DBL SECURITIES LIMITED

Research & Development Team

Budget 2012-2013

Budget At A Glance:

Tk. In Crore

Particulars	Budget 2012-2013	Revised 2011-2012	Budget 2011-2012	Actual 2010-2011
Revenue & Foreign Grants				
Revenues	**1,39,670**	**1,14,885**	**1,18,385**	**92,991**
Tax Revenue:				
NBR Tax Revenue	1,12,259	92,370	91,870	76,248
Non-NBR Tax Revenue	4,565	3,915	3,915	3,300
Non-Tax Revenue	22,846	18,600	22,600	13,443
Foreign Grants	6,044	4,460	4,938	2,058
Total	**1,45,714**	**1,19,345**	**1,23,323**	**95,049**
Expenditure				
Non-Development Expenditure	**1,11,675**	**1,00,985**	**1,02,903**	**82,859**
Non-Development Revenue Expenditure	99,496	91,823	87,851	77,469
Non-Development Capital Expenditure	12,179	9,163	15,052	5,390
Net Outlay for Food Account Operation	358	384	631	2,385
Loans & Advances (Net)	19,568	14,193	9,413	7,254
Structural Adjustment Expenditure	0	0	0	37
Development Expenditure:	**60,137**	**45,651**	**50,642**	**35,733**
Dev. Program Financed from Revenue	1,225	1,144	1,331	864
Non-ADP Project	2,473	2,142	2,035	866
Annual Development Program	55,000	41,080	46,000	33,284
Non-ADP FFW and Transfer	1,439	1,284	1,276	719
Total Expenditure	**1,91,738**	**1,61,213**	**1,63,589**	**1,28,268**
Overall deficit (Including Grants)	(46,024)	(41,868)	(40,266)	(33,219)
% of GDP	(4.4)	(4.5)	(4.4)	(4.2)
Overall deficit (Excluding Grants)	(52,068)	(46,328)	(45,204)	(35,277)
% of GDP	(5.0)	(5.1)	(5.0)	(4.5)
Financing				
Foreign Borrowing (Net)	**12,540**	**7,399**	**13,058**	**2,629**
Foreign Borrowing	20,398	14,036	18,685	8,058
Amortization	(7,858)	(6,637)	(5,627)	(5,427)
Domestic Borrowing	**33,484**	**34,469**	**27,208**	**30,589**
Borrowing from Banking System (Net)	23,000	29,115	18,957	25,210
Long-Term Debt (Net)	18,400	21,287	17,878	12,443
Short-Term Debt (Net)	4,600	7,828	1,079	12,767
Non-Bank Borrowing (net)	**10,484**	**5,354**	**8,251**	**5,379**
National Savings Schemes (Net)	7,400	3,500	6,000	1,802
Others	3,084	1,854	2,251	3,577
Total-Financing	**46,024**	**41,868**	**40,266**	**33,218**
GDP	**10,41,360**	**9,14,784**	**8,99,670**	**7,87,495**

Bangladesh economy has entered a dark tunnel and there is little flicker of light at its end. A badly prolonged global depression, dipping investment, galloping inflation, slowing exports, a looming election and the tight embrace of the IMF - they all make a messed up wool ball which offers a daunting task of straightening things out.

This is a situation through which Finance Minister AMA Muhith presented his penultimate budget of this government on June 07, 2012. On one shoulder he carried the weight of being populist because this was basically the last budget of the government which it will have time to implement. On the other shoulder, he had the responsibility to undo, even if to some extent, the economic mismanagement that he had allowed to take place.

A Brief summary of the Budget is presented below -

Estimates of Revenue Income:

- The revenue income for FY 2012-13 has been estimated at Tk.1,39,670 crore which is 13.4% of GDP, of which
  - NBR tax revenue is Tk. 1,12,259 crore (10.8% of GDP)
  - Revenue from non-NBR sources has been estimated at Tk.4,565 crore (0.4% of GDP).
  - Tk.22,846 crore (2.2% of GDP) will be collected as Non Tax Revenue (NTR).

