Public Finance

10.1 The budget for FY14 was formulated in the light of the Medium Term Macroeconomic Framework (MTMF). The main building blocks of this framework are the continuity of monetary and fiscal policy strategies and ensuring macroeconomic stability. It was presumed that the global growth would recover in 2013 and afterwards. As a result, the country's trade, investment and manpower export would gain further momentum. Assuming private sector investment growth world pick momentum, the GDP growth target for FY14 was set at 7.2 percent. The total expenditure and the total revenue in the revised FY14 budget fell short of the initial projection. The budget deficit (excluding grants) as percentage of GDP was 5.0 percent, which was higher than the target of 4.6 percent (Table 10.1).

The target for total revenue in the revised FY14 budget set at a level which was 22.3 percent higher than the actual collection in FY13. The current expenditure in the revised FY14 budget was higher than the actual FY13 current expenditure by 16.7 percent. On the other hand, although the Annual Development Programme (ADP) of Taka 600.0 billion in the revised FY14 budget turned out to be 21.3 percent higher than the actual ADP in FY13. The fiscal deficit (excluding grants) of 5.0 percent of GDP in the revised FY14 budget was higher than the actual FY13 fiscal deficit by 0.6 percentage point (Table 10.1).

Table 10.1 Bangladesh Government revenue and expenditure

(billion Taka)

	FY13#	FY13 as % of GDP*	FY14*	FY14 as % of GDP*	FY15**	FY15 as % of GDP**
Total revenue	**1281.3**	**12.3**	**1566.7**	**13.3**	**1829.5**	**13.7**
a) tax	1074.5	10.4	1301.8	11.0	1552.9	11.6
b) non-tax	206.8	2.0	264.9	2.2	276.6	2.1
Total expenditure	**1740.1**	**16.8**	**2162.2**	**18.3**	**2505.1**	**18.7**
a) current	993.8	9.6	1160.0	9.8	1282.3	9.6
b) ADP	494.7	4.8	600.0	5.1	803.2	6.0
c) others	251.6	2.4	402.2	3.4	419.6	3.1
Budget deficit	**458.9**	**4.4**	**595.5**	**5.0**	**675.5**	**5.0**

Source : Budget in Brief 2014-15, Ministry of Finance
\# Actual, * Revised budget, ** Budget estimate
Note : GDP (Base Year FY96)

FY14 Budget and Fiscal Outcome

a. Revenue Receipts

10.2 The revised total revenue receipts in FY14 was Taka 1566.7 billion, which was 6.4 percent lower than the target. It was higher than the actual FY13 total revenue receipts by 22.3 percent. The tax revenue which constituted 83.1 percent of the total revenue receipts increased by 21.2 percent compared to 12.8 percent growth in FY13 (Table 10.1).

The non-tax revenue registered a growth by 28.1 percent in the FY14 compared to 6.2 percent increase in FY13. The total revenue receipts as percentage of GDP rose to 13.3 percent in FY14 compared to 12.3 percent in FY13. The total tax revenue receipts as percentage of GDP was 11.0 percent in FY14 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 FY14 compared to 2.0 percent in the FY13. The major revenue measures in the FY14 budget included:

- Tax exempted income limit for individual taxpayers was raised to Taka 220,000 from Taka 200,000. The limit for female taxpayers and aged taxpayers (65 years of age and above) was increased to Taka 250,000 from Taka 225,000. The limit for physically challenged individuals was raised to Taka 300,000 from Taka 275,000.
- Minimum tax payable by an individual taxpayer living in the Paurashava areas of district towns was reduced to Taka 2,000 from Taka 3000. The minimum tax was retained at Taka 3000 for the taxpayers living in the city corporation areas. The minimum tax for taxpayers living in to other places including villages was reduced to Taka 1000 from Taka 3000.
- Threshold of tax exempted house rent allowance was increased from Taka 180,000 to Taka 240,000 and tax exempted conveyance allowance was increased from Taka 24,000 to Taka 30,000.
- The investment limit for tax rebate was raised to Taka 15 million from Taka 10 million. The ceiling for tax rebate was increased from 20 percent to 30 percent of the total income and the rate of tax rebate was enhanced from 10 percent to 15 percent.
- Provision of charging 3 percent tax on the premium over the face value of shares of a company was annuled. Threshold of tax exempted income from dividend was increased from Taka 5,000 to Taka 10,000. Provision of charging 0.05 percent tax at source on the total income from bond sale was repealed and 15 percent tax rebate on investment in private alongside public mutual fund was offered.

