Public Finance

9.1 The budget for FY13 was formulated under the assumptions contained in the Medium Term Macroeconomic Framework (MTMF). The building blocks of this framework were- continuity in pursuing monetary and fiscal policy strategies and ensuring macroeconomic stability. It was assumed that in 2013 the world economy would recover from the economic recession that re-emerged specially in Europe in 2012. Assuming private sector investment growth, the GDP growth target for FY13 was set at 7.2 percent. The inflation rate was expected to fall to 7.5 percent in the end of FY13 and 5.1 percent in the medium term. The total expenditure in the revised FY13 budget fell short of the initial projection, while the total revenue remained the same. The budget deficit (excluding grants) as percentage of GDP was 4.8 percent, which was lower than the target of 5.0 percent (Table 9.1).

The revenue collection in the revised FY13 budget increased by 21.8 percent over the actual FY12 revenue. The current expenditure in the revised FY13 budget was higher than the actual FY12 current expenditure by 15.2 percent. On the other hand, although the Annual Development Programme (ADP) of Taka 523.7 billion in the revised FY13 budget turned out 39.6 percent higher than the actual FY12 ADP, it fell short of the target by 4.8 percent. The actual utilisation of ADP during FY13 was 96.0 percent of the revised allocation. The fiscal deficit (excluding grants) of 4.8 percent of GDP in the revised FY13 budget was higher than the actual FY12 fiscal deficit by 0.7 percentage points (Table 9.1).

Table 9.1 Bangladesh Government revenue and expenditure

(billion Taka)

	FY12#	FY12 as % of GDP*	FY13*	FY13 as % of GDP*	FY14**	FY14 as % of GDP**
Total revenue	**1146.9**	**12.5**	**1396.7**	**13.5**	**1674.6**	**14.1**
a) tax	952.3	10.4	1168.2	11.3	1412.2	11.9
b) non-tax	194.6	2.1	228.5	2.2	262.4	2.2
Total expenditure	**1524.3**	**16.6**	**1893.3**	**18.3**	**2224.9**	**18.7**
a) current	893.0	9.8	1028.9	9.9	1134.7	9.5
b) ADP	375.1	4.1	523.7	5.0	658.7	5.5
c) others	256.2	2.7	340.7	3.4	431.5	3.7
Budget deficit	**377.4**	**4.1**	**496.6**	**4.8**	**550.3**	**4.6**

Source : Budget in Brief 2013-14, Ministry of Finance
Actual, * Revised budget, ** Budget estimate

FY13 Budget and Fiscal Outcome

A. Revenue Receipts

9.2 The revised total revenue receipts in FY13 was Taka 1396.7 billion, which was equal to the target. It was higher than the actual FY12 total revenue receipts by 21.8 percent. The tax revenue which constitutes 83.6 percent of the total revenue receipts increased by 22.7 percent compared to 19.7 percent growth in FY12 (Table 9.1).

The non-tax revenue displayed lower growth rate of 17.4 percent in the FY13 compared to

44.8 percent increase in the preceding fiscal year. The total revenue receipts as percentage of GDP rose to 13.5 percent in FY13 compared to 12.5 percent in FY12. The total tax revenue receipts as percentage of GDP increased to 11.3 percent in FY13 compared to 10.4 percent in the preceding fiscal year. Similarly, the total non-tax revenue receipts as percentage of GDP increased to 2.2 percent in the FY13 compared to 2.1 percent in the FY12. The major revenue measures in FY13 budget included :

- The tax exempted income limit for individual taxpayers was raised to Taka 200,000 from Taka 180,000. The limit for female taxpayers and aged taxpayers (65 years of age and above) was increased to Taka 225,000 from Taka 200,000. The limit for physically challenged individuals was raised to Taka 275,000 from Taka 250,000.
- Minimum tax payable by an individual taxpayer was raised to Taka 3,000 from Taka 2,000.
- Income tax rate of merchant banks was reduced to 37.5 percent from 42.5 percent.
- A company transferring 20 percent of its paid up capital through Initial Public Offering (IPO) to capital market would enjoy a 10 percent tax rebate on its payable tax in the relevant year.
- Payments, other than payments for purchasing raw materials, over Taka 50,000 have to be made through the banking channels. Payments over Taka 50,000 in a single transaction would not be considered as an expense, if not transacted through the banking channels.

