Public Finance

10.1 The Government budget for FY15 was formulated with the prime objective to maintain the current macroeconomic stability and promote growth. The policies and strategies were adopted in the budget in order to support inclusive growth and transform Bangladesh into a middle-income country by 2021. Assuming private sector investment growth, the GDP growth target for FY15 was set at 7.3 percent. The total expenditure and the total revenue in the revised FY15 budget fell short of the initial projection. The budget deficit (excluding grants) as percentage of GDP was 5.0 percent, which was same as the initial target (Table 10.1).

Table 10.1 Bangladesh Government revenue and expenditure

(billion Taka)

	FY14#	FY14 as % of GDP*	FY15*	FY15 as % of GDP*	FY16	FY16 as % of GDP
Total revenue	**1403.7**	**11.9**	**1633.7**	**10.8**	**2084.4**	**12.1**
a) Tax	1160.3	9.8	1406.8	9.3	1822.4	10.6
b) Non-tax	243.4	2.1	226.9	1.5	262.0	1.5
Total expenditure	**1882.1**	**15.9**	**2396.7**	**15.8**	**2951.0**	**17.2**
a) Current	1105.7	9.4	1273.7	8.4	1645.7	9.6
b) ADP	553.3	4.7	750.0	5.0	970.0	5.7
c) Others	223.1	1.9	373.0	2.5	335.3	2.0
Budget deficit	**478.4**	**4.1**	**763.0**	**5.0**	**866.6**	**5.0**

Actual, * Revised budget
Source : Budget in Brief 2015-16, Ministry of Finance.

The revenue collection in the revised budget for FY15 increased by 16.4 percent compared to the actual collection in FY14. The current expenditure in the revised budget for FY15 was higher than the actual current expenditure by 15.2 percent in FY14. On the other hand, the Annual Development Programme (ADP) of Taka 750.0 billion in the revised budget for FY15 turned out 35.6 percent higher than the actual ADP in FY14. The fiscal deficit (excluding grants) of 5.0 percent of GDP in the revised budget for FY15 was higher than the actual fiscal deficit by 0.9 percentage point in FY14 (Table 10.1).

A. FY15 Budget and Fiscal Outcome

A.1. Revenue Receipts

10.2 The revised total revenue receipts in FY15 was Taka 1633.7 billion, which was 10.7 percent lower than initial target. It was higher than the actual total revenue receipts by 16.4 percent in FY14. The tax revenue which constituted 86.1 percent of the total revenue receipts increased by 21.2 percent compared to 8.0 percent growth in FY14 (Table 10.1).

The non-tax revenue displayed 6.7 percent decrease in FY15 compared to 17.7 percent increase in the preceding fiscal year. The total revenue receipts as percentage of GDP declined to 10.8 percent in FY15 compared to 11.9 percent in FY14. The total tax revenue receipts as percentage of GDP was 9.3 percent in FY15 compared to 9.8 percent in the preceding fiscal year. Similarly, the total non-tax revenue receipts as percentage of GDP decreased to 1.5 percent in FY15 compared to 2.1 percent in FY14.

The major revenue measures in FY15 budget:

- Tax exempted income limit for individual taxpayers was unchanged to Taka 220,000. The limit for female taxpayers and aged taxpayers (65 years of age and above) was increased to Taka 275,000 from Taka 250,000. The limit for physically challenged individuals was raised to Taka 350,000 from Taka 300,000. The limit for war wounded gazetted freedom fighters was raised to Taka 400,000 from Taka 220,000.

- Corporate tax rate was reduced for non-listed companies from 37.5 percent to 35.0 percent.

- Turnover tax of both companies and partnership firms was reduced from 0.5 percent to 0.3 percent.

- Income Tax Law was amended to define house rent as both rent and service charges and to ensure payment of monthly house rent amounting more than Taka 25 thousand through banks.

