Public Finance

10.1 Public finances have gradually been improving in the country through budgetary measures. Within the economy's potential, the FY16 budget was formulated with the vow to scale the wall of 7.0 percent GDP growth similar to the seventh five year plan, after years of drifting in the edge of 6.0 percent growth trap. All out efforts have been made to put the economy on a path of higher growth by stimulating private investment–both domestic and foreign, creating special economic zones, fast tracking several transformative infrastructure projects, adopting national social protection strategy and also spending more on human capital and skill development. Attention has increasingly turned to lift foreign direct investment (FDI) from 0.5 percent of GDP to 1.00 percent and raising the rate of female labour force participation are the other strategies bound to yield good growth dividend over the medium term. In the budget for FY16 raising total factor productivity (TFP) by making labour and capital more productive through the wider application of ICT has also been listed as a means to achieve higher growth.

10.2 To stabilise the fiscal consolidation, efforts were made to raise direct tax buoyancy, to rationalise non development spending and leakage and to hold public debt at sustainable level. Budget deficit contained at 5.0 percent of GDP in FY16 similar to the

Table 10.1 Bangladesh Government revenue and expenditure

(billion Taka)

	FY15#	FY15 as % of GDP*	FY16*	FY16 as % of GDP*	FY17	FY17 as % of GDP
1. Total revenue	**1459.7**	**9.6**	**1774.0**	**10.2**	**2427.5**	**12.4**
a. Tax	1288.0	8.5	1554.0	9.0	2104.0	10.7
b. Non-tax	171.7	1.1	220.0	1.3	323.5	1.6
2. Total expenditure	**2043.8**	**13.5**	**2645.7**	**15.3**	**3406.1**	**17.4**
a. Current	1189.9	7.9	1503.8	8.7	1889.7	9.6
b. ADP	603.8	4.0	910.0	5.3	1107.0	5.6
c. Others	250.1	1.7	231.9	1.3	409.4	2.1
3. Budget deficit	**584.1**	**3.9**	**871.7**	**5.0**	**978.5**	**5.0**

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

A. FY16 Budget and Fiscal Outcome

A.1. Revenue Receipts

10.3 The revised total revenue receipts in FY16 stood at Taka 1774.0 billion, which was 14.9 percent lower than initial target. It was 21.5 percent higher than the actual revenue receipts in FY15. The tax revenue constituted 87.6 percent of the total revenue receipts and was 20.7 percent higher than the actual tax collected in FY15 (Table 10.1). The non-tax revenue of FY16 was 28.1 percent higher than that of FY15.

10.4 In the revised budget for FY16, total revenue receipts as percentage of GDP stood at 10.2 percent which was 9.6 percent in FY15. The total tax revenue receipts as percentage of GDP was 9.0 percent in FY16 which was 8.5 percent in the preceding fiscal year. Similarly, the total non-tax revenue receipts as percentage of GDP stood at 1.3 percent in FY16 which was 1.1 percent in FY15.

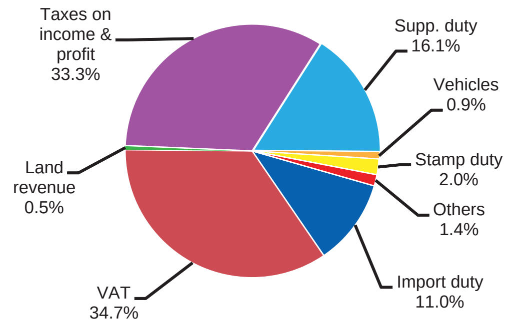
10.5 In the revised budget for FY16, direct taxes on income and profit increased by 27.2 percent to Taka 518.0 billion from Taka 407.1 billion in FY15. Receipts from narcotics and liquor duty, taxes on vehicle, taxes on income and profit, land revenue, supplementary duty, value added tax (VAT), other taxes and duties, excise duty, and stamp duty (non judicial) increased by 42.9, 27.4, 27.2, 22.1, 18.9, 18.8, 16.5, 4.0, and 3.7 percent respectively in FY16 compared to those of FY15. However, export duty in revised budget for FY16 remained the same as in FY15 (Table 10.2).

