Public Finance

10.1 Fiscal operation in Bangladesh aimed at alleviating poverty, reducing inequality and bringing basic and qualitative change in the people's living standard via ensuring sustained higher GDP growth. To this end, Bangladesh needs adequate mobilization of resources and its appropriate allocation. During this take off stage of the economy, as usual, government plans deficit budget considering its supportive role towards financing of infrastructural mega projects. 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. In FY19, Bangladesh achieved GDP growth of 8.15 percent against the target of 7.8 percent, the highest ever for our economy.

FY19 Budget and Fiscal Outcome

Revenue Receipts

10.2 In the budget for FY19, 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 for FY19 has become better than the last few years.

10.3 In the revised budget for FY19, total revenue receipts targeted at BDT 3166.1 billion, which was 6.7 percent lower than initial target. It was 46.2 percent higher than the actual revenue receipts in FY18. The tax revenue constituted 91.5 percent of the total revenue receipts, which was 49.0 percent higher compared to the actual tax collected in FY18. The non-tax revenue of FY19 was 21.5 percent higher than that of FY18 (Table 10.1).

Table 10.1 Government Revenue and Expenditure (In billion BDT)

Items	FY18	FY18 as % of GDP	FY19*	FY19 as % of GDP*	FY20@	FY20 as % of GDP@
1. Total revenue	**2165.6**	**9.6**	**3166.1**	**12.5**	**3778.1**	**13.1**
a. Tax	1943.3	8.6	2896.0	11.4	3401.0	11.8
b. Non-tax	222.3	1.0	270.1	1.1	377.1	1.3
2. Total expenditure	**3218.6**	**14.3**	**4425.4**	**17.4**	**5231.9**	**18.1**
a. Operating	1914.7	8.5	2667.3	10.5	3102.6	10.8
b. ADP	1195.4	5.3	1670.0	6.6	2027.2	7.0
c. Others	108.5	0.5	88.1	0.3	102.1	0.4
3. Budget deficit	**1053.1**	**4.7**	**1259.3**	**5.0**	**1453.8**	**5.0**

* Revised, @ Estimated.
Source : Budget in Brief, 2019-20, Ministry of Finance
Bangladesh Bureau of Statistics (BBS).

10.4 In the revised budget for FY19, total revenue receipts as percentage of GDP targeted at 12.5 percent which was 9.6 percent in FY18. The total tax revenue receipts as percentage of GDP was 11.4 percent in FY19 which was 8.6 percent in the preceding fiscal year. Similarly, total non-tax revenue as percentage of GDP targeted at 1.1 percent in the revised budget for FY19 which was 1.0 percent in FY18.

Expenditure

10.5 The total expenditure in the revised budget for FY19 amounted to BDT 4425.4

billion (17.4 percent of GDP) which was 37.5 percent higher than the actual expenditure in FY18. The operating expenditure in the revised budget for FY19 targeted at BDT 2667.3 billion (10.5 percent of GDP) which was 39.3 percent higher than the actual operating expenditure of BDT 1914.7 billion in FY18 (Table 10.1).

10.6 In the revised budget for FY19, direct taxes on income and profit increased by 61.2 percent to BDT 951.7 billion from BDT 590.3 billion in FY18. Receipts from stamp duty (non judicial), import duty, value added tax (VAT), export duty, narcotics and liquor duty, supplementary duty, other taxes and duties, and land revenue increased by 68.4, 57.1, 53.6, 48.4, 25.6, 23.9, 16.0 and 1.3 percent respectively in FY19 compared to those of FY18. However, receipts from excise duty and taxes on vehicle are revised to decrease by 6.7 and 3.4 percent respectively in the revised budget for FY19 compared to that of FY18 (Table 10.2).

10.7 Under the non-tax revenue head, interest, receipts for services rendered, administrative fees and charges, dividend and profit, tolls, rent and leases, and non-commercial sales increased by 158.2, 70.2, 69.9, 15.2, 7.3, 5.6 and 5.0 percent respectively in FY19 compared to those of FY18. On the contrary, capital revenue, and fines, penalties and forfeiture decreased by 52.9 and 7.5 percent respectively over the same period (Table 10.2). Compositions of revised tax revenue receipts for FY19 and projected tax revenue receipts for FY20 are depicted in Chart 10.1 and Chart 10.2 respectively.

