Estimating a revenue collection of BDT 2.08 trillion, The Finance Minister has proposed a budget of BDT 2.95 trillion, which is 23% bigger than the previous one, for the upcoming fiscal. The budget deficit of BDT 866 billion is to be financed by aids and borrowings, of which 35% will be external and 65% will be domestic. The Government targets to achieve GDP growth of 7% and maintain inflation rate at 6.2%.

Although budget implementation in FY15 and FY14 was disrupted because of political turmoil, an explanation given by the Government, budget implementation rate (ratio of actual budget over proposed budget) was never 100% during last 6 years of current Government's tenure and has been declining every year. Considering the past performance and size of the budget, we remain skeptical about full implementation of the proposed budget.

Fiscal Achievement*	FY12A	FY13A	FY14A	FY15A**
Revenue	97%	92%	84%	**56%**
Expenditure	93%	91%	85%	**47%**
Deficit	83%	88%	87%	**23%**
External Financing	40%	68%	46%	**11%**
Domestic Financing	112%	99%	112%	**30%**
Bank Financing	143%	119%	70%	**9%**
GDP Growth	6.5%	6.0%	6.1%	**6.5%**

Actual/budget,9 months data*
Source: Ministry of Finance

As remittance inflow is stable, inflationary pressure is moderate owing to low commodity price, credit growth has slightly picked up from its morbid status and exchange rate & foreign exchange reserve are satisfactory, from macroeconomic point of view, the country is in a good shape and is ready to grow at a higher rate than usual. However, private investments have been sluggish since 2011 and FDI in July-December of current fiscal has declined from that of Jan-June of FY 2013-2014. Due to sluggish investment and economic volatility of Euro zone, export revenue is sliding and country is under the risk to face high unemployment rate. To rise and shine, Government needs to boost investments to achieve targeted growth, capitalizing current macroeconomic strength and calm political environment.

The Government is expecting 28% growth in revenue collection, whereas in the last 5 years, average revenue collection growth per year was only 18%. This proposed revenue growth target is significantly higher than the average growth and the Government will have to overcome impediments such as decreased corporate tax rate for the listed securities, increased tax free income for individual tax payers and withdrawal of 10% gain tax at source on income from share market to achieve this growth. To cover the amount of tax revenue lost from aforementioned impediments, the Government has declared to increase the number of tax payers at corporate and individual level.

Unless the Government improves the efficiency and transparency of organizations involved in the tax collection process, it cannot collect the expected revenue. Since this transparency and efficiency is a long shot, to achieve the expected growth, Government has to invest in infrastructure to facilitate increased business activity. So far, the Government has successfully improved country's power generation and its commitment to meet power requirement is commendable. But transportation and communication system still needs significant improvement. Now the question is whether the Government can generate increased business activity to achieve 28% revenue growth. If it can, GDP growth target of 7% seems very reasonable.

Since the revenue target is quite far-fetched, the Government is expected to fall short collecting the targeted amount, an event that will aggravate the challenge to attain desired GDP growth. A shortfall in revenue collection will lead to cut in development expenditure, most likely the capital expenditure, which is supposed to facilitate higher growth. Although new pay scale has contributed to only 2.5%-3% increase in the budget; it may trigger inflation as we have seen during the launch of new pay scale previously in 1997, 2005 and 2009. Higher inflation will cause lower growth in real term.

If the Government wants to implement the proposed fiscal measures despite revenue shortage, further widening of the deficit is inevitable and this widening of deficit will result in incremental borrowing. Additional borrowing to meet deficit will increase Government's interest expense. Moreover, the lack of fiscal space compounds the complexity of fiscal management even further as Government doesn't have any cushion to face unexpected events such as a sudden hike in commodity price. Although, on the table, proposed budget seems an impressive one, its implementation will be very challenging as, we consider, the revenue collection target and the expenditure target are unrealistic.

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BACKGROUND

As the ongoing fiscal 2014-15 approaches its culmination point, Bangladesh is about to enter the commencement year of the Seventh Five Year Plan (2016-2021). During the Sixth Five Year Plan (2011-2015) period, the economy has consistently posted an average 6% GDP growth amid several global and domestic shocks. However, the growth consistently fell short of Government's expectation while revenue collection and implementation rate of development projects remained lackluster.

