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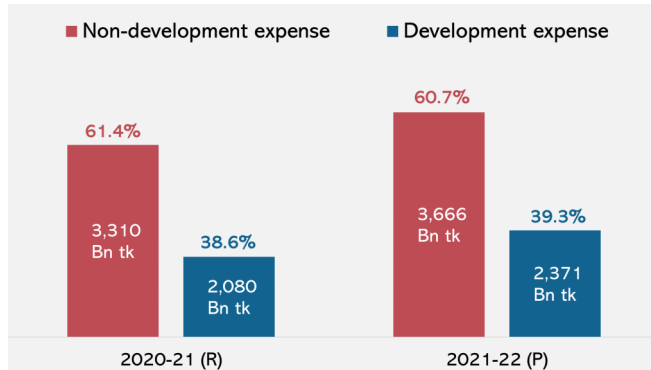


# Budget FY2021-22 Synopsis

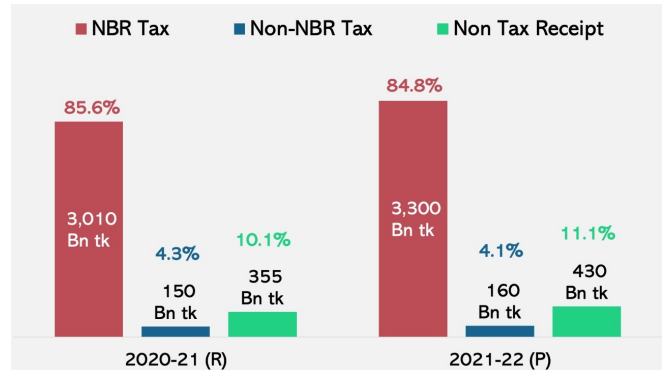
## **Bangladesh**

Date: 9 June, 2021

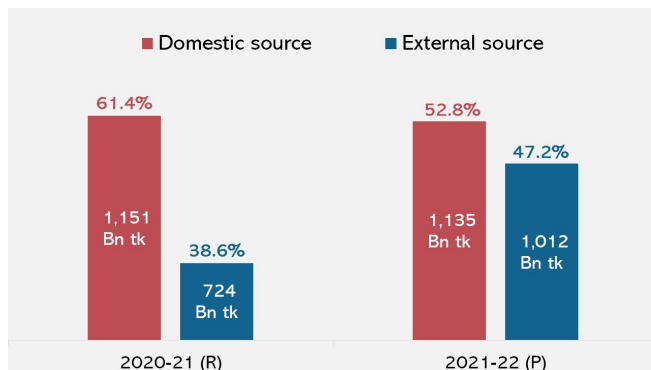
**Budget Size**  
**Tk 6.04 Tn**  
 17.5% of GDP  
 6.3% growth\*



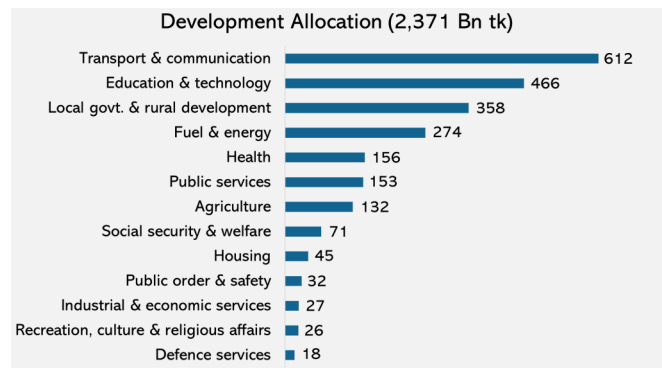
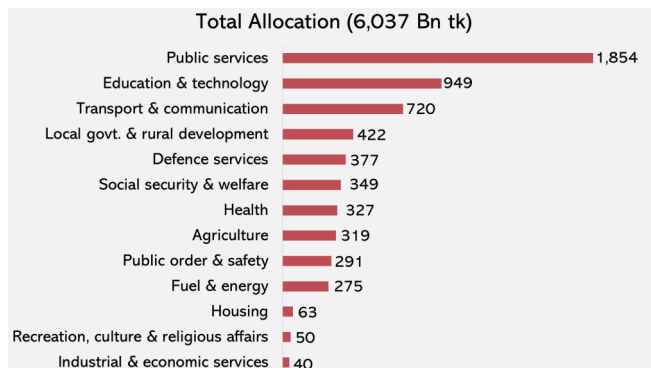
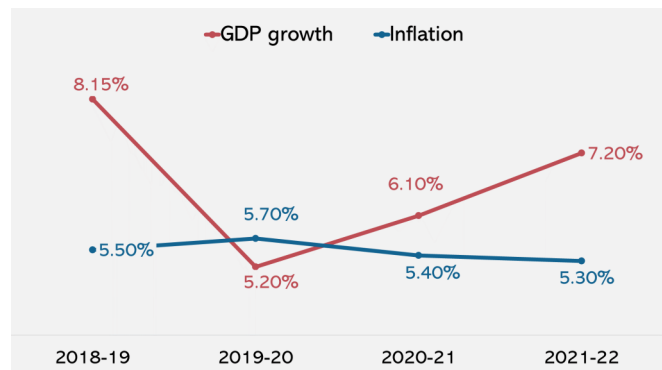
**Revenue**  
**Tk 3.90 Tn**  
 11.3% of GDP  
 2.9% growth\*