10.6 Under the non-tax revenue head, administrative fees and charges, dividend and profit, rents, leases, and recoveries, defence receipts, toll and levies, railway, post offices, and other non-tax revenue and receipts increased by 42.6, 46.5, 36.4, 72.0, 61.8, 26.3, 8.0, and 14.8 percent respectively in FY16 compared to those of FY15. On the contrary, interest, capital revenue, receipts for services rendered, and fines, penalties and forfeiture declined by 2.6, 16.7, 23.7, and 14.3 percent respectively over the same time (Table-10.2).

A.2. Expenditure

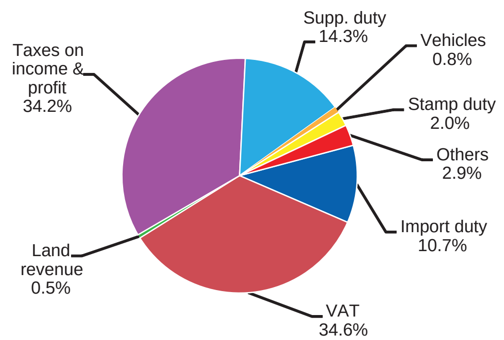
10.7 The total expenditure in the revised budget for FY16 amounted to Taka 2645.7 billion (15.3 percent of GDP) which was 29.5 percent higher than the actual expenditure in FY15. The current expenditure in the revised budget for FY16 stood at Taka 1503.80 billion (8.7 percent of GDP) which was 26.4 percent higher than the actual expenditure of Taka 1189.9 billion in FY15 (Table-10.1).

Chart 10.1 Composition of Tax Revenue* in FY16



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

Chart 10.2 Composition of tax revenue* in FY17



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

10.8 The Annual Development Programme (ADP) for FY16 was revised downward by 6.2 percent to Taka 910.0 billion. However, it was 50.7 percent higher than the actual ADP for FY15. In revised budget for FY16, it is found that nearly, 43.5 percent of the total ADP was spent on the infrastructure sector (power, oil, gas and natural resources, transport and communication), 17.0 percent on the social sector (education and religious affairs and health, nutrition, population and family welfare), and 5.2 percent on agriculture sector (Table 10.5).

A.3. Financing FY16 Budget Deficit

10.9 Total deficit (excluding grants) in the revised budget for FY16 stood at Taka 871.7 billion (5.0 percent of the GDP) (Table 10.1). The domestic borrowing component of the deficit financing was Taka 621.8 billion (3.6 percent of the GDP) in FY16. Of this component, Taka 316.8 billion (1.8 percent of the GDP) was bank borrowing and Taka 305.0 billion (1.8 percent of the GDP) was non-bank borrowing mainly net sales of national savings schemes (Chart 10.3). The foreign financing component (excluding grants) of the budget deficit was Taka 199.6 billion (1.2 percent of the GDP) (Table 10.6).

A.4. Major Revenue Measures in FY16 Budget

Direct Tax

10.10 Direct taxes on income and profit are considered as the principal source of Government revenue. It accounted for 33.3 percent share of the total tax revenue in the revised budget for FY16 compared with 31.6 percent in FY15. The proposed changes on direct taxes in the national budget for FY16 include:

Taxes on Individual Income

- Increase of tax exempted income limit for individual taxpayers from Taka 220,000 to Taka 250,000.
- Increase of tax exemption threshold for women and senior citizens aged over 65 years from Taka 275,000 to 300,000.
- Increase of tax exempted income limit for physically challenged individuals from Taka 350,000 to Taka 375,000.
- Increase of tax exempted income limit for war-wounded gazetted freedom fighter from Taka 400,000 to Taka 425,000.