Chart 10.1 Composition of tax revenue : FY14 (revised)

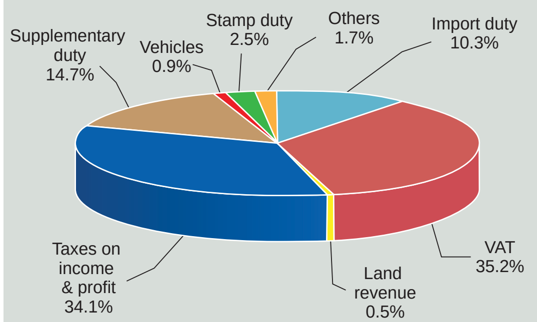
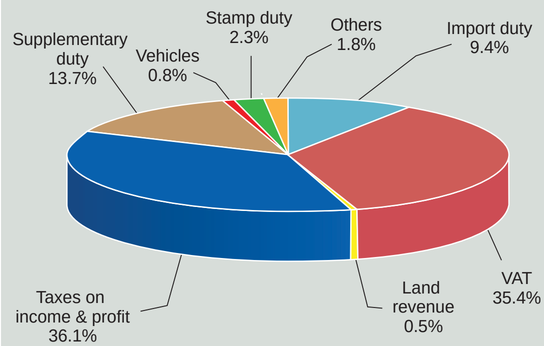


Chart 10.2 Composition of tax revenue : FY15 (estimated)



- Existing tax holiday facilities were extended from June 2013 to June 2015.
- Period of existing tax exemption on income from poultry industry was extended from June 2013 to June 2015.
- Tax rate on hatchery, dairy firm and dairy industry was reduced from 5 percent to 3 percent.
- Existing provision of charging lower rate of 15 percent tax on jute and textile sector was extended from June 2013 to June 2015.
- Customs duties on the importation of capital goods and intermediate raw materials were reduced from 3 percent and 12 percent to 2 percent and 10 percent respectively.
- Zero rate of import duty on rice, pulses, wheat, onion, fertiliser, insecticides, seeds, lifesaving drugs, cotton and the concessionary facility of 10 percent VAT at import point on edible oil remained unchanged.
- Import duty rates of 12 percent and 25 percent on a few raw materials of biogas plants were reduced to 5 and 10 percent respectively.
- Thirty percent supplementary duty on float glasses at import point was increased to 45 percent and duty on cobalt oxide was reduced from 12 percent to 5 percent.
- Customs duty on gas cylinders having capacity below 5000 liter was increased from 3 percent to 10 percent.
- Two percent customs duty was offered for generator parts.

Table 10.2 Composition of revenue receipts

(billion Taka)

	FY13#	FY14*	FY15**
Tax revenue	**1074.5**	**1301.8**	**1552.9**
Value Added Tax (VAT)	386.6	458.8	550.1
Import duty	126.3	134.3	145.9
Export duty	0	0.4	0.3
Supplementary duty	163.0	191.6	213.3
Taxes on income and profit	344.0	443.7	560.9
Stamp duty (non judicial)	27.2	32.6	35.1
Excise duty	7.5	12.0	12.5
Land revenue	5.2	6.9	7.4
Taxes on vehicles	8.1	11.6	12.5
Narcotics and liquor duty	0.7	0.7	0.8
Other taxes and duties	5.9	9.2	14.1
Non-tax revenue	**206.8**	**264.9**	**276.6**
Administrative fees and charges	31.8	44.4	45.0
Dividend and profit	47.6	50.0	49.3
Interest	6.1	10.3	7.3
Capital revenue	0.4	1.2	0.7
Receipts for services rendered	8.8	4.9	4.9
Non-commercial sales	3.8	4.1	3.9
Rents, leases and recoveries	1.2	1.6	1.6
Defence receipts	9.7	25.3	25.4
Tolls and levies	3.0	4.8	4.9
Fines, penalties and forfeiture	4.6	4.5	4.6
Railway	7.7	10.0	11.0
Post offices	2.4	2.9	2.9
Other non-tax revenue and receipts	79.7	100.9	115.1
Total :	**1281.3**	**1566.7**	**1829.5**

Source : Budget in Brief 2014-15, Ministry of Finance
Actual, * revised budget, ** budget estimate

- Customs duty on digital cameras and web cameras was reduced from 25 percent to 10 percent.
- Customs duty on solar lantern, LED lamp and fire extinguishers was reduced from 12 percent to 5 percent.
- Limit of turnover of Small and Medium Enterprises (SMEs) for full exemption of tax was increased from Taka 7 million to Taka 8 million.
- Ten percent VAT facility on crude and refined palm oil, soybean oil and crude

sunflower and safflower oil at the import stage was extended from 30 June 2013 to 30 June 2014.

