

## Public Finance

10.01 Government of Bangladesh (GoB) devises fiscal policy for the optimal allocation of resources with a view to achieving higher and inclusive growth, alleviating poverty, generating employment opportunity, raising standard of living, reducing inequality and attaining sustainability in development. As a developing country, for increasing investment spending, Bangladesh usually follows deficit budget strategy. However, budget deficit has always been kept at a reasonable as well as tolerable level in order to ensure the desired macroeconomic development and stability. GDP growth calculated by Bangladesh Bureau of Statistics (BBS) was 6.94 percent only due to the recurrent shocks of the ongoing COVID-19 pandemic and consequent containment measures in the form of mobility restrictions and nationwide lockdowns in economic activities against the revised target of 6.1 percent in FY21.

### Revised Budget for FY21 and Fiscal Outcome

#### Revenue Receipts

10.02 In the revised budget for FY21, revenue target was set at a higher level compared to that of the previous fiscal year. In order to attain the increased target, various steps like administrative reforms, automation and digitalisation in collection process, expansion of tax net via motivating the taxpayers, compulsory taxpayers identification number (TIN) certificate for receiving different utility services, obligatory submission of return for all the TIN holders, increased electric fiscal device (EFD) and sales data controller (SDC) for business entity etc. have been taken for revenue collection. Therefore, collection of

**Table 10.01 Budget at a glance**

(In billion BDT)

Items	Volume			As Percentage of GDP		
	FY20	FY21 <sup>R</sup>	FY22 <sup>P</sup>	FY20	FY21 <sup>R</sup>	FY22 <sup>P</sup>
<b>1. Total revenue</b>	<b>2659.1</b>	<b>3515.3</b>	<b>3890.0</b>	<b>8.4</b>	<b>10.0</b>	<b>11.3</b>
a. Tax	2219.8	3160.0	3460.0	7.0	9.0	10.0
b. Non-tax	439.3	355.3	430.0	1.4	1.0	1.2
<b>2. Total expenditure</b>	<b>4201.6</b>	<b>5389.8</b>	<b>6036.8</b>	<b>13.3</b>	<b>15.3</b>	<b>17.5</b>
a. Operating	2548.8	3236.9	3615.0	8.0	9.2	10.5
b. ADP	1553.8	1976.4	2253.2	4.9	5.6	6.5
c. Others	99.0	176.5	168.6	0.3	0.5	0.5
<b>3. Budget deficit</b>	<b>1542.5</b>	<b>1874.5</b>	<b>2146.8</b>	<b>4.9</b>	<b>5.3</b>	<b>6.2</b>

<sup>P</sup> Proposed, <sup>R</sup> Revised.

Source : Budget in Brief, 2021-22, Ministry of Finance (proposed) and Bangladesh Bureau of Statistics (BBS).

revenue by the National Board of Revenue (NBR) increased significantly in FY21 than that of the last few years.

10.03 In the revised budget for FY21, total revenue receipts targeted at BDT 3515.3 billion, which was 7.0 percent lower than initial target, but 32.2 percent higher than the actual revenue receipts in FY20. The revised target for tax revenue collection stood 89.9 percent of the total revenue receipts which was 42.4 percent higher than that of the actual tax revenue collected in FY20. However, the revised target for non-tax revenue collection for FY21 was 19.1 percent lower than the actual collection for that in FY20 (Table 10.01).

10.04 In the revised budget for FY21, total revenue receipts as percentage of provisional GDP stood at 10.0 percent which was 8.4 percent in FY20. The target for total tax revenue receipts as percentage of provisional GDP revised at 9.0 percent in FY21 which was 7.0 percent in FY20. Similarly, total non-tax revenue as percentage of provisional GDP revised at 1.0 percent in FY21 which was 1.4 percent in FY20.

10.05 In the revised budget for FY21, taxes on income, profit and capital gains was set to increase by 27.2 percent to BDT 959.5 billion from BDT 754.2 billion in FY20. In FY21, revised target for receipts from sales of stamps (non-judicial), land development tax, import duty, supplementary tax, excise duty, value added tax (VAT) and other taxes were set to increase by 293.5, 149.2, 56.6, 48.5, 42.7, 42.2 and 11.3 percent respectively compared to the actual collection of those in FY20. However, the revised target for receipts from motor vehicle tax and export duty were set to decrease by 49.1 and 29.9 percent respectively in FY21 compared to the actual collection for those in FY20 (Table 10.02). Compositions of revised tax revenue receipts for FY21 is given in Chart 10.01.