Table 10.2 Composition of revenue receipts

(billion Taka)

Items	FY15#	FY16*	FY17
1. Tax revenue	**1288.0**	**1554.0**	**2104.0**
A. NBR Tax revenue	**1239.8**	**1500.0**	**2031.5**
i. Taxes on income and profit	407.1	518.0	719.4
ii. Import duty	148.9	171.1	224.5
iii. Export duty	0.3	0.3	0.4
iv. Supplementary duty	210.8	250.6	300.8
v. Value Added Tax (VAT)	453.7	539.1	727.6
vi. Excise duty	9.9	10.3	44.5
vii. Other taxes and duties	9.1	10.6	14.3
B. Non NBR Tax revenue	**48.2**	**54.0**	**72.5**
i. Narcotics and liquor duty	0.7	1.0	1.5
ii. Taxes on vehicles	10.6	13.5	17.7
iii. Land revenue	6.8	8.3	10.6
iv. Stamp duty (non judicial)	30.1	31.2	42.7
2. Non-tax revenue	**171.7**	**220.0**	**323.5**
i. Administrative fees and charges	33.1	47.2	48.4
ii. Dividend and profit	31.0	45.4	79.2
iii. Interest	7.8	7.6	8.0
iv. Capital revenue	0.6	0.5	0.6
v. Receipts for services rendered	7.6	5.8	6.0
vi. Defence receipts	12.5	21.5	23.4
vii. Tolls and levies	3.4	5.5	7.6
viii. Fines, penalties and forfeiture	2.8	2.4	3.6
ix. Railway	9.5	12.0	13.5
x. Post offices	2.5	2.7	3.1
xi. Non commercial sales	5.0	5.0	5.4
xii. Rents, leases and recoveries	1.1	1.5	1.3
xiii. Other non-tax revenue and receipts	54.8	62.9	123.4
Total	**1459.7**	**1774.0**	**2427.5**

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

Table 10.3 Composition of revenue expenditure

(billion Taka)

Sectors	FY15#	FY16*	FY17
Social sector	538.4	736.9	932.9
Public services	122.9	237.5	472.7
Interest on domestic debt	294.4	300.4	382.4
Defence	174.9	206.9	221.3
Public order and safety	131.6	174.2	210.6
Interest on foreign debt	15.4	16.3	17.1
Agriculture sector	159.3	185.0	227.1
Transport and communication	190.5	267.9	372.7
development	178.3	214.6	235.4
Housing	19.7	39.4	31.2
Others	218.4	266.6	302.7
Total	**2043.8**	**2645.7**	**3406.1**

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

- Increase of surcharge of minimum net wealth exemption limit from Taka 20,000,000 to Taka 22,500,000.
- Exemption of taxes from interest income on Wage Earners Development Bond, US Dollar Premium Bond, US Dollar Investment Bond, Euro Investment Bond, Euro Premium Bond, Pound Starling Investment Bond and Pound Starling Premium Bond.
- Withdrawal of 10 percent source tax deduction on income from shares and 5 percent upfront source tax on interest income of Treasury bond and Treasury bill.
- Increase of the threshold of tax exemption limit for dividend income distributed by limited company from Taka 20,000 to Taka 25,000.
- Imposition of 50 percent tax or Taka 500000 (whichever is higher) for the persons employing unauthorised foreign nationals.
- Deduction of source tax from income of non-resident taxpayers.

Taxes on Corporate Income

- Reduction of tax rates for publicly traded company and publicly traded bank, insurance and financial institutions from 27.5 percent to 25.0 percent and 42.5 percent to 40.0 percent respectively.
- Increase of tax rate for publicly traded cigarette company from 40 percent to 45 percent.
- Reduction of tax rate for co-operative society other than its income related to agriculture and cottage industry to 15 percent.

Table 10.4 Composition of social sector revenue expenditure

(billion Taka)

	FY15#	FY16*	FY17
Education & technology	302.9	393.3	529.1
Health	104.2	148.1	174.9
Recreation, culture and religious affairs	18.6	23.8	27.0
Labour and employment	1.1	2.9	3.1
Social security and welfare	111.6	168.8	198.8
Total	**538.4**	**736.9**	**932.9**

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

- Imposition of taxes on income from shrimp, poultry and fish hatchery at a progressive tax rate instead of general tax rate. Imposition of tax on income from these firms at 3 percent on first Taka 1,000,000, at 10 percent on next Taka 2,000,000 and at 15 percent on the remaining amount.
- Tax holiday facilities for automobile manufacturing sector and tyre manufacturing industry.
- Imposition of tax rate on income from poultry industry at 3 percent on first Taka 1,000,000, at 10 percent on next Taka 2,000,000 and at 15 percent on the remaining balance.
- Imposition of tax rate on income from poultry feed, dairy, mulberry, apiculture, pisciculture, etc. at 3 percent for first Taka 1000,000, at 10 percent on next Taka 2000,000 and at 15 percent on the remaining balance.