- *Katha*[1] based advance tax replacing existing 3 percent tax at source on registration value of sale of land in the posh residential and commercially important areas of Dhaka and Chittagong was introduced when specific tax was imposed in the same manner based on per-square-feet in case of transfer of important residential/ commercial and other structures in Dhaka, Chittagong, and Narayangonj city corporations. The rate of tax at source was increased from 3 percent to 4 percent on the deed value of land in areas other than the important commercial and posh areas within the jurisdiction of RAJUK and CDA. Tax at source at 3 percent on registration value was introduced in other City Corporations and municipalities at district headquarters and 2 percent in other municipalities and 1 percent in all other areas outside municipalities.

- Tax facility was extended on contribution to any fund created and approved by the government to help victims of natural disaster and accidents as CSR.

1 katha = 720 sft

Chart 10.1 Composition of Tax Revenue : FY15 (revised)

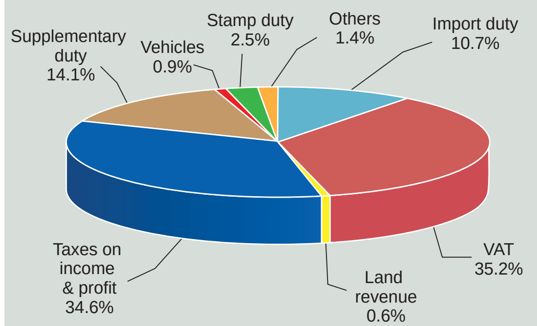
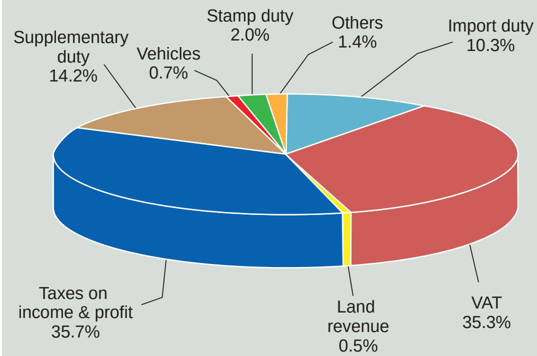


Chart 10.2 Composition of Tax Revenue : FY16 (estimated)



- The expenditure limit in CSR was extended from Taka 80 million to Taka 120 million keeping unchanged the existing condition of allowable limit at 20 percent of total income of any company.

- Tax exemption facility was given for 5 years in graduated rate for demutualised stock exchange. Limit of tax exempted dividend income was increased to Taka 15000 from Taka 10000.

- Tax exemption was given to all donations through banking channels to girls' schools or colleges and vocational and technical institutions.

- Total tax exemption was given to all donations through banking channels to national level research institutions established under any law engaged in research work in the field of agriculture, industry, science and technology.

- To create investment-friendly atmosphere the existing tax holiday facilities were extended from June 2015 to June 2019. Aside from the tax holiday, the facilities of accelerated depreciation alternative to tax holiday were reinstated for the new industrial entrepreneurs.

- Tax exemption limit for agriculture sector was also enhanced from Taka 50000 to Taka 200000.

- Tax holiday-facilities were given for pollution-free Hybrid Hoffman Kiln (HHK) brickfields.

- The rate of tax was reduced from 37.5 percent to 25.0 percent on income of all autonomous bodies including Dhaka WASA, Chittagong WASA, Khulna WASA, Rajshahi WASA, RAJUK, BTRC and CAAB.

- Deduction-rate at source was reduced from existing 5 percent to 3 percent on local LC valuing more than Taka 500000. Besides, tax rate was reduced from 5 percent to 3 percent on deemed commissions.