10.8 The Annual Development Programme (ADP) in the revised budget for FY19

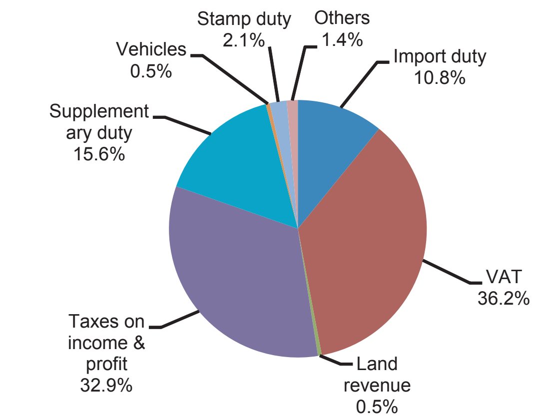
Table 10.2 Composition of Revenue Receipts

(in billion BDT)

Items	FY18	FY19*	FY20@
1. Tax revenue	**1943.3**	**2896.0**	**3401.0**
A. NBR Tax revenue	**1871.1**	**2800.0**	**3256.0**
i. Taxes on income and profit	590.3	951.7	1139.1
ii. Import duty	199.9	313.9	365.0
iii. Export duty	0.3	0.5	0.5
iv. Supplementary duty	365.1	452.2	481.5
v. Value Added Tax (VAT)	682.2	1048.0	1230.7
vi. Excise duty	21.2	19.8	22.4
vii. Other taxes and duties	12.1	14.0	16.8
B. Non NBR Tax revenue	**72.2**	**96.0**	**145.0**
i. Narcotics and liquor duty	0.8	1.0	1.1
ii. Taxes on vehicles	14.8	14.3	14.3
iii. Land revenue	13.8	14.0	14.0
iv. Stamp duty (non judicial)	36.7	61.8	110.5
v. Surcharge	6.1	4.9	5.1
2. Non-tax revenue	**222.3**	**270.1**	**377.1**
i. Administrative fees and charges	25.7	43.7	88.9
ii. Dividend and profit	19.5	22.4	35.0
iii. Interest	19.9	51.4	83.2
iv. Capital revenue	7.0	3.3	2.5
v. Receipts for services rendered	35.5	60.4	72.8
vi. Tolls	6.1	6.6	6.9
vii. Fines, penalties and forfeiture	6.0	5.6	2.9
viii. Non commercial sales	17.4	18.3	26.2
ix. Rents and leases	4.6	4.9	6.3
x. Other non-tax revenue and receipts	80.6	53.7	52.6
Total	**2165.6**	**3166.1**	**3778.1**

* Revised, @ Estimated.
Source : Budget in Brief, 2019-20, Ministry of Finance

Chart 10.1 Composition of Tax Revenue* : FY19



* Revised.
Source: Budget in Brief 2019-20, Ministry of Finance.

amounted to BDT 1670.0 billion (6.6 percent of GDP) which was 39.7 percent higher than the actual ADP in FY18. In the revised budget for FY19, it is found that nearly, 29.3 percent of the total ADP was spent on the infrastructure sector (power, oil, gas and natural resources, transport and communication), 15.8 percent on the social sector (education and religion, and health, nutrition, population and family welfare), and 4.1 percent on agriculture sector (Table 10.3) respectively.

Budget Deficit and its Financing in FY19

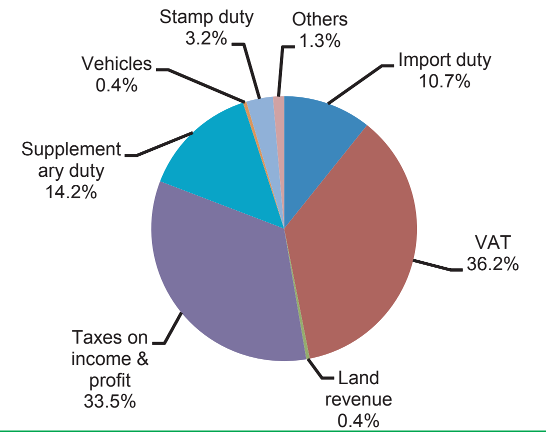
10.9 Total deficit (excluding grants) in the revised budget for FY19 revised at BDT 1259.3 billion (5.0 percent of the GDP) (Table 10.1). The domestic borrowing component of the deficit financing was BDT 787.5 billion (3.1 percent of the GDP) in FY19. Of this component, BDT 309.0 billion (1.2 percent of the GDP) was bank borrowing and BDT 478.5 billion (1.9 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 434.0 billion (1.7 percent of the GDP) (Table 10.4).

