

Public Finance

10.1 The fiscal strategy of Bangladesh for FY18 was centered on befitting the policy tools for a middle income country by managing the aggregate demand in the short term and bolster production capacity in the long term. While growth stimulating all large development projects have been brought under “First Track” monitoring and implementation process and strengthened the capacity of domestic resources mobilization in the medium term. At the same time, budget deficit has been kept at a reasonable as well as tolerable level at 5.0 percent of GDP in order to ensure greater macroeconomic stability.

FY18 Budget and Fiscal Outcome

10.2 In order to build an ideal tax system in the country, government has undertaken extensive reforms in tax policy and tax administration and will expect that the target of at least 50 percent of total tax revenue to be collected from direct tax by the next decade.

10.3 In the revised budget for FY18 total revenue receipts targeted BDT 2594.5 billion, which was 9.9 percent lower than initial target. It was 28.9 percent higher than the actual revenue receipts in FY17. The tax revenue constituted 89.5 percent of the total revenue receipts, which was 30.4 percent higher compared to the actual tax collected in FY17. The non-tax revenue of FY18 was 17.8 percent higher than that of FY17.

10.4 In the revised budget for FY18, total revenue receipts as percentage of GDP targeted 11.5 percent which was 10.2 percent in FY17. Total tax revenue receipts as percentage of GDP was 10.3 percent in FY18 which was 9.0 percent in the preceding fiscal year. Similarly,

Table 10.1 Government Revenue and Expenditure

Items	(In billion BDT)					
	FY17 [#]	FY17 as % of GDP [#]	FY18* as % of GDP*	FY18 as % of GDP*	FY19 [®]	FY19 as % of GDP [®]
1. Total revenue	2012.1	10.2	2594.5	11.5	3392.8	13.4
a. Tax	1780.8	9.0	2322.0	10.3	3059.3	12.1
b. Non-tax	231.4	1.2	272.5	1.2	333.5	1.3
2. Total expenditure	2695.0	13.6	3715.0	16.5	4645.7	18.3
a. Operating	1758.5	8.9	2105.8	9.4	2824.2	11.1
b. ADP	840.9	4.3	1483.8	6.6	1730.0	6.8
c. Others	95.6	0.5	125.4	0.6	91.6	0.4
3. Budget deficit	682.9	3.5	1120.4	5.0	1252.9	4.9

[#] Actual, ^{*} Revised Budget, [®] Proposed Budget
Source : Budget in Brief, 2018-19, Ministry of Finance
Bangladesh Bureau of Statistics, BBS.

total non-tax revenue as percentage of GDP targeted 1.2 percent in FY18 which was same in FY17 (Table 10.1).

Expenditure

10.5 The total expenditure in the revised budget for FY18 amounted to BDT 3715.0 billion (16.5 percent of GDP) which was 37.8 percent higher than the actual expenditure in FY17. The operating expenditure in the revised budget for FY18 targeted BDT 2105.8 billion (9.4 percent of GDP) which was 19.7 percent higher than the actual operating expenditure of BDT 1758.5 billion in FY17 (Table-10.1).

10.6 In the revised budget for FY18, direct taxes on income and profit increased by 48.3 percent to BDT 777.4 billion from BDT 524.3 billion in FY17. Receipts from export duty, land revenue, value added tax (VAT), import duty, narcotics and liquor duty, other taxes and duties, supplementary duty, stamp duty (non judicial) and taxes on vehicle increased by 81.8, 43.0, 29.7, 27.8, 25.0, 11.5, 10.4, 6.8 and 5.3 percent respectively in FY18 compared to those of FY17. However, excise duty decreased by 7.1 percent in the revised budget for FY18

compared to that of FY17 (Table 10.2).

10.7 Under the non-tax revenue head, rents and leases, administrative fees and charges, receipts for service rendered, tolls and fines, penalties and forfeiture increased by 90.2, 42.3, 32.6, 11.2 and 4.9 percent respectively in FY18 compared to those of FY17. On the contrary, capital revenue, interest and dividend and profit declined by 79.7, 12.4 and 8.1 percent respectively over the same period (Table-10.2). Composition of tax revenue for FY18 and FY19 are depicted in Chart-10.1 and Chart-10.2 respectively.