10.06 Under the non-tax revenue items, administrative fees, non-commercial sales, service fee and capital receipts were set to increase by 171.8, 32.6, 14.3 and 12.3 percent respectively in the revised budget for FY21 compared to the actual collection of those in FY20. On the contrary, dividend and profit, fines, penalties and forfeiture, and rent and leases were revised down by 51.4, 30.0, and 9.3 percent respectively over the same period (Table 10.02).

### Expenditure

10.07 The total expenditure in the revised budget for FY21 was set at BDT 5389.8 billion (15.3 percent of GDP), 28.3 percent higher than the actual expenditure in FY20. The operating expenditure in the revised budget for FY21 is targeted at BDT 3236.9 billion (9.2 percent of GDP) which was 27.0 percent higher

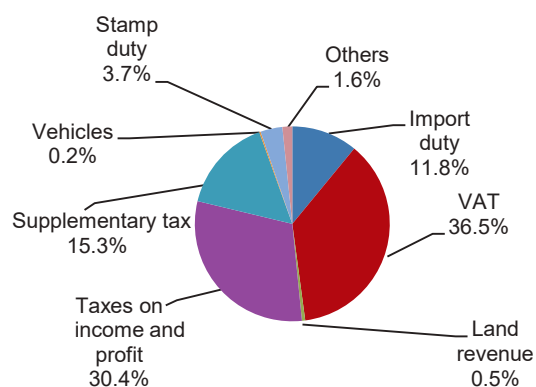
**Table 10.02 Composition of Revenue Receipts**

Items	(In billion BDT)		
	FY20	FY21 <sup>R</sup>	FY22 <sup>P</sup>
<b>1. Tax revenue</b>	<b>2219.8</b>	<b>3160.0</b>	<b>3460.0</b>
<b>A. NBR Tax revenue</b>	<b>2160.4</b>	<b>3010.0</b>	<b>3300.0</b>
i. Taxes on income, profit and capital gains	754.2	959.5	1049.5
ii. Import duty	237.2	371.5	379.1
iii. Export duty	0.8	0.5	0.6
iv. Supplementary tax	325.3	483.0	544.7
v. Value Added Tax	810.5	1152.2	1277.5
vi. Excise duty	23.0	32.8	38.3
vii. Other taxes	9.4	10.5	10.5
<b>B. Non-NBR Tax revenue</b>	<b>59.4</b>	<b>150.0</b>	<b>160.0</b>
i. Narcotics and liquor duty	0.7	1.3	1.4
ii. Motor vehicles tax	15.7	8.0	8.0
iii. Land development tax	6.7	16.6	18.8
iv. Sale of stamps (non-judicial)	30.1	118.5	126.2
v. Surcharge	6.2	5.6	5.6
<b>2. Non-tax revenue</b>	<b>439.2</b>	<b>355.3</b>	<b>430.0</b>
i. Administrative fees	23.8	64.7	72.1
ii. Dividends and profits	34.7	16.9	20.6
iii. Interest	19.1	126.9	155.9
iv. Capital receipts	1.9	2.1	3.3
v. Service fee	43.2	49.4	54.5
vi. Tolls	6.8	8.1	10.0
vii. Fines, penalties and forfeiture	6.0	4.2	4.6
viii. Non-commercial sales	17.9	23.8	33.2
ix. Rents and leases	5.0	4.5	4.6
x. Other non-tax revenue and receipts	280.9	54.8	71.1
<b>Total</b>	<b>2659.0</b>	<b>3515.3</b>	<b>3890.0</b>

<sup>P</sup> Proposed, <sup>R</sup> Revised.

Source : Budget in Brief, 2021-22, Ministry of Finance.

**Chart 10.01 Composition of Tax Revenue<sup>R</sup> : FY21**



<sup>R</sup> Revised.

Source : Budget in Brief, 2021-22, Ministry of Finance.

than the actual operating expenditure of BDT 2548.8 billion in FY20 (Table 10.01).

