Public Finance

10.1 The national budget for FY17 was formulated by emphasizing on four factors i) maintaining macro-economic stability, ii) accelerating growth of per capita GNI, iii) making benefits of higher income more inclusive, and iv) ensuring sustainable and environment-friendly economic development. In the budget GDP growth target set at 7.2 percent and inflation set at 5.8 percent for FY17. For attaining this target, major steps were undertaken including -boosting public and private investment, development in agricultural sector, power and energy sector, communication sector and implementation of eight mega projects.

On the other hand, the broad objective of the proposed budget for FY18 is to ensure balanced and harmonized development of all sectors of the economy. This objective will be achieved by formulating annual budgets under a Medium Term Macroeconomic Framework (MTMF). Under this framework, income and expenditure ceilings, commensurate to all sectors of the economy. These ceilings are kept within a safe limit to sustain macroeconomic balance. Besides, in formulating the proposed FY18 budget, sustainable development goals (SDGs) as well as the targets of the 7th Five Year Plan have also taken into account.

In the Proposed Budget Framework for FY18, GDP growth rate set at 7.4 percent; the highest in the last four decades and inflation set at 5.5 percent. To accomplish the target, efforts have been underway to stimulating both public and private investment, increasing domestic and external demand, increasing aggregate supply, development in power and energy sector, communication sector, agriculture sector and food security. Additionally, measures for promoting total factor productivity, strengthening social safety net program for equitable distribution of income and ensuring environment-friendly development were included.

Table 10.1 Government revenue and expenditure

(billion BDT)

Items	FY16#	FY16 as % of GDP#	FY17*	FY17 as % of GDP*	FY18	FY18 as % of GDP
1. Total revenue	1729.5	10.0	2185.0	11.2	2879.9	13.0
a. Tax	1518.9	8.8	1922.6	9.8	2568.1	11.5
b. Non-tax	210.7	1.2	262.4	1.3	311.8	1.4
2. Total expenditure	2384.3	13.8	3171.7	16.2	4002.7	18.0
a. Current	1444.3	8.4	1781.5	9.1	2071.4	9.3
b. ADP	793.5	4.6	1107.0	5.7	1533.3	6.9
c. Others	146.5	0.8	283.2	1.4	398.0	1.8
3. Budget deficit	654.8	3.8	986.7	5.0	1122.8	5.0

Actual, * Revised.
Source : Budget in Brief, 2017-18, Ministry of Finance

10.2 In the budget for FY17, revenue target was set by considering various reform initiatives such as automation, curtailing tax exemption facility, rationalization of tax administration, widening tax net and tax base under the National Board of Revenue (NBR). As a result, in this fiscal year, the progress of NBR revenue collection has become better than the last few years. Budget deficit contained at 5.0 percent of GDP in the FY17 budget which is kept same in the proposed budget.

FY17 Budget and Fiscal Outcome

Revenue Receipts

10.3 In the revised budget for FY17 total revenue receipts stood at BDT 2185.0 billion, which was 10.0 percent lower than initial target. It was 26.3 percent higher than the actual revenue receipts in FY16. The tax revenue constituted 88.0 percent of the total revenue receipts, which was higher than 26.6 percent compared to the actual tax collected in FY16. The non-tax revenue of FY17 was 24.6 percent higher than that of FY16 (Table 10.1).

10.4 In the revised budget, total revenue receipts as percentage of GDP stood at 11.2 percent which was 10.0 percent in FY16. The total tax revenue receipts as percentage of GDP was 9.8 percent in FY17 which was 8.8 percent in the preceding fiscal year. Similarly, total non-tax revenue as percentage of GDP stood at 1.3 percent over the same period which was 1.2 percent in FY16.

Expenditure

10.5 The total expenditure in the revised budget for FY17 amounted to BDT 3171.7 billion (16.2 percent of GDP) which was 33.0 percent higher than the actual expenditure in FY16. The current expenditure in the revised budget for FY17 stood at BDT 1781.5 billion (9.1 percent of GDP) which was 23.3 percent higher than the actual expenditure of BDT 1444.3 billion in FY16 (Table-10.1).

10.6 In the revised budget for FY17, direct taxes on income and profit increased by 39.2 percent to BDT 627.5 billion from BDT 450.8 billion in FY16. Receipts from narcotics and liquor duty, taxes on income and profit, stamp duty (non judicial), land revenue, value added tax (VAT), import duty, other taxes and duties, supplementary duty, export duty and taxes on vehicle increased by 127.3, 39.2, 36.7, 35.4, 25.8, 21.2, 16.7, 13.0, 10.0 and 5.7 percent respectively in FY17 compared to those of FY16. However, excise duty decreased by 23.1 percent in revised budget for FY17 compared to that of FY16 (Table 10.2).