**Budget Deficit**  
**Tk 2.15 Tn**  
 6.2% of GDP  
 13.0% growth\*





























**Target 2021-22**  
**7.2% GDP growth**  
**5.3% Inflation**



\* Compared to 2020-21 Proposed Budget  
 (P) Proposed budget  
 (R) Revised budget  
 (A) Actual budget

## Sectoral Impact

Industry	Policy Details	Impact	To be impacted
Tobacco 	Approximately <b>5% increase</b> in the price slab of high & premium segment while SD & VAT rate remains unchanged; price slab, VAT, & SD for BIDI and smokeless tobacco kept unchanged;		Price increased while SD kept unchanged, so more positive net impact on the profit of tobacco manufacturers having a footprint in the premium and the high segment is expected
Construction 	Non-adjustable advance tax at import stage and source tax at supply stage reduced from <b>3% to 2%</b>		Import-dependent cement manufacturers
	<b>3% regulatory duty</b> imposed on finished iron wire products		Steel manufacturers
	Advance tax on specific iron product raw materials <b>exempted</b>		Steel manufacturers
	Cable raw materials import <b>tariff reduced</b>		Cable manufacturers
	Source tax for local contractors providing service to non-resident contractors reduced from <b>10% to 7.5%</b>		Local contractors
Mobile financial service providers 	Corporate tax increased from 32.50% to <b>40%</b> ; listed MFS will be taxed @ <b>37.5%</b>		MFSs
	<b>50%</b> higher tax if payment exceeding 50,000 is not facilitated through banking or MFS channel		MFSs with user-friendly interface
Footwear 	Import duty of specific raw materials reduced from <b>25% to 15%</b>		Footwear maker
Consumer 	Continuation of <b>VAT exemption</b> for refrigerator, freezer, air conditioner and its compressor manufacturer.		Consumer electronics manufacturers
	<b>VAT exemption</b> at production level in manufacturing of TV, washing machine and oven.		Consumer electronics manufacturers
	Supplementary duty increased to <b>45%</b> from 20% on soap		Cosmetics manufacturers
	Imposed <b>5% RD</b> (Regulatory Duty) on import of rapeseeds/ mustard seeds.		Local oil millers
Pharmaceutical 	Duty and <b>taxes reduction</b> on ingredients used in API manufacturing		API manufacturer
	Duty and <b>taxes reduction</b> on ingredients used in anti-cancer medicine manufacturing		Oncological drugs manufacturer
Automobile & Light Engineering 	<b>Tax exemption</b> for three and four wheeler manufacturers for another ten years.		Automobile manufacturer
	<b>10 year tax exemption</b> for light engineering industry		Light engineering product manufacturers
	Continuation of existing <b>VAT exemption</b> for motor car and motor vehicle manufacturers for five more years		Automobile manufacturer
	<b>Exemption of SD</b> and 20% reduction in CD of moped bike in CKD condition		Moped bike manufacturer