10.8 The Annual Development Programme (ADP) in the revised budget for FY18 amounted to BDT 1483.8 billion (6.6 percent of GDP) which was 76.4 percent higher than the actual ADP in FY17 (Table 10.1). In the revised budget for FY18, nearly, 41.9 percent of the total ADP was spent on the infrastructure sector (power, oil, gas and natural resources, transport and communication), 16.0 percent on the social sector (education and religious affairs and health, nutrition, population and family welfare), and 3.6 percent on agriculture sector (Table 10.3).

Budget Deficit and its Financing in FY18

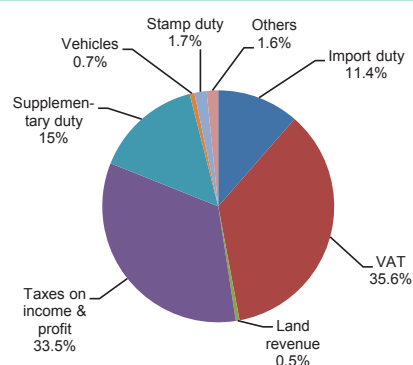
10.9 Total deficit (excluding grants) in the revised budget for FY18 stood at BDT 1120.4 billion (5.0 percent of the GDP) (Table 10.1). The domestic borrowing component of the deficit financing was BDT 660.2 billion (2.9 percent of the GDP) in FY18. Of this component, BDT 199.2 billion (0.89 percent of the GDP) was bank borrowing and BDT 461.0 billion (2.05 percent of the GDP) was non-bank borrowing mainly borrowing through net sales of national savings schemes (Chart 10.3). The foreign financing component (excluding grants)

Table 10.2 Composition of Revenue Receipts
(in billion BDT)

Items	FY17 [#]	FY18 [*]	FY19 [@]
1. Tax revenue	1780.8	2322.0	3059.3
A. NBR Tax revenue	1716.4	2250.0	2962.0
i) Taxes on income and profit	524.3	777.4	1007.2
ii) Import duty	207.6	265.4	325.5
iii) Export duty	0.2	0.4	0.4
iv) Supplementary duty	314.9	347.7	487.7
v) Value Added Tax (VAT)	637.6	827.1	1105.6
vi) Excise duty	17.9	16.6	20.9
vii) Other taxes and duties	13.8	15.4	14.8
B. Non NBR Tax revenue	64.4	72.0	97.3
i) Narcotics and liquor duty	0.7	0.9	1.0
ii) Taxes on vehicles	14.7	15.5	14.3
iii) Land revenue	8.5	12.2	14.0
iv) Stamp duty (non judicial)	36.9	39.4	63.0
v) Surcharge	3.5	4.0	4.9
2. Non-tax revenue	231.4	272.5	333.5
i) Administrative fees and charges	24.0	34.1	38.9
ii) Dividend and profit	32.3	29.7	34.0
iii) Interest	22.1	19.4	54.6
iv) Capital revenue	2.5	0.5	2.4
v) Receipts for services rendered	38.4	50.9	66.6
vi) Tolls	5.5	6.1	6.6
vii) Fines, penalties and forfeiture	6.1	6.4	6.0
viii) Non commercial sales	13.1	25.2	23.3
ix) Rents and leases	3.7	7.0	6.3
x) Other non-tax revenue and receipts	83.7	93.2	94.8
Total	2012.1	2594.5	3392.8

[#] Actual, ^{*} Revised Budget, [@] Proposed Budget.
Source : Budget in Brief, 2018-19, Ministry of Finance

Chart 10.1 Composition of Tax Revenue*-FY18



^{*} Revised Budget
Source: Budget in Brief 2018-19, Ministry of Finance.

of the budget deficit was BDT 415.7 billion (1.85 percent of the GDP) (Table 10.4).

