National Budget 2014-15

30 June, 2014

Budget Highlights

- **Budget size** — **Tk2505.06b ↑ 12.59%**
- **Budget deficit** — **Tk675.52b ↑ 22.75 %**
- **Revenue collection target** — **Tk1891.6b ↑ 8.64%**
- **Revenue Expenditure** — **Tk1542.41b ↑ 14.72%**
- **Annual Development Plan** — **Tk803.15b ↑ 21.93%**
- **Projected GDP growth** — **7.3% ↑1.39% points**

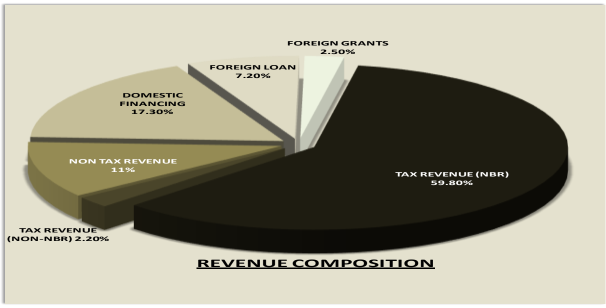
NATIONAL BUDGET AT A GLANCE: FY2014-15			
			Taka in Billion
	Budget 2014-15	Revised 2013-14	Budget 2013-14
Revenue:			
NBR Tax Revenue	1,497.20	1,250.00	1,360.90
Non-NBR Revenue	55.72	51.78	51.29
Non-Tax Revenue	276.62	264.93	262.40
Foreign Grants	62.06	59.555	66.7
Total Revenue	**1,891.60**	**1,626.27**	**1,741.29**
Expenditures:			
Non Dev. Rev. Exp.	1,282.31	1,159.98	1,134.71
Non-Dev. Capital Exp.	260.1	189.09	209.78
ADP	803.15	600.00	658.70
Net Outlay for Food Operations.	3.09	1.88	2.63
Non-ADP FFW	14.93	11.94	14.57
Dev. Projects Financed From Rev.	10.68	8.93	19.34
Net Loans & Advances	96.11	159.82	155.04
Non-ADP Project	34.69	30.58	30.14
Total Expenditures	**2,505.06**	**2,162.22**	**2,224.91**
Net Deficit	**-675.52**	**-595.51**	**-550.32**
Deficit as a % of GDP	*-0.05*	*-0.05*	*-0.05*
Financing:			
Net Foreign Borrowing	180.69	126.13	143.98
Foreign Grants	62.06	59.56	66.7
Domestic Borrowing	432.77	409.82	339.64
Total Financing	**613.46**	**535.95**	**483.62**

Too gigantic to implement

The budget for FY2014-15 placed in the parliament on June 05, 2014 has been passed with a total outlay of Tk2505.06b. The proposal has set an overall deficit of Tk675.52b, of which net foreign financing would be Tk242.75b and domestic Tk432.77b. Banks will be a major source to finance budget deficit and the government has set borrowing target at Tk312.21b. The Gross Domestic Product (GDP) growth target is set at 7.3% despite a slower pace of economic growth. The proposed national budget appears to be highly ambitious given the target of inflation as well as the size of the Annual Development Program (ADP) as against the amount of deficit financing. An ambitious revenue target of Tk1829.54b has been set which is 16.77% higher from the FY2013-14 revised target. Considering the dismal growth in the outgoing fiscal year the overall revenue collection may fall short from the target. Government seems to be highly focused on bringing back economic growth and infrastructural development. Agriculture production and exports have posted a more than fair performance in the outgoing fiscal year but depression in the financial sector, including the money & capital markets stand as hindrance in a sustainable economic growth. Decelerated growths in human resources & manpower export and remittance earning have created pressure on the Balance of Payment (BoP) situation.