- Tax exemption was given over interest income from investment on pensioner

Table 10.2 Composition of revenue receipts

(billion Taka)

	FY14#	FY15*	FY16
Tax revenue	**1160.3**	**1406.8**	**1822.4**
Value Added Tax (VAT)	410.8	495.7	642.6
Import duty	131.3	151.0	187.5
Export duty	0.0	0.3	0.4
Supplementary duty	179.3	198.5	258.8
Taxes on income and profit	378.3	486.1	649.7
Stamp duty (non judicial)	28.8	35.1	36.5
Excise duty	8.2	9.4	12.4
Land revenue	6.9	8.0	8.3
Taxes on vehicles	9.7	12.5	13.0
Narcotics and liquor duty	0.7	1.0	1.0
Other taxes and duties	6.3	9.2	12.3
Non-tax revenue	**243.4**	**226.9**	**262.1**
Administrative fees and charges	30.3	46.4	52.1
Dividend and profit	44.9	31.0	52.0
Interest	6.7	7.3	7.6
Capital revenue	0.8	1.3	1.4
Receipts for services rendered	7.8	4.8	5.0
Non-commercial sales	4.1	5.1	5.3
Rents, leases and recoveries	1.1	1.6	1.7
Defence receipts	9.3	24.5	25.5
Tolls and levies	3.1	5.0	5.2
Fines, penalties and forfeiture	3.4	2.4	2.5
Railway	8.0	11.0	11.4
Post offices	2.6	2.7	2.9
Other non-tax revenue and receipts	121.3	83.8	89.5
Total	**1403.7**	**1633.7**	**2084.6**

Actual, * revised budget.
Source : Budget in Brief 2015-16, Ministry of Finance.

savings certificate and wage earners' bond up to Taka 500000.

- The rate of deduction of tax at source on cash incentive was reduced from 5 percent to 3 percent for export sector.
- 10 percent VAT facilities on crude and refined palm oil, soybean oil and sunflower at the import stage were extended from 30 June 2013 to 30 June 2015.
- Import duty on LPG cylinder import was raised to 25 percent from 5 percent.
- A fixed tax of Taka 100 on the single piece of replacement SIM was introduced.
- The customs duties on 14 items used as raw materials in the manufacture of anti-cancer drugs and medicines were fully exempted.
- The import duties applicable to infusion pump used for the treatment of Thalasamia were fully exempted.
- The existing 10 to 25 percent duties applicable for 41 items used as essential raw materials in the manufacture of Ayarvedic medicines were reduced to 5 percent.
- The duties and taxes on some new raw materials for the poultry and cattle subsector recommended by the Ministry of Livestock and Fishery were fully exempted.
- Existing customs duties of 10 and 25 percent on the raw materials used in domestic paper, glass and ceramics, rubber, furniture, paint, electrical, plastic industries that were gradually evolving under duty and tax exemption, concession and protection, were refixed at 5 and 10 percent respectively.
- To protect the interest of the local 15" to 16" rim sized tyre industry, in addition to the other existing duty and taxes, 5 percent regulatory duty were imposed on it.
- The existing 10 percent duty on bicycle tube was increased to 25 percent.
- The tariff value at USD 32 per barrel on crude petroleum oil was increased to USD 40 per barrel. Likewise, tariff values on other refined petroleum products were increased from present 31 cent per litre to 40 cent per litre.

Table 10.3 Composition of revenue expenditure

(billion Taka)

	FY14#	FY15*	FY16
Social sector	327.9	385.8	424.9
Public services	85.1	130.9	401.1
Interest on domestic debt	266.0	281.9	334.0
Defence	98.7	118.2	124.4
Public order and safety	99.6	111.8	110.3
Interest on foreign debt	16.0	16.8	17.1
Agriculture sector	133.6	137.3	139.1
Transport and communication	42.3	48.7	51.8
Local government and rural development	23.3	26.1	27.9
Housing	8.7	9.9	9.7
Others	4.6	6.3	5.6
Total :	**1105.7**	**1273.7**	**1645.7**

Actual, * Revised budget.
Source : Budget in Brief 2015-16, Ministry of Finance.