The forthcoming fiscal 2015-16 marks the beginning of the terminal phase of 'Vision 2021'. The proposed budget for FY 2015-16, therefore, aims high to break free of the 6% growth trap and achieve a 'modest' **7% GDP growth** by the end of FY 2015-16 while taming inflation at 6.2%. Even though the expected GDP growth remains 'modest', the 23% bigger budget seems ambitious, given the apparent unrealistic revenue target.

BUDGET SNAPSHOT

The national budget for FY 2015-16 estimates an aggregate expenditure of BDT 2,951 billion riding on a 27.5% higher revenue estimate of BDT 2,084 billion. The fiscal deficit is estimated to be BDT 867 billion (5% of estimated nominal GDP), 35% of which is expected to be financed from external sources and 65% of which is expected to be financed from domestic sources.

BDT Billion	FY16B*	FY15R*	FY15B	FY15R**	FY16B**
Expenditure	2,951.0	2,396.7	2,505.1	-4.3%	23.1%
Revenue	2,084.4	1,633.7	1,829.5	-10.7%	27.6%
Deficit	-866.6	-763.0	-675.5	13.0%	13.6%
Financing					
External	301.3	215.8	242.8	-11.1%	39.6%
Domestic	565.2	547.1	432.8	26.4%	3.3%
From Bank	385.2	317.1	312.2	1.6%	21.5%

**B=Budget, R=Revised; ** Change Over FY15B*
Source: Ministry of Finance

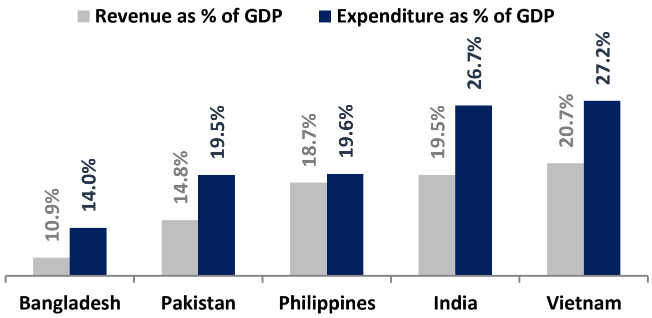
In the proposed budget for FY 2015-16, Revenue Collection target and deficit financing target from external sources remain significantly high considering the substantial cut in both the items in revised budget for FY 2014-15. Government aims to raise Expenditure to GDP ratio to 17.2% in the forthcoming fiscal, while the peak achievement figure that it could reach in last 5 years was 14.5%. The Revenue to GDP ratio has been declining since FY12, suggesting poor tax coverage. The Government aims to improve the Tax-to-GDP ratio in the coming fiscal to 12.1% from the earlier ratio of 10.8%. In terms of deficit financing the Government still remains heavily dependent on domestic source and this dependency is expected to increase further given the current status of foreign loan disbursement.

Compared to the revenue and expenditure size of its Asian peers, Bangladesh's revenue and expenditure size remains poor. Despite initiatives taken by the Government previously, the country stood still in terms of development. While the numbers in National Budget for FY 2015-16 aim to achieve big, the significance of the numbers lies in the sound implementation of the budget.

As % of GDP	FY16B*	FY15R*	FY15B	FY14A*	FY13A	FY12A
Expenditure	17.2%	15.8%	18.7%	14.0%	14.5%	14.4%
Revenue	12.1%	10.8%	13.7%	10.4%	10.7%	10.9%
Deficit	-5.0%	-5.0%	-5.0%	-3.6%	-3.8%	-3.6%
Financing						
External	1.8%	1.4%	1.8%	0.7%	1.1%	0.7%
Domestic	3.3%	3.6%	3.2%	2.8%	2.8%	2.9%
From Bank	2.2%	2.1%	2.3%	1.4%	2.3%	2.6%

**A=Actual, B=Budget, R=Revised*
Source: Ministry of Finance

Government Fiscal Policy in Asia



Source: IMF World Economic Outlook 2015

GDP GROWTH TARGET 7% WITH 6.2% INFLATION

- Assuming future political stability, Government has set the GDP growth target for FY 2015-16 at 7%. The major growth drivers will be industry and service sectors on the supply side and consumer spending and investments on the demand side.
- Riding on falling oil price, favorable agricultural production, restrained monetary policy and improved distribution system, the inflation has been projected to hover around 6.2%.
- In the medium term (2016-18), the Government plans to increase private investment to GDP ratio to 24.0% from the current level of 22% and public investment to GDP ratio to 7.8% from 6.9%.