Revenue target skewed up

The proposed budget's revenue target has been set at an ambitious Tk1829.5b, banking on income flow from major sectors such as land registration, individual taxes and measures against tax evasion. As revenue from import duty continued to stifle, direct taxes have been attached greater reliance while hauling the wealthy under the super tax bracket. The government will look to automated system to stimulate resource mobilization through information sharing among the three departments of the revenue authority as well as focusing on enacting new laws and recruiting necessary workforce. The finance ministry in its bullish swagger proposed to mopupTk1.49b in direct taxes, Tk55.72b from indirect taxes while non-tax revenue has been projected at Tk276b. The revenue target in the last national budget was set at Tk1674.59b, out of which NBR was expected to amass Tk1360.9b which was later trimmed down by 8.08% to Tk1250b amid political disturbances. Despite the government's failure to meet revenue targets of the last fiscal year the government has yet again pinned its hope on an optimistic revenue target primarily led by mounting pressure from the bloated expenditures which has been increasing at a phenomenal rate over the years.



Without any clear direction of how to rejuvenate the subdued business environment, the massive target of revenue seems destined to fall short. Experts fear that failure to achieve assigned targets will trickle down to the most common basic person on the streets elevating expenses on transportation, housing, and necessary goods, adversely affecting different level of companies and leading to widening of the budget deficit by more than 5%. On the back drop of such events the government may be compelled to resort to higher level of bank borrowings crowding out businesses bearing higher cost of funds.

All about spending

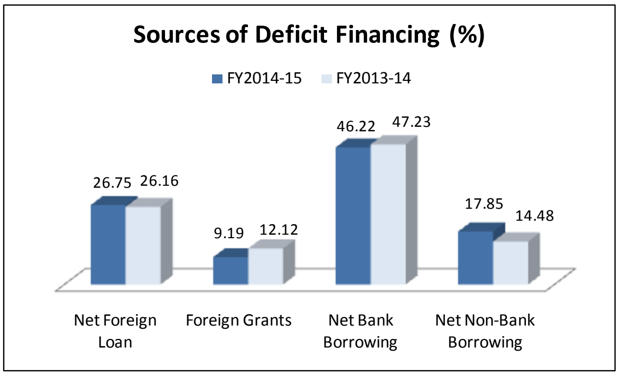
In the budget of FY2014-15, the total expenditure has been estimated at Tk2505.06b, is 18.7% of GDP and 15.9% higher than that of revised budget of FY2013-14. The allocation for the non-development expenditure has been estimated at Tk1282.31b. The allocation for development expenditure has been estimated at Tk863.45b which is 6.4% of GDP and 32.5% higher than that of the revised budget of FY2013-14. Among the type of expenditures, public administration, education and information technology and interest payment got higher preference in the budget. Higher attention to the unproductive sectors is trenching rational requirements of the priority sectors like agriculture and health. This may be hazardous for economic and social growth.

ASSET & INVESTMENT MANAGEMENT SERVICES OF BANGLADESH LIMITED
Unique Trade Center (UTC), Level 6 (SW), 8 Panthopath, Karwan Bazaar, Dhaka 1215, Bangladesh
Tel : +(880-2) 913 6432–4 (Three Lines), Fax : +(880-2) 913 6162–3 (Two Lines)
e-mail : hello@aims-bangladesh.com; web: http://www.aims-bangladesh.com

Total Budget Expenditure				
		Taka in Billion		
Particulars	2014-15		2013-14	
	Allocation	Share (%)	Allocation	Share (%)
Interest	310.43	12.4	277.43	12.5
Education & Technologies	309.97	12.4	250.5	11.3
Miscellaneous Expenditure	247.65	9.9	211.37	9.5
Transport & Communication	237.86	9.5	200.06	9
Public Administration	187.97	7.5	236.16	10.6
Local govt. & Rural Dev.	175.94	7	147.11	6.6
Subsidies	166.53	6.6	154.43	6.9
Defense	146.23	5.8	124.22	5.6
Social Security & Welfare	139.74	5.6	114.28	5.1
Energy & Power	115.33	4.6	113.43	5.1
Public Order & Safety	112.67	4.5	92.28	4.1
Health	104.7	4.2	90.74	4.1
Agriculture	96.43	3.8	80.83	3.6
Pension	84.83	3.4	66.91	3
Industrial & Economic Services	29.76	1.2	31.15	1.4
Recreation, Culture & Religious Affairs	19.5	0.8	17.05	0.8
Housing	19.52	0.8	16.96	0.8
Total Budget Expenditure	**2505.06**	**100**	**2224.91**	**100**

Deep deficit proposition

The budget proposal has set an overall deficit of Tk675.52b or 5% of GDP which is 13.4% higher than the previous fiscal year, of which net foreign financing would be Tk242.75b and domestic Tk432.77b. Of the domestic financing, Tk312.21b will come from the banking system and Tk120.56b from savings certificates and other non-banking sources. The target of borrowing from the banking system is too high, 13.4% higher from the revised budget of the outgoing fiscal year. Even though currently banking sector has a surplus liquidity of Tk1382.01b, (as of March 2014). But the amount will be exhausted once private sector credit demand picks up. Private sector credit growth increased slightly to 11.86% in April from 10.46% in March 2014.