- The existing duties on navigation light, broadcasting equipment and fire extinguishers were fixed at 5 percent only.
- Dump truck was allowed to enjoy the concessionary benefit that presently being enjoyed by the capital goods instead of current 10 percent customs duty.
- The export-oriented readymade garments sector (RMG) was allowed to import the raw materials necessary for the manufacture of prefabricated buildings without duties on certain conditions.
- The existing duties on fire resistant door, emergency light, sprinkler system, etc. were fully exempted from duties.
- Custom duty on multiplexer, grand master clock, etc. used in high speed internet connection was reduced to 5 percent from 25 percent custom duty and 5 percent regulatory duty.
- 15 percent VAT was imposed on mobile phones at the import stage.
- Customs duty was fixed at 25 percent on energy saving bulbs and electric fan motors.
- 1 percent 'Environment Protection Surcharge' or 'Green Tax' on ad-valorem basis was imposed on all kinds of products manufactured in Bangladesh by the industries which pollute the environment.
- 1 percent 'Health Development Surcharge' was imposed on all imported and domestically produced tobacco products.

Table 10.4 Composition of social sector revenue expenditure

(billion Taka)

	FY14#	FY15*	FY16
Education & technology	175.8	199.6	215.9
Health	57.2	67.8	71.9
Recreation, culture and religious affairs	6.7	8.1	8.4
Labour and employment	0.4	0.6	0.8
Social security and welfare	87.8	109.7	127.9
Total :	**327.9**	**385.8**	**424.9**

Actual, * Revised budget.
Source : Budget in Brief 2015-16, Ministry of Finance.

Table 10.5 Sectoral shares in ADP expenditure

(percent)

	FY14*	FY15*	FY16
Agriculture	5.9	5.8	5.2
Rural development & institutions	11.6	10.5	9.0
Water resources	3.2	2.8	3.0
Industries	4.6	2.1	1.5
Power	13.4	8.8	17.0
Oil, gas & natural resources	3.2	1.6	2.1
Transport	17.2	27.5	22.5
Communication	1.3	1.3	1.9
Physical planning, water supply & housing	9.0	8.2	11.5
Education & religious affairs	13.3	14.4	10.7
Health, nutrition, population & family welfare	7.0	4.5	6.3
Others	10.3	12.5	9.3
Total :	**100**	**100**	**100**

* Revised
Source : Annual Development Programme 2014-2015 and 2015-2016, Ministry of Planning.

10.3 In the revised budget for FY15, direct taxes on income and profit increased at the rate of 28.5 percent to Taka 486.1 billion increasing its share in the total tax revenue to 34.6 percent from 32.6 percent in FY14. Receipts from other taxes and duties, narcotics and liquor duty, taxes on vehicle, stamp duty (non judicial), value added tax (VAT), land revenue, import duty, excise duty and supplementary duty rose by 46.0, 42.9, 28.9, 21.9, 20.7, 15.9, 15.0, 14.6 and 10.7 percent respectively compared to those in FY14. A total of Taka 0.3 billion was recorded as export duty receipts in revised budget for FY15 (Table 10.2).

10.4 Under the non-tax revenue head, defence, receipts from capital revenue, tolls and levies, administrative fees and charges and rents, leases and recoveries sharply increased by 163.4, 62.5, 61.3, 53.1 and 45.5 percent respectively compared to those in FY14. Other sub-sectors showing increases included railway 37.5 percent, non-commercial sales 24.4 percent, interest 9.0 percent and post offices 3.8 percent. On the contrary, receipts for services rendered, dividend and profit, other non-tax revenue and receipts, and fines, penalties and forfeiture fell by 38.5, 31.0, 30.9, and 29.4 percent respectively.

A.2. Expenditure

10.5 The total public expenditure in the revised budget for FY15 amounted to Taka 2396.7 billion. This was 4.5 percent lower than the initial estimation of Taka 2505.1 billion but 27.3 percent higher than the expenditure of Taka 1882.1 billion in FY14. The revised current expenditure of Taka 1273.4 billion in FY15 was 0.7 percent lower than the initial projection of Taka 1282.3 billion (Table 10.1).