10.08 From the sectoral allocation of total expenditure, a total of BDT 1447.8 billion was allocated in social sector (education and technology, health, social security and welfare, etc.) in FY21 compared to BDT 1116.4 billion spent in this sector in FY20 (Table 10.06) . In FY21, allocation in this social sector is 29.7 percent higher than that was actually spent in FY20. This constitutes approximately 26.9 percent of the total allocation. Of the other sectors, allocation in public service, agriculture, transport and communication increased to BDT 953.4, 297.3 and 601.1 billion in respectively in FY21. On the contrary, allocation in power and energy, and defense reduced to BDT 237.8 and 335.0 billion respectively in FY21 (Table 10.05).

10.09 The Annual Development Programme (ADP) in the revised budget for FY21 amounted to BDT 1976.4 billion (5.6 percent of GDP) which was 27.2 percent higher than the actual ADP in expenditure FY20 (Table 10.01).

### Budget Deficit and its Financing in FY21

10.10 In the revised budget for FY21, total deficit (excluding grants) revised at BDT 1874.5 billion which was 5.3 percent of GDP (Table 10.01). Government finances its budget deficit from both domestic and external sources. Government domestic borrowing consists of borrowing from banking system and other than banks (non-banks). The domestic borrowing component of the deficit financing was BDT 1150.5 billion (3.25 percent of GDP) in FY21. Of this component, BDT 797.5 billion (2.25 percent of GDP) was bank borrowing and BDT 353.0 billion (1.0 percent of GDP) was non-bank borrowing which was mainly through sales of national savings certificates (Chart 10.02). The foreign financing to the budget deficit was BDT 724.0 billion (2.05 percent of GDP) (Table 10.04).

**Table 10.03 Sectoral share of ADP expenditure**

(In percent)			
Sectors	FY20	FY21 <sup>R</sup>	FY22 <sup>P</sup>
Agriculture	4.1	3.9	3.4
Transport and communication <sup>1</sup>	26.7	25.7	27.4
Education, religion, culture and recreation <sup>2</sup>	11.4	12.4	11.3
Power and energy <sup>3</sup>	13.0	12.0	20.4
Housing and community utilities <sup>4</sup>	12.6	13.4	10.5
Local government and rural development <sup>5</sup>	7.6	9.3	6.3
Health <sup>6</sup>	6.4	7.6	7.7
Environment, climate change and water resources <sup>7</sup>	2.7	3.4	3.8
Others	15.5	12.3	9.2
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

<sup>1</sup> Up to FY21, individual allocation for transport and communication were added to find this values.

<sup>2</sup> Up to FY21, individual allocation for education & religion, sports and culture and mass communication were added to find this value.

<sup>3</sup> Up to FY21 individual allocation for power and oil, gas, natural resources were added to find this values.

<sup>4</sup> Physical planning, water supply & housing;

<sup>5</sup> Rural development & institutions;

<sup>6</sup> Health, nutrition, population & family welfare;

<sup>7</sup> Water resources.

<sup>P</sup> Proposed, <sup>R</sup> Revised.

Source : Revised Annual Development Programme, 2019-20, 2020-2021 and Annual Development Programme 2021-22, Ministry of Planning.

## Major Changes in Revenue Measures in the Budget for FY21

### Direct Tax

10.11 Direct tax on income, profit and capital gains is considered as one of the principal sources of government revenue. It accounts for 30.4 percent share of the total tax revenue collection in the revised budget for FY21 which is somewhat lower compared to 34.0 percent in FY20 as the pandemic has stricken earnings of the common mass. Marginal changes were made on direct taxes in the national budget for FY21 which are depicted below:

### Taxes on Individual Income in FY21

- ✓ Considering the loss of real income due to inflation and the financial impact of COVID-19 pandemic on the taxpayers, tax exempted income limit for general taxpayer has been increased to BDT 3,00,000 from BDT 2,50,000;

- ✓ Tax exemption threshold for women and senior citizens aged 65 years or above has been increased to BDT 3,50,000 from BDT 3,00,000;
- ✓ The minimum tax rate for individuals has been reduced to 5 percent from 10 percent as well as the maximum tax rate to 25 percent from 30 percent;
- ✓ Tax rebate of BDT 2000 has been proposed for all the taxpayers who will file their income tax returns online for the first time.