The government target of borrowing from the external sources will be difficult to materialize. The bulk of the foreign borrowing is tied with Annual Development Program (ADP) implementation capacities of the government agencies. In the history of Bangladesh, the government has never been able to get more than $3b worth of foreign aid in any fiscal year. But the target is set to receive $4.1b worth of assistance for minimizing the financing gap which will be difficult. The development partners were mostly continuing the funding of existing projects and were somewhat reluctant to give fund for new projects. So, if the revenue generation target is not achieved the budget deficit might grow further.

Ambitious ADP on poor implementation record

Even though the Annual Development Program (ADP) for the FY2013-14 had to be slashed for sluggish implementation, the next fiscal years' ADP has been targeted at Tk803.15b, 6% of GDP and 34% higher than that of the revised ADP for the current fiscal year. The government plans to finance Tk526.15b or 65.5% of the next ADP funds from local sources and the remaining Tk277b or 34.5% from external sources. The transport sector has been given the highest priority, receiving 23.4% of the total allocation. Struggling Padma Bridge was proposed to receive the highest allocation of Tk87.35b under this sector. However, the project failed to take off in the last five years. Education & religion sector has received the second highest allocation (12.2%), power sector the third highest (11.6%), the infrastructure planning, water supply & housing sector the fourth largest (10%), the rural development and rural institution sector the fifth highest (9.3%) and agriculture sector the sixth highest (5.5%). The ADP contains 1,034 projects, of which 1,005 projects will be carried over from the FY2013-14 budget and only 29 new projects have been included. Another 684 unapproved projects has also been included in the list similar from recent years ADP.

Sector wise ADP Allocation				
			Taka in Billion	
	FY 14-15	%	FY 13-14	(R %)
Human Resource				
Primary and Mass Education	57.78	7.2	45.29	7.5
Health and Family Planning Affairs	43.49	5.4	38.16	6.4
Ministry of Education	36.47	4.5	31.48	5.2
Others	57.45	7.2	39.48	6.6
	195.19	**24.3**	**154.41**	**25.7**
Agricultural and Rural Development				
Local Government	134.67	16.8	114.05	19
Ministry of Water Resources	28.31	3.5	20.25	3.4
Ministry of Agriculture	15.24	1.9	13.32	2.2
Others	29.24	3.6	24.05	4.0
	207.46	**25.8**	**171.67**	**28.6**
Energy Infrastructure				
Power Division	92.73	11.5	79.51	13.3
Energy and Mineral Resources	22.23	2.8	19.09	3.2
	114.96	**14.3**	**98.6**	**16.4**
Communication Infrastructure				
Railway Ministry	44.85	5.6	35.49	5.9
Road Division	46.08	5.7	36.46	6.1
Bridge Division	87.35	10.9	20.9	3.5
Others	8.84	1.1	8.57	1.4
	187.12	**23.3**	**101.42**	**16.9**
Total	**704.73**	**87.7**	**526.1**	**87.7**
Others	98.42	12.25	73.9	12.32
Total ADP	**803.15**		**600**	

In the first nine months of FY2013-14 only 43% of the ADP allocation was spent. Consequently the implementation agencies and ministries will have to implement the remaining 57% of the large ADP in the next thee months which appears rather impossible. Doubts loom large regarding realization of the over-ambitious ADP target set in the FY2014-15 also.