10.6 The revised current expenditure in FY15 surpassed initial allocations for some of the accounts, namely public order and safety, agriculture sector, local government and rural development, housing and others (Table

Chart 10.3: Budget deficit financing: FY15 (revised) (percent of GDP)

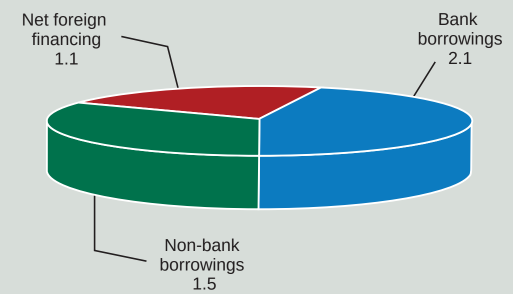
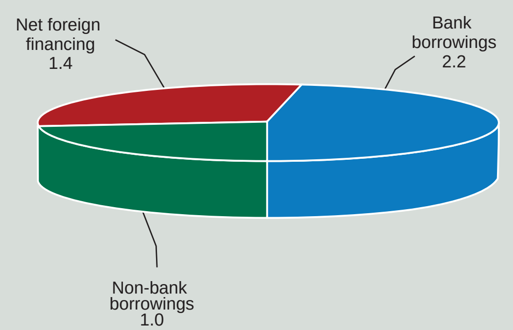


Chart 10.4: Budget deficit financing: FY16 (estimated) (Percent of GDP)



10.3). The proposed non-development current expenditure in FY15 had the following revisions:

- An additional amount of Taka 6.4 billion was allocated for salary and allowances.
- An additional amount of Taka 12.1 billion was allocated for acquisition of assets and works.
- An additional amount of Taka 10.2 billion as compared to the original budget was allocated for goods and services.

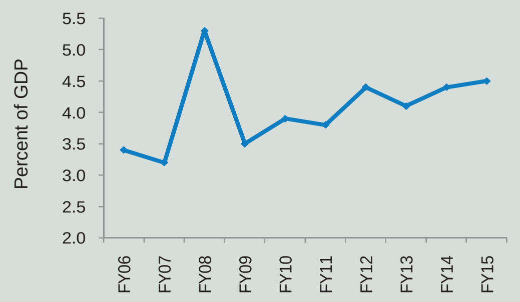
10.7 The Annual Development Programme in FY15 was revised upward by about 35.6 percent from Taka 553.3 billion to Taka 750.0

Box 10.1

Financing of Budget Deficit in Bangladesh

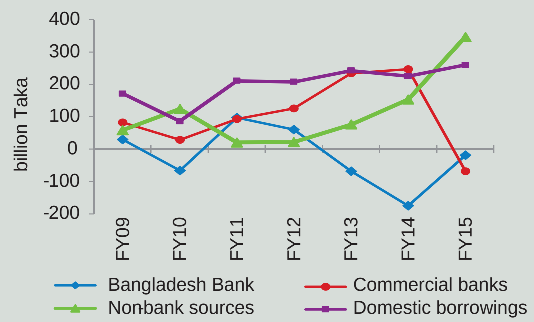
Fiscal deficits are usual for developing countries like Bangladesh because government revenue collections fall short of the country's development and non-development expenditure. The economy needs public investments in physical and social infrastructure to make up for shortfall of private investments to achieve the target GDP growth. Revenue collections are improving in recent years along with expenditure. The overall fiscal deficit contained within manageable limit of 5 percent of GDP except for FY08 where it rose up to 5.3 percent (Chart 1).