Chart 9.1

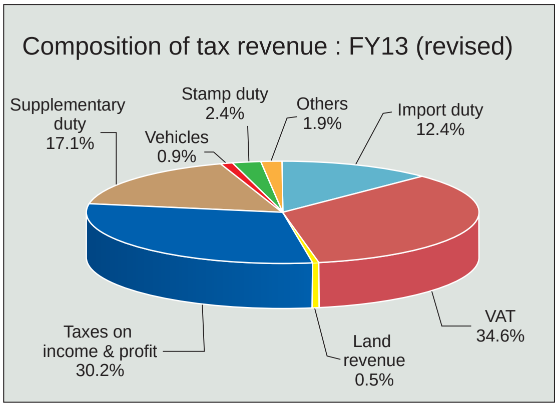
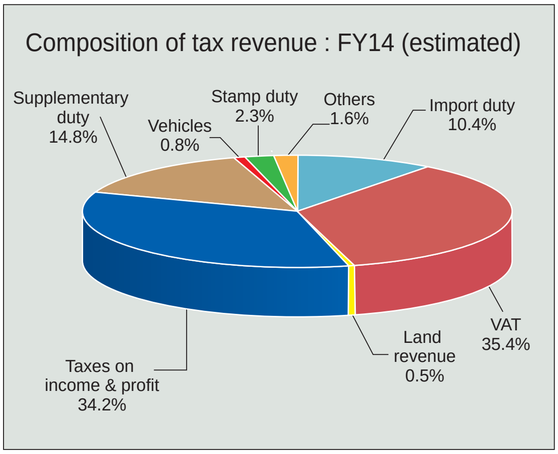


Chart 9.2



- Tax would be deducted at source at the rate of 15 percent instead of 10 percent at the time of paying interest in case of taxpayer did not have any Tax Identification Number (TIN). However, depositors having less than Taka 100,000 in their savings accounts needed not hold a TIN.
- Any loans received by a company from any other companies or individuals other than through the banking channels would not be approved.
- Fifty percent exemption of tax on the income derived from production of maize

and sugar beet was introduced. Considering their location, industries producing cholesterol free rice bran oil from husk of paddy would enjoy tax holiday of 5 years and 7 years.

- Uniform tax holiday facilities were extended to all industries established both in the private and public Export Processing Zones (EPZs).
- Construction of cinema halls and cineplex would enjoy 5 years and 7 years of tax holiday considering the location of establishments. The prevailing 35 percent supplementary duty was withdrawn and 15 percent VAT was retained for the film industry.
- Tax exemption was offered for donations to the fund created under the Prime Minister's Education Assistances Trust Fund Act, 2011. Company assessee might donate a maximum amount of Taka 80,000,000 or 20 percent of its income, whichever was less. Individual assessee might donate a maximum amount of Taka 10,000,000 or 20 percent whichever was less.
- A uniform rate of tax of 0.8 percent deductible at source on all kinds of export was introduced in place of the existing rates of 0.6 percent and 0.7 percent.
- Tax would be deducted at source at the rate of 5 percent and 3 percent considering the location of property at the time of selling land by any land developer companies.
- The zero rate of import duty on food, fertiliser, seeds, cotton and medicine remained unchanged.