Table 10.2 Composition of revenue receipts

(billion BDT)

Items	FY16#	FY17*	FY18
1. Tax revenue	**1518.8**	**1922.6**	**2568.1**
A. NBR Tax revenue	**1462.4**	**1850.0**	**2481.9**
i) Taxes on income and profit	450.8	627.5	851.8
ii) Import duty	178.0	215.7	300.2
iii) Export duty	0.3	0.3	0.4
iv) Supplementary duty	261.3	295.2	384.0
v) Value Added Tax (VAT)	545.8	686.8	912.5
vi) Excise duty	15.6	12.0	16.0
vii) Other taxes and duties	10.7	12.5	16.9
B. Non NBR Tax revenue	**56.4**	**72.6**	**86.2**
i) Narcotics and liquor duty	0.7	1.5	0.9
ii) Taxes on vehicles	16.3	17.2	18.0
iii) Land revenue	8.3	11.2	12.7
iv) Stamp duty (non judicial)	31.2	42.7	54.7
2. Non-tax revenue	**210.7**	**262.4**	**311.8**
i) Administrative fees and charges	35.6	48.6	56.5
ii) Dividend and profit	31.7	37.1	54.0
iii) Interest	10.8	29.3	19.4
iv) Capital revenue	0.7	0.7	0.7
v) Receipts for services rendered	7.1	6.4	7.1
vi) Defence receipts	17.6	23.5	25.8
vii) Tolls and levies	7.7	9.2	10.1
viii) Fines, penalties and forfeiture	3.5	4.3	4.7
ix) Railway	8.6	15.1	20.0
x) Post offices	2.9	3.1	3.5
xi) Non commercial sales	5.3	5.7	6.1
xii) Rents, leases and recoveries	1.1	1.4	1.5
xiii) Other non-tax revenue and receipts	78.2	78.2	102.4
Total	**1729.5**	**2185.0**	**2879.9**

Actual, * Revised.
Source : Budget in Brief , 2017-18, Ministry of Finance

10.7 Under the non-tax revenue head, interest, railway, administrative fees and charges, defence receipts, rents, leases, and recoveries, fines, penalties and forfeiture, toll and levies, dividend and profit, and post offices increased by 172.7, 75.0, 36.4, 33.5, 22.7, 22.1, 18.9, 17.2, and 8.0 percent respectively in FY17 compared to those of FY16. On the contrary, capital revenue and receipts for services rendered declined by 7.0 and 9.3 percent respectively over the same period (Table-10.2). Composition of tax revenue for FY17 and FY18 are depicted in Chart-10.1 and Chart-10.2 respectively.

10.8 The Annual Development Programme (ADP) in the revised budget for FY17 amounted to BDT 1107.0 billion (5.7 percent of GDP) which was 39.5 percent higher than the actual ADP in FY16. In the revised budget for FY17, it is found that nearly, 39.4 percent of the total ADP was spent on the infrastructure sector (power, oil, gas and natural resources, transport and communication), 16.7 percent on the social sector (education and religious affairs and health, nutrition, population and family welfare), and 5.2 percent on agriculture sector (Table 10.3) respectively.

Financing FY17 Budget Deficit

10.9 Total deficit (excluding grants) in the revised budget for FY17 stood at BDT 986.7 billion (5.0 percent of the GDP) (Table 10.1). The domestic borrowing component of the deficit financing was BDT 699.0 billion (3.6 percent of the GDP) in FY17. Of this component, BDT 239.0 billion (1.2 percent of the GDP) was bank borrowing and BDT 460.0 billion (2.4 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) of the budget deficit was BDT 240.8 billion (1.2 percent of the GDP) (Table 10.4).