- VAT exemption facility was offered to poultry/dairy/fish feed, all kinds of fertiliser, insulin, insulin pens, streptokinase injections, wheel chairs and carriages for disabled persons, watches for blinds and hospital beds etc. at the manufacturing level along with the import stage.
- VAT exemption facility for LPG cylinder manufacturing was extended from 30 June 2013 to 30 June 2017.
- Investment ceiling of small and cottage industries was raised to Taka 4 million worth of plant, machineries and equipment instead of Taka 2.5 million to avail the tax exemption facility. Annual turnover ceiling was enhanced from Taka 4 million to Taka 6 million.

10.3 In the revised FY14 budget, target for direct taxes on income and profit was increased at the rate of 29.0 percent to Taka 443.7 billion leaving its share in the total tax revenue to 34.1 percent from 32.0 percent in FY13. Similarly the target for receipts from excise duty, other taxes and duties, taxes on vehicle, land revenue, stamp duty (non judicial), Value Added Tax (VAT), supplementary duty, and import duty was revised to increase by 60.0, 55.9, 43.2, 32.7, 19.9, 18.7, 17.5 and 6.3 percent respectively compared to that of the actual FY13 budget. On the other hand, receipts from narcotics and liquor duty remained unchanged. A total of Taka 0.4 billion was a target for as export duty receipts in the FY14 revised budget (Table 10.2).

Table 10.3 Composition of revenue expenditure

(billion Taka)

	FY13#	FY14*	FY15**
Social sector	283.1	351.7	389.5
Public services	59.9	122.4	145.6
Interest on domestic debt	223.2	248.5	293.1
Defence	90.7	105.6	112.7
Public order and safety	83.8	101.0	104.3
Interest on foreign debt	15.9	16.9	17.4
Agriculture sector	159.6	130.8	131.8
Transport and communication	39.4	45.1	48.7
Local government and rural development	23.2	23.5	25.0
Housing	8.2	8.8	9.2
Others	6.8	5.7	5.0
Total :	**993.8**	**1160.0**	**1282.3**

Source : Budget in Brief 2014-15, Ministry of Finance
Actual, * Revised budget, ** Budget estimate

10.4 Under the non-tax revenue head, receipts from capital revenue, defence, interest, and tolls and levies sharply increased by 200.0, 160.8, 68.9 and 60.0 percent respectively compared to that of the actual FY13 budget. Other sub-sectors showing increases included administrative fees and charges 39.6 percent, rents, leases and recoveries 33.3 percent, railway 29.9 percent, other non tax revenue and receipts 26.6 percent, post offices 20.8 percent, non-commercial sales 7.9 percent and dividend and profit 5.0 percent. On the contrary, receipts from service rendered and fines, penalties and forfeiture fell by 44.3 and 2.2 percent respectively.

b. Expenditure

10.5 The total public expenditure in the revised FY14 budget amounted to Taka 2162.2 billion. This was 2.8 percent lower than the initial estimation of Taka 2224.9 billion but 24.3 percent higher than the actual

FY13 expenditure of Taka 1740.1 billion. The revised current expenditure of Taka 1160.0 billion in the FY14 was 2.2 percent higher than the initial projection of Taka 1134.7 billion (Table 10.1).

10.6 The revised current expenditure in FY14 exceeded initial allocations for some of the accounts, namely social sector, defence, public order and safety, and housing (Table 10.3). The proposed non-development current expenditure in FY14 had the following revisions:

- An additional amount of Taka 34.9 billion was allocated for dearness allowances.
- An additional amount of Taka 8.3 billion was allocated for acquisition of assets and works.
- An additional amount of Taka 5.0 billion as compared to the original budget was allocated for goods and services.

10.7 The Annual Development Programme in FY14 was revised upward by about 21.3 percent from Taka 494.7 billion in FY13 to Taka 600.0 billion. Consistent with the growth and poverty reduction objectives, 35.1 percent of the total outlay was spent for the infrastructure sector (power, oil, gas & natural resources, transport, and communication), and 20.3 percent for the social sector (education & religious affairs, and health, nutrition, population & family welfare) (Table 10.5).

c. Financing FY14 Budget Deficit

10.8 The deficit (excluding grants) in the revised FY14 budget stood at Taka 595.5 billion (5.0 percent of the GDP). This ratio was higher than the initial projection. The domestic borrowing component of the deficit financing in FY14 was Taka 409.8 billion (3.5 percent of the GDP). Of this component, Taka 299.8 billion (2.5 percent of the GDP) was bank borrowing and Taka 110.0 billion (0.9 percent of the GDP) was non-bank borrowing, mainly National Savings Schemes (Chart 10.3). The foreign financing component (including grants) of the budget deficit was Taka 185.7 billion (1.6 percent of the GDP).