Major Revenue Measures in FY18 Budget

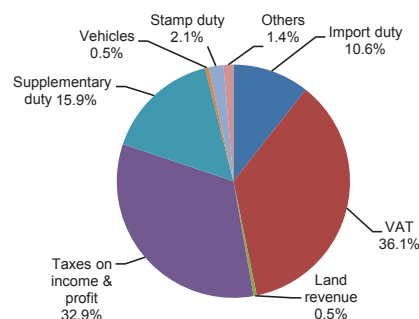
Direct Tax

10.10 Direct taxes on income and profit are considered as the principal source of Government revenue. It accounted for 33.5 percent share of the total tax revenue in the revised budget for FY18 compared with 29.4 percent in FY17. The marginal changes on direct taxes in the national budget for FY18 included:

Taxes on Individual Income

- Tax exempted income limit for individual taxpayer remained unchanged at BDT 2,50,000.
- Tax exemption threshold for women and senior citizens aged 65 years or above remained unchanged at BDT 3,00,000.
- Tax exempted income limit for physically challenged individual has increased to BDT 4,00,000.
- Tax exempted income limit for war wounded gazetted freedom fighters remained unchanged at BDT 4,25,000.
- Tax exempted threshold for the parents or legal guardians of a person with disability shall be higher by BDT 25,000.
- Tax rate for income of non-resident and income of Co-operative Society remained unchanged at 30 percent and 15 percent respectively.
- Existing minimum tax for a taxpayer who have income exceeding tax exemption threshold, except company taxpayer, BDT 5,000 for the residents of Dhaka North City Corporation, Dhaka South City Corporation and Chittagong City Corporation, BDT 4,000 for the residents

Chart 10.2 Composition of Tax Revenue*-FY19



* Proposed Budget

Source: Budget in Brief 2018-19, Ministry of Finance.

Table 10.3 Sectoral Shares in ADP Expenditure
(In Percent)

Sectors	FY17*	FY18*	FY19®
Agriculture	5.2	3.6	4.1
Transport	24.7	25.3	26.3
Education & religious	11.6	9.6	9.6
Physical planning, water supply & housing	13.0	10.2	10.3
Power	12.2	15.1	13.3
Rural development & institutions	9.7	11.3	9.7
Health, nutrition, population & family welfare	5.1	6.5	6.9
Water resources	3.0	2.8	2.7
Industries	0.9	1.1	1.2
Oil, gas & natural resources	1.0	0.9	1.1
Communication	1.7	0.6	1.5
Others	11.9	13.2	13.5
Total	100	100	100

Actual, *Revised Budget, ®Proposed Budget

Source : Annual Development Programme, 2017-2018 and 2018-2019, Ministry of Planning

Table 10.4 Composition of Budget Financing

Items	FY17*	FY18*	FY19®
Domestic Financing	559.9	660.2	712.3
Bank borrowing	-83.8	199.2	420.3
Non-bank borrowing	643.6	461.0	292.0
Foreign financing (net)	116.0	415.7	500.2
Budget Deficit (including grants)	675.9	1075.8	1212.4
Budget Deficit (excluding grants)	682.9	1120.4	1252.9
GDP (Memorandum Item)	19758.2	22504.8	25378.5

*Actual, *Revised Budget, ®Proposed Budget

Source : Budget in Brief, 2018-19, Ministry of Finance. Bangladesh Bureau of Statistics, BBS.

of any other city corporation and BDT 3,000 for the residents of any other area is kept unchanged.

Taxes on Corporate Income

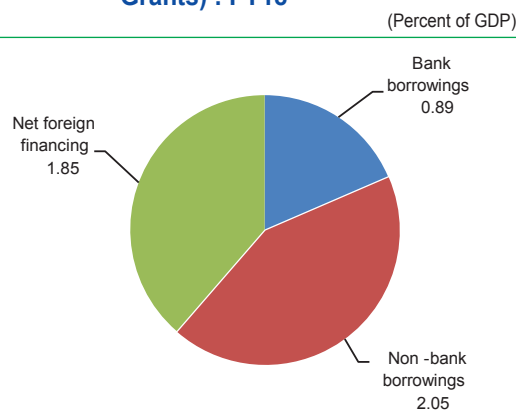
The existing corporate tax rate is low in various sub-regional and regional comparisons