Major Revenue Measures in FY17 Budget

Direct Tax

10.10 Direct taxes on income and profit are considered as the principal source of Government revenue. It accounted for 32.6 percent share of the total tax revenue in the revised budget for FY17 compared with 29.7 percent in FY16. The margin changes on direct taxes in the national budget for FY17 included:

Taxes on Individual Income

- Tax exempted income limit for individual

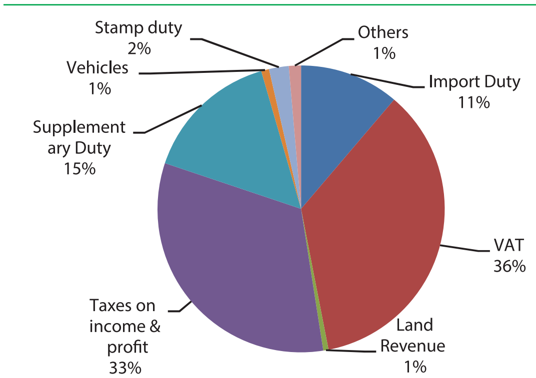
Table 10.3 Sectoral shares in ADP expenditure

(Percent)

Sectors	FY16*	FY17*	FY18
Agriculture	4.9	5.2	3.9
Transport	21.1	24.7	26.8
Education & religious	11.1	11.6	10.9
Physical planning, water supply & housing	12.2	13.0	9.8
Power	17.0	12.2	12.3
Rural development & institutions	9.9	9.7	8.6
Health, nutrition, population & family	6.1	5.1	6.7
Water resources	2.9	3.0	2.6
Industries	1.9	0.9	1.3
Oil, gas & natural resources	1.2	1.0	1.4
Communication	1.6	1.7	1.1
Others	10.2	11.9	14.8
Total	100	100	100

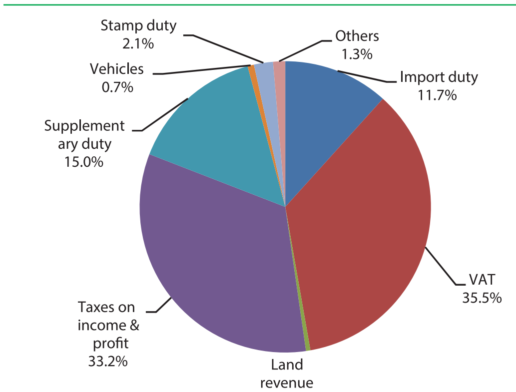
Actual, *Revised.
Source : Annual Development Programme, 2016-2017 and 2017-2018, Ministry of Planning

Chart 10.1 Composition of tax revenue* : FY17



* Revised.
Source: Budget in Brief 2016-17, Ministry of Finance.

Chart 10.2 Composition of Tax Revenue* : FY18



* Estimated.
Source: Budget in Brief 2017-18, Ministry of Finance.

taxpayer remained the same at BDT 250,000.

- Tax exemption threshold for women and senior citizens aged over 65 years remained the same at 300,000.
- Tax exempted income limit for physically challenged individual remained the same at BDT 375,000.
- Tax exempted income limit for war wounded gazetted freedom fighters remained the same at BDT 425,000.
- The tax-exempted turnover limit for SME enterprises has increased from BDT 3,000,000 to BDT 3,600,000.
- Perquisite limit for the employer of a disabled employee increased to BDT 2,500,000.
- Assessee investment limit of total personal income decreased to 20 percent from 30 percent.
- Tax rate for income of non-resident and income of Co-operative Society was fixed 30 percent and 15 percent respectively.

Taxes on Corporate Income

- Tax rates for publicly traded company and publicly traded bank, insurance and financial institutions remained the same 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 the same at 35.0 percent and 42.5 percent respectively.
- Tax rate for publicly traded cigarette company remained the same at 45 percent.

Table 10.4 Composition of Budget Financing

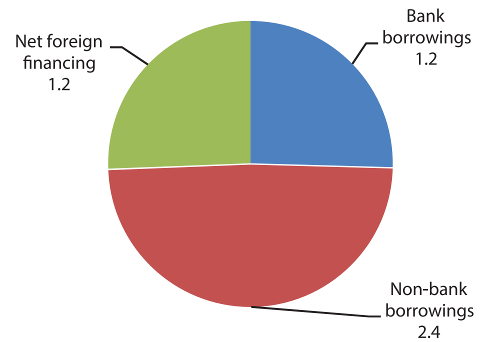
(Percent)

Items	FY16#	FY17*	FY18
Domestic Financing	507.3	699.0	603.5
Bank borrowing	106.1	239.0	282.0
Non-bank borrowing	401.2	460.0	321.5
Foreign financing (net)	128.7	240.8	464.2
Budget Deficit (including grants)	635.9	939.8	1067.7
Budget Deficit (excluding grants)	654.8	986.7	1122.8
GDP (Memorandum Item)	17295.7	19560.6	22236.0

#Actual, *Revised.
Source : Budget in Brief, 2017-18, Ministry of finance

Chart 10.3 Deficit Financing* (including grants): FY17

(Percentage of GDP)



* Revised.
Source: Budget in Brief, 2016-17, Ministry of Finance.