Major Revenue Measures in FY19 Budget

Direct Tax

10.10 Direct taxes on income and profit are considered as one of the principal sources of Government revenue. It accounted for 32.9 percent share of the total tax revenue in the revised budget for FY19

Chart 10.2 Composition of Tax Revenue* : FY20



* Estimated.
Source: Budget in Brief, 2019-20, Ministry of Finance.

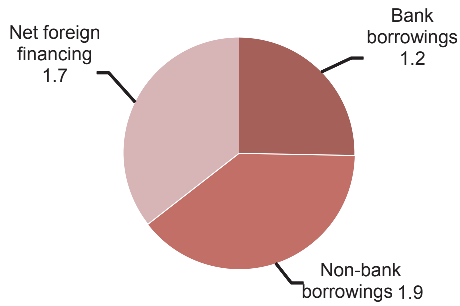
Table 10.3 Sectoral Shares in ADP Expenditure (In Percent)

Sectors	FY18*	FY19*	FY20@
Agriculture	3.6	4.1	3.8
Transport	25.3	12.8	26.1
Education& religion	9.6	9.3	10.6
Physical planning, water supply & housing	10.2	12.2	12.0
Power	15.1	13.9	12.8
Rural development & institutions	11.3	9.1	7.5
Health, nutrition, population & family welfare	6.5	6.5	6.4
Water resources	2.8	3.0	2.8
Industries	1.1	1.2	1.7
Oil, gas & natural resources	0.9	1.3	1.0
Communication	0.6	1.2	1.6
Others	13.0	25.3	13.9
Total	100	100	100

*Revised, @ Estimated.

Source : Revised Annual Development Programme, 2017-18, 2018-19 and Annual Development Programme 2019-20, Ministry of Planning

Chart 10.3 Deficit Financing* (including Grants) : FY19 (percent of GDP)



* Revised.
Source: Budget in Brief, 2019-20, Ministry of Finance.

compared with 30.4 percent in FY18. The major measures on direct taxes in the national budget for FY19 included:

Taxes on Individual Income

- Tax exempted income limit for general taxpayer remained the same at BDT 2,50,000.
- Tax exemption threshold for women and senior citizens aged 65 years or above remained the same at BDT 3,00,000.
- Tax exempted income limit for physically challenged individual remained the same at BDT 4,00,000.
- Tax exempted income limit for war-wounded gazetted freedom fighters remained the same at BDT 4,25,000.
- Tax exempted threshold for the parents or legal guardian of a person with disability shall be higher by BDT 50,000 from BDT 25,000 for each of such child or dependent.
- Tax rate for income of non-resident and income of Co-operative Society remained unaltered at 30 percent and 15 percent respectively.
- Existing minimum tax for a taxpayer, 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 of any other city corporation, and BDT 3,000 for the residents of any other area is kept unchanged.

Taxes on Corporate Income

- Tax rate for publicly traded company remained the same at 25.0 percent but that of publicly traded bank, insurance and financial institutions reduced to 37.5 percent from existing 40.0 percent.
- Tax rate for non-publicly traded company remained the same at 35.0 percent but that of non-publicly traded bank, insurance and financial institutions reduced to 40 percent from existing 42.5 percent.
- Tax rate for merchant banks remained the same at existing 37.5 percent.
- Tax rate for cigarette, bidi, zarda, chewing tobacco, gul or any other tobacco manufacturer remained the same at existing 45 percent.
- Tax rates for publicly traded and non-publicly traded mobile phone operators remained the same at 40 percent and 45 percent respectively.
- The tax rate of the manufacturer and exporter of readymade garments remained at 15 percent. However, any garment factory having green building certificate shall enjoy tax rate of 12 percent from 14 percent.

Value Added Tax (VAT)

10.11 Value Added Tax (VAT) is the single largest source of tax revenue collection in Bangladesh. VAT representing 36.2 percent of total tax revenue increased by 53.6

percent to BDT 1048.0 billion in FY19 compared to BDT 682.2 billion in FY18. The marginal changes on VAT in the national budget for FY19 included:

VAT Impositions and Expansions

- 2 percent VAT is now applicable on the sale of flats of any size which is less than 1600 square feet instead of several rates that were applicable previously. Existing 4.5 percent VAT rate for flats bigger than 1600 feet is kept unchanged. Moreover, 2 percent VAT is applicable on the resale of flat irrespective of size.
- Imposition of 5 percent VAT on selling of furniture instead of existing 4 percent and 7 percent VAT on manufacturing of the furniture instead of existing 5 percent is now declared.
- Transport Contractor of petroleum products, buyer of auctioned goods and branded garments outlet are subject to 5 percent of VAT instead of existing 4 percent. Besides, 5 percent VAT shall also be applicable on sale of non-branded garment items in the local market.
- Imposition of 5 percent VAT on information technology related services instead of 4.5 percent is now applicable.
- Advance Trade VAT (ATV) is fixed at 5 percent at both import and trading stages instead of existing 4 percent.
- Businesses under newly defined "Virtual Business Code" will be subject to 5 percent VAT.