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. It has already been decided to implement this law fully from FY17.

10.12 VAT is the main component of indirect taxes in Bangladesh. VAT representing 34.7 percent of total tax revenue increased by 18.8 percent to Taka 539.1 in FY16 compared to Taka 453.7 billion in FY15. The proposed changes on VAT in the national budget for FY16 include:

VAT Exemptions

- Withdrawal of existing 15 percent VAT levied on domestic production of nutrition premix in animal food.
- Exemption of VAT on the electricity bill against cold storage service in order to reduce the storage cost and market price of primary agricultural products.
- Exemption of VAT at the domestic production and trade level against the medicines for acute liver related diseases.
- Exemption of VAT on the supply of broken iron pieces or iron scraps.
- Exemption of advance trade VAT at the rate of 4 percent at the import stage of PET chips for the protection of domestic industry.
- Withdrawal of VAT on photography industry.
- Withdrawal of VAT on iron oxide at the local manufacturing stage.
- Increase of VAT exemption threshold on the export of sample medicines from Taka 30,000 to Taka 100,000.
- Exemption of VAT on producing and supplying batteries up to the capacity of 60 ampere.
- Exemption of VAT on manufacturing of plastic crystals through recycling of plastic waste.

Table 10.5 Sectoral shares in ADP expenditure

(percent)

Sectors	FY15#	FY16*	FY17
Agriculture	5.8	5.2	4.6
Transport	27.5	22.5	25.8
Education & religious	14.4	10.7	13.1
Physical planning, water supply & housing	8.2	11.5	12.1
Power	8.8	17.0	11.8
Rural development & institutions	10.5	9.0	8.2
Health, nutrition, population & family	4.5	6.3	6.3
Water resources	2.8	3.0	3.1
Industries	2.1	1.5	1.9
Oil, gas & natural resources	1.6	2.1	1.7
Communication	1.3	1.9	1.5
Others	12.5	9.3	10.0
Total	**100**	**100**	**100**

Actual, *Revised.
Source : Annual Development Programme, 2015-2016 and 2016-2017 Ministry of Planning.

Table 10.6 Composition of budget deficit

(billion Taka)

Items	FY15#	FY16*	FY17
Domestic financing	511.7	621.8	615.5
Bank borrowing	5.1	316.8	389.4
Non-bank borrowing	506.6	305.0	226.1
Foreign financing (net)	49.1	199.6	307.9
Budget deficit (including grants)	560.9	821.4	923.4
Budget deficit (excluding grants)	584.1	871.7	978.5
GDP (memorandum item)	**15136.0**	**17295.7**	**19610.2**

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

- Withdrawal of VAT levied on licence issuance and licence renewal fee for jute and jute products.
- Extension of time limit of VAT exemption facility for production of glass tube and energy saving bulb as well as their raw materials to 30 June 2017.

VAT Impositions and Expansions

- Imposition of 20 percent supplementary duty on bathtub, jacuzzi, shower and shower tray made of ceramics.
- Imposition of VAT at the rate of 15% on credit rating and financial analysis related activities.

- Exclusion of current exemption of VAT from indenting firm, concrete ready-mix, copra waste, tissue holder, ice tray, ice scoop and plastic hanger, etc. from the VAT exemption list.
- Imposition of VAT at the rate of 4% on trading goods and services online.
- Imposition of 4 percent trade VAT for super shops.
- Increase of the truncated rate of VAT from 3 percent to 5 percent for the gold and silversmiths, gold and silver selling shops, and gold refiners, and from 4 percent to 5 percent for procurement providing service.
- Imposition of VAT at a progressive rate depending on the size of flat in building construction sector instead of existing 3 percent VAT.

