FY2024-25)

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. 4,00,000/-	10%
(D) On next Tk. 5,00,000/-	15%
(E) On next Tk. 5,00,000/-	20%
(E) On next Tk. 20,00,000/-	25%
(F) On the balance of total income	30%

Proposed tax rates for FY2024-25



Proposed income tax for FY2024-25

- 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.
- For the first time in the country, the government plans to announce prospective tax rates for at least two fiscal years in the upcoming budget, aiming to attract foreign direct investment (FDI). The new budget also plans to bring some changes to corporate tax rates, offering a 2.5% corporate tax cut for companies that adopt cashless operations to promote a cashless society.
- The tax rate gap between the publicly traded companies and non-traded companies reduced.
- For banks and Fis, the tax rates remained unchanged.

Capital market incentives

The fiscal 2024-25 budget introduces a tax on capital gains exceeding Taka 50 lakh from the transfer of shares or units of a listed company or fund by individual taxpayers. Individual investors are unlikely to be affected, as they typically do not realize such high gains. However, companies and large firms, which are more likely to generate capital gains above this threshold, will be significantly impacted.

This initiative aims to enhance revenue collection and ensure fiscal discipline within the country's economic framework, aligning with IMF recommendations. By targeting capital gains exceeding Taka 50 lakh, it primarily impacts companies and large firms rather than individual investors, thereby ensuring that substantial gains contribute to the national revenue.

Hence, NO INCENTIVE is found for the CAPITAL MARKET

Budgetary measures for different sectors and stock market implications

Target sector	Proposed measures	Stock market implications
Fast-Moving Consumer Goods (FMCG)	• Suggests increasing VAT to 15% on locally made mango bar, mango juice, pineapple juice, guava juice, and tamarind juice from 5% • Suggests increasing the turnover tax rate on sweetened beverages to 3% from 0.6% • Suggests raising the supplementary duty on all types of ice cream from 5% to 10%	• These proposals would lead to increased taxes on various consumer goods, potentially raising prices and impacting demand. This results the pressure on earnings ultimately.
Automobile	• Suggests including engine parts in CKD kits for motorcycle manufacturing, providing duty exemptions on raw materials except for motorcycles over 250 CCs, and raising the import duty on motorcycle engine parts to 15%	• The proposals aim to incentivize motorcycle assembly, streamline production costs, but may lead to higher prices for motorcycles over 250 CCs due to increased import duties on engine parts.
Local-Electronics Manufacturers	• Suggests raising import duties on specified steel sheet types from 5% to 10%, and from 10% to 15% for those currently at 10%. • Suggests raising VAT on locally made refrigerators and freezers to 7.5% • Suggests raising the import duty on household water purifiers from 10% to 15% • Suggests imposing a minimum value on compressor imports for refrigerators and air conditioners and increasing the capacity	• These proposals suggest higher costs for consumers on various goods due to increased import duties and VAT, potentially impacting affordability and market dynamics. Profitability of this sector may decrease.

	threshold for air conditioners subject to a 1% import duty (CD) from 200,000 BTU to 300,000 BTU	
Paper & Printing	• CD on Folding cartons, boxes and cases, of non-corrugated paper and paperboard of Aseptic pack has been reduced to 10% from the existing 25% • VAT on terephthalic acid has been reduced from 25% to 1%	Increased profitability is likely.
Steel Industry	• Manganese is an essential raw material in the production of ferro alloy products • propose to reduce import duty on Manganese from 10% to 5%	This proposal lead the support of the domestic steel industry
Pharmaceuticals & Healthcare Sector	• Recommends decreasing the import duty on dialysis filters and circuits from 10% to 1%. • Recommends adding azithromycin to the list of necessary pharmaceutical raw ingredients. • Suggests that the notification includes the following raw materials for Cancer Medicine manufacturers such as Abiraterone, Abemaciclib, Capecitabine, Talazoparib, Niraparib, and Fruquibtinib. • Suggests adding new items to the concessional import list for API manufacturers' raw materials	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.

IT Sector	• Imposition of CD from 5% to 10% and 15% VAT applicable at import stage which will reduce the total tax incidence from 31% to 20.50% on laptop • Suggests raising the supplementary duty on SIM/RUIM card enabled mobile telecom services to 20% and increasing the VAT on each SIM/eSIM card to TK 300	IT makes genuine products more affordable and deterring the sale of counterfeit or refurbished laptops and generate greater revenue.
Textile	• Suggests lowering import duties on PSF, PET chips, and non-cotton fibers to 1%	The related local textile industries may reduce costs and profitability may improve.
Tobacco Industry	• Suggests raising the supplementary duty on tobacco cigarettes from 65% to 66% • Suggests hiking prices and supplementary duty rates on cigarettes: low slab to Tk. 50 with 60% duty, medium slab to Tk. 70, high slab to Tk. 120, premium slab to Tk. 160 • Suggests keeping non-filtered bidi prices unchanged: 25-stick/pack at Tk. 18, 12-stick/pack at Tk. 9, 8-stick/pack at Tk. 6, all with 30% supplementary duty, and maintaining filtered bidi prices: 20-stick/pack at Tk. 19, 10-stick/pack at Tk. 10%,	These proposals aim to deter tobacco consumption through price hikes and supplementary duty increases, potentially curbing demand and boosting government revenue.

Concluding Remarks

- Achieving the 6.75% real GDP growth target will be challenging due to higher inflationary pressures, which can hinder economic growth by reducing consumer spending and increasing costs for businesses.

- Tk. 7.97 trillion budget size is 11.6% higher than the previous year; implementation remains a big challenge.

- Tk. 5.45 trillion revenue targets is challenging due to absence of good tax-culture.

- The borrowing from banking sources to decrease by 11.8% which aiming to release the liquidity pressure from the private sector ultimately but it's widely subject to the overall macro-economic stimulation and inflationary challenges.

- Most of the proposed tax, VAT and duty rescheduling may benefit some local industries; some listed companies in different sectors in the stock market will have an adverse financial and business performance due to inflexibility in tax rates compared to the non-listed companies.

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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