## Tax Rate Considerations

Corporations		
Entities	Existing FY2020-21	Proposed FY 2021-22
Publicly traded company*	25.00%	22.50%
Non-publicly traded company*	32.50%	30.00%
One Person Company	32.50%	25.00%
Association of persons	32.50%	30.00%
Artificial juridical person and other taxable entities	Rate applicable for individual taxpayer	30.00%
Private university, private medical, dental and engineering college or private college solely dedicated to imparting education on ICT	15% (rate fixed by SRO)	15.00%

\* Except Bank, Insurance, Financial Institution and Tobacco.  
 \*\* Tax rates for public and private Bank, Insurance, Financial Institution and Tobacco remained unchanged.

Individuals
Direct income tax rates and minimum tax exemption threshold kept unchanged for individual
2% cash incentive to be continued and income tax rate for NRBs kept unchanged

Rates of surcharge			
FY2020-21		FY2021-22	
Net wealth up to BDT 3 cr.	0%	Net wealth up to BDT 3 cr.	0%
Net wealth from BDT 3 cr. to BDT 5 cr; or ownership of more than one motor cars; or ownership of house property having an aggregate area of 8,000 sq. ft in a city corporation.	10%	Net wealth from BDT 3 cr. to BDT 10 cr.; or ownership of more than one motor cars; or ownership of house property having an aggregate area of 8,000 sq. ft in a city corporation.	10%
Net wealth: BDT 5 crore - BDT 10 cr.	15%	Net wealth: BDT 10 cr. - BDT 20 cr.	20%
Net wealth: BDT 10 cr. - BDT 15 cr.	20%	Net wealth: BDT 20 cr. - BDT 50 cr.	30%
Net wealth: BDT 15 cr. - BDT 20 cr.	25%	Net wealth: above BDT 50 cr.	35%

## Review

The budget for FY 2021-22 stands at 17.5% of the GDP with a 6.3% growth from the last budget. The size of Tk. 6.04 trillion does sound a bit optimistic considering the pandemic that is still causing damage to the economy. The target to achieve 7.2% GDP growth may sound a bit optimistic as well, but definitely not impossible considering the potential economic recovery on the card. Media houses have already termed the current budget as a 'business friendly' one. Reduction in corporate tax rates, AIT and customs duty, provision of tax holidays for various businesses, VAT exemptions at manufacturing stages etc. do validate that claim.

The budget priorities have been more or less as per expectation. Considering the ongoing pandemic, Health sector has got high priority, even though strong suspicion remains due to the sector's implementation record. The budget also prioritized food security, job creation, farm mechanization, provision for SMEs etc. Considering Bangladesh as an emerging economy and also the ongoing pandemic, targeting deficit at 6.2% of GDP is still comfortable. Ample financing commitment from the multilateral organizations put the Govt. in a position with options.

This budget's announcement of 10-year tax holiday in agriculture, light engineering and technology articulates the Government's intended push for 'Made in Bangladesh'. If properly implemented, it will smoothen the way for Bangladesh to become a manufacturing hub. That will complement its journey after LDC graduation. The proposed budget is indeed business-friendly as it has reduced corporate tax rates and encouraged entrepreneurship. However, increasing tax deducted at source (TDS) at various stages has clouded that positivity to a large extent.

The budget proposed tax exemptions for small entrepreneurs. Ironically, most of such entrepreneurs are out of the tax net. In that sense, the exemptions that have been announced may not have intended impact. Health sector has got more allocation as expected. But the fact that only less than half of the allocation was utilized in the last fiscal paints a grim picture of inefficiency and corruption. The Government's push for digitalization process over the years have been commendable. But in this budget raising Mobile Financial Service company's tax rate certainly raised eyebrows.

## Macroeconomic Condition:

The macroeconomic situation of the country has been mostly stable. On both external and internal front, the economy has fared pretty well amid the pandemic induced crisis. There is no potential for any economic crisis anytime soon. However, lower private sector credit growth is a matter of concern as it is hovering only a little higher than the inflation rate.