Table 10.4 Composition of Budget Financing

(In billion BDT)

Items	FY18	FY19*	FY20@
Domestic Financing	788.2	787.5	773.6
Bank borrowing	117.3	309.0	473.6
Non-bank borrowing	670.8	478.5	300.0
Foreign financing (net)	256.2	434.0	638.5
Budget Deficit (including grants)	1044.4	1221.4	1412.1
Budget Deficit (excluding grants)	1053.1	1259.3	1453.8
GDP (Memorandum Item)	22504.8	25424.8	28858.7

* Revised, @ Estimated.
Source : Budget in Brief, 2019-20, Ministry of finance
Bangladesh Bureau of Statistics (BBS).

- Supplementary duty rate has been increased to 35 percent from existing 20 percent on energy drinks.
- Fixing the low segment for every 10 sticks of cigarette at BDT 32 and above while increasing the supplementary duty rate to 55 percent, medium segment at BDT 48 and increasing the supplementary duty rate to 65 percent, high segment at BDT 75 and BDT 101 and maintaining the existing supplementary duty rate of 65 percent.
- All the similar cosmetics and beauty products like lipstick, nail polish, body lotion are now subject to 10 percent supplementary duty.
- Supplementary duty rate of 15 percent from existing 10 percent is now applicable on toiletries, perfumes (except attar), body sprays and similar items (except aromatic vapour).
- Cigarette and bidi papers are now subject to supplementary duty rate of 25 percent from existing 20 percent.
- Supplementary duty rate on bathtubs, zacuji and shower trays is set at 30 percent from existing 20 percent.

- 10 percent supplementary duty is imposed on filament lamps to reduce the use of energy inefficient filament lamps.
- Helicopter service is now subject to 20 percent of supplementary duty.
- To encourage and facilitate use of jute bags, 10 percent supplementary duty is now applicable on the production of all kinds of polythene and plastic bags.
- Instead of existing 10 percent of supplementary duty, the bills of any restaurants that sell liquor with food items and arrange floor shows are now subject to 20 percent of supplementary duty.

VAT Exemptions

- Loaf, bread, buns, handmade biscuits valuing up to BDT 100 per kilogram and handmade cakes except party cakes valuing up to BDT 150 per kilogram are now exempted from VAT.
- Sandals and slippers made of rubber and plastic valuing up to BDT 150 per pair are now exempted from VAT.
- Import of coriander seed and melon seed, millet seed as a fodder crop seed which is necessary for animal feeding has now been exempted from VAT as part of the Government's incentive package provided to the agriculture sector.
- VAT and surcharge has been exempted from mobile telephone set manufacturing to attract investment in this sector.
- In order to substitute import of foreign motorcycles by locally produced motorcycles as well as to boost the export of motorcycles, local manufacturers of motorcycles have been kept free of VAT.
- Port services rendered by the civil aviation authority for operating international flights have been kept out of VAT net.
- Existing VAT on the commission of the insurance agent has been exempted.
- Giving importance to the safety issues of the citizens, Erythropoietin, a very important medicine for the treatment of cancer and kidney, is now kept out of VAT.

Custom Duties and Taxes

10.12 Aiming at ensuring necessary protection to the promising domestic industries under global competing scenario, helping expand of the export market and maintaining competitiveness of Bangladesh economy, the existing customs duty slabs have been rationalized by reducing prevailing discrepancies from time to time. Besides, inconsistent duty-tax structures have been corrected to combat against smuggling and fake declarations. Import duty increased by 57.1 percent to BDT 313.9 billion in FY19 compared to BDT 199.9 billion in FY18. The proposed changes on custom duties and taxes in the national budget for FY19 include:

- Considering the protection of the local farmer's interest, 25 percent customs duty and 3 percent regulatory duty has been re-imposed on rice importation to discourage the import of rice.