Table 10.4 Composition of social sector revenue expenditure

(billion Taka)

	FY13#	FY14*	FY15**
Education & technology	146.6	184.1	196.0
Health	50.6	59.1	66.5
Recreation, culture and religious affairs	11.2	11.6	12.2
Labour and employment	0.5	0.5	0.6
Social security and welfare	74.2	96.4	114.2
Total :	**283.1**	**351.7**	**389.5**

Source : Budget in Brief 2014-15, Ministry of Finance
Actual, * Revised budget, ** Budget estimate

Table 10.5 Sectoral shares in ADP expenditure

(percent)

	FY13*	FY14*	FY15**
Agriculture	5.1	5.9	5.3
Rural development & institutions	11.8	11.6	8.7
Water resources	2.8	3.2	3.1
Industries	3.4	4.6	2.5
Power	15.0	13.4	10.8
Oil, gas & natural resources	2.4	3.2	5.1
Transport	14.5	17.2	22.6
Communication	1.6	1.3	1.0
Physical planning, water supply & housing	8.6	9.0	12.2
Education & religious affairs	11.6	13.3	11.5
Health, nutrition, population & family welfare	7.1	7.0	5.9
Others	16.1	10.3	11.3
Total :	**100.0**	**100.0**	**100.0**

Source : Annual Development Programme 2013-2014 and 2014-2015, Ministry of Planning
* Revised, ** Estimate

FY15 Budget

10.9 The FY15 budget was proposed on 5 June 2014 and was passed by the National Parliament on 29 June 2014. Aligned with the Medium Term Macroeconomic Framework (MTMF). The main objectives of the budget are to maintain continuity of the existing monetary and fiscal policy strategies and to ensure macroeconomic stability. The GDP growth target for FY15 has been set at 7.3 percent. No specific target for inflation rate has been set in the budget. However, it has been assumed that the average inflation rate will be below 7.0 percent at the end of FY15.

The total size of the FY15 budget stands at Taka 2505.1 billion, which is 18.7 percent of the GDP and 15.9 percent higher than the revised FY14 budget. The estimated non-development and development outlays are Taka 1542.4 billion and Taka 863.5 billion respectively. The budget provides Taka 10.7 billion from revenue budget for development programmes, Taka 34.7 billion for non-ADP project and Taka 14.9 billion for non-ADP Food-for-Work and transfer. The total outlay can be classified into three broad categories such as social infrastructure, physical infrastructure and general services. In the budget, about 25.2 percent of the total outlay has been allocated for social infrastructure, of which 21.6 percent has been allocated for human resources sector (education, health, science and technology and other related sectors). About 30.1 percent of the total outlay has been allocated for physical infrastructure, of which 14.7 percent goes to wider agriculture and rural development, 9.2 percent to overall communication sector and 4.6 percent to power and energy. About 23.6 percent of the total outlay has been allocated for general service sector. An allocation of 3.4 percent of the total outlay has been made for PPP projects, financial assistance for different industries, subsidies and equity investment in state-owned commercial and financial institutions. Apart from these three major categories, 12.4 percent of the total outlay has been allocated for interest payment and the rest 5.3 percent has been allocated for net lending and other expenditures. Like the preceding year, the large size of the ADP has been designed keeping in mind the commitment to regional parity, improved infrastructure and quality of expenditure.

Chart 10.3 Budget deficit financing : FY14 (revised)
(Percent of GDP)

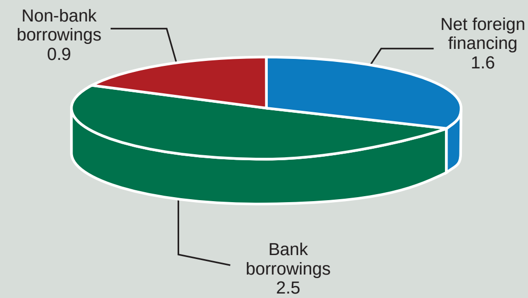
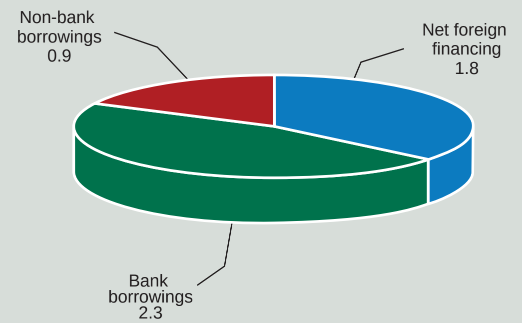