Boosting private investment remains one of the most crucial keys to achieve 7% GDP growth in the next fiscal. Taming inflation will be another challenge as the new fiscal will see the unveiling of new pay scale for Government employees. The pay rise, although, negligible compared to the overall size of the economy, might aggravate inflation if the inefficient market mechanism fails to accommodate the increased demand in the economy. Historical data shows that the last three pay hikes during the fifth (October 1997), the sixth (May 2005) and the seventh (December 2009) pay scales were followed by rising inflation. Given the magnitude of salary increment is the highest this year, the risk of rising inflationary pressure is very high. In order to attain desired GDP growth while controlling inflation to 6% level, the Government needs to pass the windfall of falling oil price to local consumers or use it to improve the weak infrastructure of the country.

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GOVERNMENT EXPENDITURE

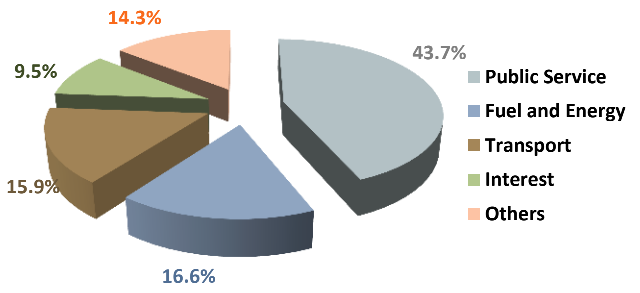
- Out of the estimated BDT 2,951 billion expenditure, 55.8% will be allocated for non-development expenditure, 32.9% for ADP and 17% for other development expenditure.
- 61.8% of the total expenditure has been proposed as revenue expenditure while the rest 38.2% has been proposed as capital expenditure.
- A breakdown of the aggregate expenditure shows that Public Service, Interest Payment and Education & Technology will account for about 43% of total expenditure.

% of Total Expenditure	FY16B	FY15R	FY15B	FY14A
Public Service	19.2%	13.6%	15.3%	7.7%
Interest	11.9%	12.5%	12.4%	15.0%
Education and Technology	11.6%	14.0%	13.1%	14.1%
Transport	9.7%	8.3%	9.8%	7.6%
Local Government	7.1%	8.0%	7.1%	7.7%
Agriculture	6.8%	7.6%	7.6%	9.2%
Fuel and Energy	6.3%	3.9%	4.6%	5.6%
Defense Service	6.2%	7.4%	6.6%	7.4%
Social Security and Welfare	5.7%	5.8%	6.1%	6.0%
Public Order and Safety	4.6%	5.8%	5.0%	6.2%
Health	4.3%	4.8%	4.4%	5.0%
Memorandum Items	3.8%	5.5%	5.3%	5.4%
Others	2.7%	2.9%	2.8%	3.2%

Source: Ministry of Finance

- Single expense head that has received the biggest portion of the incremental allocation of BDT 554 billion is 'Pay and Allowances' (27.5%) followed by 'Construction and Work (19.6%) and 'Acquisition of Asset' (12.3%). A breakdown of sectoral allocation of the incremental fund is shown below:

Sectoral Allocation of Incremental Fund



Source: Ministry of Finance

Over the last three fiscal years, a significant rise in allocation of resource for public service can be observed. While public service accounted for 7.7% of total Government expenditure in FY14, the share has been proposed to be increased to 19.2% in the upcoming fiscal. Major share of the incremental expenditure has been allocated for implementing the new pay scale which is a fixed expense head. This poses threat for capital expenditure commitment which might face revision in the event of inadequate revenue collection. The incremental resource allocation for 'Transport' and 'Fuel and Energy' sectors is a much appreciated effort since accomplishment of the targets in these sectors will improve the physical infrastructure of the country substantially.