- To encourage poultry sector, customs duty has been reduced to 0 percent and regulatory duty to 5 percent on soya bean oil cake and flours used in the poultry industry.
- Existing 25 percent custom duty on the export of tobacco has been withdrawn to reduce the domestic consumption of the tobacco.
- To protect local food processing industries i.e. honey, chewing gum, sugar confectionery, chocolate, cocoa food, nuts, cereals, and oats, customs duties of these products have been proposed to increase to 25 percent on bulk import for retail packing.
- Exemption and concessionary rate of duties have been proposed for some pharmaceutical raw materials including that of cancer medicines, raw materials of Active Pharmaceuticals Ingredients (API).
- Besides exemptions on the raw materials for 100 percent export oriented industry, this exemption facility of import duties has been expanded for textile raw materials i.e. Flax fibre and flax tow
- Regulatory Duty on Ferro Alloy has been reduced to 10 percent from 15 percent and specific customs duty on import of Sponge Iron is fixed at 800/MT from 1000/MT.
- Import duty is reduced to 10 percent for Filled Milk Powder (FMP) when imported in bulk quantities.
- To facilitate local refrigerator and compressor industry, custom duty has been fixed at 5 percent on refrigerant, printed still sheet (0.3mm), copper tube, capacitor, connector, terminal and electrical apparatus, and 15 percent on wielding wire, spring and gasket.
- To facilitate local printing industries, import duties have been reduced to 10 percent on raw material like flexo and gravure in liquid form.
- Re-melted lead export from Bangladesh is now subject to 25 percent of export duty.
- For the protection of local electronics industries, import duty of finished mobile charger, UPS/IPS, voltage stabilizer has been increased to 15 percent, custom duty on automatic circuit barker has been increased to 10 percent and supplementary duty on lamp holder has been increased to 20 percent.
- Considering greater safety of the students, special concession or duty exemption has been proposed on the import of school bus.
- Supplementary duty on the importation of 1600-1800cc hybrid motors is reduced to 20 percent from 45 percent.
- To facilitate the tire and tube industry, customs duty on paraffin wax is reduced to 10 percent and on phenolic resin to 5 percent.

- To protect domestic producers of bicycle parts, customs duty of bicycle parts i.e. brakes and saddle has been increased to 25 percent.

- To facilitate local cell phone manufacturing industry, duties have been reduced from some raw materials as well as to expedite and expand IT and computer use, import duties of some software like database software and productivity software in any form has been reduced to 50 percent.

Table 10.5 Composition of Revenue Expenditure (In billion BDT)

Sectors	FY18	FY19*	FY20@
Social sector	857.3	1200.9	1393.8
Public services	278.6	675.8	964.7
Interest on domestic debt	381.6	452.8	528.0
Defense	211.5	307.0	321.0
Public order and safety	220.5	280.7	276.4
Interest on foreign debt	36.1	34.7	42.7
Agriculture sector	191.3	253.6	283.5
Transport and communication	400.8	491.9	648.2
Energy and power	285.6	265.0	280.5
Local government and rural development	215.7	343.2	378.9
Housing	34.6	61.5	66.0
Others	105.1	58.5	48.2
Total	**3218.6**	**4425.4**	**5231.9**

* Revised, @ Estimated.
Source : Budget in Brief, 2019-20, Ministry of Finance

Table 10.6 Composition of Social Sector Revenue Expenditure (In billion BDT)

	FY18	FY19*	FY20@
Education & technology	475.7	662.7	794.9
Health	168.4	223.4	257.3
Recreation, culture and religious affairs	30.8	45.7	43.9
Labour and employment	1.5	2.7	3.1
Social security and welfare	180.9	266.4	294.6
Total	**857.3**	**1200.9**	**1393.8**

* Revised, @ Estimated.
Source : Budget in Brief, 2019-20, Ministry of Finance

FY20 Budget and the Way Forward

10.13 The budget of FY20 has been formulated aiming at higher GDP growth, lower inflation and gearing up investment. In the budget for FY20, the GDP growth target has been set at 8.2 percent, average inflation rate at 5.5 percent and the budget deficit is expected to be within 5.0 percent of GDP.