### Taxes on Corporate Income

- ✓ Tax rate for the publicly-traded company remained the same at 25 percent;
- ✓ Tax rate for non-publicly traded companies has been reduced to 32.5 percent from existing 35 percent;
- ✓ RMG factories having green building certification currently enjoy a special tax rate of 10 percent, whereas RMG factories without such certification pay taxes at a rate of 12 percent. This facility has been extended for 2 more years.

### Value Added Tax (VAT)

10.12 Value added tax (VAT) is the single largest source of tax revenue collection in Bangladesh. In the revised budget for FY21, collection from VAT represents 36.5 percent of total tax revenue. The revised target of VAT revenue collection in FY21 was set at BDT 1152.2 billion which was 42.2 percent higher than BDT 810.5 billion of FY20. The new Value Added Tax and Supplementary Duty Act, 2012 has speeded up the process of growth in trade

**Table 10.04 Composition of Deficit Financing**

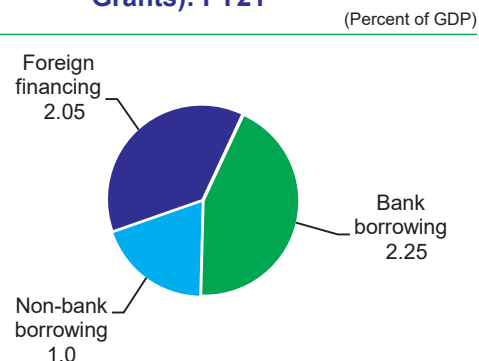
(In billion BDT)			
Items	FY20	FY21 <sup>R</sup>	FY22 <sup>P</sup>
Domestic financing	1080.5	1150.5	1134.5
	(3.4)	(3.25)	(3.3)
Bank borrowing	792.7	797.5	764.5
	(2.5)	(2.25)	(2.2)
Non-bank borrowing	287.8	353.0	370.0
	(0.9)	(1.0)	(1.1)
Foreign financing (net)	441.3	724.0	1012.3
	(1.4)	(2.05)	(2.9)
Budget deficit (including grants)	1517.3	1834.7	2111.9
	(4.8)	(5.2)	(6.1)
Budget deficit (excluding grants)	1542.5	1874.5	2146.8
	(4.9)	(5.3)	(6.2)
<b>GDP (memorandum item)</b>	<b>31704.7<sup>#</sup></b>	<b>35301.8<sup>#</sup></b>	<b>34560.4</b>

Note: Figures in parenthesis indicate percent of GDP for the corresponding financial year.

<sup>P</sup> Proposed, <sup>R</sup> Revised.

Source : Budget in Brief, 2021-22, Ministry of Finance (proposed) and <sup>#</sup>Bangladesh Bureau of Statistics.

**Chart 10.02 Deficit Financing (Excluding Grants): FY21<sup>R</sup>**



<sup>R</sup> Revised.

Source: Budget in Brief, 2021-22, Ministry of Finance and Bangladesh Bureau of Statistics.

and commerce and socio-economic development of the country despite the economic losses due to the pandemic.

### VAT Impositions and Expansions

- ✓ Advance tax has been reduced to 4.0 percent from existing 5.0 percent on imported raw materials of manufacturing industries;

- ✓ VAT was increased to 7.5 percent from existing 5.0 percent on furniture at showroom stage;
- ✓ VAT was increased to 10.0 percent from existing 5.0 percent for air-conditioned launch services;
- ✓ Existing 5.0 percent VAT on assembling mobile phone set is proposed to be continued to protect the local manufacturers of this industry;
- ✓ To encourage the growth of local ICT sector, VAT on domestic production of loaded Printed Circuit Board (PCB), unloaded PCB and router have been fixed at 5.0 percent only;
- ✓ The VAT rate has been reduced to 5.0 percent from existing 15.0 percent in maize starch and potato flakes that are manufactured from locally produced potatoes;
- ✓ To encourage the local textile industries, fixed VAT at the rate of BDT 6 per kg from existing 5.0 percent ad-valorem VAT was imposed on polyester, rayon and all other synthetic yarn, and at the rate of BDT 3 per kg from existing BDT 4 per kg on all kinds of cotton yarn.
- ✓ Existing VAT and supplementary duty exemption facility provided to the industries like automobiles, refrigerators, freezers, air conditioners have been proposed to be continued;
- ✓ Agricultural machineries such as power ripper, power tiller operated seeder, combined harvester, low lift pump, etc. was exempted from VAT at the trading stage;
- ✓ VAT rate has been withdrawn from tyre and inner tubes of rubber used on agricultural tractors at the import stage;
- ✓ To combat the COVID-19 pandemic, VAT was exempted on test kits and medicines of COVID-19 on the import, manufacturing and trading stages. Alongside, this exemption facility has also been proposed at the manufacturing and trading stages for locally manufactured personal protective equipment (PPE) and surgical mask (including face mask);
- ✓ To keep the mental health sound during the pandemic, VAT was exempted for meditation services;
- ✓ To prevent illegal import of gold and to encourage the import of gold on legal routes, existing 15 percent VAT on the import of gold bar has been withdrawn.