SUBSIDY EXPENDITURE

- The Government has proposed a subsidy allocation of BDT 157.7 billion in the budget for FY 2015-16 against BDT 165.2 billion in the revised budget for FY 2014-15. Share of subsidy and incentive has declined to 5.3% of total expenditure from 6.9% of total expenditure in the revised budget of FY15.
- Agriculture subsidy has been proposed to be kept fixed at BDT 90 billion.
- The Government has also allocated BDT 88 billion as net lending to BPDB and BPC (About BDT 6 billion from this amount has been earmarked for BPC, Source: The Daily Star)

While the low oil price has reduced the subsidy expenditure of the Government, subsidy to the power sector still remains high. If the proposed power tariff hike does not take place, the power subsidy might go up further in the next fiscal. However, providing subsidy to fill the gap created by years of inefficient operation cannot be sustained in the long run. For the overall benefit of the nation, the Government needs to take effective actions to improve efficiency either by implementing strict monitoring system or by privatizing their operation

NEW PAY SCALE

- The share of pay and allowances in the aggregate expenditure has been proposed to be increased to 15.3% in the forthcoming fiscal from 12.2% in the revised budget of FY 2014-15.
- The amount allocated for pay and allowances in the new budget is BDT 451.5 billion, up 53.8% from that of the revised budget for FY 2014-15. To implement the new pay scale, an additional BDT 158.0 billion (5% of Budget) will be required.

The anticipation regarding the new pay scale is expected to drive up inflation in upcoming fiscal. We believe the Government will take cautionary measures to tame inflation to its desired level so that the actual purpose of implementing the new pay scale is served.

INVESTMENT FOR RECAPITALIZATION

- Government has proposed to allocate BDT 50 billion (1.7% of total Budget) for recapitalization of state owned banks in the budget for FY 2015-16.

Unless efficiency can be ensured in the State-Owned Banks, providing such recapitalization package won't be fruitful in the long run.

ANNUAL DEVELOPMENT PROGRAM

- Annual Development Programme (ADP) for FY 2015-16 has been proposed to be set at BDT 970 billion, 29.3% bigger than that of the revised budget of FY 2014-15.
- As seen from the detailed breakdown of sectoral allocation, share of Agriculture and Human Resource in ADP has been reduced while that of Transportation & Communication and Power & Energy has been increased.

- To ensure speedy implementation of ADP, the Government has ordered to complete 25% of the ADP in the first quarter of a fiscal year.

% of ADP	FY2016B	FY2015R	FY2015B	FY2014A
Agriculture	25.3%	28.2%	25.8%	29.1%
Transport	22.3%	18.6%	23.3%	16.7%
Human Resource	22.0%	26.9%	24.3%	25.5%
Power and Energy	19.1%	12.4%	14.3%	18.9%
Others	11.4%	13.9%	12.3%	9.8%

Source: Ministry of Finance

In the first 10 months of the current fiscal, only 56% of the original ADP has been implemented. Despite failing to accomplish the ADP target every year, the Government has set an even higher target for FY 2015-16. We believe, if implemented properly, the projects taken under ADP will eradicate the infrastructural woes of the economy.

GOVERNMENT REVENUE MOBILISATION

- The proposed budget for FY 2015-16 estimates a revenue collection of BDT 2,084 billion, up 27.6% from that of the revised budgeted revenue in FY 2014-15.
- Number of tax payers (individual and organizations) is expected to increase from 1.2 million to 3 million that will accommodate the 30% growth in NBR tax.