7.3% GDP growth a long shot

The government has set an ambitious Gross Domestic Product (GDP) target of 7.3% despite consecutive setbacks in the past three years. Considering the current investment scenario this will also be extremely challenging to fulfill. Private investment needs to rise to 25% of GDP from the present 21.40% to achieve the desired growth target. The private sector investment witnessed a slump in the FY2013-14 following the uncongenial investment atmosphere due to political disturbances in the first half of the outgoing fiscal year. Participation of the private-sector investments to GDP was though higher than the government since FY2005-06. The public sector investment-GDP ratio, increased to 7.6% in the FY2013-14 from 6.6% in the FY2012-13, but public fund is at most instances misused which at the end fail to put positive impacts on the financial sector. The investment-GDP ratio of Bangladesh is very low from the economic growth context, especially when it is pursuing to become a middle income country. In the FY2013-14 national budget GDP growth target

Unique Trade Center (UTC), Level 6 (SW), 8 Panthopath, Karwan Bazaar, Dhaka 1215, Bangladesh
Tel : +(880-2) 913 6432–4 (Three Lines), Fax : +(880-2) 913 6162–3 (Two Lines)
e-mail : hello@aims-bangladesh.com; web: http://www.aims-bangladesh.com

was set at 7.2% but as per the Bangladesh Bureau of Statistics (BBS) the growth would be around 6.12%. Moreover, different multilateral agencies like World Bank, International Monetary Fund and Asian Development Bank doubted the government's projection and had forecasted that the economy would expand between 5.4% and 5.8% in FY2013-14. There is however no distinct directions on the proposed budget documents as how to attain the targeted GDP growth. In absence of infrastructural support facilities and investment friendly policies it has always been challenging to reach the desire target n the past years.

Investment-GDP Ratios (%)		
Fiscal Year	Private Investment	Public Investment
2005-06	20.6	4.3
2006-07	21.1	4.2
2007-08	21.7	4.2
2008-09	21.9	4.6
2009-10	21.6	4.7
2010-11	22.2	5.3
2011-12	22.5	5.8
2012-13	21.7	6.6
2013-14	21.4	7.6

Sight on lower inflation

Erratic inflation in the last couple of years ease a bit, in July 2014, the point-to-point inflation was recorded at 7.85% which gradually dropped down to 7.46% in April 2014 owing to fall in food and non-food prices. The monthly inflation rate remained well above the government average yearly target of 7% set for the FY2013-14. Up to April, the ten-month average inflation stood at 7.37%, according to the Bangladesh Bureau of Statistics (BBS). For fiscal year 2014-15, the government targets to bring down inflation to 6%. Considering different factors like higher public spending, supply chain disruption, slumping agricultural production, mounting house rent and possible further hike in energy prices, the inflation target appears very much ambitious and quite challenging.

	P-to-P Inflation	Food Inflation	Non-Food Inflation	Rural Inflation	Urban Inflation
Jul	7.85%	8.14%	7.40%	7.43%	8.64%
Aug	7.39%	8.09%	6.35%	6.90%	8.34%
Sep	7.13%	7.93%	5.94%	6.77%	7.82%
Oct	7.03%	8.38%	5.02%	6.78%	7.52%
Nov	7.15%	8.55%	5.08%	6.92%	7.58%
Dec	7.35%	9.00%	4.88%	7.22%	7.58%
Jan	7.50%	8.81%	5.53%	7.24%	7.97%
Feb	7.44%	8.84%	5.37%	7.17%	7.97%
Mar	7.48%	8.96%	5.26%	7.21%	7.98%
Apr	7.46%	8.95%	5.23%	7.19%	7.96%

Money whitening provisions continue

The government has finally decided to keep the provision for allowing whitening of undisclosed or black money in real estate sector, although the Finance Minister created confusion by stating in several pre-budget discussions that undisclosed money whitening provisions will be discontinued while the issue was not touched on the budget speech and in the Finance Bill-2014. Later at a post-budget press conference it was clarified that opportunity to legalize undisclosed money by investing in real estate and different income generating sectors will not continue anymore as the ultimate outcome of undisclosed money whitening provisions is extremely poor. The trend of allowing preferential treatment to undeclared income has been going on since 1972 though without yielding any significant results. Since then till FY2012-13, mere Tk138.08b has been whitened by paying penal tax in addition to regular tax for which the public exchequer received Tk14.56b only in revenue.