Table 9.2 Composition of revenue receipts

(billion Taka)

	FY12#	FY13*	FY14**
Tax revenue	**952.3**	**1168.2**	**1412.2**
Value Added Tax (VAT)	339.2	404.6	499.6
Import duty	119.8	145.3	146.3
Export duty	0.7	0.4	0.4
Supplementary duty	163.4	199.7	208.5
Taxes on income and profit	281.6	353.0	483.0
Stamp duty (non judicial)	24.0	28.2	32.6
Excise duty	6.6	10.0	13.1
Land revenue	4.9	5.7	6.4
Taxes on vehicles	6.8	11.0	11.6
Narcotics and liquor duty	0.6	0.7	0.7
Other taxes and duties	4.7	9.6	10.0
Non-tax revenue	**194.6**	**228.5**	**262.4**
Administrative fees and charges	31.1	40.0	43.7
Dividend and profit	25.3	39.3	46.9
Interest	4.6	8.8	10.9
Capital revenue	0.9	0.5	0.6
Receipts for services rendered	9.7	9.9	8.3
Non-commercial sales	3.7	3.8	3.8
Rents, leases and recoveries	1.3	1.5	1.6
Defence receipts	24.4	25.4	25.2
Tolls and levies	3.2	4.3	4.8
Fines, penalties and forfeiture	3.9	4.8	4.3
Railway	6.2	10.7	10.0
Post offices	2.4	2.5	2.6
Other non-tax revenue and receipts	77.9	77.0	99.7
Total :	**1146.9**	**1396.7**	**1674.6**

Source : Budget in Brief 2013-14, Ministry of Finance.
Actual, * revised budget, ** budget estimate

- The 5 percent regulatory duty on commodities having the highest customs duty (25 percent) remained unchanged.
- One more slab of 150 percent supplementary duty was added to the existing slabs.
- Import and other duties were substantially reduced from some item of public transport, information technology, medicine, ceramics and ship building industry. Import duty and VAT on edible sunflower oil were reduced. In addition, supplementary duty on nutritional

supplement for pregnant women and lactating mothers was substantially reduced.

- Zero percent duty was introduced instead of the preceding 1 percent in case of importing equipments to install Effluent Treatment Plants (ETP) for the export oriented industries.
- Full exemption of turnover tax was offered to Small and Medium Enterprises (SMEs) having maximum annual turnover of Taka 700,000.
- A 2 percent turnover tax was offered to SMEs having annual turnover of over Taka 700,000 to Taka 2,400,000.
- The 3 percent turnover tax remained unchanged for SMEs having annual turnover of over Taka 2,400,000 to Taka 6,000,000.
- Producers and traders of products like logenze, biscuit, chanachur, shoes and sandals, coconut oil, laundry soap, jam, jelly, PVC pipe, beauty parlour having maximum turnover of taka 6,000,000 would enjoy the same turnover tax facility as mentioned above instead of paying the preceding 15 percent VAT.

9.3 In the revised FY13 budget, direct taxes on income and profit increased at the rate of 25.4 percent to Taka 353.0 billion leaving its share in the total tax revenue to 30.2 percent from 29.6 percent in FY12. Receipts from other taxes and duties, taxes on vehicle, excise duty, supplementary duty, import duty, Value Added Tax (VAT), stamp duty (non judicial), narcotics and liquor duty and land revenue rose by 104.3, 61.8, 51.5, 22.2, 21.3, 19.3, 17.5, 16.7 and 16.3 percent respectively compared to that of the actual FY12 budget. On the other hand, export duty declined by 42.9 percent (Table 9.2).

Table 9.3 Composition of revenue expenditure

(billion Taka)

	FY12#	FY13*	FY14**
Social sector	272.9	296.2	325.0
Public services	72.5	79.5	132.2
Interest on domestic debt	188.0	216.0	260.0
Defence	89.0	98.4	103.6
Public order and safety	77.0	83.5	88.9
Interest on foreign debt	15.5	17.4	17.4
Agriculture sector	112.4	159.9	128.6
Transport and communication	34.4	40.1	44.3
Local government and rural development	19.0	23.7	22.0
Housing	7.8	8.1	8.5
Others	4.5	6.1	4.2
Total :	**893.0**	**1028.9**	**1134.7**

Source : Budget in Brief 2013-14, Ministry of Finance.
\# Actual, * revised budget, ** budget estimate

9.4 Under the non-tax revenue head, receipts from interest, railway, dividend and profit and tolls and levies sharply increased by 91.3, 72.6 55.3 and 34.4 percent respectively compared to that of the actual FY12 budget. Other sub-sectors showing increases included administrative fees and charges 28.6 percent, fines, penalties and forfeiture 23.1 percent, rents, leases and recoveries 15.4 percent, post offices 4.2 percent, defence receipts 4.1 percent, non-commercial sales 2.7 percent and receipts from service rendered 2.1 percent. On the contrary, receipts from capital revenue and other non tax revenue and receipts fell by 44.4 and 1.2 percent respectively.