Chart 1 : Trends in budget deficits



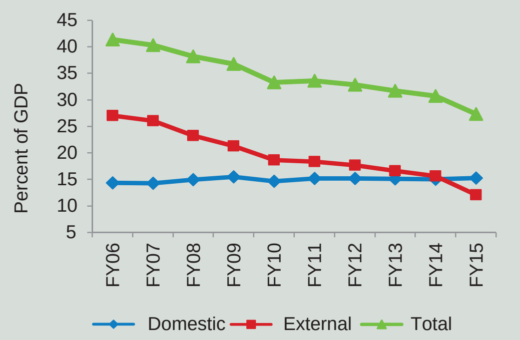
The Government of Bangladesh prefers the financing of fiscal deficits by using concessional foreign borrowing. The cost of foreign financing is sensitive to the external factors relating to the exchange rate volatility which may lead to external debt crisis. On the other hand, borrowing from domestic sources (the central bank, commercial banks and sale of national savings certificates) are considered to have potential crowding out effects including inflationary pressures. Chart 2 illustrates the trend of domestic financing.

Chart 2 : Pattern of domestic borrowing



Although and risks, the criteria for choosing a particular method should aim at minimising costs and risks on the overall economy. There is not single optimal method of financing that fit for all circumstances. The economic situation of a country, the availability of funds, domestic financial market and the institutional frameworks, etc. play important roles in determining the optimal way of deficit financing.

Chart 3 : Government outstanding debt



Finally, it is important that the Government monitors the country's total outstanding debt and its repayment capacity as these two variables are important indicators for the debt sustainability of a country. Chart 3 represents government outstanding debt as percent of GDP from FY06 to FY15. It may be noted that total outstanding debt (as percent of GDP) has been declining consistently from 40.2 percent of GDP in FY06 to 27.3 percent of GDP in FY15. However, domestic debt remained stable at around 15.0 percent of GDP.

billion. Consistent with the growth and poverty reduction objectives, 39.2 percent of the total ADP was spent on the infrastructure sector (power, oil, gas & natural resources, transport and communication), and 18.9 percent on the social sector (education & religious affairs, and health, nutrition, population & family welfare) (Table 10.5).

A.3. Financing FY15 Budget Deficit

10.8 The deficit (excluding grants) in the revised budget for FY15 stood at Taka 763.0 billion (5.0 percent of the GDP). This ratio was same as the initial projection. The domestic borrowing component of the deficit financing in FY15 was Taka 547.1 billion (3.6 percent of the GDP). Of this component, Taka 317.1 billion (2.1 percent of the GDP) was bank borrowing and Taka 230.0 billion (1.5 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 215.8 billion (1.4 percent of the GDP).

B. FY16 Budget

10.9 The budget for FY16 was proposed on 4 June 2015 and was passed by the National Parliament on 30 June 2015. The budget for FY16 has been formulated to chalk out the way towards achieving higher growth for the country. The budget also aims to continuation of a growth-supportive monetary policy that includes, inter alia, targeted credit supply to productive sectors including agriculture, lower interest rate and market sensitive exchange rate to create the environment for higher economic activities and higher GDP growth. The GDP growth target for FY16 has been set at 7.0 percent. However, it has been assumed that the budget deficit will be contained within 5 percent of GDP as in the past. Taking all these into account the inflation target has been set at 6.2 percent for FY16.

The total size of the budget for FY16 stands at Taka 2951.0 billion, which is 17.2 percent of the GDP and 23.1 percent higher than the revised budget for FY15. The estimated non-development and development outlays are Taka 1845.6 billion and Taka 1025.6 billion respectively. The budget provides Taka 6.3 billion from revenue budget for development programmes, Taka 33.4 billion for non-ADP project and Taka 15.9 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 23.4 percent of the total outlay has been allocated for social infrastructure, of which 20.4 percent has been allocated for human resources sector (education, health, science and technology and other related sectors). About 30.6 percent of the total outlay has been allocated for physical infrastructure, of which 13.9 percent goes to wider agriculture and rural development, 8.9 percent to overall communication sector and 6.3 percent to power and energy. About 28.0 percent of the total outlay has been allocated for general service sector. An allocation of 2.2 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, 11.9 percent of the total outlay has been allocated for interest payment and the rest 3.8 percent has been allocated for net lending and other expenditures. Like the preceding FY's ADP, the large size of the ADP has been designed keeping in mind the commitment to regional parity, improved infrastructure and quality of expenditure.