- Tax rate for bidi, zarda, chewing tobacco, gul or any other smokeless tobacco manufacturing company increased from 25 or 35 percent to 45 percent.
- Tax rate for publicly traded and non-publicly traded mobile phone operators remained the same at 40 percent and 45 percent respectively.
- Minimum tax rate for bidi, zarda, chewing tobacco, gul or any other smokeless tobacco producers; for mobile phone operators and for all other companies and firms was imposed at 1.0 percent, 0.75 percent and 0.6 percent from uniform rate of 0.3 percent on gross receipts of firms having yearly gross receipts of more than BDT 5,000,000 respectively.

- The tax rate of the RMG sector was reduced from 35 percent to 20 percent.
- Withholding tax rates for real estate sector was reduced to encourage people to buy small sized flats or apartments.

Value Added Tax (VAT)

10.11 In order to establish a modern, pro-investment, consumer and revenue friendly Value Added Tax system, a new VAT law titled 'Value Added Tax and Supplementary Duty Act, 2012' was enacted by the Parliament during FY12.

10.12 VAT is the main component of indirect taxes in Bangladesh. VAT representing 31.4 percent of total tax revenue increased by 25.8 percent to BDT 686.8 billion in FY17 compared to BDT 545.8 billion in FY16. The margin changes on VAT in the national budget for FY17 included:

VAT Exemptions

- Like exemption of VAT on the jute goods at the production and retail stage, jute goods procurement provider has been exempted from VAT as part of the Government's incentive package provided to the jute sector.
- Like exemption of VAT on natural rubber or latex, locally produced ribbed smoked sheets was exempted from VAT in order to provide incentive to the rubber sector.
- The ambulance services which carry patient and dead body has been kept out of VAT.
- Like exemption of VAT on rice huller and parts of rice huller, wheat crusher and parts of wheat crusher were made VAT free in order to encourage the local foundry and engineering industry.
- VAT was withdrawn on dyeing, printing, finishing and calendering of grey fabrics in order to give incentive to the textile sub-sector.
- The domestic heavy industry for local manufacturing of refrigerator, freedger and air conditioner was exempted from VAT in order to give incentive to these industries.
- VAT was withdrawn on palm oil and soya bean oil with a view to keeping the price of edible oil stable and within the buying capacity of the people (up to 30 June, 2017).
- The natural stone extracted from Maddhapara was made VAT free in order to encourage the use of locally extracted natural stone in Padma bridge and other projects.

VAT Impositions and Expansions

- Withdrawal of VAT exemption from hand-made loaf, bun, similar kinds of bread and cake, biscuit valuing up to BDT 100 per kg, shoes, slipper made of rubber, plastic valuing up to BDT 120 per pair, locally manufactured hard board, electric generator, travel agents, meditation service, fabrics woven by power loom, classified advertisement except condolence messages.
- Increasing supplementary duty rate to 50 percent from existing 48 percent and fixing lowest slab of cigarette at BDT 23 from existing BDT 18.

- Increasing supplementary duty rate to 62 percent and 64 percent from existing 61 percent and 63 percent on price of cigarette at BDT 45 and above respectively.
- Increasing supplementary duty rate to 30 percent and 35 percent from existing 25 percent and 30 percent on the price of 25 sticks of non-filter and 20 sticks of filter bidi respectively.
- Increasing supplementary duty rate to 100 percent from existing 60 percent on smokeless tobacco products (jarda and gul).
- Increasing supplementary duty rate to 5 percent from existing 3 percent on SIM card related services.
- Increasing the tax to BDT 7000, BDT 14000, BDT 20000 and BDT 28000 from BDT 3600, BDT 7200, BDT 10000 and 14000 at all points of supply, namely; import, production, service rendering and wholesale and retail sale depending on turnover and location respectively.
- Increasing the net VAT rate of garage and workshop from existing 7.5 percent to 10 percent.
- Increasing the net VAT rate of dockyard from existing 7.5 percent to 10 percent.
- Increasing the net VAT rate of construction services from existing 5.5 percent to 6.0 percent.
- Increasing the net VAT rate of transportation of petroleum products and other transport services from existing 2.25 percent and 7.5 percent to 4.5 percent and 10 percent respectively.
- Increasing the tariff value of coal, different kinds of paper and paper products, scrap/ship scrap, CR coil, GP sheet, CI sheet, coloured CI sheet and different kinds of MS products ranging between 20-25 percent respectively.