Estimates of Expenditure:

- The total expenditure for FY 2012-13 has been estimated at Tk.1,91,738 crore (18.1% of GDP).
  - The allocation for non-development and other expenditure is Tk.1,36,738 crore (13.1% of GDP).
  - Expenditure for ADP has been estimated at Tk.55,000 crore (5.3% of GDP).

Budget Deficit & Financing:

The overall budget deficit will be Tk.52,068 crore which is 5.0% of GDP. The financing system is as follows –

- Tk. 18,584 crore (1.8% of GDP) will be financed from external sources
- Tk.33,484 crore (3.2% of GDP) will be financed from domestic sources. Of the domestic financing, Tk.23,000 crore (2.2% of GDP) will come from the banking sources and Tk.10,484 crore (1.0% of GDP) will come from non-bank sources.
- For the purpose of financing the deficit emphasis is given on mobilising the concessional loans from external sources as before.

Annual Development Programme:

In the ADP, the% allocations for different sectors are as follows –

Sector	Allocation
Human resource sector (education, health, and other related sectors)	25.5%
Agriculture sector (agriculture, rural development and rural institutions, water resources)	29.9%
Power and energy sector	17.3%
Communication sector (road, railway, bridges and other related sectors)	14.8%

Overall Expenditure Structure:

The allocation of total outlay is as follows --

Group	Allocation of Total Outlay
Social infrastructure	24.2% of which 20.5% for human resource (education, health, and other related sectors) sector.
Physical infrastructure	27.8% of which 14.9% for overall agriculture and rural development, 7.0% for communication sector, 5.0% for power and energy sectors.
General services sectors	19.3%
Public-Private Partnership (PPP), financial assistance for different industries, subsidy, and equity investment in nationalized banks and financial institutions.	4.9%
Interest payments	12.2%
Net lending and other expenditures	11.7%

Growth:

- In FY 2010-11, the achieved GDP growth rate was 6.7%
- In FY2011-12 the growth will be 6.3%
- The target set is 7.2% for FY2012-13 on the basis of expectations that a satisfactory growth in trade and agriculture sectors will continue as the global economy turns around by 2013, there will be a consistent credit flow to the development sectors and, above all, deficits in power, energy and infrastructure will decrease gradually.
- GDP growth rate will increase to 8% by FY2014-15.

External Sector:

- In the last three years, the export growth rate was 21.2%
- In the current fiscal year, up to April 2012, the export growth is 8.4%
- Import increased by 22.2% on an average in the last three years
- In the current fiscal year, up to April 2012, import grew by 8.7%
- Although import growth of capital machinery and industrial raw materials decreased during this period, there was an overall growth in those items in the last three years. Decision has been made to increase import of petroleum products to keep consistency with development strategies.

Remittance and Manpower Export:

- Remittance grew by 9.8% on an average in the last three years
- This growth rate is 10.4% during July-April period of the current fiscal year.

Current Account & Foreign Exchange Reserve:

- Due to restrained monetary and fiscal policies, there is a current account surplus of US$ 455 million up to March of the current fiscal
- Foreign exchange reserve stands at US$ 9.5 billion which is sufficient to foot three month's import bills.

Inflation:

- The rate of food inflation has decreased since the second quarter of the current fiscal
- Non-food inflation remains at double digits level
- By the end of April 2012, general inflation came down to single digit level, i.e., 9.9% on point to point basis and food inflation to 8.1%
- Inflation is expected to be brought down to 7.5% in the next fiscal year and to 5.0% in the medium term.

Monetary Policy:

- A restrained monetary policy is followed to manage aggregate demand
- Up to March 2012, the growth of money supply, on year on year basis, stood at 17.6%
- Private sector credit flow grew by 19.4%.