### VAT Exemptions

- ✓ Existing VAT exemption facilities have been continued for government's fast track projects (Rooppur power plant, high-tech parks, economic zones and the public-private partnership projects);
- ✓ Local manufacturers of mobile phone sets have been exempted from VAT;
- ✓ VAT was exempted on locally produced mustard oil;

### Customs Duty and Taxes

10.13 To ensure necessary protection to the promising domestic industries under global competing scenario, help expand of the export oriented industries, maintain competitiveness of the economy of Bangladesh, simplify and facilitate trade and commerce, the existing duty-tax structures have been rationalised from time to time. Besides, inconsistent duty-tax

structures have been corrected to combat smuggling and false declarations. In the revised budget for FY21, import duty was increased by 56.6 percent to BDT 371.5 billion from BDT 237.2 billion in FY20. The proposed changes on custom duties and taxes in the budget for FY21 include:

- ✓ The customs duty has been decreased to 1.0 percent from existing 10.0 percent for agricultural machineries such as roller chain, ball bearings, wheel parts (Rim), M.S. Sheet (1mm-3mm), gear boxes and parts thereof, blower for grain dryer, coated electrodes of base metal, steering, etc.;
- ✓ The customs duty has been reduced to 1.0 percent from 5.0 percent for tire and tube which are used in agricultural machinery;
- ✓ To help expansion and ensure protection of the domestic ship building industry, customs duty on the import of dredgers has been increased to 5.0 percent from 1.0 percent;
- ✓ The customs duty on the import of photographic plates of plastic has been reduced to 15.0 percent from existing 25.0 percent;
- ✓ To ensure sustainable development of fish, and poultry sector, existing 5.0 percent regulatory duty on soya bean oil cake and 10.0 percent customs duty on soya protein concentrate have been exempted;
- ✓ To promote the lube blending industry in Bangladesh, the customs duty on the import of base oil in bulk has been reduced to 5.0 percent from existing 10.0 percent;
- ✓ To protect indigenous honey farmer, customs duty on the import of natural honey in bulk was increased to 25.0 percent from existing 15.0 percent;
- ✓ With a view to reducing dependency on imports as well as ensuring fair market price for local onion farmers, 5.0 percent customs duty has been imposed on the import of onion.
- ✓ Tax deducted at source (TDS) on import of garlic and sugar has been decreased to 2.0 percent from existing 5.0 percent;
- ✓ Existing import duty exemption facility is kept continued for the prime ingredients of agricultural sector, especially for fertilizer, seeds, and insecticides.
- ✓ Ethylene/propylene imported by VAT registered PVC/PET resin manufacturing industry in economic zones has been exempted from existing 3.0 percent of regulatory duty.
- ✓ The customs duty on paraffin wax has been reduced to 15.0 percent from existing 25.0 percent;
- ✓ Supplementary duty has been increased to 15.0 percent from existing 10.0 percent for all kinds of services rendered by Bangladesh Road Transport Authority (BRTA) for car and jeep registration and related services;
- ✓ The supplementary duty has been increased to 30.0 percent from existing 25.0 percent on chartered aircrafts and helicopters services;
- ✓ With a view to protecting the small and medium enterprises, supplementary duty has been increased to 20.0 percent on some products such as nails, tacks, drawing pins of iron/steel;
- ✓ Printed knitted or crocheted fabrics, imported

by footwear industry have been exempted from existing 20.0 percent supplementary duty;