- Tax rates for publicly traded company and publicly traded bank, insurance and financial institutions remained unchanged at 25.0 percent and 40.0 percent respectively.
- Tax rates for non-publicly traded company and non-publicly traded bank, insurance and financial institutions remained unchanged at 35.0 percent and 42.5 percent respectively.
- Tax rate for merchant banks remained unchanged at existing 37.5 percent.
- Tax rate for cigarette, bidi, zarda, chewing tobacco or any other tobacco manufacturer remained unchanged at existing 45 percent.
- Tax rate for publicly traded and non-publicly traded mobile phone operators remained unchanged at 40 percent and 45 percent respectively.
- Tax on dividend income also remained unchanged at 20 percent.
- Tax rate on RMG export is reduced from 20 percent to 15 percent and for a RMG company having internationally recognized green building certificate is reduced to 14 percent.

Value Added Tax (VAT)

10.11 VAT is the main component of indirect taxes in Bangladesh. Contribution of VAT in the Government exchequer has increased in this fiscal year due to government has taken several reform initiatives in the tax administration and positive mindset of the taxpayers. VAT representing 35.6 percent of total tax revenue

Chart 10.3 Deficit Financing* (including Grants) : FY18



* Revised Budget
Source: Budget in Brief, 2018-19, Ministry of Finance.

increased by 29.7 percent to BDT 827.1 billion in FY18 compared to BDT 637.6 billion in FY17. The marginal changes on VAT in the budget for FY18 included:

VAT Exemptions

- In order to promote the growth of the domestic heavy industry, the existing VAT exemption facility to the local manufacturers of refrigerator and freezer has been extended up to 30 June 2019 as an incentive to the industry.
- The existing VAT exemption facility to the local manufacturers of air conditioner has been extended up to 30 June 2019 for encouraging the development of this industry.
- With a view to keeping the price of the edible oil stable and within the buying capacity of the consumers, the existing VAT exemption facility to palm oil and soya bean oil at the production and retail level has been extended up to 30 June 2019.

- Considering the importance of the fuel and power sector for industrialization and keeping the price stable, the existing VAT exemption facility to the local manufacturers of LPG cylinder has been extended up to 30 June 2019.
- Supplementary duty rate has been increased to 25 percent from existing 20 percent on table/kitchenware made of stainless steel.

VAT Impositions and Expansions

- To discourage the consumption of tobacco, supplementary duty rate has been increased from existing 50 percent to 52 percent for every 10 sticks of local brand cigarette and the price of low segment of such brand has been fixed at BDT 27 instead of existing BDT 23.
- Supplementary duty rate has been increased to 55 percent for every 10 sticks of international brand cigarette and the price of low segment of such brand has been fixed at BDT 35.
- Customs duty has been increased to 25 percent from existing 10 percent as well as 100 percent supplementary duty has been imposed on Electronic Nicotine Delivery System (ENDS) and on its refill pack.
- Supplementary duty has been imposed by 10 percent at local supply on fast food in addition to applicable 15 percent VAT.
- Excise duty has been increased to BDT 2000 from existing BDT 1000 on airlines tickets for traveling to any Asian country (except SAARC countries) and to BDT 3000 from existing BDT 1500 for traveling to Europe, USA or any other country.
- Food supplement is now subject to 25 percent of supplementary duty.
- Expansion of the existing 1 percent customs duty rate on few extra raw materials and components of agricultural sector to facilitate local manufacturers of such parts.
- To discourage tobacco production and consumption, 25 percent export duty has been imposed on tobacco.
- To ensure safety for the workers in the industries, 5 percent duty exemption facility was given to the goods required to establish fire fighting system.
- Reduction of customs duty rates as capital machinery on busbar trunking system and electrical panel imported by the lather industries.
- Extension of the existing duty exemption benefit to various raw materials used for the production of medicines including that of cancer.