Economic Strategies:

- Reduction of subsidy, especially fuel subsidy.
- Tight rein on expenditure against non-productive sectors
- Revenue income has to be augmented
- Credit flow to non-productive sectors is to be controlled
- Restrained monetary policy
- The Non Resident Bangladeshis are to be encouraged to invest in Bangladesh. If needed, sovereign bonds may be issued and resources so gathered can be used only on big projects having national priority

Private Sector Investment:

- In the previous fiscal year, private sector credit growth was enormous i.e. 26%. Compared to that, it is projected to be only 16% this year.
- The private sector credit stood at Tk. 3,40,713 crore by June, 2011, while in the current fiscal year it is projected to be Tk. 3,95,227 crore.

Tax:

Considering economic growth and increase in per capita income –

For Individual:

- The minimum taxable income for Individual is Tk. 1,80,000
- Income threshold for Women and aged taxpayers (65 years of age and above) Tk. 2,00,000/-
- Income threshold for physically-challenged taxpayers Tk. 2,50,000/-
- Increase minimum tax payable from Tk. 2,000/- to Tk. 3,000/-

For Corporate:

- **Mobile Company:**
  Publicly traded.............................. 35%
  Other than publicly traded........... 45%
- **Cigarette Company:**
  Publicly traded...............................35%
  Other than publicly traded…........42.5%
- **Bank, Insurance and Financial Institutions**
  Other than merchant bank............................42.5%
  Merchant Bank..37.5%
  Private Limited Company................................37.5%
  Company Registered with Stock Exchange....27.5%

Incentive to Capital Market:

- Income tax rate for merchant banks has been reduced from 42.5 to 37.5%.
- If any company transfers 20% of its paid up capital through Initial Public Offering (IPO) to capital market, it will enjoy 10% tax rebate on its payable tax in the relevant year.
- Dividend income amounting to Tk. 5000 will be exempted from tax.

Several steps has been taken to regulate and smoothening the operation of the Capital market. Those are as follows –

Particulars	**Implication**
Amendment to the Bank Company Act 1991	A special committee has been formed to scrutinize the draft. The draft is expected to be finalized by next financial year.
Insurance Development & Regulatory Authority (IDRA)	Ensure legal and structural reforms in the insurance sector. Finalized six regulations and working on five more with a view to establishing discipline in the insurance industry.
Separate Clearing & Settlement Company	Facilitate disposal of stock exchange transactions within the shortest possible time.
Financial Reporting Act	A draft of this act has been prepared. After necessary scrutiny, present the Act in the Parliament for approval next fiscal year.
Demutualization programme (By the next fiscal year)	Bring transparency in the functions of the stock exchanges and the market system.

Expansion of Source Tax and Rationalization of Tax-Rate Deducted at Source in Export and others:

The proposed rates are as follows –

- To impose a uniform rate of tax of 1.20% deducted at source on all kinds of exports in place of existing rates of 0.60% and 0.70%.
- To increase the rate of tax on privately owned car, jeep and microbus to be deducted at source at the time of renewal of its registration and fitness. To rationalize the rate of presumptive tax on public transport including bus, truck and prime mover etc.
- To deduct tax at source at the rate of 1% on the total amount received by International Gateway (IGW) Services and 5% on the amount paid by IGW to other operators in regard to international telephone calls.
- To deduct tax at source at the rate of 5% and 3% considering the location of property at the time of selling land by any land developer company.
- To deduct tax at source at the rate of 2% on the post-paid mobile phone bill and on the amount to be recharged or on prepaid card amount.

Evaluation of the Budget 2012-2013:

Negative Aspects:

Mr. Muhith has set some quite lofty goals for the next year.

- 7.2% growth rate.
- 34% higher ADP spending from this year's revised ADP
- Curb inflation to 7.5%
- Revenue collection target is 22% higher.

Each of these goals has been precariously balanced and one miscarriage will put the other in jeopardy. One can be rest assured there will be more than one lapse.