Custom Duties and Taxes

10.13 With a view to protection and 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 14.9 percent to Taka 171.1 in FY16 compared to Taka 148.9 billion in FY15. The proposed changes on custom duties and taxes in the national budget for FY16 include:

- Continuation of import duty exemption on agricultural inputs, fertilisers, seeds, and essential commodities in FY16.
- Exemption of customs duty in excess of 5.0 percent and full of VAT on import of fire extinguishing equipment, energy efficient electrical items and the essential imports of the handloom weavers.
- Reduction of duty rates from 25 percent to 10 percent on various IT products including computers and web & digital cameras.
- Reduction of duty rate of capital goods from 2 percent to 1 percent.
- Reduction of custom duty on raw rubbers from 10.0 percent to 5.0 percent.
- Increase of customs duty on certain harmful chemicals namely-azo dyes, organotin compounds, chlorophenols from 5.0 percent to 25.0 percent.
- Imposition of 1.0 percent tax on all export items including garments, terry towel, carton and accessories, jute and jute goods, and frozen foods.
- Increase of duty rates of imported silk products to 25 percent and imposition 45 percent supplementary duty on silk fabrics considering the importance and potentials of silk industry and to protect with uneven competition with cheap imported products,.
- Increase of supplementary duty on tea imports from 15.0 percent to 20.0 percent.

Other Duties

- Imposition of Taka 100 as SIM tax for both the instances of issuance and replacement of mobile SIM card.
- Imposition of 5 percent supplementary duty on the services provided through SIM and RUIM card of mobile phone.

- Imposition of 20 percent supplementary duty on tyres used in motorcars.
- Enhancement of taxes on annual turnover of small traders, wholesalers, retailers, and shopkeepers to Taka 3600, Taka 7200, Taka 10000, and Taka 14000 respectively.

Strategies and Polices in Revenue Management

10.14 Currently, the Government of Bangladesh is implementing a wide range of strategies and polices to streamline revenue management. These include:

- To establish a separate taxes zone in order to accelerate at source tax collection.
- To establish income tax cell in order to collect information regarding money laundering and scrutinise income of dual citizens.
- To expand 'Tax Fair' up to Upazila level.
- To introduce modern risk management in all customs management.
- To set up a complaint and service desk at each customs station.
- To prevent the incidence of false declarations and other fraudulent activities through building customs-business partnership.
- To build partnership with other relevant stakeholders like bank, port, BEPZA, BEZA, etc. to ensure synergy in customs management.

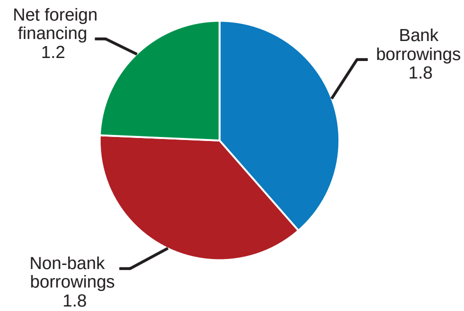
B. FY17 Budget

10.15 The budget for FY17 was proposed on 2 June 2016 and was passed by the National Parliament on 30 June 2016. The budget of FY17 has been formulated aiming at higher GDP growth, lower inflation and gearing up investment towards a developed Bangladesh by the year 2041. In the budget for FY17, the GDP growth target has been set at 7.2 per cent and the inflation rate at 5.8 percent. However, the budget deficit is expected to be within 5.0 percent of GDP.

10.16 The total size of the budget for FY17 is set at Taka 3406.1 billion, which is 17.4 percent of the GDP and 28.7 percent higher than the revised budget for FY16. The total

Chart 10.3 Budget deficit financing* (including grants) in FY16

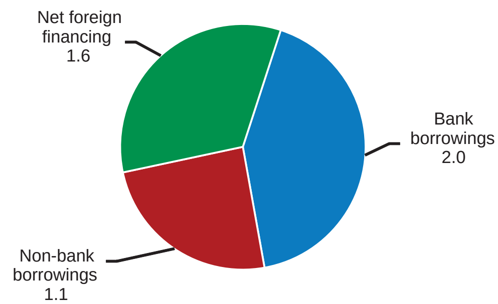
(percentage of GDP)



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

Chart 10.4 Budget deficit financing* (including grants) in FY17

(percentage of GDP)



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

development expenditure target for FY17 stands at Taka 1170.3 billion, which is about 6.0 percent of GDP. This developmental expenditure turns out 22.0 percent higher than that of the revised budget of the previous fiscal year. In the ADP for FY17, about 24.6 percent of development outlay has been allocated to the human resource sector (education, health and other related sectors), 24.5 percent to overall agricultural sector (agriculture, rural development and rural institutions, water resources and related others), 13.5 percent to power and energy sector, 25.8 percent to communication (roads, railway, bridges and others related to communication) sector and 11.6 percent to other sectors (Table 10.5).