- ✓ The supplementary duty is increased to 10.0 percent from existing 5.0 percent for locally manufactured cosmetics;
- ✓ Imposition of 10.0 percent supplementary duty has been proposed on ceramic sink, basin, etc. at the manufacturing stage;
- ✓ The services provided by mobile phone SIM/RIM card is now subject to 15.0 percent supplementary duty instead of existing 10.0 percent;
- ✓ The minimum price of every 10-sticks of lower slab cigarette is set at BDT 39 and supplementary duty has been fixed at 57.0 percent;
- ✓ The minimum price of every 10-sticks of middle slab cigarette is set at BDT 63, that of high slab 10-sticks cigarette at BDT 97 and that of premium slab 10-sticks cigarette at BDT 128. The supplementary duty has been fixed at 65.0 percent for all three slabs;
- ✓ The price of handmade non-filter 25-sticks bidi is fixed at BDT 18 from existing BDT 14, that of 12-sticks at BDT 9 from existing BDT 6.72 and the price of 8-sticks at BDT 6 from existing BDT 4.48. But, Supplementary duty has been kept unchanged at existing 30.0 percent;
- ✓ The price of 20-sticks filter bidi is set at BDT 19 from existing BDT 17 and that of 10-sticks filter bidi at BDT 10 from existing BDT 8.50. But, supplementary duty is kept unchanged at existing 40.0 percent;
- ✓ The minimum retail price is fixed at BDT 40

per 10 grams of Jarda and BDT 20 per 10 grams of gul along with 55.0 percent of supplementary duty in both items.

### **FY22 Budget: Bangladesh towards a Resilient Future-Protecting Lives and Livelihoods**

10.14 The formulation of budget for FY22 integrates strategies/incentives to accelerate recovery of various sectors from the COVID-19 pandemic in order to retain higher growth and employment. The total size of the proposed budget for FY22 is set at BDT 6036.8 billion, which is 17.5 percent of GDP and 12.0 percent higher than the revised budget for FY21. In the budget for FY22, the target for GDP growth has been set at 7.2 percent, average inflation rate at 5.3 percent and the budget deficit is programmed to be within 6.2 percent of GDP.

### **Revenue Receipts for FY22**

10.15 The revenue receipts in FY22 is targeted to grow by 10.7 percent to BDT 3890.0 billion compared to BDT 3515.3 billion of the revised budget for FY21. The tax revenue receipts and the non-tax revenue receipts are expected to increase by 9.5 percent and 21.0 percent respectively compared to that of the revised budget for FY21. Total revenue-GDP ratio is targeted to be 11.3 percent in the FY22 which was 10.0 percent in FY21 (Table 10.01).

10.16 Receipts from the direct taxes on income, profits and capital gains is targeted to increase by 9.4 percent in FY22 compared to that of the revised budget for FY21. This constitutes 30.3 percent of the total revenue. On the other hand, 9.7 percent growth is targeted for indirect taxes (VAT, import duty, supplementary duty, and export duty). Among non-tax revenue sources, receipts from interest have been targeted to increase by 22.3 percent

in FY22 compared to that of the revised budget for FY21 (Table 10.02). Composition of revised tax revenue receipts for FY22 is given in Chart 10.03.

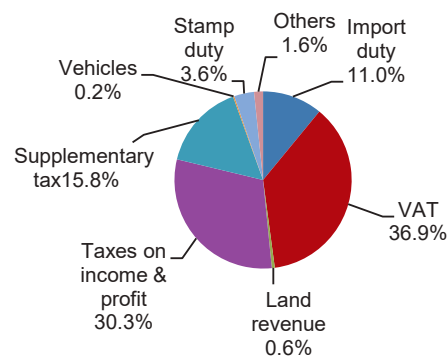
10.17 Receipts from other non-tax revenue and receipts such as capital receipts, non-commercial sales, tolls, dividend and profit, administrative fees, service fee, fine, penalties and forfeiture; and receipts from rent and leases are targeted to rise by 55.7, 39.8, 24.1, 22.3, 11.5, 10.5, 9.7, and 2.2 percent respectively in FY22 compared to those of the revised budget for FY21.

### Expenditure for FY22

10.18 The total public expenditure in FY22 is expected to increase by 12.0 percent to BDT 6036.8 billion compared to that of the revised budget for FY21. Of which, the operating expenditure for FY22 is set at BDT 3615.0 billion (10.5 percent of GDP) which is 11.7 percent higher than the revised operating expenditure of BDT 3236.9 billion in FY21. The ADP expenditure is expected to grow by 14.0 percent. On the contrary, other expenditure is expected to decrease by 4.5 percent in FY22 compared to that of the revised budget for FY21 (Table 10.01).