- The Country has achieved a 6.3% growth this year (although IMF feels it would be 5.5%). To take it to 7.2% from there would require quite a bit of dust raising. Private investment has declined quite a bit this year. Industry and service sectors will not attain their respective targeted growth in the next fiscal, so it will be very hard for the government to achieve 7.2 per cent GDP growth rate.
  If exports get a beating because of the continued depression, that would have a big effect on the GDP. This is more so because our economy is 25% export dependent.
- The government has taken a bold step by increasing the subsidies for agriculture, electricity, petroleum and state-owned enterprises, in spite of advice of the International Monetary Fund to cut subsidies. However, it is a major concern whether the existing level of subsidies would be manageable and sustainable within the ambit of the current budget, with a high deficit financing component.
- The government's target for borrowing from banks was set at around Tk 19,000 crore for the current fiscal year, but within the first half of the year borrowing exceeded Tk 21,000 crore, leaving the private sector entrepreneurs in a liquidity crisis. For the upcoming fiscal year, the government's target for borrowing from banks is Tk 23,000 crore. Though an ADP of Tk 55,000 crore is adequately hopeful, it will be a tough challenge for the government to meet the Tk 52,068 crore budget deficit. Any excess borrowing beyond the threshold of Tk 230 billion will result in defaulting on IMF conditions that are non-negotiable. The proposed rise in the "advanced and loan fund" for the government employees to Tk 19,568 crore from its current amount at Tk 9,413 crore would also have a negative impact on liquidity in banks.
- Raising tax at source to 1.2% from the existing 0.60% on all kinds of exports would have a negative impact on overseas trade as export earnings were already on the decline due to some internal and external factors. This will greatly hamper the export growth of the garment sector, the country's main foreign exchange earner. Doubling tax at source on export items would discourage exporters and this was conflicting with the target of achieving 7.2% GDP growth and the government's labor intensive industrialization.
- The government targets to contain inflation at 7.5% in the forthcoming fiscal year heartened by this year's bumper food production, falling commodity prices on the global market and promises of higher foreign exchange flow. Taking loan of Tk 23,000 crore from banking sources out of the total Tk 33,484 crore needed, would fuel inflation. The IMF condition that any increase in energy price

will have to be passed through will also have immediate inflationary pressure. The prices of food products will then lead to a hike in the rate of inflation. It will then be very tough to rein in the inflation at 7.5 per cent.

- The imposition of 2% tax on mobile phone bills would affect around nine crore people.

Positive Aspects:

- The government has reduced duty on import of equipment for setting up effluent treatment plants at export-oriented industries and the proposal of imposing zero duty on import of capital machinery.
- The proposal to continue zero duty on import of food stuff, fertilisers, seeds, cotton and medicine is another good step.
- It also hailed measure to reduce the tax on merchant banks and brokerage houses. Dividend income amounting to Tk. 5000 will be exempted from tax for capital market investors. The proposed facility for undisclosed money will have positive effect on the Capital Market.
- The move of giving Tk 100 crore for the development of women entrepreneurship is another positive step taken by the ruling government.

Concluding Remarks:

There exist a number of problem areas that will have to be addressed in the current budget. These are high rate of inflation, investment, employment and accelerating institutional and policy reforms. Policymakers will have to address the issues related to power and infrastructure problems which unless addressed, threaten to drag down the projected GDP growth rate. The institutional weaknesses associated with failure to implement externally-aided development projects is another major hindrance, but perhaps the weakest link in government machinery that has become visible during last fiscal is public finance. The soaring expenditure coming primarily from mounting subsidies, coupled with a general lack of support from foreign and non-bank sources of finance have not helped matters. There is little to suggest that global oil prices will stabilize anytime soon and hence there is little scope to cut back on fuel subsidy in the current fiscal. It is however imperative that steps are taken to reduce dependence on banking system for budget deficit financing. Given the current domestic scenario, it is hoped the government will take moves toward greater mobilization of foreign resources to meet its budget deficit.