10.14 The total size of the budget for FY20 is set at BDT 5231.9 billion, which is 18.1 percent of the GDP and 18.2 percent higher than the revised budget for FY19. The estimated outlay for Annual Development Programme (ADP) for FY20 stands at BDT 2027.2 billion, which is about 7.0 percent of GDP. This developmental expenditure turns out 21.4 percent higher than that of the revised budget of the previous fiscal year. In the ADP for FY20, about 17.0 percent of development outlay has been allocated to the human resource sector (education, and health, nutrition, population and family welfare), 14.0 percent to overall agricultural sector (agriculture, rural development and institutions and water resources), 13.8 percent to power and energy sector, 26.1 percent to transport (roads, railway, bridges and others related to transport) sector, 12.0 percent to physical planning, water supply and housing sector, and 17.2 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 FY20, about 27.4

percent of total outlay has been allocated for social infrastructure, of which 24.7 percent is set for human resources sector (education, health, science and technology and other related sectors). About 31.5 percent of total outlay has been allocated for physical infrastructure, of which 12.7 percent goes to wider agriculture and rural development, 11.7 percent to overall communication sector and 5.4 percent to power and energy sector. About 23.6 percent of total outlay has been allocated for general service sector. An allocation of 6.4 percent of total outlay has been allocated for PPP projects, financial assistance for different industries, subsidies and equity investment in state-owned commercial and financial institutions.

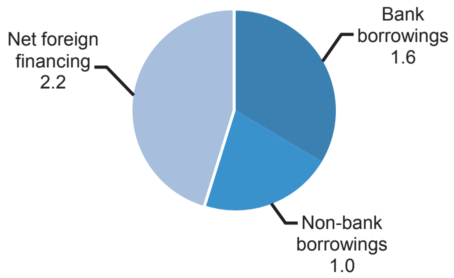
10.16 Apart from these three major categories, 10.9 percent of total outlay has been allocated for interest repayment and the rest 0.2 percent has been allocated for net lending and other expenditures. Like the preceding fiscal years, ADP allocation has been estimated with a view to giving priority to ensure regional parity, developing human resources and infrastructure, and securing quality of spending with achievement of results

Revenue Receipts for FY20

10.17 The revenue receipts in FY20 is targeted to grow by 19.3 percent to BDT 3778.1 billion (13.1 percent of the GDP) compared to that of the revised budget for FY19. The tax and non-tax revenue receipts are expected to increase by 17.4 percent

Chart 10.4 Deficit Financing* (including Grants) : FY20

(percent of GDP)



* Estimated.
Source: Budget in Brief, 2019-20, Ministry of Finance.

and 39.6 percent respectively compared to those of the revised budget for FY19. Total revenue-GDP ratio is projected to increase to 13.1 percent in the FY20 compared to 12.5 percent in FY19 (Table 10.1). Receipts from the direct taxes on income and profits is projected to increase by 19.7 percent in FY20 compared to that of the revised budget for FY19 while 14.5 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 56.0 percent in FY20 compared to that of the revised budget for FY19 (Table 10.2).

10.18 Receipts from other non-tax revenue and receipts such as administrative fees and charges; interest; dividend and profit; non commercial sales; receipts from rent and leases and recoveries and service fees are expected to rise by 103.5, 61.8, 56.0, 42.8, 29.6 and 20.6 percent respectively in FY20. On the other hand, receipts from fine, penalties and forfeiture and capital revenue are expected to decline by 48.0 and 23.6

percent respectively in FY20 compared to that of the revised budget for FY19.

Expenditure for FY20

10.19 The total public expenditure in FY20 is expected to increase by 18.2 percent to BDT 5231.9 billion compared to the revised budget for FY19. The operating expenditure is expected to grow by 16.3 percent, the ADP by 21.4 percent, other expenditure by 15.8 percent over the revised budget for FY19 (Table 10.1). The projected operating expenditure for FY20 is set at BDT 3102.6 billion (Table 10.1). About 26.6 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, and health sector (Table 10.6).

Deficit Budget and its Financing in FY20

10.20 The budget deficit (excluding grants) for FY20 is estimated at BDT 1453.8 billion which is BDT 194.5 billion higher than that of the revised budget for FY19. The projected budget deficit-GDP ratio for the FY20 is 5.0 percent which was the same for the previous fiscal year. The deficit is expected to be financed through borrowing from domestic banks and non-bank sources to the tune of BDT 773.6 billion (2.7 percent of GDP) and external financing to the tune of BDT 638.5 billion (2.2 percent of GDP) in FY20 (Charts 10.4) against BDT 787.5 billion (3.1 percent of GDP) and BDT 434.0 billion (1.7 percent of GDP) in the revised budget for FY19 respectively. Of total domestic borrowing, BDT 473.6 billion is projected to be financed from the banking system and BDT 300.0 billion from non-banking sources (Table 10.4).