10.19 Different ministries and divisions have been categorised into three groups based on their allocation of businesses. These are social infrastructure, physical infrastructure and general services. In the budget for FY22, expenditure on social sector increased by 15.5 percent to BDT 1672.5 billion (27.7 percent of the total expenditure) from 1447.8 billion of the revised budget for FY21. Major portion of this sector will go to education and technology,

### 10.03 Composition of Targeted Tax Revenue : FY22<sup>P</sup>



<sup>P</sup> Proposed.

Source: Budget in Brief, 2021-22, Ministry of Finance.

### Table 10.05 Composition of Revenue Expenditure

(In billion BDT)

Sectors	FY20	FY21 <sup>R</sup>	FY22 <sup>P</sup>
Social sector	1116.4	1447.8	1672.5
Public services	392.9	953.4	1127.1
Interest on domestic debt	540.0	585.0	620.0
Defense	344.8	335.0	372.8
Public order and safety	234.3	269.5	291.2
Interest on foreign debt	43.2	53.2	65.9
Agriculture sector	219.8	297.3	319.1
Transport and communication	537.4	601.1	720.3
Energy and power	331.3	237.8	274.8
Local government and rural development	323.9	424.3	421.9
Housing	55.0	74.3	63.5
Others	62.7	111.2	87.6
<b>Total</b>	<b>4201.6</b>	<b>5389.8</b>	<b>6036.8</b>

<sup>P</sup> Proposed, <sup>R</sup> Revised.

Source : Budget in Brief, 2021-22, Ministry of Finance.

### Table 10.06 Composition of Social Sector Revenue Expenditure

(In billion BDT)

	FY20	FY21 <sup>R</sup>	FY22 <sup>P</sup>
Education and technology	659.7	786.8	948.8
Health	175.3	314.7	327.3
Recreation, culture and religious affairs	37.6	47.2	49.6
Labor and employment	3.0	3.5	3.7
Social security and welfare	240.9	295.6	343.2
<b>Total</b>	<b>1116.4</b>	<b>1447.8</b>	<b>1672.5</b>

<sup>P</sup> Proposed, <sup>R</sup> Revised.

Source : Budget in Brief, 2021-22, Ministry of Finance.

social security and welfare, and health sector (Table 10.06). Of the other sectors, an almost of



**Box 10.01 Recent Initiatives Taken for the Development of Government Securities and Money Markets****A. Issuance of Bangladesh Government Investment Sukuk (BGIS)**

Due to interest bearing nature, Islamic banks and other shariah-complaint financial institutions/investors were unable to invest their surplus liquidity in the inter-bank money market in Bangladesh for a long time. In this situation, in order to absorb surplus liquidity from the Islamic banking system, a pool of fund was created under the government guarantee in 2004 through introducing Bangladesh Government Islamic Investment Bond (BGIIB) with a minimum tenor of 3 months. However, investment opportunities for the Islamic banks and other shariah-complaint financial institutions/investors still remained very limited in our country mainly due to lack of shariah-complaint government securities. Under such situation, an investment opportunity for the Islamic banks and other shariah-complaint financial institutions/investors has been created in 2020 through issuing sovereign investment sukuk of BDT 80 billion against the ownership of existing and future assets, including usufruct, under the project named "Safe Water Supply to the Whole Country". The government has nominated **Bangladesh Bank** to act as **special purpose vehicle (SPV)** and **trustee** while the **finance division** of government will act as the **originator** for the issuance of sukuk in Bangladesh. BB as SPV issued the 1<sup>st</sup> tranche of the said sukuk on 29 December, 2020, amounting to BDT 40 billion, and on 9 June, 2021, the remaining BDT 40 billion was raised in 2<sup>nd</sup> tranche. The underlying contract of this sukuk is based on ijarah in nature. The term of the sukuk is 5 years, and investors will receive a fixed rent of 4.69 percent annually on semi-annual basis. A single investor can invest at least BDT 10,000 in this sukuk, without any upper limit, subject to availability. Shariah-based institutions and individuals, including provident funds, pension funds, banks, insurance, and corporate bodies, etc., are eligible to invest in this instrument. Sukuk has given a scope to assist Islamic banks and other shariah-complaint financial institutions/investors in managing their liquidity to some extent. It may also help to mobilise resources in the financial sector and facilitates the government's ability to implement its projects with a greater range of financial accessibility.