10.17 Different ministries and divisions can be 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 FY17, about 28.3 percent of total outlay has been allocated for social infrastructure, of which 25.2 percent is set for human resources sector (education, health, science and technology and other related sectors). About 29.7 percent of total outlay of ADP has been allocated for physical infrastructure, of which 13.6 percent goes to wider agriculture and rural development, 10.2 percent to overall communication sector and 4.4 percent to power and energy sector. About 24.5 percent of total outlay of ADP has been allocated for general service sector. An allocation of 2.2 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.

10.18 Apart from these three major categories, 11.7 percent of total outlay has been allocated for interest repayment and the rest 3.5 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.

B.1. Revenue Receipts

10.19 The revenue receipts in FY17 is targeted to grow by 36.8 percent to Taka 2427.52 billion (12.4 percent of GDP) compared to that of the revised budget for FY16. The tax and non-tax revenue receipts are expected to increase by 35.4 percent and 47.0 percent respectively compared to the revised budget for FY16. Total revenue-GDP ratio is projected to increase to 12.4 percent in the FY17 compared to 10.3 percent in FY16 (Table 10.1). Receipts from the direct taxes on income and profits is projected to increase by 38.9 percent in FY17 compared to the revised budget for FY16 while 30.4 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 74.4 percent in FY17 compared to the revised budget for FY16 (Table 10.2).

10.20 Receipts from other non-tax revenue and receipts such as fines, penalties and forfeiture; tolls and levies; capital revenue; post offices; railway; defence receipts; administrative fees and charges are expected to rise by 50.0, 38.2, 20.0, 14.8, 12.5, 8.8, and 2.5 percent respectively in FY17. Receipts from rents, leases and recoveries are expected to decline by 13.3 percent in FY17 compared to the revised budget for FY16 (Table 10.2).

B.2. Expenditure

10.21 The total public expenditure in FY17 is expected to increase by 28.7 percent to Taka 3406.1 billion compared to the revised budget for FY16. The current expenditure is expected to grow by 25.7 percent, the ADP by 21.6 percent and other expenditure by 76.6 percent over the revised budget for FY16 (Table 10.1). The projected current expenditure for FY17 is set at Taka 1889.7 billion (Table 10.1). About 27.4 percent of the total expenditure has been allocated for the social sector (Table 10.3), of which the major portion (96.8 percent) will go to education and technology, social security and welfare programmes, and health sector (Table 10.4).

10.22 A total of Taka 227.1 billion (development and non-development) has been allocated for agriculture sector, which is 22.8 percent higher than that of the revised budget for FY16. Human resource development is an integral part of the overall development efforts. About Taka 859.18 billion (25.2 percent of the total development and non-development budget) has been allocated for human resources development sector. About 52.9 percent of the total ADP has been allocated for infrastructure sector. On the other hand, social sector receives 19.4 percent of the ADP (Table 10.5).

B.3. Deficit in FY17 Budget and its Financing

10.23 The budget deficit (excluding grants) for FY17 is estimated at Taka 978.5 billion which is Taka 106.8 billion higher than the revised budget for FY16. The projected budget deficit-GDP ratio for the FY17 is 5.0 percent which is the same as that of FY16. The deficit is expected to be financed through borrowing from domestic banks and non-bank sources to the tune of Taka 615.5 billion (3.1 percent of GDP) and from external sources to the tune of Taka 307.9 billion (1.6 percent of GDP) in FY17 against Taka 621.8 billion (3.2 percent of GDP) and Taka 199.6 billion (1.0 percent of GDP) in the revised budget for FY16 (Charts 10.4) respectively. Of total domestic borrowing, Taka 389.4 billion is projected to be financed from the banking system and Taka 226.1 billion from non-banking sources (Table 10.6).