Exchange rate has been stable for quite some time and it is expected to remain such because of strong remittance inflows and satisfactory export volume. Money market is expected to remain liquid as the banking sector is now flooded with ample liquidity. If the demand for loan doesn't pick up any time soon, interest rate may continue remaining downward. The economic recovery has slowed down due to the second wave of Covid19. However, various sectors have still managed to return to their pre-pandemic state.

## Capital Market:

Due to persistent low-rate environment, a lot investors are moving their investments from money market to the capital market. Daily turnover in Dhaka Stock Exchange (DSE) has been Tk. 20 billion on average recently. The number of BO accounts has gone up significantly as well. Even during the pandemic, a good number of companies showed robust performance. DSE broad index, DSEX recorded 21.3% return in 2020 and this year it has already generated a promising 12.1% return (up to June 3, 2021).

The current budget further strengthens the position of the capital market. Even though there is nothing specific for the market in the budget, the business-friendly policies make itself a 'capital market friendly' one. The budget proposes exemption from 5% capital tax applicable for Sukuk. It is a very good proposal. This will make the bond formation process easier and contribute to the capital market development.

## Concluding Remark:

Government should strongly focus on proper and transparent implementation of the budget bringing down inefficiency and corruption. The success of the budget will critically depend on the expected growth in investment to GDP ratio where private sector has a huge role to play. Govt. should explore policies to raise business confidence so that expected demand for loan arises in the current low-rate environment. Thus, the targeted GDP growth rate will be within the reach, considering the macroeconomic stability the country is currently enjoying.

## Appendix

### Proposed Budget Structure for FY 2021-2022 (Crore Tk)

Sector	Budget 2021-22	Revised 2020-21	Budget 2020-21	Actual 2019-20
1	2	3	4	5
<b>Total Tax Revenue</b>	<b>389,000</b>	<b>351,532</b>	<b>378,000</b>	<b>265,908</b>
	<b>(11.3)</b>	<b>(11.4)</b>	<b>(11.9)</b>	<b>(9.0)</b>
In which:				
NBR Tax	330,000	301,000	330,000	216,037
Non-NBR Tax	16,000	15,000	15,000	5,944
Non Tax Receipt	43,000	35,532	33,000	43,927
<b>Total Expenditure</b>	<b>603,681</b>	<b>538,983</b>	<b>568,000</b>	<b>420,160</b>
	<b>(17.5)</b>	<b>(17.5)</b>	<b>(17.9)</b>	<b>(15.0)</b>
Non-Development Revenue Expenditure	328,840	302,547	311,690	236,124
	(9.5)	(9.8)	(9.8)	(8.4)
Development Expenditure	237,078	208,025	215,043	161,797
	(6.9)	(6.7)	(6.8)	(5.8)
In which:				
Annual Development Programme	225,324	197,643	205,145	155,380
	(6.5)	(6.4)	(6.5)	(5.6)
Other Expenditure	37,763	28,411	41,267	22,239
	(1.1)	(0.9)	(1.3)	(0.8)
<b>Budget Deficit</b>	<b>(214,681)</b>	<b>(187,451)</b>	<b>(190,000)</b>	<b>(154,252)</b>
	<b>(-6.2)</b>	<b>(-6.1)</b>	<b>(-6.0)</b>	<b>(-5.5)</b>
Financing				
External source (including grants)	101,228	72,399	80,017	44,130
	(2.9)	(2.4)	(2.5)	(1.6)
Domestic source	113,453	115,052	109,983	108,049
	(3.3)	(3.7)	(3.5)	(3.9)
In which, Banking source	76,452	79,749	84,980	79,268
	(2.2)	(2.6)	(2.7)	(2.8)
<b>GDP</b>	<b>3,456,040 <sup>(a)</sup></b>	<b>3,087,300 <sup>(b)</sup></b>	<b>3,171,800 <sup>(a)</sup></b>	<b>2,796,378 <sup>(p)</sup></b>

Source: Finance Division; Figures in parenthesis indicate percent of GDP; a= Projected Nominal GDP at the time of budget preparation; b= Revised estimate of nominal GDP; p=Provisional;

## IMPORTANT DISCLOSURES

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