B. Expenditure

9.5 The total public expenditure in the revised FY13 budget amounted to Taka

1893.3 billion. This was 1.3 percent lower than the initial projection of Taka 1917.4 billion and 24.2 percent higher than the actual FY12 expenditure of Taka 1524.3 billion. The revised current expenditure of Taka 1028.9 billion in the FY13 was 3.4 percent higher than the initial projection of Taka 995.0 billion (Table 9.1).

9.6 The revised current expenditure in FY13 surpassed initial allocations for most of the accounts, namely social sector, interest on foreign debt, defence, public order and safety, agriculture sector, transport and communication, local government and rural development and housing (Table 9.3). The proposed non-development current expenditure in FY13 had the following revisions:

- An additional amount of Taka 25.0 billion was allocated for agriculture subsidy.
- An additional amount of Taka 0.5 billion as compared to the original budget was allocated for interest payment.
- An additional amount of Taka 11.4 billion was allocated for pensions and gratuities.
- An additional amount of Taka 8.1 billion as compared to the original budget was allocated for goods and services.

9.7 The Annual Development Programme in FY13 was revised downward by about 4.8 percent from Taka 550.0 billion to Taka 523.7 billion. Consistent with the growth and poverty reduction objectives, 33.5 percent of the total outlay was spent for the infrastructure sector (power, oil, gas & natural resources, transport, and communication), and 18.7 percent for the social sector (education & religious affairs, and health, nutrition, population & family welfare) (Table 9.5).

Table 9.4 Composition of social sector revenue expenditure

(billion Taka)

	FY12#	FY13*	FY14**
Education & technology	143.2	145.8	165.0
Health	48.8	53.6	57.0
Recreation, culture and religious affairs	10.2	11.5	11.0
Labour and employment	0.6	0.5	0.4
Social security and welfare	70.1	84.8	91.6
Total :	**272.9**	**296.2**	**325.0**

Source : Budget in Brief 2013-14, Ministry of Finance.
Actual, * revised budget, ** budget estimate

Table 9.5 Sectoral shares in ADP expenditure

(percent)

	FY12*	FY13*	FY14**
Agriculture	6.2	5.1	5.0
Rural development & institutions	12.3	11.8	9.0
Water resources	3.5	2.8	2.3
Industries	2.4	3.4	3.1
Power	17.6	15.0	12.2
Oil, gas & natural resources	1.8	2.4	3.1
Transport	15.2	14.5	20.8
Communication	2.1	1.6	1.2
Physical planning, water supply & housing	10.2	8.6	7.4
Education & religious affairs	11.8	11.6	11.9
Health, nutrition, population & family welfare	8.2	7.1	5.7
Others	8.7	16.1	18.3
Total :	**100.0**	**100.0**	**100.0**

Source : Annual Development Programme 2012-13 and 2013-14, Ministry of Planning.
* Revised, ** estimate

C. Financing FY13 Budget Deficit

9.8 The deficit (excluding grants) in the revised FY13 budget stood at Taka 496.6 billion (4.8 percent of the GDP). This ratio was lower than what was initially projected. The domestic borrowing component of the deficit financing in FY13 was Taka 324.7 billion (3.1 percent of the GDP). Of this component, Taka

285.0 billion (2.7 percent of the GDP) was bank borrowing and Taka 39.7 billion (0.4 percent of the GDP) was non-bank borrowing, mainly National Savings Schemes (Chart 9.3). The foreign financing component of the budget deficit (including grants) was Taka 171.8 billion (1.7 percent of the GDP).