Custom Duties and Taxes

10.13 With a view to providing protection to the domestic industries and maintaining competitiveness of Bangladesh economy, the existing customs duty slabs have been restructured and rationalised from time to time. Besides, to prevent smuggling and untrue declarations, inconsistent duty-tax structure has been corrected. Import duty increased by 21.2 percent to BDT 215.7 billion in FY17 compared to BDT 178.0 billion in FY16. The proposed changes on custom duties and taxes in the national budget for FY17 included:

- Continuation of the existing duty exemptions or concessions accorded to the essential commodities including edible oil, sugar, pulse, onion and garlic.
- Expansion, rationalization and continuation of the existing duty tax incentives given to the social, physical infrastructure and information technology sectors.
- Continuation of the duty tax concessions provided to the capital goods for the encouragement of industrial investment.
- Imposition of 25 percent and 10 percent customs duty instead of 10 percent and 5 percent on imported rice and rapeseed cake/soyacake respectively.
- Reduction of supplementary duty from 20 percent to 10 percent on milk, used for the preparation of milk product.

- Reduction of import duties to 1 percent on selected parts of locally manufactured machines used in agriculture.

- Continuation of the existing duty tax concessions to existing items along with some new items for continuous and sustainable development of the poultry sector.

- Concessionary facilities extend to other types of export oriented industries along with export oriented garments industries for fire equipment/ inputs of pre-fabricated building materials.

- Reduction of customs duty on boulders, crushed stone, ferro alloy, bars, rods, angles, fly ash, etc. in the construction industry sector.

- Reduction of duties and taxes on petroleum jelly, paraffin wax, raw rubber, rubber process oil, glossy starch, gum resin used in chemical industry sector.

- Increasing duties and taxes on talc powder, ECG and ultrasound paper, filter blocks made of pulp etc. in the chemical industry sector.

- Reduction of duty on urea resin, DOP, adhesive tape in rolls, fiber glass, inputs and parts of compressor in the electrical sector.

- Increasing duty on lamp holder, cable connector and busbar trunking system in the electrical sector.

- Reduction of duty to 15 percent from 25 percent and 5 percent from 10 percent on stripping chemical and flax fiber and spandex in the textile sector.

Table 10.5 Composition of revenue expenditure

(BDT billion)

Sectors	FY16#	FY17*	FY18
Social sector	703.5	893.6	1140.9
Public services	152.4	338.5	544.8
Interest on domestic debt	314.7	335.0	395.1
Defence	203.1	232.1	257.6
Public order and safety	164.5	207.3	228.5
Interest on foreign debt	16.5	18.6	19.5
Agriculture sector	178.8	200.3	244.3
Transport and communication	241.0	362.7	500.8
Development	185.9	248.5	277.0
Housing	38.6	51.7	37.3
Others	185.3	283.5	356.9
Total	2384.4	3171.7	4002.7

Actual, * Revised.
Source : Budget in Brief, 2017-18, Ministry of Finance

- Reduction of duty to 20 percent from 45 percent on motor cycle assembling.

- Reduction of duty on some of the inputs used for the manufacture of SIM cards, scratch cards, credit cards and other smart cards in the information technology sector.

- Reduction of customs duty at 15 percent from 25 percent on lubricant.

Budget for FY18

10.14 The budget of FY18 has been formulated aiming at higher GDP growth, lower inflation and gearing up investment. In the budget for FY18, the GDP growth target has been set at 7.4 percent, the inflation rate at 5.5 percent and the budget deficit is expected to be within 5.0 percent of GDP.

10.15 The total size of the budget for FY18 is set at BDT 4002.7 billion, which is 18.0 percent of the GDP and 26.2 percent higher than the revised budget for FY17. The total development expenditure target for FY18 stands at BDT 1533.3 billion, which is about 6.9 percent of GDP. This developmental expenditure turns out 38.5 percent higher than that of the revised budget of the previous fiscal year. In the ADP for FY18, about 17.5 percent of development outlay has been allocated to the human resource sector (education and health, nutrition, population and family welfare), 15.1 percent to overall agricultural sector (agriculture, rural development and institutions and water resources), 13.7 percent to power and energy sector, 26.8 percent to transport (roads, railway, bridges and others related to transport) sector, 9.8 percent to physical planning, water supply and housing sector and 17.1 percent to other sectors (Table 10.5).