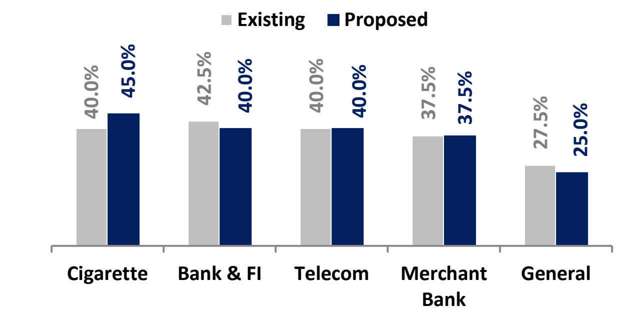
Tax Revenue (BDT Billion)	FY2016B	FY2015R	Growth YoY
NBR Tax	1,763.70	1,350.28	30.6%
Income tax	649.71	486.14	33.6%
VAT	642.63	495.73	29.6%
Customs Duty	187.90	151.34	24.2%
Excise Duty	12.40	9.35	32.6%
Supplementary Duty	257.85	198.52	29.9%
Others	12.31	9.20	33.8%
Non-NBR Tax	58.74	56.49	4.0%
Non-Tax Revenue	261.99	226.94	15.4%
Total	2,084.43	1,633.71	27.6%

Source: Ministry of Finance

Widening income tax coverage is a much needed step for future development of our economy. Without addressing regulatory and governance related problems in the tax administration system, widening the tax net is not possible. We expect the Government will take reform measures to fill in the loopholes of NBR and other Tax Collecting Units.

CORPORATE TAX

- For publicly traded companies, the corporate tax rate has been revised as shown in the graph below:



Source: Ministry of Finance

- Corporate tax rate for non-publicly traded companies has been kept unchanged (General: 35%, Bank and FI: 42.5%, Cigarette Manufacturers: 45%, Telecom: 45%).
- The Government has proposed to withdraw existing 10% tax rebate upon disbursing 30% dividend and 35% tax rate for disbursing less than 10% dividend.
- Calendar year for all the companies except for Financial Institutions has been proposed to be streamlined with fiscal year.

While the 30.6% growth in revenue might not be attained this year, the initiatives taken to increase tax net, if implemented correctly, will certainly lead towards higher revenue collection in future. Streamlining the calendar year of all the taxpayers with Fiscal Year is expected to enhance efficiency of the revenue collection. Tax cut of listed corporates might hurt Government's revenue collection. However, enactment of Financial Reporting Act is expected to increase the efficiency of tax collection from the corporates that might result in higher tax collection in the future.

BUDGETARY IMPLICATION ON CAPITAL MARKET

- Proposed threshold of tax exemption on dividend income distributed by listed companies has been proposed to be raised to BDT 25,000 from BDT 20,000.
- The Government has proposed to provide tax exemption for income up to BDT 25,000 from Equity Mutual Fund and Fixed Income Mutual Fund.
- The Government has proposed to abolish the existing provision of 10% deduction at source on income (capital gain) from share market by any company or partnership firm.
- To promote Bond Market, withdrawal of existing 5% upfront source tax (TDS) on interest income of Treasury bond and Treasury bill has been proposed.

The Government has taken several capital-market friendly initiatives in the upcoming budget for FY 2015-16. We expect that the positive initiatives will enhance investors' confidence and attract new investors to the market.

BANK & NBFI

- Overall estimated budget deficit will be BDT 866.6 billion (around 5% of GDP) in FY 2015-16. Of this deficit, BDT 385.2 billion (2.2% of GDP) is expected to be sourced from the banking system and BDT 180.0 billion (1.1% of GDP) from savings certificates and other non-banking sources.
- Corporate tax on financial sector has been reduced from existing 42.5% to 40.0%.

Although Government plans to increase its dependency on foreign loans, the past trend of foreign loan disbursement does not paint a very encouraging picture. Without enhancing the implementation rate of development projects, the trend is not expected to improve. We believe, in the new fiscal, the Government will have to remain dependent on domestic sources for deficit financing. Even after revising the interest rate, savings instruments still provide lucrative return to the investors. Thus, demand for National Savings Certificate is expected to remain high keeping the pressure on domestic *banks moderate. Moreover, considering slow growth in the private sector credit, Government's borrowing from banking sector should not put much pressure on banking sector liquidity.*

PHARMACEUTICALS

- The existing concessionary duty and taxes of certain raw materials and ingredients of pharmaceutical products (such as: propofol, Eribulin Mesylate INN, Sucralose USNF, Phenytoin Sodium, etc.) will be continued.
- During import stages, VAT has been proposed to be waived for the raw materials of Hepatitis-C medicines.
- VAT exemption threshold on the export of sample medicine has been proposed to be extended to BDT 100,000 from the existing BDT 30,000.
- The Government has proposed to reduce the SD rate on Mosquito coil, Aerosol and other mosquito repellant to 20% from existing 30%.
- SD rate on Sanitary towels (pads) and tampons, napkins and napkin liners for babies and similar articles, of any material has been proposed to be reduced to 45% from existing 60%.