The total developmental expenditure target for FY16 stands at Taka 1025.6 billion, which is about 6.0 percent of the GDP. This developmental expenditure turns out 27.4 percent higher than that of the revised budget of the previous fiscal year.

B.1. Revenue Receipts

10.10 The revenue receipts in FY16 has been targeted to grow by 27.6 percent to Taka 2084.4 billion compared to that of the previous year's revised budget. The tax and non-tax revenue receipts are expected to increase by 29.5 percent and 15.4 percent respectively against the increase of 21.2 percent and the decrease of 6.8 percent respectively in the revised FY15 budget. Total revenue-GDP ratio is projected to incresse to 12.1 percent in the FY16 compared to 11.9 percent in the FY14 (Table 10.1). A higher 33.7 percent increase in receipts from the direct taxes on income and profits has been projected while 28.8 percent growth projected for indirect taxes (VAT, import duty, supplementary duty, and export duty) (Table 10.2).

Among non-tax revenue sources, dividend and profit has been projected to increase by 67.7 percent compared to 31.0 percent decrease in the preceding fiscal year. Receipts from administrative fees and charges, capital revenue, post offices, other non-tax revenue and receipts, rents, leases and recoveries, fines, penalties and forfeiture, and services rendered are expected to rise by 12.3, 7.7, 7.4, 6.7, 6.3, 4.2 and 4.2 percent respectively in FY16. Receipts from interest, defence receipts, tolls and levies, non-commercial sales, and railway are expected to rise at 4.1, 4.1, 4.0, 3.9 and 3.6 percent against the corresponding receipts (revised) of preceding year (Table 10.2).

B.2. Expenditure

10.11 The total public expenditure in FY16 is expected to increase by 23.1 percent to Taka 2951.0 billion over the revised figure of FY15. The current expenditure is expected to grow by 29.2 percent and the ADP by 29.3 percent when the other expenditure is expected to fall by 10.2 percent over the revised budget for FY15. The ratio of total expenditure to GDP is predicted to increase to 17.2 percent in FY16 from 15.8 percent in the revised budget for FY15 (Table 10.1).

10.12 The projected current expenditure for FY16 budget stands at Taka 1645.7 billion (Table 10.1 & 10.3). About one fourth of the total current expenditure has been allocated for the social sector, in which the major shares go to the education and technology, social security and welfare programmes, health promoting human resources development, and widening social safety net (Table 10.4).

A total of Taka 199.8 billion (development and non-development) has been allocated for the agriculture sector, which is 10.3 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

600.7 billion (development and non-development) has been allocated for the human resources development sector. This is 20.4 percent of the total development and non-development budget.

10.13 The Annual Development Programme (ADP) for FY16 has been projected at Taka 970.0 billion, 29.3 percent higher than the revised ADP of Taka 750.0 billion in FY15. About 43.5 percent of the total ADP has been allocated for infrastructure sector. On the other hand, social sector will get 17.0 percent of the total ADP (Table 10.5).

B.3. Deficit in FY16 Budget and its Financing

10.14 The FY16 budget deficit (excluding grant) is estimated at Taka 866.6 billion, higher by Taka 103.6 billion than the revised budget for FY15. The projected budget deficit-GDP ratio for the FY16 is 5.0 percent which equal to that in FY15. The deficit is expected to be financed with domestic banks and non-bank borrowing to the extent of Taka 565.2 billion (3.3 percent of GDP) against Taka 547.1 billion (3.6 percent of GDP) in the revised budget for FY15, and with external financing to the tune of Taka 243.3 billion (1.4 percent of GDP) in FY16 against Taka 159.1 billion (1.1 percent of GDP) in FY15 (Charts 10.3 and 10.4). In total domestic borrowing of Taka 565.2 billion, borrowing from the banking system is projected to be Taka 385.2 billion.