Custom Duties and Taxes

10.12 With a view to protect and expand domestic industry without harming it, to increase the capacity of international business, to avoid undervaluation and to quick assessment and clearance of imported goods revised budget for FY18 have been followed and internalized international “Best Practices”. For this purpose Customs-Business partnership have made stronger and effective. Import duty increased by 27.8 percent to BDT 265.4 billion in FY18 compared to BDT 207.6 billion in FY17. The proposed changes on custom duties and taxes in the national budget for FY18 include:

- Reduction of customs duty rate from existing 10 percent to 5 percent on talc and crude mica and mica rifted into sheets or splitting and from 15 percent to 10 percent on alumina liner used in the ceramics industry.
- Increase of customs duty rate from existing 5 percent to 10 percent on the importation of complete solar module/ panel and fixing zero rate on the importation of the photovoltaic cell used for manufacturing these solar module/ panel.
- To facilitate local industries, customs duty rate has been reduced to 5 percent from existing 10 percent on zinc, callot and arsenic and antimony which are widely used raw materials in battery manufacturing industry.
- Reduction of customs duty on the machinery and parts required to assemble or manufacture various ICT products like cellular phone, laptops and pads.
- Reduction of customs duty rates from 10 percent to 5 percent on the raw materials required to produce LPG cylinder.
- Reduction of customs duty and taxes on hybrid motor vehicles to reduce pollution and fuel cost.
- Reduction of Customs Duty from 25 percent to 5 percent on Pepper, Cinnamon, Cardamoms, Seeds of Cumin.

Proposed Budget for FY19

10.13 In the proposed budget for FY19, GDP growth rate set at 7.8 percent which is the

Table 10.5 Composition of Revenue Expenditure
(In billion BDT)

Sectors	FY17 [#]	FY18 [*]	FY19 [@]
Social sector	748.3	1054.4	1230.4
Public services	313.0	417.3	835.1
Interest on domestic debt	332.5	354.0	483.8
Defence	236.2	264.2	290.8
Public order and safety	196.9	239.8	265.9
Interest on foreign debt	18.4	25.2	29.6
Agriculture sector	168.9	210.3	262.6
Transport and communication	229.0	469.5	564.6
Local government and rural development	179.1	299.8	326.7
Housing	50.1	37.8	49.6
Others	222.6	342.5	306.5
Total	2695.0	3715.0	4645.7

[#]Actual, ^{*}Revised Budget, [@]Proposed Budget
Source : Budget in Brief, 2018-19, Ministry of Finance.

highest in the last four decades and inflation at 5.6 percent. Besides, proposed budget for FY19 incorporates various initiatives for achieving the sustainable development goals (SDG's) and necessary policy support to implement the 7th five year plan.

10.14 The total size of the budget for FY19 is set at BDT 4645.7 billion, which is 18.3 percent of the GDP and 25.1 percent higher than the revised budget for FY18. The total development expenditure target for FY19 stands at BDT 1730.0 billion, which is about 6.8 percent of GDP. This developmental expenditure turns out 16.6 percent higher than that of the revised budget of the previous fiscal year. In the ADP for FY19, about 16.5 percent of development outlay has been allocated to the human resource sector (education and health, nutrition, population and family welfare), 16.4 percent to overall agricultural sector (agriculture, rural development and institutions and water resources), 14.3 percent to power and energy sector, 26.3 percent to transport sector (roads, railway, bridges and others related to transport), 10.3 percent to physical sector planning, water supply and housing sector and 16.2 percent to other sectors (Table 10.5).

10.15 Different ministries and divisions have been categorized into three main groups based on their allocation of business. These are social infrastructure, physical infrastructure and general services. In the proposed budget for FY19, about 27.3 percent of total outlay has been allocated for social infrastructure, of which 24.4 percent is set for human resources sector (education, health, science and technology and other related sectors). About 31.0 percent of total outlay of ADP has been allocated for physical infrastructure, of which 12.7 percent goes to wider agriculture and rural development, 11.4 percent to overall communication sector and 5.4 percent to power and energy sector. About 25.3 percent of total outlay of ADP has been allocated for general service sector. An allocation of 4.8 percent of total outlay has been made for PPP projects, financial assistance for different industries, subsidies and equity investment in state-owned commercial and financial institutions.

10.16 Apart from these three major categories, 11.1 percent of total outlay has been allocated for interest repayment and the rest 0.5 percent has been allocated for net lending and other expenditures. Like the preceding fiscal years, ADP allocation has been estimated with a view to giving priority to ensure regional parity, developing human resources and infrastructure and securing quality of spending with achievement of results.