Reduced SD on mosquito repellant items, Sanitary towel and related products is expected to benefit listed consumer goods manufacturers such as: ACI and ACIFORMULA.

FUEL AND POWER

- In ADP of FY 2015-16, power and energy sector has been allocated BDT 184.8 billion up by 98.8% from the previous year's revised allocation.
- BDT 164.9 billion has been allocated for power division and BDT 19.9 billion has been allocated for energy and mineral resources division.
- VAT exemption has been proposed on production and supply of batteries up to the capacity of 60 ampere to solar panel manufacturers (registered with IDCOL).
- Regulatory Duty has been proposed to be imposed on LP cylinders with capacity below 5000 liters.
- Government has planned to increase the country's power generation capacity to 24,000 MW by 2021. With this goal in mind, the Government is going to establish coal-fired power plants, renovate old power stations, develop power transmission and distribution systems, diversify energy sources and increase power generation from renewable energy sources.
- Government has taken initiatives to install an LNG terminal and import LNG for the terminal. Gas supply from the terminal is expected to be started from mid-2017.

The initiatives taken to improve the power generation capacity are expected to minimize the demand supply gap in the energy sector. Listed companies (like MJLBD) are expected to be benefitted from the import and distribution of LNG by the Government.

TELECOM

- SD rate on SIM card has been proposed to be increased from 15% to 20%.
- The Government has proposed SIM tax of BDT 100 for both instances of issuance and replacement of SIM.
- The Government has imposed 5% SD on the service provided through SIM and RUIM card of mobile phone.

The ongoing legal tug of war between BTRC and the Telecom Operators seems to have led to the punitive measures for the entire industry. The 5% SD, which has been passed on to the consumers, will increase the cost of such service hurting both the consumers and the Telecom Operators.

INDUSTRIAL

- Government has proposed to increase the CD on import of LCD/LED TV panel to 25% from existing 10%. Import duty on metal frames for LCD/LED TV panel and MDI has been proposed to be reduced to 5% from existing 10%.
- SD on Sulfuric acid, Dioctylothophthalates, and other plasticizers has been proposed to be increased from existing 15% to 20%. On the other hand, SD on plastic plates, sheets, films, foil, bottles, tableware, kitchenware and almost all related items has been proposed to be reduced by 10%-15%.
- SD rate has been proposed to be increased from existing 15% to 20% on all sorts of polyester and acrylic based paints and varnish.
- The new budget has proposed to impose VAT of 1.5%, 2.5% and 4.5% (instead of 3% uniform VAT) on purchase of flats having floor space up to 1,100 sqft, between 1,101 to 1,600 sqft and more than 1,600 sqft respectively.
- The Government has proposed to procure 300 double-deckers and 100 articulated buses to improve passenger's services.
- Tax holiday has been proposed for automobile manufacturing sector, tyre manufacturing and bicycle industry.

The increased SD on raw materials for paint and plastic will eventually increase the production cost of the respective industries. Local LED/LCD TV assembler and refrigerator/freezer manufacturer will be beneficiary of the reduction of CD and SD on metal frames and MDI. Procurement of vehicles to improve public transportation service will benefit the local dealers of foreign manufacturers (Such as: IFADAUTOS, AFTABAUTO) or local assemblers. In addition, tax holiday facility may boost the investment in tyre and bi-cycle industry.

CEMENT

- Significant emphasis on infrastructural development has been articulated in the newly proposed budget. Government has proposed to allocate BDT 263.3 billion (43.5% higher than the fund allocated in the previous budget) for the development of the sector.
- Government has proposed to allocate an additional BDT 74 billion for Padma Bridge from the fund for ADP in the next fiscal.
- The new budget has proposed to complete 39 out of 133 projects in the upcoming fiscal for the development of infrastructure sector under ADP. Government plans to undertake construction of additional 61 bridges in western part of the country.