Tax experimentation

Individual Income Tax Rate:	
Income Slab	Applicable Tax Rate
The first Tk220,000	0%
On Next Tk300,000	10%
On Next Tk400,000	15%
On Next Tk500,000	20%
On Next Tk3,00,000	25%
Balance of Income above Tk4.42m	30%

Corporate Tax Rate:	Existing	Proposed
Publicly Traded Company (subject to certain conditions)	28%	28%
Non-Publicly Traded Company	38%	35%
Bank, Insurance and Financial Institution(other than Merchant Bank)	43%	43%
Merchant Bank	38%	38%
Cigarette Manufacturer:		
Publicly Traded	40%	40%
Non-Publicly Traded	45%	45%
Mobile Company		
Publicly Traded	40%	40%
Non-Publicly Traded	45%	45%
Dividend Income	20%	20%
Minimum Turnover Tax	0.50%	0.30%

- Tax-free income limit for the senior citizens and individual women tax-payers has been revised upwards to Tk275,000 from Tk250,000, while that for physically challenged individuals & War-wounded freedom fighters to Tk350,000 & Tk400,000 respectively.
- Tax rate for individual income taxpayers also changed and a new slab has been introduced. Tax rate for rich people increased and new slabs for surcharges on individual's wealth introduced, 20% surcharge will be imposed on individuals with wealth between Tk200m to Tk300m and 30% surcharge on assets above and 300m
- Tax rate for quick rental has been increased from 4% to 6%
- Interest income on treasury bills, treasury bonds and debentures will be taxed at 5%.
- For the export sector, government has proposed to reduce tax at source on cash incentive from 5% to 3%
- Rate of tax at source on the deed value of land has been increased from 3% to 4% in areas other than the important commercial and posh areas within the jurisdiction of RAJUK and CDA.
- Tax at source has been imposed at 3%, 2% and 1% on registration value in other City Corporations and municipalities at district headquarters, other municipalities, and other areas outside municipalities respectively
- Advance income tax from the profit made from selling buildings or flats reduced to Tk55.76 per square feet from the proposed Tk90 per square feet
- Tax holiday facility for the industrial and infrastructure sectors extend upto June 30, 2019 from the existing June 30, 2015.
- Tax rebate of 20% for relocation of industrial units from Dhaka and major cities to economically-lagging regions in a bid to reduce congestion
- Mobile phone users will have to pay 1% surcharge on the price of imported and locally-manufactured mobile phone sets and the amount collected will be used for the development of the education and health sector. Customs duty on import of mobile handset reduced to 5% from 10%. 5% advance income tax (AIT) on the import of mobile handset also waived. However, 15% value-added tax on the handset import will remain unchanged.

Unique Trade Center (UTC), Level 6 (SW), 8 Panthopath, Karwan Bazaar, Dhaka 1215, Bangladesh
Tel : +(880-2) 913 6432–4 (Three Lines), Fax : +(880-2) 913 6162–3 (Two Lines)
e-mail : hello@aims-bangladesh.com; web: http://www.aims-bangladesh.com

• Supplementary duty at import stage of some products including toothpaste, soap, detergent powder, leaf spring, razor, razor parts and stainless steel at 20% will continue from proposed 15% as a safeguard measures for local industries.

• Supplementary duty on unprocessed tobacco reduced to 60% from the existing 100% and 60% from the existing 100% on imported cigarette paper.

• The tax holiday facility for rice bran oil industries and cineplexes outside Dhaka and Chittagong city corporations has been extended from seven years to ten years. Anyone setting up a rice bran oil factory or a cinema hall outside the country's two biggest cities within June 30, 2019 can seek tax holiday for the next ten years.

There were strong suggestions for raising the minimum threshold for taxable income considering inflationary pressure. However, in the budget proposal threshold limit keep unchanged. Meanwhile, new tax bracket for high-income individuals, increased source tax for land registration, green tax to curb environmental pollution by industries praiseworthy move. Moreover, higher surcharge on wealth of richer people has been welcomed.