FY14 Budget

9.9 The FY budget was proposed on 6 June 2013 and was passed by National Parlament on 30 June 2013. The budget for FY14 has been formulated under the assumptions contained in the Medium Term Macroeconomic Framework (MTMF). The building blocks of this framework are continuity in pursuing monetary and fiscal policy strategies and ensuring macroeconomic stability. It is presumed that the global growth will recover in 2013 and afterwards. As a result, the country's trade, investment and manpower export will gain further momentum. Assuming private sector investment growth, the GDP growth target for FY14 has been set at 7.2 percent.

The total size of the FY14 budget stands at Taka 2224.9 billion, which is 18.7 percent of the GDP and 17.5 percent higher than the revised FY13 budget. The estimated non-development and development outlays are Taka 1344.5 billion and Taka 722.8 billion respectively. The budget provides Taka 19.3 billion from revenue budget for development programmes, Taka 30.1 billion for non-ADP project, and Taka 14.6 billion for non-ADP Food-for-Work and transfer. The total outlay can be classified into three broad categories such as social infrastructure, physical

Chart 9.3

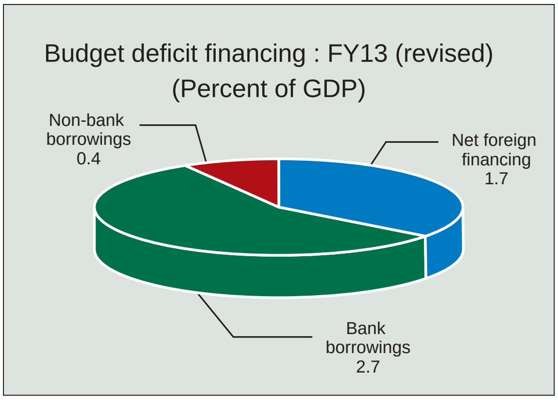
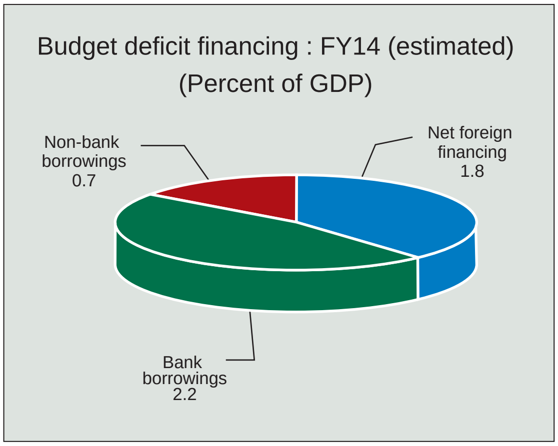


Chart 9.4



infrastructure and general services. In the budget, about 23.2 percent of the total outlay has been allocated for social infrastructure, of which 19.6 percent has been allocated for human resources sector (education, health, science and technology and other related sectors). About 30.2 percent of the total outlay has been allocated for physical infrastructure, of which 14.5 percent goes to wider agriculture and rural development, 8.7 percent to overall communication sector and 5.1 percent to power and energy. About 22.5 percent of the total outlay has been allocated for general service sector. An allocation of 3.2

percent of the total outlay has been made for PPP projects, financial assistance to different industries, subsidies and equity investment in state-owned commercial and financial institutions. Apart from these three major categories, 12.5 percent of the total outlay has been allocated for interest payment and the rest 8.4 percent has been allocated for net lending and other expenditures. Like the preceding FY's ADP, the large size of the ADP has been designed keeping in mind the commitment to regional parity, improved infrastructure and quality of expenditure.

The total developmental expenditure for FY14 stands at Taka 722.8 billion, which is 6.1 percent of the GDP. This developmental expenditure turns out 25.1 percent higher than that of the revised budget of the previous fiscal year.

A. Revenue Receipts

9.10 The revenue receipts in FY14 has been targeted to grow by 19.9 percent to Taka 1674.6 billion compared to that of the previous year's revised budget. The tax and non-tax revenue receipts are expected to rise by 20.9 percent and 14.8 percent respectively, against increases of 22.7 percent and 17.4 percent respectively in the revised FY13 budget. It leaves the projected total revenue-GDP ratio at 14.1 percent in the FY14 compared to 13.5 percent in the FY13 (Table 9.1). A higher 36.8 percent increase in receipts from the direct taxes on income and profits has been projected against 14.0 percent growth projected for indirect taxes (VAT, import duty, supplementary duty, and export duty (Table 9.2).