- Annual Development Program (ADP) of BDT 970.0 billion has been proposed. The estimated ADP is 29.3% higher than RADP for FY 2015-16 and 20.8% higher than ADP for FY 2014-15.

Top line of the Cement companies is expected to increase minimum 10% if construction of proposed new projects and the ongoing Padma Bridge Project runs smoothly.

TEXTILE

- Flat rate of tax at source for RMG export has been proposed to be increased to 1.0% from existing 0.3%. This source tax will be considered final tax liability of the RMG exporters.
- Tax rebate at 15% on income earned in textile sector has been proposed to be extended up to 30 June, 2019.
- SD has been proposed to be reduced from 60% to 45% on 188 imported RMG products (96 Knit items and 92 Woven items).
- Five new products will enjoy reduced SRO rate of 2% duty from existing 5% namely fire extinguishers, Busbar Truncated System, Transformers (exceeding capacity 120 MVA) and fan motors. In addition, a proposal has been made to reduce 5% CD and VAT on electrical and electronic accessories to curtail the import cost of fire and electrical safety instruments like fire resistant door; sprinkler system and equipment, video conference devices, LED panel, LED tube light, emergency lights.
- Government has proposed to exempt duty on Flax Fiber from existing 5% and impose duty on Silk Fabric and items to 45% and 25% respectively.

Sector competitiveness will be adversely affected by the enhanced tax at source on Export revenue. The bottom line margin will also plummet (by 0.7%). Reduced SD on imported woven and knit fabric will not affect the domestic fabric manufacturers. A praiseworthy move to reduce duties on electrical and electronic accessories will contribute positively to improve workplace safety.

FOOD AND ALLIED

- The price slab of Cigarette has been proposed to be revised in the following manner:

Price Slab (in BDT)	Existing Price Slab*	Proposed Price Slab*
Lowest	15.0-16.5	19.0
Low	32.5-35.0	20.0-39.0
Medium	50.0-54.0	40.0-69.0
High	90 and above	70 and above

**For 10 Sticks*
Source: Ministry of Finance

- The Government has proposed to increase the SD rate on lowest and High Segment of Cigarettes from 43% to 48% and from 61% to 63% respectively. SD rate on Low to Medium Segments of Cigarettes has been kept unchanged.
- Proposal has been made to increase price of 25 sticks of non-filter and 20 sticks of filter Bidi to BDT 7.06 and BDT 7.98 respectively from existing BDT 6.14 and BDT 6.92.
- 20% VAT has been proposed on locally produced Bidi paper.
- 5% increased SD rate has been proposed on frozen fish items.
- SD rate on Glucose and glucose syrup, sugar confectionary, Sweet Biscuits, Waffles and Wafers and toasted products has been proposed to be reduced by 10%-15%.
- VAT on cracker, digestive and chocolate biscuits has been raised to BDT 120 from BDT 100 each kilogram. For cream biscuits, VAT has been hiked 25% to BDT 100 while for general biscuits it has been hiked 30% to BDT 85.

The revised value slab for Cigarettes is expected to increase consumption of the lower segments of cigarettes while that of higher segment Cigarettes is expected to decline. In the absence of strict monitoring, widened price slab might lead towards unhealthy competition in the market.

Companies such as: GHAIL, OLYMPIC, RDFOOD and FUWANGFOOD are expected to be benefitted from the reduced SD on sugar confectionary. However, proposed duty cut on biscuits is expected to tighten the competition between local and foreign biscuit manufacturers especially in the premium segment. The prices of locally made biscuits may rise by 5% after hike in VAT.

LEATHER

- SD for prepared water pigments, polishes, creams and similar preparations for footwear or leather has been proposed to be increased from 15% to 20%.

Slow progress of the Tannery Industrial Estate relocation (16.2% till March 2015) raises doubt about full implementation within the revised deadline i.e. March, 2016. Proposed increase of SD on selected inputs of leather and footwear products is likely to increase production cost of this particular sector.