Revenue Receipts

10.17 The revenue receipts in FY19 is targeted to grow by 30.8 percent to BDT 3392.8 billion (13.4 percent of the GDP) compared to that of the revised budget for FY18. The tax and non-tax revenue receipts are expected to increase by 31.8 percent and 22.4 percent

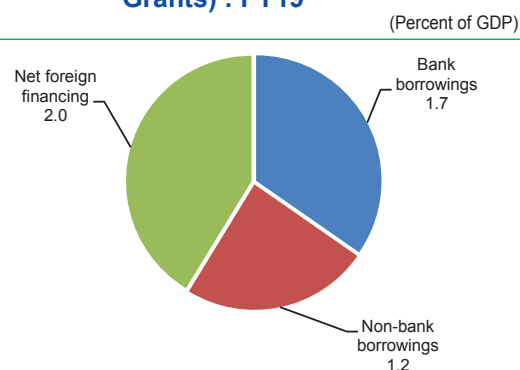
Table 10.6 Composition of Social Sector Revenue Expenditure

	(In billion BDT)		
	FY17*	FY18*	FY19 ^o
Education & technology	486.4	599.3	679.4
Health	66.2	200.1	233.8
Recreation, culture and religious affairs	32.4	34.1	43.4
Labour and employment	1.2	1.9	2.3
Social security and welfare	162.1	219.0	271.6
Total	748.3	1054.4	1230.4

*Actual, *Revised Budget, ^oProposed Budget

Source : Budget in Brief, 2018-19, Ministry of Finance.

Chart 10.4 Deficit Financing* (including Grants) : FY19



* Proposed Budget

Source: Budget in Brief 2018-19, Ministry of Finance.

respectively compared to the revised budget for FY18. Total revenue-GDP ratio is projected to increase to 13.4 percent in the FY19 compared to 11.5 percent in FY18 (Table 10.1). Receipts from the direct taxes on income and profits is projected to increase by 29.6 percent in FY19 compared to the revised budget for FY18 while 33.2 percent growth is projected for indirect taxes (VAT, import duty, supplementary duty, and export duty). Among non-tax revenue sources, dividend and profit has been projected to increase by 14.6 percent in FY19 compared to the revised budget for FY18 (Table 10.2).

10.18 Receipts from other non-tax revenue and receipts such as interest; receipts from

service rendered; administrative fees and charges and tolls and levies are expected to rise by 182.1, 30.6, 14.1 and 8.4 percent respectively in FY19. On the other hand, receipts from rent and leases; non commercial sales and fine, penalties and forfeiture are expected to decline by 9.7, 7.6 and 6.7 percent respectively in FY19 compared to the revised budget for FY18.

Expenditure

10.19 The total public expenditure in FY19 is expected to increase by 25.1 percent to BDT 4645.7 billion compared to the revised budget for FY18. The operating expenditure is expected to grow by 34.1 percent, the ADP by 16.6 percent but other expenditure is expected to decrease by 26.9 percent over the revised budget for FY18. The projected operating expenditure for FY19 is set at BDT 2824.2 billion (Table 10.1). About 26.5 percent of the total expenditure has been allocated for the social sector (Table 10.5), of which the major portion of this sector (96.3

percent) will go to education and technology, social security and welfare programs and health sector (Table 10.6).

Deficit Budget and its Financing in FY19

10.20 The budget deficit (excluding grants) for FY19 is estimated at BDT 1252.9 billion which is BDT 132.5 billion higher than the revised budget for FY18. The projected budget deficit-GDP ratio for the FY19 is 4.9 percent which was 5.0 percent for the previous fiscal year. The deficit is expected to be financed through borrowing from domestic banks and non-bank sources of BDT 712.3 billion (2.8 percent of GDP) and external financing of BDT 500.2 billion (2.0 percent of GDP) in FY19 (Chart 10.4) against BDT 660.2 billion (2.5 percent of GDP) and BDT 415.7 billion (1.8 percent of GDP) in the revised budget for FY18 respectively. Of the total domestic borrowing, BDT 420.3 billion is projected to be financed from the banking system and BDT 292.0 billion from non-banking sources (Table 10.4).