Capital market gets reprieve

The initial proposal to introduce tax on capital gains by individual stock investors has been scrapped in the Finance Bill 2014, following strong opposition by various market stakeholders. In an attempt to boost individual investments and prop up the sluggish market, the government has also raised the limit for tax-free dividend income to Tk20,000 from the existing threshold of Tk10,000. But investors without tax identification numbers would be charged 15% advance income tax while investors with tax identification numbers will be charged the usual 10%. Moreover the finance minister has mooted for continuation of a 10% tax rebate for listed companies that pays 30% dividend instead of the previously stipulated 20% dividend. The tax rebate though will be applicable only for cash dividend declaration bringing an end to the uncertainty surrounding the form of dividend declaration in the Finance Act 2013. Despite being profit-oriented entities following demutualization both the Dhaka and Chittagong stock exchanges will get tax exemption facility for the next five years. However, 15% gain tax has been imposed on transfer of shares of the demutualized exchanges. In order to penalize inefficiency and induce competitiveness the government has also proposed to raise tax rate for listed companies giving less than 10% dividend from existing 27.5% to 35%. The reduction by 2.50% from existing 37.5% for non-listed companies, have been deemed by some analyst as an unfair treatment with the listed companies as there has been no change in tax rates for publicly traded companies that now pay taxes at the rate of 45% in the highest bracket.

Items to get costlier

- Tobacco products are expected to see an increase in price because of levying 1% “Health Development Surcharge” on all imports and domestically produced tobacco items
- Bar and Rods to be burdened with increased tax rate from existing 10% to 25%
- Increase in petroleum product price due to increased tariff from existing 31% to 40%
- Facility given to 1500-2500 C.C. hybrid cars will be restricted; there would be imposition of 60% SD inflating the price
- Gold brought into the country through passenger baggage are to be levied with higher duty
- To protect the local bicycle tube industry, import duty on bicycle tube is to be appreciated from existing 10% to 25%
- Sugar prices are to increase due to higher import duties
- Supplementary duty for CKD motor jeeps having cylinder capacity above 2,000 C.C. is set to increase from existing 45% to 60%
- Dry mixed ingredients for food preparations which are imported in bulk and other beverage concentrate are to face higher import duties from existing 10% to 25%
- Bilet and ignot import prices are to increase due to increased import duty from existing Tk3500 per MT to Tk5000 per MT
- Fan motor prices see price appreciation because of increased import duty to 25% from current 2%
- Energy saving light and T5 tube lights are to face apprehended import duty rates at 25% from the existing 10%.
- General restaurant service (not air conditioned) to get costlier because of rise in VAT from existing 6% to 7.5%
- Taxes on horlicks, tea, CI sheet and disposable syringe are also set to increase

Items to get cheaper

- Most high-end cars due to reduction of SD from 150% to 100% (applicable for 1,751cc to 2,000cc), 250% to 200% (applicable for 2,001cc to 2,750cc)
- Fish (fresh or chilled), because of 5% reduction of SD, from existing 20% to 15%
- Prices of potato chips, as it will enjoy a 15% reduction in SD from 60% to 45%
- Butter and other fats and oils derived from milk, tomatoes, betel nuts due to SD reduction from 20% to 15%
- Sweet biscuits, waffles and wafers thanks to reduced SD rates from 100% to 60%
- Fruit juices, vegetable juices, sauces and ice cream will also see reduction due to reduced SD rates from 30% to 20%
- Detergents, Polishes, creams and similar preparations for footwear or leather will also see reduction thanks to reduced SD rates from 20% to 15%
- Mosquito coil, aerosol, mosquito repellent, matches, fireworks, signaling flares, rain rockets, fog signals and other pyrotechnic articles will also see reduction thanks to reduced SD rates from 45% to 30%
- Raw materials for ship building industry i.e. navigation light, broad casting & fire extinguish machinery to see price fall due to reduced import duty rate to 5%
- Raw materials for Ayurbedic medicine manufacturing industry to see price fall due to reduced CD

Unique Trade Center (UTC), Level 6 (SW), 8 Panthopath, Karwan Bazaar, Dhaka 1215, Bangladesh
Tel : +(880-2) 913 6432–4 (Three Lines), Fax : +(880-2) 913 6162–3 (Two Lines)
e-mail : hello@aims-bangladesh.com; web: http://www.aims-bangladesh.com

- Raw materials for food for poultry and livestocks to see price fall due to proposed duty exemption
- Some raw materials for textile sector to see price fall due to proposed import duty reduction from 10% to 5%
- Supplementary duty on hybrid car up to 1,800cc reduced to 45% which was 60% in the original proposal
- Customs duty on import of aluminium foil for pharmaceuticals industries reduced to 5% from 10%
- Considering the demand from the local electric fan manufacturers proposed 25% duty on electric fan motor reduce to 10%.