**B. Initiatives taken for the Development of the Long-Term Debt Market**

To encourage the development of the long-term bond market, BB has been trying to establish a long-term market-based yield curve as a reference rate. BB has announced the benchmark treasury bonds from existing treasury bonds of different terms in six classes. To increase secondary trading activities among these bonds, all primary dealers have been instructed to quote two-way prices. It will make the government securities market a vibrant one and will help to build a market based effective yield curve. Moreover, to provide efficient service to the prospective investors of government securities, BB has suggested to all banks and NBFIs for opening a separate "Government Securities Investment Window" which will provide information about the investment process in government securities, make necessary arrangements to open accounts for trading securities and provide other related services to individual and institutional investors.

**C. Electronic Dealing System (EDS) Software**

In order to make call money transactions through an electronic platform, separate software named Electronic Dealing System (EDS) has been launched by Bangladesh Bank. Commercial banks have been dealing their call money transactions through this software since 2 March, 2021. This automated system will bring transparency to the money market and help establishing the money market reference rate.

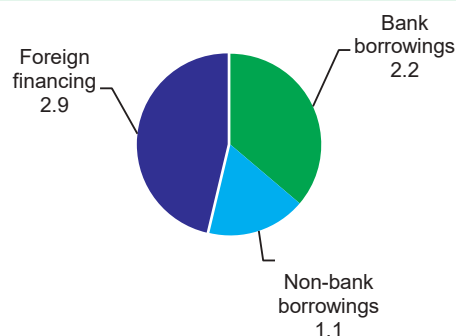
BDT 1127.1 billion (18.7 percent) for public service, BDT 720.3 billion (11.9 percent) for transport and communication, BDT 620.0 billion (10.3 percent) for interest payment on domestic debt, BDT 421.9 billion (7.0 percent) for local government and rural development, BDT 319.1 billion (5.3 percent) for agriculture, BDT 274.8 billion (4.6 percent) for energy and power sector have been allocated in this proposed budget for FY22 (Table 10.05).

10.20 The proposed outlay for Annual Development Programme (ADP) in the budget for FY22 stands at BDT 2253.2 billion, which is about 6.5 percent of GDP. This developmental expenditure turns to be 14.0 percent higher than the revised ADP in FY21 (Table 10.01). ADP expenditure is now restructured at 15 sectors and 72 subsectors, effective from FY22. In the ADP for FY22, transport and communication gets the highest priority as usual. A total of BDT 616.3 billion has been allocated in this sector which is 27.4 percent of the total ADP allocation in FY22. Of the other sectors, BDT 458.7 billion (20.4 percent) in power and energy sector, BDT 231.8 billion (10.3 percent) in education sector, BDT 173.1 billion (7.7 percent) in health sector has been allocated in ADP from this budget (Table 10.03).

### Deficit Budget and Its Financing in FY22

10.21 The budget deficit (excluding grants) for FY22 is estimated at BDT 2146.8 billion which is BDT 272.3 billion higher than that of the revised budget for FY21. The Budget deficit-GDP ratio for the FY22 turns to be 6.2 percent which was 5.3 percent in the revised budget for FY21. The deficit is expected to be financed through borrowing from domestic banks and non-bank sources to the tune of BDT 1134.5 billion (3.3

**Chart 10.04 Targeted Deficit Financing<sup>P</sup> (Excluding Grants): FY22**  
(Percentage of GDP)



<sup>P</sup> Proposed.

Source: Budget in Brief, 2021-22, Ministry of Finance.

percent of GDP) and external financing to the tune of BDT 1012.3 billion (2.9 percent of GDP) in FY22 (Chart 10.04) against BDT 1150.5 billion (3.25 percent of GDP) and BDT 724.0 billion (2.1 percent of GDP) in the revised budget for FY21 respectively. Of the total domestic borrowing, an amount of BDT 764.5 billion is targeted to be financed from the banking system and BDT 370.0 billion from non-banking sources (Table 10.04).