10.16 Different ministries and divisions have been categorised into three main groups based on their allocation of business. These are social infrastructure, physical infrastructure and general services. In the proposed budget for FY18, about 29.3 percent of total outlay has been allocated for social infrastructure, of which 26.1 percent is set for human resources sector (education, health, science and technology and other related sectors). About 31.7 percent of total outlay of ADP has been allocated for physical infrastructure, of which 13.0 percent goes to wider agriculture and rural development, 11.9 percent to overall communication sector and 5.3 percent to power and energy sector. About 24.0 percent of total outlay of ADP has been allocated for general service sector. An allocation of 1.9 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.

10.17 Apart from these three major categories, 10.4 percent of total outlay has been allocated for interest repayment and the rest 2.7 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

10.18 The revenue receipts in FY18 is targeted to grow by 31.8 percent to BDT 2879.9 billion (13.0 percent of the GDP) compared to that of the revised budget for FY17. The tax and non-tax revenue receipts are expected to increase by 33.6 percent and 18.8 percent respectively compared to the revised budget for FY17. Total revenue-GDP ratio is projected to increase to 13.0 percent in the FY18 compared to 11.2 percent in FY17 (Table 10.1). Receipts from the direct taxes on income and profits is projected to increase by 35.7 percent in FY18 compared to the revised budget for FY17 while 33.3 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 45.5 percent in FY18 compared to the revised budget for FY17 (Table 10.2).

10.19 Receipts from other non-tax revenue and receipts such as railway; administrative fees and charges; post offices; rents, leases and recoveries; fines, penalties and forfeiture; tolls and levies; defence receipts are capital revenue expected to rise by 32.5, 16.4, 13.2, 11.9, 10.6, 9.8, 9.8 and 6.1, percent respectively in FY18. Receipts from interest are expected to decline by 33.9 percent in FY18 compared to the revised budget for FY17 (Table 10.2).

Expenditure

10.20 The total public expenditure in FY18 is expected to increase by 26.2 percent to BDT

4002.7 billion compared to the revised budget for FY17. The current expenditure is expected to grow by 16.3 percent, the ADP by 38.5 percent and other expenditure by 40.5 percent over the revised budget for FY17 (Table 10.1). The projected current expenditure for FY18 is set at BDT 2071.4 billion (Table 10.1). About 28.5 percent of the total expenditure has been allocated for the social sector (Table 10.5), of which the major portion of this sector (96.6 percent) will go to education and technology, social security and welfare programmes, and health sector (Table 10.6).

Deficit Budget and its Financing in FY18

10.21 The budget deficit (excluding grants) for FY18 is estimated at BDT 1122.8 billion which is BDT 136.1 billion higher than the revised budget for FY17. The projected budget deficit-GDP ratio for the FY18 is 5.0 percent which is the same as that of FY17. The deficit is expected to be financed through borrowing from domestic banks and non-bank sources to the tune of BDT 603.5 billion (2.7 percent of GDP) and external financing to the tune of BDT 464.2 billion (2.1 percent of GDP) in FY18 against BDT 699.0 billion (3.6 percent of GDP) and BDT 240.8 billion (1.2 percent of GDP) in the revised budget for FY17 (Charts 10.4) respectively. Of total domestic borrowing, BDT 282.0 billion is projected to be financed from the banking system and BDT 321.5 billion from non-banking sources (Table 10.4).

Table 10.6 Composition of social sector revenue expenditure

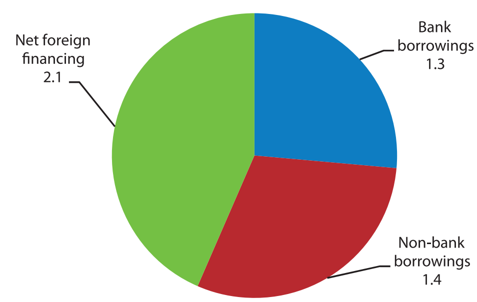
(BDT billion)

	FY16#	FY17*	FY18
Education & technology	399.1	502.9	654.4
Health	126.1	148.3	206.5
Recreation, culture and religious affairs	23.9	27.6	36.1
Labour and employment	1.3	2.9	2.6
Social security and welfare	153.2	211.8	241.3
Total	703.5	893.6	1140.9

Actual, * Revised.
Source : Budget in Brief, 2017-18, Ministry of Finance

Chart 10.4 Deficit financing* (including grants) : FY18

(Percentage of GDP)



* Estimated.
Source: Budget in Brief 2017-18, Ministry of Finance.