Chart 10.4 Budget deficit financing : FY15 (estimated)
(Percent of GDP)



The total developmental expenditure for FY15 stands at Taka 863.5 billion, which is 6.4 percent of the GDP. This developmental expenditure turns out 32.5 percent higher than that of the revised budget of the previous fiscal year.

a. Revenue Receipts

10.10 The revenue receipts in FY15 has been projected to grow by 16.8 percent to Taka 1829.5 billion compared to that of the previous year's revised budget. The tax and non-tax revenue receipts are expected to rise by 19.3 percent and 4.4 percent respectively against increases of 21.1 percent and 28.1 percent respectively in the revised FY14 budget. It leaves the projected total revenue-GDP ratio at 13.7 percent in the FY15 compared to 13.3 percent in the FY13 (Table 10.1). A 26.4 percent increase in receipts from the direct taxes on income and profits has been projected against 15.9 percent growth projected for indirect taxes (VAT, import duty, supplementary duty, and export duty (Table 10.2).

Among non-tax revenue sources, other non-tax revenue and receipts has been projected to increase by 14.1 percent compared to 26.6 percent increase in the preceding fiscal year. Receipts from railway, fines, penalties and forfeiture, tolls and levies, administrative fees and charges, and defence are expected to rise by 10, 2.2, 2.1, 1.4 and 0.4 percent respectively in the FY15. The target for receipts from capital revenue, interest, non-commercial sales, and dividend and profit have been set lower than that of previous fiscal year by 41.7, 29.1, 4.9 and 1.4 percent respectively. Receipts from services rendered, post offices, and rents, leases and recoveries are expected to remain the same at Taka 4.9, 2.9 and 1.6 billion respectively (Table 10.2).

b. Expenditure

10.11 The total public expenditure in FY15 is expected to increase by 15.9 percent to Taka 2505.1 billion over the revised figure of FY14. The current expenditure is expected to grow by 10.5 percent, the ADP by 33.9 percent and the other expenditure by 4.3 percent over the revised FY14 budget. The ratio of total expenditure to GDP is predicted to increase to 18.7 percent in the FY15 from 18.3 percent in the revised FY14 budget (Table 10.1).

10.12 The projected current expenditure for FY15 budget stands at Taka 1282.3 billion (Table 10.1 & 10.3). More than one fourth of the total current expenditure has been allocated for the social resources development and widening social safety net (Table 10.4).

A total of Taka 191.00 billion (development and non-development) has been allocated for the agriculture sector, which is 7.9 percent higher 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 540.7 billion (development and non-development) has been allocated for the human resources development sector. This is 21.6 percent of the total development and non-development budget.

The proposed budget proposals contains various programmes worth to eradicate extreme poverty. Total allocation to these programmes is Taka 15.0 billion.

10.13 The Annual Development Programme (ADP) for FY15 has been projected at Taka 803.2 billion, exceeding the revised ADP of Taka 600.0 billion in FY14 by 33.9 percent. About 39.5 percent of the total ADP has been allocated for infrastructure sector. On the other hand, social sector would receive 17.4 percent of the total ADP (Table 10.5).

c. Deficit in FY15 Budget and its Financing

10.14 The FY15 budget deficit (excluding; grants), estimated at Taka 675.6 billion; is higher by Taka 80.1 billion than that of the revised FY14 budget. The projected budget deficit-GDP ratio for the FY15 is 5.0 percent. The deficit is expected to be financed with domestic bank and non-bank borrowing to the extent of Taka 432.8 billion (3.2 percent of the GDP), against Taka 409.8 billion (3.5 percent of the GDP) in the revised FY14 budget, and with external financing to the tune of Taka 242.8 billion (1.8 percent of the GDP) in the FY15, against Taka 185.7 billion (1.6 percent of the GDP) in FY14 (Charts 10.3 and 10.4). Out of total domestic borrowing of Taka 432.8 billion, borrowing from the banking system is projected to be Taka 312.2 billion.

10.15 During the preparation of the budget, a number of pre-budget consultations with the honorable members of the parliamentary standing committees of eminent citizens, renowned economists, professionals, businessmen, NGO leaders, journalists, and secretaries of the government were held. The Finance Minister had a meeting on budget matters with the peasants in the Sylhet district.