Among non-tax revenue sources, other non-tax revenue and receipts has been projected to increase by 29.4 percent compared to 1.2 percent decrease in the preceding fiscal year. Receipts from interest, capital revenue, dividend and profit, tolls and levies, administrative fees and charges, rents, leases and recoveries and post offices are expected to rise by 23.9, 20.0, 19.3, 11.6, 9.3, 6.7 and 4.0 percent respectively in the FY14. The targeted receipts from services rendered, fines, penalties and forfeitures, railway and defence have been set lower than that of previous fiscal year by 16.2, 10.4, 6.5, and 0.8 percent respectively. Receipts from non-commercial sales is expected to remain the same at Taka 3.8 billion (Table 9.2).

B. Expenditure

9.11 The total public expenditure in FY14 is expected to increase by 17.5 percent to Taka 2224.9 billion over the revised figure of FY13. The current expenditure is expected to grow by 10.3 percent, the ADP by 25.8 percent and the other expenditure by 26.7 percent over the revised FY13 budget. The ratio of total expenditure to GDP is predicted to increase to 18.7 percent in the FY14 from 18.3 percent in the revised FY13 budget (Table 9.1).

9.12 The projected current expenditure for FY14 budget stands at Taka 1134.7 billion (Table 9.1 & 9.3). More than one fourth of the total current expenditure has been allocated for the social sector, in which the major shares go to the education and technology, health, social security and welfare programmes promoting human resources development and widening social safety net (Table 9.4).

A total of Taka 174.7 billion (development and non-development) has been allocated for the agriculture sector, which is 11.9 percent lower than that of the revised budget of the preceding fiscal year. Taka 90.0 billion has been allocated as subsidy for this sector.

Human resources development is an integral part of the overall development efforts. Taka 436.2 billion (development and non-development) has been allocated for the human resources development sector. This is 19.6 percent of the total development and non-development budget.

A total of Taka 182.3 billion has been allocated for the road communication and railway sector including a special allocation of Taka 68.5 billion for the Padma Multipurpose Bridge.

The beneficiary coverage of old age allowance has been expanded by 10 percent. The number of beneficiaries for maternity allowance has been raised by 15 percent.

The number of widows, divorcees and distressed women receiving monthly allowance of Taka 300 has been raised by 10 percent.

9.13 The Annual Development Programme (ADP) for FY14 has been projected at Taka 658.7 billion, exceeding the revised ADP of Taka 523.7 billion in FY13 by 25.8 percent. About 37.3 percent of the total ADP has been allocated for infrastructure sector. On the other hand, social sector would receive 17.6 percent of the total ADP (Table 9.5).

C. Deficit in FY14 Budget and its Financing

9.14 The FY14 budget deficit (excluding grants), estimated at Taka 550.3 billion, is higher by Taka 53.7 billion than that of the revised FY13 budget. The projected budget deficit-GDP ratio for the FY14 is 4.6 percent, turns out lower than 4.8 percent of FY13. The deficit is expected to be financed with domestic bank and non-bank borrowing to the extent of Taka 339.6 billion (2.9 percent of the GDP), against Taka 324.7 billion (3.1 percent of the GDP) in the revised FY13 budget, and with external financing to the tune of Taka 210.7 billion (1.8 percent of the GDP) in the FY14, against Taka 171.8 billion (1.7 percent of the GDP) in FY13 (Charts 9.3 and 9.4). In the domestic borrowing of Taka 339.6 billion, borrowing from the banking system is projected to be Taka 259.9 billion.

9.15 During the preparation of the budget, a number of pre-budget discussion sessions with the members of the parliamentary standing committees of different ministries, renowned economists, professionals, trade bodies, NGO leaders, media people and secretaries of all the ministries and divisions were held. The Finance Minister had a meeting on budget matters with the peasants in the Munshiganj district.